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Part of Munksjö Annual Report

Financial Report and Governance

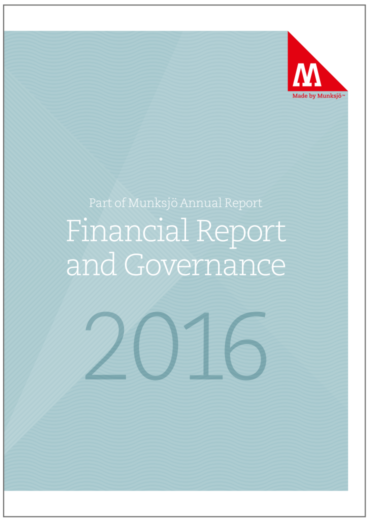
2016

Part of Munksjö Annual Report 2016

Financial Report and Governance

Munksjö's Annual Report 2016 consists of two parts. This is the Financial Report and Governance, also available in Swedish and Finnish. The other part is the Business Review.

The Business Review consists of a summary of Munksjö's businesses and a Sustainability Report, available in pdf format on munksjo.com.



Content

The formal audited part of this document is on pages 31–66.

More information

Financial information and GRI index

Munksjö's financial information can be read and downloaded on munksjo.com. There you also find the GRI index for our sustainability reporting.

munksjo.com

Information about our business

News as well as historical information about Munksjö can be found on our homepage.

munksjo.com

Corporate governance statement 2016

Munksjö Oyj ("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, 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, 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 1 November 2015, 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.

Munksjö's corporate governance principles have been approved by the Board of Directors of 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. This statement is presented as a separate report from the Board of Director's Report.

Corporate governance structure

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

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

The notice of the General Meeting, documents to be submitted to the General Meeting (e.g. financial statements, report by the Board of Directors, auditor's

report) and the resolution proposals to the General Meeting are made available on the company's website at least three (3) weeks before the General Meeting.

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

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

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

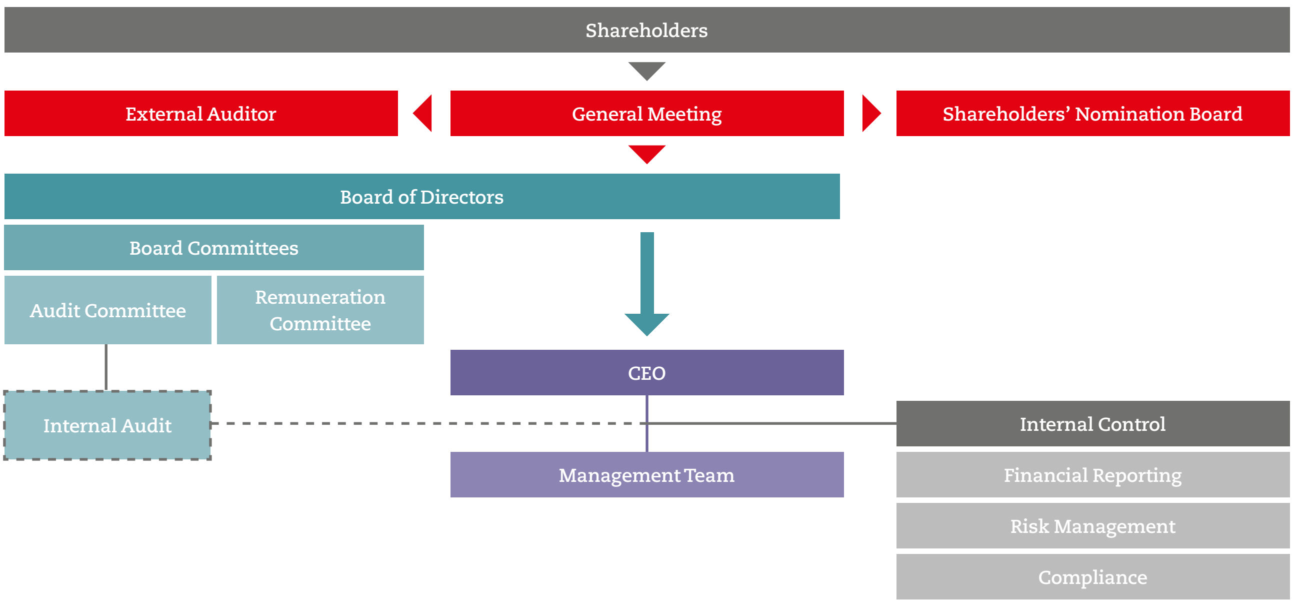
A shareholder shall have the right to vote at the General Meeting, if he/she has registered to participate in the meeting by the date specified in the notice to the General Meeting, which date shall not be earlier than ten (10) days before the meeting. A shareholder may at the General Meeting vote with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

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

The Annual General Meeting was held on 6 April 2016 with 127 shareholders of the company represented.

An Extraordinary General Meeting was held on 11 January 2017, with 183 shareholders represented. The EGM resolved to approve, in accordance with the merger plan, the combination of Ahlstrom's and Munksjö's business operations through a statutory absorption merger of Ahlstrom into Munksjö pursuant to the Finnish Companies Act and approve the merger plan. The registration of the merger is expected to take place in the beginning of the second quarter of 2017.

Corporate governance structure



Shareholders' Nomination Board

Based on the proposal by the Board of Directors, the Annual General Meeting on 13 May 2013 resolved to establish a Shareholders' 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.

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

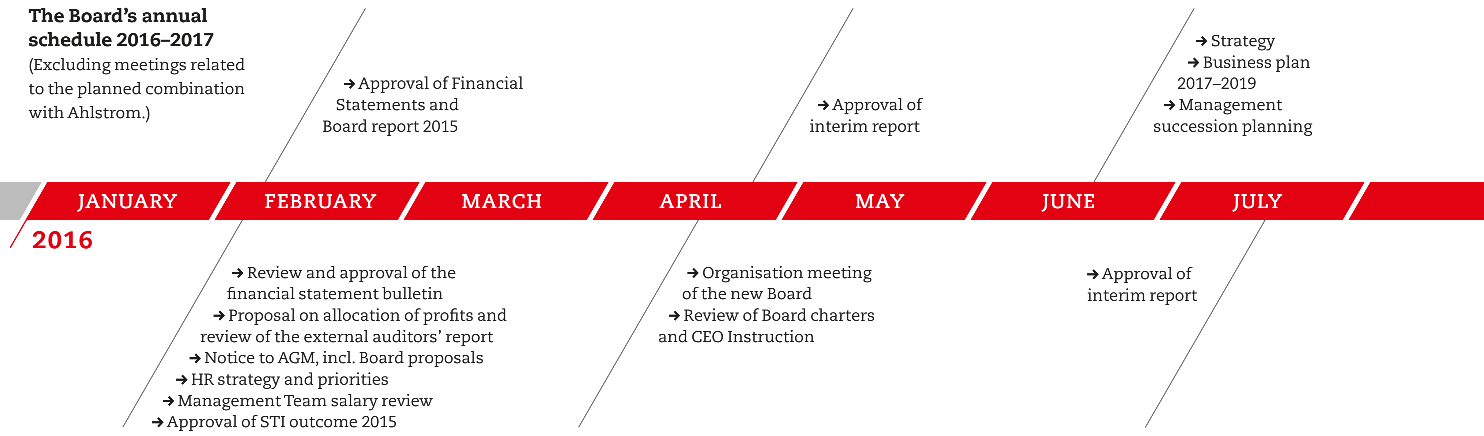
The right to nominate the shareholder representatives lies with those three shareholders whose share of all the voting rights in the company is on 31 May preceding the next Annual General Meeting the largest on the basis of the shareholders' register of the company held by Euroclear Finland and the register 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 company's Board of Directors 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 company's Board of Directors no later than on 30 May 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 Company's Board of Directors and General Counsel no later than on 30 May 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 have appointed the following three (3) members as their representatives in the Nomination Board: Thomas Ahlström, chairman (appointed by AC Invest Five B.V., Kai Nahi, Kasper Kylmälä, Niklas Lund, Carl Ahlström and Michael Sumelius), Alexander Ehrnrooth (appointed by Viknum AB) and Mikko Mursula (appointed by Ilmarinen Mutual Pension Insurance Company). The Chairman of the board Peter Seligson and Mats Lindstrand act as expert members of the Nomination Board. All members of the Nomination Board are independent of the company and are non-executive. Since its appointment in June 2016, the Nomination Board has held one (1) meeting.

On 26 January 2016, the Nomination Board proposed to the Annual General Meeting to be held on 6 April 2016 that the number of board members would be increased to seven (7) and that of the current members of the Board of Directors, Peter Seligson, Sebastian Bondestam, Alexander Ehrnrooth, Hannele Jakosuo-Jansson and Elisabet Salander Björklund, would be re-elected. In addition, the Nomination Board proposed that Anna Ohlsson-Leijon and Mats Lindstrand would be elected as new members of the Board of Directors. Further, the Nomination Board proposed that the Board, Board Committee and Nomination Board remuneration would remain unchanged with the exception of the vice chairman, who would receive an annual remuneration of EUR 50,000. The Nomination Board also proposed to the Annual General Meeting that a number of amendments would be made to the Nomination Board Charter, mainly as a consequence of the entry into force on 1 January 2016 of the New Finnish Code. According to the proposal, the Charter of the Nomination Board shall be amended by adding (i) a right for holders of nominee registered shares to be considered when the Nomination Board is appointed, (ii) a new duty of the Nomination Board to include a recommendation in its proposal of board members on who of the persons nominated shall be elected as Chairman of the Board of Directors, (iii)

The Board's annual schedule 2016–2017
(Excluding meetings related to the planned combination with Ahlstrom.)



a new duty of the Nomination Board to establish its principles of diversity, (iv) a right for the Nomination Board to decide what knowledge and competencies are required by the board members in each case by removing the list of knowledge and competencies to be possessed by the board members from the Nomination Board Charter and (v) a right for the Nomination Board to receive information on factors affecting the evaluation of independence of the members of the Board of Directors. In conjunction with these amendments, the Nomination Board also proposed that some additional amendments of a mainly technical nature are made.

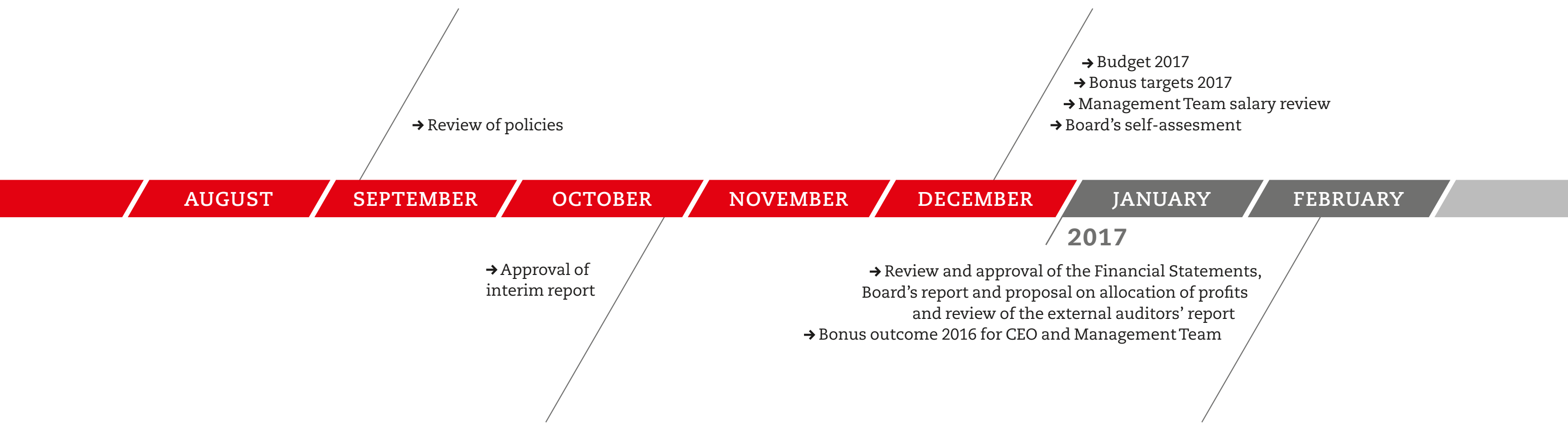
On 6 October 2016 the Nomination Board approved a Policy on the Diversity of the Munksjö Oyj Board of Directors. As further set forth in the Diversity Policy, the Nomination Board sees diversity at the Board level as an essential element in supporting the Company's attainment of its strategic goals and ensuring that the Board 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 43 per cent are women.

Due to the planned merger between Munksjö Oyj and Ahlstrom Corporation, the Annual General Meeting of Munksjö will be held later than normally. As a consequence, a part of the Nomination Board meetings was postponed until after the planned merger and therefore, contrary to previous years, information on the Nomination Board meetings held in the spring of 2017 could not be included in this Corporate Governance Statement.

The Board of Directors

The role of the Board is to manage the company's business in the best possible way and in its work protect the interests of the company and its shareholders. In accordance with the Articles of Association of Munksjö as amended at the Extraordinary General Meeting held on 11 January 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 Shareholders' 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 by the position and the possibility 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 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 2016, the self-assessment was done via an IT tool and the findings were reported both to the Nomination Board and to the Board of Directors in their meetings.

The Annual General Meeting held on 6 April 2016, confirmed the number of board members to be seven (7). Sebastian Bondestam, Alexander Ehrnrooth, Hannele Jakosuo-Jansson, Mats Lindstrand, Anna Ohlsson-Leijon, Elisabet Salander Björklund (vice chair) and Peter Seligson (chairman) were elected

Board of directors' shareholding 31 December 2016

Member	Title	Shares	Total
Peter Seligson	Chairman	312,504	530,057
Spouse		5,534	
Shares held by controlled entities:			
Baltiska Handel A.B.		212,019	
Fredrik Cappelen	Board member	7,138	7,138
Elisabet Salander Björklund	Vice chairmen	4,200	4,200
Sebastian Bondestam	Board member	1,591	77,517
Spouse and child		75,926	
Alexander Ehrnrooth	Board member	1,000	6,051,000
Shares held by organisations in which the person exercises influence (substantial economic interest, no control):			
Viknum AB		6,050,000	
Hannele Jakosuo-Jansson	Board member	1,000	1,000
Mats Lindstrand	Board member	–	54,084
Shares held by controlled entities:			
DNK Invest AB		54,084	
Anna Ohlsson-Leijon	Board member	–	

Management Team's shareholding 31 December 2016

Member	Title	Shares
Jan Åström	President and CEO	12,833
Pia Aaltonen-Forsell	CFO	4,274
Gustav Adlercreutz	Senior Vice President and General Counsel	4,475
Anna Bergquist	Senior Vice President Strategic Development	7,181
Anna Selberg	Senior Vice President Communications	–
Åsa Jackson	Senior Vice President Human Resources	2,039
Anders Hildeman	Senior Vice President Sustainability	2,500
Daniele Borlatto	Executive Vice President and President Release Liners	4,283
Norbert Mix	President Decor	888
Dan Adrianzon	President Industrial Applications	4,275
Roland Le Cardiec	President Graphics and Packaging	4,406

board members. Information on the board members and their shareholdings are set forth at the end of this statement and on the previous page.

All board members are independent of the company in addition to which Sebastian Bondestam, Hannele Jakosuo-Jansson, Mats Lindstrand, Anna Ohlsson-Leijon and Elisabet Salander Björklund are independent of the significant shareholders of the company. Peter Seligson is not independent of the company's significant shareholder AC Invest Five B.V., a subsidiary of Ahlström Capital Oy, and Alexander Ehrnrooth is not independent of the company's significant shareholder Viknum AB, a subsidiary of Virala Oy Ab.

In 2016, the Board convened nineteen (19) times, including eight (8) meetings held as telephone meetings. The attendance of the individual board members is set fourth in the table below. The unusually high number of board meetings in 2016 is due to the negotiations regarding the merger between Munksjö Oyj and Ahlstrom Corporation. Peter Seligson, Alexander Ehrnrooth and Sebastian Bondestam recused themselves from participating in any decisions regarding the merger with Ahlstrom due to a conflict of interest and did not participate in any board meetings in which only matters relating to the merger were dealt with. The Extraordinary General Meeting held on 11 January 2017, subject to the completion of the merger between Munksjö and Ahlstrom Oyj, 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 Munksjö following the date of registration of the execution of the merger.

Board of Directors' and Committees' attendance 2016

Member	Board member since	Board	Audit Committee	Remuneration Committee
Peter Seligson	2012	9 (9)		5 (5)
Sebastian Bondestam	2013	9 (9)	7 (7)	
Alexander Ehrnrooth	2014	9 (9)	1 (1)	4 (4)
Hannele Jakosuo-Jansson	2013	16 (19)		5 (5)
Elisabet Salander Björklund	2013	19 (19)	7 (7)	
Mats Lindstrand	2016	17 (17)		
Anna Ohlsson-Leijon	2016	14 (17)	6 (7)	
Fredrik Cappelen	until 6 April 2016	1 (1)		1 (1)

Board Committees

The Board annually appoints an Audit Committee and Remuneration Committee and their Chairmen and may also appoint other permanent committees if considered necessary at its organisation meeting following the Annual General Meeting. 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. The majority of the members of the Audit Committee must be independent of the Company and at least one member shall be independent of the Company's significant shareholders.

The members of the Audit Committee must have the expertise and experience required for the performance of the responsibilities of the audit committee. At least one member shall have expertise specifically in accounting, bookkeeping or auditing.

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.

On 6 April 2016, the board appointed two committees, the Audit Committee and the Remuneration Committee. The members of the Audit Committee are from said date Elisabet Salander Björklund (chair), Sebastian Bondestam and Anna Ohlsson-Leijon. All members of the Audit Committee are independent of the company and its significant shareholders. All have the expertise and experience required for the performance of the responsibilities of the audit committee as well as expertise in accounting, bookkeeping or auditing. In 2016, the Audit Committee convened seven (7) times, including two (2) meetings held as telephone meetings. The attendance of the individual committee membersis set forth on page 6.

Remuneration Committee

The Remuneration 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 Remuneration Committee 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.

On 6 April 2016, the board appointed two committees, the Audit Committee and the Remuneration Committee. The members of the Remuneration Committee are from said date Peter Seligson (chairman), Alexander Ehrnrooth and Hannele Jakosuo-Jansson. All members of the Remuneration Committee are independent of the company and non-executive members. In 2016, the Remuneration Committee convened seven (7) times, including two (2) meetings held as telephone meetings. The attendance of the individualcommittee members is set forth on page 6.

CEO

The CEO of 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 and shareholdings are set forth on page 6 and 14.

Management Team

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

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

At the end of 2016, the Management Team consisted of eleven members. The members and their biographical details, areas of responsibility and shareholdings are described at pages 6 and 14–15.

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 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 Remuneration Committee and on the remuneration of the senior executives based on a proposal by the CEO, which is reviewed by the Remuneration Committee.

The objective of remuneration is to promote the long-term financial success and competitiveness of the Company and the favourable 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 objective of a statutory audit is to express an opinion whether the consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the group, as well as whether the parent company's financial statements give a true and fair view of the parent company's financial performance and financial position. Statutory audit encompasses also the audit of the accounting and governance in the company. The auditor considers whether the information in the Board of Directors' report 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 legal requirements.

According to the Articles of Association, 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 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 the auditors of the company on 6 April 2016. KPMG has designated Sixten Nyman, 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 in each country.

The fees of the statutory audit in 2016 were EUR 0.5 million in total in the Group. Other fees charged amounted to EUR 0.2 million. The other fees were related to tax and other advice.

Risk management

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 is responsible for the risk oversight within the Group while the CEO is responsible for assessing and reporting the consolidated risk exposure to the Board of Directors.

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 teams are required to update their risk evaluation at least once a year.

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 segments/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. As most of the financial procedures are carried out at the unit level, also a large part of the controls is carried out at the unit level.

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, Release Liners, Industrial Applications, Graphics and Packaging 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, CFO, functional management and the group 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. 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 Munksjö accounting manual (Corporate Manual). 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.

The performance of Munksjö is reviewed regularly at different organisational levels. The Group Internal Control function adheres to the Internal Control Charter, approved by the CEO and reviewed by the Audit Committee, which stipulates the mission and scope of work for this function. The Group Internal Control function visits the company's businesses to perform operational reviews and to monitor compliance with internal control procedures, policies and guidelines according to an agreed plan.

During 2016, the internal control activities have been focused on following up last year's review of the process flow documents as well as making a new review of the units that were not covered last year. The Internal Control function has performed such reviews in five (5) units during 2016.

During 2015, a project was initiated with the aim to renew the order handling and production planning as well as the financial systems in the mills. The aim over time is to convert all mills into the same platform. This year the first implementation was done in Jönköping, and the plan is to start the new set up in Billingsfors in the first half of 2017. The remaining units are planned to be converted during the next 3–5 years.

Internal Audit

Munksjö does not presently have a separate internal audit function, as the company's organisation and size do not justify a separate internal audit function. Munksjö has retained an external service provider to perform certain internal audit tasks defined by the Audit Committee. In addition, the Audit Committee and Munksjö Finance function annually define one or more audit themes over and above the statutory auditing requirements. The findings are reported by the statutory auditors to the Audit Committee and Munksjö management. In addition, Munksjö has retained another external service provider to perform certain internal audit tasks defined by the Audit Committee. Munksjö's Audit Committee is annually reviewing whether there is a need to change the way internal audit is organised in the company.

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 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. These principles are set forth in Munksjö's Code of Conduct and other policies. In 2016 all relevant employees had to take and pass e-learning training in competition and anti-bribery law. In addition, legal audits were made by Group lawyers in six (6) units in order to assess their compliance with Group policies and practices. These audits will continue in other units in 2017.

In its insider administration 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 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 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 (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 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.

Munksjö employees may report actual or potential infringements of MAR and other related regulations as well as other legislation and company policies to their immediate supervisor or, if he or she is involved or otherwise conflicted, to his or her immediate supervisor. Reports of violations may also be made confidentially to a dedicated and confidential mailbox at codeviolation@munksjo.com. Only the Group General Counsel has access to said mailbox.

Appendix

▸ Refers to the Finnish Code

Due to differences between the Swedish and Finnish legislation, governance code rules and practices, 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 board[1)] 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.

