Ahlstrom Holding 3 Oy Financials

(previously Ahlstrom-Munksjö Holding 3 Oy)

The name was changed from Ahlstrom-Munksjö Holding 3 Oy to Ahlstrom Holding 3 Oy on January 16, 2023.

The Ahlstrom financial year 2022

Contents

We use the following symbols throughout the financial statements

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

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

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

Board of Directors' report

We present in this Board of Directors' report certain financial and other information of Ahlstrom Holding 3 Oy (previously Ahlstrom-Munksjö Holding 3 Oy) and its subsidiaries (the "Group" and "Ahlstrom"). Ahlstrom is consolidated from the date of acquisition of Ahlstrom Oyj (previously Ahlstrom-Munksjö Oyj) on February 4, 2021. Income statement and certain related key figures are presented on a pro forma basis for the full year 2021. This report also includes certain adjusted figures for the last twelve months ("LTM") ended December 31, 2022.

In the consolidated financial statements the Decor business is presented as a discontinued operation in the income statement and statement of comprehensive income for 2022 and 2021. Balance sheet and cash flow statement include Decor business until October 1, 2022. Unless otherwise noted, figures in this report refer to continuing operations.

HIGHLIGHTS OF 2022

- Record net sales and comparable EBITDA, supported by strong progress in transformation related commercial and operational excellence initiatives
- Sales prices increased to compensate for high input cost inflation
- Launch of Ahlstrom's purpose and vision, and strategic ambition for 2025
- Ahlstrom has committed to the 1.5°C Science Based Target initiative and science-based measures to mitigate climate change
- The reorganization of the Decor business ownership was completed on October 1 and generated net cash of EUR 217 million
- Change of business name to Ahlstrom

FINANCIAL RESULT 2022

Compared with pro forma 2021, continuing operations

Pro forma 2021 figures includes Ahlstrom for the full year (12 month period).

Net sales increased by 26.9% to EUR 3,348.7 million (2,639.0). At constant currency rates, the increase was 20.6% as higher selling prices more than offset slightly lower deliveries. Customer demand declined in the second half of the year as consumer confidence weakened, which was affected by rapidly rising cost inflation and higher interest rates, as well as the worsening geopolitical situation.

Comparable EBITDA increased to EUR 440.2 million (345.5), representing 13.1% of net sales (13.1). The transformation is in its second year with strong performance improvement as a result, driven by successful commercial and operational excellence initiatives. Margin on variable costs improved in absolute terms as higher selling prices and measures that have improved variable cost efficiency more than offset the negative impact of higher input costs.

Adjusted EBITDA amounted to EUR 540.8 million (EUR 428.7 million LTM ending December 31, 2021) for the last twelve months (LTM) ending December 31, 2022. The increase is a result of both higher comparable EBITDA (LTM) and expected benefits from implemented and planned transformation initiatives.

Compared with reported 2021, continuing operations

In the comparative reported figures, Ahlstrom is consolidated from the date of the acquisition of February 4, 2021.

The margin on variable costs (MOVC) per ton was EUR 867.9 (706.1) and was impacted by both an increase in variable costs and higher selling prices. EBITDA was EUR 299.8 million (205.6). Items affecting comparability (IACs) and owners' management fee in EBITDA totaled EUR -140.4 million (-108.9), and included mainly transformation costs related to initiatives driven by the owners.

The operating result was EUR 113.8 million (49.9). Depreciation, amortization and impairment losses amounted to EUR -185.9 million (-155.8), including depreciation and amortization arising from PPA of EUR -65.1 million (-57.0).

Net financial items were EUR -84.4 million (-105.1). This figure includes net interest expenses of EUR -126.7 million (-89.1), a currency exchange gain of EUR 5.6 million (-2.2), a fair value change of interest rate hedges of EUR 48.3 million (0.3) and other financial items of EUR -11.6

million (-14.1). The result before taxes was EUR 23.3 million (-55.3). Taxes amounted to EUR -13.2 million (-17.2). The net result was EUR 10.1 million (-72.4).

CASH FLOW, CONTINUING OPERATIONS AND DISCONTINUED OPERATION, 2022

In the comparative reported figures, Ahlstrom is consolidated from the date of the acquisition of February 4, 2021.

Cash flow from operating activities

Net cash from operating activities amounted to EUR 215.9 million (83.3). Cash flow was impacted positively by the improved results and working capital reduction, and negatively by items affecting comparability related to the transformation initiatives.

Cash flow from investing

Net cash flow from investing activities was EUR -20.2 million (-1,727.7). Capital expenditure excluding acquisitions totalled EUR 203.8 million (145.5), including maintenance related capital expenditure of approximately EUR 84.5 million (71.0). During the year, two strategic growth investments were completed; one aimed at strengthening the company's market position within biodegradable and compostable tea bag, coffee and meat casing materials; and one with the aim of strengthening the company's European manufacturing platform for high performance filtration materials for industrial filtration and energy storage applications. During the reporting period work continued completing a new glass fiber tissue production line located in Madisonville, Kentucky, U.S, to support the flooring industry in North America. The cash flow also included EUR 217 million from the reorganization of the Decor business ownership.

Cash flow from financing activities

Net cash flow from financing activities was EUR -117.7 million (1,775.1). During 2022, the Group raised EUR 60 million as an add-on to its existing senior term loan facility maturing in February 2028 to the financing of general corporate purposes, including acquisitions. The Group has used, or plans to use, the net cash proceeds from the Decor business divestment to repay indebtedness outstanding under its commercial paper program and its syndicated debt facility in Brazil, and to make investments in the business through acquisitions and other capital expenditures in accordance with the requirements under its financing documents.

FINANCING AND INDEBTEDNESS

On December 31, 2022, total equity was EUR 894.5 million (1,049.9, on December 31, 2021). The total equity was reduced by the impairment loss on goodwill relating to net assets of the divested Decor business, and cash distributions by way of return of equity.

Ahlstrom's liquidity is satisfactory. In October, liquidity was supported by the proceeds from the sale of the Decor business. At the end of the review period, the total cash position was EUR 240.7 million (162.6).

During the reporting period the principal sources of liquidity were cash flow from operating activities, committed and uncommitted lines, as well as a Finnish Commercial Paper Program and a factoring arrangement.

At the end of the period, Ahlstrom's adjusted net indebtedness was EUR 1,687.7 million (1,803.1), translating into a net indebtedness to adjusted EBITDA ratio of 3.1 (3.2 on September 30, 2022, including discontinued operation). As estimated before the completion of the reorganization of the Decor business ownership, the transaction had only a limited effect on net indebtedness to adjusted EBITDA ratio.

THE ACQUISITION OF AHLSTROM OYJ IN 2021 AND SUBSEQUENT REDEMPTION PROCEDURE

On September 24, 2020, Ahlstrom Holding 3 Oy (previously named first Spa Holdings 3 Oy until August 2021 and, subsequently, Ahlstrom-Munksjö Holding 3 Oy until January 2023), a consortium consisting of Ahlström Capital, funds managed or advised by Bain Capital as well as Viknum and Belgrano Inversiones, made a public recommended cash tender offer for all shares in Ahlstrom Oyj (previously named Ahlstrom-Munksjö Oyj until January 2023). Ahlstrom Holding 3 Oy received an ownership of more than 90% on February 4, 2021 and started a compulsory redemption procedure and applied for the delisting of the shares from Nasdaq Helsinki and Nasdaq Stockholm.

On April 16, Nasdaq Stockholm approved the delisting application and resolved that the last day of trading in Ahlstrom Oyj's shares was May 31, 2021. On June 23, 2021 it was announced that Ahlstrom Holding 3 Oy had posted security approved by the arbitral tribunal appointed by the Redemption Board of the Finland Chamber of Commerce in connection with the redemption proceedings concerning the minority shares in Ahlstrom Oyj, and thus gained title to all the shares in Ahlstrom Oyj in accordance with Chapter 18, Section 6 of the Finnish Companies Act. The shares in Ahlstrom Oyj were delisted as of June 23 from the official list of Nasdaq Helsinki.

On February 25, 2022, the arbitral tribunal appointed by the Redemption Board of the Finland Chamber of Commerce rendered its decision according to which the redemption price payable by Ahlstrom Holding 3 Oy for the 10,755,918 Ahlstrom Oyj's minority shares that are subject to mandatory redemption shall be EUR 21.55 per share. This was EUR 39.9 million in excess of the EUR 191.9 million redemption liability that had been recognized in the financial statements of Ahlstrom Holding 3 Oy. The additional payment liability was recognized in Q1/2022 interim financial statements. The excess did not have any impact on the income statement as it is limited to a gross presentation in the balance sheet where goodwill, and trade and other payables increased by EUR 39.9 million.

On April 29, 2022, Ahlstrom Holding 3 Oy filed an appeal with the District Court of Helsinki, requesting the District Court to confirm the redemption price of the minority shares in Ahlstrom Oyj to be EUR 17.84 per share. The requested redemption price of EUR 17.84 corresponds with the price offered in the public tender offer.

Amongst others, the trustee who represents the minority shareholders, has also filed their appeal with the District Court. The current estimate is that the District Court will issue its judgement by the end of June 2023. The judgement may, however, still be appealed to the Supreme Court, if the latter grants leave to appeal, in which case the appeal proceedings could last until the end of 2024 or the beginning of 2025.

According to the Companies Act, the redemption price falls due after a month has passed from the judgement on redemption becoming res judicata, i.e. non-appealable.

The unpaid redemption price is subject to interest in accordance with Chapter 18, Section 7 of the Finnish Companies Act. The reference rate referred to therein (at 2.5% as of 1 January, 2023) is subject to bi-annual adjustments, with the next adjustment due on 1 July, 2023. However, the redemption price may be paid up to the undisputed price of EUR 17.84 per share already during the course of the appeal proceedings.

GOVERNANCE

Ahlstrom Holding 3 Oy is a Finnish limited liability company. In its corporate governance, Ahlstrom Holding 3 Oy complies with applicable laws and regulations, including without limitation, the Finnish Limited Liability Companies Act (624/2006, as amended) ("Companies Act") as well as the Company's Articles of Association.

The Board of Directors

The role of the Board is to oversee the administration of the company and the appropriate organization of its operation and in its work protect the interests of the company and its shareholders. The Board shall also ensure that control of the accounts and finances of Ahlstrom are appropriately arranged.

Ahlstrom Holding 3 Oy's members of the Board of Directors are Ivano Sessa (chair), Andrej Busch, Alexander Ehrnrooth, Lasse Heinonen, Halvor Meyer Horten, Peter Seligson and Michael Siefke.

