

2017

ANNUAL AND
SUSTAINABILITY REPORT



AHLSTROM
MUNKSJÖ

Contents

The potential in fibers – we have only seen the beginning

IMAGINE FIBER – fibers are versatile, strong, durable and elastic and constitute the common denominator of our products and solutions. By advancing the capabilities of fibers we design and manufacture products that help our customers improve their products or services. Modern science continues to find new uses for fibers and from our perspective, the potential and future for fiber is unlimited. That is why we imagine fiber.

Read more about fibers and what they can do in the Introduction section.

p. 0

Innovation for future growth

Our innovation pipeline is critical to our long-term business success, and innovation at Ahlstrom-Munksjö is all about growth through improving existing products, designing new ones and exploring emerging technologies to understand how they can deliver the products of the future.

Read more about how we innovate in our Innovation and quality section.

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A good start makes for a great future

Our first year together as a unified company was a very strong period for Ahlstrom-Munksjö. The merger is well on track and the future holds exciting growth opportunities both organically and through acquisitions, says CEO Jan Åström.

Read our CEO's comment in full.

p. 6

Sustainability at Ahlstrom-Munksjö

We have a strong commitment to sustainability and seek to ensure that the fibers, chemicals, and other inputs are ethically and responsibly sourced. We work to create innovative products that provide high performance and sustainability benefits for our customers.

Read more in our Sustainability report.

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ABOUT AHLSTROM-MUNKSJÖ'S REPORTING

This is Ahlstrom-Munksjö's Annual and Sustainability Report for the financial year 2017. The report is aimed primarily at Ahlstrom-Munksjö's current and future shareholders, but also at other stakeholders. The Annual Report describes Ahlstrom-Munksjö's operations, financial results and position in 2017, and includes the Sustainability Report and Corporate Governance Report. All data pertain to Group-owned operations during the 2017 calendar year, unless indicated otherwise.

Ahlstrom-Munksjö reports sustainability information using the Global Reporting Initiative (GRI) guidelines (GRI Standards, Core option).

The report also constitutes Ahlstrom-Munksjö's report (Communication on Progress, COP) for the UN Global Compact.

The formal Financial Statements, which have been signed by the Board of Directors and examined by the auditors, are on pages 77-121.

This is Ahlstrom-Munksjö's first Annual and Sustainability Report for the year ending 31 December.

Read more at: www.ahlstrom-munksjo.com

CONTACT PERSON:

Anna Selberg, Executive Vice President Communications and Investor Relations
Phone +46 10 250 10 32
anna.selberg@ahlstrom-munksjo.com

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We have only seen the beginning

Wherever you go in the world you will bump into fibers. All kinds of fibers. They are there even if you do not always see them.

In essence, fibers are thread-like parts that do their job by being part of something larger. They have either a natural or synthetic origin and lend themselves to being produced, changed, refined and combined to perform crucial tasks in filters, medical devices, vehicles, airplanes and wind turbines.

Fibers are small, sometimes minute, but are strong, versatile, flexible and capable of wonderful things. Modern science continues to discover new uses for fibers and materials or fabrics where fibers are integrated. We can only imagine what the future will unravel.

In some ways, a new industry is born that will be an important contributor to a better, more sustainable and brighter future. The emerging field of nanotechnology opens wide possibilities to enhance materials and improve products using nanofibers. Small fibers can make a big difference.

For Ahlstrom-Munksjö, 2017 marks the beginning of our journey where fibers are at the core of what we do and the common denominator of our products and solutions. We already utilize fibers to produce a wide range of products such as filter media, highly specialized paper products and diagnostic tools – and this is only the beginning.

Inspired by a better and more sustainable tomorrow, we strive to expand the boundaries for fiber through innovation – relentlessly exploring new applications and uses.

From our perspective, the potential for fiber is unlimited. Only our ingenuity sets the boundaries. That is why when we imagine the future, we IMAGINE FIBER.

Welcome to Ahlstrom-Munksjö and our Annual and Sustainability Report for 2017.

Small fibers can make a big difference

Fibers diagnose

- **Special collection pads** used in pregnancy tests, DNA analysis, blood samples and alcohol level testing.
- **The CytoSep® blood plasma** separation media has become the industry standard for blood diagnosis.

Fibers purify

- **Filters make sure** the air inside cars is clean, safe and comfortable. It can remove particles, gases and odors.
- **Pure drinking water** saves lives. Filters from Ahlstrom-Munksjö can separate bacteria and other harmful particles from the water.



Fibers for safer food

- **Wrapping and packaging** keeps food products clean and safe until consumed, whether it is a pound of butter purchased in the supermarket or a hot sandwich picked up at the local deli.

Fibers perform better

- **Better filters** for cars, decor papers for furniture or backings for sanding paper give products a longer life or make production processes more efficient. This can help to curb the environmental impact from products or production process.

Fibers for the future

- **Emerging technologies** like nano-fibers and renewable polymers hold great promise for future applications.
- **Plastic and metal foils** can be replaced with cellulose and new surface coatings will bring better products. We have only a glimpse of what fiber solutions can deliver.

The year in brief

- **The merger between Ahlstrom Corporation and Munksjö Oyj** was officially completed on April 1 with registration of Ahlstrom-Munksjö Oyj. Trading in the new shares started April 3 on the Nasdaq Helsinki and Nasdaq Stockholm stock exchanges.
- **Investment in production capacity** in France to meet growing demand for vegetable parchment materials used mainly in baking and cooking papers as well as in other food packaging solutions. The total investment is approximately EUR 6.7 million and the project will be completed in the fourth quarter of 2018.
- **A EUR 250 million bond** was issued in June and was well received by the market. The senior unsecured notes are listed on the Nasdaq Helsinki stock exchange and mature in 2022.
- **Ahlstrom-Munksjö joined the UN Global Compact** initiative and thus commits to the ten principles for ethical business practices. The company is now among nearly 10,000 companies worldwide that have affirmed their dedication to respect-

ing human rights, labor rights, environmental quality, and anti-corruption.

- **Ahlstrom-Munksjö Trinitex® Advance** was launched in November and is a unique filtration media specifically designed for pulse jet gas turbine applications. Trinitex® Advance enables extended performance in challenging environments, increasing filter lifetime. From the Trinitex platform, a family of products will be built over time, serving different market sectors across industrial filtration.
- **Ahlstrom-Munksjö earned a Gold rating from EcoVadis** following an assessment of the group's sustainability engagement. The Gold rating is a result of performance in environment, labor practices, fair business practices, and sustainable procurement.
- **Hans Sohlström was appointed President and CEO** of Ahlstrom-Munksjö, effective as of June 30, 2018, at the latest. At this time Jan Åström, current President and CEO, will retire from the position.

KEY FIGURES

EUR million	2017	2016
Net sales ¹⁾	2,232.6	2,147.9
Comparable EBITDA ¹⁾	290.4	268.7
Comparable EBITDA margin, % ¹⁾	13.0	12.5
Gearing ratio, % ²⁾	36.2	n/a
Capital expenditure ¹⁾	89.7	77.7

¹⁾ Proforma

²⁾ No comparative balance sheet pro forma basis available

SHARE RELATED KEY FIGURES

EUR	2017	2016
Earnings per share (basic) ^{1) 2)}	0.91	0.51
Dividend per share	0.52 ³⁾	0.47 ⁴⁾
Dividend yield, %	2.9	3.0
Equity per share	10.7	8.6
Average number of shares during the period, 1,000s ¹⁾	96,130	96,139

¹⁾ Proforma

²⁾ Fair valuation adjustment EUR 11 million (EUR 7.6 million net of tax) on acquired company inventories is excluded as it is adjusted in the 2016 pro forma income statement.

³⁾ Proposal to the AGM

⁴⁾ Converted by using the same number of shares as in 2017

Business areas in figures

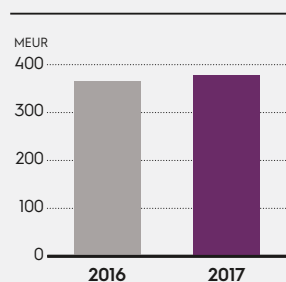
Decor

KEY FIGURES

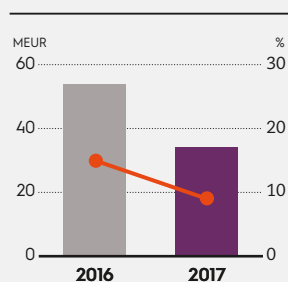
EUR million	2017	2016
Net sales	378.4	364.6
Comparable EBITDA*	33.8	53.7
Comparable EBITDA margin, %*	8.9	14.7

* Adjusted for items affecting comparability

NET SALES



EBITDA AND MARGIN*



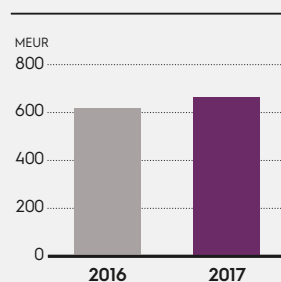
Filtration and Performance

KEY FIGURES

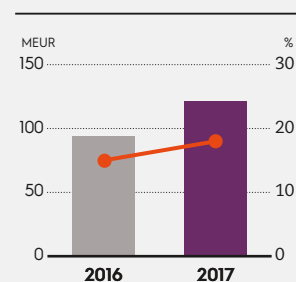
EUR million	2017	2016
Net sales	665.3	617.2
Comparable EBITDA*	120.6	94.0
Comparable EBITDA margin, %*	18.1	15.2

* Adjusted for items affecting comparability

NET SALES



EBITDA AND MARGIN*



Ahlstrom-Munksjö in figures*

NET SALES (2016: EUR 2,147.9 million)

2,232.6 EUR million

COMPARABLE EBITDA (2016: EUR 268.7 million)

290.4 EUR million

COMPARABLE EBITDA MARGIN (2016: 12.5%)

13.0%

EARNINGS PER SHARE (2016: 0.51 EUR)

0.91 EUR

OPERATING CASH FLOW (2016: EUR 232.1 million)

212.9 EUR million

PROPOSED DIVIDEND (2016: 0.47 EUR**)

0.52 EUR per share

* All figures, except dividend, are pro forma
** Converted by using the same number of shares as in 2017

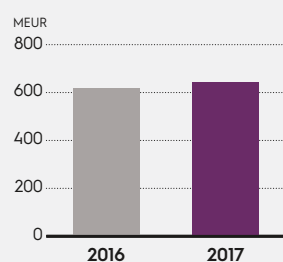
Industrial Solutions

KEY FIGURES

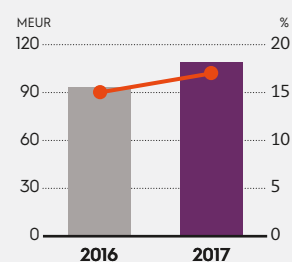
EUR million	2017	2016
Net sales	640.8	618.4
Comparable EBITDA*	108.5	93.1
Comparable EBITDA margin, %*	16.9	15.1

* Adjusted for items affecting comparability

NET SALES



EBITDA AND MARGIN*



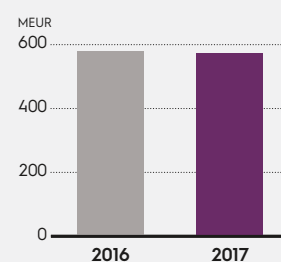
Specialties

KEY FIGURES

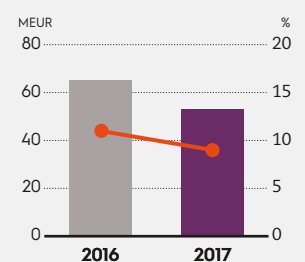
EUR million	2017	2016
Net sales	574.3	577.7
Comparable EBITDA*	52.9	64.5
Comparable EBITDA margin, %*	9.2	11.2

* Adjusted for items affecting comparability

NET SALES



EBITDA AND MARGIN*



A global leader in fiber-based solutions

In partnership with our customers, we develop solutions that make their businesses more sustainable and efficient.

Ahlstrom-Munksjö is a global leader in innovative fiber-based products and solutions. We hold leading market positions in most of the markets where we are active. Our offerings include decor paper, filter media, release liners, abrasive backings, nonwovens, electrotechnical paper, glass fiber materials, food packaging and labeling, tape, medical fiber materials and solutions for diagnostics.

We serve a wide range of customers with technologically advanced solutions which enable them to grow their business, reduce costs, develop better and more efficient applications and reduce their environmental impact. Our customers can be found in a number of industries, including automotive, furniture, construction, healthcare and life science, food and beverage and energy.

The perfect combination

Ahlstrom-Munksjö is the result of the successful merger between Ahlstrom Corporation and Munksjö Oyj, which was completed in the spring of 2017. This perfect combination broadens our product offerings, customer base and geographical coverage and strengthens our capacity to innovate and invest. The result is an Ahlstrom-Munksjö with a readiness to even better meet our customers' needs – today and in the future.

Global reach

We have approximately 6,000 employees worldwide, 41 production or converting facilities in 14 countries and a worldwide network of sales offices, making our company truly global. We are organized in four business areas supplying a broad portfolio of products to around 7,500 customers worldwide.

Close collaboration with customers

Our origins and foundation lie in fibers and how we can transform them into innovative materials with a function in everyday life. We collaborate closely with our customers to understand how we can contribute to improved product performance and sustainability. In all our customer segments, our goal is to be our customers' first choice for a superior offering.

Innovation and product development

A constant process of innovation and product development and design is in our DNA and enables us to respond to the needs of our customers, which in turn are affected by end-user behavior. This also creates the potential to move up the value chain.

Ahlstrom-Munksjö's strategic focus is profitable growth, organically or through selective acquisitions, in selected niches of the fiber-based solutions market that have a positive growth outlook. Our ambition is always to achieve a leading position in our markets.

Sustainability approach

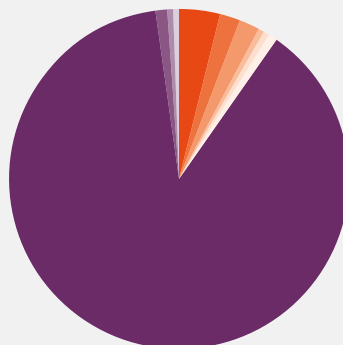
Pursuing continuous improvement is part of each stage of our work at Ahlstrom-Munksjö. We seek to ensure that the fibers, chemicals, and other inputs we use are ethically and responsibly sourced. We strive to create a safe and healthy environment where our employees can thrive, effectively manage resources, and engage our host communities as long-term partners. We work to create innovative products that provide high performance as well as sustainability benefits for our customers.

Types of fibers that Ahlstrom-Munksjö uses to develop fiber-based solutions for a sustainable everyday life.

Natural fibers

90%

- Pulp
- Abaca
- Cotton
- Other (jute, sisal)



Synthetic fibers

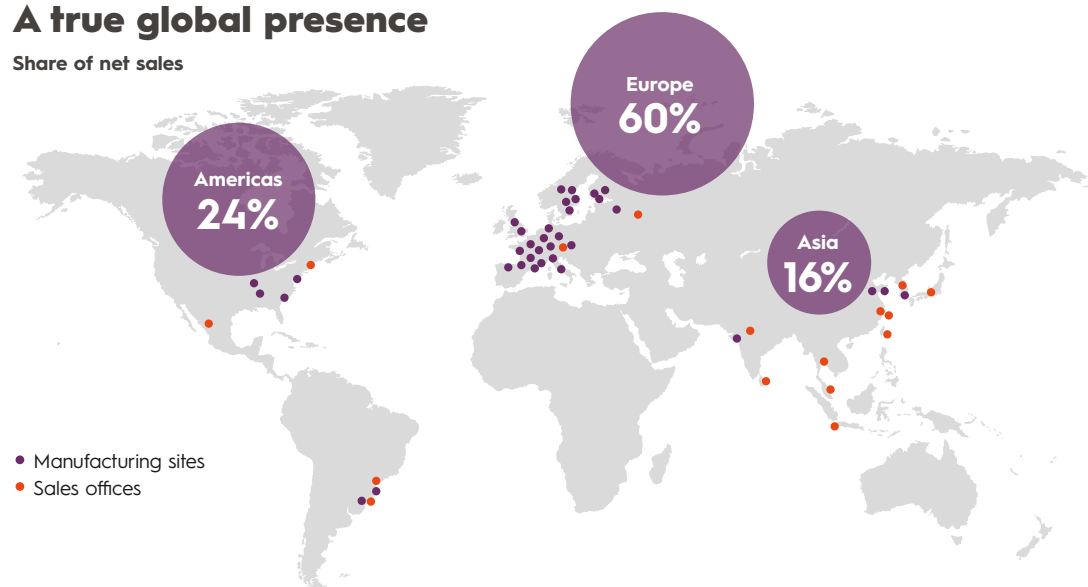
10%

- Glass fiber
- Polyester and polypropylene
- Pellets
- Micro glass
- Tencel/viscose
- Other



A true global presence

Share of net sales



Ahlstrom-Munksjö has 6,000 employees worldwide. Operations are conducted in Europe, North and South America as well as in Asia. Most production sites are located in Europe, and the head office is in Stockholm, Sweden.

Growth and value creation at Ahlstrom-Munksjö

- Markets with good growth opportunities, supported by global megatrends such as digitalization, demographic changes, urbanization, sustainability, globalization and technology shifts.
- Leading positions in selected segments like filtration, decor papers, abrasive backings, electrotechnical paper, vegetable parchment paper and tea bag material. Attractive opportunities for profitable growth, organically or through acquisitions, and to integrate up the value chain.
- Successful merger between two strong companies with estimated annual synergies of above EUR 40 million. The plan includes mainly lower fixed costs, coordination of purchases and production as well further business synergies.
- A broad product portfolio and diverse customer base bring stability and reduce market risk and volatility.
- Strong financial position and cash flow. Larger size and market capitalization post-merger increases investor appetite and reduces funding costs.
- Experienced management team with strong track record in delivering operational excellence and profitable growth.



AHLSTROM-MUNKSJÖ 2017



A good start makes for a great future



Our first year together as a unified company was an exciting and very strong period for Ahlstrom-Munksjö. The merger was closed and integration is moving along well ahead of plan. We achieved a remarkable growth and managed to keep margins intact despite a rapid cost increase in some of our key raw materials.

We have a most exciting and rewarding year behind us. Thanks to the hard work from our dedicated teams around the world, the inherent strength in the combination of Ahlstrom and Munksjö became evident already in our first year of joint operations. After the merger was officially closed in April, the integration process accelerated, and by the end of the year we had completed 98 percent of the 870 projects related to the integration of the two companies.

Merger of equals

The combination has proven to be a true merger of equals, and we had the privilege to bring together talented employees around the globe. They have created the best possible conditions for future growth while the integration process has run smoothly and efficiently. We expect to be able to confidently realize in excess of EUR 40 million in synergies by the second quarter 2019, well above the initial target of EUR 35 million. We have already secured an annual run rate of EUR 19.3 million in synergies.

We emerge as a united and stronger business with a clear vision for the future, a culture rooted in two successful companies and a long-term view to strategic growth and a changing global market place.

Making the most of 2017

After joining forces, we hit the ground running and our new company was off to a tremendous start with sales and margins in 2017 at their strongest levels in many years, leveraging the industrial rationale behind the combination.

Thanks to our quality and market leadership, we could successfully mitigate most of the accelerated raw material cost that characterized last year by bringing our selling prices more in line with the cost inflation. Titanium dioxide has doubled in price and pulp saw incremental price increases over the course of 2017. Most business areas enjoyed strong organic growth of between 3 and 4 percent in 2017, supported by a healthy global GDP growth, which boosted underlying demand in most of our customer segments.

The global economy is enjoying a notable period of synchronized global growth with the EU doing well, China showing robust growth and South America improving. This provides a fertile ground for us to further grow our sales and market share.

Our net sales increased 3.9 percent to EUR 2,232.6 (2,147.9) million, with an comparable EBITDA of EUR 290.4 (268.7) million, an improvement of EUR 21.7 million or 8.1 percent. Parallel to the integration process, we have been able to improve and expand a very efficient production platform. Many plants have been running close to their maximum capacity utilization, enabling us to reach a comparable EBITDA margin of 13 percent in our first year, close to our goal of 14 percent over a business cycle.

Strong performance in the business areas

In Filtration and Performance, growth was driven by higher sales of filtration material, nonwoven and wallcovers. Good volumes and lower converting costs lifted the result.

In Industrial Solutions, sales and margins were supported by strong demand for release liners and a better product mix for coated specialties in Brazil and improved operational efficiency.

Decor saw higher sales, but a time lag between improved selling prices and higher raw material costs weighed on margins.

In Specialties, we are pleased to see that growing areas like food packaging, beverages, medical and advanced liquid technologies are doing very well and capturing new markets. The overall business area performance was restrained by lower sales of one-side coated papers and we are responding to the changing market conditions by shifting production capacity to other products like vegetable parchment.

We have established a solid foundation for a continued profitable growth in the years to come and the extended manufacturing footprint that today spans 41 sites brings opportunities to create further operational advantages.

Strategic growth

On top of the organic growth, we are also looking at strategic growth through acquisitions.

With the support of a very strong balance sheet, we have the capacity to consider both smaller and larger acquisitions that complement the existing business or take us into new or adjacent product areas or geographical markets. We have the ambition to be number one or two in every market and to integrate up in the value chain within some product categories.

Our acquisition strategy is, however, prudent and selective, and all possible additions should be accretive from day one.

Even with an ambitious growth agenda, we are confident about delivering higher dividends through organic growth and strong cash flows. At the end of 2017, we had a net gearing of 36.2 percent, well below the ceiling of 100 percent.

Sustainability and innovation key

Alongside growth, sustainability and innovation sit at the top of our agenda and both permeate Ahlstrom-Munksjö on all levels and across all business areas. They hold the key to future growth and prosperity and support our bottom line and the value we can create for shareholders and other key stakeholders in the long term.

During the year, the Ahlstrom-Munksjö Board of Directors approved the new company's first Sustainability Policy where we formalized our commitment to people, our planet and shared prosperity by identifying nine priority areas for tracking and improving the company's sustainability performance over time. By joining the United Nations Global Compact initiative, Ahlstrom-Munksjö also committed to internationally recognized standards for responsible business practices.

To meet customer demands and succeed in the long term, we are increasingly incorporating sustainability into our product design, sourcing practices, and production processes. We are making good progress, and are committed to continuing this work. Our innovation and R&D pipelines will help us meet our own sustainability goals and in many cases deliver solutions that improve our customers' product performance as well.

The entire fiber- and cellulose-based industry is now coming out from a period of adapting to current trends such as digitalization and sustainability. Ahlstrom-Munksjö has the ambition to stand in the frontline in this shift and it is made possible by the skilled and talented people who make Ahlstrom-Munksjö the global leader it is today.



JAN ÅSTRÖM

President and CEO



The combination of Ahlstrom and Munksjö has proven to be a true merger of equals, and we had the privilege to bring together talented employees around the globe. They have created the best possible conditions for future growth.

Shaped by trends, growing with customers

Ahlstrom-Munksjö supplies customers across the globe with high quality fiber-based solutions that add value and performance to their products. We are market leaders in selected niches where we offer superior quality and a high degree of customization and level of service.

Demographics and urbanization

A growing population, including a middle class that is rising both in numbers and affluence, is changing consumer preferences and needs. Rapid urbanization calls for more energy efficient materials and environmentally friendly products, which affects construction spending and interior design. Growing incomes, especially in emerging markets feed into more demand for consumables and transport as well as changing eating habits. In developed countries, an aging population creates new needs in the healthcare industry.

Sustainable society

Demand for more sustainable products is rising at a brisk pace in many markets. The search for sustainable solutions with efficient use of energy, raw materials and transportation creates demand for new and improved products and service solutions. Awareness of sustainability, health and waste issues, together with new regulation drives demand for renewable, recyclable and biodegradable fiber-based materials.

Our markets are growing in pace with or faster than the global economy, driven by global megatrends that are based on shifting customer preferences, new technologies and societal changes.

Globalization

The increased flow of goods and services between markets and continents increases demand for tracking of goods, product marking and labelling and more flexible packaging. Globalization facilitates a rapid spread of the latest trends and consumer patterns, driving consumption and a sharper sustainability focus worldwide. A growing global energy demand requires more efficient filter media in gas turbine applications and new energy infrastructure is needed as energy transfer between continents and regions increase.

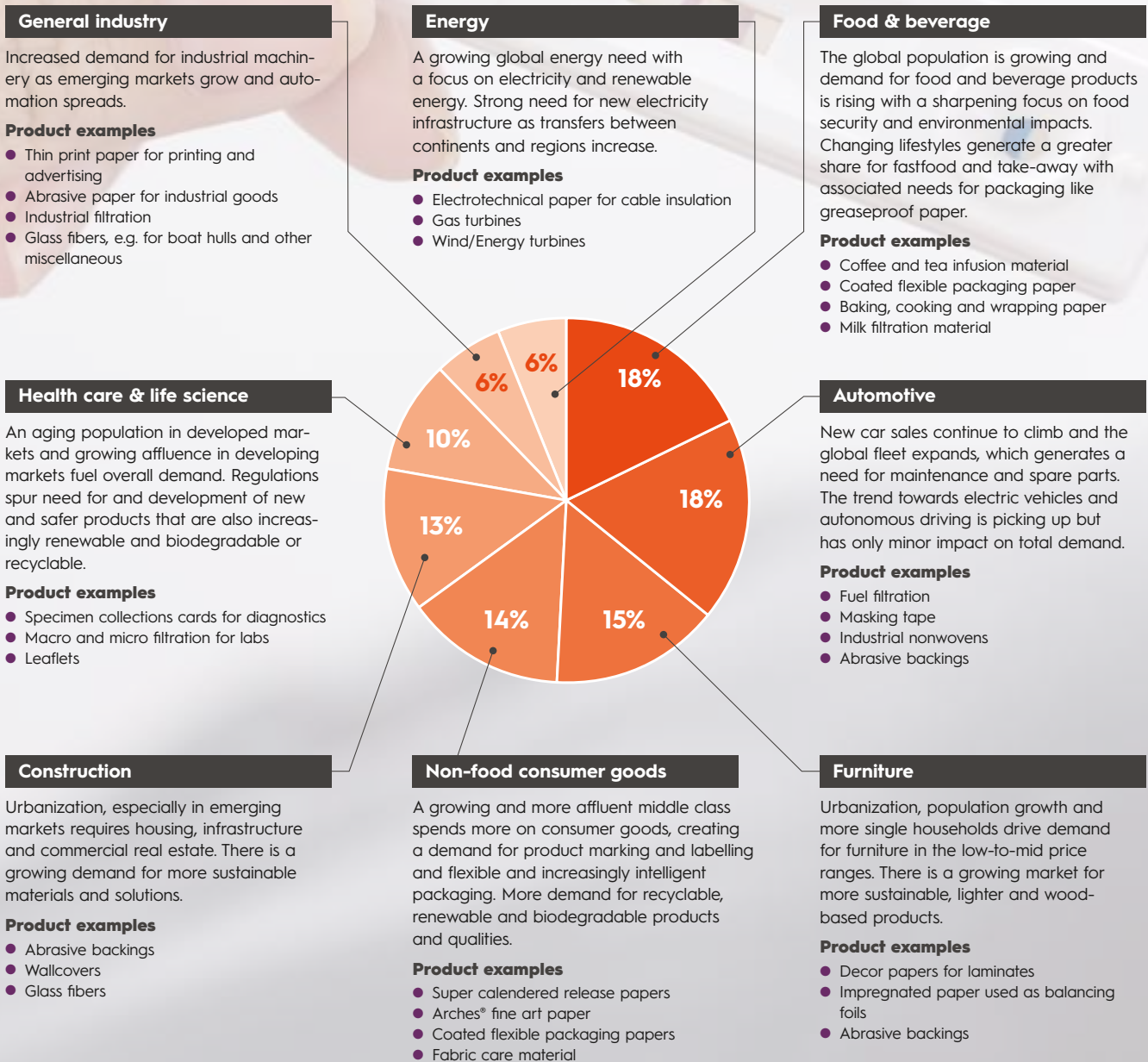
Digitalization

The global economy is rapidly becoming digitalized, and this enables both Ahlstrom-Munksjö and its customers to continuously optimize production. It also drives demand for new services and products as value chains change. More personalization of goods and services and a growing e-commerce sector changes consumer behavior and creates new packaging and logistics needs. The emergence of built-in sensor and RFID technology also opens for a better process control and integration of our products.

Customer segments

Ahlstrom-Munksjö has a very diverse set of customers in multiple industries and geographies. Typically, our products and services form an important part of a final product or perform crucial tasks in a production process. Our key customer segments often use products from several of Ahlstrom-Munksjö's business areas. In total, the food & beverage and automotive industries are the largest customer segments, followed by furniture, non-food consumer goods and construction.

Net sales by customer segments



General industry

Increased demand for industrial machinery as emerging markets grow and automation spreads.

Product examples

- Thin print paper for printing and advertising
- Abrasive paper for industrial goods
- Industrial filtration
- Glass fibers, e.g. for boat hulls and other miscellaneous

Energy

A growing global energy need with a focus on electricity and renewable energy. Strong need for new electricity infrastructure as transfers between continents and regions increase.

Product examples

- Electrotechnical paper for cable insulation
- Gas turbines
- Wind/Energy turbines

Food & beverage

The global population is growing and demand for food and beverage products is rising with a sharpening focus on food security and environmental impacts. Changing lifestyles generate a greater share for fastfood and take-away with associated needs for packaging like greaseproof paper.

Product examples

- Coffee and tea infusion material
- Coated flexible packaging paper
- Baking, cooking and wrapping paper
- Milk filtration material

Health care & life science

An aging population in developed markets and growing affluence in developing markets fuel overall demand. Regulations spur need for and development of new and safer products that are also increasingly renewable and biodegradable or recyclable.

Product examples

- Specimen collections cards for diagnostics
- Macro and micro filtration for labs
- Leaflets

Automotive

New car sales continue to climb and the global fleet expands, which generates a need for maintenance and spare parts. The trend towards electric vehicles and autonomous driving is picking up but has only minor impact on total demand.

Product examples

- Fuel filtration
- Masking tape
- Industrial nonwovens
- Abrasive backings

Construction

Urbanization, especially in emerging markets requires housing, infrastructure and commercial real estate. There is a growing demand for more sustainable materials and solutions.

Product examples

- Abrasive backings
- Wallcovers
- Glass fibers

Non-food consumer goods

A growing and more affluent middle class spends more on consumer goods, creating a demand for product marking and labelling and flexible and increasingly intelligent packaging. More demand for recyclable, renewable and biodegradable products and qualities.

Product examples

- Super calendered release papers
- Arches® fine art paper
- Coated flexible packaging papers
- Fabric care material

Furniture

Urbanization, population growth and more single households drive demand for furniture in the low-to-mid price ranges. There is a growing market for more sustainable, lighter and wood-based products.

Product examples

- Decor papers for laminates
- Impregnated paper used as balancing foils
- Abrasive backings

Our strategic ambition

Ahlstrom-Munksjö's overall strategic ambition is to achieve sustainable and profitable growth in selected niches of the global fiber-based solutions market that exhibit a positive growth outlook and are supported by sustainable market drivers.

Ahlstrom-Munksjö holds leading market positions in areas such as engine filtration material, release liners in Europe, abrasive backings, electrotechnical insulation paper, decor papers, tea bag materials, vegetable parchment papers, masking tape and fine art papers.

Growth will be a combination of organic expansion supported by continuous development of our existing offerings, the introduction of new and innovative products and applications and selective acquisitions. Ahlstrom-Munksjö's strong financial standing can accommodate larger and more strategic acquisitions that may extend the company's geographical reach and allow Ahlstrom-Munksjö to move up the value chain in certain sectors. The ability to actively optimize the price and product mix is also a valuable tool to achieve profitable growth.

Ahlstrom-Munksjö delivers a clear value proposition to its customers through a high-quality offering supported by

advanced technology, profound know-how and bespoke services. As a solutions provider, we seek to expand the role of fiber-based materials through innovation and development.

We have a very flexible and agile production and service platform which allows for efficient production even in small series. It also enables us to develop very precise and customer-specific solutions. We strive for operational excellence in all areas through high operational and cost efficiency while minimizing environmental effects.

Our operating model, based on business areas, promotes decentralization and local accountability including profit and loss responsibility at a business unit level. Ahlstrom-Munksjö is built on a strong and shared common culture which still allows for a high degree of flexibility.

Vision

To be the pioneer in sustainable and innovative fiber-based solutions, partnering with our customers towards global success.

Mission

Expanding the role of fiber-based solutions for a sustainable everyday life.

Values

- We combine long-term commitment with the courage to prioritize.
- We act as one and empower individuals.
- We are proud yet passionate to improve and innovate.

Long-term financial targets

EBITDA Margin

Above 14% over a business cycle

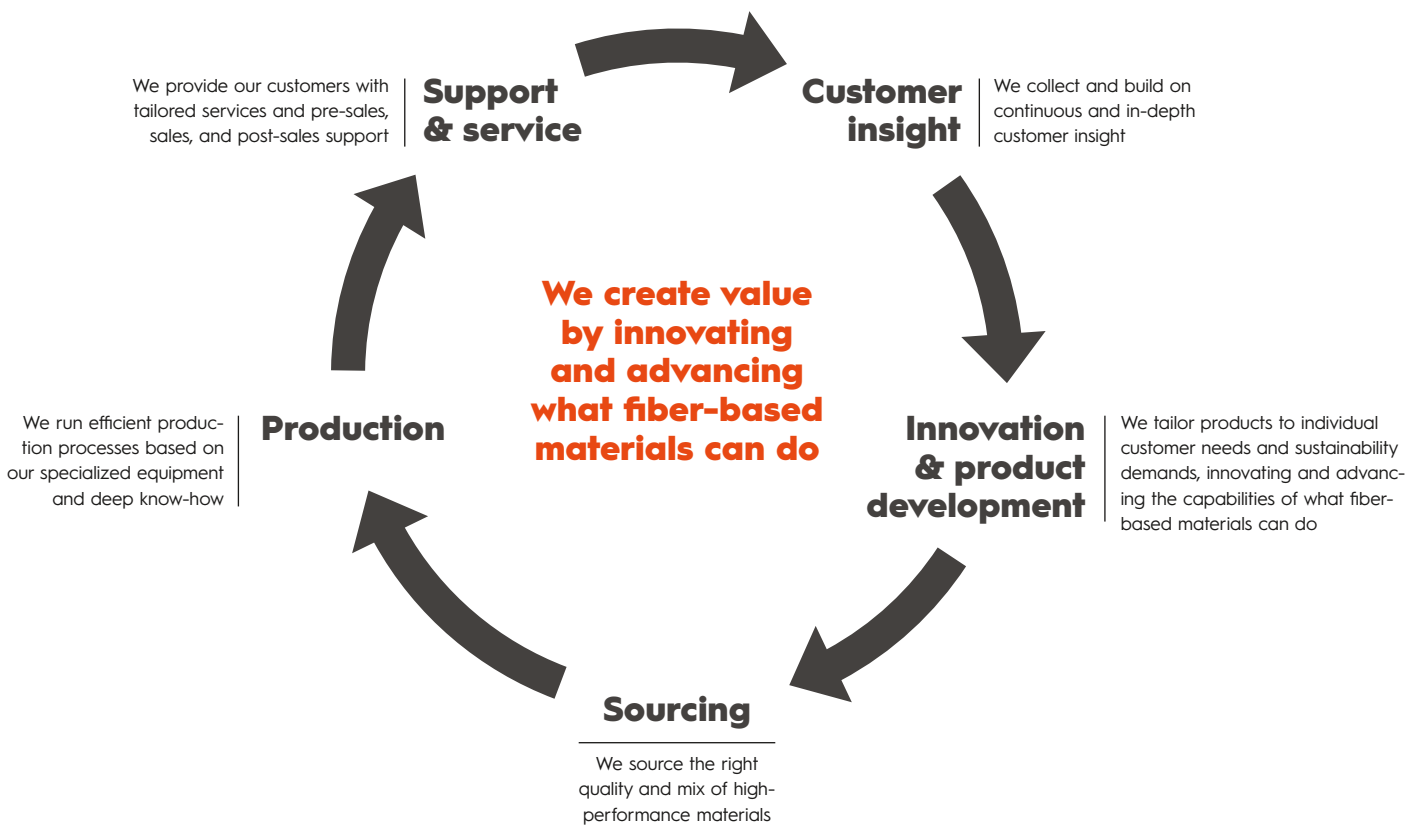
Net Gearing

To be maintained below 100%

Dividend

A stable and annually increasing dividend, to be paid biannually

Business model



Strategic direction

Profitable growth in selected niches of the fiber-based solutions market with positive growth outlooks.

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

Efficiently utilizing the **flexible and agile** production and service platform, to develop customer-specific solutions in a sustainable manner.

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

Desire for design drives demand and innovation

The Decor business area is a global, leading manufacturer of paper-based surfacing for wood-based materials such as laminate flooring, furniture and interiors. Decor develops versatile and high-tech solid color, print base and pre-impregnated papers for production of low- and high-pressure laminates and finish foils applications.

Higher overall volumes drove up net sales in 2017 by 3.8 percent to EUR 378.4 million from EUR 364.6 million in 2016. In contrast, the comparable EBITDA fell to EUR 33.8 million from EUR 53.7 million, representing 8.9 percent of net sales, down from 14.7 percent in 2016. Higher sales volumes and selling prices had a positive impact on the result, but not sufficient to compensate for the increase in raw material costs, such as titanium dioxide and pulp.

Decor paper

The global market for decor paper is driven by a growing population, accelerating urbanization and consumer preferences that favor more modern product designs and furniture that uses laminates. Growing affluence also sparks higher demand for interior decoration where laminates play an important part.

The Asian, South American and North American markets have higher growth potential and Ahlstrom-Munksjö sees a possible 3 to 5 percent global growth in the decor market in the next few years.

Decor's largest product areas are print-based papers used in flooring and furniture and decor paper for high- and low-pressure lamination. HPL products are used in more demanding environments such as kitchens.

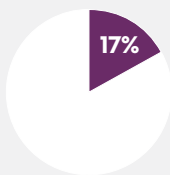
Innovation is a central feature in the decor business, and with changing consumer trends and demands, digital printing is swiftly gaining ground, and it is an area where Ahlstrom-Munksjö is making significant R&D developments to be at the forefront.

During the year, several new products were launched like 100%Color, which introduces new flexibility for designers and architects when working with compact laminates. In finish foils the M-Foil-PN product range was introduced with success as a completely new formaldehyde-free pre-impregnated paper concept.

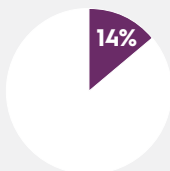
Thin print paper

The business area also produces uncoated thin print paper used primarily by the pharmaceutical industry for patient information leaflets, cosmetic leaflets and other packaging inserts and outcarts. It is also suitable for certain books, literature and timetables. Key characteristics of thin print papers are high opacity, good folding properties and durability.

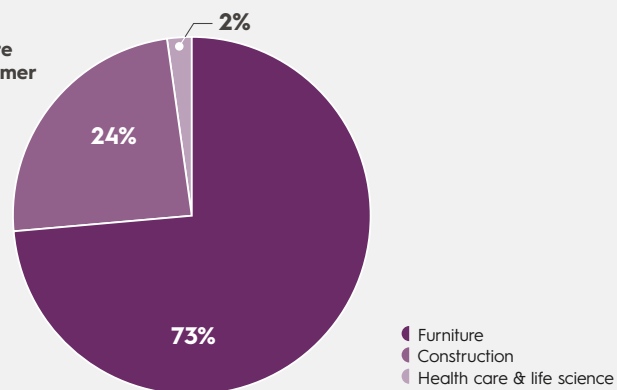
Share of net sales



Share of employees



Exposure to customer sectors





Digital printing papers are still a niche market and generally in the development stage, but the future clearly belongs to this segment. Digitally printed surfaces have taken hold in Europe and the same trend will also come to other regions. It brings clear advantages to the decor industry, including more flexibility in design, production and workflow, minimum preliminary setup times, just in time delivery, and minimal storage costs for paper rolls.

Tomas Wulkan
Executive Vice President, Decor

Decor paper is used as a carrier for the printing of wood pattern or other pattern design, in this case for laminate flooring. It is a high-tech paper with a smooth surface, high stability and good printability.

Clean air at the center of robust demand

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

Filtration and Performance saw strong demand in 2017 from most segments and net sales rose 7.8 percent to EUR 665.3 million from EUR 617.2 million in 2016. Growth was propelled by strong demand for filtration, nonwoven and wallcover products. Adverse currency fluctuations had a negative impact to reported net sales.

Comparable EBITDA increased 28.3 percent to EUR 120.6 million from EUR 94.0 million, which equates to a margin of 18.1 percent, significantly up from 15.2 percent in 2016. Higher sales in combination with successful work to improve operational efficiency, and a positive product mix all contributed.

Filtration media

Ahlstrom-Munksjö produces and develops energy efficient filtration materials from natural or synthetic fibers or a combination. Awareness of air pollution is rising fast, which generates demand for solutions, especially from markets such as China and Brazil. For filtration materials, the largest customer segment is the automotive industry, where demand was strong due to growing sales of new cars and an expanding global fleet of existing vehicles.

Around 80 percent of filtration sales derive from the transportation sector. Heavy machinery and trucks used in industry, mining and agriculture account for 60 percent, passenger cars for 30 percent and the remaining 10 percent for the industrial sector. For Ahlstrom-Munksjö, sales come primarily from the

after-market. In total, the market for filtration materials is growing by between 2 and 3 percent per year, and in 2017 Ahlstrom-Munksjö clearly outpaced the general market growth.

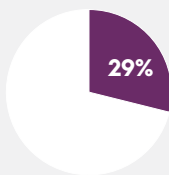
Although the shift to electrical vehicles is starting to happen, it will take considerable time and the new type of vehicles will also need a substantial amount of filter material, particularly because demand for cleaner cabin air is rising quickly. Less than 10 percent of sales come from new passenger cars.

Stricter emission standards also support the market for new filter media and will continue to do so as hybrid vehicles, which include a combustion engine, are expected to be the prevailing type of vehicle in the next decade or two.

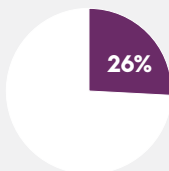
In addition, e-mobility and electric vehicles offer new and exciting opportunities for Ahlstrom-Munksjö to expand into sectors where we do not operate today. New filters, for example, are being developed to be used in cooling systems for batteries and hydraulic systems used in electric cars.

To meet strong demand for engine and industrial filter media, Ahlstrom-Munksjö decided to invest in additional capacity at its Turin plant, which came on stream early 2018. This new capacity, together with the earlier investment in Madisonville, Kentucky, will enable Ahlstrom-Munksjö to meet a rising demand for high efficiency filter media in transportation as well as expand into new applications in industrial filtration.

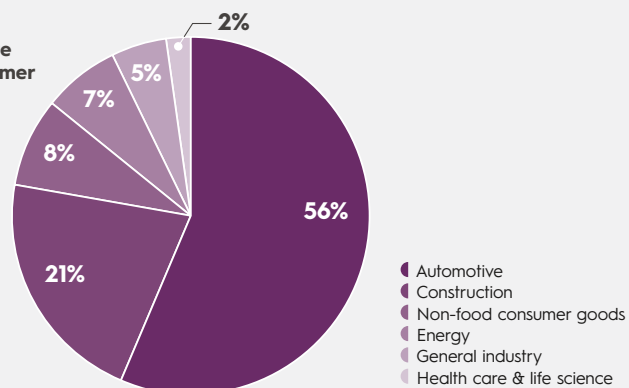
Share of net sales



Share of employees



Exposure to customer sectors



Nonwoven materials

Nonwovens are made from chemically bonded, randomly dispersed fibers. They are used in fabrics for laundry care suppliers, automotive and construction material suppliers, wallcover printers and flushable wipes manufacturers. Demand in 2017 was stable in most of these segments, and around 35 percent of sales were generated by wipes, which are sold in bulk to a few selected buyers.

A shift towards dry construction techniques is driving demand for wet plaster board in construction, while stricter guidelines and labelling systems spark demand for truly flushable products in the apparel segment where Ahlstrom-Munksjö has a very competitive offering.

In wallcovers, Ahlstrom-Munksjö's shift towards more high-value products is continuing with the digital print wallpaper segment growing steadily. New products like Spray-Up, where the wallcovers can easily be taken down and changed, are catching on in markets where temporary rental homes are more common, like North America.

Glass-fiber materials

Ahlstrom-Munksjö's glass fiber products are aimed at flooring and wind turbine manufacturers. Increasing demand for luxury flooring, a technology shift that favors laminated flooring products and a shift to glass fiber are fueling demand for Ahlstrom-Munksjö products, especially in North America and Russia where our market positions have strengthened considerably.

The wind turbine market was stable to weaker in 2017 with reduced subsidies impacting demand later in the year.

With the purpose to purify air, our filtration media is part of cabin air filters. Designed to improve air quality inside vehicles by filtering particles and gases, protecting passengers and improving driving comfort. For vehicles, we also offer transportation filtration media, in addition to nonwoven products for the interior.



In many ways, we had a record year in 2017 and gained market share while further cementing our position as preferred supplier in many segments where we operate.

Fulvio Capusotti
Executive Vice President, Filtration and Performance



Stronger positions in growing segments

The business area Industrial Solutions produces a wide range of products and materials often used in manufacturing or production processes. These include products such as abrasive backings, electrotechnical insulation papers, release liners, thin papers, specialty pulp and balancing foil paper. The business area also houses Arches fine art and printing papers, which carry with them centuries of tradition.

In 2017, Industrial Solutions enjoyed good demand in several segments, including abrasive backings, electrotechnical insulation papers, specialty pulp and release liners. Net sales rose 3.6 percent to EUR 640.8 million from EUR 618.4 million in 2016, helped by strong sales in release liners and coated specialties products as well as higher selling prices in most of the segments in the business area.

Comparable EBITDA increased 16.5 percent to EUR 108.5 million from EUR 93.1 million, yielding a margin of 16.9 percent, up from 15.1 percent in 2016. Higher selling prices, an improved product mix and increased sales volumes all contributed to the margin improvement.