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 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

Peter Seligson

Chairman of the Board

Born: 1964
Citizenship: Finnish
Member of the Board since: 2012
Current position: Partner, Seligson & Co Oyj
Chairman of the Board: Aurajoki Oy, Broadius Partners Ltd, Herculia Oy Ab
Board memberships: Ahlström Capital Oy; Seligson & Co Oyj
Other positions of trust: Chairman of Skatte- och Företagsekonomiska Stiftelsen; Member, Folkhälsan
Previous positions: Board Member, Ahlstrom Corporation 2001–2014; Managing Director, Alfred Berg Finland 1991–1997; Head of Sales and Trading, Arctos Securities 1987–1991
Education: Lic. oec. (HSG)

Independent of the company, non-independent of significant shareholders

Elisabet Salander Björklund

Vice chairman

Born: 1958
Citizenship: Swedish
Member of the Board since: 2013
Current position: CEO, Bergvik Skog AB
Board memberships: SweTree Technologies AB; Firefly AB; Cellutech AB; Marcus Wallenberg Prize Foundation
Previous positions: EVP, Stora Enso Oyj and member of Stora Enso's Group Executive team 2005–2010; Board member, Claes Ohlson AB 2000–2010
Education: M. Sc. in Forestry

Independent of the company and significant shareholders

Sebastian Bondestam

Board member

Born: 1962
Citizenship: Finnish
Member of the Board since: 2013
Current position: President, Uponor Infra Ltd
Board memberships: –
Previous positions: Board member, Ahlstrom Corporation 2001–2013; EVP Supply Chain, Uponor 2007–2012; Various executive positions, Tetra Pak Group in Asia, America and Europe 1991–2006
Education: M. Sc. in Engineering

Independent of the company and significant shareholders

Alexander Ehrnrooth

Board member

Born: 1974
Citizenship: Finnish
Member of the Board since: 2014
Current position: President and CEO, Virala Oy Ab and Vimpu Intressenter Ab
Chairman of the Board: Aleba Corporation; Belgrano Inversiones Oy
Board memberships: Ahlstrom Corporation since 2015; Fiskars Corporation since 2000
Previous positions: Board member, Wärtsilä Corporation 2010–2015
Education: M. Sc. in Economics, MBA

Independent of the company, non-independent of significant shareholders

Hannele Jakosuo-Jansson

Board member

Born: 1966
Citizenship: Finnish
Member of the Board since: 2013
Current position: SVP Human Resources and Safety, Neste Oil Corporation
Board memberships: Neste-Jacobs Oy
Previous positions: Laboratory and Research Manager at the Technology Center, Neste Oil Corporation 1998–2004; Vice President, Human Resources at Oil Refining, Neste Oil Corporation 2004–2005
Education: M. Sc. in Engineering

Independent of the company and significant shareholders

Mats Lindstrand

Board member

Born: 1959
Citizenship: Swedish
Member of the Board since: 2016
Current position: Founder and Managing Partner, BioMass Capital AB; Founder and owner, FRISQ AB
Chairman of the Board: FRISQ AB
Board memberships: Papyrus AB, Sirva Inc.; Erik Andersson AB
Other positions of trust: Senior advisor at McKinsey & Company and Triton Advisers Ltd.
Previous positions: McKinsey & Company, 1987–2008 (Partner since 1992 and Director since 1998); Det Norske Veritas, Structural Engineer 1982–1985
Education: MBA, MSc in Engineering
Independent of the company and significant shareholders

Anna Ohlsson-Leijon

Board member

Born: 1968
Citizenship: Swedish
Member of the Board since: 2016
Current position: CFO AB Electrolux
Board memberships: Several subsidiaries of the Electrolux Group
Previous positions: 2001–2016 Electrolux AB (2013–2016, CFO, EMEA; 2011–2013 SVP, Head of Corporate Control & Services 2008–2011 SVP, Group Treasurer 2005–2008 SVP, Head of MA&SA 2003–2005 Director Internal Audit Corporate & Global Program Manager 2001–2003 Director of Project Management); 2000–2001 Kimoda.com AB CFO. 1993–2000 PricewaterhouseCoopers (1999–2000 Business Assurance Manager 1997–1999 Business Assurance Manager, Boston, US 1993–1997 Business Assurance positions)
Education: B.Sc in Business Administration
Independent of the company and significant shareholders

Changes in the Board of Directors 2016

On 6 April 2016 the AGM resolved in accordance with the proposal of the Nomination Board that Anna Ohlsson-Leijon and Mats Lindstrand were elected as new members of the Board.

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: Sekab BioFuel Industries AB; ECO Development in Europe AB
Education: M. Sc. in Chemical Engineering

Pia Aaltonen-Forsell

CFO

Born: 1974
Citizenship: Finnish
Previous positions: CFO, Vacon Plc., 2013–2015; Senior Vice President Finance, IT and M&A, Building and Living Business Area, Stora Enso 2012–2013; SVP Group Controller, Stora Enso 2009–2012; Various positions within Stora Enso 2000–2009; Corenso United 1997–2000
Board memberships: Helapala Oy
Education: M. Sc. in Economics

Gustav Adlercreutz

Senior Vice President and General Counsel

Born: 1957
Citizenship: Finnish
Previous positions: Senior Vice President, General Counsel, Ahlstrom Corporation 2001–2013; Various positions within Ahlstrom 1984–2001
Board memberships: Chairman, Soldino Oy; Board member, Oy The English Tearoom Ab; Board member, Mannerheim Foundation
Education: LL.M.

Anna Bergquist

Senior Vice President Strategic Development

Born: 1980
Citizenship: Swedish
Previous positions: Senior Vice President Strategic Development, Munksjö AB 2010–2013; Engagement manager at McKinsey 2005–2010
Board memberships: –
Education: M. Sc. in Industrial Economy

Anders Hilderman

Senior Vice President Sustainability

Born: 1956
Citizenship: Swedish
Previous positions: Global Forestry Manager, IKEA, 2009–2015; Various positions, latest Senior Vice President Environment and Regulatory Affairs, SCA, 1984–2009; Associate Professional Officer, United Nations Food and Agriculture Organisation, 1989–1991
Board memberships: Chairman, Sow a Seed Foundation since 2010
Education: M. Sc. Forestry

Åsa Jackson

Senior Vice President Human Resources

Born: 1964
Citizenship: Swedish
Previous positions: Senior Vice President Human Resources, ABB Sweden 2012–2015; Various positions within finance, marketing, HR within ABB 1994–2011
Board memberships: Mälardalen University
Education: M. Sc. in Business and Economics

Anna Selberg

Senior Vice President Communications

Born: 1962
Citizenship: Swedish
Previous positions: Communication Consultant and Partner, Astega Advisory AB, 2010–2015; Acting SVP Communications, SCA, 2010; VP Corporate Branding and Group Communications, SCA, 2005–2010; Communications Director, SEB Trygg Liv, 1999–2005; The Riksbank, 1995–1999
Board memberships: Astega Advisory AB
Education: M. Sc. In Business and Economics

Daniele Borlatto

Executive Vice President and President Release Liners

Born: 1969
Citizenship: Italian
Previous positions: Executive Vice President, Label and Processing, Ahlstrom Corporation 2011–2013; Senior Vice President, Release & Label Papers; Member of Corporate Executive Team in 2007–2010; employed at Ahlstrom 1990–2013
Board memberships: –
Education: Studies in Business and Administration, INSEAD

Norbert Mix

President Decor

Born: 1957
Citizenship: German
Previous positions: Business Area Manager Sales and Marketing Decor, Munksjö 2011–2015; President and CEO, Munksjö Inc, USA; Sales and Technical Director, Technocell Decor Canada and USA; Technical Director Munksjö Decor Inc, USA; Head of Technical Customer Support, PWA Dekor, Germany
Board memberships: –
Education: M. Sc. in Finance and Forestry Economics

Dan Adrianzon

President Industrial Applications

Born: 1960
Citizenship: Swedish
Previous positions: Group Chief Controller, Munksjö AB; Interim CEO and CFO, Munksjö Aspa Bruk AB (Specialty Pulp); Interim CFO, Munksjö Arches in France; employed at Munksjö since 1998; Various positions within Group Saint Gobain 1985–1998
Board memberships: –
Education: Bachelor in Business Administration and Economics and Mechanical Engineer from Technical High School

Roland Le Cardiec

President Graphics and Packaging

Born: 1957
Citizenship: French
Previous positions: Vice President Thin Print paper, Fine Art paper and E2P, Munksjö AB 2011–2013; Vice President Thin Print paper, EMEA Projects Manager, China Platform General Manager, ArjoWiggins 2003–2011; Various positions at ArjoWiggins 1988–2003; Production Manager, R&D Manager, Le Nickel SLN (Eramet) 1981–1988
Board memberships: –
Education: Ingénieur Civil des Mines (M. Sc. in Engineering)

Changes in the Management Team

On 1 February 2017 Andreas Elving succeeded Gustav Adlercreutz as General Counsel. Andreas Elving joined Munksjö in October 2016 and most recently held a position as Associate General Counsel at Autoliv 2015–2016. Previously he worked at the law firm Mannheimer Swartling as Senior Associate 2004–2015. He holds a Master of Laws degree.

Risk and risk management

Munksjö is exposed to a number of risks, which may significantly affect the Group. In this section, the most important factors that may have a material effect on Munksjö's capabilities to reach the goals set for the Group, and the means of dealing with them, are briefly described[1]. 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 on Munksjö. 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 business units, based on their objectives, and includes risk identification, risk drivers analysis, identification of risk owner and risk 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 is the estimated financial effect. Further comments about the risk management can be found in the section Corporate governance.

[1] Munksjö's near-term risks are described in the quarterly interim reports.

Risk of variations in market prices and volumes for Munksjö's products

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

LIKELIHOOD: Low

FINANCIAL IMPACT: High

Changes in population and urbanisation affect all business areas, while the economic situation in different industries affects the Group's business areas in different ways.

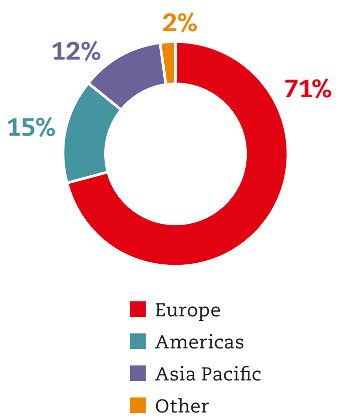
Among other things, Decor is affected by construction activity, Release Liners by the transportation and distribution industries, Industrial Applications by the automotive and steel industries as well as infrastructure investments. Graphics and Packaging is affected by, for example, the food industry.

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

Interchangeable materials and products that can replace Munksjö's products, as well as new producers who establish themselves within Munksjö's product areas, can also impact both price and volume. Competition from existing suppliers may also affect Munksjö. Weaker margins may entail review of reported goodwill and asset values.

Munksjö works continuously and in an integrated manner with its customers to provide flexible, customised 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 working on developing production and process efficiency in order to align the cost structure to offset the negative impact that competition and consequential lower market prices can have on the operating result.

Net sales 2016



Risk of damages and interruptions at the facilities

Munksjö has production facilities located in several European countries and in Brazil as well as a smaller facility in China. 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.

LIKELIHOOD: Low

FINANCIAL IMPACT: High

Ongoing maintenance and investment in replacements are an essential part of ensuring technical development and operational efficiency of the facilities. 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, see the section Sustainability. The facilities are insured by leading insurance companies, which conduct annual inspections and provide potential improvement measures. However, losses arising from events not covered by insurance policies could have a material adverse effect on the company.

Low Medium High

Risk of failure of integration processes

Munksjö's strategy to also grow through acquisition means that acquisition integration occurs from time to time. It is essential that the company can realise the synergies that are expected to arise as a result of such acquisitions.

LIKELIHOOD:

FINANCIAL IMPACT:

In case of potential business combinations substantial integration work is needed to realise expected synergies. Munksjö has recent experience from successful integration processes and realised synergies from the integration. However, adverse developments in general economic conditions or any conditions potentially imposed by regulatory authorities could limit, eliminate or delay the ability to realize estimated benefits.

Risk of customer dependence and customer credit

Munksjö's ten largest customers account for 25–30% of the Group's net sales. Within certain business areas the concentration is higher. If Munksjö cannot meet the demands of its largest customers, and if the customers do not fulfil their payment obligations, this can affect the Group negatively.

LIKELIHOOD:

FINANCIAL IMPACT:

Customers are mainly processors of speciality papers such as printers, impregnation companies, label manufacturers, special steel manufacturers, abrasive paper manufacturers and manufacturers of packaging. For all these customer categories, it is important to have long-term relationships in terms of service, quality and development. In order to reduce dependence on a limited number of customers, efforts are being made to expand the customer base.

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

At the end of December 2016, accounts receivable totalled EUR 104.8 million. The average credit period was 38 days. A portion of the sales, corresponding to an average of EUR 75.1 million of accounts receivable, has been credit insured and sold to financiers resulting in earlier payments received. The Group's total credit losses in 2016 totalled EUR 0.3 million.

Customers structure and customer credit

MEUR	2016	2015
Accounts receivable not due	90.8	100.7
Receivables overdue		
< 30 days	10.0	8.5
30–90 days	2.4	1.3
> 90 days	1.6	0.6
Receivables overdue	14.0	10.4
Total accounts receivable	**104.8**	**111.1**

Risk of volatility in price and supply of pulp

Short-fiber wood pulp accounts for a significant portion of the manufacturing cost of specialty papers. Volatility or increase in prices as well as the availability of pulp could have a material effect on the Group's result.

LIKELIHOOD:

FINANCIAL IMPACT:

The bulk of the wood pulp used in Munksjö's manufacturing is short-fibre pulp, which is mainly purchased from South America. In 2016, a total of 452,000 tonnes of short-fibre pulp and 182,000 tonnes of long-fibre pulp were consumed. Exposure is reduced by 252,000 tonnes of the company's own production of long-fibre pulp. The cost for pulp in 2016 corresponded to 27% of the Group's operational costs.

Pulp, Ktonnes	2016
Own production	252
Usage long-fibre	–182
Usage short-fibre	–452
Net exposure	**–382**

Low Medium High

RISKS

Risk of availability of wood and wood price risk

Supply of fresh wood fibre is essential to the Group's production of wood pulp. The market price of wood may vary over time and affects the Group's result from pulp manufacturing.

LIKELIHOOD:

FINANCIAL IMPACT:

Munksjö buys the bulk of the wood and wood chips from Sydved, a joint venture wood procurement company with Stora Enso as well as a smaller part directly from local wood suppliers and forest owners. Expansion in the nearby industry has led to increased local demand and longer transportations. Prices are affected by the demand from the paper and paperboard industries as these are consumers of pulp and the price of wood is affected by the price of pulp and other paper and paperboard products. The use of sawn timber and wood used for burning, for electricity and heat production, may indirectly affect pulpwood prices. In 2016, 1,202,000 m^3 (1,173,000), corresponding to a value of EUR 50.6 million, was purchased. The wood and wood chips represent 5% of the Group's operational costs.

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

Other raw materials and services than wood and energy are used in the manufacture of Munksjö's products. The supply may be affected by consolidation in the market, the suppliers' manufacturing capabilities and competing sectors' needs of a specific product.

LIKELIHOOD:

FINANCIAL IMPACT:

An important raw material for Munksjö is titanium dioxide, which previously demonstrated major price fluctuations, but in recent years has stabilised after an improved supply situation. Other raw materials include latex and various chemicals, and in addition, machine cloth, packaging material and transport services are purchased whose price movements are also relevant. For purchases, there is a structured method to ensure that the procurement process is complete and systematically designed. Munksjö's procurement organisation, which is coordinated centrally, includes nine different categories in which employees from each business area contribute with expertise to achieve the best result.

Price risk

MEUR EBITDA effect	2016
Long fibre pulp +5%	+2.1
Short fibre pulp +5%	–14.8
Energy +5%	–4.9
Titanium dioxide +5%	–4.2

Risk of price volatility and reduced supply of energy

Energy costs represent a significant portion of the production costs. 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:

Munksjö has a number of facilities with its own production of energy in order to reduce dependence on external deliveries. Capital spending in internal energy efficiency and energy generation is prioritised. During 2016 the value of the energy consumed corresponded to EUR 82.2 million, representing 8% of the Group's operational costs.

Key employees

In certain cases, Munksjö is dependent on individual key employees. If the company is unable to recruit and retain key employees, this could have a material adverse effect on the company.

LIKELIHOOD:

FINANCIAL IMPACT:

The company operates in a high-tech industry where qualified and experienced employees within production operations are an important competitive advantage. Munksjö's ability to retain and recruit employees who have relevant qualifications 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. See also the Sustainability section about human resources.

Changed remuneration or salary costs

Personnel costs represent a significant cost item. Costs are primarily regulated in collective agreements and salary-related fees and taxes.

LIKELIHOOD:

FINANCIAL IMPACT:

Munksjö acts in accordance with the labour market agreements and as a consequence the labour costs have developed accordingly. Personnel costs represent 20% of the operational costs. There is a continuous follow-up of the units' manning and processes to ensure a competitive business.

Low Medium High

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

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: Medium

FINANCIAL IMPACT: Medium

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 and also to enhance efficiency. The Group conducts extensive work to strengthen occupational health and safety and to implement continuous improvements. For health and safety applies a zero-tolerance target. See further descriptions in the section Sustainability.

Environmental risk and the renewal of the production and emission permits

Munksjö's production results in emissions to air and water as well as waste to landfill, and also generates noise. Failure to comply with environmental regulation and permits could have a material adverse effect on the company.

LIKELIHOOD: Medium

FINANCIAL IMPACT: Medium

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 means common sectorial emission limits, where the limits are set based on what is considered possible to achieve using the best available technology and not taking into account 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.

All 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. Cooperation also takes place between the production facilities in order to use the best knowledge regarding environmental issues. For more information on the topic see also the section about Sustainability.

Legal risks

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

LIKELIHOOD: Medium

FINANCIAL IMPACT: Low

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 2016, 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 of changes in currency (transaction exposure)

Changed exchange rates for income and costs may affect Munksjö results or non-current assets' acquisition value positively and negatively. The Group's presentation currency is EUR. The net currency exposure is relatively limited and is mainly related to USD, SEK and BRL. The majority of operating expenses are in EUR. The main exceptions are production costs in Sweden and Brazil. Pulp, chemicals and freight are primarily based on USD.

LIKELIHOOD: High

FINANCIAL IMPACT: Low

Munksjö's operative entities are normally affected by the rates applicable at any given time in order to achieve a continuous adjustment of the commercial conditions to the existing currency situation. The operating entities are monitored on operating margin excluding the result effects of currency hedging. The Group's 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.

At the end of 2016, the notional value of currency contracts not yet recognised in the income statement amounted to MEUR 90.7. The market value of outstanding forward contracts at 31 December 2016 was EUR 0.5 million. For more details on the currency exposure, see note 27.

Low · Medium · High

RISKS

Risk of exchange rate fluctuations in translation of subsidiaries into EUR (translation exposure)

Munksjö is exposed to changes in exchange rates when the financial statements of foreign subsidiaries are translated into EUR.

LIKELIHOOD:

FINANCIAL IMPACT:

Munksjö's assets in foreign currencies are primarily SEK and BRL. The equity is affected at the translation of equity of subsidiaries' with other functional currencies.

The translation effect during 2016 amounted to EUR 11.0 million and is recognised in other comprehensive income.

The risk of being unable to access / maintain funding and liquidity

Difficulty in raising new loans or significantly increased borrowing costs combined with insufficient liquidity may affect the ability to meet payment obligations. The access to additional financing will depend on several factors, including market conditions, the general availability of credit and 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. In 2014 there was a refinancing of the Group's term loan facilities and revolving credit facility totalling EUR 345 million. In December 2015 an additional facility of SEK 570 million was agreed. Munksjö's interest-bearing net debt at 31 December 2016 was EUR 169.5 (227.4) million.

A consortium of three banks accounts for the loan facilities.

The risk of price changes in interest rate

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.

LIKELIHOOD:

FINANCIAL IMPACT:

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. If the Group's entire loan portfolio was at floating interest rate the result effect of an interest rate change of one percentage point would be EUR 2.1 million based on liabilities of EUR 302.7 million at year-end. The Group's average interest rate term was approximately 8 months at year-end.

Due to the interest floor in the bank agreement, there is limited interest risk as long as the interest rates are negative. At the end of 2016 EUR 190 million was hedged. For more details see note 27.

Risk relating to transactions with financial counterparties

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

LIKELIHOOD:

FINANCIAL IMPACT:

To avoid this risk Munksjö's financial policy states how any excess liquidity may be invested and that careful monitoring is done. In 2016, there were no losses.

Munksjö's maximum credit risk exposure corresponds to the fair values of the financial assets, in accordance with note 23.

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 organisation concerning working methods, development and necessary controls.

Low Medium High

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: Low

FINANCIAL IMPACT: Low

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

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

The Groups 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: Low

FINANCIAL IMPACT: Medium

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. At the moment the new global transfer price rules (BEPS) is high on the agenda. Changes in tax laws or their applications as well as tax audits, or inability to utilise the deferred tax assets could have a material effect on the result.

IT disruptions and information security

Major IT disruption or a breach of information security could have a material adverse effect on the business.

LIKELIHOOD: Low

FINANCIAL IMPACT: Medium

Munksjö's operations are highly dependent on the IT systems. Downtime in production systems could impact Munksjö's ability to produce and deliver. Disruptions could also occur due to external security breaches. It is important for the Group to be able to withstand and effectively recover and resume regular performance in the event of a disruption.

Risks of lagging behind in technical development and R&D

Lagging behind 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: Low

FINANCIAL IMPACT: High

Munksjö is dependent on a combination of continuous product and technology development and long-term customer relationships. The future growth and success 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 Munksjö will be successful in continuing to meet its customers' needs through innovation or in developing new products and technologies.

Low Medium High

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Profitability target of 12% reached, record high full-year results and cash flow

Munksjö's profitability target to reach an EBITDA margin of 12 per cent at the end of 2016 was achieved according to plan. Munksjö further announced the plan to combine Munksjö Oyj and Ahlstrom Corporation through a merger to create a global leader in sustainable and innovative fiber-based solutions.

During 2016, the adjusted EBITDA reached EUR 136.7 (93.6) million, an improvement of EUR 43 million or 46 per cent. All four business areas executed on their respective profitability improvement plans and approximately half of the result improvement was based on own actions to increase efficiency. The rest was mainly attributable to favourable cost conditions. Market demand remained stable on a good level in all key businesses. Some geographical markets, such as Brazil, was still impacted by macroeconomic uncertainty during 2016 but this could be compensated with exports to other markets. Munksjö's long-term market growth expectation remains intact at between 2–4 per cent annually, as the demand for several of the end-use applications of the company's solutions is supported by global megatrends such as urbanization and globalisation.

The strong performance in 2016 strengthened the company and the next big step in the development will be the merger with Ahlstrom that is expected to be completed early in the second quarter of 2017. The preparations for the integration process are proceeding according to plan and together the companies will improve competitiveness further and create a strong growth platform for the future.

Munksjö Group

Total group delivery volumes increased in most of the product segments and were stable in decor papers. The delivery volume development was particularly strong in the specialty pulp business and the Brazilian paper business in Business Area Release Liners.

Net sales increased to EUR 1,142.9 (1,130.7) million, as higher volumes compensated for the lower average price, mainly driven by the lower sales price for long fibre specialty pulp and a different product mix compared to last year.