Auditor

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

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

KPMG Oy Ab (KPMG) was appointed auditor of the company on April 6, 2022. KPMG has designated Anders Lundin, APA, as the responsible auditor. The company's subsidiaries are subject to local auditing under local regulations which are conducted by representatives of KPMG's network or other high standard audit companies in each country

Internal Audit

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

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

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

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

Executive Management Team

The Executive Management Team ("EMT") consists of the CEO, CFO and Executive Vice Presidents of divisions as well as group functions. Biographical details of the EMT members are available at www.ahlstrom.com

PERSONNEL

The Group employed at year end 7,099 people in full-time equivalents. As of December 31, 2022, the highest numbers of employees were in the United States (35%), France (21%), Sweden (11%), Italy (8%), China (5%) and Brazil (5%).

APPOINTMENTS IN THE EXECUTIVE MANAGEMENT TEAM

- Mark Ushpol was appointed Executive Vice President Food Packaging & Consumer Packaging division, effective January 1, 2022.
- Markus Westerkamp was appointed Chief Operating Officer, effective July 1, 2022.
- Sophie Haan was appointed Executive Vice President Technical Materials division, effective September 12, 2022.
- Emmanuelle Picard was appointed Executive Vice President Building Materials division, effective September 26, 2022.
- Jorn P. Jensen was appointed CFO, effective December 1, 2022, and succeeded Sakari Ahdekivi who left Ahlstrom at the end of December.
- Jacques Lafon was appointed Executive Vice President Healthcare division, effective January 1, 2023.
- Helen Mets was appointed President and CEO, effective January 1, 2023, and succeeded Hans Sohlström who left Ahlstrom at the end of December.

INNOVATION

Innovation and product development are the core of Ahlstrom's long-term value creation. Innovation enables Ahlstrom to improve its offering of products, technologies, and services to address sustainable functionality and design.

Ahlstrom has extensive research and development capacity, shared between the Group's Innovation function and the different businesses. Product development in the businesses is carried out at the various plants and in collaboration with customers, mainly in the form of continuous product improvement and product renewals. The Innovation function operates a research center in two locations in France, in Pont-Evêque and in Apprieu. Group Innovation employing 42 people works in close cooperation with the businesses and supports the company strategy. Group Innovation provides services and access to laboratories and test equipment. Key areas of expertise include paper technologies, fiber refining, surface treatment and converting techniques, polymers, synthetic fibers, nonwoven technologies, analytical science, and food contact expertise and guidance.

In order to align the innovation work with the company's purpose and increase the value of the innovation portfolio, management and processes were reorganized in 2022. In 2022, steps were taken in the deployment of key enablers, putting in place a governance structure, and deploying a new innovation tool and cross-fertilization activities, and aligning the activities with the company vision. Group Innovation function provides a structured way to develop specialty solutions thanks to a new Product and Project Management tool, as well as guaranteeing a company-wide taxonomy for innovation.

Group research and development work is governed through a monthly R&D review in each business and at Group level through a quarterly innovation review with EMT members, ensuring alignment with the company's strategic direction. The governance enables greater cooperation and visibility between businesses.

Overall, measures were taken in 2022 to improve synergistic cooperation between the businesses. Collaboration with research institutions for long-term development of the company's technology platform is run by the Group, while collaboration with industrial alliances is run by businesses. In 2022, the Group innovation portfolio was retargeted towards disruptive technologies and new market opportunities. More focus was also placed on prioritized technologies and business incubation.

To track its progress the company has set a target for sales of new products launched in the last three years to reach 25% by 2025. In 2022, sales of new products launched in the last three years amounted to 22%. Going forward the company is evaluating a new set of KPIs.

The Group's expenditure on R&D was approximately EUR 35.4 million (EUR 27 million in 2021, including discontinued operations), representing 1.1% (0.9) of net sales. The figure does not include technical product development costs carried out in close cooperation with customers.

EVENTS DURING THE REPORTING PERIOD

Agreement to acquire Minglian

On January 14, 2022, Ahlstrom completed the acquisition of a 60% stake in Chinese decor paper producer Minglian New Materials Technology Co., Ltd. and forms a joint venture which comprises a state-of-the-art plant in the city of Xingtai, Hebei Province, China. Minglian was part of the Decor business transaction that was completed on October 1, 2022.

Issue of add-on to existing senior term loan facility

On February 16, 2022, Ahlstrom Holding 3 Oy announced it had entered into an agreement with certain investors pursuant to which it will raise EUR 60 million as an add-on to its existing senior term loan facility (TLB4) maturing in February 2028. The loan was drawn in March, and the amount drawn was EUR 60 million. The proceeds are planned to be used for the general corporate purposes of the group, including a targeted strategic acquisition.

Annual General Meeting

On April 6, 2022, it was resolved in a sole shareholder meeting to adopt the Financial Statements for the year 2021 and to grant the members of the Board of Directors discharge from the financial year 2021. It was resolved also to authorize the Board of Directors to decide on the distribution of funds in one or several tranches from the company's invested unrestricted equity fund up to an aggregate maximum of EUR 34.2 million. The authorization is in force until the beginning of the company's Annual General Meeting 2023.

Return of Equity

On January 20, 2022, Ahlstrom Holding 3 Oy decided on a cash distribution in the aggregate amount of EUR 8,315,142.99 (the "Distribution Amount") by way of return of equity from invested unrestricted equity reserve. Payment was made on February 1, 2022.

On April 27, 2022, Ahlstrom Holding 3 Oy decided on a cash distribution in the aggregate amount of EUR 8,251,378.61 by way of return of equity from invested unrestricted equity reserve. Payment was made on April 29, 2022.

On July 28, 2022, Ahlstrom Holding 3 Oy decided on two cash distributions of EUR 8,447,267.78 and EUR 7,682,447.23, respectively, by way of return of equity from invested unrestricted equity reserve. Payments were made on August 1, 2022. The former was pursuant to the authorization to the Board of April 6, 2022 to decide on the distribution up to an aggregate maximum of EUR 34.2 million until the beginning of the company's Annual General Meeting 2023. The latter amount was an additional distribution decided separately by the shareholder of Ahlstrom Holding 3 Oy on July 28, 2022.

On October 27, 2022, Ahlstrom Holding 3 Oy decided on a cash distribution in the aggregate amount of EUR 8,504,767,78 (the "Distribution Amount") by way of return of equity from invested unrestricted equity reserve. Payment was made on October 31, 2022.

Arbitration Award in the Redemption Proceedings

On April 29, 2022, Ahlstrom Holding 3 Oy filed an appeal with the District Court of Helsinki, requesting the District Court to confirm the redemption price of the minority shares in Ahlstrom Oyj to be EUR 17.84 per share, which corresponds with the price offered in the public tender offer. For more information, see section Acquisition of Ahlstrom Oyj in 2021 and subsequent redemption procedure.

Reorganization of the Decor business ownership and change of business name

On October 1, Ahlstrom Holding 3 Oy completed the ownership arrangement of its Decor business in accordance with the plan announced on May 23, 2022. In the ownership reorganization, the Decor business has been divested from Ahlstrom Holding 3 Oy to a newly formed Swedish company named Munksjö Paper. The new Munksjö is owned by Ahlstrom Holding 3 Oy with an approximate 25% share, and Ahlström Capital with a share of approximately 60% and Nidoco with a share of approximately 15%, both of which are affiliates of the current minority owners of Ahlstrom Holding 3 Oy. Following the transaction Ahlstrom-Munksjö started operating under the business name of Ahlstrom as of October 3, 2022.

The divested Decor business continues as an independent company under the Munksjö Paper name. The net cash flow impact of the transaction, i.e. purchase consideration net of disposed subsidiaries' cash and cash equivalents and net of Group's equity contribution and a loan to the acquiring party, amounted to EUR 216.6 million. Based on the transaction price and sold net assets, Ahlstrom Holding 3 Oy recognized an impairment loss on goodwill. The loss was reported as part of the discontinued operation and did not impact comparable EBITDA. Financials of the discontinued operation are presented in note 4.

As estimated before the completion of the ownership reorganization, the transaction had only a limited effect on net indebtedness to adjusted EBITDA ratio.

The increased management and board focus will support the separate companies Ahlstrom and Munksjö in achieving further sustainable growth and profitability through a more focused and ambitious agenda on a global basis. The distinctive characteristics of both companies are better highlighted as separate companies and supports the value. Ahlstrom has actively developed the Decor business over the years, by establishing a strong growth platform in South America through the acquisition of Caieiras's specialty paper mill in Brazil, and more recently by entering the world's largest and fastest growing decor paper market in China through the acquisition of the decor paper manufacturer Minglian New Materials Technology in Xingtai, Hebei Province. Through these strategic acquisitions, the Decor business has become a leading international player, well positioned to serve its customers in all essential decor paper markets globally. The Decor business has operated under the Munksjö brand for more than 25 years, and although lately under the Ahlstrom-Munksjö brand, the business is most commonly known as simply "Munksjö", a brand recognized for outstanding quality and service across the decor industry.

Ahlstrom's Purpose and Strategy

On June 15, Ahlstrom announced its newly defined purpose and vision, as well as strategic ambition for 2025 and new sustainability targets. Through a clearly defined purpose and a sharper strategic focus the company is accelerating its strategy execution with the vision to become the Preferred Sustainable Specialty Materials Company. Ahlstrom's strategic ambition for 2025 is to become the leader in combining fibers into performance materials that serve its newly defined purpose to Purify and Protect, with Every Fiber, for a Sustainable World.

On May 10, 2022, Ahlstrom announced it will implement a new operating model and reporting structure, effective as of July 2022, to effectively carry out the work and build a stronger company for a sustainable future and capture the significant opportunities both to grow and improve profitability

Sustainability Work Awarded with EcoVadis Platinum Rating

On September 1, Ahlstrom was awarded with EcoVadis' highest recognition level, Platinum,for the company's sustainability performance. This places Ahlstrom among the top 1% percent of companies assessed by Eco Vadis. The rating is an improvement from Gold level, held since

2019. The company's score increased especially in Environmental performance and Labor & Human rights.

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RISK MANAGEMENT AND SHORT-TERM RISKS

Ahlstrom has a Risk Management Policy, which 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 Group is actively working to reduce the effects of the identified risk factors through preventive measures. When preventive measures are not viable, the risk may be hedged or insured as mitigation. The format and methodology used for the risk assessment is an Enterprise Risk Management framework, and the assessment is performed at least once a year.

Short term risks are specified in the section below and updated in the quarterly interim reports. Financial risks are described in notes 17 and 19 of the consolidated financial statements.

Short-term risks

Ahlstrom manages a broad portfolio of businesses and serves a wide range of end uses globally and therefore unlikely to be significantly affected at a Group level by individual business factors. However, slowing global economic growth and uncertain financial market conditions could have an adverse effect on the financial results, operations, and financial position.

Ahlstrom's significant risks and uncertainty factors mainly consist of developments in demand for and prices of sold products, the cost and availability of key raw materials and energy, as well as other business factors including developments in global politics, regulations, and the financial markets.