Release liners

Release liner papers are coated with silicone by Ahlstrom-Munksjö's customers to carry self-adhesive labels or materials used in labeling of food, beverages, consumer goods, or for manufacturing and assembling adhesive components in industrial processes.

Overall demand for these products was robust through the year, and our production facilities have been running at full capacity, while several initiatives are underway to increase production efficiency and output. The release liner market growth has a good correlation with GDP growth, and it is also strengthened by substitution of other labeling technologies with self-adhesive labeling that requires a release liner.

The market for technical release liners for specialty industrial applications such as composite materials is enjoying even more solid demand, and Ahlstrom-Munksjö is strengthening its position and is well placed to exploit further opportunities in this growing segment.

Ahlstrom-Munksjö continues to explore innovative technologies to deliver even more reliable, better performing and more sustainable products to meet customer's demand.

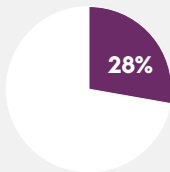
Insulation paper, thin paper and pulp

Ahlstrom-Munksjö produces specialty papers that include creped or smooth grades supplied to manufacturers of transformers and high voltage cables, where they are used for electrotechnical insulation. Another product segment is thin papers delivered to the steel, aluminum and glass manufacturing industries, which use them as interleaves between different layers of their products.

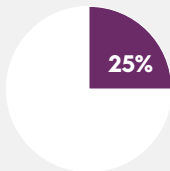
Beyond papers, the company also offers specialty long fiber cellulose pulp manufactured at a dedicated unit in Sweden and supplied to a number of industrial users in diverse sectors spanning from hygiene and sanitary products to filters and electro-technical papers.

Growth opportunities for these businesses are healthy thanks to the technical characteristics of the products coupled with the needs of both infrastructure expansion and maintenance or upgrades of existing power grids.

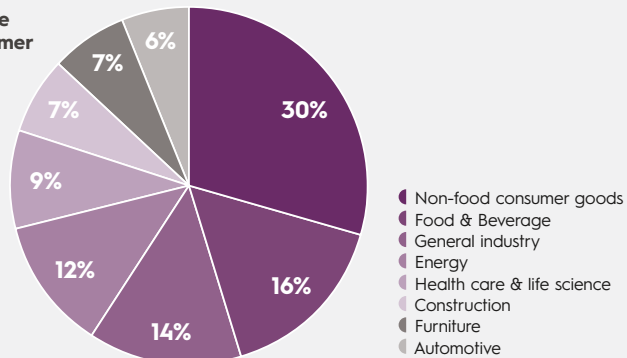
Share of net sales



Share of employees



Exposure to customer sectors



Abrasive backings and fine art paper

Abrasive backings are specialty papers that are used as a substrate for abrasive products used both in industrial and do-it yourself (DIY) sanding applications ranging from grinding to super fine finishing operations. Ahlstrom-Munksjö is well positioned in this market and offers a complete range of backings, including a variety of grades tailored for each application.

A large customer segment for abrasive backings is the automotive industry, which was extremely strong in 2017. Growing sales of new vehicles drive demand for grinding and sanding products that require backings from Ahlstrom-Munksjö. The construction industry represents another important customer segment where demand strengthened. As a consequence of growing demand, one paper machine in France was converted in order to expand available capacity.

The business also includes fine art papers under the brand name Arches, used for watercolor, oil painting and drawing as well as art publishing and paper for writing and printing.

Coated specialties

At the Brazilian unit in Jacarei, Ahlstrom-Munksjö manufactures coated label and flexible packaging papers, as well as printing and writing papers, which primarily serve the South American market.

The customer base for these products consists of manufacturers of self-adhesive laminates for label, tape, graphics applications, converters of flexible packaging, and printers, publishers and distributors. Although demand in Brazil remained soft during the year, Ahlstrom-Munksjö was able to replace domestic sales with exports to other markets in South as well as North America.

The wind turbine industry drives consumption of release liners, used as carriers for fiber composite materials in the wind blades. This is also an end market for abrasive backings, found in sandpapers used for the finishing of the surface, and for glass fiber supplied by the Business Area Filtration and Performance, see p. 14-15.



Release liner sales were particularly strong, and we are confident we can build further on our strengthened position in advanced application areas such as manufacturing of composite materials as well as on technology developments we have in the pipeline.

Daniele Borlatto
Executive Vice President, Industrial Solutions

Growing with innovative technology

The Specialties business area produces materials for food and beverage packaging, laboratory filters and life science diagnostics, water filtration, tape products and medical fabrics. It also supplies hot oil cooking and milk filtration materials, graphics paper for sticky notes and envelopes and metallized labels.

During the year, Specialties experienced higher sales of life science, tape, water purification and coffee products. However, the lower sales of one-sided coated papers as well as an adverse currency effect had a negative impact.

In total, net sales were roughly flat at EUR 574.3 million compared to EUR 577.7 million in 2016.

Comparable EBITDA was EUR 52.9 million compared to EUR 64.5 million, representing 9.2 percent of net sales, compared to 11.2 percent in 2016. Higher raw material costs as well as operational challenges in the coated one-sided business burdened profitability. Increased sales volumes and lower fixed costs had a positive impact on the result.

Food and beverage

Ahlstrom-Munksjö produces packaging materials for hot and cold foods, materials to make tea bags and parts of coffee capsules, single-sided coated label materials and flexible packaging.

In the standard tea bag market competition heated up in 2017, while the coffee market and premium tea bag segment both provided great opportunities for new innovative products.

During the year, demand for food packaging materials that handle both hot and cold foods was strong, partially helped by a desire among customers to substitute aluminum and plastics with fiber-based materials. To meet demand, investment in new

capacity was made as well as efforts to redirect some capacity previously used for single-sided coated papers.

Diagnostics and water purification

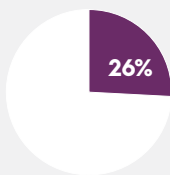
Ahlstrom-Munksjö produces advanced laboratory filters and life science diagnostics materials used by makers of laboratory consumables and equipment and life science instruments and materials. In addition, the company develops and manufactures high performance water filters for water purification used in, for example, refrigerators. The business enjoys robust growth, backed by a growing market for easy-to-use self-diagnostics and water purification that also eliminates bacteria.

Medical

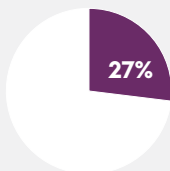
Ahlstrom-Munksjö makes medical fabrics used in sterile barrier systems, drapes, gowns and facemasks and sterilization wraps, all used primarily in surgery but also in cleanrooms and laboratories. The market for more standard materials is competitive, and Ahlstrom-Munksjö has a focus on advanced products using safe yet breathable laminate technology, capable of stopping not only bacteria but also virus.

The sterilization wrapping business is growing steadily, and Ahlstrom-Munksjö is looking to expand capacity and widen its geographical footprint in the segment.

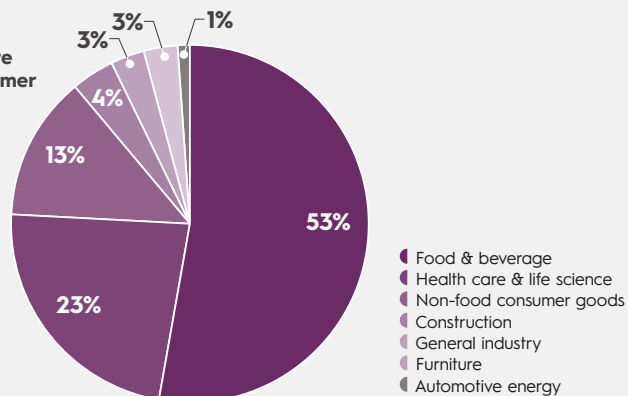
Share of net sales



Share of employees



Exposure to customer sectors



Tape backings

The business area also offers tape backings used by masking tape manufacturers. Masking tape comes in a variety of qualities and is used in the construction and automotive industries and for specialty purposes. Ahlstrom-Munksjö is the world's largest supplier of tape backing for masking tape, and the production facility in France supplies colored varieties while the Chinese plant has received substantial investments in recent years and now supplies the local Chinese market as well as demand from international customers. Backed by strong customer relationships and growing demand, Ahlstrom-Munksjö is seeking to expand the business area's capacity.



We can now serve customers like global fast-food chains with both 'standard' heat-resistant materials and 'low-end' grease-proof paper for packaging. It is also very pleasing to see that our new products for the premium tea bag markets based on compostable, organic polymers and our solutions for the single-serve coffee capsule segment are very appreciated.

Omar Hoek

Executive Vice President, Specialties

The food and beverage industry drives demand for flexible packaging and baking papers. Paper for pet food bags is one of Ahlstrom-Munksjö's product areas. Made of natural fibers, our papers sustainably pack, protect and enhance food products.



Innovating for growth

Innovation at Ahlstrom-Munksjö is vital for securing both growth and competitiveness through improving existing products, designing new ones and exploring emerging technologies to understand how they can deliver the products of the future.

Innovation and R&D runs through the veins in the entire organization, with extensive development capabilities at each Business Area, and the heart of innovation is organized in one centralized R&D department with two facilities in France – one in Pont-Evêque and one in Apprieu.

The two facilities are very complimentary in their research work, and the merger has provided a boost to the whole R&D effort. It has brought together technology platforms and know-how that are opening new doors.

Customer collaboration

Development and innovation in the Business Areas is carried out in coordination with the production process at the various plants and in close collaboration with customers.

The business areas' focus is primarily on using existing technologies and know-how to meet customers' needs to develop new products or to improve on existing products in terms of quality, performance and characteristics. It is also about improving the production process to increase productivity, flexibility and the ability to deliver superior quality.


Additionally, the group R&D facilities concentrate on more complex and longer-term projects, such as new products or emerging technologies that may find applications in several or all business areas, and to advance Ahlstrom-Munksjö's technological platform for future growth.

Being at the cutting edge of fiber-based technologies and solutions is important to our success. In total, around 150 employees at Ahlstrom-Munksjö are engaged in R&D, of which approximately a third work at the two central research facilities in France.

Improved sustainability is an area of great potential for R&D. This involves making existing products more environmentally friendly by, for example, making them compostable, recyclable or using lower amounts or different chemicals. It also means looking at entirely new products or applications, such as using fiber-based materials to replace traditional plastics.

Harnessing PLA

One such success is Ahlstrom-Munksjö's ability to harness polylactic acid (PLA), which is a renewable, compostable and biodegradable biopolymer. It is now used primarily in products for the tea and coffee-making market. The business areas, together with group R&D, are putting a lot of effort into finding new applications and uses, as well as extending competence and capabilities towards other new biopolymers. The introduction of PLA-based products also highlights the persistence needed when venturing into new areas.

Once a new fiber-based technology has been identified, Ahlstrom-Munksjö works to consider its performance on existing customer machines and the product's environmental 

Drive or not? Promiless lets you know

Over the legal alcohol limit for driving? Pregnant? These and many other questions can today easily be answered by modern self-diagnostic tools, and at the center of many of them is a fiber-based pad from Ahlstrom-Munksjö which collects and holds the specimen which is to be analyzed.

One of the latest products is Promiless which was launched by the Finnish company Goodwiller in 2016. It measures the alcohol level in the saliva and tells you whether you are below or above 20 milligrams per 100 milliliters of blood.

The analysis is based on the fact that the saliva's alcohol content in relation to the blood alcohol content is 1:1. The manufacturer states that the test is 94 percent accurate if performed and interpreted correctly.

The tests are sold in supermarkets, pharmacies and online and intended for individuals to test themselves easily and so avoid putting themselves and fellow drivers at risk.

The ability to perform simple tests yourself without the need for a blood sample is a trend that is gaining momentum, and the pads from Ahlstrom-Munksjö can also be found in for example pregnancy tests.

In more professional settings, the various pads and materials are also used for infectious disease screening, drug abuse monitoring and animal screening.

The pads are also used very suitable for collecting and holding biological samples and are used for collecting blood samples or biological samples to be tested for DNA, often in relation to criminal forensics.

Using collection pads is much easier, safer and more efficient than using for example traditional test tubes.



Sustainability YES – Formaldehyde NO

Ahlstrom-Munksjö has introduced a new environmentally friendly pre-impregnated foil base paper for finish foil applications. The M-Foil-PN is a formaldehyde-free paper concept that not only offers greater sustainability, but also improved characteristics like outstanding internal bond, better immediate gluability, and superb printability and flatness properties.

Pre-impregnated paper is a product ready to be lacquered and glued on wood based substrates. Pre-impregnated papers are typically used by lacquerers and printers and are a flexible and very competitive product solution for shelves, wardrobes, cupboards, wall separation or ceilings applications. Printers may add patterns to create wood, stone or other designs. The paper is then lacquered to obtain resistance to mechanical wear.

In addition to using a production process using resin systems without formaldehyde, FSC® certified cellulose is used to the largest possible extent to support responsible forest management practices in our supply chain.



impacts. Over time, Ahlstrom-Munksjö has become the industry standard for products such as PLA and teabags. In addition to demonstrating its environmental benefits, Ahlstrom-Munksjö needs to prove that the new technology works on the existing customer machines at the same runability. This can take a while to establish, but today Ahlstrom-Munksjö is the reference when it comes to PLA and tea bags.

Nanocellulose holds great promise

Another critical area of research is the field of nanocellulose in its various forms. The possible range of applications is extremely wide, since it has the potential to improve the strength of fiber-based substrates, provide remarkable surface qualities as well as adding new functionalities such as barrier properties. Ahlstrom-Munksjö can achieve completely new properties from the same raw material.

The environmental advantages are obvious, as nanocellulose is renewable and biodegradable and will compete with plastics and other non-degradable materials in many areas.

Another cellulosic research activity focuses on the phenomena involved in the ageing of cellulose. This is of major importance to understand the process of how paper ages when used in installations like power transformation stations. The ambition is to conceive new products with better performance

that can enable our customer to reduce the size of their installations.

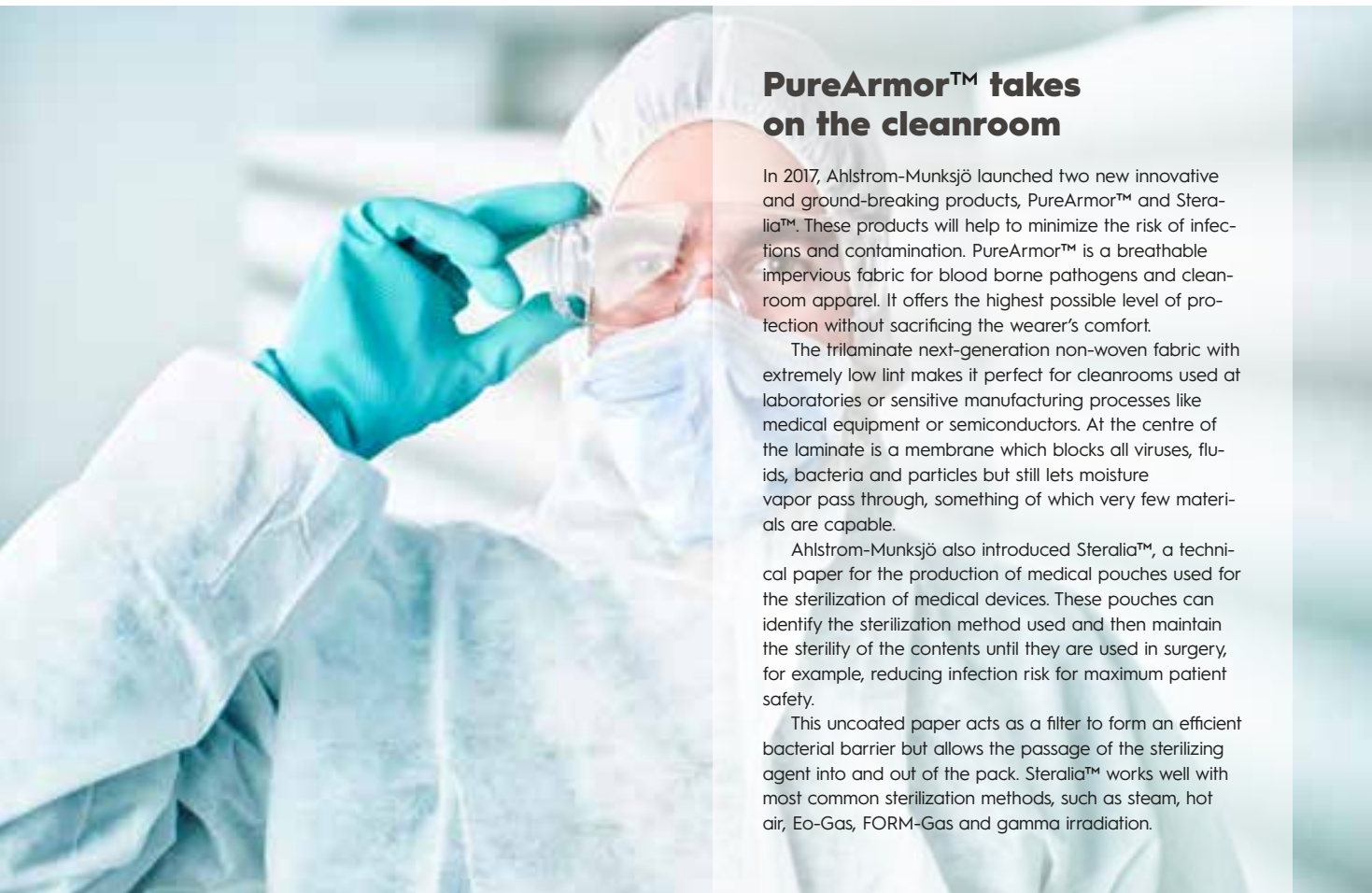
External partners

The marketing, sales and customer service organizations all form integral parts of the innovation and R&D process by supporting the understanding of what areas of development to give priority to, what improvements in qualities are needed, and what new applications are sought after by customers.

In addition to its in-house resources, Ahlstrom-Munksjö also has access to a large network of relevant research institutions and universities. Joint projects can be proprietary to Ahlstrom-Munksjö, or more open and general, often involving multiple institutions and other players in the fiber and paper market.

One important project, which to a large extent is run in this open setting, is finding an alternative to titanium dioxide, which is used extensively in the whole paper industry as a filler to make paper opaquer. Titanium dioxide has come under increasing scrutiny due to suspected health concerns and represents a substantial cost for any paper manufacturer.

"Today there is no alternative to titanium dioxide, and this is a challenge that is equally relevant for the whole industry. Substituting titanium dioxide has therefore been given an even higher priority on our agenda", says Pascale Escaffre, Vice President Group Research & Development.



PureArmor™ takes on the cleanroom

In 2017, Ahlstrom-Munksjö launched two new innovative and ground-breaking products, PureArmor™ and Steralia™. These products will help to minimize the risk of infections and contamination. PureArmor™ is a breathable impervious fabric for blood borne pathogens and cleanroom apparel. It offers the highest possible level of protection without sacrificing the wearer's comfort.

The trilaminate next-generation non-woven fabric with extremely low lint makes it perfect for cleanrooms used at laboratories or sensitive manufacturing processes like medical equipment or semiconductors. At the centre of the laminate is a membrane which blocks all viruses, fluids, bacteria and particles but still lets moisture vapor pass through, something of which very few materials are capable.

Ahlstrom-Munksjö also introduced Steralia™, a technical paper for the production of medical pouches used for the sterilization of medical devices. These pouches can identify the sterilization method used and then maintain the sterility of the contents until they are used in surgery, for example, reducing infection risk for maximum patient safety.

This uncoated paper acts as a filter to form an efficient bacterial barrier but allows the passage of the sterilizing agent into and out of the pack. Steralia™ works well with most common sterilization methods, such as steam, hot air, Eo-Gas, FORM-Gas and gamma irradiation.

Clean air on the rise – launch of Trinitex® Advance

Interest in clean air is on the rise, and Ahlstrom-Munksjö's new Trinitex® filter platform holds great promise to satisfy that demand in a range of environments.

Gas turbines are frequently replacing coal in power generation as a way to reduce carbon dioxide and other harmful emissions, but the expensive and technically sophisticated turbines rely on clean air to be able to function properly and perform at their best.

The new Trinitex® filter media from Ahlstrom-Munksjö launched in 2017 sets a new standard for efficiency and the ability to operate in the harshest conditions like air that holds salt water mist, fine dust or other debris.

It extends the lifetime of the turbines and helps them perform at their maximum and thus contributes to keeping carbon dioxide emission as low as possible.

Trinitex® is a platform product, and future applications are expected to include areas such as vehicle and aircraft cabin air and air conditioners.

The global shift towards cleaner and eventually fossil free energy and the electrification of the transport system and economy in general creates new opportunities for Ahlstrom-Munksjö. Increasingly, energy dense and large battery packs require cooling and hence filtered air. New generations of electric vehicles also require filters, although for somewhat different uses than in today's cars. Insulation with paper in both batteries and the power distribution network is also expected to increase.

The shift to all-electrical vehicles will likely happen over an extended period with the introduction of hybrid vehicles equipped with both a combustion and an electrical motor taking off first.

- This is an exciting development and we intend to be right in the middle of it. We are already supplying companies including Tesla with filters, says Jan Åström, CEO of Ahlstrom-Munksjö.

Responsible value creation

Every day at Ahlstrom-Munksjö, we are on a global journey to live out our sustainability commitment. We know that the people and communities who make our work possible, the environment and resources we all share, and our fiber innovation capabilities are critical to our long-term business success.

XXX : This report has been prepared in accordance with the GRI standards: Core option. These disclosure flags indicate that information is referenced on a specific page.

Pursuing continuous improvement is part of each stage of our work at Ahlstrom-Munksjö. We seek to ensure that the fibers, chemicals, and other inputs we use come from ethical and responsible partners with whom we can be proud to work. In our own operations, we strive to create a safe and healthy environment where our employees can thrive, effectively manage resources, and engage our host communities as long-term partners. We work to create innovative products that provide not only high performance, but often sustainability benefits for our customers as well.

All of this work supports our bottom line and the value we can provide to shareholders and our other key stakeholders over the long term. Achieving strong social, economic, and environmental performance as a company will help us manage risks, achieve cost savings through resource efficiencies, strengthen our brand and reputation, and identify product and process innovation opportunities that can drive growth. When we imagine sustainability, we imagine fiber.

The year in sustainability

In 2017, Ahlstrom-Munksjö prioritized creating a sustainability strategy as a newly combined company with a greater global reach and more diverse product portfolio. Working as one

from April onwards, Ahlstrom-Munksjö identified the merger as an opportunity for fresh thinking on how to best align our commitment to people, the planet, and shared prosperity with our long-term business success.

Priority sustainability topics

Drawing on the expertise of diverse company leaders, stakeholder research and input, and the framework of the United Nations Sustainable Development Goals (SDGs), Ahlstrom-Munksjö charted its new sustainability approach. During 2017, the company identified nine material sustainability topics.

These topics will be Ahlstrom-Munksjö's sustainability priorities and areas of focus for tracking and improving the company's sustainability performance over time. They are described in more detail in the Materiality Assessment & Material Topics section below.

Sustainability policy

102-16 | 102-18

During 2017, the Ahlstrom-Munksjö Board of Directors approved the combined company's inaugural Sustainability Policy.

Through the policy, the company first affirms the Ahlstrom-

Our material topics

People

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

Planet

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

Prosperity

7. Profitability
8. Innovation
9. Business ethics

Munksjö's commitment to continuous improvement in the nine people, planet, and prosperity material topics. The policy also establishes a formal sustainability governance structure. A Sustainable Business Council (SBC) of diverse company leaders will guide the integration of sustainability into business operations. The SBC's work will be supported and led by the VP of Sustainability and the EVP Corporate Development in the Executive Management Team. All aspects of the policy will be incorporated into the company's annual cycle of strategy, investments, budgeting and reporting.

Signing the United Nations Global Compact

102-12

The Board of Directors also approved the Sustainable Business Council's recommendation that the combined company join the United Nations Global Compact. CEO Jan Åström's signature represents Ahlstrom-Munksjö's commitment alongside nearly 10,000 company leaders to internationally recognized standards for more responsible business practices. Further detail is highlighted in the Alignment with International Sustainable Development Initiatives section below.

Sustainability metrics & targets

To track our progress and inspire improved performance over time, the company developed metrics and targets for each priority topic. The Materiality Assessment and Material Topics section below explains this process and captures how we will measure and set near-term goals for our results in each of these areas.

New sustainability data collection system

Another critical step in the company's work this year was the development and rollout of our new data collection system. To more effectively compile, analyse, and report on our performance, the company is in the process of transitioning to a universal, cloud-based platform for environmental and energy data. The system may be expanded to other sustainability topics over time.

The system will create a shared understanding of how to define these measurements, be automated where possible to improve accuracy, and provide enhanced visualizations and dashboards to support real time management and transparent reporting. This represents a significant step forward in the company's data collection and analysis capacity and will help managers drive improvements across global operations and supply chains.

Communicating with stakeholders

In our stakeholder engagement processes described below, many groups expressed a desire for additional information about our sustainability work. Strengthening our communications will better meet these groups' needs and enhance company market position and brand image. Near-term priorities include delivering core messages to key audiences and producing materials that can be used by each of the four business areas to advance their product-specific communications.



Ahlstrom-Munksjö achieves EcoVadis Gold Rating

In May 2017, Ahlstrom-Munksjö earned a Gold rating from EcoVadis, a collaborative platform that provides sustainability evaluation and rating for global supply chains.

Ahlstrom-Munksjö has a solid track record in the sustainability and social responsibility area. The EcoVadis' assessment puts Ahlstrom-Munksjö in the top one percent of all suppliers evaluated by the EcoVadis, regardless of the industry in which they operate.

EcoVadis evaluates four dimensions: environment, labor practices, fair business practices and sustainable procurement.

– Naturally, we are very happy with the outcome and it is a collective effort from internal and external stakeholders. This is a confirmation we are talking the right steps, but our ambition is of course to continue improving, says Anders Hildeman, Vice President Sustainability.

Looking ahead

Ahlstrom-Munksjö looks forward to continuing its sustainability journey through 2018 and beyond.

Strategy implementation: From planning to performance

The company will prioritize continuing to incorporate sustainability throughout our business and demonstrating strong performance across our supply chains, operations, and products as a combined company. In 2017, we established baselines for our material topics and will during 2018 undertake the management and investments needed to meet or exceed our targets in these critical areas. We will provide the resources, training, and support to production sites to help them implement our company-wide targets in their local context. We plan to finalize the rollout of our data collection system and automate monitoring where possible to better track our performance and make improvements in real time. Over time and with more information, we will refine our targets to ensure they continue to be ambitious goals that support our business success while contributing to positive social and environmental outcomes.

Sharing our journey: Engagement, communication & transparency

We will focus on continuing to engage our valued and diverse stakeholders on sustainability topics. We will advance our communications strategy to ensure our customers, investors, suppliers,

employees, and local communities understand our social, economic, and environmental approach and performance and how it relates to their concerns and interests. We will also continue to strengthen our stakeholder consultation processes to better understand their perspectives and incorporate that feedback into our work and ambitions.

Contributing to sustainable development across our value chain

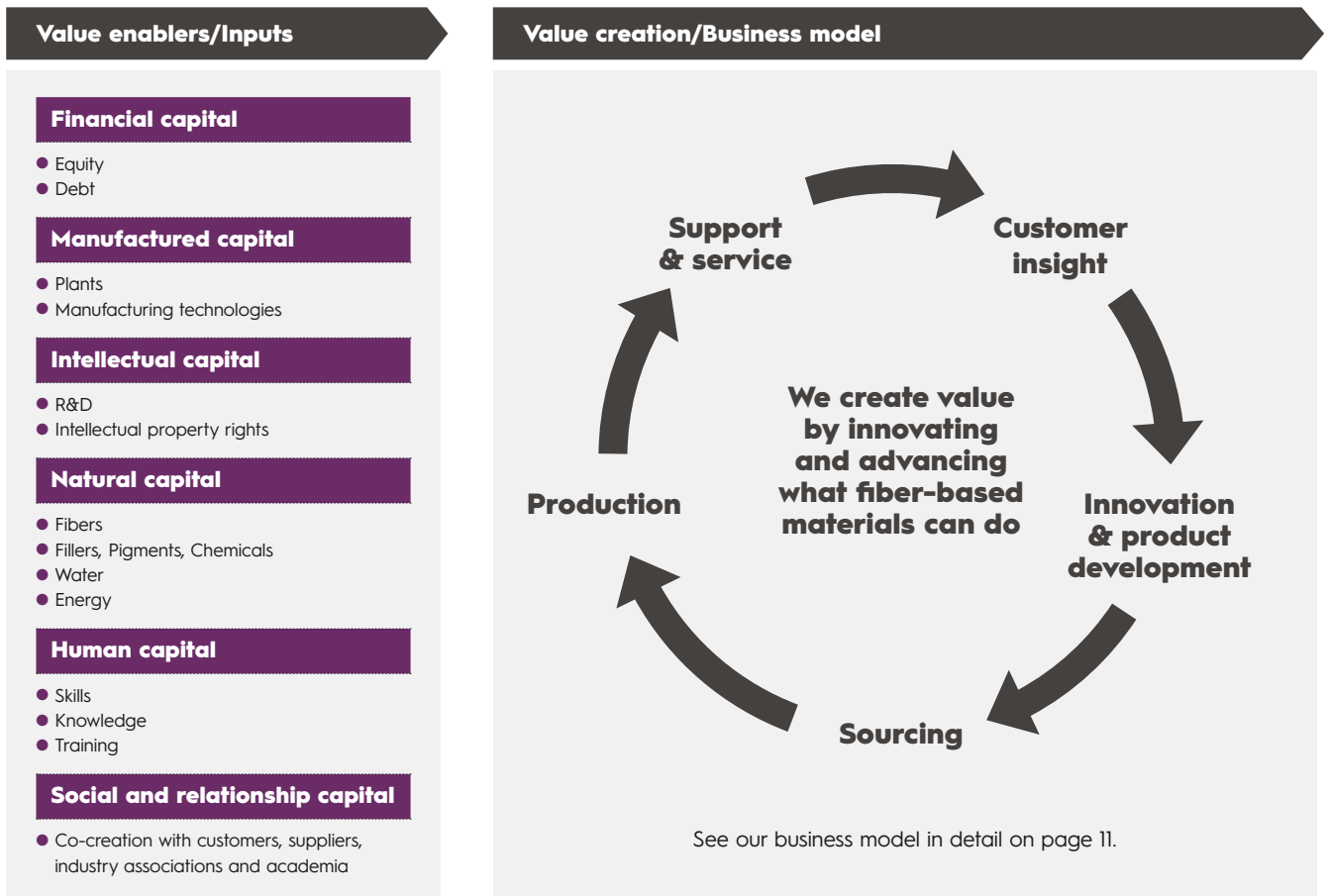
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To succeed over the long term, Ahlstrom-Munksjö works to understand and effectively respond to global trends that will impact our business. We seek to contribute to a range of internationally recognized organizations and standards that help guide our strategy and activities. Alignment with these global initiatives contributes to Ahlstrom-Munksjö's business success and impacts at each stage of our value chain.

Alignment with international sustainable development initiatives

Across our value chain, Ahlstrom-Munksjö seeks to advance the United Nations Sustainable Development Goals (SDGs) that comprise the United Nations Agenda 2030. Given the international, cross-sector focus on and investments in achieving these goals, the SDGs are a significant opportunity to deliver value to

Value creation – our Value chain



our shareholders, customers, and society more broadly as a company and in coordination with other partners.

Accordingly, our material topics were identified in part based on the United Nations Sustainable Development Goals (SDGs) framework. As we work towards continuous improvement for each of our materialities, we will either contribute to,

or reduce negative impact on, at least 11 SDGs across our value chain. During 2017, Ahlstrom-Munksjö also contributed to the SDGs by supporting a two year project in Odisha, India, with the purpose to fight poverty by creating work for women, abolishing child labor, investing in health care, raising IT knowledge and increasing environmental awareness in the village.

	Material topics	Value chain phases/Boundary	United Nations Sustainable Development Goals
People	1. Human rights	Sourcing, Production	SDG 8, 16
	2. Community engagement	Production	SDG 8, 17
	3. Employee well-being	Production	SDG 3, 5, 8
Planet	4. Supply chain	Sourcing	SDG 12, 14, 15
	5. Energy, water, and waste	Sourcing, Production	SDG 6, 7, 12
	6. Carbon dioxide	Sourcing, Production	SDG 7, 12
Prosperity	7. Profitability	Customer insight, Innovation & product development, Support & service	SDG 8
	8. Innovation	Customer insight, Innovation & product development	SDG 9, 12
	9. Business ethics	Sourcing, Production	SDG 8, 16



Value created/End usage

We provide fiber-based solutions for:

- Food & beverage
- Automotive
- Furniture
- Non-food consumer goods
- Construction
- Health care and life science
- General industry

Our customers are manufacturers of laminates, flexible packaging, cardboard, abrasive materials, steel, aluminum, furniture, flooring, labelstock, impregnators, publishers, soliconizers, metallizing converters, printers, power supply, lacquering, among others.

Value creation/Business impacts

People	<ul style="list-style-type: none"> ● Employment ● Taxes ● Donations ● Quality of life ● Safe medical care ● Light and durable structures
Planet	<ul style="list-style-type: none"> ● Emissions ● Landfill waste ● Suspended solids to water ● Energy efficiency ● Clean air and water
Prosperity	<ul style="list-style-type: none"> ● Revenue ● Shareholder return ● Interest payments ● Payments to suppliers

Drawing on diverse inputs, Ahlstrom-Munksjö's business model creates significant value for shareholders and stakeholders. Our ability to deliver value is in turn affected by how effectively we manage potential challenges, seize ongoing opportunities, and respond to global trends, including demographics & urbanization, sustainable society, globalization and digitalization, as described on page 8.

This year, Ahlstrom-Munksjö has also joined the United Nations Global Compact. As a signatory, 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 labour practices, environmental quality, and anti-corruption practices. These foundational principles are core company values. They are also essential to Ahlstrom-Munksjö's success over the long term 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 go above and beyond this baseline to contribute further to social and environmental outcomes that support company success.

Certifications and standards

102-11

At Ahlstrom-Munksjö, we also adhere to a range of internationally recognized, third-party audited standards that support our sustainability progress. For a full list, please see the sustainability section of our website.

Through the Forest Stewardship Council (FSC) chain of custody certification at 25 of our 41 total production sites, we work to advance more responsible forestry and land use practices. FSC certification also helps Ahlstrom-Munksjö achieve compliance with legal logging requirements. Our use of this robust, voluntary system for improving forest management contributes to our Supply Chain objectives.

We also work to ensure we have effective, well-designed environmental and energy management systems through achieving ISO 14001 and ISO 50001 certifications at 36 and 15 of our operating sites, respectively. Meeting these standards helps us identify opportunities for more efficient resource use and achieve cost savings, contributing to our Energy, Water, and Waste objectives.

Similarly, achieving Occupational Health and Safety Assessment Series (OHSAS) 18001 certification at 24 of our sites demonstrates our continued dedication to Employee Well-Being.

Improving health and safety practices helps Ahlstrom-Munksjö live its values, ensure legal compliance, manage risks, and support productivity across our team.

Other certificates are tailored to customer interests to support our Profitability topic. Thirty-seven plants are certified according to ISO 9001 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 some food-related products.

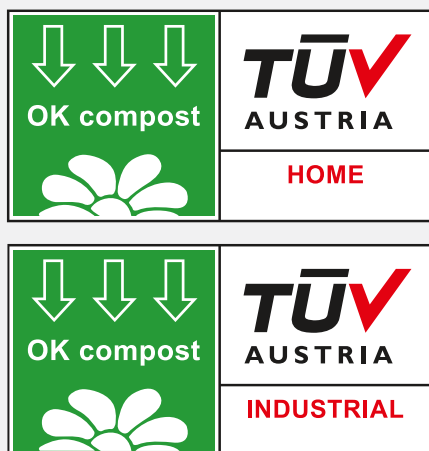
We also provide transparent and timely information to our stakeholders by reporting on our performance in accordance with the core requirements of the Global Reporting Initiative (GRI) Standards updated in 2016.

Partnerships and public affairs

102-13

Ahlstrom-Munksjö is actively involved in external partnerships that support the company's strategy. Company representatives participate in the Swedish Forest Stewardship Council Board of Directors as well as the global FSC General Assembly. Our engagement enables Ahlstrom-Munksjö to provide critical feedback on these organizations' development and their certification standards. 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 also engages in public affairs through the Swedish Forest Industries Federation and the Confederation of European Paper Industries (CEPI). This year, company representatives provided key input on the European Union's energy policy deliberations, particularly related to renewable materials and fuels. Going forward, Ahlstrom-Munksjö will continue to share information with decision makers to ensure all aspects of specialty fiber sustainability are reflected in policies that may impact company operations and supply chains.



Back to nature – with certification

Ahlstrom-Munksjö has been qualified to use the Vinçotte compostable label for a wide range of the parchment products typically used for baking and cooking applications. The license also includes most of the siliconized versions. Using the label will clearly demonstrate the environmental advantages with parchment products.

The two labels, OK Compost and OK Compost Home, certify that the products are compostable at home and industrially. Ahlstrom-Munksjö has tested this category for biodegradability since 2009, but never applied for certification. The label will make communication with customers easier, and this label will be featured in materials like Technical Data Sheets, brochures, product packaging and websites. Certification has also been requested by large food customers. The coffee capsule lid Green Top and NatureMold used for containers are also certified.

The food business at Ahlstrom-Munksjö is thriving, and the demand for Genuine Vegetable Parchment products is growing at between 3 and 4 percent per year. Our parchment products offer optimal release, greaseproof and heat resistance properties, making them ideal for baking and cooking applications in both professional and domestic use.

Engaging our stakeholders

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At Ahlstrom-Munksjö, we believe sincere, continuous dialogue with our key stakeholders is critical to our long-term business success. This ongoing exchange involves sharing our progress with stakeholder groups in a timely and transparent way and understanding how their interests relate to the company.

Stakeholder engagement is part of Ahlstrom-Munksjö's commitment to responsible business practices and can create long-term value through stronger relationships with our valued stakeholder groups. Effective and transparent dialogue will allow us to better prevent and manage risks by more quickly identifying and responding to stakeholder concerns, demonstrate improvements in our sourcing and operations to meet stakeholder expectations, and identify opportunities for new and more innovative products that can drive growth in areas of particular stakeholder interest.

Our priority stakeholder groups

As a newly combined company, Ahlstrom-Munksjö is currently focused on engaging five key stakeholder groups. Building strong relationships with (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 is essential to our long-term success and ethic of responsibility. These stakeholder categories were selected based on internal qualitative analyses ranking which groups have the most impact on the company's business, and are in turn the most directly impacted by our activities. Ahlstrom-Munksjö works to engage each of these groups and respond to their unique interests.

Customers

Our valued customers are as diverse and specialized as our product portfolio. They often have unique interests in addition to quality, supply chain and cost expectations for our high performing, innovative products. The company engages in frequent individual and small group conversations with current and potential customers to ensure we meet their needs on an ongoing basis. Ahlstrom-Munksjö also solicits customer feedback through a regular in-depth Voice of the Customer survey conducted through a third party to promote honest feedback.

Based on expert internal knowledge the results of the most recent 2016/2017 survey, human rights, occupational health and safety and safe chemicals are among the top ranked interests of our customers in their sustainability agendas. In survey interviews, many customers emphasized that these are essential baselines of good practice. Ahlstrom-Munksjö's performance in these areas helps our customers uphold their own supply chain commitments to promote human rights, particularly around preventing child labour, safe and healthy work environments for everyone who contributes to their products, and innovative products and processes that significantly reduce or eliminate chemicals with potential health risks. Ahlstrom-Munksjö's inclusion of these three issues in our material topics, on which we will report our progress towards measurable targets over time, will help us ensure we meet customers' needs in these areas.

In the survey, many customers also expressed that they wished to know more about our sustainability strategy and activities as a combined company. This report and our efforts

to advance our communications approach in 2018 and beyond will help provide customers with the additional information they need to better understand sustainability at Ahlstrom-Munksjö.

Investors

Our shareholders vary by size, time horizon, and interest in the company's social, economic, and environmental performance. We do foresee that sustainability issues will become a higher priority for shareholders over time. Our new data collection system to track environmental and energy metrics and targets as well as increased communication will help meet investors' growing interest in available information about our activities and results.

During 2017, Ahlstrom-Munksjö conducted an investor perception study interviewing shareholders, sell-side analysts, business journalists, internal and other stakeholders. This study serves as a basis for further developing investor relations. In addition, the company regularly engages in dialogue with investors through quarterly updates, our website, quarterly and annual reporting, in-person meetings and events, and individual conversations. The company also responds to information requests and questionnaires to ensure investors fully understand our work in areas of interest to their decision making processes.

Financial performance, pricing power to mitigate higher raw material costs, as well as updates on the integration and targeted synergy benefits following the merger were among investors' top interests last year. Other priority topics for this group relate to mitigating risks through responsible business practices in our material topic areas Human Rights, Health & Safety, Business Ethics, and Supply Chain. Investors also prioritized identifying opportunities for growth through Innovation and reducing costs through efficiencies on issues such as Energy. Setting goals and tracking progress in these areas through our Key Performance Indicators and regularly reporting on performance will help us meet our investors' evolving expectations for Ahlstrom-Munksjö's continuous improvement.

Employees and unions

Our team of talented and dedicated employees is at the heart of everything we accomplish at Ahlstrom-Munksjö. Engaging this valued stakeholder group, alongside the unions that represent some of them, is a longstanding company priority and critical to our future success.

Led by Human Resources, Ahlstrom-Munksjö engages employees throughout the company in continuous dialogue about sustainability topics across their employment cycle through trainings, written communications, events, and individual and small group conversations. Based on these close interactions, top areas of interest include our material topics of Employee Well-Being, particularly related to health and safety and employee development, Profitability to ensure continued opportunities to grow within the company, and Community Engagement, the company's interactions with the communities in which employees live.

In 2017, the company focused on harmonizing HR processes, tools, and policies and creating a strong combined company culture and values. This integration will create a strong foundation for further progress in our employees' areas of highest sustainability interest. The company will also seek even greater insight into our team's perspectives going forward through the launch in 2018 of an annual Employee Engagement Survey.

In addition to regularly engaging individual employees, Ahlstrom-Munksjö is also committed to active dialogue with unions, including European Works Council (EWC) representatives. The newly combined company held an inaugural meeting with EWC in October 2017. We will continue to meet regularly with EWC and other unions. 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 quite diverse in terms of size, footprint, products, and geography. Our fiber suppliers include commodity pulp suppliers, large companies producing synthetics, and smaller farmers selling niche products such as abaca. We also work with chemical, equipment, energy, water, and service suppliers on scales from the global to the highly local.

Ahlstrom-Munksjö strives to build productive relationships with our suppliers through regular contact primarily through individual and small group conversations. Our Procurement team works to ensure each supplier adheres to our Supplier Code of Conduct, which includes legal compliance, human rights, health and safety, responsible business, environmental impact, and other responsibility provisions.

Based on the Procurement team's expert knowledge, in general, our suppliers primarily seek clarity on our sustainability initiatives and requirements that impact their operations. In addition to the Supplier Code of Conduct, our work to show progress around our Supply Chain metrics and our communications strategy will help suppliers know how to best meet our expectations in these areas.

Local communities

Continuing to cultivate strong, long-term relationships with the local communities that host Ahlstrom-Munksjö's production sites is also a company priority. Ahlstrom-Munksjö is often a significant employer in the areas where it operates, creating a special responsibility and interest among employees' friends and families, local authorities, direct plant neighbours, local suppliers, and other community members.

Many production sites take a proactive approach to direct community engagement, including providing opportunities for community members to learn more about and discuss social, economic, and environmental issues with Ahlstrom-Munksjö.

Although variable across sites, regular activities include open houses and plant tours, educational or professional development opportunities for young people, such as internships or collaborations with local schools and universities, and providing charitable donations and in-kind support to community enrichment activities. Production sites also work to be a good neighbor and quickly respond to any nuisance complaints related to regular plant activities.

Although local communities' concerns vary significantly by production site context, based on interviews with plant managers, the top concerns that emerged across these diverse plants are our material topics of Energy, Water and Waste, particularly water quality, Employee Well-Being, especially health and safety, and Profitability, in the context of the company continuing to provide good employment opportunities in the areas where it

operates. Tracking our progress for these material topics and the upcoming plant-level trainings on how to translate our company sustainability strategy to the local context will help us continue to address local communities' needs and interests.

Materiality assessment and material topics

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In order to identify the most critical issues on which the company will report and track progress, Ahlstrom-Munksjö undertook a materiality assessment. A team of diverse leaders from across the combined company, representing knowledge about key stakeholder needs, identified priority material topics at a workshop. In addition to customer and investor survey findings, their decisions were based on expert knowledge of the degree to which the areas would influence stakeholder decisions and the significance of the impacts on sustainable development. They also considered the issues' relevance to Ahlstrom-Munksjö and the strategic importance to the company of performing well. Workshop participants used a qualitative ranking process to assess these dimensions for a broad range of potential sustainability issues and then determine a final suite of material topics.

Material topics

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

Metrics and targets

Ahlstrom-Munksjö is dedicated to seeking continuous improvement in each of our nine materialities. After prioritizing the material topics on which to focus, the company developed a set of quantifiable metrics and time-bound targets to track progress, evaluate our performance, and adjust management over time to achieve our targets and meet our commitments.

These metrics and targets were selected through an internal dialogue process. The Ahlstrom-Munksjö Sustainable Business Council worked closely with leaders from across the company to identify ambitious and feasible metrics and targets that support business success through improved sustainability outcomes. This process was also informed by benchmarking to peers and internationally recognized reporting requirements, including the Global Reporting Initiative (GRI) 2016 standards.

Setting clear and measurable management goals will inspire leaders and team members across the company as they integrate sustainability into both their strategic planning and day-to-day activities. As we collect more information on the performance of the combined company over time, we will continue to refine these metrics and targets.