EBITDA adjusted for IAC increased to EUR 136.7 (93.6) million and the adjusted EBITDA margin was 12.0% (8.3%). Higher delivery volumes had a positive effect of EUR 10 million. This was offset by EUR 11 million as an effect of the lower average price. Lower variable costs, driven mainly by operational efficiency related actions, the lower energy price and lower raw material prices had a positive result effect of EUR 54 million. Higher fixed costs had a negative result effect of EUR 10 million, mainly as a result of accruals for incentive plans and increased manning related to higher production volumes.

Out of the total profitability improvement, amounting to EUR 43 million, approximately half was related to actions related to the plan to reach the profitability target.

The annual maintenance and vacation shutdowns in the second and third quarter were carried out to about the same extent as in 2015. The seasonal shutdowns in the fourth quarter were shorter compared to 2015 particularly in the Business Area Graphics and Packaging and in the Brazilian paper business in Business Area Release Liners where seasonal shutdowns in 2015 were prolonged.

IAC amounted to EUR –6.6 (–7.3) million, whereof approximately EUR 4 million were related to the planned merger with Ahlstrom. Furthermore, approximately EUR 2 million were related to the terminated long-term share-value-based incentive program. The IAC in the comparison period 2015 was mainly related to restructuring actions.

The operating result was EUR 74.9 (32.7) million and net result EUR 43.3 (22.8) million.

In the reporting period, the currency hedging result impacting operating profit amounted to EUR –1.7 (–4.9) million. Exchange losses on financial assets and liabilities were EUR 1.5 (gains of 9.5) million and are reported in financial items.

Profitability target reached

Munksjö's profitability target, set in 2013, to reach an EBITDA margin of 12 per cent at the end of 2016 was achieved according to plan. The drivers for the profitability improvement included continued operational efficiency, profitable growth, product and service quality leadership and utilising the position as a market and innovation leader. Within operational efficiency, the majority of the planned actions included measures to adjust the cost structure.

Of the realised actions in the financial result in January–December 2016, the majority were related to operational efficiency. Further information on the actions related to the profitability improvement plan and their effect on the financial result can be found under the heading Munksjö Group.

Combination with Ahlstrom

On 7 November, 2016, Munksjö Oyj and Ahlstrom Corporation announced a plan to merge the two companies. The combination will create a global leader in sustainable and innovative fiber-based solutions. The combination is expected to create significant value for the stakeholders in the combined company through stronger global growth opportunities and improved operational efficiency. The combined company's growth ambitions will be supported by a strong balance sheet and strong cash flow generation.

Munksjö and Ahlstrom will merge through an absorption merger whereby Ahlstrom's shareholders will receive Munksjö shares as merger consideration. Ahlstrom's shareholders will receive 0.9738 new shares in Munksjö for each share held in Ahlstrom as merger consideration, corresponding to an ownership in the combined company of approximately 47.2% for current Ahlstrom shareholders and approximately 52.8% for current Munksjö shareholders.

Unaudited pro forma financials of the combined company and certain other information, such as composition of the management team can be found in the merger prospectus, published on 16 December 2016.

Munksjö entered on 10 November 2016 into a facilities agreement for the merger and the combined company with Nordea and SEB as the joint underwriters. The new financing consists 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 will be 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 23 December 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.

Financial targets for the planned combined company are expected to include an EBITDA margin above 14 per cent over a business cycle, a net gearing below 100 per cent, as well as a stable and annually increasing dividend.

The Extraordinary General Meetings of both Munksjö Oyj and Ahlstrom Corporation were held in Helsinki on 11 January 2017. Munksjö's EGM resolved, inter alia, to approve the combination of Ahlstrom's and Munksjö's business operations through a statutory absorption merger of Ahlstrom into Munksjö and approve the merger plan. The EGM also resolved to authorise the Board of Directors to resolve on an extra payment of funds from the company's reserve for invested unrestricted equity as return of equity of maximum EUR 0.45 per share. The merger, which is expected to be completed at the beginning of the second quarter of 2017, is subject to among other things approval by relevant competition authorities.

Business Area Decor

As 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. Customers include laminators, impregnators as well as printers. The base for Munksjö's strong market position lays in its excellent reputation for long-term proven quality and services. The product offering also includes thin, light-weight leaflet papers, used by the pharmaceutical and cosmetics industries.

Total delivery volumes were on the same level as the geographical expansion outside the core markets in e.g. Asia more than compensated for the negative development in Americas. Delivery volumes were also affected by the strategic decision to decrease thin print paper volumes, to enable growth in pre-impregnated decor papers. The growth excluding thin print paper was approximately 2 per cent.

Net sales decreased to EUR 364.6 (372.6) million. The average price decreased mainly due to a less favourable product and geographical mix and selected price adjustments.

EBITDA adjusted for IAC was EUR 53.7 (42.6) million and the adjusted EBITDA margin was 14.7% (11.4%). Profitability improvement actions and lower variable costs had a positive result effect and more than compensated for the negative result effect of the lower average price.

The annual maintenance and vacation shutdowns in the third quarter were carried out to about the same extent as in 2015. The seasonal shutdowns in the fourth quarter were carried out to about the same extent as in 2015.

Operating result was EUR 46.3 (34.6) million and the operating margin 12.7% (9.3%).

Business Area Release Liners

Products offered by Release Liners include release papers; both super calendered and coated, coated specialties in South America and specialty pulp. Products are developed to offer consistent quality, high performance and sustainability. Customers include manufacturers of laminates for self-adhesive labelling, industrial siliconisers as well as – for coated specialities – packaging converters. Munksjö has long term customer relationships, built on the company's reputation of quality, reliability and service. Release papers are used as a carrier of different pressure sensitive adhesives labels and materials.

Total delivery volumes increased in all three businesses and were particularly strong in the Brazilian paper business as export volumes continued to compensate for the effect of the economic slowdown in Brazil.

Net sales were higher and reached EUR 448.4 (437.6) million and the average price for the Business Area was stable. The average price was higher for the European paper business, as price increases had an expected positive effect. Average price measured in both local and reported currency increased for the Brazilian paper business. The average price for the Business Area was negatively affected by the decrease of the sales price in the specialty pulp business, driven by the lower long fibre pulp (NBSK) price.

EBITDA adjusted for IAC increased to EUR 59.6 (39.5) million and the adjusted EBITDA margin was 13.3% (9.0%). Profitability improvement actions, lower variable costs and higher delivery volumes had a positive result effect and more than compensated for the negative result effect of higher fixed costs.

The annual maintenance and vacation shutdowns in both paper businesses in the second and third quarter were carried out to about the same extent as in 2015. The seasonal shutdowns in the fourth quarter were carried out following the normal seasonal pattern in both paper businesses and to a lesser extent than in 2015 in the Brazilian business.

The maintenance shutdown at the pulp production facility in Aspa, Sweden, was carried out in the third quarter of 2016 and in the second quarter of 2015.

There were no IAC in the reporting period compared with EUR –3.5 million a year ago. Operating result was EUR 31.3 (8.0) million and the operating margin 7.0% (1.8%).

Business Area Industrial Applications

Industrial Applications' leading position in the market for high quality specialty paper is based on its high-tech product portfolio combined with its deep knowledge of technically advanced production processes. The product offering includes abrasive backings, electrotechnical paper, Spantex™, thin paper and fine art paper. The products are used within several industrial sectors such as automotive, furniture, wood, metal and building, construction industries, energy transmission, stainless steel, aluminium and glass industries.

Total delivery volumes were higher with growth in most of the product segments. Net sales increased to EUR 169.6 (166.6) million due to the higher delivery volumes. The average price was lower as a result of a less favourable product mix.

EBITDA adjusted for IAC increased to EUR 31.5 (27.5) million and the adjusted EBITDA margin was 18.6% (16.5%). The positive result effect of the higher volumes, lower variable costs and profitability improvement actions compensated for higher fixed costs.

The annual maintenance and vacation shutdowns as well as the seasonal shutdowns were carried out to about the same extent as in 2015.

IAC amounted to EUR –0.4 (0.0) million, mainly related to restructuring. Operating result was EUR 23.5 (19.6) million and the operating margin 13.9% (11.8%).

Business Area Graphics and Packaging

Graphics and Packaging offers differentiated paper products developed for a broad range of customers globally. The products include coated one-side and calendered papers, which are used for flexible packaging and labelling, graphic and industrial applications. Flexible packaging paper is mainly used in the food industry for baking or manufacturing of packaging, wet-glue base papers and pressure sensitive facestock papers are mainly used for premium beverage and identification labels. Graphics and industrial papers refer mainly to uncoated papers for repositionable notes, interleaving paper, envelope windows and other process papers.

Total delivery volumes increased, while the challenging competitive situation in certain product segments, mainly coated papers, continues.

Net sales reached EUR 175.6 (175.7) million. The average price was lower and the higher volumes did not compensate for the less favourable product and customer mix.

EBITDA adjusted with IAC increased and was EUR 7.7 (0.3) million and the adjusted EBITDA margin was 4.4% (0.2%). Lower variable costs, profitability improvement actions and higher delivery volumes had a positive result effect and more than compensated for the negative result effect of the lower average price.

The annual maintenance and vacation shutdowns in the third quarter were carried out to about the same extent as in 2015. The seasonal shutdowns in the fourth quarter were shorter compared to 2015.

IAC amounted to EUR 0.0 (–0.5) million. Operating result was EUR –2.6 (–8.4) million and the operating margin –1.5% (–4.8%).

The programme aiming at a substantial improvement in the financial result launched in the fourth quarter of 2013 is progressing according to plan, with the exception of the coated paper business, where the measures intended to strengthen the Business Area's competitiveness by adjusting the product mix are delayed due to the above described increased competition.

Cash flow

The cash flow in 2016 was strong. The cash flow from operating activities amounted to EUR 114.3 (55.5) million in 2016. The continued improved operating result had a positive effect on cash flow from operating activities.

The operating cash flow was affected by EUR –9.0 (–6.7) million related to the settlement of provisions recorded in previous periods and EUR –1.3 (–13.4) million of income taxes.

Capital expenditure

The cash flow related to capital expenditure for 2016 amounted to EUR –39.2 (–39.8) million. The capital expenditure in 2016 was of operative nature and includes maintenance, cost improvement and efficiency improvement investments. The largest capital expenditure in 2016 is related to the maintenance shut down at the pulp production facility in Aspa, Sweden, carried out in the third quarter of 2016.

In September 2016, Munksjö decided to make an investment in the Arches mill, France. One paper machine will be rebuilt in order to secure the leading position within abrasive backings and responding to increased customer demand. The capital expenditure related to the rebuild is estimated to a total of approximately EUR 14 million. The clear majority of the related cash flow effect is expected to occur during 2017, starting from the first quarter.

After the rebuild, the paper machine will continue to be able to produce both decor and abrasive backings. The rebuild will also enable additional capacity within latex impregnated abrasive backings and hence allow for new product applications and a more efficient production. The rebuild is planned to take place in two steps during the seasonal shutdowns in the summer and at the end of 2017.

Financial position

Financing

Munksjö has a EUR 345 million term loan and revolving credit facilities agreement, with a maturity of five years since September 2014, and a SEK 570 million term loan signed and implemented in December 2015, with a maturity of five years. The interest payable under both agreements depends on the ratio of consolidated net debt to consolidated EBITDA. At the end of the year 2016, the weighted average interest rate on bank debt was approximately 2.5 (2.7) per cent.

Interest-bearing net debt decreased to EUR 169.5 (227.4) million, mainly as a result of the improved cash flow, resulting in a net debt/equity ratio of 38.7 % (56.7%).

Shareholders' equity at 31 December 2016 amounted to EUR 437.7 (401.3) million and total assets increased to EUR 1,186.5 (1,173.4) million.

Net financial items

Net financial items for 2016 amounted in total to EUR –15.9 (–4.7) million, of which EUR 9.9 (9.9) million is interest rate expenses, EUR 1.3 (1.4) million is other finance costs. The rest is mainly items not affecting the cash flow, including EUR 0.8 (0.7) million of amortisation of capitalised bank fees and foreign exchange gains and losses on financial assets and liabilities of EUR –1.5 (9.5) million. The net financial items include realised interest rate swaps of EUR –1.2 (–0.7) million. At the end of the year, the fair value of unrealised interest rate swaps amounted to EUR –1.0 (–1.8) million.

Hedging

At the end of the year the fair value of unrealised hedges excluding interest rate swaps amounted to EUR 0.5 (0.5) million. The operating result for 2016 includes realised hedges of EUR –1.9 (–5.5) million. The realised hedges in the corresponding period last year were mainly currency-related hedge losses. Munksjö has no outstanding pulp hedging contracts from 1 January 2015 onwards. Hedging activities are managed centrally and mainly reported in segment 'Other'.

Taxes

The income tax charge was EUR –15.7 (–5.2) million representing an effective rate of 26.6% (18.6%). The effective tax rate is the statutory corporate tax rate as adjusted for non-deductible expenses, income not subject to income tax, valuation or revaluation of losses and prior year adjustments. Total cash taxes paid for the year amounted to EUR –1.3 (–13.4) million.

Earnings per share

Earnings per share (EPS) increased to EUR 0.85 (0.44). The increase compared to 2015 was mainly related to the effect of the improved operating profit of EUR 0.83, which was partly offset by a negative effect of EUR –0.22 due to foreign exchange losses on financial items and a tax impact of EUR –0.21.

Employees

At the end of December 2016, Munksjö had 2,913 (2,900) employees. Of Munksjö's total number of employees at the end of December 38% (38%) were employed in France, 22% (22%) in Sweden, 16% (16%) in Germany, 8% (9%) in Italy, 8% (8%) in Brazil, 6% (6%) in Spain and 2% (1%) in other countries. For more information about Munksjö's employees see pages 34–35 in the Business Review part of the Annual Report 2016.

Incentive programmes for senior executives and key personnel

In June 2016, the Board of Directors approved a long-term share value based incentive programme for senior executives and other key personnel. The objective of the programme is, by creating a long-term share value based incentive for the management, to increase the company value in the long term and to secure the alignment of the objectives of the company's management with the objectives of its shareholders. The potential rewards from the 2016–2018 programme will be paid in the spring 2019, if the performance targets set by the Board of Directors are achieved.

In May 2014, the Board of Directors approved a long-term share-based incentive programme for Munksjö's senior executives and other key personnel. 35 senior executives and other key personnel enrolled to the programme. The total cost for the programme was recognised over the vesting period, which commenced in July 2014 and ended on 31 December 2016.

The personnel expenses related to the 2014–2016 incentive programmes in January–December 2016 were EUR 2.9 (0.9) million.

On December 16, 2016, the Board of Directors decided, as a consequence of the planned merger, to terminate Munksjö's long-term share-value-based incentive program for the members of the Management Team and other key personnel of Munksjö approved in June 2016. The incentive program will terminate on a pro rata basis as of the completion of the merger, 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 will receive shares and cash pursuant to the terms of the program following the completion of the Merger and, in any case, no later than the date of the 2017 annual general meeting of Munksjö. Munksjö will record EUR 2.1 (0.0) million of costs related to the terminated long-term share-value-based incentive program, to be reported as items affecting comparability.

Munksjö reorganised its sales organisation

In December 2014 Munksjö announced a plan to simplify its sales organisation by reorganising certain sales functions. The reorganisation was subject to consultation and approval processes in accordance with local legislation in the countries affected. The overall model is one customer service hub per Business Area in Europe, and Group sales offices in Brazil, China, the US and Russia. By moving customer service closer to supply and planning, pooling resources and avoiding sales office costs, Munksjö improves profitability and made the supply chain process more efficient.

The consultation and approval processes have been completed and the reorganisation and its implementation continued according to plan. The annual savings will amount to approximately EUR 1.5 million, of which a majority were realised during 2015. Further savings were realised in 2016 and the remaining savings will be achieved in 2017.

Munksjö further adjusts the cost structure

In September 2015 Munksjö announced a plan to further adjust its cost structure. The plan includes restructuring actions that required personnel negotiations at the production facility located in Mathi, close to Turin in Italy. With the restructuring, Munksjö aims to further adjust the cost structure and improve the operational efficiency of Business Area Release Liners. The production facility in Mathi is a shared site with Ahlstrom Corporation.

The restructuring was subject to consultation and approval processes in accordance with local legislation. This process has now been concluded and the headcount reduction related to the restructuring project will be 37 employees. The annual cost savings of the restructuring amount to EUR 2.2 million. The cost savings have been realised into the financial result according to plan and the programme was completed in 2016.

Product development

Munksjö's four business areas manage their respective product development in close co-operation with the central function for strategic development. Most of this work is carried out in the development centre in Apprieu in France, with full focus on meeting customer requirements for functionality and quality. The development projects are initiated and implemented in collaboration with clients, but also in the context of Munksjö's own product development. At the end of 2015, Munksjö introduced a target for the share of new products of net sales. The share should be at least 15 per cent and the target is calculated as an average over the last three years. Out of the total net sales in 2016, 17.5 per cent were related to the sale of new products.

Risks and uncertainty factors

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 materialisation of such risks could have a material adverse effect on Munksjö's operations, earnings and financial position.

Munksjö's significant risks and uncertainty factors mainly consist of developments in demand and prices of sold products, the cost and availability of significant raw materials, financial risks, as well as other business factors including developments on the financial markets. The significant cost items for raw materials are wood, pulp, titanium dioxide and energy. 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 ongoing and future tax audits or claims.

More information about risks and uncertainty factors related to Munksjö's business and the company's risk management can be found on pages 16–21 and on www.munksjo.com.

Shares and shareholders

The Munksjö Oyj share is traded on Nasdaq Helsinki, Finland under the trading symbol MUNK1 and as of 8 December 2014 also on Nasdaq Stockholm under the trading symbol MUNK1S. The share capital amounts to EUR 15,000,000 and the total number of shares since 2 December 2013 amounts to 51,061,581. All shares carry one vote each and have equal rights.
On 31 December 2016, Munksjö held 300,000 own shares, corresponding to about 0.6 per cent of the total number of shares and votes. The own shares were repurchased during 2015 and will primarily be used for implementing share-based incentive programmes of the company, or for other purposes defined in the authorization of the Annual General Meeting.

Decisions taken by Munksjö Oyj's Annual General Meeting and the organisational meeting of the Board of Directors

Munksjö Oyj's Annual General Meeting (AGM) was held in Helsinki on 6 April 2016. The AGM adopted the Financial Statements for 2015 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year 2015.

The AGM resolved that no dividend will be paid for the fiscal year 2015 and to pay funds from the reserve for invested unrestricted equity as return of equity based on the balance sheet of 31 December 2015, adopted by the Annual General Meeting, the amount of return being EUR 0.30 per share. The return of equity was paid to a shareholder who on the record date of the payment 8 April 2016 was registered in the shareholders' register of the company held by Euroclear Finland Oy or in the separate register of shareholders maintained by Euroclear Sweden AB for Euroclear Sweden AB registered shares. The return of equity was paid to the shareholders on 19 April 2016.

The AGM resolved that the number of Board members increases to seven. The AGM resolved that Sebastian Bondestam, Alexander Ehrnrooth, Hannele Jakosuo-Jansson, Elisabet Salander Björklund and Peter Seligson were re-elected and that Anna Ohlsson-Leijon and Mats Lindstrand were elected as new members of the Board. The Board members were elected for the period ending at the close of the next Annual General Meeting.

The AGM resolved to re-elect KPMG Oy Ab as the company's auditor. KPMG Oy Ab has designated Authorised Public Accountant Sixten Nyman as the Responsible Auditor.

The organisation meeting of the Board of Directors, which was held immediately after the General Meeting, elected Peter Seligson as Chairman and Elisabet Salander Björklund as Vice Chairman of the Board. The Board of Directors appointed two permanent committees, the Audit Committee and the Remuneration Committee. The members of the Audit Committee are Elisabet Salander Björklund (Chair), Sebastian Bondestam and Anna Ohlsson-Leijon. The members of the Remuneration Committee are Peter Seligson (Chairman), Alexander Ehrnrooth and Hannele Jakosuo-Jansson.

Authorisation to resolve to repurchase and to distribute the company's own shares

Munksjö Oyj's Annual General Meeting on 6 April 2016 authorised 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 authorisation shall not exceed 4,000,000 shares in the company, yet always taking into account the limitations set forth in the Companies' Act as regards the maximum number of shares owned by or pledged to the company or its subsidiaries. The shares may be repurchased only through public trading at the prevailing market price on the date of repurchase by using unrestricted shareholders' equity.

The authorisation includes the right for the Board of Directors to decide upon all other terms and conditions for the repurchase of the company's own shares, or their acceptance as pledge, including the right to decide on the repurchase of the company's own shares otherwise than in proportion to the shareholders' holdings in the company.

By virtue of the authorisation, the Board of Directors has the right to resolve to distribute a maximum of 4,000,000 own shares held by the company. The Board of Directors will be authorised to decide to whom and in which order the own shares will be distributed. The Board of Directors may decide on the distribution of the company's own shares otherwise than in proportion to the existing pre-emptive right of shareholders to purchase the company's own shares. 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 in the manner and to the extent decided by the Board of Directors. The Board of Directors also has the right to decide on the distribution of the shares in public trading for the purpose of financing possible acquisitions. The authorisation also includes the right for the Board of Directors to resolve on the sale of the shares accepted as a pledge. The authorisation includes the right for the Board of Directors to resolve upon all other terms and conditions for the distribution of the shares held by the company.

The authorisations for the Board of Directors to repurchase the company's own shares, to distribute them as well as to accept them as pledge are valid for 18 months from the close of the Annual General Meeting but will, however, expire at the close of the next Annual General Meeting, at the latest.

Share development and shareholders

January–December 2016 consisted of 253 (251) trading days on Nasdaq Helsinki and 252 (251) trading days on Nasdaq Stockholm.

The trading volume on Nasdaq Helsinki in 2016 was 6,871,859 (15,721,775) shares, equivalent to a turnover of EUR 78,248,108 (147,080,437). The daily average trading volume was 27,161 (62,637) shares and the volume-weighted average share price was EUR 11.39 (9.18). The highest share price in 2016 was EUR 15.95 (12.49) and the lowest EUR 7.67 (7.42). On the last trading day, 30 December 2016, the share price was EUR 15.80 (8.60) and the corresponding market capitalisation was EUR 802.0 million (436.5). The market capitalisation figures have been adjusted with the shares held by the company at the end of the reporting period.

The trading volume on Nasdaq Stockholm in 2016 was 2,132,958 (4,078,078) shares, equivalent to a turnover of SEK 229,430,760 (355,603,131). The daily average trading volume was 8,464 (16,247) shares and the volume-weighted average share price was SEK 107.63 (87.18). The highest share price in 2016 was SEK 163.00 (119.00) and the lowest SEK 71.75 (70.25). On the last trading day, 30 December 2016, the share price was SEK 151.00 (84.25).