In 2022, the economic repercussions from the war in Ukraine has become a source of increased uncertainty, particularly in terms of availability and costs of energy in Europe, as well as increased costs inflation, higher interest rates and deteriorating geopolitical stability. In the later part of 2022, economic growth slowed while the outlook for 2023 also weakened.

The sustainability criteria are developing rapidly as the effects of climate change increase. For the industry, the green transition means new business conditions as well as adaptation and innovation investments, but also new business opportunities because some of the environmental challenges can be met with the company's products.

The Group's key financial risks include interest rate and currency, liquidity and credit risks. To mitigate short-term risks, methods such as hedging and credit insurance are used. There are no major refinancing needs short-term. The Group is exposed to tax risks due to potential changes in tax laws and regulations or their application, or as a result of on-going or future tax audits or claims. The company regularly assesses the best structure for its platform of businesses and systematically evaluates M&A opportunities. In potential business combinations, substantial integration work is needed to realize expected synergies.

Ahlstrom has operations in many countries, and sometimes disputes cannot be avoided in daily operations. The company is sometimes involved in legal actions, disputes, claims for damages and other procedures. The result of these cannot be predicted, but taking into account all the available current information, no significant impact on the financial position of the company from any known legal actions, disputes or claims is expected.

NON-FINANCIAL INFORMATION STATEMENT

Assurance on selected sustainability information

KPMG has performed a limited assurance engagement on selected sustainability information in Ahlstrom's Board of Directors' report for the year 2022. The selected sustainability information includes the following indicators: Employee Net Promoter Score, Gender balance, Total Recordable Incidents Rate, Employee safety training participation, CO2 Emissions (Scope 1 and 2), Water intake, Waste to land fill, Share of certified fibers of total volume of renewable fibers, Supplier Code of Conduct compliance, Code of Conduct course completion, and Sales of new products launched in the last three years. The Independent Assurance Report will be published in Ahlstrom's Sustainability Report 2022.

Ahlstrom in brief

Ahlstrom produces sustainable fiber-based specialty materials for a variety of consumer and industrial end-uses to customers worldwide. The company's offering includes filter materials, release liners, food and beverage packaging and processing materials, abrasive and tape backings, electrotechnical paper, glass fiber tissue, medical fabrics, applications for diagnostics and life science, as well as a range of specialty papers. Ahlstrom operates in 38 production and converting sites in 13 countries, serving more than 5,000 customers in 100 countries.

The Group employed at year end 7,099 people in full-time equivalents. As of December 31, 2022, the highest numbers of employees were in the United States (35%), France (21%), Sweden (11%), Italy (8%), China (5%) and Brazil (5%). Net sales continuing operations were EUR 3,348.7 million and comparable EBITDA EUR 440.2 million.

Know-how, technology and partnership at the center of value creation

As a producer of sustainable fiber-based specialty materials Ahlstrom creates value by bringing know-how and advanced technology to fibers that it ensures are responsibly sourced. In cooperation with its customers and partners, Ahlstrom develops materials that often perform vital functions in the value chains and have a positive impact as part of the end product or solution. Its product offering contributes to a more sustainable everyday life by providing renewable materials and solutions with sustainability benefits. For customers Ahlstrom delivers a clear value proposition based on material performance and quality, as well as customized service and leading fiber expertise. Ahlstrom's specialty materials are used in a large variety of applications within in a broad range of end-uses that are underpinned by fundamental business drivers in society.

AHLSTROM'S SUSTAINABILITY AREAS AND MATERIAL TOPICS

For the year 2022, the company reports eight topics and twelve prioritized metrics within its areas of materiality. These topics are Ahlstrom's strategic areas of focus for accurate data collection, management for performance, and transparent reporting on progress towards targets. The non-financial information will include all of these except for innovation which is discussed in another section of the Board of Directors' report.

SUSTAINABILITY POLICY AND MANAGEMENT APPROACH

The governance structure for sustainability work has changed as a result of the new ownership structure and the new operating model. Responsibility of the Group sustainability strategy is with the Executive Vice President, Sustainability, Innovation & Marketing with direct reporting line to Group President and CEO. Group Executive Management Team decides on key sustainability aspects, the strategy, and targets. The implementation of the sustainability strategy is led by Vice President, Sustainability & Public Affairs, supported by the Group Sustainability function consisting of experts in relevant fields of sustainability. The Group's sustainability policy defines the sustainability ambition and the formal sustainability governance structure. The Sustainability policy is undergoing a review and update to better reflect the new ownership and operational model, as well as current operating environment.

Employee health and safety and environmental performance are important success factors, which is why the company has developed targets and included C02 emissions, total recordable incident frequency and initiatives related to Diversity, Equity & Inclusion in the company's short-term incentive plan. The plan covers approximately 1,200 Ahlstrom employees.

THE ENVIRONMENT

As part of a resource-intensive industry, Ahlstrom has a particular responsibility to advance environmental performance throughout its operations and supply chains. The Group strives for continuous improvement in several areas, including minimizing the environmental impact of its supply chain practices, making efficient use of energy and process water, as well as waste and CO_2 emissions linked to its manufacturing. Ahlstrom works to ensure that raw materials are responsibly sourced, and that procurement promotes sustainable forestry practices.

Supply chain

Ahlstrom works with a large number of suppliers to secure the high quality and diverse inputs needed to create its offering of fiber-based specialty materials. The company expects its suppliers to uphold high standards for ethical and socially and environmentally responsible business practices. By supporting partners who adhere to overall responsible practices the Group can avoid the risk of negative impacts on business and reputation and contribute to sustainable development across its value chains. Sound procurement practices also mitigate business risks for Ahlstrom's customers and investors.

The Group's Supplier Code of Conduct establishes clear, non-negotiable requirements related to legal compliance, human rights and the prevention of child labor, health and safety, responsible business practices, environmental impacts, and transparency.

The Group's Procurement is ensuring that every new supplier has signed or is in full compliance with these expectations through regular dialogue with suppliers as well as systems for risk assessment and field auditing. For 2030, Group target is that all suppliers are signatories or considered compliant. Based on suppliers with spend of above one million euro annually, 92% (93) of fiber supply, 91% (91) of chemical supply, 63% (59) of the energy supply and 37% (34) of the indirect supply had signed the Supplier Code of Conduct or were considered compliant at the end of 2022. Comparative figures also include suppliers with spend below one million euro.

The supplier risk management procedure is in place to support the organization to identify potential risk factors in the supply chain. The procedure consists of an evaluation per supplier and creation of a risk mitigation action plan according to risk severity. The risk evaluation is assessed annually by the category managers or buyers. Typically, heightened risk is associated with certain geographies or that there is a lack of transparency.

Supplier audits are conducted by qualified Ahlstrom personnel, i.e. procurement or quality professionals, or by accredited third party auditors. In 2022, a sustainability audit was carried out at one supplier, and at the end of the year there remained three suppliers that could be associated with increased risk. The plan is for these to be audited in 2023. In 2022, work began to renew and further improve the processes for risk assessment and management at supplier level.

Any potential violations to the Supplier Code of Conduct can be reported to a Procurement Manager, Human Resources or Legal departments. Ahlstrom has also contracted an external service where employees can report violations confidentially through a hotline or online. Reports of violations may also be made by third parties to a dedicated and confidential mailbox at codeviolation@ahlstrom.com.

Fibers

The most important raw materials include fibers, particularly wood pulp. The ambition is to use renewable materials wherever they can deliver the high product performance tailored to specific applications. In 2022, renewable fibers constituted 95% (96) of the total fiber volume and the decrease was due to an adjustment in the categorization of annual fibers.

In the forest fiber supply chain Ahlstrom has policies in place to ensure sustainable forest management and fiber production practices. The basic premise is that all forest fiber-based raw materials are purchased as certified or as a minimum controlled wood for sustainable forest management. Ahlstrom carries out an annual due diligence system to ensure the compliance with the regulations. The system is audited by third party and complies with the requirements of SGS wood legality assessment, which covers main legislations; EU Timber Regulation (EUTR), US Lacey Act and the Australian Illegal Prohibition Regulation. In addition, our plants have third party audited Chain of Custody certificates FSCTM, PEFCTM and SFITM. In 2022, the certified share was 98% of the total volume of renewable fibers. The Group's target is for 100% to be certified by 2030.

Energy, emissions, water, and waste

The Group's production generates emissions to air and water, and waste to landfills. The risk of failing to comply with environmental regulation and permits or failing to continuously improve our production processes and our products could lead to a material adverse effect on the company as well as reducing environmental quality. Plant managers and their teams lead these efforts with the support from Group specialists. As part of the new operating model, a Chief Operating Office function has been established to support continuous plant performance improvements.

Energy and emissions

Ahlstrom uses a wide range of energy sources and energy is the primary source for the company's CO2 emissions. Approximately two thirds of the company's energy consumption is based on fossil fuels and one third on renewable sources. Of the total energy consumption, about one third is generated onsite, while the remaining two thirds are purchased externally. Fuels used include fossil such as natural gas, coal, oil, and renewable fuels like bark, fibers from the water effluent treatment process and black liquor. Electricity is sourced primarily from external suppliers, but it is also generated internally in some manufacturing sites. Ahlstrom responds proactively to an evolving regulatory environment. The company has committed to 1.5 °C climate target and science-based measures to mitigate climate change. To achieve the target, the Group has plans to reduce emissions by 38% in the period 2021 to 2030 and achieve net zero emissions by 2050 the latest. Ahlstrom has started the process of submitting and validating the targets by Science Based Targets initiative.

Based on a study done in 2020 on energy use and efficiency, and an Environmental, Social & Governance diagnostic in 2021 with more than 300 initiatives, a roadmap to reducing CO2 emissions has been designed. Key components in the plan are to replace the use of coal with natural gas and biomass and increase the use of renewable energy and other low-carbon energy sources. The plan progressed well, and the company stopped using coal at two sites. Scope 1 carbon dioxide emissions decreased by 10.6% to 1,184 (1,324) thousand tons in 2022. Scope 2 emissions decreased by 3.4% to 500 (518) thousand tons and the decrease is a result of an increased share renewable energy with third-party vendors and lower production. Scope 1 and 2 emissions CO2e per ton of net saleable product decreased 5.7% to 958 (1,016). Starting in 2023, the company has decided to collect Scope 3 emissions.

The Group strives for a continuous reduction in energy. In 2022, total energy use in millions GJ was 38.9 (40.0), a decrease of 2.7%. The energy intensity (GJ per ton of net saleable product) remained stable at 22.1 GJ per ton (22.1). The positive impact of ongoing measures to reduce energy consumption was offset by weaker energy efficiency stemming from lower production. In addition, the share of energy-intensive products in the product mix increased.

Water

Ahlstrom's ambition is to reduce the consumption of water and has set as target to lower the water intensity ratio to an average water intake of 60 cubic meters per ton of net saleable product by 2030.