Comparability

While we have established 2017 quantitative performance baselines where possible for our material topic targets, we do not have relevant historical data to compare our current to past sustainability performance due to the merger this year. We look forward to sharing this information in future annual reports as we apply a unified measurement and management approach to achieve company-wide sustainability targets.

	Material topics	Ahlstrom-Munksjö Sustainability Commitment	Ahlstrom-Munksjö Metrics	Ahlstrom-Munksjö Targets
People	1. Human rights	Respect fundamental human rights in our activities and expect the same from our suppliers.	<p>Percentage of employees who confirm Code of Conduct awareness</p> <p>Development of group-wide Code of Conduct training program</p> <p>Percentage of chemical and fiber suppliers that have signed the Supplier Code of Conduct or are considered compliant</p> <p>Percentage of chemical and fiber suppliers that have undergone evaluation for Supplier Code of Conduct risks</p>	<p>All employees confirm Code of Conduct awareness by end of year 2018</p> <p>Training program on Code of Conduct developed by end of year 2018, targeting training of all employees at regular intervals</p> <p>All chemical and fiber suppliers have signed the Supplier Code of Conduct or are considered compliant by end of year 2018</p> <p>All chemical and fiber suppliers have undergone evaluation for Supplier Code of Conduct risks by end of year 2018</p>
	2. Community engagement	Have a positive impact in the community by supporting local and global initiatives that align with our values.	Percentage of production sites with an annually updated community engagement plan that considers how plant activities can improve company image, attract potential employees, and contribute to healthier living	All production sites have an annually updated community engagement plan by end of year 2018 that considers how plant activities can improve company image, attract potential employees, and contribute to healthier living
	3. Employee well-being	Create safe and inclusive work environments where all employees are given fair treatment and equal opportunity. Act as a responsible employer and provide fair remuneration to our employees.	<p><i>Health & safety</i></p> <p>Annual Total Recordable Incidents rate (TRIR, Total Recordable Incidents divided by total hours worked multiplied by 200,000)</p> <p>Annual Near Miss rate (NMR) (number of near miss incidents divided by hours worked over 1,800 hours worked)</p> <p>Average hours of tailored safety training per employee each year</p> <p><i>Employee development</i></p> <p>Percentage of employees who have had an annual performance and development discussion with their manager</p> <p>Employee Engagement Index and Leadership Index baseline definition</p> <p><i>Gender equality</i></p> <p>Gender targets and action plan defined</p> <p>Percentage of male vs. female managers</p>	<p><i>Health & safety</i></p> <p>We believe zero accidents is possible and we are committed to pursuing a TRI rate of zero</p> <p>NMR higher than 2.9 by end of year 2018</p> <p>On average, at least 15 hours of tailored safety training per employee each year by end of year 2018</p> <p><i>Employee development</i></p> <p>All employees have had an annual performance and development discussion with their manager by end of year 2020</p> <p>Employee Engagement Index and Leadership Index baseline defined by end of year 2018 through a common Employee Engagement Survey</p> <p><i>Gender equality</i></p> <p>By end of year 2018, short- and long-term gender targets defined and implementation of action plan for closing the gender gap begun</p> <p>Achieve gender representation in managerial roles at least proportional to the ratio of the total workforce by end of year 2020</p>

	Material topics	Ahlstrom-Munksjö Sustainability Commitment	Ahlstrom-Munksjö Metrics	Ahlstrom-Munksjö Targets
Planet	4. Supply chain	Ensure that our input raw materials are responsibly sourced and that our natural fiber sourcing policies promote sustainable forestry and agricultural practices.	<p>Percentage of chemical and fiber suppliers that have signed the Supplier Code of Conduct or are considered compliant</p> <p>Percentage of chemical and fiber suppliers that have undergone evaluation for Supplier Code of Conduct risks</p> <p>Development of targets to increase Forest Stewardship Council (FSC) certified wood pulp sourcing</p>	<p>All chemical and fiber suppliers have signed the Supplier Code of Conduct or are considered compliant by end of year 2018</p> <p>All chemical and fiber suppliers have undergone evaluation for Supplier Code of Conduct risks by end of year 2018</p> <p>FSC certified wood pulp sourcing targets developed by end of year 2018</p>
	5. Energy, water, and waste	Design products and manufacturing processes that use energy, water and raw materials more efficiently to minimize waste and emissions to natural basins of water, and air.	<p>Percentage of plants with a third-party audited environmental management system such as ISO 14001</p> <p><i>Energy</i> Percentage of company energy consumption certified under a third-party audited energy management system such as ISO 50001</p> <p>Specific energy consumption per gross ton product</p> <p><i>Water</i> Water use per gross ton product</p> <p>Water COD emissions per gross ton product</p> <p><i>Waste</i> Tons of waste to landfill</p>	<p>More than 95 percent of plants have a third-party audited environmental management system by end of year 2020</p> <p><i>Energy</i> Increase percentage of the company's energy consumption certified under a third-party audited energy management system. Specific targets to be established by end of year 2018</p> <p>Annual reduction in specific energy consumption per gross ton product from 2018 onward. Specific targets to be established by end of year 2018</p> <p><i>Water</i> Annual reduction in water use per gross ton product from 2018 onward. Specific targets to be established by end of year 2018</p> <p>Annual reduction in water COD emissions per gross ton product from 2018 onward. Specific targets to be established by end of year 2018</p> <p><i>Waste</i> Annual reduction in tons of waste to landfill from 2018 onward. Specific targets to be established by end of year 2018</p>
	6. Carbon dioxide	Reduce our contribution to climate change by decreasing our specific carbon dioxide emissions and our dependency on fossil fuels.	<p>Scope 1 carbon dioxide emissions per gross tons product</p> <p>Scope 2 carbon dioxide emissions targets developed</p>	<p>2 percent annual reduction in Scope 1 carbon dioxide emissions per gross ton product from 2018 onwards</p> <p>Scope 2 carbon dioxide emissions targets developed by end of year 2018</p>
Prosperity	7. Profitability	Aim for long term profitability through measures to increase operational efficiency, profitable growth, product and service leadership, and a strong innovation platform.	<p>EBITDA margin over a business cycle</p> <p>Net gearing</p> <p>Dividend</p>	<p>EBITDA margin above 14 percent over a business cycle</p> <p>Net gearing below 100 percent</p> <p>A stable and annually increasing dividend, to be paid biannually</p>
	8. Innovation	Increase our offering of products, services, applications, and solutions that incorporate sustainable functionality and design.	Procedure in place for incorporating sustainability evaluation into new product development activities	There is a procedure in place for incorporating sustainability evaluation into new product development activities by end of year 2018. Future targets on sustainability advances through innovation to be established by end of year 2018
	9. Business ethics	Conduct our business ethically and responsibly in the local and global communities. Uphold a zero-tolerance towards bribery and corruption. Conduct operations in a manner that meets highest environmental standards and ensure that we are in full compliance with applicable laws and regulations.	<p>Percentage of employees who confirm Code of Conduct awareness</p> <p>Development of group-wide Code of Conduct training program</p>	<p>All employees confirm Code of Conduct awareness by end of year 2018</p> <p>Training program on Code of Conduct developed by end of year 2018, targeting training of all employees at regular intervals</p>

People and communities

102-8 | 102-41 | 103-1 | 103-2

People are central to every aspect of sustainability at Ahlstrom-Munksjö. We strive to respect the highest standards of human rights in our operations and supply chains, build close, long-term relationships with the communities that host our production sites, and provide safe and healthy work environments free from discrimination and full of opportunity for our team. Ahlstrom-Munksjö's continued progress in these areas is essential to our long-term success. When our people thrive, we thrive.

1. Human rights

412-2

At Ahlstrom-Munksjö, we are strongly committed to respecting fundamental human rights in our operational activities and expecting the same from our suppliers. As laid out in our company Code of Conduct, this means we treat all our people with respect and give them all 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.

Additionally, we support 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 us to eradicating child labour and forced labour anywhere in our supply chain and recognizing our employees' right to freedom of association and collective bargaining.

We expect the same level of commitment from our suppliers. Our 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 our suppliers to respect the traditional and customary rights of local communities affected by their operations.

Our dedication to human rights reflects our company values. It also helps us ensure our employees have a safe and respectful workplace and our customers and investors can feel confident we are in full compliance with all applicable regulations and have mitigated risks of violations in our supply chains. To date, our management approach has been to focus on full legal compliance and investigate and resolve any reports of potential violations in a thorough and timely manner.

Any potential violations can be reported to a manager, the Human Resources or Legal departments, a dedicated and confidential mailbox (codeviolation@ahlstrom-munksjo.com), or an internal misconduct reporting line with 24/7 availability.

In connection with the merger in April 2017, an updated Code of Conduct for the combined company was adopted by the Board of Directors. The updated Code of Conduct has during the course of the year been communicated throughout the

organization, and a Code of Conduct awareness initiative has been launched. We will advance new awareness and training opportunities for employees across the company on our Code of Conduct, which includes respect and accountability for human rights, in order to meet the targets within this area.

Our Supply Chain work, led by Procurement and described below, will include human rights components through our Supplier Code of Conduct to ensure our sourcing reflects this commitment as well.

2. Community engagement

413-1

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

Currently, local community relationships are cultivated by plant managers and their teams at our over 40 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, and quickly responding to any nuisance complaints related to regular plant activities. Some plants have undertaken formal stakeholder analyses and developed community engagement strategies, 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 now take time each year to carefully consider their community engagement work. Components of this plan will include how plant activities can improve company image, attract potential employees, and contribute to healthier living in the area. By the end of 2018, our goal is that all our sites will have an annually updated community engagement plan.

Undertaking an annual planning process will help ensure production sites tailor their community interactions to evolving stakeholder needs and interests. It will also support engagement

activities that more strategically advance Ahlstrom-Munksjö's overarching goals in local contexts.

Progress towards a goal of all plants undertaking structured community engagement planning activities will be tracked during 2018. At the end of the year, we will assess our progress and determine if further action is needed to further advance long-term relationships with the company's host communities.

3. Employee well-being

At Ahlstrom-Munksjö, we believe in creating safe and inclusive work environments where our over 6,000 employees are given fair treatment and equal opportunity. We are committed to acting as a responsible employer and providing fair remuneration to our employees.

All of our other efforts and our long-term business success rely on strong performance in this area so our team is supported and inspired to be at its best. Throughout our operations, we are focused on three dimensions of the Employee Well-Being topic: Health & Safety, Employee Development, and Gender Equality.

Health & safety

Safety is our mindset throughout our operations at Ahlstrom-Munksjö. We work towards a zero accident workplace by setting ambitious targets for continuous improvement, developing consistent safety practices and competencies at every level, and creating a culture of responsibility and accountability for all employees, contractors, and visitors at our production sites. Achieving results in this area is a fundamental value for Ahlstrom-Munksjö and ensures our employees, customers, and investors can be confident that we are continually reducing risks and supporting a healthy, productive team whose contributions are essential to our company success.

As highlighted in our Occupational Health and Safety Policy, we focus on preventative activities, behaviour-based safety interactions, safety inspections and auditing, and tailored safety training to ensure a safe working environment. We emphasize general life saving behaviors applicable throughout our sites as well as specific topics of importance, such as evaluating, labeling, handling, and disposing of chemicals used in our production processes safely. 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.

To measure our progress in this area, we track three priority metrics: our annual total recordable incidents (TRI) rate, near miss rate, and hours of tailored safety training per employee each year. This year, we established baselines as a new company of a TRI rate of 2.37, a near miss rate of 2.71, and 13.35 average hours of tailored safety training per employee.

We believe that zero accidents is possible, and this is our long-term aspiration for our TRI rate. By end of year 2018, we seek a near miss rate higher than 2.9 to ensure all risks are being reported and responded to swiftly. Building safety competencies across our sites is critical, and we plan to increase tailored safety trainings to 15 hours per employee annually by end of year 2018. Over time, we will update these targets to ensure we continue to advance health and safety goals across our production sites.



Communicating safety

At Ahlstrom-Munksjö, we believe that zero accidents is possible.

Ahlstrom-Munksjö businesses are related to operating with paper, fiber and pulp processes and working in circumstances where considerable health, safety and environmental risks are always present. The company's operations require therefore an excellent performance in safeguarding health, safety, and environmental related issues. This needs to be reflected in a systematic and efficient health and safety management process.

Health and safety is a critical part of our business ethics. By continuously setting targets to improve, developing consistencies and managing capabilities, we will build a strong safety culture that will increase the health and safety accountability globally for all employees, contractors and visitors.

The ambitious vision of zero workplace accidents and incidents at our plants and offices around the world and ensuring employees, visitors and contractors comply with safety rules is key to reaching this goal.

- We know that more than 80 percent of all accidents come down to the human factor and behavior, which is why communication in all possible ways is so important, says Rune Årnes, Vice President Health & Safety.

For 2017, Ahlstrom-Munksjö exceeded its internal target of providing every employee with 12 hours of tailored safety training, designed to match ongoing safety priorities and actions. Ahlstrom-Munksjö works very actively with BBS, or Behavior-Based Safety, training and here communication and raising awareness take center stage. The aim of BBS training is to make workers safety conscious since behavior is widely recognized as having an important effect on accident causation and prevention.

Communication includes measures such as a common signage across the world, sharing good practices through monthly safety reviews, instruction folders, visibility clothing, and informative screensavers. It is all summed up in the company's safety slogan "Safety is our mindset."

In tune with the slogan, the release liner plant Mathi, in Turin, was selected as one of the 16 best companies in Italy for safety management in 2017 and awarded the "Premio Imprese Per La Sicurezza."

Eliminating accidents is not only important from the human perspective but also has proven positive effects on efficiency, productivity and profitability as fewer accidents means less waste, no unwanted stoppages and higher productivity. In 2017, we reduced our lost time accidents (LTA) by 52 percent.

Employee development

404-3

As described in our Human Capital Policy, Ahlstrom-Munksjö is committed to continuously developing our employees based on individual aspirations, company values, and business needs. We provide 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 our team to achieve greater business, social, and environmental results throughout the company. Our people are our greatest asset, and investing in their growth will help us meet evolving challenges and take advantage of new opportunities in a dynamic operating context.

Our Human Resources team leads this initiative and collects information on our progress towards targets in this area. For this aspect of our Employee Well-Being materiality, we will measure our progress by tracking what percentage of our employees have had a performance and development discussion with their manager in the past year. These conversations are a critical opportunity for feedback, learning, and inspiring further growth. We will establish baselines and chart our progress towards this goal through a new HR data management system that will be implemented in 2018. By 2020, we hope to ensure that all employees have had an annual performance and development discussion with their manager so that they are empowered in their roles and have opportunities for further development.

We will also develop an Employee Engagement Index and Leadership Index based on surveys of our team by end of year

2018. Once baselines are established on employee perspectives, we will then set targets for further improvements on these important indicators of employee development.

Gender Equality

405-1

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

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

To track progress in this area, our HR team will measure the percentage of male and female managers at the company. A new HR data management system will be implemented in 2018 to establish baselines and track progress. By end of year 2020, we seek to achieve gender representation in managerial roles at least proportional to the ratio of the total workforce. By the end of 2018, we will define short- and long-term gender targets and begin implementing an action plan for closing the gender gap in our overall workforce as well. Throughout these efforts, we will ensure we remain in compliance with our Code of Conduct and all applicable laws and regulations.

Playing the value card

Bringing together two proud and successful companies under one shared umbrella of corporate values and culture is no easy feat – which is why Ahlstrom-Munksjö wasted no time in setting the process in motion once the merger was agreed in 2016.

To map current values and what was expected from the new company, extensive interviews were conducted with senior management including the CEO and business area heads. They explored how the merger and its drivers were perceived and what type of culture the new company would require to be able to meet its goals and stake out a successful future.

A company-wide survey was also conducted and a network of “Change Champions” established. This way each site worldwide had change ambassadors to provide input and feedback when developing the new common values.

– We had a flying start as the cultures were not that different but even so a broad organizational involvement was needed to identify which values were right for the new company. The three values we have today were defined in that initial process and then endorsed by management and the board and put in place April 1, 2017 when the merger was officially closed, says Åsa Jackson, Executive Vice President Human Resources & Health and Safety at Ahlstrom-Munksjö.

The work to communicate and implement the new corporate values then accelerated in tandem with the rest of the integration process and a specially designed board game became a powerful and efficient tool to push the implementation forward and create consensus and understanding around the values.

The “Value Game” was first put to work at a workshop with the top 100 managers at Ahlstrom-Munksjö in September 2017, where a three-hour workshop was carried out.

The game centers around the three values and is designed to encourage and initiate discussion and debate around the values, their interpretation and implementation.

In 2017, the majority of the management teams around the world also participated in the Value Game workshop. The next stage is involving all employees in the value discussion, which is expected to be completed by June 2018.

– So far, the Value Game discussions have gone very well and the interest and commitment from all people involved has been tremendous, says Åsa Jackson.

In 2018, Ahlstrom-Munksjö will also launch its first company-wide employee engagement surveys and leadership and talent training programs as a combined entity.



Environment and natural resources

103-1 | 103-2

A vibrant, healthy global environment sustains and inspires us all. As part of a resource-intensive industry, Ahlstrom-Munksjö has a particular responsibility to advance environmental performance throughout its operations and supply chains. We are pursuing continuous improvement in three areas: the environmental impacts of our sourcing practices, efficiencies and innovations in our energy and water use and waste reduction and disposal, and serious contributions to the global challenge of climate change through carbon dioxide emissions reductions. Our stewardship of the natural world and our resources is part of not only company success, but our legacy for future generations.

4. Supply chain

308-1

At Ahlstrom-Munksjö, we work to ensure that our inputs are responsibly sourced and that our natural fiber supply chain policies promote more sustainable forestry practices. We work with a large number of suppliers to secure the high quality, diverse inputs needed to create our portfolio of specialty fiber products. Our most important inputs include fibers, particularly wood pulp, and the chemicals we use in our production processes. We also work with indirect suppliers, such as utilities, transportation services, and equipment and machinery providers.

Our ambition is to use renewable materials wherever they can deliver the high product performance tailored to specific applications for which Ahlstrom-Munksjö is known. In 2017, our fiber and chemical raw materials were 68 percent renewable by volume.

We expect our suppliers to uphold high standards for ethical and socially and environmentally responsible business practices. This reflects our core company values that our responsibility extends beyond our operations upstream to our suppliers. Sound procurement practices also mitigate business risks for our company, our customers, and our investors.

Our Supplier Code of Conduct establishes clear, non-negotiable minimum requirements related to legal compliance, human rights and the prevention of child labour, health and safety, responsible business, environmental impacts, and transparency. Ahlstrom-Munksjö's newly built global corporate Procurement team is leading efforts to ensure every supplier has signed or is in full compliance with these expectations through regular dialogue with suppliers as well as emerging systems for risk assessments and field auditing.

Beyond this essential baseline for responsible sourcing, Ahlstrom-Munksjö is also dedicated to supporting more environmentally sustainable fiber production practices. Our most impactful purchasing in this area is our wood pulp procurement, which in 2017 accounted for 87 percent of our fiber use. To advance improved forest management practices, Ahlstrom-Munksjö purchased 49% of its wood pulp from Forest Stewardship Council (FSC) mix credit certified sources in 2017, with the remainder meeting FSC Controlled Wood criteria. FSC is widely recognized as the most respected and ambitious voluntary, third-party audited forest product certification systems for responsible forest management. By using FSC materials, Ahlstrom-Munksjö can meet growing customer demand for certified products while contributing to more sustainable forest practices in its supply chain.

Data on both these processes is collected by Procurement through a centralized, cloud-based information platform. Any potential violations of the Supplier Code of Conduct can be reported to a Procurement manager, the Human Resources or Legal departments, or a dedicated and confidential mailbox (codeviolation@ahlstrom-munksjo.com).

To build on this strong foundation going forward, Ahlstrom-Munksjö has established metrics and targets to track progress in this area. First, we will assess what percentage of our chemical and fiber suppliers have signed our Supplier Code of Conduct or are considered compliant to set clear expectations for responsible sourcing. Currently, more than 90 percent of our chemical and fiber suppliers are on board, and by end of 2018, we will work to ensure all of our suppliers are signatories or considered compliant.

We will then create accountability by evaluating Supplier Code of Conduct risks and following up with mitigation actions as needed. We are currently developing new evaluation procedures for the newly combined company with more diverse supply chains, with a goal of incorporating all suppliers into the system by end of 2018.



Supporting certified forests

Responsible forestry is the basis for a more sustainable paper and cellulose fiber industry. Certification is an effective way to promote wood from forests that have been managed in a sustainable way. Ahlstrom-Munksjö supports responsible forest management by purchasing certified wood pulp.

The FSC is the leading organization for certifying forests according to a voluntary standard for improved environmental and social management practices.

At Ahlstrom-Munksjö, 25 of our plants are currently certified according to the FSC chain-of-custody standard. This means that we can demonstrate that the certified product we sell fulfill the requirements of the FSC standard. By sourcing more certified material, we can better meet customer requirements

In 2018, we will also develop sustainability targets for increasing our FSC certified wood pulp sourcing to support responsible forest management in our supply chains.

5. Energy, water, and waste

Ahlstrom-Munksjö is dedicated to designing products and manufacturing processes that use energy, water and raw materials more efficiently to minimize waste and emissions to natural basins of water and air. As part of a resource-intensive industry, we have a particular responsibility in this area to continuously reduce our company's environmental impacts. It will also help us ensure full legal compliance and achieve cost savings that benefit our bottom line, our customers, and our investors.

Ahlstrom-Munksjö's production sites advance energy, water, and waste compliance, efficiencies, and stewardship through several mechanisms. Environmental and energy managers at each of our sites tailor their activities and investments in best available technologies to their particular plant's local resource management requirements, challenges, and opportunities.

Many plants also advance effective resource management through third party audited, internationally recognized certification systems. Ahlstrom-Munksjö is ISO 14001 certified in environmental management at 36 locations, or over 87 percent of its sites. Fifteen of our plants representing 59 percent of our total energy use are ISO 50001 certified in energy management.

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

To track our progress, data on energy, water, and waste for each of our production sites will be aggregated on a quarterly

and encourage more forest managers and owners in our supply chains to engage in positive environmental and social practices beyond compliance.

- We see that interest and involvement from the end consumer all the way down to the forests manager is increasing, which is very pleasing. We are doing what we can to support that by working with and encouraging both our suppliers and customers to be certified, says Ahlstrom-Munksjö's Vice President of Sustainability, Anders Hildeman.

Hildeman serves on the Swedish FSC Board of Directors as well as in the global FSC General Assembly. His engagement helps us learn from thought leaders in responsible forest products and sourcing, share the sustainability efforts of our company, and weigh in with our perspective on important topics of debate.

- Taking an active part in shaping the institutional framework and to help advancing it is important, and we also need to increase incentives on the supply side. We would like to use a lot more certified wood and pulp than we do today, but we sometimes simply cannot find it in the market, says Hildeman.

As the FSC grows and evolves, Ahlstrom-Munksjö will continue to help advance the organization's efforts to enhance forest management around the world and support more sustainable wood sourcing and products right here at the company.

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

Currently, 87 percent of our plants have certified environmental management systems, and we plan to achieve greater than 95 percent coverage by end of year 2020. Going forward, Ahlstrom-Munksjö's goal is to reach 90 percent certified energy management system coverage of our consumption, the time-frame for which will be established in 2018.

In 2017, our total energy use in GJ per gross ton production was 8.12, our water use in cubic meters per gross ton production was 44.8, our water chemical oxygen demand (COD) emissions in kilograms per gross ton production was 4.06 among reporting plants, and 12,223 tons of non-recoverable waste were sent to landfills. We seek annual reductions in each of these metrics from 2018 onwards.

To achieve these targets, we will leverage our improved environmental and energy data collection system to help us better identify opportunities for greater resource efficiencies. Plant managers and their environmental and energy management teams will lead these efforts. We will also continue to strengthen our internal networks and training opportunities to share best practices in resource management specific to our specialty fiber operations.

6. Carbon dioxide

305-1

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

To date, Ahlstrom-Munksjö has primarily contributed to climate mitigation efforts by pursuing the energy efficiency work described above. As a 2017 baseline, our Scope 1 emissions were 0.381 tons carbon dioxide per gross ton production.

Moving forward, the company will build on this progress and pursue a 2 percent reduction in our Scope 1 emissions intensity each year from 2018 onwards. We will also develop Scope 2 carbon dioxide emissions reduction targets by end of year 2018. Through improved energy efficiencies and sourcing, Ahlstrom-Munksjö will continue to contribute to climate change mitigation efforts. Plant managers and their energy management teams will lead these efforts in coordination with Procurement and with support from the Energy Network. To monitor our progress, climate emissions data for each of our production sites will be aggregated on a quarterly basis through our new cloud-based data collection system.

Long-term success and innovation

103-1 | 103-2

Ahlstrom-Munksjö's ability to create value for all stakeholders over the long term relies on our continued economic sustainability in three areas. Building on a foundation of strong business ethics, we strive to achieve lasting profitability through a robust innovation platform to develop new sustainable fiber solutions. Our success over time supports greater opportunities for our team members and in our communities, investments in environmental efficiencies and improvements, and the development of new products that can help our customers advance their own sustainability journeys.

7. Profitability

At Ahlstrom-Munksjö, we aim for long-term profitability through measures to increase operational efficiency, profitable growth, product and service leadership, and a strong innovation platform. Achieving strong financial returns helps us meet stakeholder expectations. Profitability is a particular interest among our shareholders as we act as stewards of their investments. Our employees, the local communities that host our production sites, our suppliers, and our customers are also invested in the company's continued success as an engine of value creation

and economic opportunities for these groups. Our financial success also allows us to invest more in other aspects of our social and environmental work and our innovation platform that can drive further growth and opportunity at Ahlstrom-Munksjö.

As a newly combined company, we have and will continue to manage for profitability by focusing on a four-pronged approach. First, we will grow in selected niches of the innovative fiber-based solutions market. This will involve pursuing organic growth as well as acquisitions, optimizing our price and

Making coffee better

Hot coffee is one of the most cherished and popular drinks in the world, but enjoying a cup of java can have an unwanted downside.

Every day, tons of used single-serve coffee capsules and pods are thrown into landfills, where they will stay forever since they cannot degrade. Our vision is to change the single-serve market by using biodegradable and compostable raw materials based on our unique capabilities in PLA, a fully compostable polymer derived from starch, and vegetal parchment to eventually make the whole pod or capsule compostable without compromising taste or quality. Essentially, we are moving the market from looking at the cost of the filter to what it can add in value.

We are already a leader in sustainable materials for the single-serve coffee markets in Europe and making good progress in the US. In Europe alone, around 10 billion single-serve coffee capsules are consumed annually, and less than 5 percent of these capsules are made from compostable and biodegradable materials. But coffee drinkers are eager for change and leading coffee houses are looking for compostable alternatives.

Ahlstrom-Munksjö's patented GreenCapsule top lid is a fully compostable and biodegradable alternative to the common aluminum lid used in coffee capsules. It combines optimum extraction for a perfect espresso with a low environmental footprint. It is based on PLA and vegetable parchment-based materials. In 2017, Ahlstrom-Munksjö started to supply its GreenCapsule solution to well-known coffee houses Caffè Vergnano in Italy and Cap Mundo in France.

We also develop new filters dedicated to capsules system that can deliver different types of beverages like the Nestlé Dolce Gusto. Several private labels are exploring the potential offered by these systems and are looking to Ahlstrom-Munksjö to find customized solutions. Our offerings also cover new emerging trends like cold brew coffee, which is growing globally.



product mix, and moving up the value chain through new and innovative offerings, such as consumer goods and life science diagnostics. Second, we will deliver a clear customer value-add through a high quality offerings supported by advanced technology, deep know-how, and tailored services. We plan to expand the role of fiber-based solutions with improved sustainability performance through our product and service innovation capacity and strong customer focus. Third, we will efficiently utilize our agile production and service platform to develop customer-specific solutions in a more sustainable manner. By pursuing excellence in our processes and products and leveraging our flexible production capabilities, we will achieve high operational and cost efficiencies. Finally, we will use a business unit operating model that promotes local accountability and flexibility. Our global reach creates a diversified revenue and earnings base, while our experienced management team and lean group functions create efficiencies and a common global culture.

The Ahlstrom-Munksjö CEO and Executive Management Team lead these efforts, with guidance from our Board of Directors and support from corporate functions and production sites across the company. We constantly evaluate and update our approach to respond to customer needs, market trends, and other opportunities.

To assess our progress in this area, we are focusing on EBITDA margin, net gearing, and dividend. In 2017, our EBITDA margin was 13.0 percent, our net gearing level was 36.2 percent and the proposed dividend was EUR 0.52 per share. Our goals are to ensure our net gearing stays below 100 percent, our dividend is stable and annually increasing and achieve an EBITDA margin above 14 percent over a business cycle. These data are collected and regularly reported by our Finance department.

8. Innovation

Innovation enables Ahlstrom-Munksjö to continue to increase our offering of products, services, applications, and solutions that address sustainable functionality and design. A strong innovation platform allows us to select lower-impact materials in our sourcing, improve our production processes, and empower our customers to create more sustainable solutions using our products, generating benefits within and beyond Ahlstrom-Munksjö.

At Ahlstrom-Munksjö, we pursue innovation through systems that translate in-depth knowledge of customer needs into high-quality products that are fit for purpose. We consider four aspects of sustainable design. First, where possible, we select lower-impact materials, such as renewable, recycled, recyclable, or biodegradable materials that have improved supply chain or end-of-life outcomes. Second, we focus on responsible chemical use, including reducing or eliminating hazardous chemicals wherever possible. Third, we seek process efficiencies to make good use of our raw materials, water, and energy. Finally, we design for product efficiencies, including sustainability performance for customers all along the value chain and end of life disposal. These efforts are led by our Group Research & Development team.

Going forward, we will create an even more rigorous sustainability assessment process by end of year 2018 that operationalizes these four factors. From there, we will determine additional targets for our design process and new products by end of year 2018. The Group Research & Development team will collect data to track our progress in these areas.

9. Business ethics

205-2

Ahlstrom-Munksjö is committed to conducting our business ethically and responsibly in local and global communities. We uphold a zero-tolerance towards bribery and corruption and strive to conduct operations in a manner that meets highest environmental standards and ensures that we are in full compliance with applicable laws and regulations. Adhering to ethical business practices is a fundamental principle for the company's work across the globe. This essential baseline is also a critical aspect of risk mitigation and ensuring full legal compliance.

Ahlstrom-Munksjö's Code of Conduct details expectations for integrity and ethical behaviour throughout our operations, including compliance with all appropriate national and international laws and regulations and avoiding all conflicts of interest. Our Anti-Bribery Policy further specifies our zero-tolerance policy towards corrupt practices.

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

Any potential violations of these policies can be reported to the Legal department, a dedicated and confidential mailbox (codeviolation@ahlstrom-munksjo.com), or an internal misconduct reporting line with 24/7 availability.

In connection with the merger in April 2017, an updated Code of Conduct for the combined company was adopted by the Board of Directors. The updated Code of Conduct has during the course of the year been communicated throughout the organization and a Code of Conduct awareness initiative has been launched. We will advance new awareness and training opportunities for employees across the company on our Code of Conduct, which includes respect and accountability for human rights, in order to meet the targets within this area.

Risk and risk management

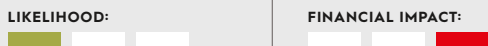
Ahlstrom-Munksjö is exposed to many risks that may significantly affect the Group. In this section, the principal factors that may have a material effect on Ahlstrom-Munksjö’s capabilities to reach the goals set for the Group and the means of dealing with them, are briefly described. Ahlstrom-Munksjö’s near-term risks are specified in the quarterly interim reports.

Ahlstrom-Munksjö is actively working to reduce the effects of these risk factors through preventive measures. When preventive measures are not viable, the risk may be hedged or insured. Many of the risks can have both positive and negative effects. The processes of dealing with risks are overseen

by the Board of Directors and the Audit Committee, and managed on the operational level by the CEO, CFO, key management, and other employees. The risk assessment process is performed by the Executive Management Team, based on their objectives, and includes risk identification, risk driver analysis, identification of risk owner and assessment of potential impact, likelihood, trend and acceptability. An identification of preventive actions is also included. The likelihood described is based on 3–5 years and the impact relate to the estimated financial effect. Further comments about the risk management can be found in the section Corporate governance.

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.



Global mega-trends like population growth, urbanization and digitalization affect most business areas, while the economic situation in different industries affect the Group’s business areas in separate ways. For the group as a whole, the largest customer segments are automotive (18%), furniture (15%), non-food consumer goods (14%) and construction (14%).

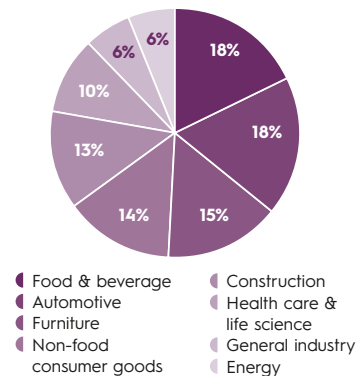
Political instability, global protectionism, sanctions and other unfavorable macroeconomic conditions could have a material adverse effect on the business.

Interchangeable materials and products that can replace Ahlstrom-Munksjö’s products, as well as new producers who establish themselves within Ahlstrom-Munksjö’s product areas, can also impact both price

and volume. Intensified competition from existing industry players may also affect Ahlstrom-Munksjö’s financial results negatively.

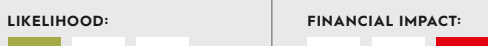
Ahlstrom-Munksjö works continuously and in an integrated manner with its customers to provide flexible, customized and safe product solutions with high quality. Failure to comply with increased product safety requirements could impact the company negatively. In addition, the Group is continuously improving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

Customer segments



Risk of damages and interruptions at the facilities

Globally, Ahlstrom-Munksjö has 41 production facilities located in several European and Asian countries, Brazil and the United States. 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.



Ongoing maintenance and investment in replacements are an essential part of ensuring technical development and operational efficiency of the facilities. Ahlstrom-Munksjö prevents disruption and interruption by having well developed controls

and procedures, maintenance plans and personnel training. In addition, there is a long history of systematic ongoing work to improve safety in the production facilities. The facilities are insured by leading insurance companies, who conduct annual inspec-

tions and provide potential improvement measures. However, losses arising from events not covered by insurance policies could have a materially adverse effect on the company.



Risk of failure of integration processes

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

LIKELIHOOD:



FINANCIAL IMPACT:



In the case of potential business combinations, substantial integration work is needed to realize expected synergies. The merger between Ahlstrom Corporation and Munksjö Oyj is being completed

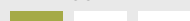
according to plan and the risk refers mainly to future potential acquisitions. The Group's has extensive experience from successful integration processes and realized synergies. But adverse develop-

ments in general economic conditions or any conditions potentially imposed by regulatory authorities could limit, eliminate or delay the ability to realize estimated benefits.

Risk of customer dependence and customer credit

Ahlstrom-Munksjö's ten largest customers account for 15–20% of the Group's net sales. If Ahlstrom-Munksjö cannot meet the demands of its largest customers, or if the customers do not fulfil their payment obligations, this can affect the Group negatively.

LIKELIHOOD:



FINANCIAL IMPACT:



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

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

At the end of December 2017, trade receivables stood at EUR 203 million. The average credit period was 38 days. A portion of the sales, corresponding to an average of EUR 153 million of trade receivables, has been credit insured and sold to financiers resulting in earlier payments received.

Customer structure and customer credit

EUR million	2017	2016
Trade receivables not due	168.5	90.8
< 30 days	24.6	10.0
30-90 days	3.7	2.4
> 90 days	6.0	1.6
Total trade receivables	202.8	104.8

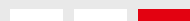
Risk of volatility in price and supply of pulp

Pulp as a raw material accounts for a large portion of the productions costs of Ahlstrom-Munksjö's products. Volatility, price increase and the availability of specific pulp types could have a material effect on the Group's results.

LIKELIHOOD:



FINANCIAL IMPACT:



Ahlstrom-Munksjö uses different types of pulp e.g. long -, short fiber and specialty pulps in its production. In 2017, a total of 507 thousands of tons of short-fiber pulp and 255 thousands of tons of long-fiber pulp was consumed. Exposure is reduced by 257 thousands of tons of the company's own production of long-fiber pulp. The cost for pulp in 2017 corresponded to 32% of the Group's operational costs.

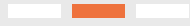
Pulp, Ktonnes	2017
Own production	257
Usage long-fiber	255
Usage short-fiber	507
Net exposure	505

Low Medium High

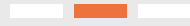
Risk of variation in the price and the supply of raw materials and services other than pulp

Raw materials and services other than pulp are used in the manufacture of Ahlstrom-Munksjö's products. The supply and price may be affected by market consolidation, supplier capacity and competing sectors' needs for a specific product.

LIKELIHOOD:



FINANCIAL IMPACT:



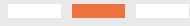
The most important raw materials are pulp, wood fiber to produce pulp, titanium dioxide, certain chemicals and various synthetic fibers including glass fiber. The market price of pulp or wood may

vary over time and affects the Group's result. For purchases, there is a structured method to ensure that the procurement process is complete and systematically designed.

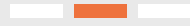
Risk of price volatility and reduced supply of energy

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

LIKELIHOOD:



FINANCIAL IMPACT:

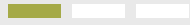


Capital spending in internal energy efficiency is a priority. During 2017 the value of the energy consumed corresponded to EUR 154 million, representing 9% of the Group's operational costs.

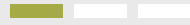
Key employees

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

LIKELIHOOD:



FINANCIAL IMPACT:



The company operates in a high-tech industry where qualified and experienced employees within production, operations and even more importantly in R&D constitute an important competitive advantage.

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

base for internal recruitment of future leaders and specialists.

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

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

LIKELIHOOD:



FINANCIAL IMPACT:



Accidents or illnesses can lead to delays, quality issues and liability risks under applicable laws and regulations. Good and safe working environments

are a prerequisite for attracting employees, enhancing efficiency and mitigating reputation risks. The Group conducts extensive work to strengthen occu-

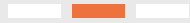
pational health and safety and to implement continuous improvements. For health and safety, Ahlstrom-Munksjö applies a vision of zero accidents.

Low Medium High

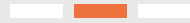
Environmental risk and the renewal of the production and emission permits

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

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. This may result in new investments or other actions to meet future requirements. Environmental legislation also requires that

the operator who caused the environmental damage has a strict and loyal responsibility to rectify and compensate for the damages and losses suffered. This also applies to properties that the company no longer owns or carries out operations in. The Group continuously monitors developments that may change the requirements for provisions regarding environmental liabilities.

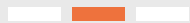
There is also a risk that emissions, accidental spills and noise cause adverse sentiments in local commu-

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

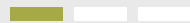
Legal risks

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

LIKELIHOOD:



FINANCIAL IMPACT:



Ahlstrom-Munksjö is sometimes involved in legal actions, disputes, claims for damages and other procedures. The result of these cannot be predicted, but with respect to all the information that

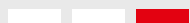
was available at the end of 2017, the results are not expected to affect the company's financial position to any significant extent.

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

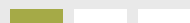
Risk due to exchange rate fluctuations

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

LIKELIHOOD:



FINANCIAL IMPACT:



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

Ahlstrom-Munksjö's operative entities are normally affected by the rates applicable at any given time in order to achieve a continuous adjustment of the commercial conditions to the existing currency situa-

tion. The operating entities are monitored on operating margin excluding the result effects of currency-hedging. The Group's financial policy states that all exposure including indirect exposure shall be considered before hedging. If there is limited or no indirect exposure, 65-85% of the forecasted net flows in the upcoming 9-month period shall be hedged. The market value of outstanding forward contracts at 31 December 2017 was EUR -0.4 million. For more details on the currency exposure, see note 19.

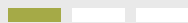
Ahlstrom-Munksjö has assets in several foreign currencies and the Group equity is affected at the translation of equity of subsidiaries to EUR. The translation effect during 2017 amounted to EUR 53.3 million and is recognized in other comprehensive income.

Low Medium High

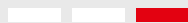
Risk related to funding, liquidity and interest rates fluctuations

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 financial policy states that the loan portfolio should be allocated to multiple lenders and distributed maturing over time. The aim is that not more than 50% of the total debt portfolio should mature within a 12-month period. Ahlstrom-Munksjö's interest-bearing net debt at 31 December 2017 was EUR 375.3 million. 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.

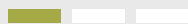
To achieve a cost-efficient financing and avoid excessive impact on profit and loss of a large negative change in interest rates the financial policy states that the loan portfolio shall have an average fixed interest term of 24 months with a tolerance of

+/-12 months. To comply with the financial policy interest term, interest rate swaps are used to change the time factor.

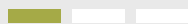
Risk relating to transactions with financial counterparties

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

LIKELIHOOD:



FINANCIAL IMPACT:



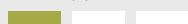
To avoid this risk Ahlstrom-Munksjö's financial policy states how any excess liquidity may be invested, and that careful monitoring is done. In 2017, there

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

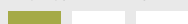
The risk that the financial and operational reporting is inaccurate or misleading

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

LIKELIHOOD:



FINANCIAL IMPACT:



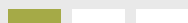
The Group has control functions at unit level as well as at business area and Group level. Reporting is governed by a common regulatory framework in a common system, and continuous cooperation /

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. 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.

Low Medium High

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

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

LIKELIHOOD:



FINANCIAL IMPACT:



The Group's financial function coordinates the tax issue and is seeking advice from leading tax advisors regarding complicated issues like Group structure and transfer price issues. Changes in tax laws

or their applications as well as tax audits, or inability to utilize the deferred tax assets could have a material effect on the result.

IT disruptions, information security and cyber-threats

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

LIKELIHOOD:



FINANCIAL IMPACT:



Ahlstrom-Munksjö's operations and increasingly also communication with customers and suppliers are highly dependent on internal and external IT infrastructure. Downtime in internal systems could impact Ahlstrom-Munksjö's ability to produce and deliver.

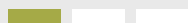
Disruptions could also occur due to external security threats like cyber-attacks, resulting in identity theft, other types of information security breaches or impairment of Ahlstrom-Munksjö's IT capabilities. It is important for the Group to be able to withstand

and effectively recover and resume regular performance in the event of a disruption caused by internal or external events.

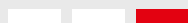
Risks of lagging behind in technical development and R&D

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

LIKELIHOOD:



FINANCIAL IMPACT:



Ahlstrom-Munksjö depends on a continuous product and technology development in combination with long-term customer relationships. Future growth will depend on its continued ability to identify and respond to changes in consumer demand, develop its production and launch new and improved products. The speed to the market will be essential to be

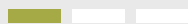
able to compete effectively in product development. The company may not be successful in launching new products on time or as expected. There can be no assurance that Ahlstrom-Munksjö will be successful in continuing to meet its customers' needs through innovation or in developing new products and technologies.

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

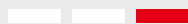
Reputational risks

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

LIKELIHOOD:



FINANCIAL IMPACT:



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

To minimize such risks, Ahlstrom-Munksjö has a solid program for sustainability (see also pages 24-39 for the Sustainability Report) including robust environmental standards and a plan to reduce the carbon dioxide footprint over time. There are also clear rules and guidelines to prevent bribery and other unacceptable practices and to ensure a fair and unbiased treatment of all employees. There is

a zero-tolerance policy on discrimination of any kind. We work to ensure our supply chain supports more sustainable land use and good working and employment conditions. If Ahlstrom-Munksjö fails to uphold standards in its supply chain and raise them over time, there is a risk of detrimental effects on the reputation and potential loss of customers.

Low Medium High

Corporate governance statement 2017

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), the Finnish Securities Markets Act (746/2012, as amended), the rules of Nasdaq Helsinki as well as the Company’s Articles of Association. In addition, Ahlstrom-Munksjö complies with the Finnish Corporate Governance Code issued by the Securities Market Association in 2015 (“Finnish Code”). The Finnish Code is available at www.cgfinland.fi.

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

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

Corporate governance structure

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

General Meeting

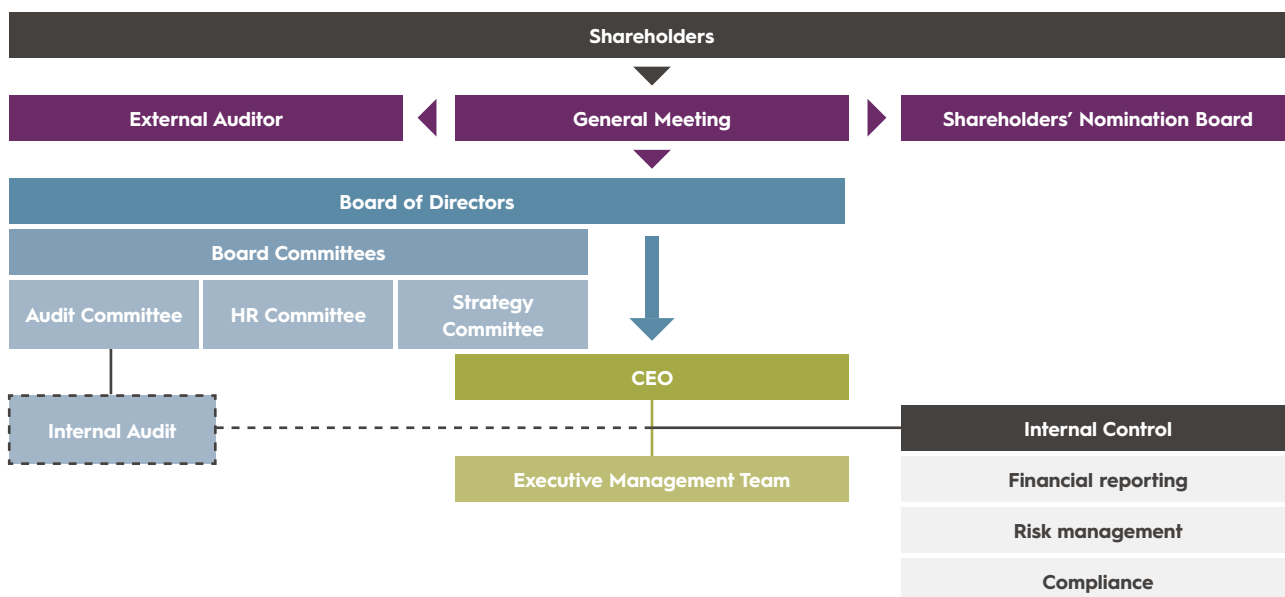
The General Meeting is Ahlstrom-Munksjö’s highest decision-making body and normally convenes once a year. Its tasks and procedures are defined in the Finnish Limited Liability Companies’ Act and the company’s Articles of Association. Certain important matters, such as amending the Articles of Association,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

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

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

Such a request shall be made in writing to the company’s Board of Directors at the latest on the date specified by the company on its website. The date shall be published no later than by the end of the financial period immediately preceding

Corporate governance structure



the General Meeting. The request is always deemed to be on time, if the Board of Directors has been notified of the request no later than four (4) weeks before the delivery of the notice of the General Meeting.