At the end of December 2016, Munksjö had 9,990 (10,548) shareholders in the register maintained by Euroclear Finland Ltd.

The share turnover for both exchanges was 17.7 (39.0) per cent of the total amount of shares. Munksjö's share is also traded on alternative exchanges, such as BATS. During 2016 the shares traded on Nasdaq represented 77.4 per cent and the shares traded on the alternative exchanges 22.6 per cent of the total turnover (Source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com).

Flagging notifications

During 2016, Munksjö received one announcement about major changes with regards to the holdings of the largest shareholders. Information about the largest shareholders in Munksjö is available on the investor website at www.munksjo.com. The information is updated on a regular basis.

Change in the holding of Ahlström Capital

On 18 February 2016, Munksjö received an announcement from AC Invest Five B.V., according to which the holding of AC Invest Five B.V. holding in Munksjö had increased and as a consequence, the indirect holding of Ahlström Capital Oy had exceeded the threshold of 15 per cent. The direct holding of AC Invest Five B.V. and the indirect holding of Ahlström Capital Oy had increased to 7,897,619 shares, corresponding to a holding of 15.47 per cent of Munksjö's shares and voting rights. AC Invest Five B.V. is a wholly owned subsidiary of Ahlstrom Capital B.V. and Ahlstrom Capital B.V. is a wholly owned subsidiary of Ahlström Capital Oy.

Nomination Board appointed

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.

Munksjö's Nomination Board was appointed in June 2016. The Nomination Board comprises representatives of the three largest shareholders of the company and, in addition, two expert members: the Chairman of the Board of Directors and a person nominated by the Board of Directors. The following three persons have been appointed as representatives in the Nomination Board:

- Thomas Ahlström (Ahlström Capital Oy and others),
- Alexander Ehrnrooth (Viknum AB) and
- Mikko Mursula (Ilmarinen Mutual Pension Insurance Company).

The Chairman of the Board of Directors Peter Seligson acts, according to the charter of the Nomination Board, act as an expert member of the Nomination Board in addition to which the Board of Directors has elected Mats Lindstrand as the second expert member of the Nomination Board. The Nomination Board has among its members elected Thomas Ahlström as Chairman.

The Nomination Board has been appointed by Viknum AB, Ilmarinen Mutual Pension Insurance Company and one group of shareholders. Holdings by a group of shareholders, who have agreed to nominate a joint representative to the Nomination

Board, are 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 30 May preceding the Annual General Meeting. Munksjö has been informed that such an agreement has been made by AC Invest Five B.V. (a fully owned subsidiary of Ahlström Capital Oy), Kai Nahi, Niklas Lund, Kasper Kylmälä, Michael Sumelius and Carl Ahlström.

Other issues

Munksjö operates in several countries and from time-to-time disputes arise in the course of day-to-day operations. Munksjö is involved in a number of legal actions, claims and other proceedings. The final outcome of these matters cannot be predicted and taking into account all available information to date the outcome is not expected to have a significant impact on the financial position of the company.

Changes in the Management team

In July, Munksjö announced that Gustav Adlercreutz, General Counsel, will retire in February 2017 and be succeeded by Andreas Elving. Andreas Elving formally assumed the position of General Counsel on 1 February 2017. Andreas Elving reports to Jan Åström, President and CEO, and is a member of Munksjö's Management Team. Andreas Elving joined Munksjö from Autoliv, where he held the position as Associate General Counsel.

Strategy and financial targets

Munksjö's vision is to be the leading manufacturer of advanced paper products developed with intelligent paper technology enabling a customer-specific, innovative and environmentally friendly product design. Munksjö's strategy is based on four strategic objectives and is enabled through sustainable development by an efficient organisation and employees;

- Profitable growth in specialty paper
- A leading supplier in all our markets
- Highest quality in products and services
- Operational efficiency

Munksjö has three financial goals;

- an EBITDA margin of 12 per cent over a business cycle
- a debt/equity ratio under 80 per cent
- dividends at least 1/3 of the operative cash flow after investments

Munksjö's ambition is to further grow the business over the coming years both organically and strategically. The focused strategy enables strong market positions and Munksjö strengthens these positions through sustainable value added solutions.

The EBITDA targets per business area are; 15–16 per cent for Decor, 12–13 per cent for Release Liners, 15–16 per cent for Industrial Applications and 9–10 per cent for Graphics and Packaging.

The above is given for Munksjö as a stand-alone company with its current operations. Financial targets for the combined company are expected to include an EBITDA margin above 14 per cent over a business cycle, net gearing below 100 per cent, as well as a stable and annually increasing dividend.

Outlook

The demand outlook for 2017 for Munksjö's specialty paper products is expected to remain stable compared with the current good level and to reflect the seasonal pattern.

The annual maintenance and vacation shutdowns in the second and third quarter as well as the seasonal shutdowns at the end of 2017 are expected to be carried out to about the same extent as in 2016. The next maintenance shut down at the pulp production facility in Aspa in Sweden will be carried out in the fourth quarter of 2017.

The cash flow effect of current capital expenditure for fixed assets for 2017 is expected to be approximately EUR 40 million and, in addition, the cash flow impact of the strategic investment in the Arches mill is expected to be approximately EUR 14 million.

The outlook for the financial year 2017 is given for Munksjö as a stand-alone company with its current operations.

Annual General Meeting 2017

The company's Annual General Meeting will be held after the registration of the execution of the merger with Ahlstrom Corporation, which is, inter alia, subject to the approval of relevant competition authorities. The AGM will however not be held later than 30 June 2017.

The Board of Director's proposal to pay dividend

The EGM of Munksjö decided on 11 January 2017 to authorise the Board of Directors to resolve, based on the latest audited financial statements of the company for 2015, by one or several resolutions, on an extra payment of funds from the company's reserve for invested unrestricted equity as return of equity in the total amount of maximum EUR 0.45 per each outstanding share in the company (representing a maximum total amount of approximately EUR 22,842,711 after excluding the treasury shares held by the company) to the shareholders of Munksjö prior to the merger. The return of equity shall be paid prior to the registration of the execution of the merger. The authorisation shall be valid until the close of the Annual General Meeting of Munksjö in 2017. As there are no distributable retained earnings in the balance sheet as of 31 December 2016, the Board of Directors proposes that no dividend will be paid for the fiscal year 2016.

Consolidated key ratios

	2016	2015	2014	2013	2012
Margins (adjusted)					
EBITDA margin, %	12.0	8.3	9.2	6.4	7.0
Operating margin, %	7.1	3.5	4.5	1.8	2.8
Return (12 months continuous)					
Return on operating capital, % (adjusted)	12.3	5.9	7.3	2.8	3.9
Return on shareholders' equity, %	10.2	5.7	1.8	–10.8	–5.1
Capital structure at period's end					
Operating capital, MEUR	643.2	651.9	673.2	694.8	413.0
Shareholders' equity, MEUR	437.7	401.3	413.6	423.8	199.5
Interest-bearing net debt, MEUR	169.5	227.4	225.6	229.3	217.3
Debt/equity ratio, %	38.7	56.7	54.5	54.1	108.9
Equity/assets ratio, %	36.8	34.2	35.1	35.6	29.4
Capital expenditure, MEUR	39.2	39.8	35.1	22.6	14.8
Employees, FTE	2,755	2,774	2,765	2,216	1,679
Share information*					
Earnings per share, EUR	0.85	0.44	0.14	–1.97	–0.89
Dividend per share	0.45**	0.30	0.25	0.10	n/a
Effective dividend yield, %	2.8	3.5	2.8	1.9	n/a
Price earnings ratio	18.6	19.5	63.9	n/a	n/a
Dividend per earnings, %	53	68	179	n/a	n/a
Shareholders' equity per share, EUR	8.6	7.9	8.1	8.3	16.2
Average number of shares	50,761,581	50,818,260	51,061,581	29,228,454	12,306,807

* All dividend calculations are based on return of equity
** Board's proposal subject to shareholder approval

Calculation of key figures

Debt/equity ratio
Interest-bearing net debt divided by shareholders' equity including non-controlling interests.

Dividend per earnings
Dividend per share as a percentage of earnings per share.

Earnings per share
Result for the period divided by the average number of shares outstanding.

EBITDA
Operating result before depreciation and amortisation.

EBITDA margin
EBITDA as a percentage of net sales.

Effective dividend yield
Dividend per share as a percentage of closing share price.

Equity/assets ratio
Shareholders' equity including non-controlling interests as a percentage of total assets.

Equity per share
Shareholders' equity divided by the number of shares outstanding at the end of the period.

FTE
Number of hours worked divided by normal annual working hours.

Interest bearing liabilities and assets
Liabilities and assets which have a contractual obligation/right to pay/receive interest to/from a financial institution.

Items affecting comparability
Income or expense arising from activities or events outside of ordinary course of business and of a non-recurring nature.

Net interest-bearing liability
Interest-bearing assets (including cash and equivalents) less interest-bearing liabilities.

Operating capital
Balance sheet total less interest-bearing assets, tax assets and non interest-bearing operating liabilities, including pension provisions.

Operating margin
Operating result after depreciation and amortisation was a percentage of Net sales.

Price/earnings ratio
Closing share price divided by earnings per share.

Return on shareholders' equity
Result or the year as a percentage of average shareholders' equity.

Return on operating capital
Operating result as a percentage of operating capital.

Shareholders

Largest registered shareholders as at 31 December 2016*		Number of shares and votes	%
1	Ahlström Capital Group	8,738,058	17.11
2	Viknum AB	6,050,000	11.85
3	Ilmarinen Mutual Pension Insurance Company	4,101,899	8.03
4	OP Fund Management Company (Pohjola Asset Management)	1,482,278	2.90
5	Nordea Asset Management	1,394,436	2.73
6	Varma Mutual Pension Insurance Company	814,676	1.60
7	Huber Mona	692,767	1.36
8	Nordea Life Assurance Finland Ltd	618,750	1.21
9	Sp-Fund Management	581,605	1.14
10	Tracewski Jacqueline	540,047	1.06
11	Seligson Peter	524,523	1.03
12	Nahi Kaj Anders Bertel	455,087	0.89
13	SEB Finlandia Investment Fund	416,119	0.81
14	Emmett Linda	391,629	0.77
15	Sumelius John Michael	384,684	0.75
16	Studer Anneli	380,021	0.74
17	Lund Niklas Roland	376,739	0.74
18	Gullichsen Johan Erik	358,062	0.70
19	Kylmälä Tauno Kim Toivo	355,271	0.70
20	Huber Samuel	353,994	0.69
20	**Largest shareholders, total**	**29,010,645**	**57.15**

* The list of Munksjö Oyj´s largest shareholders is based on the information given by Euroclear Finland Ltd and Euroclear Sweden Ltd.
Total share issued: 51,061,581
Munksjö Oyj: 300,000
Total shares outstanding: 50,761,581

Shareholders by sector as at 31 December 2016*	Number of shareholders	Share of shareholders, %	Number of shares	Share of shares, %
Households	9,436	94.5	12,905,034	25.3
Public sector institutions	7	0.1	5,031,176	9.9
Financial and insurance institutions	23	0.2	4,020,614	7.9
Corporations	366	3.7	1,746,379	3.4
Non-profit institutions	77	0.8	449,797	0.9
Foreign and nominee registered owners	81	0.8	26,908,581	52.7
Total	**9,990**	**100.0**	**51,061,581**	**100.0**

* The list of Munksjö Oyj´s shareholders by sector is only based on the information given by Euroclear Finland Ltd.

Distribution of shares as at 31 December 2016*	Number of shareholders	Share of shareholders, %	Number of shares	Share of shares, %
1 – 100	6,335	63.4	250,299	0.5
101 – 500	2,522	25.2	539,594	1.1
501 – 1,000	488	4.9	340,569	0.7
1,001 – 5,000	406	4.1	823,282	1.6
5,001 – 10,000	62	0.6	464,956	0.9
10,001 – 50,000	73	0.7	1,703,467	3.3
50,001 – 100,000	50	0.5	3,587,922	7.0
100,001 – 500,000	49	0.5	11,557,477	22.6
500,001 –	11	0.1	31,794,015	62.3
Total	**9,996**	**100.0**	**51,061,581**	**100.0**
of which nominee registered	9	0.1	9,475,970	18.6

* The list of Munksjö Oyj´s distribution of shares is only based on the information given by Euroclear Finland Ltd.

Consolidated statement of comprehensive income

MEUR	Note	2016	2015
Net sales	4	1,142.9	1,130.7
Other operating income		7.5	11.6
Total income		**1,150.4**	**1,142.3**
Changes in inventories		2.7	1.0
Materials and supplies		–544.2	–573.9
Other external costs	5	–266.2	–283.6
Personnel costs	7	–212.6	–199.5
Depreciation and amortisation	11	–55.2	–53.6
Share of profit in equity accounted investments	17	0.0	0.0
Operating result		**74.9**	**32.7**
Financial income	12	4.3	10.5
Financial costs	12	–20.2	–15.2
Net financial items		**–15.9**	**–4.7**
Profit/(loss) before tax		**59.0**	**28.0**
Taxes	13	–15.7	–5.2
Net profit/(loss) for the year		**43.3**	**22.8**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		11.0	–22.3
Change in cash flow hedge reserve	27	–2.4	–3.2
Cash flow hedge transferred to this year's result	27	3.1	6.2
Items that will not be reclassified to profit or loss			
Actuarial gains and losses on defined benefit plans	10	–3.3	1.0
Tax attributable to other comprehensive income		0.7	–1.0
Total comprehensive income		**52.4**	**3.5**
Net result attributable to:			
Parent company shareholders		43.1	22.4
Non-controlling interests		0.2	0.4
Comprehensive income attributable to:			
Parent company's shareholders		52.2	3.1
Non-controlling interests		0.2	0.4
Earnings per share			
Basic earnings per share. EUR	14	0.85	0.44
Diluted earnings per share. EUR	14	0.85	0.44

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

MEUR	Note	2016-12-31	2015-12-31
ASSETS			
Non-current assets			
Tangible assets	16	421.1	430.0
Goodwill	15	226.1	223.9
Other intangible assets	15	43.1	46.6
Equity accounted investments	17	2.2	2.3
Other non-current assets		9.0	3.6
Deferred tax assets	13	40.8	51.8
Total non-current assets		**742.3**	**758.2**
Current assets			
Inventory	19	158.2	155.4
Accounts receivable	23, 27	104.8	111.1
Other current assets	20	33.5	38.3
Current tax asset		1.7	5.3
Cash and cash equivalents	21	146.0	105.1
Total current assets		**444.2**	**415.2**
TOTAL ASSETS		**1,186.5**	**1,173.4**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position, cont.

MEUR	Note	2016-12-31	2015-12-31
EQUITY AND LIABILITIES			
Equity			
Attributable to parent company's shareholders			
Share capital	22	15.0	15.0
Reserve for unrestricted equity		254.1	269.3
Other reserves		371.4	363.5
Retained earnings		–206.8	–250.6
Total equity *attributable to parent company's shareholders*		**433.7**	**397.2**
Non-controlling interests		4.0	4.1
Total equity		**437.7**	**401.3**
Non-current liabilities			
Non-current borrowings	24	293.5	313.5
Other non-current liabilities		0.9	1.7
Pension obligations	10	54.7	52.4
Deferred tax liabilities	13	66.6	74.1
Non-current provisions	25	16.0	23.9
Total non-current liabilities		**431.7**	**465.6**
Current liabilities			
Current borrowings	24	22.0	22.5
Accounts payable		162.9	165.9
Liabilities to equity accounted investments		7.1	8.0
Accrued expenses and deferred income	26	98.7	94.5
Current tax liabilities	13	11.9	2.7
Other current liabilities		14.5	12.9
Total current liabilities		**317.1**	**306.5**
Total liabilities		**748.8**	**772.1**
TOTAL EQUITY AND LIABILITIES		**1,186.5**	**1,173.4**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

MEUR	Share capital	Reserve for unrestricted equity	Other contributed equity	Treasury shares	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non–controlling interest	TOTAL EQUITY
	Attributable to owners of the parent									
BALANCE AT 1 JANUARY 2015	**15.0**	**282.0**	**388.5**	**0.0**	**1.4**	**–3.4**	**–273.9**	**409.6**	**4.0**	**413.6**
Profit/(loss) for the year	–	–	–	–	–	–	22.4	22.4	0.4	22.8
Other comprehensive income before tax	–	–	–	–	–22.3	3.0	1.0	–18.3	–	–18.3
Tax on other comprehensive income	–	–	–	–	–	–0.6	–0.4	–1.0	–	–1.0
Total comprehensive income for the year	**0.0**	**0.0**	**0.0**	**0.0**	**–22.3**	**2.4**	**23.0**	**3.1**	**0.4**	**3.5**
Purchase of Munksjö shares	–	–	–	–3.1	–	–	–	–3.1	–	–3.1
Return of capital and dividends	–	–12.7	–	–	–	–	–	–12.7	–0.3	–13.0
Employee share incentive plan	–	–	–	–	–	–	**0.3**	**0.3**	–	**0.3**
BALANCE AT 31 DECEMBER 2015	**15.0**	**269.3**	**388.5**	**–3.1**	**–20.9**	**–1.0**	**–250.6**	**397.2**	**4.1**	**401.3**
Profit/(loss) for the year	–	–	–	–	–	–	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 for the year	**0.0**	**0.0**	**–2.4**	**0.0**	**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
Employee share incentive plan	–	–	–	–	–	–	0.7	0.7	–	0.7
BALANCE AT 31 DECEMBER 2016	**15.0**	**254.1**	**384.9**	**–3.1**	**–9.9**	**–0.5**	**–206.8**	**433.7**	**4.0**	**437.7**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

MEUR	Note	2016	2015
Operating activities			
Profit/(loss) before tax		59.0	28.0
Adjustment for:			
Depreciation	15, 16	55.2	53.6
Net financial expense		15.9	4.7
Interest paid		–11.6	–11.6
Tax paid		–1.3	–13.4
Net cash generated from operating activities before changes in working capital		**117.2**	**61.3**
Cash flow from changes in working capital			
Changes in inventories		–2.8	–3.2
Changes in operating liabilities		–5.6	0.1
Changes in operating receivables		5.5	–2.7
Net cash generated from operating activities		**114.3**	**55.5**
Investing activities			
Acquisition of subsidiaries, net of cash acquired	3	–	–
Purchase of tangible fixed assets	16	–39.2	–39.3
Purchase of intangible fixed assets	15	0.0	–0.5
Cash flow used in investing activities		**–39.2**	**–39.8**
Financing activities			
Return of equity and dividends		–15.5	–13.0
Proceeds from share issue, net of costs		–	–
Purchase of own shares		–	–3.1
Proceeds from borrowings, net of costs		–	61.1
Repayment of acquired entities borrowings to Ahlstrom		–	–
Repayment of borrowings		–18.4	–39.0
Cash flow from financing activities		**–33.9**	**6.0**
CASH FLOW FOR THE YEAR		**41.2**	**21.7**
Cash and cash equivalents at the beginning of the year		**105.1**	**84.1**
Cash flow for the year		41.2	21.7
Exchange gains/(losses) on cash and cash equivalents		–0.3	–0.7
CASH AND CASH EQUIVALENTS AT YEAR-END	21	**146.0**	**105.1**

The accompanying notes are an integral part of these consolidated financial statements.

Notes

Note 1 Significant accounting policies

General

General accounting principles and new accounting rules are presented below. The 2016 consolidated financial statements comprise the Parent company and all its subsidiaries, jointly the Group. The same principles are usually applied in both the Parent Company and the Group. Details for Parent company particulars, see note 31. In some cases, the Parent Company applies principles other than those used by the Group and these principles are specified under the respective note. The Financial Statements and Board of Director's report were approved by the Board of Directors on 15 February 2017 and are expected to be adopted by the AGM later in the spring 2017.

Summary of key accounting policies

The functional currency of the Parent Company is EUR and the Group financial statements are presented in MEUR, unless otherwise indicated. 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 figures in the accounts have been rounded and consequently the sum of individual figures can deviate from the presented sum figure. Percentages are subject to possible rounding differences.

Basis of preparation

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Commission of the European Communities (EU) for application in the European Union.The accounting policies outlined below have been applied consistently on the reporting and consolidation of the Parent Company, subsidiaries, as well as when incorporating associated companies and joint arrangements in the consolidated accounts.

New and amended standards adopted by the group. The accounting principles applied remain unchanged compared with the 2015 Annual Report.

Standards issued but not yet effective in the European Union

IFRS 9 Financial instruments

This new standard was endorsed by EU in 2016 and will replace IAS 39 with effective date from 1 January 2018. Prospective application permitted. The Group is not planning an earlier application. IFRS 9 will introduce changes in the way financial assets are classified and valued and introduces an impairment model based on expected losses rather than occurred losses and changes to the principles of hedge accounting with a view to simplifying and increasing the consistency with the Groups internal risk management strategies.

The new rules for impairment are based on expected losses. The effect of the recognition of expected losses, instead of occurred losses, are estimated to have only minor effects. Quantitative assessments have not yet been made.

The evaluation of the impact on the consolidated accounts from application of IFRS 9, is in progress. Quantitative effects have yet been estimated, but will crystallize in the implementation project, which will continue during 2017. The assessments of the effects described in the following are based on the information currently known or valued. Election with respect to the transitional method will be made when the analysis of IFRS 9 reached a phase that provides more complete basis than at present.

IFRS 15 Revenue from contracts with customers

The new standard changes the requirements for recognition of revenue and includes expanded requirements for disclosures regarding revenue type, amount, regulation time, the uncertainties related to revenue recognition as well as cash flows arising from customer contracts. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and all related interpretations.

The standard identifies commercial agreements with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently. In certain cases, the goods/services can be integrated with other obligations in the contract, whereby a package of goods/services comprises a joint obligation.

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 / services have been transferred to the customer.

The evaluation of the impact on the consolidated accounts when IFRS 15 is applied is ongoing. Quantitative effect has not yet been estimated. Election concerning transitional methods will be made when the analysis of IFRS 15 has reached a phase that provides more complete basis than at present. The standard is not expected to have a material impact on revenue recognition for Munksjö type of business, that is, primarily the sales of products at an established market in accordance with a mature business model.

IFRS 16 Leases

The new standard with effective date 1 January 2019 is replacing the former IAS 17 Leases. Early adoption is permitted. The accounting for lessors will in all material aspects be unchanged, however the accounting for lessees will be impacted. The new standard introduces a single lease accounting model meaning that all leases should be recognized on-balance sheet as a right-of-use asset and lease liability. There will no longer be a distinction between operating and financial lease, all leases will be recognized on the balance sheet except for short term leases and those of minor value. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right to use the asset.

The Group will assess the impact of IFRS 16 and the current assessment is that the new standard will have a significant impact on net debt, depreciation and leasing interest. For Munksjo´s the effective date will be 1 January 2019. Election regarding transitional method have not yet been implemented.