In 2022, the intensity ratio increased by 11.4% to 68.5 cubic meter per ton (61.5). The total water intake in million cubic meters increased to 120.5 (111.5) and was affected by the change in the product mix, which in turn was affected by a shift customer demand. Ahlstrom is in the process of specifying and harmonizing the measurement of water consumption at all sites so that the outcome of the calculation in the future will provide the net consumption effect by also considering the amount of water that is discharged.

As part of its overall climate risk assessment, Ahlstrom is updating the water supply in the surrounding areas where the company operates, and it has set a goal to have water management plans in place for all facilities by 2025. Operations in potential water stressed areas will be prioritized.

Waste

Ahlstrom strives to reduce waste to landfill. Some waste is recoverable and used for recycling, but some amounts are non-recoverable or non-recyclable waste. Currently, there are two Ahlstrom sites with zero waste to landfill, while certain locations have landfilled materials such as green liquor, ash, or sludge. Across all production facilities, studies and collaboration activities continue to find alternatives for landfilled waste.

Waste, which includes non-hazardous non-recoverable and hazardous, per ton of net saleable product increased by 11.3% in 2022 to 76.1 kg per ton (68.4). In 2022, a total of 133.8 thousand tons of waste was generated, compared to 123.9 thousand tons in 2021. The increase was due to a specific event at one of the plants that occurs every ten to fifteen years. Adjusted for this non-recurring event, which generated 17,000 tons, the decrease was 5.7% and is due in part to increased recovery of sludge that is now converted to fuel for the boilers at one of the U.S. plants.

SOCIAL AND PERSONNEL-RELATED TOPICS

People are central to all aspects of sustainability work at Ahlstrom. The Group believes in creating safe and inclusive work environments, where people can learn, develop, and grow, and where employees are given fair treatment and compensation as well as equal opportunities. Excellence in leadership is the foundation of engagement. As a responsible employer, Ahlstrom also wants to build trust and good relations in the local communities. This strengthens the company's image and attracts talent with similar values.

Strong progress in these areas is important to Ahlstrom's long-term success because people are at the center of Ahlstrom's value creation. It is the skilled and engaged people who combine their expertise with the company's technology and raw materials creating value-added and customized specialty materials. Ahlstrom focuses its efforts on three dimensions to become the employer of choice: Safety, engagement and DEI (Diversity, Equity & Inclusion).

Safety

Ahlstrom works towards a zero-injury workplace by setting ambitious targets for continuous improvement and developing consistent safety practices and competencies at every level. The company also strives to create a safety culture for all employees, contractors, and visitors at its sites that builds on local responsibility and accountability. The main element of its health and safety strategy is to work actively with ten preventative measures to further strengthen the safety culture. This can reduce the risks of injuries or diseases that can lead to delays, quality issues and liability. This work is determined by the Occupational Health and Safety Policy, safety standards and guidelines, safety rules, lifesaving rules, and that safety management systems required to be certified by an external partner. As highlighted in the company's Occupational Health and Safety Policy, focus lies on conducting the ten preventative activities, with main focus on reporting upon hazards and near misses, behavior-based safety interactions, safety inspections and auditing, and tailored safety training, to ensure a safe working environment. Local Health & Safety Managers lead these activities at each site in coordination with a Safety Network of leaders across business areas and sites, Human Resources team, and the VP Health, Safety and Environment.

To measure progress in the complete area of safety, the Ahlstrom tracks two priority metrics: Total Recordable Incidents Rate (TRIR[1]), and employee safety participation. The main lagging indicator is the TRIR where a baseline of 2.0 was established in 2019. In 2022, the TRIR decreased by 8% to 1.17 (1.27 in 2021). The TRIR target for the 2021 to 2025 period is getting below 1.0. The company is well ahead of this trajectory. The target for employee safety participation in 2022 was to get a 90% participation across all employees and reached 89,5% (88,1%).

In 2022, a fatality occurred at the Thilmany plant in the U.S. The investigation is ongoing, and the company is taken precautionary measures at all plants based on current information to prevent accidents from recurring.

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

Engagement and DEI

Ahlstrom wants to offer a fair work environment for everyone and has begun to redefine its diversity, equity, and inclusion strategy. All employees should have equal opportunities to belong and reach their full potential. In 2022, our focus was on diversity of gender and age. A diverse community is a strength, it provides a broad perspective for problem-solving and developing creative solutions for greater success.

The company has set targets for gender diversity to be reached by end of 2025. For top leaders positions the target is 40%, being at 24% in 2022 (20% in 2021, restated with new definition). For all employees, the target is 20%, being at 19% in 2022 (18% in 2021).

Engaged employees produce better results than other employees. Therefore, Ahlstrom aims to improve employee experience in all levels of the organization. Key metric is eNPS (employee Net Promoter Score). It reflects how likely employees are to recommend Ahlstrom as a workplace. The company's strategic ambition for 2027 is to be in the top decile within the manufacturing industry. In an employee survey that was conducted in September 2022, response rate reached of 81 % and eNPS improved to was 16 (9). The result falls into the middle category in the manufacturing industry. Encouragingly, the actions taken have produced results. In several of the areas that received the lowest scores in the previous year's survey, things have improved. The strengths the company has are important aspects of Ahlstrom's culture, including that work is done in a safety conscious-way, the teams collaborate well, and colleagues are supported and trusted. Areas for further development are related to career opportunities, rewarding and recognition.

RESPECT FOR HUMAN RIGHTS

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

Mitigating risks of violations in human rights along the supply chain such as poor employment and working conditions can also counteract negative impacts to sustainable development at large and minimize reputational risks. The Group also supports the United Nations' Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact. This commits to eradicating child labor and forced labor anywhere in the supply chain and recognizing employees' right to freedom of association and collective bargaining. The same level of commitment is expected from the company's suppliers. The Supplier Code of Conduct's key human rights provisions include fair and equal treatment in hiring and employment practices as well as wages, benefits, and working hours that at minimum comply with all local laws and binding collective agreements. It also mandates respecting freedom of association and collective bargaining rights in accordance to all applicable laws and regulations and prohibits child labor, harassment and abuse, and forced and compulsory labor. Finally, it requires suppliers to respect the traditional and customary rights of local communities affected by their operations.

Compliance with Human Rights issues in the operations is governed by the Group's Code of Conduct and in the supply chain by the Supplier Code Conduct. In order to make sure that all our employees are both aware of and understand the Group's Code of Conduct, they are expected to complete the Code of Conduct course which needs to be renewed biennially and is part of our introduction package for new hires.

BUSINESS ETHICS

The Group is committed to conducting its business ethically and responsibly in local and global communities. Adhering to ethical business practices is a fundamental principle for the company's work across the globe. To foster this the company has a compliance program in place which is led by the company's Chief Compliance Officer who reports to the Audit Committee. Ahlstrom's Code of Conduct provides with expectations for integrity and ethical behavior throughout the operations, including compliance with all appropriate national and international laws and regulations. Any shortcomings in behaving ethically can result in possible damage to the Group's brand and reputation and the associated risk to its sales, profitability, and enterprise value.

To comply with ethical and responsible business practices all employees are expected to complete the Code of Conduct course which needs to be renewed biennially and is part of the company's introduction package for new hires. At the end of 2022 99% of all employees had completed the Code of Conduct course at least once, and 91% (80%) had renewed it at least biennially. The previous year's completion rate was impacted by COVID-19 pandemic restrictions which hindered classroom trainings in our plants.

EVENTS AFTER THE REPORTING PERIOD

Appointment of President and CEO

On December 13, 2022, Helen Mets was appointed President and CEO, effective January 1, 2023, and succeeded Hans Sohlström who left Ahlstrom at the end of December.

Change of name to Ahlstrom Holding 3 Oy

On January 16, 2023, Ahlstrom-Munksjö Holding 3 Oy registered with the Finnish Patent and Registration Office as its company name Ahlstrom Holding 3 Oy.

Ahlstrom Holding 3 Oy return of equity

On February 1, 2023, Ahlstrom Holding 3 Oy decided on a cash distribution in the aggregate amount of EUR 8,348,142.7899 (the "Distribution Amount") by way of return of equity from invested unrestricted equity reserve. Payment was made on February 1, 2023.

Ahlstrom Holding 3 Oy
Board of Directors

Forward-Looking Statements

This report contains and refers to certain forward-looking statements with respect to our financial condition, results of operations and business. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among others, statements concerning the potential exposure to market risks and statements expressing management's expectations, beliefs, plans, objectives, intentions, estimates, forecasts, projections and assumptions. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

This report contains forward-looking statements, including statements about market consolidation and our strategy, investment program, future operations, industry forecasts, expected acquisitions, transactions and investments, and target levels of leverage and indebtedness. Forward-looking statements provide our current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "objectives," "ongoing," "outlook," "plan," "potential," "predict," "probably," "project," "seek," "should," "target," "will," "would" or similar words or phrases or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

All of these forward-looking statements are based on estimates and assumptions made by such entities that, although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed upon any forward-looking statements. There are important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements. In addition, even if our actual results are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. For example, factors that could cause our actual results to vary from projected future results include, but are not limited to: uncertain global economic and financial market conditions; changes in demand for our products, including as a result of the cyclical nature of the industry in which we operate; the highly competitive markets in which we operate; changes in the costs or availability of raw materials and energy; trade restrictions and economic sanctions; political, financial or legal risks in the markets in which we operate; our ability to successfully implement our business strategy and to manage our growth; product development and innovation; the significant capital expenditures required by our business; any reorganization of our operations or divestment of businesses; risks arising out of joint ventures and other partnerships; operational risks and failures or deficiencies in the management of operational efficiency; loss of customer relationships and customer concentration; compliance with environmental health and safety and other laws and regulations; product safety or quality failures and additional factors which are explained in other reports and or documents prepared by the Group.

The foregoing factors should not be construed as exhaustive. Other sections of this report describe additional factors that could adversely affect our financial position, results of operations and liquidity and developments in the markets and industries in which we operate. New factors will emerge in the future, and it is not possible for the Group to predict such factors. In addition, the Group cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. In light of these risks, the actual results of the Group could differ materially from the forward-looking statements contained in this report. None of the information contained on the Group's website is incorporated by reference into or otherwise deemed to be linked to this report.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements are expressly qualified in their entirety by the cautionary statements referred to in this section and contained elsewhere in this report. In light of these risks, our results could differ materially from the forward-looking statements contained in this report.

Key figures and voluntary pro forma key figures

Certain of our key figures are not accounting measures defined or specified under IFRS and therefore are considered as alternative performance measures. We present these alternative performance measures as additional information to the financial measures presented in the consolidated financial statements prepared in accordance with IFRS. Certain of the adjustments and estimates underlying e.g. Adjusted EBITDA are forward-looking by nature and therefore subject to a number of assumptions about the timing, execution and costs associated with implementing the underlying initiatives. Such assumptions are inherently uncertain and are subject to significant business, economic and competition risk and uncertainties as further described under the heading "Forward-Looking Statements".