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

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

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

Shareholders may attend a General Meeting either in person or by proxy. Notification regarding attending a meeting must be made by the date mentioned in the notice to the Gen-

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

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

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

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

Most resolutions by the General Meeting require a simple majority of the votes cast at the meeting. In an election, the person receiving the highest number of votes shall be deemed elected. The General Meeting may, however, prior to an election, decide that to be elected, a person shall receive more than half of the votes cast. However, there are several matters,



Jan Åström, CEO, and Hans Sohlström, chairman of the Board and coming CEO of Ahlstrom-Munksjö.



The Board of Directors discusses the latest development within Health & Safety.

which according to the Companies Act require a two-third (2/3) majority of the votes cast and of the shares represented at the meeting.

The Annual General Meeting was held on May 16, 2017 with 229 shareholders of the company represented in the meeting.

An Extraordinary General Meeting (“EGM”) of the company was held on January 11, 2017, with 184 shareholders of the company represented in the meeting. On the same day an EGM of Ahlstrom Corporation was held. The EGM in both Munksjö Oyj and Ahlstrom Corporation, respectively, resolved to approve in accordance with the merger plan, the combination of Ahlstrom Corporation’s and Munksjö Oyj’s business operations through a statutory absorption merger of Ahlstrom into Munksjö pursuant to the Finnish Companies Act, and to approve the merger plan. The registration of the merger took place on April 1, 2017.

The final Shareholders’ Meeting of the merged Ahlstrom Corporation was held on June 6, 2017 and adopted the Financial Statements for 2016 and for the period January 1 – March 31, 2017 for Ahlstrom Corporation (the Final Accounts). The final Shareholders’ Meeting also discharged Ahlstrom Corporation’s former members of the Board of Directors and the President and CEO from liability.

Shareholders’ Nomination Board

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

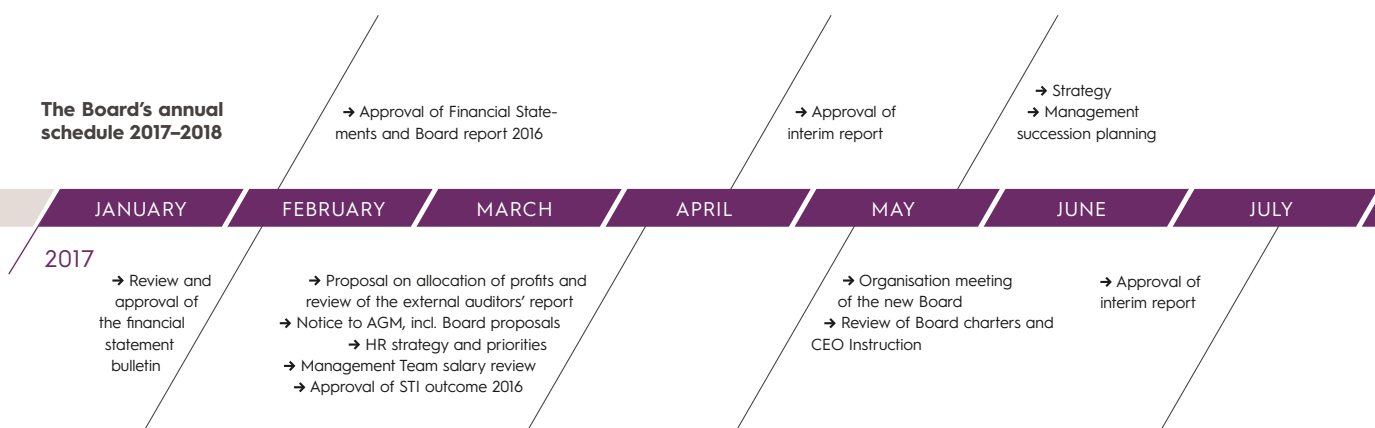
The company’s Annual General Meeting in 2016 approved a number of amendments to the Nomination Board Charter, mainly as a consequence of the entry into force on January 1, 2016 of the new Finnish Code.

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

The right to nominate the shareholder representatives lies with those three shareholders whose share of all the voting rights in the company is on May 31 preceding the next Annual General Meeting the largest on the basis of the shareholders’ register of the company held by Euroclear Finland and the register of shareholders held by Euroclear Sweden. However, holdings by a shareholder who, under the Finnish Securities Market Act, has the obligation to disclose its shareholdings (flagging obligation) that are divided into several funds or registers, will be summed up when calculating the share of all the voting rights, provided that such shareholder presents a written request to that effect to the Chairman of the Board no later than on 30 May preceding the next Annual General Meeting.

Further, holdings by a group of shareholders who have agreed to nominate a joint representative to the Nomination Board will be summed up when calculating the share of all the voting rights, provided that the shareholders in question present a joint written request to that effect together with a copy of such an agreement to the Chairman of the Board no later than on May 30 preceding the Annual General Meeting. Holdings by a holder of nominee registered shares will be considered when determining the three largest shareholders if the holder of the nominee registered shares presents a written request to that effect to the Chairman of the Board of Directors and General Counsel no later than on May 30 preceding the next Annual General Meeting. The written request shall be accompanied by documentation evidencing such shareholder’s ownership of the nominee registered shares. Should a shareholder not wish to use its nomination right, the right transfers to the next largest shareholder who would otherwise not have a nomination right.

The shareholders appointed the following three (3) members as their representatives in the Nomination Board: Thomas Ahlström, chairman (appointed by AC Invest Five B.V., and AC Invest Six B.V. (both fully owned subsidiaries of Ahlström Capital Oy), Kai Nahi, Johan Gullichsen, Carl Ahlström and Peter Seligson), Alexander Ehrnrooth (appointed by Viknum AB and Belgrano Inversiones Oy) and Mikko Mursula (appointed by Ilmarinen Mutual Pension Insurance Company). The Chairman of the Board Hans Sohlström and Peter Seligson act as expert members of the Nomination Board. As of the decision of the Board of Directors on December 21, 2017, to appoint Hans Sohlström as President and CEO of the Company (effective June 30, 2018, at the latest), Hans Sohlström has refrained from participating



in the work of the Nomination Board. Since its appointment in June 2017, the Nomination Board has held seven (7) meetings.

The constitution of the Board and its remuneration from the date of the merger until the next Annual General Meeting, was decided by the Extraordinary General Meeting of Munksjö Oyj on 11 January 2017, subject to completion of the merger (see further below under Board of Directors). As a consequence, the Nomination Board's proposals to the Annual General Meeting in 2017 were issued later than previous years.

On April 4 2017, the Nomination Board proposed to the Annual General Meeting to be held on May 16 2017 that the number of board members would remain nine (9) and that of the current members of the Board of Directors, Hans Sohlström, Peter Seligson, Alexander Ehrnrooth, Johannes Gullichsen, Jan Inborr, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen and Elisabet Salander Björklund, would be re-elected. In addition, the Nomination Board proposed that Pernilla Walfridsson would be elected as new member of the Board of Directors. The Nomination Board recommended that Hans Sohlström was elected Chairman of the Board of Directors and Peter Seligson and Elisabet Salander Björklund were elected Vice Chairmen of the Board of Directors. Further, the Nomination Board proposed that the Board, Board Committee and Nomination Board remuneration would be as follows. The Chairman of the Board shall receive EUR 100,000 a year, the Vice Chairmen EUR 80,000 each and the ordinary members EUR 60,000 each. The Chairman of the Audit Committee and Strategy Committee shall annually receive EUR 12,000 and the ordinary members of such committees EUR 6,000 each. It was further proposed that the Chairman of the Human Resources Committee shall annually receive EUR 8,000 and the ordinary members EUR 4,000 each. The Chairman of the Shareholders' Nomination Board shall annually receive EUR 8,000 and the ordinary members EUR 4,000 each. Travel expenses were proposed to be reimbursed in accordance with the company's travel policy.

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

understanding of differences in culture, values and ways of conducting business.

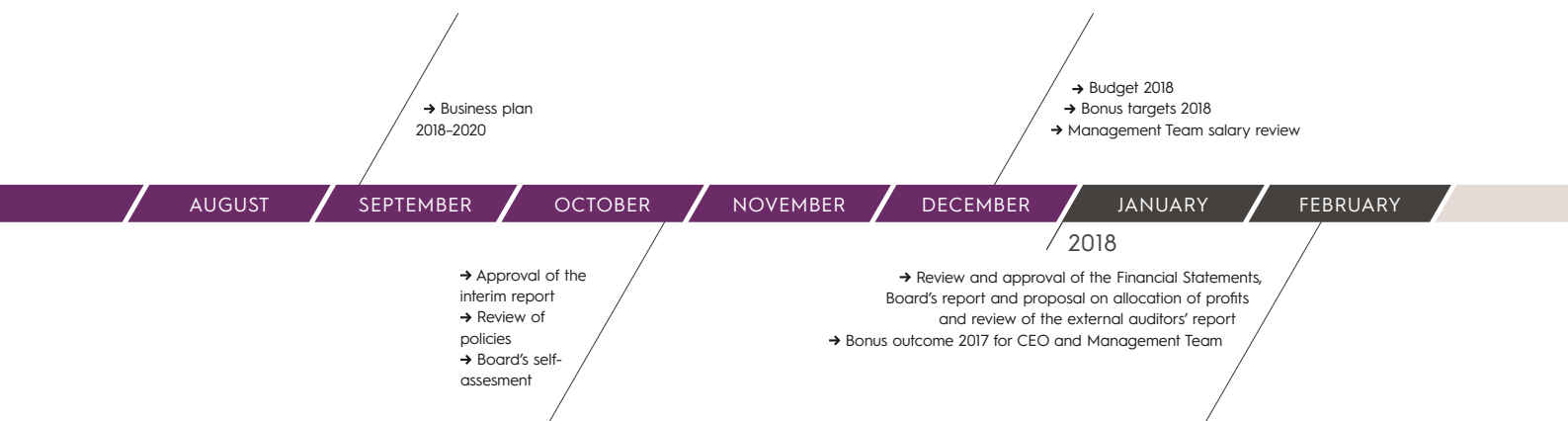
Diversity of the Board is considered from a number of aspects, including, but not limited to gender, age, nationality and cultural background. The Nomination Board deems it is important to have a Board with an appropriate age mix with different experiential and educational backgrounds as well as work experiences. The Board composition should also take into account the ownership structure of the company and the Board shall ideally consist of members with experience from international businesses representing different industries, tasks, positions, cultures and countries. Having members from both genders on the Board is necessary. The Nomination Board strives to achieve its diversity targets by retaining professional advisors in recruiting members to the Board that meet the criteria set forth in the Diversity Policy. The Nomination Board believes it has been able to meet the criteria set in most respects. Both genders are well represented on the company's Board of Directors of which 37.5 percent are women.

On January 29, 2018, the Nomination Board proposed to the Annual General Meeting to be held on March 21, 2018 that the number of members of the Board of Directors shall be eight (8) and that the current members of Peter Seligson, Elisabet Salander Björklund, Alexander Ehrnrooth, Johannes Gullichsen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen and Pernilla Walfridsson are to be re-elected. Due to his appointment as CEO of the company (effective 30 June 2018, at the latest), Hans Sohlström is not available for re-election. In addition, the Nomination Board proposed that Ms. Valerie A. Mars is to be elected new member of the Board. The Nomination Board has recommended that Peter Seligson is elected Chairman of the Board of Directors and Elisabet Salander Björklund is elected Vice Chairman of the Board of Directors.

Further, the Nomination Board proposed that the remuneration of the members of the Board of Directors, Board Committees and Nomination Board remain unchanged and that each of the members of the Board of Directors shall have the right to abstain from receiving remuneration.

The Board of Directors

The role of the Board is to manage the company's business in the best possible way and in its work protect the interests of the company and its shareholders. In accordance with the Arti-



cles of Association of Ahlstrom-Munksjö, as amended at the Extraordinary General Meeting held on January 11, 2017, the Board of Directors shall consist of a minimum of four (4) and a maximum of twelve (12) members elected by the General Meeting. The members of the Board of Directors shall be appointed for one year at a time. The Nomination Board prepares a proposal on the composition of the Board to the Annual General Meeting for its decision.

The composition of the company's Board of Directors shall reflect the requirements set by the company's operations and development stage. A person elected as a director must have the competence required for the position and the ability to devote a sufficient amount of time to attending to the duties. The number of directors and the composition of the Board of Directors shall be such that they enable the Board of Directors to see to its duties efficiently. Both genders shall be represented in the Board of Directors.

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

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

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

- establish business objectives and strategy,
- appoint, continuously evaluate and, if required, remove the CEO from office,
- ensure that there are effective systems in place for monitoring and controlling the Group's operations and financial position compared to its stated objectives,

- ensure that there is satisfactory control of the company's compliance with laws and other regulations applicable to the company's operations,
- ensure that guidelines to govern the company's and the Group's ethical conduct are adopted, and
- ensure that the company's external disclosure of information is marked by openness and is correct, timely, relevant and reliable, by way of, among other things, adopting a communication policy.

The Board of Directors makes a self-assessment of its performance, practices and procedures annually. In 2017, the self-assessment was performed via an external consultant and the findings were reported both to the Nomination Board and to the Board of Directors in their meetings. In addition a written report on the entire Board of Directors' performance as well as a written report on each individual's performance was submitted to each member of the Board of Directors.

The Extraordinary General Meeting held on January 11, 2017, subject to the completion of the merger between Munksjö Oyj and Ahlstrom Corporation, confirmed the number of Board members to be eleven (11). Sebastian Bondestam, Alexander Ehrnrooth, Hannele Jakosuo-Jansson, Mats Lindstrand, Anna Ohlsson-Leijon, Elisabet Salander Björklund, Peter Seligson, Hans Sohlström, Harri-Pekka Kaukonen, Johannes Gullichsen and Jan Inborr were conditionally elected board members for the term commencing on the date of registration of the execution of the merger and expiring at the end of the next Annual General Meeting of the company following the date of registration of the execution of the merger.

The Annual General Meeting held on May 16, 2017, 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 Hans Sohlström, Peter Seligson, Elisabet Salander Björklund, Alexander Ehrnrooth, Jan Inborr, Harri-Pekka Kaukonen, Johannes Gullichsen and Hannele Jakosuo-Jansson were re-elected. Pernilla Walfridsson was elected as new member of the Board of Directors. The

Board of directors' shareholding 31 December 2017

Member	Title	Shares	Total
Hans Sohlström	Chairman	0	0
Elisabet Salander Björklund	Vice Chairman	4,200	4,200
Peter Seligson	Vice Chairman	852,960	1,078,303
Spouse		13,324	
<i>Shares held by controlled entities:</i>			
Baltiska Handel A.B.		212,019	
Alexander Ehrnrooth	Board member	1,000	12,161,595
<i>Shares held by organisations in which the person exercises influence (substantial economic interest, no control):</i>			
Viknum AB		11,625,005	
<i>Shares held by controlled entities:</i>			
Belgrano Inversiones Oy		535,590	
Johannes Gullichsen	Board member	341,273	341,273
Hannele Jakosuo-Jansson	Board member	1,000	1,000
Harri-Pekka Kaukonen	Board member	4,000	4,000
Pernilla Walfridsson	Board member	0	0

Management Team's shareholding 31 December 2017

Member	Title	Shares
Jan Åström	President and CEO	48,547
Sakari Ahdekivi	Deputy CEO and Executive Vice President Corporate Development	0
Pia Aaltonen-Forsell	Executive Vice President and CFO	15,019
Daniele Borlatto	Executive Vice President, Industrial Solutions	20,341
Fulvio Capussotti	Executive Vice President, Filtration & Performance	8,270
Andreas Elving	Executive Vice President Legal and General Counsel	3,217
Omar Hoek	Executive Vice President, Specialties	3,839
Åsa Jackson	Executive Vice President Human Resources and Health & Safety	9,840
Norbert Mix	Executive Vice President, Decor	9,317
Anna Selberg	Executive Vice President Communications and Investor Relations	3,400

Board of Directors elected Hans Sohlström as Chairman and Peter Seligson and Elisabet Salander Björklund as Vice Chairmen of the Board. Information on the board members and their shareholdings are set forth at the end of this statement and below.

All Board members are independent of the company and of the significant shareholders of the company, except for Alexander Ehrnrooth and Hans Sohlström, who are not independent of significant shareholders of the company. Alexander Ehrnrooth is not independent of the company's significant shareholder Viknum AB, in the parent company of which, Virala Corporation, he is the President and CEO and a member of the Board of Directors. Hans Sohlström is not independent of the company's significant shareholders AC Invest Five B.V., in the parent company of which, Ahlström Capital Oy, he is the President and CEO.

Jan Inborr passed away on June 24, 2017. It was decided that the Board of Directors would continue with eight members until the next Annual General Meeting in 2018.

In 2017, the Board convened fourteen (14) times, including four (4) meetings held as telephone meetings. The attendance of the individual board members is set forth in the table below.

Board Committees

The Board of Directors of Ahlstrom-Munksjö resolved on April 6, 2017 to appoint three permanent Board committees, being the Audit Committee, the Strategy Committee (new) and the Human Resources Committee (previously Remuneration Committee). The composition, duties and working procedures of the committees shall be defined by the Board in the charters confirmed for the committees. The committees regularly report on their work to the Board. All board members have the right to attend Board Committee meetings and have access to all information relating to the Board Committees' work regardless of whether he or she is a member of the Committee in question.

Audit Committee

The Audit Committee consists of at least three (3) members, all of which shall be Board members who are independent of the company and shall have the qualifications necessary to perform the responsibilities of the committee. At least one member shall be independent of the significant shareholders and at

least one member shall have expertise specifically in accounting, bookkeeping or auditing. All members of the committee shall be versed in financial matters.

According to its charter, the Audit Committee assists the Board in fulfilling its supervisory responsibilities and also prepares certain accounting and auditing matters to be handled by the Board. In addition, the Audit Committee makes recommendations for the election and removal of the external auditors and for their compensation and approves the external auditors' audit plan based on the auditors' proposal. Among its other duties, the Audit Committee reviews and monitors the financial reporting process, the efficiency of the system of internal control and risk management, and the audit process. The Audit Committee monitors and approves the purchases of permissible non-audit services from the auditors and reviews the independence confirmation of the auditors.

The members of the Audit Committee are from April 6, 2017 Elisabet Salander Björklund (Chairman), Alexander Ehrnrooth, Harri-Pekka Kaukonen and Pernilla Walfridsson joined the Audit Committee upon her election to the Board of Directors on May 16, 2017. All of the members of the Audit Committee are independent of the company and its significant shareholders, except Alexander Ehrnrooth, who is not considered independent of a significant shareholder of the company. All the members have the expertise and experience required for the performance of the responsibilities of the Audit Committee. In 2017, the Audit Committee convened six (6) times, including one (1) meeting held as a telephone meeting. The attendance of the individual committee members is set forth in the table below.

Human Resources Committee (previously Remuneration Committee)

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

According to its Charter, the Human Resources Committee assists the Board to ensure that all human capital related topics, such as ethics and values, resourcing strategy, competence and performance management as well as remuneration arrangements, support the strategic aims of the business and enable the recruitment, development, motivation and retention

Board of Directors' and Committees' attendance 2017

Member	Board member since	Board	Audit Committee	HR Committee	Strategy Committee
Hans Sohlström ¹⁾	2017	13/13		5/5	7/7
Elisabet Salander Björklund	2013	17/17	6/6		
Peter Seligson	2012	17/17		3/3	8/8
Sebastian Bondestam ⁵⁾	2013	8/9	2/2		
Alexander Ehrnrooth	2014	17/17	5/5	3/3	8/8
Johannes Gullichsen ²⁾	2017	13/13		5/5	
Jan Inborr ³⁾	2017	7/7			1/1
Hannele Jakosuo-Jansson	2013	17/17		8/8	
Harri-Pekka Kaukonen ⁴⁾	2017	12/13	4/5		
Anna Olsson-Leijon ⁶⁾	2016	8/9	2/2		
Mats Lindstrand ⁷⁾	2016	8/9			
Pernilla Walfridsson	2017	8/8	4/4		

^{1) 2) 3) 4)} As of April 1, 2017.

^{5) 6) 7)} Until May 16, 2017.

of key personnel while complying with regulatory and governance requirements, and satisfying the expectations of shareholders. The Committee further provides guidance in human capital related corporate social responsibility and diversity matters. The Human Resources Committee further assists the Board in the efficient preparation and handling of the matters pertaining to the appointment and dismissal of the CEO and other executives and their remuneration.

The members of the Human Resources Committee are Hannele Jakosuo-Jansson (Chair), Johannes Gullichsen and Peter Seligson. All of the current members of the Human Resources Committee are independent of the company and its significant shareholders. Hans Sohlström was a member of and the Chair of the Human Resources Committee during the period 6 April 2017 – 21 December 2017. As of the decision of the Board of Directors on December 21, 2017 to appoint Hans Sohlström as President and CEO of the Company (effective June 30, 2018, at the latest), Hans Sohlström resigned from the Human Resources Committee. On the same date, the Board of Directors elected Peter Seligson to the Human Resources Committee and Hannele Jakosuo-Jansson as Chair of the Human Resources Committee. Hans Sohlström is not considered independent of a significant shareholder of the company.

In 2017, the Human Resources Committee convened eight (8) times, including one (1) meeting held as a telephone meeting (including meetings of the Remuneration Committee prior to April 6, 2017). The attendance of the individual committee members is set forth on page 51.

Strategy Committee

The Strategy Committee consists of at least three (3) members and it was established for the first time on April 6, 2017. According to its charter, the Strategy Committee supports the Board of Directors in fulfilling its oversight responsibilities in relation to long-term strategy for the company, risks and opportunities relating to such strategy, and strategic decisions regarding investments, acquisitions and divestitures by the company.

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

In 2017, the Strategy Committee convened eight (8) times, including four (4) meetings held as telephone meetings. The attendance of the individual committee members is set forth on page 51.

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 Finnish Limited Liability Companies Act and the CEO instruction, and the CEO leads the operational activities and prepares information and decisions to support the Board and presents his findings at Board meetings. The CEO shall not be elected chairman of the Board of Directors.

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

Jan Åström is the CEO of the company. Biographical details of the CEO and his shareholdings are set forth at pages 50 and 58.

On December 21, 2017, the Board of Directors appointed Hans Sohlström as President and CEO of Ahlstrom-Munksjö, effective as of June 30, 2018, at the latest.

Executive Management Team

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

The CEO, Deputy CEO, CFO and functional leaders meet with the business area leaders and other business area management monthly to discuss the business areas' performance and financial status. In addition, the EMT 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 2017, the EMT consisted of ten members. The composition of the EMT, biographical details, the areas of responsibility of its members and the members' shareholdings in the company are described on pages 50 and 58-59.

Remuneration

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

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

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

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

Auditor

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

The auditor's responsibility is to audit the correctness of the Group's accounting in the respective financial year and to provide an auditor's report to the General Meeting. In addition, Finnish law requires that the auditor also monitors the lawful-

ness of the company's administration. The auditor reports to the Board of Directors at least once a year.

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

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

KPMG Oy Ab (KPMG) was appointed auditors of the company on May 16, 2017. 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 2017 were EUR 1.1 million in total in the Group. Other fees charged amounted to EUR 0.4 million. The other fees were related to tax and other advice.

Risk management

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

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

Ahlstrom-Munksjö has defined a process for assessing, mitigating and monitoring risks to support the achievement of strategic goals and business objectives. The risks are primarily identified by the Business Area and Group Management teams in accordance with the Group Risk Management Policy. The management team is required to update the risk evaluation at least once a year.

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

Internal control and risk management systems in relation to financial reporting

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

The internal control and risk management systems relating to financial reporting are designed to provide reasonable

assurance regarding the reliability of financial reporting and to assure compliance with applicable laws and regulations.

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

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

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

Internal Audit

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

The role of the Internal Audit is to evaluate and improve the effectiveness of the control, risk management and governance processes, and to facilitate the implementation of best practices to ensure that various risk management, control and governance processes, as designed and implemented by the Company's management, are adequate and functioning as planned. In doing so, the Internal Audit reviews the effectiveness and efficiency of the business processes and the compliance with policies, standards, procedures, and applicable laws and regulations.

Administratively, the Internal Audit reports to the CEO and CFO as well as to the Audit Committee. The Internal Audit conducts regular process audits, site and subsidiary audits as well as audits at other Group units in accordance with the audit plan approved by the Board of Directors. The audit plan is developed by using appropriate risk-based methodology taking into account any risks or control concerns identified by the

Group Risk Management function, the Management Team and the internal auditors. The Internal Audit reports regularly on its activities to the Steering Group consisting of the CEO and CFO and to the Audit Committee. The Internal Audit makes recommendations to the Management team members and local management based on its observations. The Internal Audit also monitors the implementation of the action plans made based on its recommendations.

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

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

Related party transactions

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

Compliance

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

In connection with the merger between Munksjö Oyj and Ahlstrom Corporation, Ahlstrom-Munksjö's Board of Directors approved the Code of Conduct and the key compliance policies for Ahlstrom-Munksjö. Ahlstrom-Munksjö's Compliance approach is based on the following elements:

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

In addition to the Code of Conduct, the company's main compliance policies are the Approval and Signing Policy, the Competition Compliance Policy and Manual, the Anti-Bribery Policy, the Trade Compliance Policy, the Risk Management Policy and the Insider Rules. After the merger the company continued the Data Protection project to ensure compliance with the EU General Data Protection Regulation and other applicable data protection laws, and the Board of Director adopted a group-wide Data Protection Policy.

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

After the merger, the company launched a new compliance training program to promote awareness and compliance with applicable laws and company policies. From the date of the merger until the end of 2017, eleven compliance training sessions have been held by Ahlstrom-Munksjö lawyers. These train-

ings will continue in 2018. A Code of Conduct awareness project has been initiated in 2017 in order to ensure awareness of the Code of Conduct among all employees.

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

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

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

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

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

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

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 committee¹⁾ is to propose a chair for the annual general meeting. The proposal is to be presented in the notice of the meeting.

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

Rule 1.4

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

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

Rule 2.1

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

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

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

- The nomination board¹⁾ makes proposals to the shareholders' meeting, in accordance with its charter. As the chairman of the board, in accordance with the Finnish Companies' Act and articles of association of the company, is elected by the board, the nomination board cannot propose the chairman. The audit committee prepares the proposals on the election and remuneration of the statutory auditor in line with the Finnish Code.

Rule 2.6

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

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

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

- the candidate's year of birth, principal education and professional experience,
- any work performed for the company and other significant professional commitments,
- any holdings of shares and other financial instruments in the company owned by the candidate or the candidate's related natural or legal persons,
- whether the nomination committee, in accordance with Code rules 4.4 and 4.5, deems the candidate to be independent of the company and its executive management, as well as of major shareholders in the company. Where circumstances exist that may call this independence into question, the nomination committee is to justify its position regarding candidates' independence,
- in the case of re-election, the year that the person was first elected to the board.
- Under the Finnish Code, the nomination board does not issue a statement explaining the composition of its proposal regarding the board of directors on the company's website. The share ownership of the candidates or related persons and companies are only published once the candidate has been elected board member.

Rule 6.1

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

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

Rule 9.1

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

- prepare the board's decisions on issues concerning principles for remuneration, remunerations and other terms of employment for the executive management,
- monitor and evaluate programmes for variable remuneration, both ongoing and those that have ended during the year, for the executive management, and
- monitor and evaluate the application of the guidelines for remuneration that the annual general meeting is legally obliged to establish, as well as the current remuneration structures and levels in the company.

- According to Finnish law, the remuneration of the CEO and management is the responsibility of the Board of Directors. The guidelines and information on remuneration is presented in this corporate governance statement and on the company's website in the remuneration statement.

Rule 9.6

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

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

Rule 10.2

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

- for the chief executive officer:
 - year of birth, principal education and work experience,
 - significant professional commitments outside the company, and
 - holdings of shares and other financial instruments in the company or similar holdings by related natural or legal persons, as well as significant shareholdings and partnerships in enterprises with which the company has important business relations, and
 - any infringement of the stock exchange rules applicable to the company, or any breach of good practice on the securities market reported by the relevant exchange's disciplinary committee or the Swedish Securities Council during the most recent financial year.
- Under the Finnish Code, shareholdings in companies with which the company has significant business do not have to be reported. Infringements of the stock exchange rules applicable to the company and similar do not need to be reported according to the Finnish Code.

Rule 10.3

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

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

- members of the board, the chief executive officer and the statutory auditor,
 - a description of the company's system of variable remuneration to the board and executive management, and of each outstanding share- and share-price related incentive scheme.
- No later than three weeks before the annual general meeting, the board is also to report the results of the evaluation required by bullets two and three of Code rule 9.1 on the company's website.
- According to the Finnish Code, the audit committee or some other competent committee shall review the corporate governance statement. The auditors shall check that the statement has been issued and that the descriptions of the main features of the internal control and risk management systems related to the financial reporting process included in it is consistent with the financial statement. The incentive plans are established by the board of directors. If the plan includes issuing new shares or repurchase of shares or disposal of shares, such disposal, issuance or repurchase of shares will be subject to shareholders approval or authorisation. Currently the board has an authorization to repurchase shares and dispose of them.

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

Board of Directors



Hans Sohlström

Chairman of the Board

Born: 1964

Citizenship: Finnish

Current position: President & CEO of Ahlström Capital Oy

Chairman of the Board: Enics AG

Vice Chairman of the Board: Destia Oy

Board memberships: Rettig Group

Previous positions: 2012–2016 President and CEO of Rettig Group, 1990–2012 various executive and managerial positions at UPM-Kymmene Corporation

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

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



Elisabet Salander Björklund

Vice Chairman of the Board

Born: 1958

Citizenship: Swedish

Current position: CEO, Bergvik Skog AB

Chairman of the Board: SweTree Technologies AB

Board memberships: Firefly AB, Cellutech AB, Marcus Wallenberg Prize Foundation

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

Education: M.Sc. in Forestry

Independent of the company and its significant shareholders



Peter Seligson

Vice Chairman of the Board

Born: 1964

Citizenship: Finnish

Current position: Partner, Seligson & Co Oyj

Chairman of the Board: Antti Ahlström Perilliset Oy, Aurajoki Oy, Broadius Partners Ltd, Herculia Oy Ab,

Board memberships: Seligson & Co Oyj

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

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

Education: Lic. oec. (HSG)

Independent of the company and its significant shareholders



Alexander Ehrnrooth

Board member

Born: 1974

Citizenship: Finnish

Current position: President and CEO of Virala Oy Ab

Chairman of the Board: Aleba Corporation, Belgrano Inversiones Oyj

Board memberships: Fiskars Corporation

Previous positions: 2015–2017 Board member at Ahlstrom Corporation, 2010–2015 Board member at Wärtsilä Corporation

Education: M.Sc. (Econ), MBA

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



Johannes Gullichsen

Board member

Born: 1964

Citizenship: Finnish

Vice Chairman of the Board: Walter Ahlström Foundation

Board memberships: Antti Ahlström Perilliset Oy

Previous positions: Senior positions at RAM Partners Oy, eQ Bank Oy, and has been a Board member of Ahlström Capital Oy, RAM Partners Oy and RAM Partners Alternative Strategies plc.

Education: B.Sc. (Engineering), MBA

Independent of the company and its significant shareholders



Hannele Jakosuo-Jansson

Board member

Born: 1966

Citizenship: Finnish

Current position: SVP, Human Resources & Safety Neste Oil Corporation

Board memberships: Neste-Jacobs Oy

Previous positions: 1998–2004 Laboratory and Research Manager

at the Technology Center of Neste Oil Corporation, 2004–2005 Vice President Human Resources, Oil Refining Neste Oil Corporation

Education: M.Sc. (Eng.)

Independent of the company and its significant shareholders



Harri-Pekka Kaukonen

Board member

Born: 1963

Citizenship: Finnish

Chairman of the Board: Esperi Care Holding Oy, Suomen Asuntoneuvoja Oy

Board memberships: Evli Oy, Lindström Oy, Renideo Group Oy, Tieto Oy and ÅR Packaging Group AB

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

Education: Ph.D., Computational material physics, M.Sc. (Eng. Technical Physics)
Independent of the company and its significant shareholders



Pernilla Walfridsson

Board member

Born: 1973

Citizenship: Swedish

Current position: CFO at Byggmax Group AB (publ) since 2005

Board memberships: NetonNet Group AB, Chairman of the Audit Committee

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

Education: M.Sc. (Business Administration)
Independent of the company and its significant shareholders

Change in the composition of the Board of Directors

On June 24, 2017, Jan Inborr passed away after suffering from a short period of illness. The Board of Directors will continue with eight members until the next Annual General Meeting in 2018.

Executive Management Team



Jan Åström

President and CEO

Born: 1956

Citizenship: Swedish

Previous positions: President and CEO, Munksjö AB 2008–2013; President and CEO, SCA AB 2002–2007; Deputy CEO, SCA AB 2000–2002; CEO, Modo Paper AB 1999–2000.

Board memberships: Board member, SEKAB AB; Board member, Sydved AB; Board member, ECO Development AB.

Education: M.Sc. in Chemical Engineering



Sakari Ahdekivi

Deputy CEO and Executive Vice President Corporate Development

Born: 1963

Citizenship: Finnish

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

Board memberships: Lehto Group Oyj

Education: M.Sc. (Econ.)



Daniele Borlatto

Executive Vice President, Industrial Solutions

Born: 1969

Citizenship: Italian

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

Education: Studies in Business and Administration



Fulvio Capusotti

Executive Vice President, Filtration & Performance

Born: 1972

Citizenship: Italian

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

Education: M.Sc. (Chemical Eng.)



Omar Hoek

Executive Vice President, Specialties

Born: 1969

Citizenship: Dutch

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

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



Tomas Wulkan

Executive Vice President, Decor

Born: 1961

Citizenship: Swedish

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

Education: Business administration, Umeå University, Sweden



Pia Aaltonen-Forsell

Executive Vice President and CFO

Born: 1974

Citizenship: Finnish

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

Board memberships: Helapala Oy, Uponor Corporation

Education: M.Soc.Sc.in Economics



Andreas Elving

*Executive Vice President
Legal and General Counsel*

Born: 1976

Citizenship: Swedish

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

Education: Master of Laws



Åsa Jackson

*Executive Vice President Human
Resources and Health & Safety*

Born: 1964

Citizenship: Swedish

Previous positions: Senior Vice President HR ABB Sweden 2012–2015, different positions within finance, marketing, HR within ABB 1994–2011.

Board memberships: Mälardalen University
Education: Master of Business Administration and Economics



Change in the Executive Management Team during the year

Tomas Wulkan joined Ahlstrom-Munksjö on January 1, 2018 as new Executive Vice President, Business Area Decor. At the same time Norbert Mix left this position.

Anna Selberg

*Executive Vice President Communications
and Investor Relations*

Born: 1962

Citizenship: Swedish

Previous positions: Communication Consultant and Partner, Astega Advisory AB, 2010–2015; Acting Senior Vice President Communications, SCA, 2010; Vice President Communications, SCA, 2005–2010; Communications positions within SEB and Sveriges Riksbank 1995–2005.

Board memberships: Astega Advisory AB

Education: M.Sc. in Business and Economics

The Ahlstrom-Munksjö financial year 2017

Board of director's report, key figures and financial statements 2017

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We use the following symbols throughout the financial statements



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



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



This symbol highlights where additional unaudited information is displayed.



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

Board of Directors' report 2017

In this report of operations, the 2017 figures as well as all comparison figures are presented on a pro forma basis to illustrate the financial impact of the merger between Ahlstrom and Munksjö as if it had been completed at the beginning of 2015. The following audited consolidated financial statements have been prepared according to IFRS standards.

Highlights of the year 2017

Strong organic growth on back of good market demand – higher comparable EBITDA and margin despite sharp increase in the prices of some key raw materials.

- Net sales EUR 2,232.6 million (EUR 2,147.9 million), showing a gain of 3.9%. Comparable net sales increased by 4.6% at constant currency rates.
- EBITDA¹⁾ EUR 266.6 million (EUR 239.9 million) and included IAC of EUR -23.8 million (EUR -28.8 million)
- Comparable EBITDA EUR 290.4 million (EUR 268.7 million), representing 13.0% (12.5%) of net sales
- Net profit¹⁾ EUR 88.5 million (EUR 49.8 million)
- Earnings per share¹⁾ EUR 0.91 (EUR 0.51)
- Comparable EPS excluding merger-related items (PPA) EUR 1.29 (EUR 0.96)
- Net cash flow from operating activities EUR 212.9 million (EUR 232.1 million)

Major events

- The merger of Ahlstrom Corporation into Munksjö Oyj was completed on April 1, 2017
- Hans Sohlström was appointed President and CEO, effective June 30, 2018, at the latest

Dividend proposal

- The Board of Directors proposes to the Annual General Meeting that a dividend totaling EUR 0.52 per share, based on the on the financial statements of 2017, be paid in two installments

Completion of the merger

On April 1, 2017, Ahlstrom Corporation was merged into Munksjö Oyj, and the name of the combined company was changed to Ahlstrom-Munksjö Oyj. The combination created a global leader in innovative and sustainable fiber-based materials with combined pro forma net sales of approximately EUR 2.15 billion (2016), around 6,000 employees, and 41 production and converting facilities in 14 countries. A total of 45,376,992 new shares in Ahlstrom-Munksjö were issued to Ahlstrom shareholders as merger consideration, bringing the total number of shares to 96,438,573. Trading in the new shares started on April 3, 2017.

Approvals from the Extraordinary General Meetings of Ahlstrom and Munksjö as well as the European Commission were received on January 11, 2017 and March 13, 2017, respectively. In connection with the merger, Ahlstrom and Munksjö distributed funds in the total amount of approximately EUR 46 million, corresponding to EUR 0.49 per share in Ahlstrom and EUR 0.45 per share in Munksjö.

Synergies

Ahlstrom-Munksjö estimates that annual synergies of above EUR 40 million will be gradually realized and fully visible from the second quarter of 2019. The savings comprise mainly lower fixed costs as well as coordination of purchases and production following the merger. The plan also includes further business synergies, such as integrating the former Graphics and Packaging business area into the new Specialties business area, to develop a combined product and service offering.

At the end of the reporting period, the annual synergy achievement run rate was approximately EUR 19.3 million. Of the annual synergy savings arising from the merger, the vast majority are related to lower SG&A costs, and the remainder are related to reduced costs of goods sold and improved operational efficiency, as well as planned revenue synergies. The financial result for the fourth-quarter 2017 includes realized synergies of approximately EUR 4.1 million.

Non-recurring costs to achieve the synergy savings amounted to EUR 19.1 million at the end of the reporting period, of which EUR 8.2 million was booked in the fourth-quarter of 2017. The full cost related to the achievement of synergies within two years from the merger is about EUR 30 million. The cash flow effect was EUR -3.6 million in the fourth quarter of 2017 and EUR -10.9 million for the full-year 2017.

Financial targets

The company's Board of Directors has set the following long-term financial targets:

- EBITDA margin above 14% over a business cycle
- Net gearing below 100%
- A stable and annually increasing dividend, to be paid bi-annually

¹⁾ Fair valuation of EUR 11 million (EUR 7.6 million after tax) inventory adjustment excluded in 2017 figures as already included in pro forma 2016 figures

Financial performance in 2017

Net sales amounted to EUR 2,232.6 million, showing an increase of 3.9% from the EUR 2,147.9 million reported in the comparison period. At constant currency rates, growth was 4.6%, led by higher volumes and selling prices, as well as an improved product mix.

Comparable EBITDA was EUR 290.4 million (EUR 268.7 million), representing 13.0% of net sales (12.5%). The result was supported by higher sales volumes and selling prices, as well as an improved product mix, and lower fixed costs. Higher raw material costs, such as pulp and titanium dioxide, had a negative impact of about EUR 35 million on comparable EBITDA.

Items affecting comparability (IAC)

Operating result excluding fair valuation of EUR 11 million inventory adjustment was EUR 140.0 million (EUR 104.7 million). Further IAC totaled EUR -23.8 million (EUR -28.8 million) and were mainly related to achieving the synergy benefits as well as the integration costs of the merger.

Net financial items

Net financial items amounted to EUR -30.4 (EUR -30.6) million and included refinancing costs.

Tax, earnings per share

Pretax profit was EUR 109.6 million (EUR 74.1 million). Income taxes amounted to EUR 21.1 million (EUR 24.3 million), representing an effective tax rate of 19% (33%). Tax reform in the USA had a one-time non-cash positive effect on deferred taxes of approximately EUR 12 million in 2017. The net result for the period was EUR 88.5 million (EUR 49.8 million), and earnings per share were EUR 0.91 (EUR 0.51). Comparable earnings per share excluding merger-related items (PPA) were EUR 1.29 (EUR 0.96).

Financing and cash flow

Cash flow

Net cash flow from operating activities amounted to EUR 212.9 million (EUR 232.1 million). The cash flow was impacted by higher cash taxes related to accumulated payments from previous years.

Net debt, gearing and liquidity

The company's interest-bearing net debt amounted to EUR 375.3 million at the end of the reporting period. Comparative pro forma balance sheet items are not available. However, the

estimated combined net debt of Munksjö Oyj and Ahlstrom Corporation was EUR 410.3 million on December 31, 2016. Gearing stood at 36.2%. At the end of the reporting period, the weighted average interest rate was 2.2%.

Ahlstrom-Munksjö's liquidity continues to be good. At the end of the review period, the total cash position was EUR 245.9 million. In addition, the company had undrawn committed credit facilities and committed cash pool overdrafts of EUR 212.5 million available.

Refinancing

Following the merger, new financing was arranged for Ahlstrom-Munksjö, which consisted of multicurrency term facilities and a revolving credit facility, as well as a bridge facility.

On May 3, 2017, Ahlstrom-Munksjö redeemed the EUR 100 million hybrid bond with a fixed annual interest rate of 7.875% in accordance with its terms and conditions. The redemption value was EUR 106.9 million.

Ahlstrom-Munksjö made a voluntary tender offer for cash of its EUR 100 million 4.125% notes maturing on September 15, 2019. The aggregate principal amount of notes validly offered for purchase by noteholders was EUR 89.2 million. On September 15, 2017, the company exercised its right to fully redeem the outstanding 2019 notes.

On June 9, 2017, the company issued a EUR 250 million unsecured callable bond with an annual coupon of 1.875%. The notes will mature on June 9, 2022. The proceeds from the issue were used to repay and refinance an outstanding bond maturing in 2019 and certain other borrowings of the company.

Equity

On December 31, 2017, equity was EUR 1,038.0 million and total assets were EUR 2,396.8 million. The equity was negatively impacted by a translation effect of about EUR 53.6 million due to adverse currency fluctuations in 2017. Munksjö Group's standalone equity was EUR 437.7 million and total assets were EUR 1,186.5 million on December 31, 2016.

Capital expenditure

Ahlstrom-Munksjö's capital expenditure excluding acquisitions totaled EUR 89.7 million in January-December 2017 (EUR 77.7 million). The investments were related to maintenance, and cost and efficiency improvements, as well as the upgrade of the Madisonville filtration plant in the U.S. and the rebuild of an abrasive backings paper machine in Arches, France.

On June 7, 2017, the company announced an investment of about EUR 6.7 million at its Saint Severin plant in France to increase the capacity of Genuine Vegetable Parchment products, used mainly in food and baking applications.

Personnel

Ahlstrom-Munksjö employed an average of 5,903 people in January–December 2017 (6,039). As of December 31, 2017, the highest numbers of employees were in France (28%), Sweden (14%), the United States (12%), Germany (9%) and Italy (9%).

Customer service and transactional finance centers aligned to decentralized operating model

Ahlstrom-Munksjö plans to close its customer service and transactional finance centers in Vilnius and Atlanta to align a decentralized operating model following the merger. Through the plan, which is expected to be complete by the end of June 2018, the company aims to optimize the number of offices globally and leverage the use of our existing infrastructure. The centers employ about 100 people.

Transfer of further IT operations to Tech Mahindra

As part of a plan to harmonize Information Technology operations following the merger, Ahlstrom-Munksjö transferred further IT operations to its existing partner Tech Mahindra Ltd. As a result, most of the daily IT support, maintenance, development activities and project-related IT are carried out by Tech Mahindra. About 20 employees transferred to Tech Mahindra.

Changes in the Executive Management Team

Hans Sohlström appointed President and CEO

On December 21, 2017, the Board of Directors appointed Hans Sohlström President and CEO of Ahlstrom-Munksjö, effective as of June 30, 2018, at the latest. Sohlström is currently the President and CEO of Ahlström Capital Group. Ahlstrom-Munksjö's current President and CEO Jan Åström, (b. 1956), will retire from the position on June 30, 2018, at the latest. He has been the President and CEO of the company since its creation through the merger of Ahlstrom Corporation and Munksjö Oyj on April 1, 2017, and before that he was the President and CEO of Munksjö since 2008.

Tomas Wulkan appointed Executive Vice President, business area Decor

On December 18, 2017, Tomas Wulkan was appointed Executive Vice President, business area Decor, and a member of the company's Executive Management Team. Wulkan started in

the position on January 1, 2018, and he reports to Jan Åström, President and CEO.

The EMT members are introduced and their shareholdings are described on pages 50, 58–59 of this Annual report.

Innovation

Being at the cutting edge of fiber-based technologies and solutions is important to our success. About 150 employees at Ahlstrom-Munksjö work in research and product development, of which approximately a third at the two central research facilities in France.