Valuation policies applied in the preparation of the financial statements

Assets and liabilities are reported at historical cost, with the exception of certain financial assets and liabilities, which are measured at fair value or amortised cost. Financial assets and liabilities measured at fair value consist of derivative financial intruments.

Translation of foreign currency

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the transaction date exchange rate. The functional currency is the currency of the primary economic environment in which the Group's companies carry out their business. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the reporting date exchange

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rate and resulting exchange rate differences are recognised in profit/loss for the year. Non-monetary assets and liabilities recognised at their historical costs are translated at the exchange rate applicable at the time of the transaction. Non-monetary assets and liabilities recognised at fair value are converted into the functional currency at the rate in effect at the time of the fair value assessment.

Group companies

The results and financial position of all Group companies (none of which are operating with hyper-inflation currencies) that have a functional currency other than the presentation currency, are translated into the Group's presentation currency as follows:

Assets and liabilities for each of the consolidated statements of financial position are translated using the exchange rate prevailing at the reporting date. Income and expenses for each of the consolidated statements of comprehensive income are translated using the average exchange rate for the reporting period (provided the average exchange rate constitutes a reasonable approximation of the accumulated effect of the exchange rates that were in force on the transaction date, otherwise income and expenses are translated according to the exchange rate on the transaction date). All resulting translation differences are reported in other comprehensive income. Goodwill and adjustments to fair value that arise during the acquisition of a foreign business are treated as assets and liabilities of that business and translated using the exchange rate prevailing at the reporting date.

Judgements and estimates in the financial accounts

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the figures reported for assets, liabilities, income and expenses. The actual outcome may deviate from these estimates and judgements. The estimates and assumptions are reviewed regularly. Changes in estimates are reported in the period in which they are made. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates that may cause material adjustments to the financial statements in subsequent years are disclosed in greater detail in note 2.

Operating segments

Munksjö's operations are divided up into operating segments based on which parts of the operations the company's chief operating decision maker monitors the business, that is, according to the management approach. The Group's operations are organised in such a way that the senior management team monitors the profit or loss and the operating margin generated by the Group's various product areas. Each operating segment provides regular reports to the senior management team on the outcome of the operating segment's efforts and its resource requirements. Since the senior management team monitors the profit or loss and determines resource allocations based on the product areas for the Group's production and sales, these constitute the Group's operating segments. Munksjö's operating segments have been identified in accordance with IFRS 8 and comprise the business areas Decor, Release Liner, Industrial Applications and Graphics and Packaging. Unallocated corporate costs and eliminations are reported under the heading Other.

Consolidated financial statements

Subsidiaries

Subsidiaries are companies over which Munksjö Oyj has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Acquisition of subsidiaries are recognised in accordance with the acquisition method. The consideration for an acquisition of a subsidiary consists of the fair value of assets given and liabilities incurred or assumed at the date of acquisition. Transaction fees directly attributable to the acquisition are reported directly in the income statement as they arise. Identifiable assets acquired and liabilities assumed and contingent liabilities in a business combination are measured initially at their fair values on the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. If the consideration is less than the fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, the difference is recognised directly in the income statement. Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies for subsidiaries are changed where necessary to ensure consistent application of the Group's policies.

Subsidiaries' financial accounts are included in the consolidated accounts from the time of acquisition and until the Group no longer has a controlling influence.

Transactions between owners

The Group applies the principle of reporting transactions with non-controlling interests 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. Transactions between owners are reported within shareholders' equity.

Associated companies

Associated companies are those in which the Group has a significant, but non-controlling influence over operational and financial policies, commonly through holdings corresponding to between 20 and 50 percent of votes. From the point at which a significant influence is obtained, participations in associated companies are reported in the consolidated accounts in accordance with the equity method. Under the equity method the carrying value of holdings in associated companies are reported in the consolidated accounts in proportion to the Group's share of equity, together with any goodwill recognized when significant influence or joint control was established. In the Consolidated Statement of Comprehensive Income, "Share of profit in associated companies" includes the Group's share of earnings after tax attributable.

Where the Group's share of losses reported by the associated company exceeds the carrying value of the Group's participations, the value of the participation is reduced to zero. Further losses are not recognised unless the Group has given guarantees to cover losses.

The equity method is applied until the point in time at which the significant influence ceases.

Joint arrangements

The Group applies IFRS 11 to joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint venture entitles the joint owners to the net assets of the investment and is therefore recognized according to the equity method. The Group has identified one joint arrangement and determined it to be a joint venture. In joint operations, parties to the agreement have rights to the assets and an obligation for the liabilities associated with the investment, meaning that the operator must account for its share

Cont. note 1

of the assets, liabilities, revenues and costs according to the proportional method. The Group recognises its share of assets, liabilities, revenue and expenses in accordance with its contractual rights and obligations.

Transaction eliminated on consolidation
Intra-Group receivables and liabilities, income or expenses and unrealised gains or losses arising from intra-Group transactions between Group companies are eliminated in full when preparing the consolidated accounts.

Unrealised gains arising from transactions with associated companies and joint operations are eliminated to the extent of the Group's participating interest in the companies. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue
Revenue encompasses the fair value of what has been received or is expected to be received for goods sold in the Group's operating activities. Income is reported excluding VAT, returns and discounts, and after elimination of intra-Group sales.

The Group reports income when the amount can be measured in a reliable manner, when it is likely that future economic benefits will accrue to the company and special criteria have been satisfied for each of the Group's businesses as described below. The Group bases its assessments on historical outcomes and takes into account customer type, transaction type and special circumstances in each individual case.

Sale of goods
Munksjö's revenue comprises mainly the sale of manufactured products. Revenue for sales of goods is recognised in the Consolidated Statement of Comprehensive Income when significant risks and rewards associated with the ownership of the goods are transferred to the buyer in accordance with the terms of delivery. The Groups's terms of delivery are based on Incoterms 2010.

The main incoterms used include;

- "Ex-works" where the point of sale is once products leave the mill or warehouse facility as 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 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 Munksjö is responsible for the goods until the buyer has received them in their premises.

Government grants
Government grants are recognised in the Consolidated Statement of Financial Position as deferred income when there is reasonable certainty that the subsidy will be received and that the Group will meet the conditions associated with the grant. Grants related to expense items are recognised on a systematic basis in the Consolidated Statement of Comprehensive Income in the same way and across the same periods as the expenses that the grants are intended to offset. Government grants related to fixed assets reduce the gross cost of the fixed assets.

Leasing
Operating leasing agreements
Leases in which a significant part of the risks and benefits of ownership are retained by the lessor are classified as operational leases. Payments made during the leasing period (after deductions for any rewards from the lease provider) are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the leasing period.

Financial leasing agreements
The Group leases certain tangible fixed assets. Leasing agreements of tangible fixed assets 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 Consolidated Statement of Financial Position 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 liability and financial costs. The corresponding payment obligations, after deductions for financial costs, are included in the Consolidated Statement of Financial Position, in Non-current and current borrowings. The interest is recognised in the consolidated statement of comprehensive income 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.

Financial income and expenses
Financial income consists of interest income from financial instruments measured at amortised cost and gains from interest rate swaps. Financial expenses consist of interest expenses on loans, the interest related to discounted provisions, and losses on interest rate swaps.

All borrowing expenses are reported in the consolidated statement of comprehensive income using the effective interest method. Borrowing expenses are not reported in the consolidated statement of comprehensive income to the extent that they are directly attributable to the purchase, construction or production of assets that take considerable time to complete for the intended use or for sale. In such cases they are included in the cost of the assets.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Interest expenses include transaction fees for loans that are amortised over the loan period.

Current and deferred tax expense
The period's tax expense is made up of current tax and deferred tax. Tax is recognised in the result except when underlying transactions are reported in other comprehensive income, whereby the associated tax effect is reported in other comprehensive income.

Current tax is tax due for payment or receipt in respect of the financial year, using tax rates enacted or substantially enacted at the reporting date. Adjustment of current tax related to earlier periods is also included.

Deferred tax is calculated using the liability method on temporary differences between the carrying amounts and taxable values of assets and liabilities. Deferred tax is not recognised for temporary differences that arise on initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction other than a business combination that do not affect either the accounting or taxable profit at the time of the transaction.

Deferred tax is not recognised for temporary differences that arise on investments in subsidiaries and associated companies which are not expected to be reversed in the foreseeable future.

The valuation of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realised 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 recognised only to the extent it is likely that they will be utilised. The value of deferred tax assets is de-

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recognised when it is no longer deemed likely that they can be utilised. Any additional income tax arising from a dividend is recognised at the same time as the dividend is recognised as a liability.

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.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

Offset of financial instruments

Financial assets and liabilities are offset and recognised with a net amount in the Consolidated Statement of Financial Position only when there is a legal right to offset the recognised amounts and an intention to balance the items with a net amount, or to simultaneously realise the asset and settle the liability. The amounts netted are not significant.

Financial assets

Classification and measurement

IFRS requires financial assets to be classified at initial recognition as: financial assets at fair value through profit and loss, loans and receivables, held to maturity investments, available for sale or as derivatives designated as hedging instruments in an effective hedge. All financial assets are recognized initially at fair value plus transaction costs except for those recorded at fair value through profit and loss. The Group currently does not have any financial assets classified as held to maturity, available for sale or fair value through profit or loss.

Loans and receivables

Loan receivables and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recorded at fair value and subsequently measured at amortised cost. The amortised cost is determined based on the effective interest calculated at the time of acquisition. Accounts receivable are recognised at the amount estimated to be received, i.e. with a deduction for doubtful receivables.

Cash and cash equivalents comprise cash and short term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits net of outstanding bank overdrafts.

Impairment of financial assets

At each reporting date, the company evaluates whether there is objective evidence that any financial asset or Group of assets may be impaired. Objective evidence constitutes observable events that have an adverse impact on the future cash flows of the financial asset such as overdue receivables or bankruptcy of counterparties. The recoverable amount of instruments measured at amortisised cost such as loans and receivables is calculated as the present value of future cash flows discounted by the effective interest rate applicable on the initial recognition of the asset. Impairment is recognised as an expense in the Consolidated Statement of Comprehensive Income.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the rights to receive cash flows from the asset have been transferred.

Financial Liabilities

IFRS requires financial liabilities to be classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge. All financial liabilities are recognized initially at fair value and for loan, borrowings and payables net of transaction costs. The Group's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Details of the category in which the Group's financial assets and liabilities are placed are given under note 23 Financial assets and liabilities.

Derivatives and hedge accounting

The Group's derivative instruments have been acquired to hedge its interest, exchange rate, electricity and pulp price exposures. In order to fulfil the requirements on hedge accounting in accordance with IAS 39, there must be a clear hedge relationship. The Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents how it will assess the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. For the purpose of hedge accounting, hedges are classified as: Fair value hedges, cash flow hedges or hedges of net investment in a foreign operation. The Group does not have fair value hedges or net investment hedging.

All derivatives used for financial risk management fulfil the requirements on hedge accounting and are accounted for as follows. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the hedging reserve. The gain or loss relating to the ineffective portion is charged immediately to the profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in the hedging reserve is recognised when the forecast transaction is recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recognised immediately in the profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions, interest rate swaps to hedge variable rate borrowings and forward commodity contracts for its exposure to volatility in electricity and pulp prices.

Tangible assets

Owned assets

Tangible assets are recognised in the Group 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. Examples of directly attributable expenses include costs relating to delivery and hand-

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ling, installation, land registration certificates, consultancy services and legal services. Interest on borrowings directly attributable to the purchase, construction or production of assets that take considerable time to complete are capitalised.

The cost for self-constructed tangible assets include expenditure for materials, employee benefits and other manufacturing costs directly attributable to the tangible asset where applicable, as well as estimated expenses for dis-mantling and removing the asset and restoring the site or area where it is located. Tangible assets comprising parts with different useful lives are treated as separate components of tangible assets. The carrying value of a tangible asset is derecognised from the Consolidated Statement of Financial Position on scrapping or sale, or when no future economic benefits are expected from the use, scrapping or sale of the asset.

Gains or losses arising from the sale or scrapping of an asset constitute the difference between the sale price and the asset's carrying value, less direct sales expenses. Gains and losses are recognised as other operating income/expense. Accounting policies for the impairment of assets are shown below.

Leased assets

Assets leased through financial leasing agreements are recognised as tangible assets in the Consolidated Statement of Financial Position and initially valued at the lower of the fair value of the leased item and the present value of the minimum lease payments at the commencement of the agreement.

Obligations to pay future lease payments are recognised as current and non-current interest bearing liabilities.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the asset will accrue to the company and the cost can be measured reliably. All other subsequent expenses are expensed in the period they arise. A subsequent expenditure is added to the cost if the expense relates to the replacement of identified components or parts thereof. Any non-depreciated carrying amounts for replaced components, or parts of components, are scrapped and derecognised in connection with replacement. Repairs are expensed as they are incurred. At paper mills, maintenance shutdowns are carried out at regular intervals. The major maintenance measures that recur on these occasions are treated as a separate component. Depreciation is carried out over time up until the next maintenance shutdown, which normally occurs after 12–18 months.

Depreciation policies

Depreciation is charged on a straight line basis over the asset's estimated useful life. The Group applies the component approach, whereby the components' useful lives form the basis for depreciation. The following depreciation periods are used:

Industrial buildings	20 years
Office buildings	30–50 years
Land improvements	20 years
Machinery used for pulp and paper	10–30 years
Other machinery	10 years
Vehicles, equipment and components	2–5 years

The residual value and useful life of each asset is assessed annually.

Intangible assets

Goodwill

Goodwill is reported at cost less any accumulated impairment. Goodwill is allocated to cash generating units and tested for impairment annually (see accounting principle Impairment of tangible and intangible assets and participations in associated companies). Goodwill arising from the acquisition of associated companies is included in their carrying value.

Research and development

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. Examples of expenditure included in the research phase are costs related to acquiring new knowledge, and costs relating to the evaluation of and search for alternative paper grades and production processes. Costs for the research phase are expensed immediately in the Consolidated Statement of Comprehensive Income. Where research results or other knowledge are applied to achieve new or improved processes, product development expenditure is recognised as an asset in the Consolidated Statement of Financial Position if the product or process is technically and commercially viable and the company has sufficient resources to complete development and subsequently use or sell the intangible asset. The carrying amount includes costs for materials, direct costs for salaries and other direct costs attributable to the asset. Other development expenses are recognised in the Consolidated Statement of Comprehensive Income as an expense as they arise.

Software

Costs for the development and maintenance of software are expensed as incurred. Costs that are directly linked to the development of identifiable and unique software products controlled by the Group and likely to have economic benefits for more than one year are recognised as intangible assets.

Electricity certificates

Electricity certificates are awarded for production of electricity from renewable resources and are measured at the estimated fair value and recognised as accrued income. Corresponding income is recognised in operating profit/loss as a correction of electricity costs and the certificate is divested in the following month.

Emission rights

Munksjö has been allocated rights for the emission of carbon dioxide within the EU trading scheme. Emission rights are initially recorded at fair value when the Group obtains control and are subsequently measured at cost on a FIFO basis. Emission obligations are measured at the carrying value of the emission rights. If there are insufficient emission rights the obligation is measured at fair value. The Group presents emission rights and obligations on a net basis.

Amortisation of intangible assets

Amortisation is reported over the asset's estimated useful life.

Goodwill and other intangible assets with an indefinite useful life or that are not yet ready for use are tested for possible impairment annually and as soon as indications arise that the asset in question may have decreased in value. Intangible assets with a definite useful life are amortised from the point at which they are available for use.

The estimated useful lives for capitalised development expenditure and software is 3–7 years. The useful lives of assets are reassessed at least once a year.

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Impairment of tangible and intangible assets

The value of tangible and intangible assets with definite useful lives are tested for impairment if there is an indicator that they may have suffered impairment. If a need for impairment testing is indicated, the recoverable amount of the asset is calculated. The recoverable amount for goodwill and other intangible assets with indefinite useful lives and intangible assets that are not yet ready for use is calculated annually.

When independent cash flows cannot be established for an individual asset, and its fair value less selling expenses cannot be used, assets are grouped at the lowest level at which largely independent cash flows can be identified – this is known as a cash generating unit.

Impairment is recognised when an asset's or cash generating unit's (Group of units') carrying value exceeds the recoverable amount. Impairment is recognised as an expense in the Consolidated Statement of Comprehensive Income. Impairment identified for a cash generating unit (Group of units) is applied first to goodwill. After this, a proportional impairment of all other assets included in the unit (Group of units) is implemented.

The recoverable amount is the higher of fair value less selling expenses and value in use. Upon calculating the value in use, future cash flows are discounted at a discount rate that takes into account the risk-free interest and the risk associated with the specific asset.

Reversal of impairment

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. However, impairment of goodwill is never reversed. 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.

Impairments of investments or loans held to maturity or loan receivables and accounts receivable recognised at amortised cost are reversed if a subsequent increase in the recoverable amount can be objectively attributed to an event that occurred after the impairment was implemented.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost for inventories is based on the first-in first-out principle (FIFO) and includes expenses arising upon acquisition of the inventories and their transport to their current location and condition. For manufactured goods and work in progress, cost includes a reasonable proportion of indirect expenses based on normal capacity. The net realisable value is the expected sale price less expected selling costs.

Earnings per share

Earnings per share is calculated by dividing the Group profit or loss 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.

Employee benefits

Pension commitments

Group companies operate various pension schemes. These schemes are generally funded through payments to insurance companies or trustee administered funds, where the payments are established based on periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. The distinguishing feature of defined benefit plans is that they define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The liability recognised in the Consolidated Statement of Financial Position with respect to defined benefit pension plans 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 defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The current value of the defined benefit obligation is established by discounting estimated future cash flows using market yields on high quality corporate bonds issued in the same currency as the benefits will be paid in and with a term comparable with the pension liability. If there is no active market for such corporate bonds, the market rate for government bonds with a corresponding maturity is used instead.

The obligations for retirement and survivors' pension for professional employees in Sweden are insured through a policy with Alecta. Sufficient information is not available to use defined benefit accounting for this multi-employer plan therefore it is accounted for as if it is a defined contribution plan.

Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income for the year during the period in which they arise.

Past-service costs are recognised immediately in profit/loss for the year, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time. In this case, the past-service costs are amortised on a straight-line basis over the vesting period. For defined contribution pension plans, the Group pays fees to publicly or privately managed pension insurance plans on a compulsory, contractual or voluntary basis. The Group has no other payment obligations once the fees are paid. The fees are reported as personnel costs when they fall due for payment. Prepaid fees are reported as an asset to the extent that cash repayment or reduction of future payments can benefit the Group.

Severance benefits

An expense for remuneration in connection with termination of employment for employees is recognised only if the company is demonstrably obliged in a formal detailed plan to terminate employment ahead of the normal point in time, with no realistic possibility of withdrawal. When remuneration is paid as an incentive for voluntary redundancy, an expense is recognised if it is likely that the offer will be accepted and the number of employees accepting the offer can be reliably estimated.

Share based payments

Employees of the Group receive remuneration in the form of share based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model described in more detail in note 9. That cost is recognised over the period in which the performance and service conditions are fulfilled in "Personnel costs", together with a corresponding increase in retained earnings in equity. The cumu-

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lative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest, with regard to service and non-market performance conditions (see note 9). The amount recognised in the income statement represents the movement in the cumulative expense recognised at the beginning and end of the period.

The employee related income taxes payable in connection with the share based payments are treated as cash settled transactions measured initially at fair value at the grant date. The fair value is expensed over the vesting period with the recognition of a corresponding liability. The liability is measured to fair value at each reporting date with changes recorded in the income statement. Social security contributions are measured initially at fair value and expensed over the vesting period. The liability is measured to fair value at the each reporting date.

Provisions

Provisions are recognized in the consolidated balance sheet when there is a legal or informal obligation arising from events that have occurred and it is probable that an outflow of economic resources will be required to settle the obligation. It must also be possible to reliably estimate the amount to be paid. The provision is valued at the present value of the anticipated future expenditure to settle the obligation. Provisions are mainly related to restructuring and environmental obligations. A provision differs from other liabilities in that there is a degree of uncertainty regarding the timing of the payment or its size to settle the provision. Provisions are made based on the best estimate of the amount required in order to settle the present obligation on the reporting date.

Guarantees

A provision is made for guarantees when the underlying products or services are sold. The provision is based on historical data regarding guarantees and a total appraisal of conceivable outcomes in relation to the probabilities with which those outcomes are associated.

Restructuring

A provision for restructuring is reported when the Group has adopted a comprehensive and formal restructuring plan, and the restructuring has either been started or announced. No provisions are made for future operating losses.

Contingent liabilities

A contingent liability is recognised when there is a possible obligation arising from past events and the existence of which is substantiated only by one or more uncertain future events, or when there is an obligation which is not recognised as a liability or provision because it is not likely that an outflow of resources will be required.

Note 2 Judgements and estimates

According to corporate management, the following assessments and estimates are critical to the amounts recognised in the accounts, and there is a risk that future events and new information affect the basis for these assessments and estimates:

Goodwill

Every year, Munksjö carries out impairment testing of goodwill. The goodwill is divided among cash-generating units corresponding to the Group's operating segments.

The value in use of the cash-generating units is calculated based on the existing plans of the Group. The plans are based on market assumptions and comprise expected future cash flows for the existing operations, which are discounted with the relevant weighted average cost of capital (WACC). No impairment has been determined. For presentation of the Group's goodwill see note 15.

Tangible and other intangible assets

The Group has tangible and other intangible assets which values are presented in note 15 and note 16. The assets are tested for impairment when there is 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.

Environment

Supported by environmental legislation in various countries, the authorities bring up issues regarding soil explorations and potential remediation in case of discontinued operations. The responsibility for any remediation is decided on a case-by-case basis, often aided by reasonability assessments.

The provisions for environmental costs connected to discontinued operations are based on assessments regarding future restoration costs. Changes in assumptions or legislation may result in additional costs. For presentation of the Group's provisions regarding environmental legislation, see note 25.

Pensions

The costs for and values of the pension commitments related to defined benefit pension plans are based on actuarial calculations based on assumptions made regarding discount rates, expected return on plan assets, future salary increases, inflation, and demographic distribution. Changes in these assumptions will result in volatility in the pension obligation.

The Group's costs and values of the pension commitments related to defined benefit pension plans are presented in note 10.

Taxes

Deferred tax is calculated on temporary differences between the carrying amounts and taxable values of assets and liabilities. Assessments and estimates are made to determine the value of various assets and liabilities and regarding the future taxable profit in case the future recovery of deferred tax assets would depend upon this. 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 and future tax audits or claims. Based on current estimation no provision has been booked. For presentation of the Group´s deferred tax, see note 13.