We present alternative performance measures because we believe that they are helpful to investors as measures of our operating performance and ability to service our debt, and that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. Alternative performance measures should not be viewed in isolation or as a substitute for revenue or net result for the period or any other performance or liquidity measures presented in our IFRS financial statements or any other generally accepted accounting principles or as a substitute to cash flows from operating, investing or financing activities. Companies do not calculate alternative performance measures in a uniform way, and therefore Ahlstrom Holding's alternative performance measures may not be comparable with similarly named measures presented by other companies. The alternative performance measures we present may also be defined differently than the corresponding terms under our debt financing arrangements.

Some of the limitations of these alternative performance measures are that:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- they do not reflect any cash income taxes that we may be required to pay;
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and EBITDA-based measures do not reflect any cash requirements that would be required for such replacements;
- they may include adjustments for non-cash items and not adjust for all items that impact cash flows;
- some of the items that we eliminate in calculating certain EBITDA-based measures reflect cash payments that were made, or will in the future be made; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Alternative performance measures are unaudited.

Certain key figures are presented for the year 2021 based on the pro forma combined financial information. The voluntary pro forma combined financial information (the "pro forma Information") is presented for illustrative purposes only to give effect to the acquisition of Ahlstrom Oyj (previously Ahlstrom-Munksjö Oyj) and its subsidiaries ("Ahlstrom") by Ahlstrom Holding 3 Oy (the "Issuer", or "parent company") and collectively with Ahlstrom Holding ("Ahlstrom", or the "Group") and the financing for the acquisition on Ahlstrom's financial information as if the acquisition had been completed at an earlier date. The previously presented pro forma information is re-presented to reflect the separate reporting of continuing operations and discontinued operation. The pro forma information is unaudited.

The unaudited pro forma combined income statements ("pro forma income statement") for the year 2021 give effect to the acquisition of Ahlstrom Oyj as if it had taken place on January 1, 2020. Thus, Ahlstrom-Munksjö is included in the Income statement for the full financial year 2021 (12-month period). In addition, pro forma adjustments in the income statement for the year 2021 relate to inventory fair value adjustment EUR 27.1 million, transactions costs EUR 14.5 million and EUR 4.3 million historical interest expenses and other financial items incurred on the refinanced assumed Ahlstrom-Munksjö's. These have been eliminated from the year 2021 pro forma income statement and presented as an expense for the year 2020.

Financial key figures 2022-2021

EUR million, or as indicated	2022	2021 [1]	Pro forma/LTM 2021
Continuing operations[2]			
Employee benefit expenses	-582.4	-471.3	n/a
Depreciation and amortization	-182.8	-154.7	n/a
Impairment loss	-3.1	-1.1	n/a
Net sales	3,348.7	2,412.6	2,639.0
Operating result	113.8	49.9	84.1
Operating result margin, %	3.4	2.1	3.2
Net result	10.1	-72.4	-49.4
EBITDA	299.8	205.6	254.1
EBITDA margin, %	9.0	8.5	9.6
Comparable EBITDA	440.2	314.6	345.5
Comparable EBITDA margin, %	13.1	13.0	13.1
Items affecting comparability in EBITDA and management fee	-140.4	-108.9	-91.3
Comparable operating result	257.0	159.9	n/a
Comparable operating result margin, %	7.7	6.6	n/a
Items affecting comparability in operating result and management fee	-143.2	-110.1	n/a
Adjusted EBITDA (LTM)[2]	540.8	n/a	428.7
Adjusted EBITDA margin, %	16.1	n/a	16.2
MOVC/ton, EUR[3]	867.9	706.1	n/a
MOVC margin, %[3]	37.4	39.2	n/a
Net senior secured indebtedness	1,788.9	n/a	n/a
Adjusted Net senior secured indebtedness	1,546.7	n/a	n/a
Net indebtedness	1,930.0	n/a	n/a
Adjusted Net indebtedness	1,687.8	n/a	n/a
Interest expense (LTM)	-121.0	n/a	n/a
Ratio of net senior secured indebtedness to adjusted EBITDA (LTM)	2.9	n/a	n/a
Ratio of net indebtedness to adjusted EBITDA (LTM)	3.1	n/a	n/a

EUR million, or as indicated	2022	2021 [1]	Pro forma/LTM 2021
Ratio of adjusted EBITDA to interest expense	4.5	n/a	n/a
Capital expenditure	195.1	n/a	n/a
Operating working capital	314.2	312.1	n/a
Free cash flow	360.2	n/a	n/a
Cash conversion, %	81.8	n/a	n/a
Including discontinued operations until Oct 1, 2022			
Net senior secured indebtedness	n/a	1,760.2	n/a
Adjusted Net senior secured indebtedness	n/a	1,479.2	n/a
Net indebtedness	n/a	2,084.2	n/a
Adjusted Net indebtedness	n/a	1,803.1	n/a
Interest expense (LTM)	n/a	n/a	-91.6
Ratio of net senior secured indebtedness to adjusted EBITDA (LTM)	n/a	n/a	3.0
Ratio of net indebtedness to adjusted EBITDA (LTM)	n/a	n/a	3.6
Ratio of adjusted EBITDA to interest expense	n/a	n/a	5.4
Capital expenditure	n/a	145.5	n/a
Operating working capital	n/a	357.8	n/a
Free cash flow	n/a	290.6	n/a
Cash conversion, %	n/a	80.4	n/a

[1] Ahlstrom is consolidated from the date of acquisition on February 4, 2021
[2] Continuing operations data re-presented
[3] Q1-Q3 2021 impacted by an inventory adjustment arising from purchase price allocation (PPA) accounting of EUR -27.1 million.

Reconciliation of certain key performance measures, continuing operations

Adjusted EBITDA is not identified as an accounting measurement in IFRS and should therefore not be considered as alternative to the disclosures provided in the financial statement for the purpose of assessing the Group's performance. Adjusted EBITDA is based on various assumptions, including successful implementation of certain initiatives and Sponsor estimates. It should not be considered as a substitute for revenue or net result for the period or any other performance or liquidity measures derived in accordance with IFRS or any other generally accepted accounting principles.

EUR million	2022	2021	Pro forma/LTM 2021
Items affecting comparability			
Transaction costs	-4.6	-20.8	-30.2
Inventory fair valuation	–	-27.1	–
Transformation/Integration costs	-116.3	-50.0	-50.0
Restructuring costs	-7.8	-6.0	-6.5
Gain/Loss on business disposal and other related items	–	0.9	0.9
Other	-5.5	-0.7	-0.3
Total items affecting comparability (IAC) in EBITDA	**-134.3**	**-103.7**	**-86.1**
Management fee to owners	-6.1	-5.2	-5.2
Total IAC in EBITDA and management fee	**-140.4**	**-108.9**	**-91.3**
Impairment loss	-2.8	-1.1	n/a
Total IAC in operating result and management fee	**-143.2**	**-110.1**	**n/a**
Net result	10.1	-72.4	-49.4
Taxes	-13.2	-17.2	-20.7
Share of profit in equity accounted investments	-6.1	-0.1	–
Net financial items	-84.4	-105.1	-112.8
Operating result	113.8	49.9	84.1
Depreciation, amortization and impairment	185.9	155.8	-169.8
EBITDA	**299.8**	**205.7**	**254.1**
Total IAC in EBITDA and management fee	-140.4	-108.9	-91.3
Comparable EBITDA	**440.2**	**314.6**	**345.5**

EUR million	2022	2021	Pro forma/LTM 2021
Adjusted Net senior secured indebtedness			
Senior Secured Net indebtedness	1,788.9	n/a	n/a
Escrow account related to minority squeeze-out liability	242.2	n/a	n/a
Adjusted Net senior secured indebtedness	**1,546.7**	**n/a**	**n/a**
Adjusted Net indebtedness			
Net indebtedness	1,930.0	n/a	n/a
Escrow account related to minority squeeze-out liability	242.2	n/a	n/a
Adjusted Net indebtedness	**1,687.7**	**n/a**	**n/a**
Comparable operating result			
Operating result	113.8	49.8	84.1
Total IAC in operating result and management fee	-143.2	-110.1	-91.3
Comparable operating result	**257.0**	**159.9**	**175.4**
Free cash flow			
Comparable EBITDA	440.2	n/a	n/a
Maintenance capital expenditure	80.0	n/a	n/a
Free cash flow	**360.2**	**n/a**	**n/a**
Adjusted EBITDA (LTM)			
Comparable EBITDA (LTM) Pro forma	440.2	n/a	345.5
Pro forma foreign exchange impact	–	n/a	-0.3
Comparable EBITDA, (LTM)	**440.2**	**n/a**	**345.2**
One off and other adjustments[1]	–	n/a	-3.7
FY21 initiatives	–	n/a	20.6
FY22 initiatives[1]	27.8	n/a	66.6
FY23 initiatives[2]	72.8	n/a	–
Adjusted EBITDA (LTM)	**540.8**	**n/a**	**428.7**

[1] Most of the savings for FY22 initiatives comes from transformation projects focused on materials (Fibers & Chemicals), indirect spend, continuous improvement with a special focus on Energy initiatives, considering the critical market situation. These savings were implemented over the course of FY22 and the full run rate benefit will be achieved 12 months from the date of implementation. Fibers projects (EUR 2.6 million, 9.5%) include dual sourcing from a lower cost supplier, optimizing

the Group's pulp recipes (long/short fibers replacement) and annual/quarterly prices negotiation. For Chemicals (EUR 2.5 million, 9.0%), savings mainly come from recipe optimization, better negotiated price and in resale of chemical wastes. Indirect savings (EUR 8.5 million, 30.6%) includes global consolidation and spend transparency initiatives specifically in IT and Travel, subcontracting optimization and freight costs negotiation. Continuous Improvement savings (EUR 10.7 million, 38.3%) include various waste reduction, recycling/resale, and material optimization initiatives.

[2] Consists of initiatives to be implemented with EBITDA benefits not planned until FY23, driven mainly by Continuous Improvement, Fibers, Indirect and Energy. Fiber savings (EUR 19.8 million, 27.3%) are expected to deliver the most savings, focused on to include dual sourcing for competitive pricing, estimated price negotiation and recipe mix optimization. Indirect savings (16.5 million, 22.8%) consist of global consolidation and spend transparency initiatives specifically Travel, subcontracting optimization and freight costs negotiation. Continuous improvement projects (EUR 16.3 million, 22.6%) include investments at the Wisconsin plants specific to pulp mill upgrades, and general equipment and facilities improvements. Energy is expected to be the contribute (EUR 9.8 million, 13.5%) focused on energy optimization.