Business area reviews

Decor

The Decor business area is one of the leading manufacturers in the market for paper-based surfacing for wood-based materials, such as laminate flooring, furniture and interiors. Decor develops high-tech and innovative papers for high- and low- pressure-laminates, print base paper and pre-impregnated paper.

Market review in 2017

The markets for decor products remained stable at a good level across all segments. The business area managed to secure sufficient supply of titanium dioxide, a key raw material in production, in a tight market environment.

Net sales and profit development in 2017

Net sales rose by 3.8% to EUR 378.4 million, compared with EUR 364.6 million in January–December 2016. The increase was driven by mainly higher sales volumes in addition to higher selling prices.

Comparable EBITDA fell to EUR 33.8 million (EUR 53.7 million), representing 8.9% (14.7%) of net sales. Higher sales volumes and selling prices had a positive impact on the result. This was, however, not sufficient to compensate for the steep increase in raw material costs during the year.

Filtration and Performance

The Filtration and Performance business area produces engine oil, fuel and air filtration as well as industrial air filtration materials, glass fiber used in flooring applications and wind turbines, industrial nonwoven products for automotive, construction, textile and hygiene applications, and wallcover materials.

Market review in 2017

Demand for filtration products continued to be strong in all regions and segments, and particularly in heavy-duty vehicles and industrial air. In construction-related markets, demand for wallcover was stable, while that for flooring materials was good.

Net sales and profit development in 2017

Net sales rose by 7.8% to EUR 665.3 million, compared with EUR 617.2 million in January–December 2016. Growth was driven by higher sales of filtration, nonwoven and wallcover products as well as an improved product mix and higher selling prices. Adverse currency fluctuations had a negative impact on net sales.

Comparable EBITDA climbed to EUR 120.6 million (EUR 94.0 million), reaching a record high margin of 18.1% (15.2%) of net sales. The increase was driven by higher sales volumes and improved operational efficiency.

Industrial Solutions

The Industrial Solutions business area produces release liners, abrasive backings, electrotechnical insulation papers, specialty pulp, thin papers, balancing foils as well as fine art and printing papers.

Market review in 2017

Good demand continued in many segments; release liners, electrotechnical insulation papers, abrasive backings, as well as specialty pulp. The domestic market for coated specialties products in Brazil improved somewhat towards the end of the year.

Net sales and profit development in 2017

Net sales rose by 3.6% to EUR 640.8 million, compared with EUR 618.4 million in January–December 2016. Growth was led by higher sales volumes of release liners and coated specialties products as well as higher selling prices in most of the segments in the business area.

Comparable EBITDA climbed to EUR 108.5 million (EUR 93.1 million), representing 16.9% (15.1%) of net sales. The increase was driven by higher selling prices and an improved product mix as well as increased sales volumes. Increased raw material costs, as the price difference between softwood and hardwood pulp narrowed, burdened the result.

Specialties

The Specialties business area produces food and beverage packaging materials, laboratory and life science diagnostics, as well as water filtration materials, tape products, and medical fabrics. In addition, it makes hot oil cooking and milk filtration materials, graphic papers for sticky notes and envelopes, metallized labels, as well as printed and coated products.

Market review in 2017

Demand for food packaging-related products was quite strong, while the market for uncoated and coated papers remained highly competitive. Demand for life science and medical products as well as tape materials was good.

Net sales and profit development in 2017

Net sales amounted to EUR 574.3 million, and were in line with the EUR 577.7 million in January–December 2016. Higher sales of sales of life science, tape, water purification and coffee products had a positive impact on net sales. Lower sales of one-side coated papers, such as metallized labels and graphic applications, as well as an adverse currency effect had a negative impact on net sales.

Comparable EBITDA was EUR 52.9 million (EUR 64.5 million), representing 9.2% (11.2%) of net sales. Higher raw material costs related to pulp and abaca, and operational challenges in the coated one-sided business burdened profitability. Increased sales volumes and lower fixed costs had a positive impact on the result. Benefits from the extended product portfolio, where the coated one-sided business has been merged into the Food Packaging unit, are expected to be gradually visible in 2018.

Risks and risk management

Information about the major risks faced by Ahlstrom-Munksjö and how they are mitigated can be found on pages 40–45 of this Annual report.

Short-term risks

Ahlstrom-Munksjö is exposed to changing market conditions and uncertainty caused by both macroeconomic and industry related events and is exposed to risks that may arise from its operations, changes in the business environment, developments in the global economy or potential changes in the legislative framework. The materialization of such risks could have a material adverse effect on the company's operations, earnings and financial position.

The company's significant risks and uncertainty factors mainly consist of developments in demand for and prices of sold products, the cost and availability of significant raw materials, financial risks, as well as other business factors including developments in the financial markets. The cost of key raw materials such as pulp and titanium dioxide has continued to increase and the company's financial performance may be impacted by its ability to raise selling prices and the timing of such rises to mitigate cost inflation.

Ahlstrom-Munksjö's key financial risks include interest rate and currency risks, liquidity risk and credit risk. The Group has exposure to tax risks due to potential changes in tax laws or regulations or their application, or as a result of on-going or future tax audits or claims.

The company has operations in many countries, and sometimes disputes cannot be avoided in daily operations. The company is sometimes involved in legal actions, disputes, claims for damages and other procedures. The result of these cannot be predicted, but taking into account all available information to date, the impact is not expected to have a significant impact on the financial position of the company.

Report on non-financial information

Ahlstrom-Munksjö is a global leader in fiber-based materials, supplying sustainable and innovative solutions to customers worldwide. Our offerings include decor paper, filter media, release liners, abrasive backings, nonwovens, electrotechnical paper, glass fiber materials, food packaging and labelling, tape, medical fiber materials and solutions for diagnostics. We operate in 41 production and converting sites in 14 countries, producing solutions in 25 product areas, serving customers in 22 industries.

Ahlstrom-Munksjö is the result of the merger between Ahlstrom Corporation and Munksjö Oyj, which was completed April 1, 2017. In 2017, our average number of employees was 5,903¹⁾, our net sales were EUR 2,232.6¹⁾ million and EBITDA EUR 266.6¹⁾ million.

Business model

Ahlstrom-Munksjö's value creation is based on innovating and advancing the capabilities of fiber-based materials, providing our customers with solutions that make their businesses more efficient and sustainable.

By collecting and building on continuous and in-depth customer insight, we can tailor products to individual customer needs and sustainability interests, innovating and advancing the capabilities of what fiber-based materials can do. By sourcing the right quality and mix of high performance materials, we can run efficient production processes based on our specialized equipment and deep know-how, while providing our customers with tailored services and pre-sales, sales, and post-sales support.

The Ahlstrom-Munksjö business model is also presented on page 11 and our value creation model on page 26-27.

Ahlstrom-Munksjö's sustainability areas and material topics

In 2017, Ahlstrom-Munksjö, as a newly combined company with a greater global reach and more diverse product portfolio, established sustainability priorities, aligning our commitment to people, the planet, and shared prosperity with our long-term business success. The company has identified nine material topics.

People

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

Planet

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

Prosperity

7. Profitability
8. Innovation
9. Business ethics

These topics will be Ahlstrom-Munksjö's strategic areas of focus for accurate data collection, management for performance, and transparent reporting on progress towards targets.

Ahlstrom-Munksjö's sustainability priorities and material topics are also described on pages 24-39.

Sustainability Policy and Management approach

During the year, the Ahlstrom-Munksjö Board of Directors approved the combined company's inaugural Sustainability Policy. Through the policy, the company first affirms Ahlstrom-Munksjö's commitment to continuous improvement in the nine material topics within the people, planet, and prosperity areas. The policy also establishes a formal sustainability governance structure. A Sustainable Business Council (SBC) of diverse company leaders will guide the integration of sustainability into business operations. The SBC's work will be supported and led by the VP of Sustainability and the EVP of Corporate Development in the Executive Management Team. All aspects of the policy will be incorporated into the company's annual cycle of strategy, investments, budgeting, and reporting. The Board of Directors also approved the Sustainable Business Council's recommendation that the combined company join the United Nations Global Compact.

Metrics, targets and comparability

During 2017, the Ahlstrom-Munksjö Sustainable Business Council worked closely with leaders from across the company to identify ambitious and feasible metrics and targets that support business success through improved sustainability outcomes. This process was also informed by benchmarking to peers and internationally recognized reporting requirements, including the Global Reporting Initiative (GRI) 2016 standards. As we collect more information on the performance of the combined company over time, we will continue to refine these metrics and targets. While we have established 2017 quantitative

¹⁾ Financial key figures are presented on page 73.

performance baselines where possible for our material topic targets, we do not have relevant historical data to compare our current to past sustainability performance due to the merger this year.

People

Human rights

At Ahlstrom-Munksjö, we are strongly committed to respecting fundamental human rights in our operational activities and expecting the same from our suppliers. As laid out in our company Code of Conduct, this means we treat all our people with respect and give them all equal opportunities for personal growth and professional development. We expect the same level of commitment from our suppliers, as highlighted in our Supplier Code of Conduct.

To date, our management approach has been to focus on full legal compliance and investigate and resolve any reports of potential violations in a thorough and timely manner. Any potential violations can be reported to a manager, the Human Resources or Legal departments, a dedicated and confidential mailbox (codeviolation@ahlstrom-munksjo.com), or an internal misconduct reporting line with 24/7 availability.

In connection with the merger in April 2017, an updated Code of Conduct for the combined company was adopted by the Board of Directors. The updated Code of Conduct has during the course of the year been communicated throughout the organization, and a Code of Conduct awareness initiative has been launched. Ahlstrom-Munksjö will advance new awareness and training opportunities for employees across the company on our Code of Conduct, which includes respect and accountability for human rights, in order to meet the targets within this area. Our Supply Chain work, led by Procurement and described below, will include human rights components through our Supplier Code of Conduct to ensure our sourcing reflects this commitment as well.

Our dedication to human rights helps us ensure our employees have a safe and respectful workplace and our suppliers have fair and ethical practices. By enforcing the Codes of Conduct, our customers and investors can feel confident we are in full compliance with all applicable regulations. Mitigating risks of violations can also counteract negative impacts to sustainable development at large.

Community engagement

To Ahlstrom-Munksjö, Community Engagement means having a positive impact in the community by supporting local and global initiatives that align with our values. In particular, by building long-term relationships with the communities that host our production sites, we can contribute to our employees' well-

being and ensure we are a good neighbor in our operations and local supply chains.

We track our Community Engagement work by percentage of production sites with an annually updated community engagement strategy that considers how plant activities can improve company image, attract potential employees, and contribute to healthier living.

Currently, local community relationships are cultivated by plant managers and their teams at our over 40 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, and quickly responding to any nuisance complaints related to regular plant activities. Some plants have undertaken formal stakeholder analyses and developed community engagement strategies, whereas others work more on an ad hoc basis as opportunities or challenges arise.

Over time, effective community engagement reduces risks of potential conflict, strengthens local economy, helps attract employees and opens up possibilities for productive collaborations and partnerships.

Employee well-being

At Ahlstrom-Munksjö, we believe in creating safe and inclusive work environments where employees are given fair treatment and equal opportunity. Throughout our operations, we are focused on three dimensions of Employee Well-Being: Health & Safety, Employee Development, and Gender Equality.

Health & Safety – Safety is our mindset throughout our operations at Ahlstrom-Munksjö. We work towards a zero accident workplace by setting ambitious targets for continuous improvement, developing consistent safety practices and competencies at every level, and creating a culture of responsibility and accountability for all employees, contractors, and visitors at our production sites. Good and safe working environments are also a prerequisite for attracting employees, enhancing efficiency and productivity.

As highlighted in our Occupational Health and Safety Policy, we focus on preventative activities, behavior-based safety interactions, safety inspections and auditing, and tailored safety training to ensure a safe working environment. We emphasize general life saving behaviors applicable throughout our sites as well as specific topics of importance, such as evaluating, labeling, handling, and disposing of chemicals used in our production processes safely. 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.

To measure our progress in this area, we track three priority metrics: our annual total recordable incidents (TRI) rate, near miss rate, and hours of tailored safety training per employee each year. This year, we established baselines as a new company of a TRI rate of 2.37, a near miss rate of 2.71, and 13.35 average hours of tailored safety training per employee.

Achieving results in this area is a fundamental value for Ahlstrom-Munksjö. It ensures we are continually supporting a healthy, productive team whose contributions are essential to our company success and reducing the risks of accidents or illnesses that can lead to delays, quality issues and liability.

Employee Development – Our people are our greatest asset, and investing in their growth will help us meet evolving challenges and take advantage of new opportunities in a dynamic operating context. As described in our Human Capital Policy, Ahlstrom-Munksjö is committed to continuously developing our employees based on individual aspirations, company values, and business needs. We provide 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 our team to achieve greater business, social, and environmental results throughout the company.

Our Human Resources team leads this initiative and collects information on our progress towards targets in this area. For this aspect of our Employee Well-Being materiality, we will measure our progress by tracking what percentage of our employees have had a performance and development discussion with their manager in the past year. We will establish baselines and chart our progress towards this goal through a new HR data management system that will be implemented in 2018.

Continuous learning and growing are essential components of a vibrant company and can contribute to societal wellbeing and growth. By investing in our team we can mitigate risks associated with stagnation in a dynamic operating context.

Gender Equality – In addition to preventing discrimination based on gender in accordance with our Human

Rights activities, Ahlstrom-Munksjö is working to proactively ensure we are providing equal opportunities and drawing on talent across the population.

Our Human Resources team has led efforts to identify talented new hires regardless of gender. Moving forward, we will

continue to proactively support gender equality in our workplace.

Our ambition is to always have applicants of the underrepresented gender among the final candidates in both internal and external recruitments and ultimately close any gender gaps in our company.

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

Drawing on talent from across all groups of population and enriches our team and enhances our products and solutions. By working with gender equality we can mitigate legal risks as well as reputational risks.

Please see additional information on our commitment, metrics, targets and outcome for material topics in the people section of our sustainability work in our GRI report on page 31 and our risk assessment on page 40.

Board diversity

Ahlstrom-Munksjö has adopted a Diversity Policy for the Board of Directors, aiming to cultivate a broad spectrum of demographic attributes and characteristics in the board room.

Please see the complete description of our work with board diversity in the governance report on page 49.

Planet

As part of a resource-intensive industry, Ahlstrom-Munksjö has a particular responsibility to advance environmental performance throughout its operations and supply chains. We are pursuing continuous improvement in three sustainability areas: the environmental impacts of our sourcing practices, efficiencies and innovations in our energy and water use and waste reduction and disposal, and serious contributions to the global challenge of climate change through carbon dioxide emissions reductions.

Supply chain

Ahlstrom-Munksjö works with a large number of suppliers to secure the high quality, diverse inputs needed to create our portfolio of specialty fiber products. Our most important inputs include fibers, particularly wood pulp, and the chemicals we use in our production processes. We also work with indirect suppliers, such as utilities, transportation services, and equipment and machinery providers. Our 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, environmental impacts, and transparency.

Ahlstrom-Munksjö's newly built global corporate Procurement team is leading efforts to ensure every supplier has signed or is in full compliance with these expectations through regular dialogue with suppliers as well as emerging systems for risk assessments and field auditing.

Metrics for measuring our commitment to responsible sourcing are percentage of chemical and fiber suppliers that have signed the Supplier Code of Conduct or are considered compliant, percentage of chemical and fiber suppliers that have undergone evaluation for Supplier Code of Conduct risks, and development of targets to increase Forest Stewardship Council (FSC) certified wood pulp sourcing.

2017 was a baseline year with more than 90 percent of our chemical and fiber suppliers being signatories or considered compliant. We are currently developing new evaluation procedures for the newly combined company with more diverse supply chains, with a goal of incorporating all suppliers into the system by end of 2018. To advance improved forest management practices, Ahlstrom-Munksjö purchased 49% of its wood pulp from Forest Stewardship Council (FSC) mix credit certified sources in 2017, with the remainder meeting FSC Controlled Wood criteria.

By supporting partners who adhere to overall responsible practices Ahlstrom-Munksjö can avoid negative impacts on our operation and reputation, and contribute to sustainable development across our value chain.

Energy, water, and waste

Ahlstrom-Munksjö is dedicated to designing products and manufacturing processes that use energy, water and raw materials more efficiently to minimize waste and emissions to natural basins of water and air. As part of a resource-intensive industry, we have a particular responsibility in this area to continuously reduce our company's environmental impacts. It will also help us ensure full legal compliance and achieve cost savings that benefit our bottom line, our customers, and our investors.

Ahlstrom-Munksjö's production sites advance energy, water, and waste compliance, efficiencies, and stewardship through several mechanisms. Environmental and energy managers at each of our sites tailor their activities and investments in best available technologies to their particular plant's local resource management requirements, challenges, and opportunities. Many plants also advance effective resource management

through third party audited, internationally recognized certification systems. Ahlstrom-Munksjö is ISO 14001 certified in environmental management at 36 locations, or over 87 percent of its sites. Fifteen of our plants representing 59 percent of our total energy use are ISO 50001 certified in energy management. Additionally, Ahlstrom-Munksjö promotes sharing best practices in resource management through internal collaborative efforts.

To track our progress, data on energy, water, and waste for each of our production sites will be aggregated on a quarterly basis through our new cloud-based data collection system. We measure what percentage of our plants have achieved certified environmental management systems and what percentage of our energy use comes from plants with certified energy management systems. We assess energy use, water use, and water emissions per gross ton of our production, as well as total tons of waste sent to landfill. Currently, 87 percent of our plants have certified environmental management systems.

In 2017, our total energy use in GJ per gross ton production was 8.12, our water use in cubic meters per gross ton production was 44.8, our water chemical oxygen demand (COD) emissions in kilograms per gross ton production was 4.06 among reporting plants, and 12,223 tons of non-recoverable waste were sent to landfills.

Ahlstrom-Munksjö's production generates emissions to air and water, waste to landfills and generates noise. Failure to comply with environmental regulation and permits or to continuously improve our production processes and our products could have a material adverse effect on the company as well as reducing environmental quality.

Carbon dioxide

Ahlstrom-Munksjö aims to continuously reduce our products' contribution to climate change by decreasing our specific carbon dioxide emissions and our dependency on fossil fuels. Our climate commitment also allows us to proactively respond to an evolving regulatory environment, particularly in the European Union where many of our production sites are based. These activities will synergistically improve our efforts to achieve energy efficiencies and cost savings where possible and meet growing stakeholder expectations that companies like Ahlstrom-Munksjö take action on climate change.

Plant managers and their energy management teams will lead these efforts in coordination with Procurement and with support from the Energy Network. To monitor our progress, climate emissions data for each of our production sites will be

aggregated on a quarterly basis through our new cloud-based data collection system.

To date, Ahlstrom-Munksjö has primarily contributed to climate mitigation efforts by pursuing the energy efficiency work described above. As a 2017 baseline, our Scope 1 emissions 0.381 tons carbon dioxide per gross ton production. Ahlstrom-Munksjö is committed to participate in the global collective efforts to mitigate climate change and associated risks to sustainable development.

Please see in more detail our commitment, metrics, targets and outcome for material topics in the planet section of our sustainability work in our GRI report on page 32 and risk assessment on page 40.

Prosperity

Ahlstrom-Munksjö's ability to create value for all stakeholders over the long term relies on our continued economic sustainability in three areas. Building on a foundation of strong business ethics, we strive to achieve lasting profitability through a robust innovation platform to develop new sustainable fiber solutions.

Our success over time supports greater opportunities for our team members and in our communities, investments in environmental efficiencies and improvements, and the development of new products that can help our customers advance their own sustainability journeys.

Profitability

At Ahlstrom-Munksjö, we aim for long-term profitability through measures to increase operational efficiency, profitable growth, product and service leadership, and a strong innovation platform. Achieving strong financial returns helps us meet stakeholder expectations. Our financial success also allows us to invest more in other aspects of our social and environmental work and our innovation platform that can drive further growth and opportunity at Ahlstrom-Munksjö.

The Ahlstrom-Munksjö CEO and Executive Management Team lead these efforts, with guidance from our Board of Directors and support from corporate functions and production sites across the company. We constantly evaluate and update our approach to respond to customer needs, market trends, and other opportunities.

To assess our progress in this area, we are focusing on EBITDA margin over a business cycle, net gearing, and dividend.

In 2017, our comparable EBITDA margin was 13.0 percent and our net gearing level was 36.2 percent.

Long-term economic stability allows us to continue providing economic, social and environmental value for our stakeholders.

Innovation

Innovation enables Ahlstrom-Munksjö to continue to increase our offering of products, services, applications, and solutions that address sustainable functionality and design. A strong innovation platform allows us to select lower-impact materials in our sourcing, improve our production processes, and empower our customers to create more sustainable solutions using our products, generating benefits within and beyond Ahlstrom-Munksjö.

At Ahlstrom-Munksjö, we pursue innovation through systems that translate in-depth knowledge of customer needs into high quality products that are fit for purpose. We consider four aspects of sustainable design. First, where possible, we select lower-impact materials, such as renewable, recycled, recyclable, or biodegradable materials that have improved supply chain or end-of-life outcomes. Second, we focus on responsible chemical use, including reducing or eliminating hazardous chemicals wherever possible. Third, we seek process efficiencies to make good use of our raw materials, water, and energy. Finally, we design for product efficiencies, including sustainability performance for customers all along the value chain and end of life disposal. These efforts are led by our Group Research & Development team.

During the year, the foundation for a sustainability assessment process was initiated. Going forward, we will determine additional targets for our design process and new products. The Group Research & Development team will collect data to track our progress in these areas.

The risk of lagging in technical development and R&D could have a material adverse effect on the business as well as reducing or inhibiting the possibilities for more sustainable products and solutions.

Business ethics

Ahlstrom-Munksjö is committed to conducting our business ethically and responsibly in local and global communities. We uphold a zero-tolerance towards bribery and corruption and strive to conduct operations in a manner that meets highest environmental standards and ensures that we are in full com-

pliance with applicable laws and regulations. Adhering to ethical business practices is a fundamental principle for the company's work across the globe. This essential baseline is also a critical aspect of risk mitigation and ensuring full legal compliance.

Ahlstrom-Munksjö's Code of Conduct details expectations for integrity and ethical behavior throughout our operations, including compliance with all appropriate national and international laws and regulations and avoiding all conflicts of interest. Our Anti-Bribery Policy further specifies our zero-tolerance policy towards corrupt practices.

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

Any potential violations of these policies can be reported to the Legal department, a dedicated and confidential mailbox (codeviolation@ahlstrom-munksjo.com), or an internal misconduct reporting line with 24/7 availability.

In connection with the merger in April 2017, an updated Code of Conduct for the combined company was adopted by the Board of Directors. The updated Code of Conduct has during the course of the year been communicated throughout the organization and a Code of Conduct awareness initiative has been initiated. We will advance new awareness and training opportunities for employees across the company on our Code of Conduct, which includes respect and accountability for human rights, in order to meet the targets within this area.

Any shortcomings in behaving ethically can result in possible damage to Ahlstrom-Munksjö's brand and reputation and the associated risk to earnings, sales, market share and shareholder value. Counteracting unethical behavior is a cornerstone of ensuring a healthy functioning society.

Please see in more detail our commitment, metrics, targets and outcome for material topics in the prosperity section of our sustainability work in our GRI report on page 32 and risk assessment on page 40.

Shares and share capital

Ahlstrom-Munksjö's shares are listed on the Nasdaq Helsinki as well as on the Nasdaq Stockholm. All shares carry one vote and have equal voting rights. The trading code is AM1 in Helsinki and AMIS in Stockholm.

On December 31, 2017, Ahlstrom-Munksjö's share capital amounted to EUR 85 million, and the total number of shares since April 1, 2017 has been 96,438,573. The company had 11,526 shareholders at the end of the reporting period, according to Euroclear Finland Ltd. Ahlstrom-Munksjö held a total of 364,862 of its own shares, corresponding to approximately 0.4% of the total shares and votes.

Nasdaq Helsinki

During 2017, a total of 15.0 million (6.9 million) Ahlstrom-Munksjö shares were traded for a total of EUR 263.7 million (EUR 78.2 million). The average daily volume was 59,978 (27,161). The lowest trading price was EUR 13.75 and the highest was EUR 20.49. The closing price on December 29, 2017 was EUR 18.17. The market capitalization at the end of the review period was EUR 1,745.7 million, excluding the shares owned by the parent company.

Nasdaq Stockholm

During 2017, a total of 2.3 million (2.1 million) Ahlstrom-Munksjö shares were traded for a total of SEK 398.8 million (SEK 229.4 million). The average daily trading volume was 9,339 (8,464). The lowest trading price was SEK 131.50 and the highest was SEK 199.50. The closing price on December 29, 2017 was SEK 177.30.

The share turnover during the reporting period for the both exchanges was 18.0% (17.6%) of the total amount of shares. Ahlstrom-Munksjö's shares are also traded on alternative exchanges, such as Cboa and Turquoise. During the reporting period, the shares traded on Nasdaq Helsinki represented 80.2%, Nasdaq Stockholm 10.6% and the alternative exchanges 9.2% of the total trading volume (source: Fidessa Fragmentation Index).

More details on Ahlstrom-Munksjö's major shareholders and distribution of ownership can be found on pages 126-128 of this Annual report.

Annual General Meeting

Ahlstrom-Munksjö Oyj's Annual General Meeting was held on May 16, 2017. The Annual General Meeting adopted the Financial Statements for 2016 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year 2016.

The AGM resolved in accordance with the proposal of the Board of Directors that no dividend will be paid for the fiscal year 2016. The AGM resolved, based on the financial statements of the company for 2016, on the payment of funds from

the reserve for invested unrestricted equity as return of equity in the amount of EUR 0.23 per share in September 2017.

The AGM resolved that the number of Board members to be nine. Hans Sohlström, Peter Seligson, Elisabet Salander Björklund, Alexander Ehrnrooth, Jan Inborr (passed away on June 24, 2017), Harri-Pekka Kaukonen, Johannes Gullichsen and Hannele Jakosuo-Jansson were re-elected. Pernilla Walfridsson was elected as new member of the Board. The Board members were elected for the period ending at the close of the next Annual General Meeting.

The Board members are introduced and their shareholdings are described on pages 50-59 of this Annual report. The Corporate Governance Statement 2017 is available at www.ahlstrom-munkjo.com.

Authorizations to repurchase and distribute the company's own shares as well as to accept them as pledge

The AGM authorized the Board of Directors to resolve to repurchase and to distribute the company's own shares as well as to accept them as pledge in one or more instalments on the following conditions:

The number of shares to be repurchased or accepted as pledge by virtue of the authorization shall not exceed 8,000,000 own shares in the company, subject to the provisions of the Finnish Companies' Act on the maximum amount of shares owned by or pledged to the company or its subsidiaries. The shares may be repurchased or accepted as pledge in one or several instalments and in another proportion than that of the existing shareholdings of the shareholders in the company. The shares shall be repurchased in public trading at the prevailing market price by using unrestricted shareholders' equity.

The Board of Directors is authorized to resolve on all other terms and conditions regarding the repurchase of the company's own shares or their acceptance as pledge.

By virtue of the authorization, the Board of Directors has the right to resolve on the distribution of a maximum of 8,000,000 own shares held by the company in one or several instalments.

The authorization includes the right for the Board of Directors to resolve upon all terms and conditions of the distribution of shares held by the company, including the right to derogate from the pre-emptive right of the shareholders. The shares may be used e.g. as consideration in acquisitions and in other arrangements as well as to implement the company's share-based incentive plans or for other purposes determined by the Board of Directors. The Board of Directors also has the right to resolve on the distribution of the shares in public trading for the purpose of financing possible acquisitions. The authorization also includes the right for the Board of Directors to resolve on the sale of the shares accepted as a pledge.

The authorizations are valid until the close of the next Annual General Meeting, however, for no longer than eighteen (18) months from the close of the Annual General Meeting.

Shareholders' Nomination Board

Ahlstrom-Munksjö's three largest registered shareholders based on holdings on May 31, 2017 nominated the following persons as their representatives in the Shareholders' Nomination Board of Ahlstrom-Munksjö:

- Thomas Ahlström (Ahlström Capital Oy and four other shareholders)
- Alexander Ehrnrooth (Viknum AB and Belgrano Inversiones Oy)
- Mikko Mursula (Ilmarinen Mutual Pension Insurance Company)

The company's Chairman of the Board, Hans Sohlström, and Peter Seligson, as nominated by the Board, are also expert members of the Nomination Board. On June 7, 2017, the Nomination Board elected Thomas Ahlström from among its members as Chairman.

The Nomination Board prepares proposals to the Annual General Meeting for the election and remuneration of the members of the Board of Directors and the remuneration of the members of the Board committees and the Nomination Board.

Hans Sohlström has refrained from participating in the work of the Shareholders' Nomination Board after he was appointed President and CEO on December 21, 2017.

On January 29, 2018, the Nomination Board submitted its proposals for the Annual General Meeting 2018 about the remuneration of the Board of Directors, the number of members of the Board of Directors and the election of members of the Board of Directors. The full release is available at <https://www.ahlstrom-munksjo.com/Media/releases/>

Proposal for the distribution of profit

The distributable funds on the balance sheet of Ahlstrom-Munksjö Oyj as of December 31, 2017 amounted to EUR 639,383,957.56.

The Board of Directors proposes that the Annual General Meeting resolves, based on the financial statements of the company for 2017, on the dividend payment in the amount of EUR 0.52 per share.

The dividend will be paid in two instalments. The first instalment of EUR 0.26 per share will be paid to a shareholder who on the record date of the payment, March 23, 2018, is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB. The payment date proposed by the Board for this instalment is April 3, 2018.

The second instalment of EUR 0.26 per share will be paid in September 2018 to a shareholder who on the record date of the payment is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB, which, together with the payment date, will be resolved by the Board of Directors in its meeting scheduled for September 10, 2018. The record date of the payment would be September 12, 2018 and the payment date September 19, 2018, at the latest.

In addition, the Board of Directors proposes that EUR 100,000 will be reserved for donations at the discretion of the Board.

Outlook for 2018

Market outlook: Demand for Ahlstrom-Munksjö's fiber-based products is expected to remain stable at the current good level for most of the product segments and to reflect the seasonal pattern. Selling price increases will continue to be implemented to mitigate cost inflation in raw materials.

EBITDA: Comparable EBITDA in 2018 is expected to be approximately at the previous year's level (pro forma EUR 290.4 million), or slightly below. In the first-half of 2018, comparable EBITDA is expected to be lower than in the comparison period and to gain momentum in the second half of the year.

Capital expenditure: The cash flow effect of current capital expenditure of fixed assets as well as strategic investments is expected to be higher than in 2017 (EUR 89.7 million). The strategic growth and profitability enhancement investments include the previously announced projects at Arches, Madisonville and Saint Severin sites.

Ahlstrom-Munksjö Oyj
Board of Directors

Key figures

Year 2017 was a transformative year for Ahlstrom-Munksjö. Ahlstrom and Munksjö merged on April 1, 2017 creating a global leader in innovative and sustainable fiber-based materials. Considering the magnitude of the merger of Ahlstrom and Munksjö and the impact on the combined company's performance and financial position and as Munksjö is the accounting acquirer, stand-alone Munksjö historical information does not provide our investors a reasonable basis to compare the operating performance and historical financial position.

Accordingly, we present certain key figures on our business performance on a pro forma basis to give effect to the merger and the refinancing as if these transactions had taken place at an earlier date. Comparative key figures for capital structure are presented on a pro forma basis as at the merger date as the historical balance sheet data comprise Munksjö information only and does not represent a basis for comparison post-merger. The pro forma key figures have been presented for illustrative purposes only and address a hypothetical situation and therefore do not represent the company's actual historical results of operations as such historical data comprise Munksjö stand-alone information only. For a detailed basis of presentation and notes disclosures for the

additional unaudited pro forma information please see our stock exchange release dated May 15, 2017 available on our website at www.ahlstrom-munksjo.com.

Certain of our key figures are not accounting measures defined or specified under IFRS and therefore are considered as alternative performance measures. We present these alternative performance measures as additional information to the financial measures presented in the consolidated financial statements prepared in accordance with IFRS. The company believes that the alternative performance measures provide significant additional information on Ahlstrom-Munksjö's results of operations, financial position and cash flows, and are widely used by our analysts, investors and other parties and provide additional information to analyze our performance and capital structure.

Alternative performance measures should not be viewed in isolation or as a substitute to measures presented in our audited IFRS financial statements. Companies do not calculate alternative performance measures in a uniform way, and therefore Ahlstrom-Munksjö's alternative performance measures may not be comparable with similarly named measures presented by other companies.

Alternative performance measures and pro forma key figures are unaudited.

Financial key figures for 2017–2015

EUR million, or as indicated	2017	2016	2015	2017 pro forma	2016 pro forma	2015 pro forma
Performance indicators						
Net sales	1,959.9	1,142.9	1,130.7	2,232.6	2,147.9	2,124.6
Operating result	103.5	74.9	32.7	140.0 ¹⁾	104.7	39.6
Operating margin, %	5.3	6.6	2.9	6.3 ¹⁾	4.9	1.9
EBITDA	210.1	130.1	86.3	266.6 ¹⁾	239.9	189.0
EBITDA margin, %	10.7	11.4	7.6	11.9 ¹⁾	11.2	8.9
Comparable EBITDA	248.2	136.7	93.6	290.4	268.7	203.0
Comparable EBITDA margin, %	12.7	12.0	8.3	13.0	12.5	9.6
Items affecting comparability included in EBITDA	-38.1	-6.6	-7.3	-23.8	-28.8	-13.9
Comparable operating result excluding merger related items (PPA)	166.1	n/a	n/a	195.2	168.7	99.1
Net profit	66.5	43.3	22.8	88.5 ¹⁾	49.8	27.7
Earnings per share (basic), EUR	0.78	0.85	0.44	0.91 ¹⁾	0.51	0.29
Comparable EPS excluding merger related items (PPA), EUR	1.29	n/a	n/a	1.29	0.96	0.55
Cash generated from operating activities	186.5	114.3	55.5	212.9	232.1	124.7
Capital expenditure	84.6	39.2	39.8	89.7	77.7	65.9
Average number of employees, FTE	5,109	2,755	2,774	5,903	6,039	6,150

¹⁾ Fair valuation adjustment on acquired company inventories is excluded as it is adjusted in the 2016 pro forma income statement.

EUR million	Dec 31, 2017	April 1, 2017 pro forma
Capital structure		
Operating capital	1,502.8	n/a
Total equity	1,038.0	1,062.6
Net debt	375.3	432.4
Gearing ratio, %	36.2	40.7
Return on operating capital, %	13.2	n/a
Equity/assets ratio, %	43.3	42.1

Reconciliation of certain pro forma key performance measures

Reconciliation of pro forma comparable EBITDA to operating result EUR million	2017 pro forma	2016 pro forma	2015 pro forma
Comparable EBITDA	290.4	268.7	203.0
Items affecting comparability			
Items affecting comparability reported historically in EBITDA	-1.2	-16.4	-13.9
Transaction and integration costs incurred	-11.7	-6.9	-
Gain on business disposal	-5.0	5.7	-
Inventory fair valuation	-	-11.1	-
Other	-5.9	-	-
Total items affecting comparability	-23.8	-28.8	-13.9
Depreciation and amortization	-126.5	-135.2	-149.5
Operating result pro forma	140.0	104.7	39.6
Operating result of the merged company before the merger and merger related items	-36.5	-29.8	-6.9
Operating result	103.5	74.9	32.7

Reconciliation of comparable operating results excluding merger related items (PPA) to operating result EUR million	2017 pro forma	2016 pro forma	2015 pro forma
Comparable operating result excluding merger related items (PPA)	195.2	168.7	99.1
Depreciation and amortization arising from PPA ¹⁾	-31.4	-35.2	-35.9
Comparable operating result	163.8	133.5	63.3
Items affecting comparability			
Items affecting comparability reported historically in operating result	-1.2	-16.4	-23.7
Transaction and integration costs incurred	-11.7	-6.9	-
Gain on business disposal	-5.0	5.7	-
Inventory fair valuation	-	-11.1	-
Other	-5.9	-	-
Total items affecting comparability	-23.8	-28.8	-23.7
Operating result pro forma	140.0	104.7	39.6
Operating result of the merged company before the merger and merger related items	-36.5	-29.8	-6.9
Operating result	103.5	74.9	32.7

¹⁾ Depreciation and amortization relating to the acquisition of Label and Processing business in 2013 and Ahlstrom in April 2017.

Definitions

The definitions of financial key performance indicators are described below:

Key figure	Definitions	Reason for use of the key figure
Operating result	Net profit before taxes and net financial items	Operating result shows result generated by the operating activities.
Operating margin, %	Operating result / net sales	
EBITDA	Operating result before depreciation and amortization	EBITDA is the indicator to measure the performance of the group.
EBITDA margin, %	EBITDA / net sales	EBITDA margin is a key measure in our long-term financial targets.
Comparable EBITDA	EBITDA excluding items affecting comparability	
Comparable EBITDA margin, %	Comparable EBITDA / net sales	
Comparable operating result excluding merger related items (PPA)	Operating result excluding items affecting comparability and merger related items (PPA). Merger related items (PPA) comprises of depreciation and amortization charges on fair value adjustments relating to the acquisition of Label and Processing business in 2013 and Ahlstrom in April 2017.	Comparable EBITDA, comparable EBITDA margin, comparable operating result excluding merger related items (PPA) and comparable earnings per share excluding merger related items (PPA) are presented in addition to EBITDA and operating result 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 earnings per share excluding merger related items (PPA)	Net profit attributable to parent company's shareholders excluding items affecting comparability and merger related items (PPA) / weighted average number of shares outstanding	
Items affecting comparability	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, 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.	
Earnings per share (EPS), basic, EUR	Net profit attributable to parent company's shareholders / weighted average number of shares outstanding	
Operating capital	Total assets less interest-bearing assets, deferred and current tax assets, other non-current and current liabilities, employee benefit obligations, non-current and current provisions, trade payables, liabilities to equity accounted investments, accrued expenses and deferred income	This ratio measures capital tied up in operations.
Return on operating capital, %	Operating result (for the last 12 months) / operating capital (average at the beginning and end of the last 12 months period)	This ratio measures the return on capital tied up in operations.
Net debt	Non-current and current borrowings less cash and cash equivalents	Net debt is an indicator to measure the total external debt financing of the Group.
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 Group's indebtedness. Gearing ratio is also one of our 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.
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.

Share related indicators for 2017–2015

Share related indicators presented below are presented on a historical basis. Accordingly, all data prior to the merger date April 1, 2017 represent Munksjö historical share related data.

	2017	2016	2015
Earnings per share, basic, EUR	0.78	0.85	0.44
Equity per share, EUR	10.7	8.6	7.9
Dividend per share, EUR	0.52 ¹⁾	0.47 ²⁾	0.30
Dividend per earnings, %	66.7	55.3	68.2
Effective dividend yield, %	2.9	3.0	3.5
Price/earnings ratio, %	23.3	18.6	19.5
Share price development			
Lowest quotation, EUR	13.75	7.60	7.18
Highest quotation, EUR	20.49	16.38	12.50
Average quotation for the period, EUR	17.58	11.39	9.36
Closing share price at the reporting date, EUR	18.17	15.80	8.60
Market capitalization, EUR million	1,745.7	802.0	436.5
Shares traded (1,000 shares)	15,002	6,872	15,722
Shares traded, % of all shares	17.7	13.5	30.9
Weighted average number of shares during the period (1,000 shares)	84,941	50,762	50,818
Number of shares at the end of the period (1,000 shares)	96,439	51,062	51,062
of which treasury shares	365	300	300

¹⁾ Board's proposal subject to shareholder approval.

²⁾ Dividend per share has been converted by using the same number of shares as in 2017.

The definitions of share related indicators are described below:

Share related indicator	Definition
Earnings per share (EPS), basic, EUR	Net profit for the period attributable to parent company's shareholders / weighted average number of shares outstanding
Comparable earnings per share excluding merger related items (PPA)	Net profit for the period attributable to parent company's shareholders excluding items affecting comparability and merger related items (PPA) / weighted average number of shares outstanding
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
P/E 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	Total value of shares traded / number of shares traded during the period

Consolidated financial statements, IFRS

Income statement

EUR million	NOTE	2017	2016
Net sales	4,5	1,959.9	1,142.9
Other operating income	5	12.7	7.5
Total operating income		1,972.6	1,150.4
Operating costs			
Changes in inventories of finished goods and work in progress		-6.4	2.7
Materials and supplies		-920.2	-544.2
Other operating expenses	6	-472.0	-269.0
Personnel costs	7	-363.7	-209.8
Depreciation and amortization	8	-106.6	-55.2
Total operating costs		-1,868.9	-1,075.5
Share of profit in equity accounted investments	21	-0.2	0.0
Operating result		103.5	74.9
Financial income	9	9.5	4.3
Financial expenses	9	-35.7	-20.2
Net financial items		-26.2	-15.9
Profit before tax		77.3	59.0
Taxes	10	-10.8	-15.7
Net profit		66.5	43.3



Additional unaudited information – pro forma income statement

EUR million	2017	2016
Net sales	2,232.6	2,147.9
Other operating income	13.7	19.0
Total operating income	2,246.4	2,166.9
Operating costs		
Changes in inventories of finished goods and work in progress	7.5	-11.9
Materials and supplies	-1,040.1	-983.3
Other operating expenses	-529.8	-503.2
Personnel costs	-417.3	-428.6
Depreciation and amortization	-126.5	-135.2
Total operating costs	-2,106.2	-2,062.2
Share of profit on equity accounted investments	-0.2	0.0
Operating result	140.0¹⁾	104.7
Financial income	9.9	4.8
Financial expenses	-40.3	-35.3
Net financial items	-30.4	-30.6
Profit before tax	109.6	74.1
Taxes	-21.1	-24.3
Net profit	88.5¹⁾	49.8

¹⁾ Fair valuation adjustment EUR 11 million (EUR 7.6 million net of tax) on acquired company inventories is excluded as it is adjusted in the 2016 pro forma income statement.

Statement of comprehensive income

EUR million	NOTE	2017	2016
Net profit		66.5	43.3
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations for the period		-53.6	11.0
Hedges of net investments in foreign operations		0.1	-
Change in cash flow hedge reserve	19	0.8	-2.4
Cash flow hedge transferred to this year's result	19	-0.7	3.1
Items that will not be reclassified to profit or loss			
Actuarial gains and losses on defined benefit plans	15	5.9	-3.3
Tax attributable to other comprehensive income		-1.7	0.7
Comprehensive income		17.2	52.4
Net profit attributable to:			
Parent company shareholders		65.9	43.1
Non-controlling interests		0.6	0.2
Comprehensive income attributable to:			
Parent company's shareholders		16.8	52.2
Non-controlling interests		0.4	0.2
Earnings per share			
Average number of outstanding shares		84,941,326	50,761,581
Basic earnings per share, EUR	11	0.78	0.85
Diluted earnings per share, EUR	11	0.78	0.85



Additional unaudited information – pro forma earnings per share

Earnings per share	2017	2016
Average number of outstanding shares	96,130,173	96,138,573
Basic earnings per share, EUR	0.91	0.51

Balance Sheet

EUR million	NOTE	Dec 31, 2017	Dec 31, 2016	Additional unaudited information – pro forma balance sheet April 1, 2017
ASSETS				
Non-current assets				
Property, plant and equipment	12	841.7	421.1	882.5
Goodwill	12	429.4	226.1	439.9
Other intangible assets	12	309.2	43.1	331.9
Equity accounted investments	21	1.2	2.2	2.2
Other receivables		7.6	9.0	13.4
Deferred tax assets	10	15.1	40.8	80.3
Total non-current assets		1,604.2	742.3	1,750.2
Current assets				
Inventories	13	282.3	158.2	291.5
Trade and other receivables	14	259.3	138.3	277.6
Income tax receivables	10	5.1	1.7	3.1
Cash and cash equivalents	17	245.9	146.0	200.6
Total current assets		792.6	444.2	772.8
TOTAL ASSETS		2,396.8	1,186.5	2,523.0
EQUITY AND LIABILITIES				
Equity				
<i>Equity attributable to parent company's shareholders</i>				
Issued capital	18	85.0	15.0	85.0
Reserve for invested unrestricted equity	18	517.6	254.1	543.1
Other reserves and treasury shares	18	314.9	371.4	374.0
Retained earnings	18	111.7	-206.8	52.1
Total equity attributable to parent company's shareholders		1,029.1	433.7	1,054.1
Non-controlling interests		8.9	4.0	8.5
Total equity		1,038.0	437.7	1,062.6
Non-current liabilities				
Non-current borrowings	17	542.3	293.5	466.6
Other non-current liabilities		0.5	0.9	0.9
Employee benefit obligations	15	98.1	54.7	109.6
Deferred tax liabilities	10	105.5	66.6	185.3
Provisions	16	17.7	11.3	12.5
Total non-current liabilities		764.1	427.0	774.9
Current liabilities				
Current borrowings	17	78.9	22.0	166.5
Trade and other payables	14	502.9	283.2	495.2
Income tax liabilities	10	4.1	11.9	19.3
Provisions	16	8.8	4.7	4.4
Total current liabilities		594.6	321.8	685.4
Total liabilities		1,358.8	748.8	1,460.3
TOTAL EQUITY AND LIABILITIES		2,396.8	1,186.5	2,523.0

Statement of changes in equity

Equity attributable to the 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 the parent company's shareholders	Non-controlling interests	TOTAL EQUITY
BALANCE AT JANUARY 1, 2016	15.0	269.3	388.5	-3.1	-20.9	-1.0	-250.6	397.2	4.1	401.3
Net profit for the period	-	-	-	-	-	-	43.1	43.1	0.2	43.3
Other comprehensive income before tax	-	-	-3.3	-	11.0	0.7	-	8.4	-	8.4
Tax on other comprehensive income	-	-	0.9	-	-	-0.2	-	0.7	-	0.7
Total comprehensive income	-	-	-2.4	-	11.0	0.5	43.1	52.2	0.2	52.4
Return of capital and dividends	-	-15.2	-	-	-	-	-	-15.2	-0.3	-15.5
Transaction costs on share issue	-	-	-1.2	-	-	-	-	-1.2	-	-1.2
Long term incentive plans	-	-	-	-	-	-	0.7	0.7	-	0.7
BALANCE AT DECEMBER 31, 2016	15.0	254.1	384.9	-3.1	-9.9	-0.5	-206.8	433.7	4.0	437.7
Net profit for the period	-	-	-	-	-	-	65.9	65.9	0.6	66.5
Other comprehensive income before tax	-	-	-	-	-53.3	0.0	5.9	-47.4	-0.2	-47.6
Tax on other comprehensive income	-	-	-	-	0.0	0.0	-1.7	-1.7	-	-1.7
Total comprehensive income	-	-	-	-	-53.4	0.1	70.1	16.8	0.4	17.2
Merger consideration	70.0	311.8	-	-	-	-	250.8	632.6	4.8	637.4
Changes in own shares	-	-	-	-5.6	-	-	-	-5.6	-	-5.6
Return of capital and dividends	-	-44.9	-	-	-	-	-	-44.9	-0.3	-45.2
Transaction costs on share issue	-	-3.4	-	-	-	-	-	-3.4	-	-3.4
Long term incentive plans	-	-	-	2.4	-	-	-2.3	0.1	-	0.1
BALANCE AT DECEMBER 31, 2017	85.0	517.6	384.9	-6.3	-63.3	-0.4	111.7	1,029.1	8.9	1,038.0

Cash flow statement

EUR million	NOTE	2017	2016
Cash flow from operating activities			
Net profit		66.5	43.3
Adjustments:			
Non-cash transactions and transfers to cash flow from other activities			
Depreciation and amortization	8	106.6	55.2
Gains and losses on sale of non-current assets		-2.2	-
Change in employee benefit obligations	15	-3.3	-
Non-cash transactions and transfers to cash flow from other activities, total		101.0	55.2
Interest and other financial income and expense		26.4	15.9
Dividend income		-	-
Taxes	10	10.8	15.7
Changes in net working capital:			
Change in trade and other receivables	14	3.5	5.5
Change in inventories	13	-1.5	-2.8
Change in trade and other payables	14	23.2	2.3
Change in provisions		9.5	-7.9
Interest received		2.2	0.5
Interest paid		-16.1	-8.8
Other financial items		-3.4	-3.3
Income taxes paid / received	10	-35.6	-1.3
Net cash from operating activities		186.5	114.3
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	12	-84.6	-39.2
Proceeds from disposal of shares in Group companies and businesses and associated companies		0.7	-
Change in other investments		1.0	-
Proceeds from disposal of property, plant and equipment		3.1	-
Net cash from investing activities		-79.7	-39.2
Cash flow from financing activities			
Sale/repurchase of own shares		-5.6	-
Interest on hybrid bond		-6.9	-
Repurchase of hybrid bond		-100.0	-
Change of non-current borrowings	17	250.7	-17.9
Change in current borrowings	17	-151.7	-0.5
Change in finance leases		-1.6	0.0
Dividends and repaid capital and other		-48.5	-15.5
Net cash from financing activities		-63.6	-33.9
Net change in cash and cash equivalents		43.2	41.2
Cash and cash equivalents at the beginning of the period		146.0	105.1
Cash and cash equivalents received in the merger		66.6	-
Foreign exchange effect on cash		-9.9	-0.3
Cash and cash equivalents at the end of the period	17	245.9	146.0



Additional unaudited information – Cash flow statement

Pro forma Cash flow statement			
EUR million		2017	2016
Net cash from operating activities		212.9	232.1

Notes

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 decor paper, filter media, release liners, abrasive backings, nonwovens, electro-technical paper, glass fiber materials, food packaging and labelling, tape, medical fiber materials and solutions for diagnostics.