Note 3 Business combinations

On November 7, 2016, the Boards of Directors of Munksjö Oyj ("Munksjö") and Ahlstrom Corporation ("Ahlstrom") have agreed on combining the two companies through a statutory absorption merger whereby Ahlstrom would be merged into Munksjö in such a manner that all assets and liabilities of Ahlstrom would be transferred without a liquidation procedure to Munksjö.

Further, the extraordinary general meetings on January 11, 2017, resolved to approve the combination of Munksjö's and Ahlstrom Corporation's business operations through a statutory absorption merger of Ahlstrom into Munksjö pursuant to the Finnish Companies Act and approve the merger plan. The completion of the combination is subject to: inter alia, merger control approvals from relevant competition authorities. The registration of the execution of the merger is expected to be completed in the beginning of the second quarter of 2017.

The combination will create a global leader in sustainable and innovative fiber-based solutions with preliminary combined annual net sales of approximately EUR 2.2 billion and adjusted EBITDA of EUR 249 million. The combined company will have approximately 6,200 employees as well as production in 14 countries. The combination is expected to create significant value for the stakeholders in the combined company through stronger global growth opportunities and improved operational efficiency. The combined company's growth ambitions will be supported by a strong balance sheet and strong cash flow generation. Annual cost synergies are estimated to be approximately EUR 35 million. The cost synergies are expected to be gradually realised over two years following completion of the combination with a more pronounced impact expected from the fourth quarter of 2017.

Ahlstrom's shareholders will receive as merger consideration 0.9738 new shares in Munksjö for each share in Ahlstrom owned by them, corresponding to an ownership in the combined company following the completion of the combination of approximately 52.8% for Munksjö shareholders and approximately 47.2% for Ahlstrom shareholders.

For more details regarding the merger, please visit www.munskjo.com

Note 4 Segment information

The Munksjö Group is an international specialty paper company with a unique product offering for a large number of industrial applications and consumer-driven products. Founded in 1862, Munksjö is among the leading producers in the world of high-value added papers within attractive market segments such as decor paper, release liners, electrotechnical paper, abrasive backings and interleaving paper for steel. Given Munksjö's global presence and way of integrating with its customers' operations, the company forms a global service organisation with approximately 2,900 employees. Production facilities are located in France, Sweden, Germany, Italy, Spain, Brazil and China.

Munksjö is organised in four business areas and five group functions. The business areas are Decor, Release Liners, Industrial Applications and Graphics and Packaging. The five group functions include Finance, Human Resources and Communications, Strategic Development, Legal and Sales Offices. The Management Team consists of the CEO, functional managers and managers of the various business areas. The members of the Management Team are nominated by the CEO and appointed by the Board of Directors. The CEO assisted by the Management Team is the chief operating decision maker. Management has determined the operating segments based on the information reviewed by the CEO for the purposes of allocating resource and assessing performance.

Inter-segment sales are made at market prices and no individual customer accounts for more than 10 per cent of the company's income.

Business area Decor

The products of Decor include decor paper and pharmaceutical leaflet paper. Decor paper is used in furniture, kitchen laminate, flooring and interior/exterior architecture. Pharmaceutical leaflet papers are thin, light-weight papers used by the pharmaceutical and cosmetics industries.

Business area Release Liners

The products of Release Liners include release papers, coated specialties and pulp. Release papers are used as a carrier of different pressure sensitive adhesives labels and materials, which are mainly used in areas of, inter alia, retail and pricing labelling, for office labelling, and a broad range of self-adhesive tapes and materials for graphic or industrial applications. The business area incorporates specialty pulp and the Brazilian operation, Coated Specialties, which serves the South American market with self-adhesive products and flexible packaging paper.

Business area Industrial Applications

The products of Industrial Applications include specialty papers for industrial use. Examples are abrasive backings for the production of coated abrasive products to be used to sand or polish materials in many industrial sectors such as automotive, furniture, wood, metal and building/construction industries, electrotechnical paper for insulation of transformers, bushings and cables, Spantex™ used mainly in the furniture industry, thin paper for protection in the stainless steel, aluminium and glass industries and fine art paper used for, inter alia, watercolour painting and digital printing.

Business area Graphics and Packaging

The products of Graphics and Packaging include flexible packaging paper, metallizing base paper and graphics and industrial paper. Flexible packaging paper is used in manufacturing of packaging, mainly in the food industry. Metallizing paper is mainly used in labels for, inter alia, beverages. Graphics and industrial papers refer mainly to uncoated papers for repositionable notes, interleaving paper, envelope windows and other graphic papers.

Other and eliminations

The costs remaining in segment Other 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 of salaries, rents and professional fees. Segment Other also includes certain other exceptional costs not used in the assessment of business area performance. The costs related to the incentive program 2014–2016 were EUR 2.9 (0.9) million in 2016. In addition EUR 2.1 (0.0) million were reported as items affecting comparability, as an effect of the cancellation of the long-term incentive program 2016–2018. For more information, see note 9.

Cont. note 4

MEUR	2016	2015
Head office costs	–12.5	–12.2
Hedging	–1.9	–5.5
Business combination transaction costs (note 3)	–4.2	–
Employee share incentive plan	–5.0	–
Change in environmental provision	–	–2.4
Restructuring and other exceptional costs	–	–1.0
	–23.6	**–21.1**

Financial expenses, financial income, and income tax are dealt with at Group level. Income and expenses that have been reported to corporate management are valued in the same way as in external financial reporting. Assets and liabilities reported to corporate management are valued in the same way as in external financial reporting.

MEUR 2016	Decor	Release Liners	Industrial Applications	Graphics and Packaging	Other and eliminations	Group
Net sales, external	360.9	440.3	167.6	175.6	–1.5	1,142.9
Net sales, internal	3.7	8.1	2.0	0.0	–13.8	0.0
Net sales	**364.6**	**448.4**	**169.6**	**175.6**	**–15.3**	**1,142.9**
Operating result	**46.3**	**31.3**	**23.5**	**–2.6**	**–23.6**	**74.9**
Net financial items						–15.9
Tax						–15.7
Profit/loss for the year						**43.3**
Other information						
Additions to fixed assets	5.3	10.6	9.8	7.1	3.9	36.7
Depreciation and amortisation	7.4	28.3	7.6	10.3	1.6	55.2
Average number of employees	846	843	588	416	62	2,755

MEUR 2015	Decor	Release Liners	Industrial Applications	Graphics and Packaging	Other and eliminations	Group
Net sales, external	369.1	428.0	164.8	173.6	–4.8	1,130.7
Net sales, internal	3.5	9.6	1.8	2.1	–17.0	0.0
Net sales	**372.6**	**437.6**	**166.6**	**175.7**	**–21.8**	**1,130.7**
Operating result	**34.6**	**8.0**	**19.6**	**–8.4**	**–21.1**	**32.7**
Net financial items						–4.7
Tax						–5.2
Profit/loss for the year						**22.8**
Other information						
Additions to fixed assets	11.6	13.5	9.1	4.3	2.9	41.4
Depreciation and amortisation	8.0	28.1	7.9	8.2	1.4	53.6
Average number of employees	855	859	574	428	58	2,774

Cont. note 4

Net sales per market. MEUR	2016	2015
Germany	172.4	192.4
Italy	90.4	85.4
Spain	86.7	86.7
Ireland	80.5	38.1
Poland	80.1	72.0
France	63.7	61.2
Rest of EU	153.2	182.2
Turkey	51.3	51.6
Rest of Europe	32.9	30.5
United States of America	55.9	58.2
Brazil	75.4	78.8
Rest of Americas	34.7	31.2
China	47.9	47.2
Korea	19.1	21.1
India	23.2	20.7
Rest of Asia Pacific	50.5	52.3
Africa and middle east	25.0	21.3
Group total	**1,142.9**	**1,130.7**

Net sales in the table above has been divided based on customers' geographic location.

Operating capital per country. MEUR	2016	2015
Germany	190.0	176.1
Sweden	127.8	140.5
France	130.3	142.1
Italy	99.2	96.7
Brazil	65.7	54.9
Spain	40.0	39.6
Other	–9.8	2.0
Group total	**643.2**	**651.9**

Tangible and intangible fixed assets per country. MEUR	2016	2015
Germany	187.6	190.5
France	149.0	128.0
Italy	134.6	154.8
Sweden	120.5	138.2
Brazil	63.0	53.5
Spain	32.6	33.2
Other	2.9	2.3
Group total	**690.2**	**700.5**

Note 5 Other external costs

Group, MEUR	2016	2015
Delivery costs	–47.6	–48.1
Energy costs	–82.2	–95.2
Repair. maintenance and development costs	–44.4	–43.0
Other production costs	–44.9	–43.7
Leasing and rental costs	–8.2	–8.5
Other	–38.8	–45.0
Other external costs	**–266.2**	**–283.5**

Items affecting comparability included in other external costs

Group, MEUR	2016	2015
Business combination transaction costs (note 3)	–4.1	–0.4
Other restructuring	–0.4	–4.5
Environmental provisions	–	–2.4
	–4.5	**–7.3**

In 2016 items affecting comparability amounted to EUR 4.5 million were included in other external costs. Of these costs, EUR 4.1 million were related to transaction costs for business combination.

Further, EUR 2.1 million related to employee share incentive plan were also reported as items affecting comparability and included in personell costs. Hence, the total items affecting comparability in 2016 amouted to EUR 6.6 million.

Note 6 Remuneration to auditors

The annual general meeting held in 2016 resolved in accordance with the proposal of the Board to elect KPMG Oy Ab as the company's auditor. KPMG Oy Ab has designated Authorized Public Accountant Sixten Nyman as the Responsible Auditor. The AGM further resolved that the auditor's remuneration be paid according to invoicing accepted by the company.

The annual general meeting held in 2015 resolved in accordance with the proposal of the Board to elect KPMG Oy Ab as the company's auditor. KPMG Oy Ab has designated Authorized Public Accountant Sixten Nyman as the Responsible Auditor. The AGM further resolved that the auditor's remuneration be paid according to invoicing accepted by the company.

MEUR	2016	2015
KPMG		
Audit fees	0.5	0.5
Audit-related fees	–	–
Tax service fees	–	–
Other fees	0.2	0.1
Total	**0.7**	**0.6**

Note 7 Employees

Average number of employees	2016 Number	2016 Men %	2015 Number	2015 Men %
France	1,032	83	1,031	84
Sweden	595	80	582	82
Germany	436	87	435	85
Italy	254	79	260	82
Brazil	243	89	252	88
Spain	156	90	157	91
Other	39	56	57	55
Average number of employees	**2,755**		**2,774**	

Board and key management	2016	2015
Board members	7	6
Women %	43	33
Men %	57	67
CEO and key management	11	11
Women %	36	36
Men %	64	64

	2016			2015		
Personnel costs, MEUR	Board and CEO	Bonus to CEO	Other employees	Board and CEO	Bonus to CEO	Other employees
Board and CEO*	0.9	0.1		0.9	0.2	
France			65.3			64.3
Sweden			31.2			29.1
Germany			29.6			28.3
Spain			8.3			8.0
Italy			16.8			13.7
Brazil			7.6			7.2
Other			2.6			3.1
Salaries and other fees	**0.9**	**0.1**	**161.4**	**0.9**	**0.2**	**153.7**
Total salaries and other fees			163.4			154.8
Social security fees			41.8			41.2
Share based incentive plan			5.0			0.9
Other personnel costs			3.8			2.6
			214.0			**199.5**
Of which are pension fees for CEO			0.2			0.2
Of which are pension fees for other employees			10.2			10.7

* Does not include long term share plan, see note 8.

Note 8 Remuneration of the Board of Directors and key management

Remuneration of the Board of Directors and Board Committees

According to resolutions made at the Annual General Meeting on 6 April 2016, an annual fee of EUR 80,000 will be paid to the Chairman of the Board, and an annual fees of EUR 50,000 will be paid to the Vice Chairman and annual fees of 40,000 will be paid to the other Board Members appointed by the Annual General Meeting, who are not employed by the company. The chairman of the audit committee will receive EUR 12,000 and other members will receive EUR 6,000. The chairman of the remuneration committee will receive EUR 6,000 and other members will receive EUR 3,000. The chairman of the Nomination board will receive EUR 6,000 and the ordinary members EUR 3,000.

According to resolutions made at the Annual General Meeting on 15 April 2015, an annual fee of EUR 80,000 will be paid to the Chairman of the Board, and annual fees of EUR 40,000 will be paid to the other Board Members appointed by the Annual General Meeting, who are not employed by the company. The chairman of the audit committee will receive EUR 12,000 and other members will receive EUR 6,000. The chairman of the remuneration committee will receive EUR 6,000 and other members will receive EUR 3,000. The chairman of the Nomination board will receive EUR 6,000 and the ordinary members EUR 3,000.

Munksjö Oyj
Annual remuneration for period, KEUR

		2016	2015
Peter Seligson	Chairman	89	86
Fredrik Cappelen	(until 6 April 2016)	12	44
Elisabet Salander Björklund		60	50
Sebastian Bondestam		46	45
Hannele Jakosuo-Jansson		43	42
Alexander Ehrnrooth		47	45
Anna Ohlsson-Leijon	Member since 2016	34	–
Mats Lindstrand	Member since 2016	32	–
Caspar Callerström	(until 15 april 2015)	–	9
Thomas Ahlström (not a board member)	Chairman of nomination board	6	4
Mikko Mursula (not a board member)	Nomination board	3	2

Remuneration guidelines

The CEO and other key management will be offered a fixed salary (base salary) and, in some cases, variable remuneration and benefits in kind. The total remuneration shall correspond to market practice, be competitive, and related to the executives responsibilities and authority.

Application of the remuneration guidelines

The Board of Directors decides on the remuneration of the CEO based on a proposal by the Remuneration Committee and on the remuneration of the other key management based on a proposal by the CEO, which is reviewed by the Remuneration Committee.

Key management

Key management refers to the CEO, who is also president of the Group, the business areas managers and the managers of various Group functions.

Fixed and variable salary

Salaries and variable remuneration shall be fixed per calendar year. The CEO and other senior executives may be offered variable remuneration. Any variable remuneration shall be limited and in proportion to the fixed salary and be based on the financial objectives of the Group as well as individual targets. The final resolution on the payment of variable remuneration shall be passed by the Board of Directors after the approval of the audited financial statements. Any variable remuneration shall not be pensionable unless otherwise stipulated in any applicable law or in the rules of a general pension plan, e.g. Sweden's ITP occupational pension plan.

Long term incentive plan

The CEO and other members of the executive management participate in the Group's 2014 and 2016 long term incentive programs as described in note 9. The first settlement will occur in 2017. The cost recognised in the 2016 income statement for the CEO and other members of the executive management amounted to EUR 0.6 (0.2) million and EUR 1.6 (0.5) million respectively.

Pensions

Pension arrangements for key management 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, stating that the company 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 on between the company and the CEO. The retirement age for the CEO is 65 years.

Other benefits

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

Notice and severance pay

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.

Cont. note 8

Remuneration and benefits of key management, KEUR	Gross salary	Cash based variable remuneration	Share based variable remu-neration	Other benefits	Pension expenses	Total
Jan Åström as CEO of Munksjö Oyj	565	71	600	9	191	1,436
Other senior executives of Munksjö Oyj	2,098	213	1,600	87	503	4,501
Total 2016	**2,663**	**284**	**2,200**	**96**	**694**	**5,937**
Jan Åström as CEO of Munksjö Oyj	561	222	200	1	182	1,166
Other senior executives of Munksjö Oyj	1,778	567	500	64	450	3,359
Total 2015	**2,339**	**789**	**700**	**65**	**632**	**4,525**

Note 9 Share based payments

Munksjö's Board of Directors on 28 May 2014 approved a long-term share-based incentive program (LTI 2014–2016) for Munksjö's senior executives and other key personnel, approximately 35 persons. In 2016, the Board decided to launch a new long-term incentive program, LTI 2016–2018. The main objective of both programs is to align the participants' interest with shareholders in Munksjö.

Long-term Incentive Program 2014–2016

Participants are awarded Matching and Performance Rights, based on an initial investment of saving shares. The Matching and Performance Rights will vest conditional on performance criteria as specified below, holding of investment shares and continued employment of the participant. The vesting period is 3 years.

- A-Rights: 1 matching share per saving share with no performance criteria.
- B-Rights: where 1 share will be granted at EUR 200 million dividend capacity, 2 shares will be granted at EUR 225 million dividend capacity and 3 shares will be granted at EUR 250 million dividend capacity. Linear allotment between the levels. Vesting is also conditional on positive absolute TSR for the Company during the vesting period.
- C-Rights: relative TSR, 1 share if TSR is equal or better than an index for the peer group. 2 shares if the TSR is 10 percentage units better than an index for the peer group. Vesting is also conditional on positive absolute TSR for the company during the vesting period.

The total cost recognised in the income statement in 2016 amounted to EUR 2.9 (0.9) million. At 31 December 2016, the cash settled liability amounted to EUR 2.2 (0.6) million and the amount recognised in equity amounted to EUR 0.7 (0.3) million.

Long-term Incentive Program 2016–2018

Participants are awarded a target and a maximum earning opportunity based on position expressed in a number of maximum rights at Munksjö's volume weighted average share price of Jan–May 2016 (EUR 8.67). The rights will vest conditional on performance criteria as specified below and continued employment at the company. The rights can either be converted to shares or to cash at delivery. The vesting period is 3 years. Maximum earning opportunity is capped at 200% of annual base salary.

- Absolute TSR, share price increase plus profit distribution during the performance period, set on a threshold, target and maximum level with linear allotment between the levels
- Vesting is also conditional on accumulated EBITDA during the performance period and a separately set maximum EBITDA proportion for all short-term and long-term programs in Munksjö

It is expected that at least 50% of the funds received from the program is invested into Munksjö shares for participants included in the executive management until a certain level of share ownership is fulfilled and the shares retained during the employment in the company.

The absolute TSR condition and relative TSR condition is recognised as a market condition according to IFRS 2 while the dividend capacity condition is recognised as non-market condition. Due to uncertainty whether, and how many of, the Matching and Performance Shares is expected to vest, a Monte Carlo simulation model is used to value the related instruments. For the instruments where vesting is conditional on a market condition the Monte Carlo simulation model is applied to calculate the fair value excluding the present value of future dividends. For the other instruments, the share price excluding the present value of future dividends is the fair value.

The total number of potential shares granted amounted to 1,053,645 of which 27,424 were forfeited during 2015 and a further 14,458 during 2016. 583,870 potential shares were granted in 2016 leaving a closing balance of 518,381 (427,106). The weighted average fair value of instruments granted was EUR 7,50 and the intrinsic value of instruments expected to vest amounted to EUR 8,190,420 (2,448,738).

On December 16, 2016, the Board of Directors decided to terminate Munksjö's long-term share-value-based incentive program for the members of the executive management and other key personnel of Munksjö approved in June 2016. The incentive program will terminate on a pro rata basis as of the completion of the merger, 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 will receive shares and cash pursuant to the terms of the program following the completion of the Merger and, in any case, no later than the date of the 2017 annual general meeting of Munksjö. Munksjö will record EUR 2.1 (0.0) million of costs related to the terminated long-term share-value-based incentive program, to be reported as items affecting comparability.

Note 10 Provisions for pensions and similar obligations

Munksjö has defined benefit pension plans for salaried employees in various countries. The net pension liabilitiy in Sweden, Germany, France, Italy and the US amounted to EUR 13.1, 16.4, 17.1, 5.5 and 2.6 million respectively. The most significant defined

Cont. note 10

benefit plans are based on length of service and the remuneration paid to the employees at or close to their retirement. The calculations are made according to the projected unit credit method with the assumptions set out below. These plans are mainly unfunded except for the US, France and Germany which are partially funded. Munksjö also has defined contribution pension plans.

A certain part of the pension obligations for salaried employees in Sweden are insured through Alecta. For the majority of the earned pension benefits. Alecta has no information in terms of the distribution of the earned benefits according to an individual's various employers. All of the earned benefits are, instead, registered with the final employer. Consequently, Alecta lacks the possibility of establishing an exact distribution of assets and provisions to the respective employers, and it is therefore recognised as a defined contribution plan. This year's pension plan contributions amounted to EUR 0.5 (0.5) million. The collective funding ratio, amounted to 148% (148%). The collective funding ratio is the market value of the manager's assets as a percentage of insurance commitments.

The plan assets in the US, France and Germany amounted to EUR 5.5, 7.9 and 0.2 million respectively. The funding policy is to pay the minimum contribution required under law. In the US, the minimum required contribution is expected to fully fund the liability over a seven year period. The plan seeks a return on investment consistent with levels of investment risk that are prudent and reasonable given medium- to long-term capital market conditions and the investment objectives of the Plan. The US assets are invested in equity and debt instruments amounting to EUR 3.3 million and EUR 2.2 million respectively.

The French plans assets comprise of funds managed by external insurance companies where the asset allocation is mainly in low risk bonds. In Germany the plan assets comprise of cash held in escrow.

The tables below show a breakdown of pension costs (net) as recognised in the consolidated statement of comprehensive income, the difference between the commitments and the plan assets and the amounts recognised in the Statement of comprehensive income for each plan:

The amounts recognised in the balance sheet

Assets/liabilities for pension plans:

MEUR	2016	2015
Present value of unfunded defined benefit obligations	35.9	37.0
Present value of funded or partially funded defined benefit obligations	32.4	29.9
Fair value of plan assets	–13.6	–14.5
Pension liabilities for the period	**54.7**	**52.4**

Amounts recognised in the consolidated statement of comprehensive income:

MEUR	2016	2015
Service costs for the period	2.2	2.6
Interest expense and income	1.1	1.1
Pension costs recognised in net profit/(loss) for the period	**3.2**	**3.7**
Actuarial gains (–) and losses (+) recognised in other comprehensive income	3.3	–1.0
Total pension costs recognised in total comprehensive income	**6.5**	**2.7**

Changes to defined benefit obligations:

MEUR	2016	2015
At 1 January	66.9	68.1
Interest costs	1.4	1.5
Current year service costs	2.1	2.6
Benefits paid	–4.4	–5.9
Business combinations	0.0	0.0
Settlements	–0.1	0.0
Reclassification from other liabilities	0.0	1.2
Actuarial gains and losses for obligations	2.8	–1.5
Exchange rate translation	–0.4	0.9
At 31 December	**68.3**	**66.9**

The fair value of plan assets:

MEUR	2016	2015
At 1 January	14.5	17.1
Interest income	0.3	0.4
Employer contributions	0.1	–
Business combinations	–	–
Benefits paid	–1.0	–3.4
Actuarial gains and losses	–0.5	–0.5
Exchange rate translation	0.1	0.9
At 31 December	**13.6**	**14.5**

The major categories of plan assets:

MEUR	2016	2015
Shares	3.3	3.8
Bonds	2.2	2.5
Endowment insurance	7.9	8.0
Cash in escrow	0.2	0.2
Total	**13.6**	**14.5**

Key actuarial assumptions used to calculate the defined-benefit plan obligations:

Discount rate, %	2016	2015
Sweden	2.50	3.00
Germany	2.50	2.00
France	1.25	2.00
Italy	1.65	1.95
US	4.00	4.25

Expected future salary increases, %	2016	2015
Sweden	3.00	3.00
Germany	3.00	2.50
France	3.00	1.30
Italy	2.50	n/a
US	n/a	n/a

Cont. note 10

Expected future pension increases, %	2016	2015
Sweden	1.50	1.50
Germany	1.75	2.00
France	n/a	0.90
Italy	1.75	1.75
US	n/a	n/a

Sensitivity analysis on pension obligation	Change in assumption, %	Increase in assumption, MEUR	Decrease in assumption, MEUR
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	MEUR	MEUR
Life expectancy	1	1.3	–1.3

Note 11 Depreciation and amortisation

MEUR	2016	2015
Machinery and equipment	–42.0	–43.4
Industrial buildings	–5.3	–5.5
Other intangible fixed assets	–7.9	–4.7
Total depreciation and amortisation	**–55.2**	**–53.6**

Note 12 Net financial items

MEUR	2016	2015
Interest income from loans and receivables	0.5	0.5
Exchange rate gains[2]	3.8	10.0
Financial income	**4.3**	**10.5**
Interest expense from borrowings	–9.9	–9.7
Realised interest rate swaps[1]	–1.2	–0.7
Unwinding of discount on provisions	–1.6	–2.2
Amortisation of capitalised bank fees	–0.8	–0.7
Exchange rate losses[2]	–5.3	–0.5
Other financial costs	–1.4	–1.4
Financial costs	**–20.2**	**–15.2**
Net financial items	**–15.9**	**–4.7**

[1] The income statement effect of other derivatives such as currency and electricity are recorded in operating result (see note 27).