Reconciliation of certain key performance measures, 2021 Including discontinued operations

EUR million	2021	Pro forma/LTM 2021
Items affecting comparability		
Transaction costs	-25.9	-35.4
Inventory fair valuation	-31.7	–
Transformation/Integration costs	-50.0	-50.0
Restructuring costs	-6.5	-6.5
Gain/Loss on business disposal and other related items	0.9	0.9
Other	1.5	1.5
Total items affecting comparability (IAC) in EBITDA	**-111.7**	**-89.5**
Management fee to owners	-5.2	-5.2
Total IAC in EBITDA and management fee	**-117.0**	**-94.7**
Impairment loss	-1.1	n/a
Total IAC in operating result and management fee	**-118.1**	**n/a**
Comparable EBITDA		
Net result	-57.4	-27.7
Taxes	-23.5	-29.5
Net financial items	-106.2	-114.0
Operating result	72.3	115.8
Depreciation, amortization and impairment	172.3	-187.8
EBITDA	**244.6**	**303.6**
Total IAC in EBITDA and management fee	-117.0	-94.7
Comparable EBITDA	**361.6**	**398.3**

EUR million	2021	Pro forma/LTM 2021
Adjusted Net senior secured indebtedness		
Senior Secured Net indebtedness	1,760.2	n/a
Escrow account related to minority squeeze-out liability	281.1	n/a
Adjusted Net senior secured indebtedness	**1,479.2**	**n/a**
Adjusted Net indebtedness		
Net indebtedness	2,084.2	n/a
Escrow account related to minority squeeze-out liability	281.1	n/a
Adjusted Net indebtedness	**1,803.1**	**n/a**
Comparable operating result		
Operating result	72.3	n/a
Total IAC in operating result and management fee	118.1	n/a
Comparable operating result	**190.4**	**n/a**
Free cash flow		
Comparable EBITDA	361.6	n/a
Maintenance capital expenditure	71.0	n/a
Free cash flow	**290.6**	**n/a**
Adjusted EBITDA (LTM)		
Comparable EBITDA (LTM) Pro forma	n/a	398.3
Pro forma foreign exchange impact	n/a	-0.3
Comparable EBITDA, (LTM)	**n/a**	**398.0**
One off and other adjustments[1]	n/a	-3.7
FY21 initiatives[2]	n/a	21.9
FY22 initiatives[3]	n/a	78.8
Adjusted EBITDA (LTM)	**n/a**	**494.9**

CALCULATION OF KEY FIGURES

The definitions of financial key performance indicators are described below.

Key figure	Definitions	Reason for use of the key figure
Operating result	Net result before taxes and net financial items	Operating result shows result generated by the operating activities
Operating result margin, %	Operating result / net sales	
EBITDA	Operating result before depreciation, amortization and impairment	EBITDA is the indicator to measure the performance of Ahlstrom.
EBITDA margin, %	EBITDA / net sales	EBITDA margin is a key measure in our long-term financial targets.
Comparable EBITDA	EBITDA excluding items affecting comparability in EBITDA and management fee to owners	Comparable EBITDA, comparable EBITDA margin, comparable operating result, comparable operating result margin, comparable operating result excluding depreciation and amortization arising from PPA, comparable net result, comparable earnings per share, comparable net result excluding depreciation and amortization arising from PPA and comparable earnings per share excluding depreciation and amortization arising from PPA are presented in addition to EBITDA, operating result, net result and earnings per share to reflect the underlying business performance and to enhance comparability from period to period. Ahlstrom believes that these comparable performance measures provide meaningful supplemental information by excluding items outside ordinary course of business including PPA related depreciation and amortization, which reduce comparability between the periods.
Comparable EBITDA margin, %	Comparable EBITDA / net sales	
Comparable operating result	Operating result excluding items affecting comparability in operating result and management fee to owners	
Comparable operating result margin, %	Comparable operating result / net sales	
Items affecting comparability in operating result	Material items outside ordinary course of business, such as gains and losses on business disposals, direct transaction costs related to business acquisitions, costs for closure of business operations and restructurings including redundancy payments, impairment losses, one-off items arising from purchase price allocation such as inventory fair value adjustments, compensation related to environmental damages arising from unexpected or rare events and other items including fines (such as VAT tax audit fines) or other similar stipulated payments and litigations.	
Items affecting comparability in EBITDA	Items affecting comparability in operating result excluding impairment losses	
Management fee to owners	Represents the fees paid to the owners pursuant to a management agreement whereby we have received general business consulting services; financial, managerial and operational advice; advisory and consulting services with respect to selection of advisors; advice in different fields; and financial and strategic planning and analysis.	
Adjusted EBITDA (LTM)	Represents comparable EBITDA as adjusted for additional sponsor adjustments, certain cost savings programs, certain post-acquisition savings programs	
Adjusted EBITDA margin (LTM), %	Adjusted EBITDA / Net sales	
MOVC/ton, EUR	Net sales minus variable costs of sales / sales tons	
MOVC margin, %	Net sales minus variable costs of sales / net sales	
Net indebtedness	Non-current and current borrowings and non-current and current lease liability less securitization liability less cash and cash equivalents	Indebtedness related key figures and total debt are indicators to measure the total external debt financing of Ahlstrom Holding
Adjusted Net indebtedness	Net indebtedness minus escrow account related to minority interest squeeze-out liability	
Net senior secured indebtedness	Notes offered and borrowings under the Senior Term Facilities excluding any existing debt of Ahlstrom at the date of the acquisition that will be secured on the Collateral, net of as adjusted cash and cash equivalents	
Adjusted Net senior secured indebtedness	Net senior secured indebtedness minus escrow account related to minority interest squeeze-out liability	
Ratio of net indebtedness to adjusted EBITDA[1]	Adjusted Net indebtedness/adjusted EBITDA	

Key figure	Definitions	Reason for use of the key figure
Ratio of net senior secured indebtedness to adjusted EBITDA[1]	Adjusted Net senior secured indebtedness / adjusted EBITDA	
Ratio of adjusted EBITDA[1] to interest expense	Adjusted EBITDA (LTM) / interest expense (LTM)	
Capital expenditure	Purchases for property, plant and equipment and intangible assets as presented in the cash flow statement.	Capital expenditure provides additional information of the cash flow needs of the operations.
Operating working capital	Inventories plus operative receivables before factoring less operating payables[2]	
Free cash flow	Comparable EBITDA minus maintenance capital expenditure	
Cash conversion	Free cash flow divided by comparable EBITDA	

[1] Calculated as if the transaction of acquiring Ahlstrom Oyj had been completed in the beginning of 2020.

Consolidated financial statements, IFRS

Ahlstrom is consolidated from the date of acquisition on February 4, 2021.

Income statement

EUR million	NOTE	2022	2021
Continuing operations			
Net sales	5, 6	3,348.7	2,412.6
Cost of goods sold	7, 8, 9	-2,820.1	-2,064.5
Gross profit		**528.6**	**348.1**
Sales and marketing expenses	8, 9	-59.6	-47.5
R&D expenses	8, 9	-21.2	-18.5
Administrative expenses	8, 9	-289.9	-189.2
Other operating income	7	27.6	18.4
Other operating expense	7	-71.6	-61.5
Operating result		**113.8**	**49.9**
Financial income	10	104.6	17.5
Financial expenses	10	-189.0	-122.6
Net financial items		**-84.4**	**-105.1**
Share of result in equity accounted investments	21	-6.1	-0.1
Result before tax		**23.3**	**-55.3**
Income taxes	11	-13.2	-17.2
Net result from continuing operations		**10.1**	**-72.4**
Net result from discontinued operations	4	**-110.0**	**15.0**
Net result		**-99.9**	**-57.4**

The notes are an integral part of the financial statements.

Statement of comprehensive income

EUR million	NOTE	2022	2021
Net result		**-99.9**	**-57.4**
Other comprehensive income, continuing operations			
Items that may be reclassified to income statement			
Exchange differences on translation of foreign operations	19	22.7	51.2
Hedges of net investments in foreign operations		-31.5	-30.0
Change in cash flow hedge reserve	19	-21.3	-2.5
Cash flow hedge transferred to this year's result	19	10.0	-1.5
Equity-accounted investees- share of OCI		-1.5	
Income taxes related to items that may be reclassified		3.0	6.7
Items that will not be reclassified to income statement			
Actuarial gains and losses on defined benefit plans	15	9.7	13.3
Equity- accounted investees - Share of OCI		-0.1	
Income taxes related to items that will not be reclassified		-2.3	-3.1
Other comprehensive income, continuing operations		**-11.2**	**34.1**
Other comprehensive income, discontinued operations			
Other comprehensive income, discontinued operation		13.4	2.2
Translation differences reclassified to income statement, discontinued operations		-13.3	
Comprehensive income		**-110.9**	**-21.1**
Net result attributable to:			
Parent company's shareholders		-99.6	-57.8
Non-controlling interests		-0.3	0.4
Comprehensive income attributable to:			
Parent company's shareholders		-111.0	-22.1
Non-controlling interests		0.1	1.0

Balance Sheet

EUR million	NOTE	Dec 31, 2022	Dec 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,121.1	1,214.5
Right-of-use assets	12	38.2	44.9
Goodwill	12	1,101.9	1,169.3
Other intangible assets	12	806.7	857.5
Equity accounted investments	21	25.9	1.1
Other non-current assets	19	106.9	57.6
Deferred tax assets	11	4.0	2.4
Total non-current assets		**3,204.6**	**3,347.1**
Current assets			
Inventories	13	423.2	440.7
Trade and other receivables	14	560.3	599.9
Income tax receivables	11	12.6	17.4
Cash and cash equivalents	17	240.7	162.6
Total current assets		**1,236.9**	**1,220.6**
TOTAL ASSETS		**4,441.5**	**4,567.7**

EUR million	NOTE	Dec 31, 2022	Dec 31, 2021
EQUITY AND LIABILITIES			
Equity			
Equity attributable to parent company's shareholders			
Reserve for invested unrestricted equity	18	1,054.1	1,095.3
Other reserves and treasury shares	18	4.9	25.2
Retained earnings	18	-173.9	-83.2
Total equity attributable to parent company's shareholders		**885.1**	**1,037.2**
Non-controlling interests		9.4	12.7
Total equity		**894.5**	**1,049.9**
Non-current liabilities			
Non-current borrowings	17	2,024.6	1,954.7
Non-current lease liabilities	17	26.3	32.6
Other non-current liabilities		11.2	1.7
Employee benefit obligations	15	52.0	83.3
Deferred tax liabilities	11	226.2	250.0
Non-current provisions	16	21.1	20.4
Total non-current liabilities		**2,361.4**	**2,342.6**
Current liabilities			
Current borrowings	17	106.4	246.3
Current lease liabilities	17	13.4	13.3
Trade and other payables	14	1,041.3	886.4
Income tax liabilities	11	12.4	12.7
Current provisions	16	12.0	16.6
Total current liabilities		**1,185.5**	**1,175.2**
Total liabilities		**3,547.0**	**3,517.8**
TOTAL EQUITY AND LIABILITIES		**4,441.5**	**4,567.7**

The notes are an integral part of the financial statements.