Ahlstrom-Munksjö Oyj, a Finnish public limited liability company with a corporate identity number, 2480661-5, is the parent company ("parent company") 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 Interpretation 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 cash-settled share-based payments, derivative financial instruments and defined benefit pension plan assets, which are measured at fair value.
- Non-current assets and non-current liabilities consist of amounts that are expected to be recovered or paid more than 12 months after the reporting period. Current assets and current liabilities consist of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.
- All financial data in the financial statements have been rounded and consequently the sum of individual figures can deviate from the total sum. Percentages are subject to possible rounding differences.
- The accounting policies outlined in these financial statements have been applied consistently throughout the Group and comparative information has been reclassified where required to ensure consistency.

Foreign currency translation

Figures representing the financial result and position of each subsidiary in the Group are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency).

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary balance sheet items denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date.

Foreign exchange differences arising from the currency translation are recognized in the income statement. Foreign exchange gains and losses arising from operating business transactions are included in operating profit, and those arising from financial transactions are included as a net amount in financial income and expenses. The foreign exchange gains and losses arising from the qualifying cash flow hedges and qualifying hedges of a net investment in foreign operations are recorded in the statement of other comprehensive income and accumulated currency differences are recognized in equity.

The balance sheets of foreign subsidiaries are translated into euros at the exchange rates prevailing at the balance sheet date while the income statements are translated at the average exchange rates for the period. Translating the result of the period using different exchange rates on the balance sheet

and income statement causes a translation difference to be recognized in equity and its change is recorded in the statement of other comprehensive income.

Translation differences arising from the elimination of the acquisition price of foreign subsidiaries and from the translation differences in equity items since the acquisition date as well as the effective portion of hedging instruments that hedge the currency exposures on net investments are recognized in the statement of other comprehensive income. When a subsidiary is disposed or sold wholly or partially, translation differences arising from the net investment and related hedges are recognized in the income statement as part of the gain or loss on sale.

The financial statements were authorised for issue by Ahlstrom-Munksjö's Board of Directors on February 12, 2018 and are expected to be adopted by the AGM on March 21, 2018.

Notes disclosures

Ahlstrom-Munksjö has renewed the structure of its financial statements in 2017 following the merger of Ahlstrom and Munksjö. The main changes in the financial statements relate to structure of the notes disclosures as well as inclusion of restricted additional unaudited information comprising of pro forma and other selected data that management considers essential for a reader of Ahlstrom-Munksjö's financial statements considering the impact of the merger in our performance, financial position and geographical coverage. Such additional data is labelled as Additional unaudited information. For basis of presentation on the additional unaudited pro forma information, see under heading Additional unaudited pro forma information.

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 as on a business area level, sources of revenue, other operating expenses, employee benefits, finance items as well as information about our tax footprint and earnings per share.
- **Operating capital** - Disclosures in this section focus on our operating assets and liabilities including information on our investments in long-lived assets, trade receivables and payables, inventories, benefit obligation 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 to measure the external debt financing of the Group.
- **Financial risk management** - This section discusses the Group's exposure to various financial risks, explains how these affect Ahlstrom-Munksjö's financial position and performance and how risk is managed.
- **Other notes** - This section provides the additional information required to be disclosed under IFRS and Finnish statutory requirements. However, these are not considered critical in understanding the financial performance or the financial position of Ahlstrom-Munksjö.





Additional unaudited pro forma information

For financial reporting purposes, the merger of Ahlstrom and Munksjö was accounted for as an acquisition where Munksjö acquired Ahlstrom. Accordingly, Ahlstrom has been consolidated from the merger date April 1, 2017 onwards. Historical audited consolidated comparative information reflect the predecessor Munksjö Group's consolidated financial information.

Considering the magnitude of the merger of Ahlstrom and Munksjö and the impact on the combined company's performance and financial position and as Munksjö is the accounting acquirer, stand-alone Munksjö historical information do not provide a reader of our financial statements a reasonable basis to compare the operating results or to understand the changes in our financial position.

Accordingly, we have presented as additional unaudited pro forma information selected combined pro forma data for illustrative purposes to give effect to the merger and the refinancing as if the merger had taken place at an earlier date. Pro forma information has been presented as if the acquisition had taken place at the beginning of the current financial period. Due to the significance of the merger, we have presented additional pro forma information also for 2016. For a detailed basis of presentation and notes disclosures for the additional unaudited pro forma information please see our stock exchange release dated May 15, 2017 available on our website at www.ahlstrom-munksjo.com.

The following matrix outlines the notes structure and where our accounting policies, risks and estimates and judgements are included within the footnotes to our main statements:

Note	Topic				
Ahlstrom-Munksjö's business and basis of preparation					
1	Information about Ahlstrom-Munksjö	X			
2	Basis of preparation	X		X	
Performance					
3	Changes in Ahlstrom-Munksjö group structure	X	X		
4	Business area information	X		X	
5	Sources of revenue	X		X	
6	Other operating expenses	X			
7	Employee and Board of Directors remuneration ¹⁾	X	X	X	
8	Depreciation and amortization	X		X	
9	Net financial items	X			
10	Taxes	X	X		
11	Earnings per share	X		X	
Operating capital					
12	Intangible assets and property, plant and equipment	X	X		
13	Inventories	X	X		
14	Trade and other receivables and trade and other payables	X			X
15	Defined benefit obligation	X	X		X
16	Provisions	X	X		
Net debt and capital management					
17	Net debt	X		X	X
18	Equity and shareholder return	X			
Financial risk management					
19	Financial risk management	X	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	X			
24	Post-balance sheet events				

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

Performance

This section focuses on the results and performance of the Group including a description of changes in our group structure. This section includes disclosures that explain the Group's performance on a consolidated level as well on a

business area level, employee benefits, operating expenses, finance items as well as information about our tax footprint and earnings per share.

3

CHANGES IN AHLSTROM-MUNKSJÖ GROUP STRUCTURE

Merger of Ahlstrom and Munksjö

The combination of Ahlstrom and Munksjö was announced publicly in November 2016 and structured as a statutory absorption merger whereby Ahlstrom merged into Munksjö became effective on April 1, 2017. Following the resolutions of the Extraordinary General Meetings of both companies on January 11, 2017, the European Commission approved the merger and all pre-closing competition approvals required for completing the merger were received on March 13, 2017.

The execution of the merger was registered with the Finnish Trade Register on April 1, 2017, and the name of the combined company was changed to Ahlstrom-Munksjö Oyj. Ahlstrom's shareholders received as merger consideration 0.9738 new shares in Munksjö for each share in Ahlstrom owned by them and a total of 45,376,992 new shares in Ahlstrom-Munksjö were issued as merger consideration. Trading in the new shares commenced on the Nasdaq Helsinki and Nasdaq Stockholm stock exchanges on April 3, 2017.

For accounting purposes, Munksjö was determined to gain control over Ahlstrom and as such being the accounting acquirer based on the merger structure and facts and circumstances including the relative voting rights received by both shareholders groups, composition of the board of directors and senior management and the structure of the transaction whereby Munksjö was the surviving entity post-combination. Accordingly, the merger has been accounted for in the consolidated accounts as a business combination where Munksjö acquired Ahlstrom on April 1, 2017.

Purchase consideration

The purchase consideration has been determined based on the fair value of Ahlstrom-Munksjö's shares that were issued to Ahlstrom's shareholders as merger consideration in exchange for their shareholding in Ahlstrom as follows:

Number of new Ahlstrom-Munksjö shares issued as merger consideration	45,376,992
Closing share price of Munksjö shares on March 31, 2017 on Nasdaq Helsinki (EUR)	13.94
Fair value of merger consideration (EUR million)	632.6

Cash portion paid to Ahlstrom's shareholders due to fractional entitlements to the merger consideration was immaterial. The total costs for issuance of merger consideration amounted to EUR 4.6 million (net of taxes) and have been deducted from the reserve for invested unrestricted equity in the balance sheet.

Purchase price allocation

Ahlstrom-Munksjö has finalized the valuation of the acquired assets and assumed liabilities. The following table presents the fair values of the net assets acquired and the amount of goodwill arising from the merger as of the date of acquisition:

	EUR million
Non-current assets	
Property, plant and equipment	452.9
Other intangible assets	288.8
Other non-current assets	19.8
Deferred tax assets	39.8
Current assets	
Inventories	131.8
Trade and other receivables	124.5
Current tax asset	0.9
Cash and cash equivalents	66.6
Non-current liabilities	
Non-current borrowings	-105.5
Employee benefit obligations	-55.0
Deferred tax liabilities	-117.7
Provisions	-1.7
Current liabilities	
Current borrowings	-211.2
Trade and other payable	-202.5
Current tax liabilities	-5.9
Provisions	-2.0
Total net assets acquired	423.7
Non-controlling interests	-4.8
Goodwill	213.7
Purchase consideration	632.6

Off-balance sheet commitments of EUR 62.9 million were transferred to Ahlstrom-Munksjö in the merger comprising mainly of guarantees on behalf of Ahlstrom's subsidiaries.

The fair values of acquired identifiable intangible assets at the date of acquisition were EUR 288.8 million, comprising of customer relationships valued using the excess-earnings method, acquired technology based assets comprising of process and product technology, know-how and trade secrets valued using the relief-from-royalty method and trademarks and tradenames which have been also been valued using the relief-from-royalty method. For more information of the fair values of the acquired intangible assets see Note 12.

The goodwill arising from the merger amounted to EUR 213.7 million and reflects the value of acquired assembled workforce and synergies raising from the merger e.g. reduction of overhead costs, reduced costs of procurement and improved operational efficiency. Acquired goodwill has been allocated to Ahlstrom-Munksjö's four business areas of the Group. For more information about goodwill allocation and our annual goodwill impairment tests, see Note 12 intangible assets and property, plant and equipment. Goodwill is not deductible for tax purposes.

The amount of non-controlling interest recognized amounted to EUR 4.8 million and was recognized on the proportionate goodwill method at the merger date.

The transaction and integration costs related to the merger that were not directly attributable to the share issue amounted to EUR 14.7 million in 2017 and EUR 4.1 million in 2016.

There were no acquisitions in the year ending December 31, 2016.

Accounting policies

Business acquisitions

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the fair value of consideration transferred comprising of the following:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued as purchase consideration
- fair value of any contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary, if applicable.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values and any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred and presented as other operating expenses in the income statement with the exception of costs directly attributable to the issuance of equity instruments that are deducted from equity, net of tax. Any excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.

Accounting estimates and judgements

The application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the acquired intangible assets, property, plant and equipment and the liabilities assumed at the acquisition date, and the useful lives of the acquired intangible assets and property, plant and equipment.

Measurement is based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may materially affect the Group's future results of operations. In particular, the estimation of discounted cash flows for e.g. customer relationships, technology based assets as well as trademarks and tradenames are based on assumptions concerning, for example:

- Assumptions related to long-term sales projections and margin development
- Determination of appropriate discount rates
- Estimates related to customer retention rates
- Estimates related to appropriate market based royalty rates

For significant acquisitions, the fair valuation exercise on the acquired assets and assumed liabilities is carried out with assistance from independent third-party valuation specialists. The valuations are based on the information available at the acquisition date taking into account the provisional adjustment period allowed under IFRS of 12 months.

4 BUSINESS AREA INFORMATION

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

<p>Decor</p> <p>The Decor business area is one of the leading manufacturers in the market for paper-based surfacing for wood-based materials, such as laminate flooring, furniture and interiors. Decor develops high-tech and innovative papers for high- and low pressure-laminates, print base paper and pre-impregnated paper.</p>	<p>Filtration and Performance</p> <p>The Filtration and Performance business area produces engine oil, fuel and air filtration as well as industrial air filtration materials, glass fiber used in flooring applications and wind turbines, industrial nonwoven products for automotive, construction, textile and hygiene applications as well as wall cover materials.</p>
<p>Industrial Solutions</p> <p>The Industrial Solutions business area produces release liners, abrasive backings, electrotechnical insulation papers, specialty pulp, thin papers, balancing foils as well as fine art and printing papers.</p>	<p>Specialties</p> <p>The Specialties business area produces food and beverage packaging materials, laboratory and life science diagnostics, as well as water filtration materials, tape products, and medical fabrics. In addition, it makes hot oil cooking and milk filtration materials, graphic papers for sticky notes and envelopes, metalized labels as well as printed and coated products.</p>
<p>Other and eliminations</p> <p>The costs remaining the segment Other and eliminations include head office costs comprising the following functions, CEO, Group Finance, Treasury, Investor Relations, Strategy, Legal, Communications, Group IT and HR. The head office costs comprise mainly salaries, rent and professional fees. The segment Other also includes 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, 2017	Decor	Filtration and Performance	Industrial Solutions	Specialties	Other and eliminations	Group
Net sales, external	375.4	488.1	638.7	454.9	2.9	1,959.9
Net sales, internal	2.9	8.2	2.2	11.1	-24.4	-
Net sales	378.4	496.2	640.8	466.0	-21.6	1,959.9
Comparable EBITDA	33.9	88.8	109.3	35.0	-18.7	248.2
Items affecting comparability						-38.1
Depreciation, amortization and impairments						-106.6
Operating result						103.5

Additional business area information

Additional business area information, EUR million, 2017	Decor	Filtration and Performance	Industrial Solutions	Specialties	Other and eliminations	Group
Capital expenditure	9.0	24.2	33.9	13.1	4.4	84.6
Depreciation and amortization	-5.8	-32.7	-36.2	-25.9	-6.0	-106.6
Operating working capital	47.2	69.0	76.5	80.0	-4.8	267.8

The Group has not presented business area information for 2016 as the information is not comparable with the 2017 business area information due to (i) the merger between Ahlstrom and Munksjö described in Note 3 and (ii) due to the

change in the reportable segments reflecting the change in the organization post-merger. The 2016 information for predecessor Munksjö is available in Note 4 in the 2016 audited financial statements.

**Additional unaudited information – pro forma key measures by business area**

Pro forma financial performance by business area, EUR million, 2017	Decor	Filtration and Performance	Industrial Solutions	Specialties	Other and eliminations	Group
Net sales	378.4	665.3	640.8	574.3	-26.2	2,232.6
Comparable EBITDA	338	120.6	108.5	52.9	-25.3	290.4

Pro forma financial performance by business area, EUR million, 2016	Decor	Filtration and Performance	Industrial Solutions	Specialties	Other and eliminations	Group
Net sales	364.6	617.2	618.4	577.7	-30.0	2,147.9
Comparable EBITDA	53.7	94.0	93.1	64.5	-36.6	268.7

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

Ahlstrom-Munksjö's CEO assisted by the Management Team is the Group's chief operating decision maker ("CODM") and operating segments are determined on the basis of information reviewed by the CEO for the purposes of allocating resources and assessing the business area's performance. The business area's performance is assessed internally based on comparable EBITDA measure which is defined as EBITDA excluding items affecting comparability.

In addition to comparable EBITDA, the CODM also follows the segment's net asset position based on the operating working capital which is defined as Inventories plus Receivables before factoring less 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 four business areas including decor paper, filter media, release liners, abrasive backings, nonwovens, electro technical paper, glass fiber materials,

food packaging and labeling, tape, medical fiber materials and solutions for diagnostics. Ahlstrom-Munksjö's offering does not include provision of services.

Net sales by geography

Net sales by geography, EUR million	2017	2016
USA	251.0	55.9
Germany	249.4	172.4
Italy	126.0	90.4
Brazil	119.8	75.4
China	119.6	47.9
Spain	108.3	86.7
Poland	97.0	80.1
Ireland	95.7	80.5
France	95.3	63.7
Turkey	66.0	51.3
Other	631.6	338.6
Total	1,959.9	1,142.9

Net sales in the table above are presented based on the customers' geographical location.

**Additional unaudited information – pro forma net sales by geography**

Pro forma net sales by geography, EUR million	2017	2016
USA	327.1	335.6
Germany	277.9	276.7
Italy	138.4	133.8
Brazil	127.7	105.2
China	142.4	79.7
Spain	111.6	99.0
Poland	102.9	101.0
Ireland	96.9	87.3
France	107.5	106.0
Turkey	68.8	61.5
Other	731.4	762.0
Total	2,232.6	2,147.9

Other operating income

Other operating income mainly includes gains on fixed assets and government grants.

Other operating income, EUR million	2017
Government grants	4.8
Gains/losses on fixed assets	2.2
Rental and lease income	0.1
Insurance compensation	0.2
Other	5.5
Total	12.7

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

Revenue is recognized when the significant risks and rewards of ownership for the sold goods have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement and Ahlstrom-Munksjö can measure the fair value of the consideration received or receivable as revenue reliably. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is reported net of returns, value-added tax, trade discounts and rebates.

The timing of transfer of risks and rewards varies depending on the individual terms of the sales agreement. Revenue for product sales is recognized in the income statement when significant risks and rewards associated with the ownership of the goods are transferred to the buyer in accordance with the

delivery terms. For Ahlstrom-Munksjö's products, the transfer usually occurs when the product is delivered to the customer's warehouse; however, for some shipments the transfer occurs on loading the goods onto the relevant carrier at the port or other logistics center. Generally, for such products the customer has no right of return unless the product was defective. Ahlstrom-Munksjö's delivery terms are based on Incoterms 2010 as follows:

- "Ex-works" where the point of sale is once products leave the mill or warehouse facility as Ahlstrom-Munksjö ceases to be responsible from that point.
- "C" terms where the point of sale is when the products have been handed over to the transport company contracted by Ahlstrom-Munksjö because the buyer is responsible for the goods from that point onwards.
- "D" terms where point of sale is when the products have been delivered to the buyer as Ahlstrom-Munksjö is responsible for the goods until the buyer has accepted the goods in their premises.

6**OTHER OPERATING EXPENSES**

Other operating expenses represents the costs of production incurred by the Group in the manufacture and sale of its product offerings excluding the cost of materials and supplies and personnel costs. Depreciation, amortization and any impairment charges are reported separately from these operating costs.

The largest component of other operating expenses is energy costs, which are incurred in the production process. The Group obtains a part of its energy requirements from co-generation power plants and in-house power facilities. Energy is generally purchased from regional suppliers, and the Group aims to decrease its risk of price sensitivity through coordinated purchasing, fixed-price contracts and energy savings in mills.

Other operating expenses, EUR million	2017	2016
Delivery costs	-73.5	-47.6
Energy costs	-136.1	-82.2
Repair and maintenance costs	-58.7	-44.4
Other production costs	-85.3	-44.9
Leasing and rental costs	-10.5	-8.2
External services ¹⁾	-19.5	-10.8
Local and property taxes	-10.4	-6.6
Insurance	-6.2	-3.5
Other	-71.9	-20.7
Total other operating expenses	-472.0	-269.0

¹⁾ External services include auditor remuneration to the Group's auditors. See more information in Note 22.

Other operating expenses consist of IT costs, travel costs, communications costs and office supplies.

Operating lease commitments

Ahlstrom-Munksjö has entered into operating lease contracts which mainly relate to warehouses and warehouse equipment.

The table below displays the future operating lease commitments of the Group and when these fall due.

Future operating lease commitments, EUR million	2017		2016	
	Future minimum leasing fees	Of which, premises	Future minimum leasing fees	Of which, premises
Within 1 year	11.3	2.0	6.3	0.9
2-5 years	22.2	5.0	15.1	1.5
More than 5 years	6.4	4.1	1.2	-
Total	39.9	11.1	22.6	2.4

**Accounting policies****Repair and maintenance**

Ordinary repairs and maintenance activities are performed to maintain the buildings and equipment in operating condition. Ordinary repairs usually benefit only the period when such repairs are done and accordingly are expensed in the period incurred.

Leasing and rental costs

Leases in which a significant part of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Operating lease and rental payments are recognized as an expense in profit and loss over the lease on a straight-line basis.

7

EMPLOYEE AND BOARD OF DIRECTORS REMUNERATION

Ahlstrom-Munksjö has over 6,000 employees working in 41 production and converting facilities and offices in 24 different countries. These employees represent the company's most important resources. The following section outlines the benefits granted to our employees, to our Executive Management Team including the CEO and to the Board of Directors. The section also provides details of the long-term incentive plan that the company operates to align the objectives of the shareholders with the company's key personnel.

Personnel costs (including members of the Board of Directors)

Wages, salaries and other remuneration

Personnel costs for all employees, EUR million	2017	2016
Wages and salaries	-287.7	-162.0
Social security costs	-70.3	-39.6
Net periodic cost for defined benefit plans (Note 15)	-3.8	-2.2
Long-term incentive plans	0.3	-5.0
Other personnel costs	-2.2	-1.0
Total personnel costs	-363.7	-209.8

Executive Management

Ahlstrom-Munksjö's Executive Management Team comprises of the CEO, Deputy CEO and EVP, Corporate Development, each of our business area EVPs, CFO, General Counsel, EVPs of both HR and Health & Safety, as well as Communications and Investor relations.

Remuneration and benefits of Executive Management, EUR thousand, 2017	Gross salary	Cash based variable remuneration	Long-term incentive plans	Other benefits	Pension costs	Total
CEO - Jan Åström	569	235	1,207	11	201	2,223
Executive Management Team	2,063	608	1,524	74	133 ¹⁾	4,402
Total	2,632	843	2,731	85	334	6,625

¹⁾Includes only additional, non-obligatory pensions costs

Remuneration and benefits of Executive Management, EUR thousand, 2016

	Gross salary	Cash based variable remuneration	Long-term incentive plans	Other benefits	Pension costs	Total
CEO - Jan Åström	565	71	600	9	191	1,436
Executive Management Team	2,098	213	1,600	87	503	4,501
Total	2,663	284	2,200	96	694	5,937

Average number of employees

Average number of employees (FTE) by business area ²⁾	2017
Decor	815
Filtration and Performance	1,146
Industrial Solutions	1,477
Specialties	1,316
Other	355
Group total	5,109



Additional unaudited information – pro forma average number of employees

Pro forma average number of employees (FTE) by business area	2017	2016
Decor	815	797
Filtration and Performance	1,539	1,674
Industrial Solutions	1,477	1,466
Specialties	1,623	1,608
Other	449	494
Group total	5,903	6,039

²⁾ The average number of employees for 2016 is 2,755 and is not comparable with the 2017 business area information due to the (i) the merger between Ahlstrom and Munksjö described in Note 3 and (ii) due to the change in the reportable segments reflecting the change in the organization post-merger. The 2016 information for predecessor Munksjö is available in Note 4 in the 2016 audited financial statements.

Executive Management Team remuneration

The remuneration of the Executive Management Team including the CEO comprises of both fixed salaries, including personal benefits such as a company car, telephone etc. and variable remuneration which is limited in proportion to the fixed salary and is based on the Groups financial targets as well as individual targets. The Board of Directors authorize the final resolution on the payment of variable remuneration for the Executive Management Team and the CEO.

Pensions

Pension arrangements for the Executive Management Team include customary occupational pensions and in some cases individually agreed arrangements, consisting of defined benefit and defined contribution plans. The CEO has an individual pension agreement, according to which Ahlstrom-Munksjö shall contribute an amount corresponding to 35 per cent of the CEO's annual fixed salary per annum for CEO's pension to an occupational pension insurance designated by the CEO. No early retirement has been agreed between the company and the CEO. The retirement age for the CEO is 65 years, there are no early retirement benefits granted for the CEO.

Other benefits

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

Specific termination clauses for the CEO

The CEO's employment agreement may be terminated by the company with a twelve (12) months' notice and by the CEO with six (6) months' notice. If the company terminates the CEO agreement and the CEO has not taken up other employment by the end of the twelve months' notice period, the CEO is entitled to an additional severance pay of his monthly salary during six months, however not longer than until he has taken up other employment.

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 2017 AGM resolutions were as follows (the 2016 remuneration resolutions are presented in brackets as comparatives):

- Annual compensation for the Chairman of the Board of EUR 100,000 (EUR 80,000).
- Other Board Members appointed by the AGM annual fees of EUR 60,000 (EUR 40,000 with the exception of the Vice Chairman whose remuneration was EUR 50,000 in 2016).
- Chairman of the audit committee will receive EUR 12,000 (EUR 12,000) and other members will receive EUR 6,000 (EUR 6,000).
- The chairman of the human resources committee (previously the remuneration committee) will receive EUR 8,000 (EUR 6,000) and other members will receive EUR 6,000 (EUR 3,000).

Cont. note 7

- The chairman of the Strategy Committee will receive EUR 12,000 and other members will receive EUR 6,000.
- The chairman of the Nomination board will receive EUR 8,000 (EUR 6,000) and the ordinary members EUR 4,000 (EUR 3,000).

Total remuneration for the members of the Board of Directors and/or board committees and/or shareholders' nomination board was as follows for the years ended December 31, 2017 and 2016:

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

		2017	2016
Hans Sohlström	Chairman of the Board	89	-
Peter Seligson	Vice-Chairman of the Board	88	89
Elisabet Salander Björklund	Vice-Chairman of the Board	81	60
Alexander Ehrnrooth		71	47
Johannes Gullichsen		50	-
Hannele Jakosuo-Jansson		56	43
Harri-Pekka Kaukonen		54	-
Pernilla Walfridsson		41	-
Thomas Ahlström	Nomination board member	7	6
Mikko Mursula	Nomination board member	4	3

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

		2017	2016
Sebastian Bondestam	Up until May 16, 2017	16	46
Fredrik Cappelen	Up until April 6, 2016	-	12
Jan Inbarr	Up until June 24, 2017	21	-
Mats Lindstrand	Up until May 16, 2017	16	32
Anna Ohlsson-Leijon	Up until May 16, 2017	16	34

Share-based payments

Ahlstrom-Munksjö's CEO, management team members and a number of key employees participate in share-based long-term incentive plans ("LTI's") which are established on a recurring basis to align the interests of the shareholders and management.

Predecessor Munksjö LTI plans

Munksjö had prior to the effective date of the merger, two separate long-term incentive plans in place, LTI 2014-2016 and LTI 2016-2018. Participants were awarded Matching and Performance Rights, based on an initial investment of saving shares. Under the original terms and conditions, the Matching and Performance Rights would have vested conditional on specific performance criteria, holding of investment shares and continued employment of the participant. The vesting period for both programs was originally three years. The LTI 2014-2016 plan vested in accordance with the original terms and conditions of the plan and a total of 126,371 shares were delivered to the participants on vesting. The total cost for the LTI recorded in 2017 comprised of EUR 0.7 million of the equity-settled payment recorded against the Group equity and EUR 3.3 million of a cash-settled compensation cost representing the cash portion to the participants to cover the tax portion and social security costs for the employees.

On December 16, 2016, the Board of Directors decided to terminate the Munksjö 2016-2018 LTI's. The 2016-2018 LTI terminated on the completion of the merger, on April 1, 2017 on a pro rata basis, thereby cancelling 7/12 of the program (the original award period would have terminated at the end of 2018 and the award would have been payable in the spring of 2019). The participants in the program received shares and cash. The termination was accounted for as a cancellation. A total of 108,767 shares in Ahlstrom-Munksjö were transferred to the participants during April 2017 equaling to a compensation expense on the equity-settled portion of EUR 2.1 million and a cash payment of EUR 0.7 million was made to compensate the employee tax implications and social security costs.

The total cost recognized in the 2016 income statement for LTI 2014-2016 amounted to EUR 2.9 million and at December 31, 2016, the cash settled liability amounted to EUR 2.2 million and the amount recognized in equity amounted to EUR 0.7 million.

See Note 9 to our 2016 audited consolidated financial statements for more information on these former LTI plans.

New Ahlstrom-Munksjö Long-term Incentive Share-based Plan 2017-2019 ("LTI 2017-2019")

Ahlstrom-Munksjö's Board of Directors decided on October 24, 2017 to introduce a new rolling long-term share-based incentive plan for 65 members of the Group's key personnel with the aim of aligning the objectives of the owners and key personnel to increase the Group's value and to commit the key personnel to the Group.

The plan includes a rolling structure of individual performance share plans, each with a three-year performance period. The first performance period started in 2017. The commencement of any further performance periods is subject to the Board of Director's annual decision. The performance period for the first reward is 2017-2019 and the reward will be paid out in 2020 in the form of shares, provided that certain performance and service conditions are met.

Depending on which levels of the performance and service condition thresholds are met, the gross EUR value of the reward paid will be within a minimum and maximum range, with the final number of shares being determined based on Ahlstrom-Munksjö's share price at the end of the performance period. The minimum gross value of the reward has been fixed to EUR 0.4 million and the maximum gross value has been fixed to EUR 6.9 million, and the final reward EUR value will be converted into an equivalent number of shares based on the trade volume weighted average price of the Ahlstrom-Munksjö share during the period of January-February of the calendar year immediately following the last year of the performance period.

Performance conditions

In order for the rewards to qualify for vesting, both of the following performance conditions will need to be met over the 2017-2019 performance period.

- Total shareholder return (TSR) is a market condition and is based on the share price at the end of the performance period. This will need to exceed the minimum threshold set by the Group in order for the condition to be met.
- TSR is determined against Ahlstrom-Munksjö's volume weighted average share price over the period from April 3, 2017 to June 30, 2017 of EUR 17.28; and Ahlstrom-Munksjö's cumulative comparable EBITDA over the performance period will need to exceed an underlying comparable EBITDA requirement. This is a non-market performance condition.

Service conditions

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.

Rewards granted and the fair value of reward

The fair value of the reward at the grant date was EUR 2.6 million. The fair value is calculated based on the probability of achieving each individual TSR threshold at the end of the performance period between the minimum and maximum thresholds set by the Group.

The following inputs have been used in the fair valuation model to determine the fair value:

Inputs used in determining fair value of rewards	LTI 2017-2019
Share price at grant date	EUR 18.14
Grant date	December 22, 2017
Expiry date	February 28, 2020
Average annual volatility	33.2%
Expected rate of return	8.0%

The average annual volatility has been estimated based on the historic volatility of the Group's share price.

Non-market performance conditions and service conditions are used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme. The inputs used are set out in the table below and are reviewed on an annual basis:

Non-market performance conditions and service conditions	LTI 2017-2019
Estimated rate of realization of underlying EBITDA condition	80%
Estimated retention rate of participants	95%

No rewards were exercised or forfeited during the period for this plan.

Expenses arising from share-based payment transactions

The share-based expense relating to the period from the grant date (December 22, 2017) to the balance sheet date was insignificant.

Bridge plan

In addition to the new long-term share-based incentive plan, the Board of Directors decided to establish a bridge plan to cover the gap in the former LTI structure, which results from the Ahlstrom-Munksjö merger and the transition to the new plan as described above.

The bridge plan covers the most critical leadership resources of Ahlstrom-Munksjö and will be a one-off plan. The bridge plan includes one performance period comprising years 2017-2018. The reward will be paid out in spring 2019 in the form of shares, provided that certain performance and service conditions are met. The payment of the reward is followed by a one-year restriction period.

Depending on which levels of the performance and service condition thresholds are met, the gross EUR value of the reward paid will be within a minimum and maximum range, with the final number of shares being determined based on Ahlstrom-Munksjö's share price at the end of the performance period. The minimum gross value of the reward has been fixed to EUR 0.2 million and the maximum gross value has been fixed to EUR 4.1 million, and the final reward EUR value will be converted into an equivalent number of shares based on the trade volume weighted average price of the Ahlstrom-Munksjö share during the period of January-February of the calendar year immediately following the last year of the performance period.

The performance conditions for the bridge plan are the same as those for the LTI 2017-2019 plan. Both of the performance conditions will need to be met over the 2017-2018 performance period in order for the rewards to qualify for vesting.

Rewards granted and the fair value of rewards

The fair value of the rewards at the grant date was EUR 1.6 million. The fair value is calculated based on the probability of achieving each individual TSR threshold at the end of the performance period between the minimum and maximum thresholds set by the Group.

The following inputs have been used in the fair valuation model to determine the fair value:

Inputs used in determining fair value of rewards	Bridge plan
Share price at grant date	EUR 18.14
Grant date	December 22, 2017
Expiry date	February 28, 2019
Average annual volatility	33.2%
Expected rate of return	80%

The average annual volatility has been estimated based on the historic volatility of the Group's share price.

Service and non-market performance conditions are used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme. The inputs used are set out in the table below and are reviewed on an annual basis:

Service and non-market performance conditions	Bridge plan
Estimated rate of realization of EBITDA criteria	80%
Estimated retention rate of participants	95%

No rewards were exercised or forfeited during the period for this plan.

Expenses arising from share-based payment transactions

The share-based expense relating to the period from the grant date (December 22, 2017) to the balance sheet date was insignificant.



Accounting policies

Share-based payments

The LTI 2017-2019 and the bridge plan are accounted for as share-based payments whereby employees in exchange for providing services receive Ahlstrom-Munksjö shares. Ahlstrom-Munksjö has classified these programs as equity-settled as it is the Group's intention to settle the rewards in the form of shares. Ahlstrom-Munksjö has granted the participants with the right to receive a variable number of shares which will depend on the outcome of the market condition.

Ahlstrom-Munksjö's share-based payments include both market conditions and non-market conditions. As the schemes are subject to 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 market condition. The impact of the non-market performance condition or service condition not being satisfied are not factored into the fair value at grant date. If these are not met, then it will result in a true up of the cumulative share-based payment cost, rather than an impact on fair value.

The grant-date fair value is not subsequently adjusted for changes in the market condition, being the share price. Any changes resulting from expected failure to meet non-market or service conditions are trueed up and reflected in the cumulative expense, if required.

The share-based cost related to equity-settled schemes is recognized by the Group under personnel costs in the income statement. The total cost is determined by reference to the fair value at grant-date and is recognized over the time of performance period. At the end of each period, Ahlstrom-Munksjö revises the cumulative share-based cost expected to be paid out based on the likelihood of achieving the comparable EBITDA non-market condition and the estimated retention rate of participants at the end of the performance period.

The rewards will be settled by the Group, net of taxes that will be withheld. From January 1, 2018 onwards, new guidance has been introduced that enables net settled schemes to be treated as equity settled.



Accounting estimates and judgements

The LTI and bridge plan have been accounted for as equity settled share-based payments. This is based on a judgment made by the Group that the plans will be rewarded in the form of shares and not settled in cash.

The fair value of the rewards granted in the LTI and bridge plan have been estimated at the grant-date based on the probability of TSR reaching specific thresholds at the end of the performance period. In order to calculate the probabilities, the most important assumptions that have been made in the probability weighted value model comprise of required rate of return of 80% and annual TSR volatility of 33.2%.

The expense recognized in personnel costs is based on management's estimates of the probability of achieving the comparable EBITDA performance criteria and the estimated number of participants remaining in the scheme when the performance period ends.

At the end of each period, management estimates the likelihood of achieving the comparable EBITDA performance criteria and the expected retention rate for participants to calculate the expense for the current period and the change in the amount recognized in equity in relation to the share-based payments.

In order to estimate the likelihood of achieving the comparable EBITDA criteria management consider the Group's comparable EBITDA performance against the target to date and the forecast for the remainder of the performance period.

Management estimate the number of participants that they expect to remain in the scheme at the end of the performance 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.

Sensitivity analysis

LTI 2017-2019

Based on the fair value at grant date of EUR 2.6 million, a change in the estimates of non-market and service conditions would have impacted the grant date fair value:

Change in likelihood of achieving comparable EBITDA target keeping the estimated retention rate constant

+10%: EUR 0.3 million
-10%: -EUR 0.3 million

Change in estimated retention rate keeping the likelihood of achieving the comparable EBITDA target constant

+2.5%: EUR 0.1 million
-2.5%: -EUR 0.1 million

Bridge plan

Based on the fair value at grant date of EUR 1.6 million, a change in the estimates of non-market and service conditions would impact the cumulative expense and equity amount recognized as follows:

Change in likelihood of achieving comparable EBITDA target keeping the estimated retention rate constant

+10%: EUR 0.2 million
-10%: -EUR 0.2 million

Change in estimated retention rate keeping the likelihood of achieving the comparable EBITDA target constant

+2.5%: EUR 0.0 million
-2.5%: -EUR 0.0 million

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DEPRECIATION AND AMORTIZATION

Intangible assets and property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and amortization.

Depreciation and amortization, EUR million	2017
Intangible assets	
Customer relationships	-6.7
Patents and trademarks	-1.7
Other	-9.8
Property, plant and equipment	
Land and Buildings	-10.2
Machinery and equipment	-78.2
Total	-106.6
Depreciation and amortization, EUR million	2016
Intangible assets	-7.9
Machinery and equipment	-42.0
Industrial buildings	-5.3
Total	-55.2

The following table represents annual charge arising from PPA adjustments recognized in the acquisitions and in the merger.


**Additional unaudited information –
pro forma PPA amortization and depreciation**

PPA amortization and depreciation, EUR million	2017	2016
Customer relationships	-8.2	-11.0
Trademarks and tradenames	-1.7	-1.7
Acquired technology	-8.2	-8.7
Property, plant and equipment	-13.3	-13.8
Total	-31.4	-35.2

**Accounting policies**

Depreciation and amortization is recognized in the income statement on a straight-line basis based on estimated useful life of intangible assets and property, plant and equipment, adjusted in appropriate cases by impairments. The useful lives are estimated as the period over which the Group will derive a benefit from the asset.

Goodwill and other intangible assets with an indefinite useful life are considered as non-depreciable assets. For non-depreciable assets, impairment tests are performed annually, as well as if there are any indications of impairments during the year, by calculating the assets recovery value. For more information on the impairment of goodwill and other intangible assets see Note 12.

Depreciation and amortization periods

Intangible assets	
Customer relationships	15–25 years
Patents and trademarks	20–30 years
Other	10–20 years
Property, plant and equipment	
Buildings	20–50 years
Machinery and equipment	2–20 years

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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. Financial costs mainly consist of interest expense on bank loans and bonds.

Net financial items, EUR million	2017	2016
Interest income from loans and receivables	2.2	0.5
Exchange rate gains ²⁾	7.3	3.8
Financial income	9.5	4.3
Interest expense from borrowings	-15.5	-10.7
Loss on interest rate swap ¹⁾	-0.9	-1.2
Unwinding of discount on provisions and net interest on defined benefit plans	-2.7	-1.6
Extinguished borrowings (Net gain or loss)	-3.0	-
Exchange rate losses ²⁾	-10.2	-5.3
Other financial costs	-3.4	-1.4
Financial expenses	-35.7	-20.2
Net financial items	-26.2	-15.9

¹⁾ The income statement effect of other derivatives such as currency and electricity are recorded in operating result (see Note 19).

²⁾ The foreign exchange gains and losses relate to interest bearing assets and liabilities. Exchange gains and losses on operating items are recorded in operating result.

**Accounting policies**

Financial income consists of interest income from financial instruments measured at amortized cost and gains from interest rate swaps. These are recognized in the income statement.

Financial expenses consist of interest expenses on loans, commitment fees, net interest costs of defined benefit plans, the interest related to discounted provisions, and losses on interest rate swaps. These costs are reported in the income statement using the effective interest method in the period in which they were incurred.

Borrowing costs that are directly attributable to the construction of assets are capitalized as part of the cost of the asset.

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	2017	2016
Profit before taxes	77.3	59.0
Current tax income/expense		
Current tax on profits for the year	-18.3	-13.3
Adjustments in respect of prior years	-1.9	-0.4
	-20.2	-13.7
Deferred tax		
Relating to tax loss carry forwards	-15.6	-5.3
Relating to other temporary differences	25.0	3.3
	9.4	-2.0
Total income tax expense	-10.8	-15.7

Reconciliation of effective tax rate, EUR million	2017	2016
Profit before taxes	77.3	59.0
Income tax at Finnish tax rate (20%)	-15.5	-11.8
Effect of other tax rates for foreign subsidiaries	-3.9	-5.2
Regional, minimum and foreign withholding taxes	-1.8	-
Effect on deferred tax from change in tax rate ¹⁾	15.0	1.9
Adjustments to current tax in respect of prior years	-1.9	-0.4
Current year losses for which no deferred tax asset recorded	-2.4	-
Revaluation of deferred tax assets and liabilities	-3.0	1.0
Non-deductible expenses and tax exempt income	2.6	-1.2
Other	0.1	-
Tax in income statement	-10.8	-15.7

¹⁾ Impact of US tax rate reduction in the income statement was EUR 12,1 million in 2017.

Current income tax assets and liabilities in the balance sheet amount to the following:

Presented in the balance sheet, EUR million:	2017	2016
Assets	5.1	1.7
Liabilities	4.1	11.9

Change in deferred tax on temporary differences and loss carry forwards, EUR million, 2017	Opening	Translation difference/other	Merger	Recognized in income statement	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	-69.1	1.0	-121.3	33.3	0.0	-156.1
Employee benefit obligations	8.2	0.4	15.3	-6.1	-1.8	16.0
Provisions	3.8	-0.3	6.0	-0.7	0.0	8.8
Tax losses carried forward	23.4	-0.2	29.4	-15.6	0.0	37.1
Other	7.9	0.0	-3.7	-1.4	1.1	3.8
Net of deferred tax liabilities (-) and deferred tax assets (+)	-25.8	0.9	-74.3	9.4	-0.7	-90.4
<i>Presented in the balance sheet</i>						
Assets	40.8					15.1
Liabilities	66.6					105.5

The changes in the deferred tax assets and liabilities during 2017 relate primarily to the merger of Ahlstrom and Munksjö, in particular deferred tax in respect of purchase price allocations.

Change in deferred tax on temporary differences and loss carry forwards, EUR million, 2016	Opening	Translation difference/other	Reclassification	Recognized in income statement	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	-45.4	-1.6	-25.1	3.0	-	-69.1
Employee benefit obligations	7.0	-	-	0.3	0.9	8.2
Provisions	5.5	0.0	-	-1.7	-	3.8
Tax loss carried forward	31.1	-0.5	-1.9	-5.3	-	23.4
Other	-20.5	-0.4	27.3	1.7	-0.2	7.9
Net of deferred tax liabilities (-) and deferred tax assets (+)	-22.3	-2.5	0.3	-2.0	0.7	-25.8
<i>Presented in the balance sheet:</i>						
Assets	51.8					40.8
Liabilities	74.1					66.6

Tax losses and related deferred tax assets, EUR million	Tax losses carried forward		Recognized deferred tax assets		Unrecognized deferred tax assets	
	2017	2016	2017	2016	2017	2016
Expiry within one year	3.4	-	0.0	-	0.9	-
Expiry within two-five years	57.5	-	1.9	-	12.6	-
Expiry after five years	34.1	25.4	6.5	5.9	2.3	-
No expiry	185.1	69.6	28.7	17.5	21.5	1.5
Total	280.1	95.0	37.1	23.4	37.3	1.5

Accounting policies

Current and deferred tax expense

The income tax expense is comprised of current tax and deferred tax. Tax is recognized in the income statement except when underlying transactions are reported in other comprehensive income, or directly in equity, in which case the associated tax effect is reported in other comprehensive income or directly in equity.