[2] The foreign exchange gains and losses relate to interest bearning assets and liabilities. Exchange gains and losses on operating items are recorded in operating result.

Note 13 Taxes

MEUR	2016	2015
Profit/loss before taxes	**59.0**	**28.0**
Current tax income/expense		
Current tax on profits for the year	–13.3	–4.6
Adjustments in respect of prior years	–0.4	–0.2
	–13.7	**–4.8**
Deferred tax:		
Relating to recognition and use of tax loss carry forwards	–5.3	–3.1
Relating to recognition and reversal of temporary differences	3.3	2.7
	–2.0	**–0.4**
Total tax expense	**–15.7**	**–5.2**

Reconciliation of effective tax rate

MEUR	2016	2015
Profit/loss before taxes	**59.0**	**28.0**
Income tax at Finnish tax rate	–11.8	–5.6
Effect of other tax rates for foreign subsidiaries	–5.2	–0.6
Effect on deferred tax from change in tax rate	1.9	–
Current taxes from prior years	–0.4	0.8
Tax losses carry forward not valued in balance sheet	1.0	1.9
Non–deductible expenses and tax exempt income	–1.2	–1.7
Tax in consolidated statement of comprehensive income	**–15.7**	**–5.2**

Cont. note 13

Change in deferred tax on temporary differences and loss carry forwards, MEUR	Opening balance 2016	Translation Difference	Business combination/ other	Recognised in profit/loss	Recognised in other comprehensive income	Closing balance 2016
Tangible asset	32.6	2.1	27.0	–2.2	–	59.5
Untaxed reserves	12.8	–0.5	–1.9	–0.8	–	9.6
Provisions	–12.5	0.0	–	1.4	–0.9	–12.0
Loss carry forwards	–31.1	0.5	1.9	5.3	–	–23.4
Other	20.5	0.4	–27.3	–1.7	0.2	–7.9
Net deferred tax liability	**22.3**	**2.5**	**–0.3**	**2.0**	**–0.7**	**25.8**
Liabilities						66.6
Assets						–40.8
						25.8

Change in deferred tax on temporary differences and loss carry forwards, MEUR	Opening balance 2015	Translation Difference	Business combination/ other	Recognised in profit/loss	Recognised in other comprehensive income	Closing balance 2015
Tangible asset	30.8	–3.2	–3.5	8.5	–	32.6
Untaxed reserves	14.8	0.3	–	–2.3	–	12.8
Provisions	–10.9	0.3	–	–2.2	0.3	–12.5
Loss carry forwards	–36.5	–0.3	3.5	2.2	–	–31.1
Other	26.3	–0.7	–	–5.8	0.7	20.5
Net deferred tax liability	**24.5**	**–3.6**	**0.0**	**0.4**	**1.0**	**22.3**
Liabilities						74.1
Assets						–51.8
						22.3

The Group has total loss carry forward of EUR 95.0 (120.7) million, representing a tax value of EUR 24.9 million. The related deferred tax asset amounted to EUR 23.4 (31.1) million. EUR 17.5 million have a perpetual term and EUR 5.9 million will expire within 5–10 years.

Note 14 Earnings per share

The basic earnings per share are calculated by dividing the profit/loss attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the period. The diluted earnings per share is calculated by dividing the profit/loss attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the period plus the average number of shares that would be issued as an effect of ongoing share based incentive plans. In 2014 and in 2016, the group introduced share based incentive plans described in more detail in note 9.

The table below shows the values used in calculating earnings per share.

	2016	2015
Earnings attributable to the parent company's shareholders, MEUR	43.1	22.4
Weighted average number of shares before dilution	50,761,581	50,818,260
Dilution effect from share based incentive plan	181,390	100,051
Weighted average number of shares after dilution	50,942,971	50,918,311
Basic earnings per share, EUR	**0.85**	**0.44**
Diluted earnings per share, EUR	**0.85**	**0.44**

Note 15 Intangible assets

2016, MEUR	Total	Goodwill	Customer relationships	Patents and trademarks	Software	Other
Accumulated acquisition value						
Opening	290.9	223.9	31.8	5.7	7.4	22.1
Additions	0.8	–	–	0.1	–	0.7
Reclassification	0.2	–	–	–	0.1	0.1
Exchange differences	6.6	2.2	1.8	–	–0.2	2.8
Closing	**298.5**	**226.1**	**33.6**	**5.8**	**7.3**	**25.7**
Accumulated amortisation						
Opening	20.4	0.0	5.7	4.5	4.3	5.9
Amortisation	7.8	–	5.2	0.3	1.0	1.3
Exchange differences	1.1	–	0.4	–	–0.1	0.8
Closing	**29.3**	**0.0**	**11.3**	**4.8**	**5.2**	**8.0**
Net book value at year end	**269.2**	**226.1**	**22.3**	**1.0**	**2.1**	**17.7**

2015, MEUR	Total	Goodwill	Customer relationships	Patents and trademarks	Software	Other
Accumulated acquisition value						
Opening	297.6	226.7	34.2	5.3	7.1	24.3
Additions	0.5	–	–	0.4	–	0.1
Reclassification	0.2	–	–	–	0.2	–
Exchange differences	–7.4	–2.8	–2.4	–	0.1	–2.3
Closing	**290.9**	**223.9**	**31.8**	**5.7**	**7.4**	**22.1**
Accumulated amortisation						
Opening	15.7	0.0	3.6	4.2	3.4	4.5
Amortisation	4.7	–	2.5	0.3	0.9	1.0
Exchange differences	0.0	–	–0.4	–	–	0.4
Closing	**20.4**	**0.0**	**5.7**	**4.5**	**4.3**	**5.9**
Net book value at year end	**270.5**	**223.9**	**26.1**	**1.2**	**3.1**	**16.2**

Goodwill is tested annually for impairment. Goodwill is monitored by management at business area level and this is the level at which goodwill has been tested for impairment. Impairment losses are recognised if carrying value exceeds the recoverable amount. The recoverable amount has been estimated as the value in use. The value in use is the present value of the estimated future cash flows. The cash flows are based on financial plans that normally cover a period of five years. The financial plans have been prepared by the Business Area management when it comes to the 2017 year, and by the Corporate management for the four following years. Financial plans are approved by the Board of Directors.

Cash flows beyond this five-year period have been extrapolated using an estimated sales growth rate of 1–2.5% which reflects the estimated long term inflation rate.

The calculation of the value in use is based on assessments and estimates. The most significant estimates concern sales development, current market prices, current cost levels with supplements for changes in real price and cost inflation, estimates regarding the development of the operating margin and the current weighted average cost of capital (WACC) used to discount future cash flows. The volume estimated growth has been set at 1–2,5%. For the calculation of present value of expected future cash flows, a pre-tax discount rate of 7.3% (9.0%) has been used for all cash-generating units. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's potential investors. The cost of debt is based on current market interest rates. The beta factors are evaluated annually based on publicly available market data. All cash-generating units were tested for impairment in the fourth quarter. According to the result of the impairment testing of goodwill, there is no impairment.

Allocation of goodwill by business area, MEUR	2016	2015
Decor	140.3	142.1
Release Liners	70.2	68.0
Industrial Applications	15.6	13.8
Group total	**226.1**	**223.9**

For the cash generating units where a calculation of the recovery value was made and no impairment loss was identified, management has assessed that no reasonable possible changes in important assumptions would result in a recoverable amount lower than the reported value.

Note 16 Tangible assets

2016, MEUR	Total	Machinery & Equipment	Buildings	Land and land improvements	Construction in progress
Accumulated acquisition value					
Opening	1,191.2	959.8	170.3	41.2	19.9
Additions	35.7	11.0	4.0	0.2	20.5
Disposals	–5.1	–4.5	–0.1	–	–0.5
Reclassifications	–0.1	15.4	2.3	–	–17.8
Exchange differences	1.1	3.0	–0.8	–1.0	–0.1
Closing	**1,222.8**	**984.7**	**175.7**	**40.4**	**22.0**
Accumulated depreciation according to plan					
Opening	761.2	642.7	110.1	8.1	0.3
Depreciation	47.3	42.0	5.3	–	–
Disposals	–5.0	–4.9	–0.1	–	–
Exchange differences	–1.8	–0.8	–1.1	0.1	–
Closing	**801.7**	**679.0**	**114.2**	**8.2**	**0.3**
Net book value	**421.1**	**305.7**	**61.5**	**32.2**	**21.7**

Additions for January–December 2016 were mainly related to investments for maintenance. Tangible assets are tested for impairment when there is a triggering event. No triggering event was identified in 2016 and no impairment has therefore been recorded.

2015, MEUR	Total	Machinery & Equipment	Buildings	Land and land improvements	Construction in progress
Accumulated acquisition value					
Opening	1,172.2	943.0	164.9	44.7	19.6
Additions	40.9	17.2	0.7	–	23.0
Disposals	–13.5	–13.4	–0.1	–	–
Reclassifications	–0.2	21.0	5.6	–4.1	–22.7
Exchange differences	–8.2	–8.0	–0.8	0.6	–
Closing	**1,191.2**	**959.8**	**170.3**	**41.2**	**19.9**
Accumulated depreciation according to plan					
Opening	725.8	612.5	104.7	8.3	0.3
Depreciation	48.9	43.4	5.5	–	–
Disposals	–13.5	–13.4	–0.1	–	–
Exchange differences	0.0	0.2	–	–0.2	–
Closing	**761.2**	**642.7**	**110.1**	**8.1**	**0.3**
Net book value	**430.0**	**317.1**	**60.2**	**33.1**	**19.6**

Additions for January–December 2015 were mainly related to investments for maintenance. Tangible assets are tested for impairment when there is a triggering event. During 2015 certain assets in the Graphic and Packaging Business Area were tested for impairment. The recoverability of these assets is based on market assumptions and managements estimate of future cash flows. No impairment has been recorded however the testing is sensitive to changes in EBITDA margin and discount rate as the difference between asset carrying values and recoverable amount is low.

Note 17 Equity accounted investments

Associated companies	Corporate ID	Registered Office	Country	Share of equity %	Share of votes %
Sydved AB – associated company	556171-0814	Jönköping	Sweden	33	33

MEUR	2016	2015
Book value at the beginning of the year	2.3	2.2
Share of earnings for the year	0.0	0.0
Exchange differences	–0.1	0.1
Book value at the end of year	**2.2**	**2.3**

The carrying value of the associated company Sydved AB has no goodwill included. The Group's liabilities to Sydved amounted to EUR 7.0 (8.0) million.

Share of Sydved AB's assets, equity, net sales and profit before tax, MEUR	2016	2015
Assets	17.3	16.8
Equity	2.2	2.2
Net sales	89.7	90.9
Profit before tax	0.0	0.0

Sydved AB has no contingent liabilities.

Note 18 Joint operations

In connection with the business combination described in note 3, certain assets in Turin are shared by Munksjo Italia S.p.A. and the Ahlstrom business remaining at the Turin site. The shared assets have been transferred to AM Real Estate S.r.l which is owned 50:50 by Munksjö Oyj and an Ahlstrom Group company. The Group's had no liabilities or receivables in respect of AM Real Estate S.r.l with the exception of a loan payable of EUR 1.8 (1.8) million.

Joint Operation	Corporate ID	Registered Office	Country	Share of equity %	Share of votes %
AM Real Estate S.r.l.	10948970016	Turin	Italy	50	50

Share of AM Real Estate S.r.l's assets, equity, net sales and profit before tax, MEUR	2016	2015
Assets	12.5	12.4
Equity	12.5	12.3
Net sales	1.6	1.6
Profit before tax	0.3	0.3

AM Real Estate S.r.L has no contingent liabilities.

Note 19 Inventories

MEUR	2016	2015
Materials and supplies	19.6	21.0
Work in progress	10.0	9.8
Finished products	96.5	93.3
Consumables and spare parts	32.1	31.3
Total inventories	**158.2**	**155.4**

Operating costs include impairment losses of inventories amounting to EUR 0.8 (0.9) million.

Note 20 Other current assets

MEUR	2016	2015
Value added tax	10.6	13.9
Escrow cash account	1.5	1.5
Prepaid expenses	6.0	7.4
Fair value of unrealised hedges (note 27)	1.2	1.2
Other	14.2	14.2
Total	**33.4**	**38.3**

Note 21 Cash and cash equivalents

Cash and cash equivalents are made up of the following items in the Group's cash flow analysis:

MEUR	2016	2015
Cash in banks	146.0	105.1
	146.0	**105.1**

Bank deposits earn variable interest based on the bank's daily deposit rate. The fair value for cash and cash equivalents is EUR 146.0 (105.1) million.

MEUR	2016	2015
The total credit limit for the Munksjö Group amounts to:	372.7	390.3
Of which. the following was utilised at the closing date:	302.7	321.0

Note 22 Equity

Please refer to parent entity financial statements for details on share capital and reserve for invested unrestricted equity.

Other contributed capital

Refers to equity contributed by the shareholders.

Reserves

Translation reserve

The translation reserve includes all exchange rate differences arising in the conversion of financial reports of foreign businesses, which prepared their financial reports in a currency other than the Group's functional currency.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of a cash-flow-hedging instruments related to hedged transactions that have not yet occurred.

Note 23 Financial assets and liabilities summary

2016 MEUR	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Carrying value	Fair value
Accounts receivable	–	–	104.8	–	104.8	104.8
Currency derivative asset (Other current assets)	1.2	–	–	–	1.2	1.2
Escrow cash account (Other current assets)	–	–	1.5	–	1.5	1.5
Cash and cash equivalents	–	–	146.0	–	146.0	146.0
Total	**1.2**	**0.0**	**252.3**	**0.0**	**253.5**	**253.5**
Interest-bearing liabilities**	–	–	–	314.5	314.5	314.5
Interest rate swaps	1.0	–	–	–	1.0	1.0
Accounts payable*	–	–	–	176.9	176.9	176.9
Electricity derivative liability (accrued expenses)	–	–	–	–	0.0	0.0
Currency derivative liability (accrued expenses)	0.7	–	–	–	0.7	0.7
Total	**1.7**	**0.0**	**0.0**	**491.4**	**493.1**	**493.1**

2015 MEUR	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Carrying value	Fair value
Accounts receivable	–	–	111.1	–	111.1	111.1
Currency derivative asset (Other current assets)	1.2	–	–	–	1.2	1.2
Escrow cash account (Other current assets)	–	–	1.5	–	1.5	1.5
Cash and cash equivalents	–	–	105.1	–	105.1	105.1
Total	**1.2**	**0.0**	**217.7**	**0.0**	**218.9**	**218.9**
Interest-bearing liabilities**	–	–	–	334.3	334.3	334.3
Interest rate swaps	1.8	–	–	–	1.8	1.8
Accounts payable*	–	–	–	183.0	183.0	183.0
Electricity derivative liability (accrued expenses)	0.7	–	–	–	0.7	0.7
Currency derivative liability (accrued expenses)	–	–	–	–	0.0	0.0
Total	**2.5**	**0.0**	**0.0**	**517.3**	**519.8**	**519.8**

* Includes amount owed to associated companies and capital creditors

** The fair value of borrowings is a level 2 valuation and does not differ significantly from the carrying value

Note 24 Borrowings

In December 2015, Munksjö Oyj entered into a new SEK 570 million term loan agreement with a maturity of 5 years. The new loan will increase operating flexibility and adjust the debt portfolio to the Group's operating structure. In September 2014 Munksjö entered into a EUR 345 million term loan and revolving credit facilities agreement with a maturity of five years. The facilities consist of EUR 275 million term loan facilities and EUR 70 million revolving credit facility. At 31 December 2016, EUR 302.7 million of the total facilities of EUR 372.7 million had been utilised. EUR 80 million of the term loan facility has bi-annual repayments of EUR 8 million commencing March 2015 and finishing September 2019. EUR 195 million is repayable in September 2019 and EUR 59.7 million in January 2021. The interest payable under the facilities agreement depends on the ratio of consolidated senior net debt to consolidated EBITDA. At leverage levels and financial ratios at the time of the signing, the annual saving amounted to 150 basis points on the drawn amounts, corresponding to approximately EUR 5 million of reduced financial expenses on an annual basis. The financing replaced the company's previous EUR 365 million financing agreement signed in May 2013. At the end of the fourth quarter of 2016, the weighted average interest rate was approximately 2.5% (2.7%).

Interest-bearing net debt amounted to EUR 169.5 (227.4) million at 31 December 2016 , resulting in a gearing of 38.7% (56.7%). According to Munksjö's financial covenants for 2016, the consolidated senior net debt to consolidated EBITDA needs to be 3.5 or less and the consolidated EBITDA to consolidated net finance charges shall not be less than 4.5.

Munksjö entered on 10 November 2016 into a facilities agreement for the merger and the combined company with Nordea and SEB as the joint underwriters. The new financing consists 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 will be 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 23 December 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.

Liabilities to credit institutions and shareholders that fall to payment:

MEUR	2016	2015
within 1 year	24.4	21.1
between 1–2 years	17.4	21.4
between 2–3 years	211.8	16.8
between 3–4 years	0.7	212.0
between 4–5 years	60.4	1.4
after 5 years	0.7	63.3
Total interest-bearing liabilities	**315.5**	**336.0**

MEUR	2016	2015
Syndicated EUR loans	243.0	259.0
Syndicated SEK loans	59.7	62.1
Financial leases	6.7	8.4
Other interest-bearing liabilities	6.1	6.5
Total	**315.5**	**336.0**

Cont. note 24

The Munksjö Group has, as the lessee, signed financial and operational leasing contracts.

Future operating lease commitments:

	2016		2015	
Operational leasing, MEUR	Future minimum leasing fees	Of which, premises	Future minimum leasing fees	Of which, premises
Within 1 year	6.3	0.9	8.4	0.9
2–5 years	15.1	1.5	20.5	1.5
More than 5 years	1.2	–	0.6	–
Total	**22.6**	**2.4**	**29.5**	**2.4**

Of the total future obligations of EUR 22.6 million, some EUR 8.2 (6.5) million relates to obligations to Munksjö's joint arrangement in Italy, see also note 18. The Group's operational leasing costs for machinery and equipment plus rent on external properties amounted to EUR 7.4 (9.2) million.

Future financial lease commitments:

Financial leasing, MEUR	Within 1 year	2–5 years	More than 5 years	Total
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**
2015				
Minimum lease payments	1.9	6.2	1.4	9.5
Interest	–0.3	–0.7	–0.1	–1.1
Present value of minimum lease payments	**1.6**	**5.5**	**1.3**	**8.4**

Assets in the consolidated statement of financial position as at 31 December 2016 under financial leasing consisted of machinery and buildings with a net book value of EUR 4.1 (5.2) million.

Note 25 Provisions

MEUR	Restruc-turing	Environ-mental reserves	Other	Total
Closing balance on December 31. 2014	**5.3**	**11.1**	**7.1**	**23.5**
Unwinding of discount	0.0	0.6	0.5	1.1
Provisions made during the year	3.9	2.4	0.5	6.8
Provisions used during the year	–4.2	–1.0	–1.5	–6.7
Provisions reversed	–0.2	–0.1	–0.1	–0.4
Reclassification	0.0	0.2	–0.2	0.0
Exchange differences	0.0	0.6	–1.0	–0.4
Closing balance on December 31. 2015	**4.8**	**13.8**	**5.3**	**23.9**
Unwinding of discount	0.0	0.3	0.3	0.6
Provisions made during the year	0.2	0.0	0.2	0.4
Provisions used during the year	–4.1	–3.3	–1.6	–9.0
Provisions reversed	0.0	–0.5	0.0	–0.5
Reclassification	0.0	0.7	–0.7	0.0
Exchange differences	0.0	0.0	0.6	0.6
Closing balance on December 31. 2016	**0.9**	**11.0**	**4.1**	**16.0**

Restructuring provisions consisted mainly of employee related redundancy and early retirement provisions. The restructuring provision used during the year 2016 mainly relates to 2015 and the downsizing performed in Release Liners Business Area and to the reorganization of the customer service in Graphics & Packaging Business Area.

The use of the provision for environmental risks in 2016 is explained by the depollution of the soil in the discontinued Fitchburg mill in the USA. A provision amounting to 1.6 MEUR was used in 2016 regarding the Jacarei facility for which in 2016 also increased with 0.5 MEUR.

The restructuring provision made in 2015 related mainly to the reorganisation in the Mathi mill in Italy and other efforts to adjust the cost structure of the group.

The provisions above have been made based on the assessment described in note 2.

Note 26 Accrued expenses

MEUR	2016	2015
Accrual for invoices not yet received	32.8	32.6
Accrued wages and salaries	13.1	11.3
Accrued vacation pay	13.3	12.8
Accrued social security costs	10.0	9.7
Accrued customer bonus	7.3	7.0
Current derivatives liabilities	0.7	0.7
Other	21.5	20.4
Total accrued expenses	**98.7**	**94.5**

Note 27 Financial risk management

The Group's main exposure to financial risk consists of currency risk (transaction and translation exposure), liquidity and financial risk, interest risk and credit risk (also referred to as counterparty risk). Munksjö's financing activities and the management of financial risks are generally carried out centrally and are in compliance with the financial policy approved by the Board of Directors. The financial risks are described below, as well as the most significant risk management activities intended to mitigate them.