Statement of changes in equity

EUR million	Reserve for invested unrestricted equity	Other reserves	Cumulative translation adjustment	Retained earnings	**Total equity attributable to parent company's shareholders**	Non-controlling interests	**TOTAL EQUITY**
	Equity attributable to parent company's shareholders						
EQUITY AT JANUARY 1, 2021	**36.3**	**–**	**–**	**-35.7**	**0.7**	**–**	**0.7**
Net result	–	–	–	-57.8	-57.8	0.4	-57.4
Other comprehensive income before tax	–	-34.0	52.4	13.8	32.2	0.6	32.9
Tax on other comprehensive income	–	6.8	–	-3.4	3.4	–	3.4
Total comprehensive income	**–**	**-27.2**	**52.4**	**-47.3**	**-22.1**	**1.0**	**-21.1**
Business combination	–	–	–	–	–	12.0	12.0
Equity contribution	1,084.6	–	–	–	1,084.6	–	1,084.6
Return of equity and other	-25.7	–	–	-0.2	-25.9	-0.3	-26.2
EQUITY AT DECEMBER 31, 2021	**1,095.3**	**-27.2**	**52.4**	**-83.2**	**1,037.2**	**12.7**	**1,049.9**
EQUITY AT JANUARY 1, 2022	**1,095.3**	**-27.2**	**52.4**	**-83.2**	**1,037.2**	**12.7**	**1,049.9**
Net result	–	–	–	-99.6	-99.6	-0.3	-99.9
Other comprehensive income before tax	–	-42.7	19.4	11.9	-11.4	0.4	-11.0
Tax on other comprehensive income	–	3.0	–	-3.0	0.1	–	0.1
Total comprehensive income	**–**	**-39.6**	**19.4**	**-90.7**	**-110.9**	**0.1**	**-110.8**
Return of equity and other	-41.2	–	–	–	-41.2	-0.3	-41.5
Business combination	–	–	–	–	–	16.4	16.4
Business disposals	–	–	–	–	–	-19.4	-19.4
EQUITY AT DECEMBER 31, 2022	**1,054.1**	**-66.8**	**71.8**	**-173.9**	**885.1**	**9.4**	**894.5**

The notes are an integral part of the financial statements.

Ahlstrom is consolidated from the date of acquisition on February 4, 2021.

Cash flow statement

EUR million	Note	2022	2021
Cash flow from operating activities			
Net result		**-99.9**	**-57.4**
Adjustments:			
Non-cash transactions and transfers to cash flow from other activities			
Depreciation, amortization and impairment	9	325.8	172.3
Share of profits of associated companies		6.1	0.1
Gains and losses on sale of non-current assets		-15.4	-0.6
Change in employee benefit obligations	15	-4.3	-4.5
Non-cash transactions and transfers to cash flow from other activities, total		312.2	167.2
Interest and other financial income and expense		86.8	106.2
Taxes	11	27.3	23.5
Changes in net working capital:			
Change in trade and other receivables	14	-50.7	-4.1
Change in inventories	13	-79.3	-52.7
Change in trade and other payables	14	186.0	26.7
Change in provisions	16	-4.9	-5.5
Interest received		3.5	1.1
Interest paid		-120.1	-75.3
Other financial items		-21.1	-17.3
Income taxes paid	11	-24.0	-29.1
Net cash from operating activities		**215.9**	**83.3**

EUR million	Note	2022	2021
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	12	-203.8	-145.5
Payment for acquisition of businesses and subsidiaries, net of cash acquired	3	-34.3	-1,585.8
Proceeds from disposal of shares in Group companies and businesses and associated companies	4	216.6	1.8
Change in other investments		0.0	0.5
Proceeds from disposal of intangible assets and property, plant and equipment		1.3	1.3
Net cash from investing activities		**-20.2**	**-1,727.7**
Cash flow from financing activities			
Equity contribution		–	1,084.6
Proceeds from non-current borrowings	17	60.0	1,951.1
Repayment of non-current borrowings	17	-58.8	-136.4
Change in current borrowings	17	-62.2	-1,081.7
Change in lease liabilities	17	-15.2	-14.3
Return on equity		-41.2	-25.7
Dividends and other		-0.3	-2.6
Net cash from financing activities		**-117.7**	**1,775.1**
Net change in cash and cash equivalents		**78.0**	**130.6**
Cash and cash equivalents at the beginning of the period		162.6	30.7
Foreign exchange effect on cash		0.0	1.3
Cash and cash equivalents at the end of the period	**17**	**240.7**	**162.6**

The notes are an integral part of the financial statements.

Notes to the consolidated financial statements

Ahlstrom’s business and basis of preparation

1 INFORMATION ABOUT AHLSTROM

General

Ahlstrom is a global leader in fiber-based materials, supplying innovative and sustainable solutions to customers worldwide. Our offerings include filter materials, release liners, food and beverage processing materials, abrasive and tape backings, electrotechnical paper, glass fiber materials, medical fiber materials and solutions for diagnostics as well as a range of specialty papers for industrial and consumer end-uses.

Ahlstrom Holding 3 Oy (previously named first Spa Holdings 3 Oy until August 2021 and subsequently Ahlstrom-Munksjö Holding 3 Oy until January 16, 2023) is the parent company (the “Issuer”, or “parent company”) and, together with its subsidiaries (“Ahlstrom”, or “Group”). Ahlstrom Holding 3 Oy was incorporated on September 9, 2020 for the purpose of executing the public tender offer for the shares in Ahlstrom Oyj (previously Ahlstrom-Munksjo Oyj). Ahlstrom Holding 3 Oy is a holding, management and finance company with no revenue-generating activities of its own and no business operations, material assets or liabilities other than those acquired or incurred in connection with its incorporation and the acquisition of Ahlstrom Oyj and its subsidiaries (“Ahlstrom”, previously "Ahlstrom-Munksjo") and financing for the acquisition. Ahlstrom Holding 3 Oy is a Finnish limited liability company with a corporate identity number, 3156762-4. Ahlstrom Holding 3 Oy is registered in Helsinki, Finland and its registered address is Alvar Aallon katu 3 C, 00101 Helsinki, Finland.

On October 1, 2022, Ahlstrom completed the ownership arrangement of its Decor business. In the ownership reorganization, Ahlstrom divested the Decor business to a newly formed Swedish company named Munksjö Paper AB and proceeded with the previously announced plan to change its name to Ahlstrom. The name of the parent company was changed from Ahlstrom-Munksjö Holding 3 Oy to Ahlstrom Holding 3 Oy on January 16, 2023 The names of its subsidiaries are being changed in a similar manner during 2023. The Decor business continues as an independent company under the Munksjö name. The new Munksjö is owned by Ahlstrom with an approximate 25% share.

On September 24, 2020, Ahlstrom Holding 3 Oy made a public recommended offer for all shares in Ahlstrom Oyj, not held by Ahlstrom or its subsidiaries. Ahlstrom Holding 3 Oy received an ownership of more than 90% on February 4, 2021 and started a compulsory redemption procedure and applied for the delisting of the shares from Nasdaq Helsinki and Nasdaq Stockholm. On April 16, 2021 Nasdaq Stockholm approved the delisting application and resolved that the last day of trading in Ahlstrom Oyj's shares was May 31, 2021. On June 23, 2021 it was announced that Ahlstrom Holding 3 Oy had posted security approved by the arbitral tribunal appointed by the Redemption Board of the Finland Chamber of Commerce in connection with the redemption proceedings concerning the minority shares in Ahlstrom Oyj, and thus gained title to all the shares in Ahlstrom Oyj in accordance with Chapter 18, Section 6 of the Finnish Companies Act. The shares in Ahlstrom Oyj were delisted as of June 23 from the official list of Nasdaq Helsinki.

On February 25, 2022, the arbitral tribunal appointed by the Redemption Board of the Finland Chamber of Commerce rendered its decision according to which the redemption price payable by Ahlstrom Holding 3 Oy for the 10,755,918 Ahlstrom Oyj minority shares that are subject to mandatory redemption shall be EUR 21.55 per share. This was EUR 39.9 million in excess of the EUR 191.9 million redemption liability that had been recognized in Ahlstrom Holding 3 Oy's consolidated financial statements. The additional payment liability was recognized in the consolidated financial statements for 2022. The excess did not have any impact on the income statement as it is limited to a gross presentation in the balance sheet where goodwill, and trade and other payables increased by EUR 39.9 million. Both the redeemer, the trustee and certain minority shareholders have appealed to the District Court of Helsinki requesting the District Court to confirm the redemption price. The current estimate is that the District Court will issue its judgement by the end of June 2023. The judgement may, however, still be appealed to the Supreme Court, if the latter grants leave to appeal, in which case the appeal proceedings could last until the end of 2024 or the beginning of 2025.

According to the Companies Act, the redemption price falls due after a month has passed from the judgement on redemption becoming non-appealable. The unpaid redemption price is subject to interest in accordance with Chapter 18, Section 7 of the Finnish Companies Act. The reference rate referred to therein (at 2.5% as of 1 January, 2023) is subject to bi-annual adjustments, with the next adjustment due on 1 July, 2023. However, the redemption price may be paid up to the undisputed price of EUR 17.84 per share already during the course of the appeal proceedings

Further information about the transactions above is included in the notes 3, 4. and 22.

2 BASIS OF PREPARATION

Basis of preparation and accounting policies in our audited financial statements

Basis of preparation

Ahlstrom's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee as approved by the Commission of the European Communities (EU) for application in the European Union. These consolidated financial statements have been prepared solely for the purpose of reporting to the parent company’s bondholders, and thus do not include official parent company financial statements registered separately.

The following general principles have been applied to our financial statements:

- The parent company’s functional and presentation currency is the euro ("EUR") and financial statements are presented in millions of euros ("EUR million"), unless otherwise indicated.
- Financial statements are prepared on a historical cost basis, except for derivative financial instruments, unlisted shares and interests and defined benefit pension plan assets, which are measured at fair value.
- Non-current assets and non-current liabilities consist of amounts that are expected to be recovered or paid more than 12 months after the reporting period. Current assets and current liabilities consist of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.
- All financial data in the financial statements have been rounded and consequently the sum of individual figures can deviate from the total sum. Percentages are subject to possible rounding differences.
- The accounting policies outlined in these financial statements have been applied consistently throughout the Group and comparative information has been reclassified and restated where required to ensure consistency.