Current taxes are based on the results of group companies and are calculated using the local tax laws and tax rates that are enacted or substantively enacted as of each reporting date. Adjustments in respect of prior year or uncertain tax treatments are recorded based on the probable outcome.

Deferred tax is calculated using the liability method on temporary differences between the carrying amounts and taxable values of assets and liabilities. Deferred tax is not recognized for temporary differences that arise on initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction other than a business combination that do not affect either the accounting or taxable profit at the time of the transaction.

Deferred tax is not recognized for temporary differences that arise on investments in subsidiaries where the reversal is in the Group's control and not expected in the foreseeable future.

The valuation of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets for tax-deductible temporary differences and loss carry forwards are recognized only to the extent it is likely that they will be utilized.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities, and when the deferred tax assets and tax liabilities are attributable to taxes charged by the same tax authority and relate to either the same tax entities or different tax entities, where there is an intention to settle the balances on a net basis.

Accounting estimates and judgements

The utilization of deferred tax assets is dependent on the reversal of deferred tax liabilities and generation of future taxable profits. The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It adjusts the amounts recorded, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

EARNINGS PER SHARE

In connection with the merger of Ahlstrom and Munksjö, 45,376,992 new shares of Ahlstrom-Munksjö were issued as merger consideration to Ahlstrom's shareholders, bringing the total number of shares to 96,438,573. The comparative period presented in the earnings per share table below is based on the shares in issue of Munksjö Oyj prior to the merger and do not represent a like-for-like comparative. In order to aid comparability, additional unaudited pro forma earnings per share information has been included below.

Earnings per share	2017	2016
Net profit attributable to the parent company's shareholders, EUR million	65.9	43.1
Weighted average number of shares before dilution	84,941,326	50,761,581
Dilution effect from share based incentive plans	-	181,390
Weighted average number of shares after dilution	84,941,326	50,942,971
Basic earnings per share, EUR	0.78	0.85
Diluted earnings per share, EUR	0.78	0.85

Additional unaudited information – pro forma basic earnings per share

Pro forma earnings per share	2017	2016
Net profit attributable to the parent company's shareholders, EUR million	87.7	49.5
Weighted average number of shares	96,130,173	96,138,573
Basic earnings per share, EUR	0.91	0.51

Accounting policies

Earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period. The dilutive effect of equity settled share based payments is included in the computation of diluted earnings per share.

Operating capital

12 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets

Intangible assets, EUR million, 2017	Other intangible assets				Other intangible assets in total
	Goodwill	Customer relationships	Patents and trademarks	Other	
Historical cost					
Opening	226.1	33.6	5.8	33.0	72.4
Merger	213.7	113.2	44.2	177.2	334.6
Additions	-	-	0.1	2.2	2.3
Disposals	-	-	-	-0.7	-0.7
Reclassifications and other	-	-	-	6.4	6.4
Translation differences	-10.4	-4.4	0.1	-7.3	-11.6
Closing	429.4	142.4	50.2	210.8	403.4
Accumulated amortization					
Opening	-	11.3	4.8	13.2	29.3
Merger	-	0.0	0.8	50.2	51.0
Amortization	-	6.7	1.7	9.8	18.2
Disposals	-	0.0	0.0	0.0	0.0
Translation differences and other	-	-0.5	0.0	-3.8	-4.3
Closing	-	17.5	7.3	69.4	94.2
Net book value at year end	429.4	124.9	42.9	141.4	309.2

Other intangible assets as at December 31, 2017 mainly comprise of favorable contracts and technology related intangible assets identified in business combinations. Increase in intangible assets for year ended December 31, 2017 relate to acquired technology based assets comprising of process and product technology, know-how and trade secrets (see Note 3 for more information).

Intangible assets, EUR million, 2016	Other intangible assets				Other intangible assets in total
	Goodwill	Customer relationships	Patents and trademarks	Other	
Historical cost					
Opening	223.9	31.8	5.7	29.5	67.0
Additions	-	-	0.1	0.7	0.8
Reclassifications and other	-	-	-	0.2	0.2
Translation differences	2.2	1.8	-	2.6	4.4
Closing	226.1	33.6	5.8	33.0	72.4
Accumulated amortization					
Opening	0.0	5.7	4.5	10.2	20.4
Amortization	-	5.2	0.3	2.3	7.8
Translation differences	-	0.4	-	0.7	1.1
Closing	0.0	11.3	4.8	13.2	29.3
Net book value at year end	226.1	22.3	1.0	19.8	43.1

Goodwill

The carrying value of goodwill amounted to EUR 429.4 million as of December 31, 2017 following the impact of the merger of Munksjö and Ahlstrom. The goodwill of EUR 213.7 million recorded from the merger represents the value of acquired workforce and synergies.

Ahlstrom-Munksjö implemented a new operational and reporting structure consisting of four business areas following the merger: Decor, Filtration and Performance, Industrial Solutions and Specialties. Goodwill was allocated to the new business areas reflecting their share of the deemed fair values of the acquired assembled workforce, expected synergies and other benefits arising from the merger. These four business areas correspond the groups of cash-generating units (CGU) and the lowest level at which goodwill is monitored for internal management purposes. See Note 3 for more information about the merger of Ahlstrom and Munksjö and Note 4 for business area information.

The following table presents the allocation of goodwill to Ahlstrom-Munksjö's business areas (groups of CGUs) as of the annual impairment testing date October 1, 2017 and the comparative information for the predecessor Munksjö in 2016:

Allocation of goodwill by business area, EUR million	2017
Decor	160.0
Filtration and Performance	57.8
Industrial Solutions	123.1
Specialties	88.4
Group total	429.4
Allocation of goodwill by business area, EUR million	2016
Decor	140.3
Release Liners	70.2
Industrial Applications	15.6
Group total	226.1

2016 comparative information represents predecessor Munksjö group's goodwill allocation based on the old segment structure. For more information on 2016 allocation of goodwill see Note 15 in the 2016 audited financial statements of the predecessor Munksjö group.

Impairment tests for goodwill

The recoverable amounts of each group of cash-generating units are determined using a discounted cash flow model (value-in-use). Key assumptions used in the determination include short-term and long-term growth rate for net sales, development of EBITDA, annual capital expenditure, changes in operative working capital and pre-tax discount rate.

The cash flows are based on business plans approved by the Board of Directors covering a period of three years. Cash flows beyond this three-year period are based on the terminal value and have been extrapolated using an

estimated long-term sales growth rate of 0.3%. All cash flow projections reflect the past performance of the Group's business operations and management expectations for future market development considering the external sources of information when available.

The discount rate used in the calculation is based on weighted average cost of capital (WACC) based on the market view of the time-value of money and reflect specific risks related to each business area.

The following table sets out the key assumptions for the groups of CGUs:

Key assumptions	Decor	Filtration and Performance	Industrial Solutions	Specialties
Average net sales growth % in the testing period	1.8	2.8	1.5	4.9
Long-term growth-%	0.3	0.3	0.3	0.3
Average EBITDA margin in the testing period, %	10.2	16.7	13.6	10.4
Pre-tax discount rate %	6.6	7.5	7.0	7.1

The impairment tests for 2017 indicated that the recoverable amount of the groups of CGUs exceeded their carrying value and goodwill is not been impaired.

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 2017 exceeds their carrying value by EUR 195 million for Decor, EUR 608 million for Filtration and Performance, EUR 490 million for Industrial Solutions and EUR 369 million for Specialties.

	Decor	Filtration and Performance	Industrial Solutions	Specialties
Annual average change % in EBITDA in the testing period	-27%	-37%	-33%	-28%
Pre-tax discount rate % change in percentage points	4.7%	9.6%	7.8%	5.3%

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.

Goodwill impairment tests for 2016 were carried out for the predecessor Munksjö group's old segments: Decor, Release Liners and Industrial Applications. The impairment tests did not result in a recognition of any impairment.

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 as none of the Group's development costs has met the capitalization criteria.

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 312 141 units of CO₂ emission rights for the year 2017. The rights in excess of the Group's needs have been transferred to 2018. As of December 31, 2017, the remaining emission rights amounted to 408 744 units and their market value was approximately EUR 3,3 million. No emission rights were sold during 2017.

Accounting policies

Intangible assets

Goodwill

Goodwill arises from business combinations and represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable net assets acquired at the acquisition date. Goodwill is an intangible asset with an indefinite useful life. It is not amortized, but it is subject to impairment testing annually, or more frequently, if events or changes in circumstances indicate that goodwill might be impaired.

For impairment testing purposes, goodwill is allocated to groups of cash-generating units reflecting the lowest levels at which the goodwill is monitored for internal management purposes. A cash-generating unit, as determined for the purposes of the impairment testing, is the smallest group of assets generating separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The carrying value of a cash generated unit includes its share of relevant corporate assets allocated to it on a reasonable and consistent basis.

Ahlstrom-Munksjö conducts its impairment testing by determining the recoverable amount for a group of CGUs. The recoverable amount is defined as value-in-use according to a present value of the estimated future cash flows. The recoverable amount is compared to the group of CGUs' carrying value. If the carrying value exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount. If an impairment loss is recognized, the loss is first allocated to reduce goodwill and then to reduce other assets.

Impairment is recognized as an expense in the income statement. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Other intangible assets

Customer relationships, patents and trademarks, technology related assets and other intangible assets acquired in business combinations are recorded at fair value at the acquisition date and are subsequently amortized on a straight-line basis over estimated useful lives.

Computer software and separately acquired patents and trademarks are recorded at historical cost and amortized on a straight-line basis over their expected useful lives.

Other intangible assets with definite useful lives are tested for impairment if there are indicators of impairment, see more information on triggering events in Accounting policy of Property, plant and equipment below.

Research and development

Ahlstrom-Munksjö has product and process development activities focusing mainly on meeting customer requirements in relation to product properties and adaptations. Activities are divided into a research phase and a development phase. Research costs are expensed as incurred and recorded in the income statement. Expenditures on development activities are also expensed as incurred except those development expenses that meet the capitalization criteria.

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 net of energy costs in the income statement.

Accounting estimates and judgements

Key assumptions used in goodwill impairment testing

The management makes significant estimates and judgements in determining the level at which the goodwill is tested and whether there are any indications of impairment.

The calculations of the value-in-use are based on cash flow projections, which require assessments and estimates from the management. The most significant estimates concern development of net sales and EBITDA including estimates for market prices of pulp and cost levels of main raw materials and energy as well as determination of the weighted average cost of capital (WACC) used to discount cash flows. Management tests the impacts of changes in significant estimates used in forecasts by sensitivity analyses as described above in this note.

Estimates and judgements related to other intangible assets

For more information on the estimation of useful economic life of an intangible asset, see Accounting estimates and judgements in Note 8.

Property, plant and equipment

Property, plant and equipment, EUR million, 2017	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
Historical cost						
Opening	40.4	175.7	979.7	5.0	22.0	1,222.8
Merger	14.4	191.7	1,073.3	8.3	13.9	1,301.6
Additions	0.0	1.0	14.6	0.8	71.6	88.0
Disposals	-0.4	-1.7	-1.9	-0.2	-0.4	-4.6
Reclassifications and other	0.0	5.5	24.9	1.3	-38.1	-6.4
Translation differences	-0.9	-5.3	-33.8	-0.3	-1.3	-41.6
Closing	53.5	366.9	2,056.8	14.9	67.7	2,559.8
Accumulated depreciation						
Opening	8.2	114.2	677.0	2.0	0.3	801.7
Merger	0.2	111.1	734.9	6.4	0.0	852.6
Depreciation	0.1	10.1	77.1	1.0	0.0	88.3
Disposals	0.0	-0.2	-1.8	-0.1	0.0	-2.1
Reclassifications and other	-	-	-	0.0	0.1	0.1
Translation differences	-0.2	-2.1	-20.0	-0.2	0.0	-22.5
Closing	8.3	233.1	1,467.2	9.1	0.4	1,718.1
Net book value	45.2	133.9	589.6	5.8	67.3	841.7

Construction in progress for the year ended December 31, 2017 relates mainly to investments in Ahlstrom Filtration LLC EUR 9.8 million, in Munksjö Italy Spa EUR 9.6 million and in AM Arches SAS EUR 16.8 million.

Increase in property, plant and equipment for the year ended December 31, 2017 were mainly related to the assets transferred in the merger (see Note 3 for more information) and replacement investments.

Capital expenditure commitments amounted to EUR 10.3 million at December 31, 2017 and are related to upgrade of the Madisonville filtration plant in the U.S. and investment to increase of the capacity of Genuine Vegetable Parchment products in Saint Severin plant in France.

Property, plant and equipment, EUR million, 2016	Land and land improvements	Buildings	Machinery and Equipment	Construction in progress	Total
Historical cost					
Opening	41.2	170.3	959.8	19.9	1,191.2
Additions	0.2	4.0	11.0	20.5	35.7
Disposals	-	-0.1	-4.5	-0.5	-5.1
Reclassifications and other	-	2.3	15.4	-17.8	-0.1
Translation differences	-1.0	-0.8	3.0	-0.1	1.1
Closing	40.4	175.7	984.7	22.0	1,222.8
Accumulated depreciation					
Opening	8.1	110.1	642.7	0.3	761.2
Depreciation	-	5.3	42.0	-	47.3
Disposals	-	-0.1	-4.9	-	-5.0
Translation differences and other	0.1	-1.1	-0.8	-	-1.8
Closing	8.2	114.2	679.0	0.3	801.7
Net book value	32.2	61.5	305.7	21.7	421.1



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 they 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

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment. The cost includes the purchase price and expenditure directly attributable to bringing the asset to the location and condition

necessary for it to be capable of operating in the manner intended. Interest on borrowings directly attributable to the purchase, construction or production of assets that take considerable time to complete are capitalized.

Property, plant and equipment comprising parts with different useful lives are treated as separate components of the asset. The costs incurred for replacing the part are recognized in the carrying amount of the asset which is depreciated over the useful life of replacement. The carrying value of a property, plant and equipment is derecognized from the balance sheet on scrapping or sale, or when no future economic benefits are expected from use of the asset. Ordinary repair and maintenance costs are expensed as incurred.

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

Government grants

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

Financing lease agreements

Ahlstrom-Munksjö leases certain property, plant and equipment. Leasing agreements of property, plant and equipment where the Group retains the economic risks and benefits associated with ownership, are classified as financial leases. At the start of the leasing period, financial leases are reported in the balance sheet at the lower of the leased asset's fair value and the net present value of the minimum lease payments. Each leasing payment is apportioned between the repayment of liability and financial costs. The corresponding payment obligations, after deductions for financial costs, are included in the balance sheet, in non-current and current borrowings. The interest is recognized in the income statement over the lease term so that each accounting period is assigned an amount corresponding to a fixed interest rate for the liability in the respective period. Financial leased fixed assets are depreciated over the shorter of the asset's useful life and lease term.



Accounting estimates and judgements

Estimates and judgements related to property, plant and equipment as well as other intangible assets

The Group has tangible and other intangible assets with definite useful lives which values are presented above. The assets are tested for impairment when there are events or changes in circumstances indicate that the carrying value may be impaired (a triggering event). The recoverability of these assets is based on market assumptions and managements estimate of future cash flows. Changes in assumptions and failure to meet certain earnings targets could result in impairment.

13 INVENTORIES

Inventories consist of products from the Group's four business areas – Decor, Filtration and Performance, Industrial Solutions and Specialties – in varying stages of the production process.

Inventories, EUR million	2017	2016
Materials and supplies	56.0	19.6
Work in progress	27.2	10.0
Finished products	153.7	96.5
Consumables and spare parts	45.4	32.1
Total inventories	282.3	158.2

Change in allowance for inventory obsolescence for Finished products and Work in progress, EUR million	2017
Opening	-8.5
Merger	-5.8
Change in allowance for inventory obsolescence	0.7
Inventory write-downs through profit and loss	-3.4
Translation differences	0.1
Closing	-16.9

Amounts of inventories written off directly to the income statement are insignificant.

Accounting policies

Inventories are recognized at the lower of cost and net realizable value. Net realizable value is calculated as the selling price less costs attributable to the sale.

The methodology for determining the cost of inventories varies depending on the inventory class.

Materials and supplies

Materials and supplies are valued using the weighted average cost method. Under the weighted average cost method, the cost of each item remaining in inventories at the period end is determined from the weighted average of the cost of similar items at the beginning of the period and the cost of similar items purchased during the period.

Finished products and Work in progress

Finished products and work in progress are valued on a first-in, first-out basis. Costs comprise all costs that are directly attributable to the manufacturing process, including direct material and labour, and production related overheads (based on normal operating capacity and normal consumption of material, labour and other production costs) and depreciation charges.

Accounting estimates and judgements

Inventory obsolescence

If the net realizable value of inventory is deemed lower than the cost, then allowance is established for inventory obsolescence. The amount to be allocated to inventory obsolescence is based on an estimation of the net realizable value of inventory.

14 TRADE AND OTHER RECEIVABLES AND TRADE AND OTHER PAYABLES

Trade and other receivables represent amounts that Ahlstrom-Munksjö expects to collect from other parties. Trade and other payables mainly consist of amounts owed to suppliers, employees and customers.

Trade and other receivables

Current trade and other receivables, EUR million	2017	2016
Trade receivables	202.8	104.8
Value added tax	17.9	10.6
Escrow cash account	1.5	1.5
Prepaid expenses and accrued income	16.3	6.0
Fair value of unrealised hedges (Note 19)	1.4	1.2
Other receivables	19.4	14.2
Total	259.3	138.3

The ageing of trade receivables, both gross and following allowance for doubtful trade receivables, is shown in the table below.

2017, EUR million	Not due	1-30	31-90	>90	Total
Trade receivables that are due but not impaired	169.2	24.6	3.6	11.6	209.0
Allowance for doubtful trade receivables	-0.7	0.0	0.1	-5.6	-6.2
Trade receivables	168.5	24.6	3.7	6.0	202.8
2016, EUR million	Not due	1-30	31-90	>90	Total
Trade receivables that are due but not impaired	90.8	10.0	2.4	7.0	110.2
Allowance for doubtful trade receivables	-	-	-	-5.4	-5.4
Trade receivables	90.8	10.0	2.4	1.6	104.8

Recoverability of trade receivables

Change in allowance for doubtful trade receivables, EUR million	2017	2016
Opening	-5.4	-4.9
Merger	-1.8	-
New provisions charged to income	-2.0	-0.2
Reversal of allowance charged to income	2.8	0.1
Translation differences	0.2	-0.4
Closing	-6.2	-5.4

Credit risk

Financial instruments that could potentially expose Ahlstrom-Munksjö to counterparty risk consist primarily of trade receivables, cash and cash equivalents and derivative financial instruments. The Group is exposed to counterparty credit risks from financial transactions and customer credit risks.

Financial transactions counterparty credit risk

Financial transactions counterparty credit risk refers to the Group's exposure under financial contracts arising from the deterioration of the counterparties' financial position. In order to minimize this risk, Ahlstrom-Munksjö have the following guidelines in place in the Group Finance Policy:

- Only entering into transactions with leading financial institutions and with industrial companies that have a high credit rating (preferably BBB or higher).
- Investing in liquid cash funds only with financially secure institutions or companies (preferably BBB or higher).
- Requiring parent company guarantees when dealing with any subsidiary of a rated company.

Customer credit risk

Customer credit risk is applied centrally and managed locally in each subsidiary.

Factoring

When seeking to finance the Group's receivables, this shall be limited to 50% of the total trade 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 152.6 million (EUR 120.4 million).

Trade and other payables

Trade and other payables EUR, million	2017	2016
Trade payables	287.7	162.9
Accrued expenses	188.4	98.0
Liabilities to equity accounted investments	3.8	7.1
Current derivative liabilities	1.6	0.7
Other liabilities	21.4	14.5
Total	502.9	283.2

Accrued expenses, EUR million	2017	2016
Accrual for invoices not yet received	83.8	32.8
Accrued wages and salaries	25.1	13.1
Accrued vacation pay	22.4	13.3
Accrued social security costs	16.2	10.0
Accrued customer bonuses	17.9	7.3
Other	23.0	21.5
Total accrued expenses	188.4	98.0

Liabilities 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 trade receivables are recognized as an expense in the income statement.

Trade and other payables

Trade and other payables represent liabilities for goods and services and are recognized at amortized cost, using the effective interest rate method. The amounts are unsecured and are usually paid within 30 days from initial recognition.

15 DEFINED BENEFIT OBLIGATION

Following the merger, the Group's defined benefit plans comprise the benefit plans of both predecessor Munksjö and Ahlstrom's plans that were assumed in the merger. Accordingly, the Group has defined benefit plans in several countries, of which the most significant are the United States 25% of Group's total defined benefit pension plans, UK 3%, France 22%, Sweden 17% and Germany 19%. The plans are in accordance with local laws and practices and are partly funded to satisfy the local statutory funding requirements. Disclosures are provided separately for 2017 and 2016 as the comparative 2016 information comprise Munksjö plans only.

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.

The Group also operates less significant funded defined benefit plans in France.

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 fylläggspension).

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.

2017 Post-employment and other long-term benefit plans

Employee benefits liability recognized in the balance sheet, EUR million	2017
Present value of funded benefit obligations	211.2
Present value of unfunded benefit obligations	64.5
Fair value of plan assets	-183.6
Deficit/Surplus	92.1
Effect of asset ceiling	2.3
Net defined benefit liability – closing	94.4
Other long-term employee benefits	3.7
Total net liability	98.1

Changes in the present value of obligations, EUR million	2017
Present value of defined obligation – opening	67.7
Merger	231.1
Current and past service cost	3.4
Interest cost	6.9
Remeasurement gain/loss on pension scheme liabilities	10.7
Gains and losses on settlement	0.5
Benefits paid	-21.4
Other changes	-3.5
Translation differences	-19.7
Present value of defined benefit obligation – closing	275.7

Changes in the fair value of the plan assets, EUR million	2017
Opening fair value of plan assets	13.7
Merger	184.7
Interest income on plan assets	5.0
Remeasurement gain/loss on pension scheme assets	11.8
Contributions by employer	8.4
Benefits paid	-21.4
Other changes	-3.7
Translation differences	-14.9
Closing fair value of plan assets	183.6

Changes in the effect of asset ceiling, EUR million	2017
Effect of asset ceiling – opening	0.0
Merger	7.4
Changes in asset ceiling	-4.8
Translation differences	-0.3
Effect of asset ceiling – closing	2.3

Amounts recognized in income statement, EUR million	2017
Personnel costs	
Current service cost	-3.4
Past service cost	0.1
Gains and losses on settlement	-0.5
Finance costs	
Net interest cost	-2.2
Cost recognized in income statement	-6.0

Remeasurement effects recognized in other comprehensive income (OCI), EUR million	2017
Remeasurement gain/loss on pension scheme assets	11.8
Remeasurement gain/loss on pension scheme liabilities	-10.8
Remeasurement gain/loss on change in asset ceiling	5.0
Remeasurement effects before tax	5.9
Income tax relating to remeasurement effects	-1.7
Remeasurement effects recognized in OCI	4.2

The Group expects to contribute EUR 9.0 million to its defined benefit plans in 2018.

Plan asset categories, %	2017
Equity instruments (listed)	34.1
Debt instruments	50.6
Property	0.0
Other	15.3

Principal actuarial assumptions	2017
USA	
Discount rates	3.5
Future salary increases	n/a
Future pension increases	n/a
UK	
Discount rate	2.6
Future salary increases	n/a
Future pension increases	3.6
France	
Discount rate	1.1
Future salary increases	2.4
Future pension increases	n/a
Sweden	
Discount rate	2.3
Future salary increases	3.0
Future pension increases	3.0
Germany	
Discount rate	1.3
Future salary increases	2.5
Future pension increases	1.8

The actuarial assumptions in other countries are immaterial. Assumptions regarding future mortality are based on actuarial guidelines in accordance with published statistics and experience in each region.

The sensitivity of the defined benefit obligation to changes in discount rate, future salary growth and future pension growth is presented in the following tables.

Sensitivity analyses: Discount rate impact	2017
Discount rate change +0.50%	-17.6
Discount rate change -0.50%	19.4

Sensitivity analyses: Future salary growth	2017
Future salary growth +0.50%	2.9
Future salary growth -0.50%	-2.6

Sensitivity analyses: Future pension growth	2017
Future pension growth +0.50%	7.2
Future pension growth -0.50%	-6.6

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

2016 Post-employment and other long-term benefit plans**Amounts recognized in the balance sheet**

Assets/liabilities for pension plans, EUR million	2016
Present value of unfunded defined benefit pensions	35.9
Present value of funded or partially funded defined benefit obligations	32.4
Fair value of plan assets	-13.6
Pension liabilities for the period	54.7
Amounts recognized in the consolidated statement of comprehensive income, EUR million	
Service costs for the period	-2.2
Interest expense and income	-1.1
Pension costs recognized in net profit for the period	-3.2
Actuarial gains (-) and losses (+) recognized in other comprehensive income	-3.3
Total pension costs recognized in total comprehensive income	-6.5
Changes to defined benefit obligations, EUR million	
Opening	66.9
Interest costs	1.4
Current year service costs	2.1
Benefits paid	-4.4
Business combinations	0.0
Settlements	-0.1
Reclassification from other liabilities	0.0
Actuarial gains and losses for obligations	2.8
Translation differences	-0.4
Closing	68.3
Fair value of plans, EUR million	
Opening	14.5
Interest income	0.3
Employer contributions	0.1
Benefits paid	-1.0
Actuarial gains and losses	-0.5
Translation differences	0.1
Closing	13.6

Major categories of plan assets, EUR million	2016
Shares	3.3
Bonds	2.2
Endowment insurance	7.9
Cash in escrow	0.2
Total	13.6

Key actuarial assumptions used to calculate the defined-benefit plan obligations

Discount rate, %	2016
Sweden	2.50
Germany	2.50
France	1.25
Italy	1.65
US	4.00
Expected future salary increase, %	
Sweden	3.00
Germany	3.00
France	3.00
Italy	2.50
US	n/a
Expected future pension increases, %	
Sweden	1.50
Germany	1.75
France	n/a
Italy	1.75
US	n/a

Sensitivity analysis on pension obligations, 2016	Change in assumption, %	Increase in assumption, EUR million	Decrease in assumption, EUR million
Discount rate	0.5	-2.6	2.8
Salary growth rate	0.5	1.7	-1.5
Pension growth rate	0.5	1.1	-1.0

	Year	EUR million	EUR million
Life expectancy	1	1.3	-1.3

Accounting policies

Defined benefit obligation

The Group has various pension schemes in accordance with local practices in different countries. The pension arrangements are classified as either defined contribution plans or defined benefit plans. The schemes are mostly funded through payments to insurance companies or trustee-administered funds according to local regulations. A defined contribution plan is a pension plan under which the 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 pension benefits to the employees. Contributions to defined contribution pension plans are recognized as expense in the period when they incur. All pension plans which do not meet the criteria for defined contribution plans are defined benefit plans. Defined benefit plans typically define a fixed amount of benefit that an employee will receive after retirement and which the company is responsible for.

The Group's net obligation of defined benefit plans is calculated and recorded separately for each pension scheme based on calculations prepared by independent actuaries. The present value of defined benefit obligations is determined using the projected unit credit method. The net liability recognized in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The discount rate used to determine the present value of the defined benefit obligation is equal to the yield on high quality corporate bonds or, if not available, government bonds.

The interest rates of the high quality corporate bonds are determined in the currency in which the benefits will be paid with a similar maturity to the obligation.

The Group's net obligation in respect of long-term service benefits, other than defined 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. The most significant provisions in the Group's financial statements relate to environmental provisions for the future restoration costs of sites once these are discontinued.

Provisions, EUR million, 2017	Environmental	Restructuring	Other	Total
Opening	11.0	0.9	4.1	16.0
Merger	0.1	0.2	3.4	3.6
Unwinding of discount	0.2	-	-	0.2
Provisions made during the year	1.3	6.9	4.7	13.0
Provisions used during the year	-0.8	-1.5	-1.8	-4.1
Provisions reversed	-	-0.3	-0.8	-1.2
Reclassification	-0.1	-	0.1	0.0
Translation differences	-0.6	0.0	-0.6	-1.1
Closing	11.2	6.2	9.1	26.4
Non-current provisions				17.7
Current provisions				8.8
Provisions, EUR million, 2016	Environmental	Restructuring	Other	Total
Opening	13.8	4.8	5.3	23.9
Unwinding of discount	0.3	0.0	0.3	0.6
Provisions made during the year	0.0	0.2	0.2	0.4
Provisions used during the year	-3.3	-4.1	-1.6	-9.0
Provisions reversed	-0.5	0.0	0.0	-0.5
Reclassification	0.7	0.0	-0.7	0.0
Translation differences	0.0	0.0	0.6	0.6
Closing	11.0	0.9	4.1	16.0
Non-current provisions				11.3
Current provisions				4.7

Environmental provisions of EUR 11.2 million mainly relate to Fitchburg mill in the USA, Arches mill in France, closed mill in Italy and old buildings in Sweden. Restructuring provisions at the balance sheet date mainly consist of provisions related to the customer service and transactional finance center alignment and other synergy plan related employee redundancy costs.

Other provisions mainly consist of property tax litigation relating to business combination of Label and Processing business in 2013 and legal claim in Brazil.

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 level, 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.

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

17 NET DEBT

This section outlines the Group's net debt and how Ahlstrom-Munksjö manages its capital including liquidity management. Net debt is Ahlstrom-Munksjö's key measure to evaluate the total external debt financing of the Group.

The Group's sources of borrowing for funding and liquidity purposes are primarily bank loans and bonds. The Group has also entered into a number of finance leases to secure the use of assets used in the production process.

Ahlstrom-Munksjö uses net debt as an indicator of financial position. This measure is defined by Ahlstrom-Munksjö as non-current and current borrowings less cash and cash equivalents.

Net debt, EUR million	2017	2016
Bonds	248.5	-
Bank loans	310.3	302.7
Uncommitted loans	57.1	6.1
Finance lease liabilities	5.2	6.8
Other financial liabilities	0.1	-
Gross borrowings	621.2	315.5
Less: Cash and cash equivalents	245.9	146.0
Net debt	375.3	169.5

Reconciliation of net debt

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

Reconciliation of net debt, EUR million, 2017	Opening	Merger	Movements in cash flow	Translation differences	Closing
Gross borrowings	315.5	316.7	-9.4	-1.6	621.2
Cash and cash equivalents	146.0	66.6	43.2	-9.9	245.9
Net debt	169.5	250.1	-52.6	8.3	375.3

Additional unaudited information – pro forma net debt

Pro forma net debt, EUR million	April 1, 2017
Gross borrowings	633.1
Cash and cash equivalents	200.6
Net debt	432.4

Borrowings

Munksjö entered on November 10, 2016 into a facilities agreement on behalf of the combined company with Nordea and SEB as the joint under-writers. The new financing consisted of approximately EUR 560 million multicurrency term and revolving credit facilities with maturities ranging between three and five years; and EUR 200 million bridge facility for Ahlstrom, which was assumed by Munksjö as from the date of completion of the merger with amended terms and commitments reduced to EUR 100 million.

The syndication of the term loan facilities and the revolving credit facility was concluded on December 23, 2016 and is provided by SEB, Nordea and Danske Bank as bookrunners. BNP Paribas, OP Corporate Bank and Swedbank joined as Mandated Lead Arrangers and Citi, Commerzbank, Crédit Agricole and DNB Bank joined as Lead Arrangers.

Following the merger, new financing was arranged for Ahlstrom-Munksjö, which consisted of multicurrency term facilities and a revolving credit facility, as well as a bridge facility.

On May 3, 2017, Ahlstrom-Munksjö redeemed the EUR 100 million hybrid bond with a fixed annual interest rate of 7.875% in accordance with its terms and conditions. The redemption value was EUR 106.9 million.

Ahlstrom-Munksjö made a voluntary tender offer for cash of its EUR 100 million 4.125% notes maturing on September 15, 2019. The aggregate principal amount of notes validly offered for purchase by noteholders was EUR 89.2 million. On September 15, 2017, the company exercised its right to fully redeem the outstanding 2019 notes.

On June 9, 2017, the company issued a EUR 250 million unsecured callable bond with an annual coupon of 1.875%. The notes will mature on June 9, 2022. The proceeds from the issue were used to repay and refinance an outstanding bond maturing in 2019 and certain other borrowings of the company. At the end of the fourth quarter of 2017, the weighted average interest rate for the company was approximately 2.2% (2.5%).

Interest-bearing net debt amounted to EUR 375.3 million (EUR 169.5 million) at December 31, 2017, resulting in a gearing of 36.2% (38.7%). According to Ahlstrom-Munksjö's financial covenants, the consolidated senior net debt to consolidated EBITDA needs to be 3.25 or less and the consolidated senior net debt to adjusted equity shall not exceed 100%. Throughout the reporting period the Group was in full compliance with the covenants of its financing agreements and management expects such compliance to continue.

The tables below provide further detail on the financing entered in to by the Group.

Bonds

The Group has the following unsecured callable bond at the balance sheet date. The outstanding bond was issued by Ahlstrom-Munksjö on June 9, 2017 and the bond is listed on the Nasdaq Helsinki.

The notes are callable before maturity and shall be repaid in full at their nominal principal amount on June 9, 2022. No specific guarantee has been given in relation to their issuance.

Carrying value, EUR million

Notional currency	Initial notional amount, EUR million	Maturity	Coupon, %	2017	2016
EUR	250.0	June 9, 2022	1.88%	248.5	-

Loans

The Group has the following committed and uncommitted loans as at December 31, 2017. The committed loans have maturity dates ranging from April 2020 - June 2022. The uncommitted loans are used for short-term funding and have maturity dates ranging from January 2018 - July 2018.

2017 Notional currency	Initial notional amount, EUR million	Weighted average interest rate, %	Carrying value, EUR million
Committed loans from banks grouped by currency			
EUR	270.0	1.70%	220.2
USD	32.7	1.90%	29.1
SEK	63.0	1.90%	61.0
Uncommitted loans from banks grouped by currency			
CNY	51.0	6.30%	51.0
Other	6.1	5.00%	6.1

For further information on the maturity of borrowings and financial liabilities of the Group, see Note 19.

Interest rate risk

Interest rate risk refers to the risk that changes in interest rates would have a negative effect on the result of the Group and could affect the long-term competitiveness of Ahlstrom-Munksjö. There is a risk of interest rates moving both upwards and downwards.

Consideration shall be 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 Group Finance Policy provides the following aims with regard to financing.

- Aim should be 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 shall preferably be spread out evenly over time in order to avoid substantial risk concentrated on one period.

At the end of the reporting period, Ahlstrom-Munksjö had interest rate swaps of EUR 40.0 million. The instruments are floating-to-fixed interest rate swaps that will mature in October 2018. Ahlstrom-Munksjö pays a fixed interest rate (-0.23%) and receives variable rate based on Euribor 3 months. The average maturity of the total debt portfolio is currently 22 months. More information on how Ahlstrom-Munksjö manages its financial risks is presented below in Note 19.

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

Ahlstrom-Munksjö's earnings are sensitive to changes in interest rates on the floating rate element of the Group's borrowings. The impact of an interest rate fluctuation on the Group's finance costs is shown in the table below. The sensitivity analysis is calculated based on the hedged position of the Group's borrowings.

Interest rate sensitivity	Effect on finance costs, EUR million
Interest +1%	-3.3
Interest +2%	-6.5

Finance lease liabilities

The table below displays the future finance lease commitments of the Group and when these fall due.

Future finance lease commitments, EUR million	Within 1 year	2-5 years	More than 5 years	Total
2017				
Minimum lease payments	2.4	3.3	-	5.7
Interest	-0.2	-0.3	-	-0.5
Present value of minimum lease payments	2.2	3.0	-	5.2
2016				
Minimum lease payments	1,8	4,7	1,1	7,6
Interest	-0,2	-0,5	-0,1	-0,8
Present value of minimum lease payments	1,6	4,2	1,0	6,8

Accounting policies

Bonds, bank loans and loans from multilateral institutions

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 debt 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.

Finance leases

Leases are treated as a finance lease when the risks and rewards related to ownership are substantially held by Ahlstrom-Munksjö. The Group recognizes the asset and related obligation in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments. Minimum lease payments made under the finance lease are apportioned between finance cost and the reductions of the outstanding liability. The finance cost is allocated to each year during the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The lease asset is depreciated in accordance with Ahlstrom-Munksjö's policy for property, plant and equipment which are defined in Note 8.

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 management of the Group's cash pools.

18 EQUITY AND SHAREHOLDER RETURN

Shareholder return

The Board of the Directors of Ahlstrom-Munksjö together with the management of the Group considers appropriate financial targets for Ahlstrom-Munksjö and agrees on a financial target framework. According to the long-term financial targets approved by the Board of Directors, Ahlstrom-Munksjö aims for a stable and annually increasing dividend to be paid bi-annually to shareholders.

Ahlstrom-Munksjö paid returned to its shareholders capital in 2017 as follows:

- In March 2017, the Board of Directors of the predecessor Munksjö resolved on a return of equity in the amount of EUR 0.45 per each outstanding share, representing approximately EUR 23 million in total, based on the authorization granted by the Extraordinary General Meeting held on January 11, 2017. The return of equity was paid to the shareholders prior to the completion of the merger Munksjö and Ahlstrom.
- In September 2017, the Board of Directors of Ahlstrom-Munksjö resolved on a return of equity in the amount of EUR 0.23 per each outstanding share, representing approximately EUR 22 million in total. The return of equity was paid based on the decision by the Annual General Meeting of Shareholders' held on May 16, 2017. The return of equity was paid in September 2017.

The total return of equity paid in 2017 was EUR 44.9 million. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 50.0 million, EUR 0.52 per share, will be paid to shareholders in two different installments, in April and in September 2018.

Distributable funds of Ahlstrom-Munksjö

The following table shows distributable funds of the parent company Ahlstrom-Munksjö Oyj and the predecessor Munksjö parent company as at December 31, 2017 and December 31, 2016 respectively:

Distributable funds, EUR million	2017	2016
Reserve for invested unrestricted equity	408.7	286.2
Retained earnings	212.5	-27.7
Net profit for the period	18.2	-4.9
Total distributable funds	639.4	253.6

Accounting policies

Return of equity and dividends proposed by the Board of Directors are recognized in the balance sheet when they have been approved by the shareholders at the Annual General Meeting.

Cash and cash equivalents, EUR million	2017	2016
Total cash and cash equivalents	245.9	146.0

Bank deposits earn variable interest based on the bank's daily deposit rate. Restricted cash amounting to EUR 2.0 million is presented in other receivables.

Equity**Merger accounting**

The combination of Ahlstrom and Munksjö was structured as a statutory absorption merger whereby Ahlstrom's parent company merged into Munksjö's parent company. The equity in Ahlstrom-Munksjö's balance sheet reflects the impact of the merger accounting to the parent company's share capital, reserve for invested unrestricted equity and retained earnings. The merger result determined as the difference between net assets of Ahlstrom and the value of the merger consideration was recorded to reserve for invested unrestricted equity of Ahlstrom-Munksjö. See Note 3 for more information on the merger of Ahlstrom and Munksjö.

Reserve for invested unrestricted equity and other reserves

In the merger, reserve for invested unrestricted equity of Ahlstrom-Munksjö increased by reserve for invested unrestricted equity of Ahlstrom's parent company of EUR 61.1 million and the merger result of EUR 250.6 million.

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, 2017, Ahlstrom-Munksjö share capital amounts to EUR 85 million and the total number of shares is 96,438,573. The shares have been entered into the Finnish book-entry securities system maintained by Euroclear.

The following table shows the impact of changes in the number of shares:

	Number of shares
Closing at December 31, 2015	51,061,581
Closing at December 31, 2016	51,061,581
Number of new Ahlstrom-Munksjö shares issued as merger consideration ¹⁾	45,376,992
Closing at December 31, 2017	96,438,573

¹⁾ Fair value of the consideration at the merger date was EUR 632.6 million recorded to the equity of Ahlstrom-Munksjö.

Treasury shares

Shareholders' Meeting held in May 2017 authorized the Board of Directors to repurchase the parent company's own shares. According to the resolution, the shares are acquired through public trading on Nasdaq Helsinki at the market price prevailing at the time of repurchase and will be used primarily for implementing future share-based incentive programs of Ahlstrom-Munksjö. The authorization, to acquire a maximum of 8,000,000 of the parent company's own shares, is valid until the next Annual General Meeting to be held in 2018.

During the year 2017, Ahlstrom-Munksjö repurchased 300,000 own shares. As at December 31, 2017, Ahlstrom-Munksjö holds 364,862 of its own shares, corresponding approximately 0.4 percent of the total shares and votes.

The following table shows the movements in treasury shares:

Treasury shares	Number of shares	Cost, EUR million
Closing at December 31, 2015	300,000	3.1
Closing at December 31, 2016	300,000	3.1
Transferred to key management as a reward from LTIP 2014-2016	-235,138	-2.4
Repurchase in May	300,000	5.6
Closing at December 31, 2017	364,862	6.3

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 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 in profit or loss when the hedged item affects the profit or loss. See Note 19 for more information on cash flow hedges.

Retained earnings

The following are recorded directly to retained earnings:

- The Group has certain long-term incentive plans for key personnel. These plans are accounted for as share-based payments where the fair value of the awards granted in shares are classified as equity-settled and recorded in the income statement and retained earnings in equity over the vesting period. See Note 7 for more information on share-based payments.
- The Group has defined benefit plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions for these defined benefit plans are charged or credited to retained earnings. See Note 15 for more information on defined benefit obligations

Financial risk management

This section discusses the Group's exposure to various financial risks, explains how these affect Ahlstrom-Munksjö's financial position and performance and how management manages risk.

The operational management of the financial risks is managed centrally by Group Treasury. This means that Group Treasury is handling all hedging of external foreign exchange, commodity and interest rates, if nothing else has been approved.

19 FINANCIAL RISK MANAGEMENT

This note describes the Group's financial instruments and the risk exposures, sensitivities and monitoring strategies related to these financial instruments.

Currency risk

Due to the global operations of Ahlstrom-Munksjö, the Group is exposed to currency risk. Currency risk refers to the risk that fluctuations in the foreign exchange market will negatively affect the Ahlstrom-Munksjö's cash flow, net profit and equity. Currency exposure, defined as all unhedged exposure in foreign currency, it splits 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 the Group's functional currency i.e. internal purchases, sales between

manufacturing units and sales companies, external sales and purchases in foreign currencies.

Foreign currency flows are hedged on a net exposure basis in accordance with the rules set out in the Group Financial Policy. The guideline for Group companies is to hedge 75% (+/-10%) for a period up to 9 months if the total exposure to forecasted net flows of foreign currency exceeds the equivalent of 2% of total turnover of the company. The Group uses forward contracts to hedge its foreign currency exposure and applied hedge accounting.

In addition to hedging foreign currencies, 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 flows within the Group.

The following tables show the Group's exposure to currency risk.

Cash flows by currency before financing activities

Additional unaudited information – pro forma cash flows by currency before financing activities

EUR million, 2017	EUR	SEK	USD	BRL	CNY	KRW	Other
Net sales	1,260	55	660	110	66	15	63
Operating costs	-1,155	-200	-480	-120	-55	-35	-54
Net cash flow	105	-145	180	-10	11	-20	9

EUR million, 2016	EUR	SEK	USD	BRL	CNY	KRW	Other
Net sales	848	50	165	68	5	-	7
Operating costs	-720	-185	-80	-79	-3	-	-1
Net cash flow	128	-135	85	-11	2	-	6

At the end of the reporting period, the hedge ratio for the next 9 months was approximately 80% for USD (including indirect annual exposure of about EUR 140 million) and about 70% for SEK. The exposures in other currencies are limited and not hedged.

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.

EUR million, Q1-Q3 2018	EUR	SEK	USD	BRL	CNY	KRW	Other
Currency change of 5% to EUR	-	-1.6	0.8	-0.3	0.4	-0.7	0.3

Translation exposure

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 Group's translation exposure due to its net investments in foreign subsidiaries in major currencies.

Group translation exposure, EUR million	Net investment in subsidiaries	
	2017	2016
SEK	175.7	142.9
USD	158.7	-
BRL	108.8	77.2
CNY	51.7	3.4

The following table shows the Group's estimated sensitivity for a currency rate change of a weaker EUR of 5%.

EUR million	SEK	USD	BRL	CNY
Currency change of 5% to EUR	9.2	8.4	5.7	2.7

Cash flow hedging of currency risks

Ahlstrom-Munksjö uses cash flow hedges with the aim of neutralizing foreign exchange risk on future cash flows or switching floating rate debt into fixed rate debt. At the balance sheet date, the Group has outstanding USD and CNY loan amounts to subsidiaries of EUR 20.8 million and EUR 3.2 million respectively which are hedged at the balance sheet date.

The change in hedge reserve in the Statement of Changes in Equity is analyzed in the table below:

Change in hedge reserve, EUR million	2017	2016
Opening	-0.5	-1.2
Changes in fair value	0.8	-2.4
Realized hedges	-0.7	3.1
Closing	-0.5	-0.5
Deferred tax	0.0	0.0
Hedging reserve net of tax in equity	-0.4	-0.5

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;
- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated (i.e. the actual results of the hedge are within a range of 80-125%).

For the purposes of the Group's hedge accounting, hedges are classified as:

- Cash flow hedges when hedging exposure to variability in cash flows that is attributable to either a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.
- As the hedged items is not recognized in the balance sheet the effective portion of change in fair value of the hedging instrument is booked in other comprehensive income. It is reclassified in profit or loss when the hedged item affects the profit or loss or in the initial cost of the hedged item when it relates to the hedge of a non-financial asset acquisition cost.