Currency risk

Transaction exposure

Currency risks refers to the risk that fluctuations in the foreign exchange market will affect the Munksjö Group's cash flow, profit and equity negatively. Currency exposure is defined as all unhedged exposure in foreign currency, as follows:

- Transaction exposure, current transactions in foreign currency, i.e. purchases, sales and flow of interest.
- Translation exposure, loans and investments in foreign currency including shares in subsidiaries.

Most European entities invoice primarily in EUR and their costs are incurred in the same currency, however Munksjö's Swedish units are exposed to exchange rate fluctuations, as the main share of its income is invoiced in foreign currencies, primarily EUR and USD, while costs are in SEK. The transaction exposure is the profit and loss effect that arises between the time of sale and the time of payment following an exchange rate fluctuation. Munksjö's Brazilian entity invoices primarily in BRL and their costs are incurred in the same currency.

In order to avoid unnecessary currency exposure within the Group, the number of currencies in the intercompany invoicing is minimised. The currency risk is handled by Group Treasury and the local entities operate primarily in local currency for intra group transactions. When possible Group Treasury matches the foreign exchange flows within the Group. The consolidated foreign exchange exposure is handled centrally by the Group Treasury department.

To reduce the effects of the transaction exposure at group level, Munksjö continuously hedges a forecasted exposure in foreign currencies according to the financial policy. The 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 net flows in the upcoming 9–month period shall be hedged. At the end of 2016, the currency contracts that had not yet been recognised as income amounted to EUR 0.5 million. The currency forward contracts are usually entered into on a monthly basis, with a maturity of nine months.

Cont. note 27

Cash flows by currency before financing activities

2016. MEUR	SEK	USD	EUR	BRL	Other
Net sales 2016	50	165	848	68	12
Net expenses 2016	–185	–80	–720	–79	–4
Exposure	**–135**	**85**	**128**	**–11**	**8**

2015. MEUR	SEK	USD	EUR	BRL	Other
Net sales 2015	42	170	850	60	9
Net expenses 2015	–180	–105	–750	–75	–4
Exposure	**–138**	**65**	**100**	**–15**	**5**

Notional amounts of derivative instruments

MEUR	2016	2015
Currency derivatives	90.7	96.1
Electricity derivatives	0.5	2.0
Interest rate derivatives (see below)	190.0	240.0

Translation exposure

Munksjö has assets in foreign currencies, primarily through the ownership of its Swedish and Brazilian subsidiaries. The translation exposure arises when the net assets of the foreign subsidiaries are translated into EUR. The Group does not hedge its net investment in foreign subsidiaries.

Liquidity and financing risk

Funding risk refers to the risk that the Munksjö Group does not have access to financing, or to financing at an acceptable cost. This situation may arise if the Group becomes too dependent on a single source of funding, or if the maturity structure of the debt portfolio is too concentrated. The Group aims to spread the Group's funding on:

- different lenders,
- different maturities, and
- different forms of financing.

The ambition is that not more than 50% of the total debt portfolio should mature within the same 12-month period. The inclusion of covenants should if possible be avoided in all types of financing agreements. For the purposes of this financial policy, financing includes leasing arrangements. Leasing arrangements must be approved by the CEO and CFO in advance. Liquidity risk refers to the risk that the Munksjö Group will not have sufficient funds to pay foreseen or unforeseen expenditures. Group Treasury manages the Group's liquidity. The liquidity situation shall be monitored in such way that the Munksjö Group at all times has sufficient liquidity. The Group's cash accounts should be included in the cash pools. If external accounts are needed, they must be approved by Group Treasury. The Group has EUR 70.0 million of unused credit facilities. See note 24 for the maturity table related to borrowings and below for the maturity table related to derivatives.

Interest risk

Interest rate risk refers to the risk that changes in interest rate have a negative effect on the result of the Munksjö Group or that they affect the long term competitiveness of the Munksjö Group. There is a risk of interest rates moving both upwards and down wards. Considerations shall at all times be taken to how vulnerable the Munksjö Group is to a given change in interest rates.

- In order to limit the impact of movements in the interest rates, the Munksjö Group should aim at achieving 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 loan agreement if so specified.
- Interest maturities shall preferably be spread out evenly over time in order to avoid substantial risk concentrated to one period.

If the Group's entire loan portfolio was at floating interest rate, the result of an interest rate increase of 1 percentage point would be EUR 2.1 million at the end of 2016. The Group had an average fixed interest term of 8 months at year-end.

At the end of 2016, Munksjö held interest rate swaps of EUR 190 (240) million on the syndicated loan. The fixed portion of the swaps had an average interest rate of 0.2%, while the flexible portion held by Munksjö is based on the 3 months Euribor rate. The interest rate swaps lessen the impact of an interest rate fluctuation. The swaps commenced in October 2014 with maturity date in October 2017 and 2018. Settlement occurs on a quarterly basis. In case of an interest rate fluctuation, the effects on net financial items not covered by swaps are stated below.

Interest +1%	MEUR –0.8
Interest +2%	MEUR –1.9

Price risk

During 2015 Munksjö stopped hedging its electricity consumption in the Swedish entities, however there are outstanding contracts with Statkraft that extend to 2017.

With regard to pulp, Munksjö has a policy of hedging no more than 50% of the sales/purchases. Effective from 1 January 2015, the Group has decided to stop all hedging in relation to pulp prices.

Long fiber pulp is manufactured and sold by Munksjö, whereas both long and short fiber pulp is used in production.

The following table shows the estimated effect on the 2016 profit before tax for price changes from total pulp, energy and titanium dioxide purchases.

MEUR	
Long fibre pulp +5%	2.1
Short fibre pulp +5%	–14.8
Energy +5%	–4.9
Titanium dioxide +5%	–4.2

Credit risk

Credit risk refers to the risk that a counterparty, in a financial transaction, cannot meet its obligations. To avoid this, it is clearly defined in Munksjö's financial policy how any excess liquidity may be invested. The calculation of credit risk includes positive profit and loss effects on derivative contracts with a counterparty. Munksjö's maximum credit risk exposure corresponds to the fair values of the financial assets, see note 23.

Cont. note 27

Customer structure and customer credit

Munksjö has long-standing customer relations, and the major share of the sales, approximately 71%, is to Europe. The sales can be based on framework agreements specifying general terms and conditions of supply and planned supply quantities; alternatively, the customer submits a request regarding the quality and quantity for a specific purpose. Various pricing models are used, either according to an issued price list or using a fixed price for a certain period. For pulp there are publicity quoted market prices available. The extension of credits to customers varies depending on the market and the product. At 31 December 2016 the accounts receivables amounted to EUR 104.8 (111.1) million. The total credit losses recorded in 2016 amounted to EUR 0.3(0.9) million.

The Group has a credit policy that governs the management of customer credits. The fair value of accounts receivables and supplier credits is commensurate with the recognised value.

Accounts receivable, MEUR	2016	2015
Accounts receivable not due	90.8	100.7
Receivables overdue		
< 30 days	10.0	8.5
30–90 days	2.4	1.3
> 90 days	1.6	0.6
Receivables overdue	**14.0**	**10.4**
Total accounts receivable	**104.8**	**111.1**

Financial instruments

The currency and electricity hedges made negative contributions as the Swedish krona became weaker, the US dollar stronger and electricity prices stayed low. The continued low interest rate has a negative impact on the interest rate swaps.

Derivative asset and liabilities used for hedging purposes, MEUR	2016	2015
Opening net liability	–1.2	–4.2
Changes in fair value	–2.4	–3.2
Realised hedges	3.1	6.2
Closing net liability	**–0.5**	**–1.2**
Deferred tax	0,0	0.2
Hedging reserve net of tax in equity	**–0.5**	**–1.0**

Offset of financial instruments, MEUR	Bank[1]	Asset	Liability	Netting	Balance Sheet Presentation
Currency derivatives	A	0.3	–0.7	–0.4	Current Assets/ Liabilities
Interest rate swaps	A		–0.4	–0.4	Current Borrowings
Electricity derivatives	B	0.0		0.0	Current Assets
Interest rate swaps	C		–0.6	–0.6	Current Borrowings
Currency derivatives	D	0.9	–	0.9	Current Assets
Total		**1.2**	**–1.7**	**–0.5**	

[1] Counterparty for the derivatives

Fair value measurement, per level

The table shows derivative instruments valued at fair value. The division per level is made as follows: Level 1 means that there are quoted prices on active markets, which prices have been used in the valuation. Level 2 means that the valuation of the derivative is indirectly attributed from quoted prices. Level 3 means that the derivative instrument has been valued based on non-observable market data.

Munksjö's derivatives are classified in level 2 and no changes between levels occurred during the year. Derivatives are fair valued 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 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.

Fair value measurement of derivative instruments, MEUR	Level 1	Level 2	Level 3	Total
2016				
Currency derivatives	–	0.5	–	0.5
Electricity derivatives	–	0.0	–	0.0
Interest rate swaps	–	–1.0	–	–1.0
Total	**0.0**	**–0.5**	**0.0**	**–0.5**

Fair value measurement of derivative instruments, MEUR	Level 1	Level 2	Level 3	Total
2015				
Currency derivatives	–	1.2	–	1.2
Electricity derivatives	–	–0.7	–	–0.7
Interest rate swaps	–	–1.8	–	–1.8
Total	**0.0**	**–1.3**	**0.0**	**–1.3**

Realised hedging, MEUR	2016	2015
Currency derivatives	–1.7	–4.9
Electricity derivatives	–0.2	–0.6
Interest rate swaps	–1.2	–0.7
Total	**–3.1**	**–6.2**

The realised interest rate swaps are recognised in net financial costs whereas the realised currency and electricity derivatives are recognised in operating profit.

Cont. note 27

Maturity of derivatives, MEUR	Balance as at 31 December 2016	6 months	6–12 months	More than 1 year
Currency derivatives	0.5	–0.1	0.6	
Electricity derivatives	0.0			
Interest rate swaps	–1.0	–0.5	–0.3	–0.2
Total	**–0.5**	**–0.6**	**0.3**	**–0.2**

Capital management

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated by dividing net debt by equity. Net debt is calculated as total borrowings as shown in the balance sheet less cash and cash equivalents. The Group strategy is to maintain a gearing ratio of below 80% and the ratio as at 31 December 2016 was 38.7%.

Note 28 Subsidiaries

The consolidated accounts include the following entities:

MEUR	Corporate ID	Registered Office	Share of votes %	Share of equity %
Munksjö Oyj	2480661-5	Helsinki, Finland	Parent	Parent
Munksjö AB	556669-9731	Jönköping, Sweden	100	100
Munksjö Belgium SA	0524.794.249	Wavre, Belgium	100	100
Munksjö UK Limited	08428608	London, England	100	100
Munksjö Aspa Bruk AB	556064-6498	Askersund, Sweden	100	100
Munksjö Paper AB	556117-9044	Jönköping, Sweden	100	100
Munksjö Electrotechnical Paper AB (dormant)	556718-4923	Jönköping, Sweden	100	100
Munksjö Paper S.p.A.	02666640129	Besozzo, Italy	100	100
Munksjö Spain Holding, S.L	B–63681605	Berástegui, Spain	100	100
Munksjö Paper, S.A.	A–20012563	Berástegui, Spain	100	100
Munksjö Paper (Taicang) Co. Ltd	79109300-3	Taicang, China	100	100
Munksjö Germany Holding GmbH	HRB 501626	Unterkochen, Germany	100	100
Munksjö Paper GmbH	HRB 501106	Unterkochen, Germany	100	100
Kraftwerksgesellschaft Unterkochen GmbH	HRB 720446	Unterkochen, Germany	60	60
Munksjö Dettingen GmbH	HRB 361000	Dettingen, Germany	100	100
Munksjö Paper Inc.	52-1517747	Fitchburg, USA	100	100
Munksjö Brasil Indústria e Comércio de Papéis Especiais Ltda	CNPJ 16.929.712/0001-20	Jacareí, Brazil	100	100
Munksjö Italia S.p.A.	08118010159	Turin, Italy	100	100
Munksjö France Holding S.A.S.	318 072 360	Fontenay-sous-Bois Cedex, France	100	100
Munksjö Stenay S.A.S.	804 891 281	Bar le Duc, France	100	100
Munksjö Rottersac S.A.S.	804 897 288	Bergerac, France	100	100
Munksjö La Gère S.A.S.	804 862 910	Vienne, France	100	100
Munksjö Arches S.A.S.	428 720 668	Arches, France	100	100
Munksjö Apprieu S.A.S.	808 532 972	Vienne, France	100	100
Munksjö Paper Trading (Shanghai) Co., Ltd.	31010506253047X	Shanghai, China	100	100
Munksjö Rus O.O.O.	1137746559940	Moscow, Russia	100	100

In 2016, the subsidiaries Munksjo India Private Limited corporate ID U21020DL2013FTC252459 and Munksjö Poland sp. Z o.o. corporate ID 419368 were liquidated.

Note 29 Assets pledged and contingent liabilities

Assets pledged, MEUR	2016	2015
Property mortgages	58.0	60.3
Escrow accounts	1.5	1.5
Chattel mortgages	47.9	49.8
Total pledged assets	**107.4**	**111.5**

The properties and shares in the subsidiaries have been pledged with Nordea Bank AB as the representative of a bank syndicate that provides non-current financing to the Munksjö Group.

Contingent liabilities, MEUR	2016	2015
Guarantees and other contingent liabilities	2.0	1.5
Total contingent liabilities	**2.0**	**1.5**

Note 30 Transactions with related parties

Salaries and remuneration to Board Members and key management are set out in note 8 Remuneration to the Board of Directors and key management.

There have been no additional loans, purchases or sales in relation to the Board of Directors or key management.

The subsidiary Munksjö Aspa Bruk AB purchases wood and woodchips from the associated company Sydved AB. During the year Aspa Bruk AB purchased 775.000 m^3 (834.000) of wood and woodchips amounting to EUR 24.7 (39.2) million.

The subsidiary Munksjö Paper GmbH is buying electricity and gas from Stadtwerke Aalen GmbH who owns 40% of Munksjö Paper GmbH's subsidiary Kraftwerksgesellschaft Unterkochen GmbH. The related purchase amounts to EUR 6.1 (6.2) million.

In connection with the business combination described in note 3, certain assets in Turin are shared by Munksjo Italia S.p.A. and the Ahlstrom business remaining at the Turin site. The shared assets have been transferred to AM Real Estate Srl which is owned 50:50 by Munksjö Oyj and an Ahlstrom Group company. During 2016 AM Real Estate charged Munksjö Italia S.p.A. EUR 2.9 (3.0) million related to the use of assets. In addition to the use of assets Munksjö Oyj has received loans from AM Real Estate. The amount outstanding as at 31 December 2016 amounted to EUR 1.8 (1.8) million and the interest charged is fixed to three month Euribor plus a margin of 5.37%.

Other than as stated above there are no significant transactions with related parties.

Note 31 Parent company particulars

The Parent Company Munksjö Oyj, Corporate Identity Number, 2480661-5, is a Finnish public limited liability company, registered in Helsinki, Finland. The company's address is Eteläesplanadi 14, 00130 Helsinki. The Parent Company's shares are quoted on Helsinki Stock Exchange and Nasdaq Stockholm. The Financial Statements and Board of Director's report were approved by the Board of Directors on 15 February 2017 and are expected to be adopted by the AGM later in the spring 2017. The 2016 consolidated financial statements comprise the Parent Company and all its subsidiaries, jointly the Group. The Group also includes the owned share of investments in equity accounted companies.

Extract of the parent company financial statement

The Parent Company Financial Statements are prepared according to Generally Accepted Accounting Principles in Finland "Finnish GAAP"; see Group Consolidated Financial Statements Note 1 Accounting principles. The main differences between the accounting policies of the Group and the Parent Company are:

- The valuation of derivative financial instruments
- 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

Parent company income statement

MEUR	2016	2015
Income	4.3	4.7
Personnel costs	–0.9	–0.9
Operating expenses	–6.7	–2.1
Amortisation of intangible assets	–2.9	–2.7
Operating loss	**–6.2**	**–1.0**
Financial income and expense		
Dividend from subsidiaries	0.0	5.0
Interest income group companies	11.3	15.6
Interest expense group companies	–0.3	–0.3
Interest expense to credit institutions	–8.5	–7.9
Hedging costs	–1.4	–4.8
Other financial expenses	–1.0	0.8
Total financial income and expense	**0.1**	**8.4**
Profit/loss before taxes	**–4.6**	**7.4**
Change in deferred tax	1.2	1.4
Profit/loss for the year/period	**–4.9**	**8.8**

Parent company balance sheet

MEUR	2016-12-31	2015-12-31
ASSETS		
Intangible assets		
Intangible rights	0.7	0.6
Other capitalized expenditure	15.7	17.9
	16.4	**18.5**
Non-current assets		
Investments		
Shares in subsidiaries	364.9	364.9
Equity accounted investments	9.9	9.9
Loan receivables from group companies	248.4	251.3
	623.2	**626.1**
Deferred tax asset	3.2	2.1
Total non-current assets	**642.8**	**646.7**
Current assets		
Prepayments	0.1	0.1
Receivables from group companies	26.0	32.5
Other receivables	0.0	0.1
Total current assets	**26.1**	**32.7**
Cash and cash equivalents	126.2	92.6
TOTAL ASSETS	**795.1**	**772.0**
EQUITY AND LIABILITIES		
Equity		
Share capital	15.0	15.0
Reserve for invested unrestricted equity	286.2	301.4
Retained earnings	–27.7	–36.4
Profit/loss for the financial year	–4.9	8.8
Total equity	**268.6**	**288.8**
Provisions	0.7	0.7
Non-current liabilities		
Borrowings from credit institutions	286.6	305.0
Borrowings from group companies	13.0	13.0
Borrowings from joint ventures	1.8	1.8
Total non-current liabilities	**301.4**	**319.8**
Current liabilities		
Borrowings from credit institutions	16.0	16.0
Borrowings from group companies	201.0	144.0
Accrued interest	1.9	1.8
Accounts payable	0.5	0.3
Accounts payable to group companies	0.3	0.1
Accrued expenses and deffered income	4.7	0.5
Total current liabilities	**224.4**	**162.7**
Total Liabilities	**526.5**	**483.2**
TOTAL EQUITY AND LIABILITIES	**795.1**	**772.0**

Parent company cash flow statement

MEUR	2016	2015
Cash flow used in operating activities		
Net profit loss before taxes	–6.1	7.3
Amortisation	2.9	2.7
Financial income and expenses	–0.1	–8.4
Dividend income	0.0	5.0
Interest received and paid	0.2	2.8
Change in working capital	4.4	–0.3
	1.3	**9.1**
Cash flow used in investing activities		
Investment in intangible assets	–0.8	–0.4
Investment in shares of subsidiaries	0.0	–13.8
Loans receivables from group companies	9.4	61.7
	8.6	**47.5**
Cash flow from financing activities		
Return of capital to shareholderes	–15.2	–12.7
Purchase of Munksjö Oyj shares	0.0	–3.1
Proceeds from borrowings. net of fees	0.0	61.2
Repayment of borrowings to credit institutions	–18.3	–36.0
Loan payable to group companies	57.2	–38.5
	23.7	**–29.1**
Net increase/decrease in cash and cash equivalents	**33.6**	**27.5**
Cash and cash equivalents at beginning of period	92.6	65.1
Cash and cash equivalents at end of period	**126.2**	**92.6**

Board's proposal for the Annual General Meeting

The EGM of Munksjö decided on 11 January 2017 to authorise the Board of Directors to resolve, based on the latest audited financial statements of the company for 2015, by one or several resolutions, on an extra payment of funds from the company's reserve for invested unrestricted equity as return of equity in the total amount of maximum EUR 0.45 per each outstanding share in the company (representing a maximum total amount of approximately EUR 22,842,711 after excluding the treasury shares held by the company) to the shareholders of Munksjö prior to the merger. The return of equity shall be paid prior to the registration of the execution of the merger. The authorisation shall be valid until the close of the Annual General Meeting of Munksjö in 2017. As there are no distributable retained earnings in the balance sheet as of 31 December 2016, the Board of Directors proposes that no dividend will be paid for the fiscal year 2016.

Signatures to the Financial Statements

Helsinki, 16 February 2017

Peter Seligson
Chairman of the Board

Elisabet Salander Björklund
Deputy Chairman of the Board

Sebastian Bondestam

Alexander Ehrnrooth

Hannele Jakosuo-Jansson

Mats Lindstrand

Anna Ohlsson-Leijon

Jan Åström
CEO

Auditor's report

To the Annual General Meeting of Munksjö Oyj

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Munksjö Oyj (business identity code 2480661-5) for the year ended 31 December, 2016. The financial statements comprise the consolidated statement of financial position, 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 performance and financial position 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.

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.

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.

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 and fixed assets – refer to accounting principles and note 1 and notes 15 and 16 of the financial statements

Key audit matter	Our response
• At the end of the financial year, the group had EUR 226 million of goodwill and tangible assets amounting to EUR 421 million. The goodwill amount to 52 % of the group equity and 19% of the group's total assets at 31 December, 2016. • 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.	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.

Revenue recognition – refer to accounting principles and note 1 to the financial statements

Key audit matter	Our response
• 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. This normally takes place when the goods are delivered in accordance with the terms of delivery. • In general, revenue recognition within the group is not complex but due to the large volumes of transactions and the fact that the revenue is generated through subsidiaries in different countries revenue recognition has been identified as an area of focus in the audit.	• During our audit we have focused on identifying unusual sales transactions. Component auditors in the 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 accounting principles and note 1 and note 19 to the financial statements

Key audit matter	Our response
• The value of inventories amounted to EUR 158 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.	• 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 the 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

Other Information

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

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

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

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

If, based on the work we have performed on the report of the Board of Directors, 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 16 February 2017
KPMG OY AB

Sixten Nyman
Authorised Public Accountant, KHT

Shareholder information

Annual General Meeting 2017
The company's Annual General Meeting will be held after the registration of the execution of the merger with Ahlstrom Corporation, which is, inter alia, subject to the approval of relevant competition authorities. The AGM will however not be held later than 30 June 2017.

Munksjö as an investment
Further information about Munksjö as an investment is available on www.munksjo.com/investors.

Production: Munksjö in cooperation with Hallvarsson & Halvarsson
Photo: Per Myrehed
Print: Strokirk Landströms 2017

Made by Munksjö – Intelligent paper technology

Munksjö is a world-leading manufacturer of advanced paper products developed with intelligent paper technology. Munksjö offers and develops customer-specific innovative design and functionality in areas ranging from flooring, kitchens and furnishings to release papers, consumer-friendly packaging and energy transmission. The transition to a sustainable society is a natural driving force for Munksjö's growth as the products can replace non-renewable materials. This is what "Made by Munksjö" stands for.

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