Hedge accounting can be terminated when the hedged item is no longer recognized, when the Group voluntarily revokes the designation of the hedging relationship or when the hedging instrument is terminated or exercised. The accounting consequences for a cash flow hedge are:

- Amounts recorded in other comprehensive income are immediately reclassified in profit or loss when the hedged item is no longer recognized. In all other cases, amounts are reclassified in profit or loss, on a straight line basis, throughout the remaining life of the hedging relationship. Subsequent changes in the value of the hedging instrument are recorded in profit and loss.

Commodity risk

Commodity risk refers to the risk that changes in the cost of raw materials (pulp, titanium dioxide 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 Financial Policy. The guideline for this hedging is that hedging will 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.

Funding risk

Funding risk refers to the risk that 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 Group Finance Policy which aim to mitigate the funding risk:

Spreading debt maturities

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.

Ahlstrom-Munksjö's cash needs in respect of meeting its financial liabilities are shown in the tables below. The maturity analysis was determined at the balance sheet date. The maturity analysis is based on undiscounted cash flows, excluding interest payments that are shown separately at the bottom of the table. The interest payments are based on market conditions at the balance sheet date.

Maturity of financial liabilities, EUR million, 2017	Within 1 Year	Within 1-2 Years	Within 2-3 Years	More than 3 Years	Total
Non-derivative financial liabilities					
Bonds	-	-	-	2500	2500
Bank loans	16.0	16.0	140.2	138.1	310.3
Uncommitted loans	55.4	0.9	0.8	-	57.1
Finance lease liabilities	2.2	1.0	0.7	1.3	5.2
Trade payables	287.7	-	-	-	287.7
Total	361.3	17.9	141.7	389.4	910.3
Future interest on financial liabilities	10.5	10.3	8.7	14.5	44.0
Derivative financial liabilities					
Interest rate swaps used for hedging	-0.2	-	-	-	-0.2
Forward exchange contracts used for hedging:					
Outflow	-132.3	-	-	-	-132.3
Inflow	132.1	-	-	-	132.1

Maturity of financial liabilities, EUR million, 2016	Within 1 Year	Within 1-2 Years	Within 2-3 Years	More than 3 Years	Total
Non-derivative financial liabilities					
Bonds	-	-	-	-	-
Bank loans	16.0	16.0	211.0	59.7	302.7
Uncommitted loans	3.2	0.7	0.7	1.5	6.1
Finance lease liabilities	1.6	2.2	1.6	1.4	6.8
Trade payables	162.9	-	-	-	162.9
Total	183.7	18.9	213.3	62.6	478.5
Future interest on financial liabilities	6.3	6.0	4.8	2.6	19.7
Derivative financial liabilities					
Interest rate swaps used for hedging	-0.8	-0.2	-	-	-1.0
Forward exchange contracts used for hedging:					
Outflow	-90.1	-	-	-	-90.1
Inflow	90.6	-	-	-	90.6

Liquidity risk

Liquidity risk is the risk that Ahlstrom-Munksjö will not have sufficient funds to pay foreseen and unforeseen expenditures. In order to mitigate this risk, Ahlstrom-Munksjö Treasury team monitor the Group's cash pools, bank agreements and liquidity to ensure at all times that there is sufficient liquidity.

Cont. note 19

The table below represents the total amount of funds that are available to the Group at the balance sheet date, including bank overdrafts and undrawn available facilities.

Liquidity position, EUR million	2017
Bank overdrafts	12.5
Cash and cash equivalents	245.9
Available undrawn credit facilities – uncommitted	73.8
Available undrawn credit facilities – committed	200.0
Liquidity position	532.2

Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements

Ahlstrom-Munksjö have a number of counterparties in respect of which the Group is both buyer and seller. Consequently, Ahlstrom-Munksjö's gross financial assets can be significant before offsetting.

Offsetting is typically limited within specific products and it is possible when payment and receipt from the same counterparty occur simultaneously.

The table below shows financial assets and liabilities that are subject to offsetting agreements.

Derivative instruments, EUR million	Carrying value of recognized financial assets/liabilities(-)	Master netting arrangements	Net amount
2017			
Derivative assets	1.4	-1.2	0.2
Derivative liabilities	-1.8	1.2	-0.6
2016			
Derivative assets	1.2	-0.3	0.9
Derivative liabilities	-1.7	0.3	-1.4



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. The amounts netted are not significant.



Accounting estimates and judgements

Judgement is required to determine whether the right to offset is legally enforceable.

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, trade payables, borrowings and derivatives.

Classification of financial assets into different measurement categories depends on the purpose for which the financial assets were initially acquired and is determined at the acquisition date.

The following table summarizes the Group's carrying value of financial assets and liabilities by categories:

EUR million	2017	2016
Loans and trade receivables	452.3	252.3
Derivatives under hedge accounting	-0.6	-0.5
Fair value through profit and loss	0.2	-
Financial liabilities measured at amortized cost	908.7	491.4

Fair value 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	2017			2016		
	Carrying value	Fair value	Level	Carrying value	Fair value	Level
Non-current financial instruments measured at amortized cost						
Bonds	248.5	256.1	1	-	-	1
Bank loans	367.4	367.4	2	308.8	308.8	2
Finance leases	5.2	5.2	2	6.8	6.8	2
Financial instruments measured at fair value						
Derivatives (swaps and FX forwards)	-0.4	-0.4	2	-0.5	-0.5	2
Electricity derivatives	-	-	2	0.0	0.0	2

The Group considers that the carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements. In addition, the Group considers the carrying amount and fair value of bank loans the same as the Group's credit spread has not moved.

**Accounting policies****Financial assets and financial liabilities****Fair value through profit and loss**

Financial assets at fair value through profit or loss 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.

Loans and receivables

Loans and receivables 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, as well as through the amortization process. This category of financial assets includes trade and other receivables. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and generally have a maturity of three months or less from the date of acquisition.

Derivatives used for hedging

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described above in the Derivative instruments and hedging activities policy.

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 finance debt, except finance debt designated in a fair value hedge relationship.

Fair value of financial assets and liabilities

The financial assets and liabilities measured at fair value in the balance sheet have been classified based on the three hierarchy levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2: inputs that are observable for the asset or liability, either directly or indirectly;
- level 3: unobservable inputs for the asset or liability.

The Group considers that the carrying amount of cash, trade receivables and various deposits provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements.

For financial liabilities at amortized cost, the fair value of financial liabilities is determined using:

- the quoted price for listed instruments (a detailed analysis is performed in the case of a material decrease in liquidity to evidence whether the observed price corresponds to the fair value; otherwise the quoted price is adjusted);
- the present value of estimated future cash flows, discounted using rates observed by the Group at the end of the period for bank loans, finance leases and other instruments.

The fair value of derivatives are based on valuations provided by external parties using various valuation techniques. The fair value of interest rate swaps is calculated by discounting the estimated future cash flows based on observable yield curves. 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 remaining financial instruments are fair valued using discounted cash flow analysis.

Other notes

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OFF-BALANCE SHEET COMMITMENTS

Ahlstrom-Munksjö has the following off-balance sheet commitments at the balance sheet date.

Off-balance sheet commitments, EUR million	2017	2016
Assets pledged:		
Mortgages	-	105.9
Pledges	1.8	1.5
Commitments:		
Guarantees and commitments given on behalf of Group companies	68.6	25.9
Capital expenditure commitments	10.3	-
Other guarantees and commitments	5.3	2.0

The EUR 105,9 million mortgage relating to Munksjö financing arrangements was released at the refinancing of the combined company April 3, 2017. Guarantees and commitments given on behalf of Group companies include a pension liability guarantee EUR 28.3 million in the U.K. Other guarantees and commitments include binding contract for purchases of energy among others.



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.

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AHLSTROM-MUNKSJÖ SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS AND RELATED PARTY TRANSACTIONS

The Group holds interests in a number of subsidiaries and associates which are outlined below along with their value at the year end, if applicable.

Equity accounted investments

Ahlstrom-Munksjö holds a 13% 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 794,578 m³ (775,000 m³) amounting to EUR 35,8 million (EUR 39.2 million).

Associated companies	Corporate ID	Registered office	Country	Share of equity, %	Share of votes, %
Sydved AB – associated company	556171-0814	Jönköping	Sweden	13	33

Book value of associated company, EUR million	2017	2016
Book value at the beginning of the year	2.2	2.3
Dividend	-0.7	-
Share of earnings for the year	-0.2	0.0
Translation differences	-0.1	-0.1
Book value at the end of year	1.2	2.2

Share of Sydved AB's assets, equity, net sales and profit before tax, EUR million	2017	2016
Assets	16.2	17.3
Equity	0.9	2.2
Net sales	87.4	89.7
Profit before tax	-0.2	0.0

The carrying value of the associated company Sydved AB has no goodwill included. The Group's liabilities to Sydved amounted to EUR 3.8 million (EUR 7.0 million). Share of profit of the associated company is EUR -0.2 million (EUR 0.0 million).

Joint operations

Until the merger of Ahlstrom-Munksjö, the Group had an interest in a joint operation, AM Real Estate S.r.l. located in Turin Italy. The other investor in the arrangement was an Ahlstrom group company. Following the merger, the arrangement became a wholly-owned subsidiary of Ahlstrom-Munksjö. The pre-acquisition share in the arrangement for Munksjö are presented below:

Share of AM Real Estate S.r.l.'s assets, equity, net sales and profit before tax, EUR million	2016
Assets	12.5
Equity	12.5
Net sales	1.6
Profit before tax	0.3

AM Real Estate S.r.l has no contingent liabilities.

Ahlstrom-Munksjö Paper GmbH is buying electricity and gas from Stadtwerke Aalen GmbH who owns 40% of Ahlstrom-Munksjö Paper GmbH's subsidiary Kraftwerksgesellschaft Unterkochen GmbH. The related purchase amounts to EUR 5.9 million (EUR 6.1 million).

Cont. note 21

The consolidated accounts include the following entities:

Company name	Registered office	Share of equity %
Ahlstrom-Munksjö Oyj	Finland	Parent
Ahlstrom-Munksjö AB	Sweden	100
Munksjö UK Limited	United Kingdom	100
Ahlstrom-Munksjö Aspa Bruk AB	Sweden	100
Ahlstrom-Munksjö Paper AB	Sweden	100
Ahlstrom-Munksjö Electrotechnical Paper AB (dormant)	Sweden	100
Munksjö Paper S.P.A.	Italy	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 Brasil Indústria e Comércio de Papéis Especiais Ltda	Brazil	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 Apprieu S.A.S.	France	100
Ahlstrom-Munksjö Paper Trading (Shanghai) Co., Ltd	China	100
Munksjö Rus LLC	Russia	100
Ahlstrom-Munksjö Asia Holdings Pte Ltd	Singapore	100
PT Ahlstrom-Munksjö Indonesia	Indonesia	100
Ahlstrom-Munksjö Barcelona, S.A	Spain	100
Ahlstrom Brasil Indústria e Comércio de Papéis Especiais Ltda	Brazil	100
Ahlstrom-Munksjö Chirside Limited	United Kingdom	100
Ahlstrom-Munksjö Fibercomposites (Binzhou) Limited	China	100
Ahlstrom-Munksjö Fiber Composites India Private Ltd	India	100
Ahlstrom-Munksjö Germany GmbH	Germany	100
Ahlstrom-Munksjö Glassfibre Oy	Finland	100
Ahlstrom-Munksjö Tver LLC	Russia	100
Ahlstrom-Munksjö Industries	France	100
Ahlstrom-Munksjö Brignoud	France	100
Ahlstrom-Munksjö Tampere Oy	Finland	100
Ahlstrom-Munksjö Specialties	France	100
Ahlstrom-Munksjö Japan Inc.	Japan	100
Ahlstrom-Munksjö Korea Co., Ltd	South Korea	100

Company name	Registered office	Share of equity %
Ahlstrom-Munksjö Malmédy SA	Belgium	100
Ahlstrom-Munksjö Monterrey, S. de R.L. de C.V.	Mexico	100
Ahlstrom-Munksjö Product & Technology Center – Shanghai	China	100
Ahlstrom-Munksjö South Africa (Pty) Ltd	South Africa	100
Ahlstrom-Munksjö Stålldalen AB	Sweden	100
Ahlstrom-Munksjö Falun AB	Sweden	100
Ahlstrom-Munksjö USA Inc.	USA	100
Ahlstrom-Munksjö Filtration LLC	USA	100
Ahlstrom-Munksjö Nonwovens LLC	USA	100
Windsor Locks Canal Company	USA	100
Ahlstrom-Munksjö 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



Accounting policies

Subsidiaries, joint operations and associates

Subsidiaries are entities that are directly or indirectly controlled by Ahlstrom-Munksjö controls, i.e. when the Group is exposed to, or has rights to, variable returns from its involvement and has the ability to affect those returns through exercising power. Subsidiaries are consolidated from the date control is achieved to the date when the Group ceases to exercise power.

Associated companies are those in which the Group has a significant influence over operational and financial policies. Significant influence is the power to participate in, but not control or jointly control, the financial and operating decisions of the investee. These investments are accounted for using the equity method.

The Group recognizes 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 2017 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	2017	2016
Audit fees	1.1	0.5
Audit-related fees	0.3	-
Tax service fees	0.3	-
Other fees	-	0.2
Total	1.7	0.7

23 NEW ACCOUNTING STANDARDS

IFRS 9

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments – Recognition and Measurement. The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018:

Classification and measurement of financial assets will be based on how the assets are managed. The Group expects that the new guidance will have only minor impacts to classification and measurement of financial asset because the largest financial asset class is trade receivables and the amount of other financial assets is low.

The new rules of IFRS 9 for hedge accounting will align more closely with common risk management practices and allow net hedging. The new rules will mean that only prospective effectiveness testing is needed. The group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

Impairment assessment of financial assets will be based on expected loss method. The Group expects the new guidance to have an impact on timing of credit losses on trade receivables due to the fact that under IFRS 9 credit losses will be recognized earlier than currently. The Group estimates the restatement impact to equity and trade receivables to remain insignificant because historically realized credit losses have been low and the Group has credit insurance program in place.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15

IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. 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 principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue

Furthermore, IFRS 15 requires extensive disclosures.

The Group will adopt the new standard IFRS 15 Revenue from customer contracts as of January 1, 2018. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group will adopt the new standard using the full ret-

KPMG Oy Ab has provided non-audit services to the entities of Ahlstrom-Munksjö Group in total of EUR 0.5 million during the financial year 2017. These services included auditors's statements EUR 0.1 million and other services EUR 0.4 million.

rospective method. During 2017, the Group performed an assessment of IFRS 15 impacts and as a result, no significant accounting changes are expected.

Sale of goods

The Group is delivering goods to the customer where each good provided to the customer is distinct from the other goods provided to the customer. A typical good consist of a package of sheet of paper, a roll of paper or a cube of pulp. The Group does not provide services.

Compared to the current accounting standard, the new standard does not entail any change in identification and accounting for the delivery of goods. Revenue is recognized when control of goods have been transferred to the customer. In assessing and implementing IFRS 15 the Group considered the following:

Step 1 – Identify the contracts with a customer

Based on the IFRS 15 assessment, the Group will not have any changes compared to the current practice for identifying the contracts with customers.

A typical contract with customer consists of purchase order and order confirmation, including the general terms and conditions of the arrangement.

Step 2 – Identify the performance obligations in the contract

Based on the assessment, the Group deliver goods to the customer and each good is considered distinct from the other goods provided to the customer. Ahlstrom-Munksjö does not provide any services. The Group will not have any significant changes compared to the current practice.

Warranties

Based on assessments made, no service type warranties are included in the customer contracts. Only standard assurance-type warranties are commonly included in the agreements to sell goods and services, whether explicitly stated or implied based on the Group's customary business practices.

Step 3 – Determine the transaction price

The Group assessed individual contracts to determine the estimated variable consideration and related constraint. As a result, the application of the constraint will not have a significant impact in terms of revenue recognition as variable considerations in the sale of goods are immaterial. However, the Group will have some impact on harmonization of accounting treatment regarding some variable consideration such as discounts.

Variable consideration

Based on the analysis performed, the Group's contracts typically include variable considerations relating to discounts.

Based on the assessment the Group will align the estimation procedures and the timing of recognition of discounts. What comes to the volume discounts, the Group will harmonize the process and record the accrual and adjust the accrual on a monthly basis based on the expected value for the variable consideration. In other words, the Group will determine the amount of consideration to which the Group expects to be entitled (i.e. over-recognition of revenue to be prevented). Only changes to be made will consist of streamlining the practice relating to treatment of the variable consideration. Impact of changes is considered immaterial.

Step 4 – Allocate the transaction price to the performance obligations in the contract

Based on the assessment, there will not be changes that would take a place in terms of allocating the transaction price to the performance obligations in the contracts.

Step 5 – Recognize revenue

The Group has assessed that the revenue recognition will take place at a point in time when the control of the good is transferred to the customer, generally when the goods are shipped to the customer. The goods in transit are quarterly reviewed and recognized as goods in transit at period closing if the control has not yet transferred to the customer.

Consignment stock agreements

Based on the assessment, the Group has consignment arrangement in several business areas. The control of goods in consignment stock is transferred to the customer and the revenue recognized for the goods either when the customer takes the product into its own use or in some cases when certain amount of time has passed, whichever takes a place first.

There will not be any changes to Ahlstrom-Munksjö's current practice.

IFRS 16

IFRS 16 Leases is effective on January 1, 2019 and the new standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The new lease standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for the majority of Ahlstrom-Munksjö's lease contracts. An optional exemption

exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest cost and depreciation, so our key metrics like EBITDA will change.

Operating cash flows presented in the cash flow statement will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflect interest cost will continue to be presented as operating cash flows.

Based on Ahlstrom-Munksjö's preliminary impact assessment, the implementation of IFRS 16 will increase the property, plant and equipment in its balance sheet, mainly due to current operating leases of warehouses and warehouse equipment (see more information on operating leases in Note 6). Ahlstrom-Munksjö's expects that the impact will be relatively low due to a moderate number of off-balance sheet leases. In the consolidated income statement, the operating expense will decrease, while depreciation and interest costs will reflect an increase as the lease expense is no longer classified as an operating expense. This will lead to an improvement in EBITDA. The Group is in the process of assessing its lease portfolio and quantifying the impact of adopting IFRS 16 and will continue to report on the expected impact in its financial reports.

The Group expects to implement the standard by using a simplified approach (modified retrospective approach), where comparative figures will not be restated. The Group will recognize the accumulated effect of adopting IFRS 16 as an adjustment to equity at the beginning of 2019. Furthermore, the Group expects to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value leases.

24 POST-BALANCE SHEET EVENTS

On February 12, 2018, the Board of Directors of Ahlstrom-Munksjö decided on a new performance period under the long-term share-based incentive plan. The first performance period started as of 2017 as further described in a stock exchange release issued on October 24, 2017. The Board has now decided on the commencement of a further plan period for 2018–2020. The performance criteria for the 2018–2020 performance period will be the Total Shareholder Return (TSR) including share price change and profit distribution during the performance period. Additionally, no reward will be paid in case an underlying EBITDA requirement is not met. The full release is available at <https://www.ahlstrom-munksjo.com/Media/releases/>

Parent company financial statements, FAS

The Parent Company Financial Statements are prepared according to Generally Accepted Accounting Principles in Finland "Finnish GAAP". Accounting principles are available in Group Consolidated Financial Statements. The main differences between the accounting policies of the Group and the Parent Company are:

- Hedge accounting is not applied to derivative contracts
- Costs related to the combination of Munksjö AB and Ahlstrom Oyj's Label and Processing business
- Costs related to the listing of the company's shares on the Helsinki stock exchange

Income statement

EUR million	2017	2016
Net sales	600	4.3
Other operating income	0.0	0.0
Personnel costs	-3.8	-0.9
Depreciation and amortization	-3.0	-2.9
Other operating expense	-38.6	-6.7
	-45.5	-10.5
Operating profit	14.5	-6.2
Financing income and expense		
Dividend income	9.8	-
Interest and other financing income	16.2	11.3
Interest and other financing expense	-24.7	-9.5
Gains and losses on foreign currency	-2.1	-1.7
	-0.9	0.1
Profit/loss before appropriations and taxes	13.6	-6.1
Appropriations		
Change in cumulative accelerated depreciation	0.2	-
Group contributions	6.7	-
Income taxes	-2.3	1.2
Profit/loss for the period	18.2	-4.9

Balance sheet

EUR million	Dec 31, 2017	Dec 31, 2016
ASSETS		
Non-current assets		
<i>Intangible assets</i>		
Intangible rights	28	0.7
Other long term expense	10.8	15.7
Advances paid	2.9	-
	16.5	16.4
<i>Tangible assets</i>		
Land and water areas	0.0	-
Machinery and equipment	0.4	-
Other tangible assets	0.1	-
	0.5	-
<i>Long-term investments</i>		
Shares in Group companies	1,105.3	364.9
Shares in associated companies	-	9.9
Shares in other companies	0.1	-
	1,105.4	374.7
Current assets		
<i>Long-term receivables</i>		
Receivables from Group companies	302.0	248.4
Deferred tax assets	2.2	3.2
	304.2	251.6
<i>Short-term receivables</i>		
Receivables from Group companies	81.5	26.0
Other short-term receivables	0.3	0.0
Prepaid expenses and accrued income	2.4	0.0
	84.2	26.1
Cash and cash equivalents	116.3	126.2
TOTAL ASSETS	1,627.1	795.1

Balance sheet

EUR million	Dec 31, 2017	Dec 31, 2016
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	85.0	15.0
Non-restricted equity reserve	408.7	286.2
Retained earnings	212.5	-27.7
Profit/loss for the period	18.2	-4.9
	724.4	268.6
Appropriations		
Cumulative accelerated depreciation	0.3	-
	5.1	0.7
Liabilities		
<i>Long-term liabilities</i>		
Loans from financial institutions	538.1	286.7
Loans from Group companies	-	13.0
Loans from associated companies	-	1.8
	538.1	301.4
<i>Short-term liabilities</i>		
Loans from financial institutions	16.0	16.0
Trade payables	2.8	0.5
Liabilities to Group companies	328.6	201.9
Other short-term liabilities	0.5	-
Accrued expenses and deferred income	11.3	6.1
	359.2	224.4
Total liabilities	897.3	525.8
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,627.1	795.1

Statement of cash flows

EUR million	2017	2016
Cash flow from operating activities		
Operating profit	14.5	-6.2
Depreciation, amortization and write-downs	3.0	2.9
Other adjustments	0.8	-
Operating profit before change in net working capital	18.3	-3.3
Change in net working capital	-0.6	4.4
Cash generated from operations	17.7	1.1
Interest income	15.8	0.2
Interest and other financing expense	-22.2	-
Income taxes	-0.5	-
Net cash from operating activities	10.7	1.3
Cash flow from investing activities		
Capital expenditures	-2.0	-0.8
Dividends received	9.8	-
Net cash used in investing activities	7.8	-0.8
Cash flow from financing activities		
Change in notes receivable and short-term investments	-18.5	9.4
Change in long-term debt	135.9	-18.4
Change in short-term debt	-111.1	57.3
Purchase of own shares	-5.6	-
Dividends and repaid capital	-48.2	-15.2
Net cash used in financing activities	-47.5	33.1
Net change in cash and cash equivalents	-29.0	33.6
Cash and cash equivalents at the beginning of the period	126.2	92.6
Cash and cash equivalents from merger	19.1	-
Cash and cash equivalents at the end of the period	116.3	126.2

Proposal for the distribution of profits

The Parent Company's balance sheet on December 31, 2017 shows:

	EUR
Non-restricted equity reserve	408,669,848.86
Retained earnings	212,522,234.02
Profit for the period	18,191,874.68
Total distributable funds	639,383,957.56

The Board of Directors proposes to the Annual General Meeting to be held on March 21, 2018 as follows:

- a dividend of EUR 0.52 per share to be paid from the retained earnings corresponding to	49,958,329.72
- non-restricted equity reserve carried forward	408,669,848.86
- to be retained in retained earnings	180,755,778.98
	639,383,957.56

The dividend shall be paid in two instalments. The first instalment of EUR 0.26 per share shall be paid to a shareholder who on the record date of the payment, March 23, 2018, is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB. The payment date proposed by the Board of Directors for this instalment is April 3, 2018.

The second instalment of EUR 0.26 per share shall be paid in September 2018 to a shareholder who on the record date of the payment is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB, which, together with the payment date, shall be resolved by the Board of Directors in its meeting scheduled for September 10, 2018. The record date of the payment would be September 12, 2018 and the payment date September 19, 2018, at the latest.

Helsinki, February 12, 2018

Hans Sohlström

Alexander Ehrnrooth

Johannes Gullichsen

Hannele Jakosuo-Jansson

Harri-Pekka Kaukonen

Peter Seligson

Elisabet Salander Björklund

Pernilla Walfridsson

Jan Åström
CEO

Auditor's report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

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 2017. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, 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 537/2017 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.

Valuation of goodwill, other intangible assets and fixed assets – refer to note 12 of the consolidated financial statements

THE KEY AUDIT MATTER

At the end of the financial year, the group had EUR 429 million of goodwill, EUR 309 million of other intangible assets and tangible assets amounting to EUR 842 million. The goodwill amounts to 41 percent of the group equity and 18 percent of the group's total assets at 31 December, 2017.

According to the IFRS standards goodwill is not depreciated but instead it is subject to an annual impairment test. The impairment tests are based on material management estimates including long term growth, profitability and discount rates.

Acquisition related intangible assets have a definitive useful life, however, the useful lives and related amortization periods are assessed annually.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

We assessed the impairment tests prepared by management. We have involved KPMG valuation specialists in our audit. Our assessment included the following procedures:

- Tested the integrity of the calculations and the technical model.
- Challenged the assumptions used by management in respect of forecasted growth rates and the appropriateness of the discount rates used. We also assessed the assumptions used in relation to market and industry information.
- We evaluated the cash flows used by comparing to the group's budgeting process and the understanding we gained from our audit.
- Furthermore, we have considered the adequacy of the group's disclosures in respect of the impairment testing.

For acquisition related intangible assets, we challenged management's assumptions regarding the remaining useful life of identified intangible assets based on our own expectations and on our knowledge of the client and experience of the industry in which it operates as well as external data sources

Business combinations: Purchase price allocation on acquisitions – refer note 3 of the consolidated financial statements

THE KEY AUDIT MATTER

In 2017, Ahlstrom and Munksjö were combined. For accounting purposes Munksjö was determined to gain control over Ahlstrom and the purchase consideration of EUR 633 million was based on the fair value of shares issued to Ahlstrom shareholders. Acquisition accounting requires the fair value of the acquired assets and liabilities at the acquisition date to be determined. This involved complex valuation considerations and required the use of specialists. Goodwill arising from the acquisition was EUR 214 million, intangible assets at fair value EUR 289 million and property, plant and equipment EUR 453 million.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

The purchase price allocation includes significant judgments in assessing the fair values of the assets and liabilities acquired. The fair values are based on the anticipated future performance of the acquired entities. With the involvement of KPMG valuation specialists, we challenged and evaluated key assumptions made by management and their advisors. This include the challenge of the key assumptions made by management, such as the discount rates, royalty rates applied, and the projected financial information.

We evaluated the adequacy of disclosures in the group's financial statements.

Revenue recognition – refer to note 5 to the consolidated financial statements

THE KEY AUDIT MATTER

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 significant risks and rewards associated with ownership are transferred to the buyer in accordance with the terms of delivery.

In general, revenue recognition within the group is not complex but due to the large volumes of transactions and the fact that the revenue is generated through subsidiaries in different countries revenue recognition has been identified as an area of focus in the audit.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

During our audit we have focused on identifying unusual sales transactions. Component 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 work performed by the auditors in the subsidiaries and on group level made an overall assessment of the revenue recognition.

Valuation of Inventories – refer to note 13 to the consolidated financial statements

THE KEY AUDIT MATTER

The value of inventories amounted to EUR 282 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 follow-up and valuation is appropriately organized.

The valuation of inventories is based on management estimates in respect of obsolescence assessment.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

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 24.2.2014, and our appointment represents a total period of uninterrupted engagement of 4 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.

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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 12 February 2018
KPMG OY AB

Anders Lundin
Authorised Public Accountant, KHT

SHAREHOLDER INFORMATION

Engaging with investors

The interest from our shareholders and financial community at large has increased notably following the completion of the merger. Our new structure and business portfolio, updates on the targeted synergy benefits as well our ability to keep our margins steady despite sharp increase in input costs were among the most topical issues during the year.

Our top management and Investor Relations team was active in meeting investors and analysts throughout the year, not only in our domestic markets in Helsinki and Stockholm, but also in London, Paris, Zurich, Geneva, Frankfurt, New York and Oslo. We also held an Investor Day in Helsinki in June and as part of a refinancing initiative did a roadshow for bond investors in May.

Investor relations

Ahlstrom-Munksjö's Investor Relations function maintains a continuous dialogue with the financial community. The main goal of this is to support a true and fair valuation of the company's share at all times by providing correct, adequate and consistent information to the market in a timely manner. We follow the principle of transparency and impartiality and aim to provide the best possible service to its stakeholders.

All inquiries relating to investor relations are processed through the Investor Relations function. Investor communications include, among other things, annual and interim reports, briefings held in conjunction with the publication of interim reports, stock exchange and press releases, the Investors section of the website, regular contacts with analysts and investors, as well as other investor events. All the materials are available at www.ahlstrom-munksjo.com/Investors.

Ahlstrom-Munksjö shares and shareholders

Ahlstrom-Munksjö's shares are listed on the Nasdaq Helsinki as well as on the Nasdaq Stockholm. All shares carry one vote and have equal voting rights. The trading code is AMI in Helsinki and AMIS in Stockholm.

On December 31, 2017, Ahlstrom-Munksjö's share capital amounted to EUR 85 million, and the total number of shares since April 1, 2017 has been 96,438,573. Ahlstrom-Munksjö held a total of 364,862 of its own shares, corresponding to approximately 0.4% of the total shares and votes.

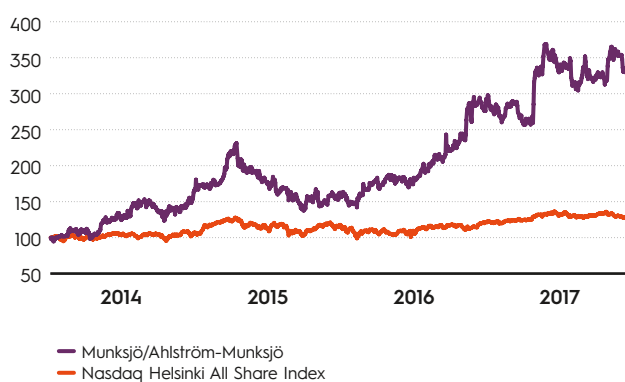
Share price performance and trading

	Nasdaq Helsinki		Nasdaq Stockholm	
	2017	2016	2017	2016
Share price at the end of the period, EUR/SEK	18.17	15.80	177.30	151.00
Highest share price, EUR/SEK	20.49	16.38	199.50	163.00
Lowest share price, EUR/SEK	13.75	7.60	131.50	71.75
Market capitalization at the end of the period ¹⁾ , EUR million	1,745.7	802.0	N/A	N/A
Trading value, EUR/SEK	263,661,847	78,248,110	398,808,363	229,430,771
Trading volume, shares	15,001,839	6,871,859	2,344,067	2,132,958
Average daily trading volume, shares	59,978	27,161	9,339	8,464

¹⁾ Excluding the shares held by the company.

Ahlstrom-Munksjö's shares are also traded on alternative exchanges, such as Cboe and Turquoise. During the reporting period, the shares traded on Nasdaq Helsinki represented 80.2%, Nasdaq Stockholm 10.6% and the alternative exchanges 9.2% of the total trading volume (source: Fidessa Fragmentation Index).

Share price development¹⁾



¹⁾ Indexed to 100 on Jan. 2, 2014.

Total shareholder return (TRS)

	2017	2016	2015	2014	Total
Ahlstrom-Munksjö	17.9%	93.4%	-9.9%	72.4%	285.3%
Nasdaq Helsinki All Share Index	9.1%	10.8%	13.6%	10.4%	50.9%
Nasdaq Stockholm All Share Index	8.9%	13.1%	9.7%	16.1%	53.2%

Payout and yield

	2017	2016	2015	2014
Return on equity / Dividend per share, EUR	0.52 ¹⁾	0.47 ²⁾	0.30	0.25
Effective yield, %	2.9	3.0	3.5	2.8

¹⁾ Proposal to the AGM.

²⁾ Converted by using the same number of shares as in 2017

Shareholders

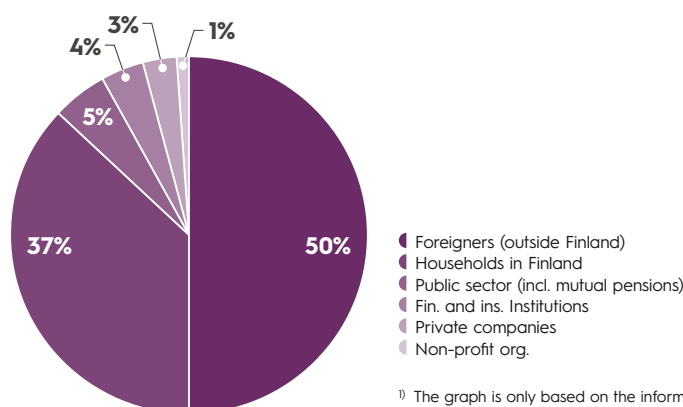
The company had 11,622 shareholders at the end of the reporting period, according to Euroclear Finland. The largest shareholders include Ahlström Capital and Viknum AB, which both hold over ten percent of the company's share capital. For more information on the shareholders, please see the table below. A list of Ahlstrom-Munksjö's largest shareholders, which is updated once a month, is available in the Investors section of the company's website at www.ahlstrom-munksjo.com/Investors.

Major shareholders at Dec. 31, 2017

	Shareholder	Exchange	Shares	% of shares
1	Ahlström Capital Group	HEL	17,710,919	18.37
2	Viknum AB	HEL	11,625,005	12.05
3	Ilmarinen Mutual Pension Insurance Company	HEL	3,019,581	3.13
4	Huber Mona Lilly	HEL	1,911,672	1.98
5	Odin Funds	STO/HEL	1,389,952	1.44
6	Tracewski Jacqueline	HEL	1,326,487	1.38
7	Varma Mutual Pension Insurance Company	HEL	1,306,732	1.36
8	Nahi Kai Anders Bertel	HEL	1,232,459	1.28
9	Emmett Linda-Maria	HEL	1,073,628	1.11
10	Kylmälä Kim	HEL	1,070,888	1.11
11	Seligson Peter	HEL	1,064,979	1.10
	<i>Seligson Peter</i>	HEL	<i>852,960</i>	<i>0.88</i>
	<i>Balliska Handels A.B.</i>	HEL	<i>212,019</i>	<i>0.22</i>
12	Lund Niklas Roland	HEL	1,052,300	1.09
13	Sumelius John Michael	HEL	1,049,388	1.09
14	Studer Anneli	HEL	1,029,711	1.07
15	Huber Samuel	HEL	976,836	1.01
16	Gullichsen Johan Erik	HEL	975,890	1.01
17	Huber Karin	HEL	975,461	1.01
18	Koivulehto Monica	HEL	877,032	0.91
19	SEB funds	HEL	863,077	0.90
	<i>SEB Finlandia Fund</i>	HEL	<i>613,558</i>	<i>0.64</i>
	<i>SEB Finland Small Cap Fund</i>	HEL	<i>153,00</i>	<i>0.16</i>
	<i>SEB Finland Optimum Fund</i>	HEL	<i>69,899</i>	<i>0.07</i>
	<i>SEB Ethical Forum Fund</i>	HEL	<i>26,620</i>	<i>0.03</i>
20	Nordea Life Assurance Finland Ltd.	HEL	846,135	0.88

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, 2017¹⁾



¹⁾ The graph is only based on the information given by Euroclear Finland Ltd.

Number of shares	Number of shareholders	%	Number of shares	%
1 - 100	4,787	41.53	283,397	0.29
101 - 500	4,472	38.80	1,048,381	1.09
501 - 1,000	974	8.45	702,665	0.73
1,001 - 5,000	927	8.04	1,950,825	2.02
5,001 - 10,000	101	0.88	702,060	0.73
10,001 - 50,000	112	0.97	2,589,896	2.69
50,001 - 100,000	33	0.29	2,480,533	2.57
100,001 - 500,000	88	0.76	19,628,968	20.35
> 500,000	32	0.28	67,051,848	69.53
Total	11,526	100.00	96,438,573	100.00
Nominee registered			11,166,720	11.58

The table is only based on the information given by Euroclear Finland Ltd.

Information for shareholders

The Annual General Meeting of Shareholders (AGM) of Ahlstrom-Munksjö Oyj will be held on Tuesday, March 21, 2018 at 1:00 p.m. in Finlandia Hall (Mannerheimintie 13e, Helsinki, Finland).

In order to attend the Annual General Meeting, a shareholder must be registered in the company's register of shareholders, held by Euroclear Finland Ltd on the record date of March 9, 2018. As instructed on the notice, shareholders participating in the AGM must give prior notice to attend by March 18, 2018.

A shareholder, whose shares are registered in the register of the company's shareholders maintained by Euroclear Sweden AB, shall, to fulfill the requirements to attend the Annual General Meeting be entered in the register of the company's shareholders maintained by Euroclear Sweden AB on March 9, 2018, at the latest, and must contact Euroclear Sweden AB and request temporary registration in the shareholders' register of the company maintained by Euroclear Finland Ltd.

For further information, please visit www.ahlstrom-munksjo.com/agm2018.

Financial information in 2018

- Financial statements release 2017
Date of publication: February 13
- Annual report 2017
February 28, at the latest
- Interim report January-March 2018
Date of publication: April 24
- Half-year report January-June 2018
Date of publication: July 26
- Interim report January-September 2018
Date of publication: October 30

Analysts

The following investment banks and brokerage firms cover Ahlstrom-Munksjö in their research.

- Carnegie
- Danske
- Evli
- Handelsbanken
- Inderes
- Kepler Cheuvreux
- Nordea
- SEB Enskilda

The views and estimates presented by the analysts are their own and the company takes no responsibility on any of their statements.

General Disclosures

Disclosure Number	Description	Response/Page
GRI 102: GENERAL DISCLOSURES		
Organizational Profile		
102-1	Name of the organization	82
102-2	Activities, brands, products and services	4-5, 12-19
102-3	Locations of headquarters	5
102-4	Location of operations	4-5, 113-115
102-5	Ownership and legal form	82
102-6	Markets served	4-5
102-7	Scale of the organization	2-3, 4-5, 73, 79
102-8	Information on employees and other workers	33
102-9	Supply chain	26-27, 36
102-10	Significant changes to the organization and its supply chain	4-5, 6-7, 61, 84-85
102-11	Precautionary principle or approach	28, 40-45
102-12	External initiatives	25-28
102-13	Membership of associations	26-28
Strategy		
102-14	Statement from senior decision-maker	6-7
102-15	Key impacts, risks, and opportunities	26-27, 40-45
Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	10-11, 24, 33-35, 39 www.ahlstrom-munksjo.com/Careers/code-of-conduct/
Governance		
102-18	Governance structure	24-25, 46-59
Stakeholder engagement		
102-40	List of stakeholder groups	29-30
102-41	Collective bargaining agreements	www.ahlstrom-munksjo.com/Careers/code-of-conduct/
102-42	Identifying and selecting stakeholders	29-30
102-43	Approach to stakeholder engagement	29-30
102-44	Key topics and concerns raised	29-30
Reporting practice		
102-45	Entities included in the consolidated financial statements	113-115
102-46	Defining report content and topic Boundaries	30
102-47	List of material topics	30
102-48	Restatements of information	This is the first report for the merged company Ahlstrom-Munksjö.
102-49	Reporting period	Reported metrics are for the full year.
102-51	Date of most recent report	This is the first report for the merged company Ahlstrom-Munksjö.
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Contents page
102-54	Claims of reporting in accordance with the GRI Standards	Contents page
102-55	GRI content index	129-131
102-56	External assurance	The GRI-report has not been audited

Total number of employees	
a) By gender	
Female	1,216
Male	5,011
b) By region	
Belgium	78
Brazil	354
China	335
Finland	292
France	1,713
Germany	557
India	108
Indonesia	4
Italy	545
Japan	3
Korea	109
Lithuania	65
Mexico	3
Poland	1
Russia	82
Spain	171
Sri Lanka	2
Sweden	869
Taiwan	3
Thailand	5
UK	171
USA	757
c) By employment type	
Full time	6,026 of which Female 1,115, Male 4,911
Part time	201, of which Female 101, Male 100
d) Significant portion non-employees	
No	
e) Variations in a), b) or c)	
No	
f) Data compiling	
Global HR master data	

GRI CONTENT INDEX

Topic-Specific Standards

Disclosure Number	Description	Response	Reason for Omission
GRI 205: ANTI-CORRUPTION			
103-1	Explanation of the material topic and its Boundary	Page 27, 32, 39, 54	
103-2	The management approach and its components	Page 32, 39, 54	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
205-2	Communication and training about anti-corruption policies and procedures	Business ethics	Information unavailable – In 2017, the merged company Ahlstrom-Munksjö initiated the development of a Code of Conduct training program. The training program on Code of Conduct will be developed by end of year 2018, targeting training of all employees at regular intervals.
GRI 305: EMISSIONS			
103-1	Explanation of the material topic and its Boundary	Page 27, 32, 37	
103-2	The management approach and its components	Page 37	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
305-1	Direct (Scope 1) GHG emissions	Page 37	
GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT			
103-1	Explanation of the material topic and its Boundary	Page 27, 32, 36	
103-2	The management approach and its components	Page 32, 36	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
308-1	New suppliers that were screened using environmental criteria	Supply chain	Information unavailable – Currently, more than 90 percent of our chemical and fiber suppliers have signed our Supplier Code of Conduct or are considered compliant. In 2017, Ahlstrom-Munksjö has been developing new evaluation procedures for the newly combined company, with more diverse supply chains, with a goal of incorporating all suppliers into the system by end of 2018.
GRI 404: TRAINING AND EDUCATION			
103-1	Explanation of the material topic and its Boundary	Page 27, 31, 35	
103-2	The management approach and its components	Page 31, 35	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
404-3	Percentage of employees receiving regular performance and career development reviews	Employee well-being, employee development	Information unavailable – In 2017, the merged company Ahlstrom-Munksjö initiated the development of a new HR data management system that will be implemented in 2018.
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
103-1	Explanation of the material topic and its Boundary	Page 24, 35, 49	
103-2	The management approach and its components	Page 35, 49	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
405-1	Diversity of governance bodies and employees	Employee well-being, gender equality	Information partly unavailable – In 2017, the merged company Ahlstrom-Munksjö initiated the development of a new HR data management system that will be implemented in 2018.
		Board of Directors	Executive Management Team
	Gender	Female 37.5%, Male 62.5%	Female 30%, Male 70%
	Age, under 30 years old, %	0%	0%
	Age, 30–50 years old, %	20%	50%
	Age, over 50 years old, %	80%	50%

Disclosure Number	Description	Response	Reason for Omission
GRI 412: HUMAN RIGHTS ASSESSMENT			
103-1	Explanation of the material topic and its Boundary	Page 27, 33	
103-2	The management approach and its components	Page 33	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
412-2	Employee training on human rights policies or procedures	Human rights and Business ethics	Information unavailable – In 2017, the merged company Ahlstrom-Munksjö initiated the development of a Code of Conduct training program. The training program on Code of Conduct will be developed by end of year 2018, targeting training of all employees at regular intervals.
GRI 413: LOCAL COMMUNITIES			
103-1	Explanation of the material topic and its Boundary	Page 27, 31, 33	
103-2	The management approach and its components	Page 33	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
413-1	Operations with local community engagement, impact assessments, and development programs	Community engagement Page 33	
AHLSTROM-MUNKSJÖ'S OWN DISCLOSURES			
Employee well-being: Health & safety, Employee development, Gender equality			
103-1	Explanation of the material topic and its Boundary	Page 27, 31, 34–35	
103-2	The management approach and its components	Page 31, 34–35	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
Energy, water and waste			
103-1	Explanation of the material topic and its Boundary	Page 27, 32, 38–39	
103-2	The management approach and its components	Page 32, 38–39	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
Profitability			
103-1	Explanation of the material topic and its Boundary	Page 27, 32, 37	
103-2	The management approach and its components	Page 32, 37	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.
Innovation			
103-1	Explanation of the material topic and its Boundary	Page 27, 32, 39	
103-2	The management approach and its components	Page 32, 39	
103-3	Evaluation of the management approach		Information unavailable – This is Ahlstrom-Munksjö's first reporting period.

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 2017 also serves as Ahlstrom-Munksjö's Communication on Progress (COP), which is the first annual report on how the Group complies with the ten principles. The table shows where each Global Compact principle can be found in Ahlstrom-Munksjö's Annual and Sustainability Report 2017.

UN Global Compact ten principles	Page reference and comments
HUMAN RIGHTS	
1. Businesses should support and respect the protection of internationally proclaimed human rights in the spheres they can influence	33
2. Businesses should make sure that they are not complicit in human rights abuses	33
LABOUR	
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	33-35
4. Businesses should work to eliminate all forms of forced and compulsory labour	33-35
5. Businesses should work to abolish child labour	33-35
6. Businesses should eliminate discrimination in respect of employment and occupation	33-35
ENVIRONMENT	
7. Businesses should support a precautionary approach to environmental challenges	36-37
8. Businesses should undertake initiatives to promote greater environmental responsibility	36-37
9. Businesses should encourage the development and diffusion of environmentally friendly technologies	20, 36-37
CORRUPTION	
10. Businesses should work against corruption in all its forms, including extortion and bribery	39



The mark of responsible forestry

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Ahlstrom-Munksjö Oyj
Alvar Aallon katu 3 C
00100 Helsinki
Finland
Phone: +358 10 234 5000

Ahlstrom-Munksjö
P.O. Box 70365
107 24 Stockholm
Sweden
Phone: +46 10 250 1000

Headquarters

Ahlstrom-Munksjö
Klarabergsviadukten 70 D5
111 64 Stockholm
Sweden