- These financial statements include financial information of Ahlstrom (the "Group"), consisting of Ahlstrom Holding 3 Oy as the parent company and its subsidiaries. Ahlstrom is consolidated from the date of acquisition on February 4, 2021.
- For accounting purposes, the public exchange offer (comprising of the initial and the subsequent public exchange offer) and the mandatory redemption proceedings for the minority squeeze-out explained in detail in the chapter "General" are treated as linked transactions and accounted for as one single transaction resulting in Ahlstrom-Holding 3 Oy consolidating 100% of Ahlstrom at the acquisition date when Ahlstrom Holding 3 Oy reached the 90% threshold in voting rights in 2021.
- Following the announcement of the ownership reorganization of Décor business, Ahlstrom classified assets and liabilities related to Décor business as held for sale from the second quarter of 2022. As the carrying amounts of the net assets were going to be recovered principally through their disposal rather than through their continuing use, they were subsequently measured at the lower of carrying amount and fair value less cost to sell. The divestment was completed on October 1, 2022 and the balance sheet is not re-presented for prior periods. Décor business related items are presented in the income statement as a discontinued operation, i.e. as separate line items from the continuing operations in the consolidated income statement and the consolidated statement of comprehensive income, and prior periods are re-presented accordingly. Although intra-group transactions have been fully eliminated in the consolidated financial results, the Group has elected to attribute the elimination of transactions between the continuing operations and the discontinued operation before the disposal in a way that reflects the continuance of these transactions subsequent to the disposal. The statement of cash flow consists of total Group figures including the discontinued operation. The income statement related notes in these consolidated financial statements are presented only for the continuing operations, unless otherwise stated. The balance related notes include continuing and discontinued operations until October 2022.

Foreign currency translation

Figures representing the financial result and position of each subsidiary in the Group are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency).

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary balance sheet items denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date.

Foreign exchange differences arising from the currency translation are recognized in the income statement. Foreign exchange gains and losses arising from operating business transactions are included in operating profit, and those arising from financial transactions are included as a gross amount in financial income and expenses. The foreign exchange gains and losses arising from the qualifying cash flow hedges and qualifying hedges of a net investment in foreign operations are recorded in the statement of other comprehensive income and accumulated currency differences are recognized in equity.

The balance sheets of foreign subsidiaries are translated into euros at the exchange rates prevailing at the balance sheet date while the income statements are translated at the average exchange rates for the period. Translating the result of the period using different exchange rates on the balance sheet and income statement causes a translation difference to be recognized in equity and its change is recorded in the statement of other comprehensive income. When a subsidiary is disposed or sold wholly or partially, related accumulated translation differences are reclassified from equity to income statement

Translation differences arise from the elimination of the acquisition cost of foreign subsidiaries and from the foreign currency nominated subsidiaries' equity items since the acquisition date. Hedges of foreign currency nominated net investments in subsidiaries are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in income statement within net finance items. Gains and losses accumulated in equity are reclassified to income statement when the foreign operation is partially disposed of or sold. Ahlstrom may use non-derivative financial instruments such as foreign currency borrowings to hedge foreign currency risk on net investments in foreign operations. Derivative instruments are not allowed to be used to hedge this risk.

Expenses by function

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

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

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

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

Application of new and revised standards or interpretations from January 1, 2022

Ahlstrom has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2022:

- Amendment to IAS 16 Property, Plant and Equipment - Under the amendment, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - When an onerous contract is accounted for, based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs.
- Annual Improvements to IFRS Standards 2018–2020 - The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify, among others, the following standards:
    - IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the "10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
    - IFRS 16 Leases – Lease incentives – Example 13. The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.
- Reference to the Conceptual Framework - Amendments to IFRS 3 Business Combinations. The amendments update a reference in IFRS 3 and made further reference related amendments.

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

The financial statements were authorised for issue by Ahlstrom Group's Board of Directors on February 22, 2023 and are expected to be adopted by the Annual General Meeting.

Accounting estimates and judgements

For Ahlstrom, there have been no material financial impacts of the COVID-19 pandemic during 2022 or 2021. The effects of the war in Ukraine on the Group's financial statements mainly concerned energy expenses and remained immaterial due to mitigating measures. The estimates on the impacts in the financial reporting rely on management's best judgement under the current circumstances.

Notes disclosures

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

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

Where an accounting policy is applicable to a specific note, it is described within that note with the related disclosures including estimates and judgements of material nature made by management. Certain of our accounting policies that relate to the financial statements as a whole, are disclosed above. New IFRS standards and amendments or interpretations that will be adopted post-balance sheet date are described in note 25.

Financial statement disclosures are organised into the following sections:

- Performance – This section focuses on the results and performance of the Group including a description of changes in our group structure. This section includes disclosures that explain the Group's performance on a consolidated level as well on a division level, sources of revenue, other operating income and expense, employee benefits, finance items as well as information about our tax footprint and earnings per share.
- Operating capital – Disclosures in this section focus on our operating assets and liabilities including information on our investments in long-lived assets, trade receivables and payables, inventories, benefit obligations towards our current and former employees and provisions.
- Net debt and capital management – This section outlines the Group's net debt and how Ahlstrom manages its capital and liquidity. Net debt is an important indicator for Ahlstrom to measure the external debt financing of the Group.
- Financial risk management – This section discusses the Group's exposure to various financial risks, explains how these affect Ahlstrom's financial position and performance and how risk is managed.
- Other notes – this section provides the additional information required to be disclosed under IFRS and Finnish statutory requirements. However, these are not considered critical in understanding the financial performance or the financial position of Ahlstrom.

Income statement related notes are presented for the continuing operations, unless otherwise stated. The balance sheet related notes include discontinued operations until the disposal on October, 1, 2022. Comparative period's figures are presented in brackets.

We use the following symbols throughout the financial statements

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

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

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

The following matrix outlines the notes structure and where our accounting policies, estimates, judgements and risk disclosures are included within the footnotes to our main statements:

Note	Topic			
Ahlstrom business and basis of preparation				
1	Information about Ahlstrom			
2	Basis of preparation	X	X	
Performance				
3	Business disposals and acquisitions	X	X	
4	Discontinued operation	X	X	
5	Division information	X		
6	Sources of revenue	X		
7	Cost of goods sold and other operating income and other operating expense	X		
8	Employee and board of directors remuneration[1]	X	X	
9	Depreciation, amortization and impairment	X		
10	Net financial items	X		
11	Taxes	X	X	
Operating capital				
12	Intangible assets, property, plant and equipment and right-of-use assets	X	X	
13	Inventories	X	X	
14	Trade and other receivables and trade and other payables	X		X
15	Defined benefit obligation	X	X	X
16	Provisions	X	X	
Net debt and capital management				
17	Net indebtedness	X		X
18	Equity	X		
Financial risk management				
19	Financial risk management	X		X
Other notes				
20	Off-balance sheet commitments	X		
21	Related party transactions[1]	X		
22	Associated companies & Joint operations	X		
23	Subsidiaries	X		
24	Auditor remuneration			
25	New accounting standards			
26	Post-balance sheet events			

[1] Related party transactions are presented separately for the Board of Directors and key management remuneration in note 8 and other related party matters are presented in note 21.

Income statement related notes are presented for the continuing operations, unless otherwise stated. The balance sheet related notes include discontinued operations until the disposal on October, 1, 2022.

Performance

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

3 BUSINESS DISPOSALS AND ACQUISITIONS

2022

Reorganization of the Decor business ownership

On October 1, 2022, Ahlstrom completed the ownership arrangement and divested its Decor business. Decor business continues as an independent company under the Munksjö name. The divestment is described in more detail in note 4 Discontinued operation and the subsequent investment in new Munksjö is included in note 22 Associated companies and joint operations.

The developments during the year 2022, related to the acquisition of Ahlstrom completed in 2021, are presented under the year 2021 below.

Acquisition of Minglian New Materials Technology Co., Ltd.

On October 1, 2022 Minglian was divested as a part of the Decor business.

On January 14, 2022, Ahlstrom acquired a 60% stake in the Chinese decor paper producer Minglian New Materials Technology Co., Ltd. which comprises a state-of-the-art plant in the city of Xingtai, Hebei Province, China.

By combining Minglian with its existing Decor business, Ahlstrom created a global leader in decor papers with improved cost competitiveness and strong presence in Europe, Americas and Asia. Minglian had the annual production capacity of approximately 50,000 tons which was fully utilized on the date of acquisition. The company employed 140 people. Minglian was reported as part of the Decor business segment in the discontinued operation.

The purchase consideration amounted to EUR 43.1 million, adjusted by EUR 0.2 million during the second quarter of 2022. The purchase price was paid in cash in two instalments one of which amounting to EUR 8.4 million was paid in December 2021 and the other amounting to EUR 34.5 million in January 2022.

The residual goodwill arising from the acquisition amounted to EUR 18.5 million and was attributable to workforce and expected synergies. The non-controlling interest in Minglian amounted to EUR 16.4 million and it was measured based on proportionate share of the entity's net assets. As the acquisition date was January 14, 2022, there is no material pro forma impact for the year 2022.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed in the transaction:

EUR million	
Non-current assets	
Property, plant and equipment	28.6
Other intangible assets	1.8
Current assets	
Inventories	11.0
Trade and other receivables	14.6
Cash and cash equivalents	0.4
Current liabilities	
Current borrowings	11.1
Trade and other payables	4.2
Total net assets acquired[1]	**41.0**
Goodwill	**18.5**
Non-controlling interest	**16.4**
Purchase consideration	**43.1**

[1] Total net assets acquired reflect 100% acquisition of Minglian and non-controlling interest represents 40% minority in the company. Purchase consideration and goodwill as residual reflect Ahlstrom's 60% stake of the company.

2021

Acquisition of Ahlstrom in 2021 and related developments in 2022

On September 24, 2020, Ahlstrom Holding 3 Oy made a public recommended cash tender offer for all shares in Ahlstrom Oyj not held by Ahlstrom or its subsidiaries. Ahlstrom Holding 3 Oy acquired approximately 81% of Ahlstrom-Munksjö shares on February 4, 2021 following the first settlement under the tender offer. On February 9, 2021, Ahlstrom Holding 3 Oy acquired an additional 9.6% of Ahlstrom, increasing its ownership percentage to over 90%, and started a compulsory redemption procedure.

The acquisition of Ahlstrom-Munksjö through the public tender offer is accounted for as a linked transaction i.e. as if all ownership interests were acquired at the acquisition date as part of the transaction to gain control. In other words, the acquisition is recognized on February 4, 2021 as an acquisition for 100% of the shareholding as the combination of the tender offer results and the market purchases reached the 90% ownership level granting the acquirer the right for mandatory redemption process for the remaining minority shareholding.

On February 25, 2022, the arbitral tribunal appointed by the Redemption Board of the Finland Chamber of Commerce rendered its decision according to which the redemption price payable by Ahlstrom Holding 3 Oy for the 10,755,918 Ahlstrom-Munksjö minority shares that are subject to mandatory redemption shall be EUR 21.55 per share. This was EUR 39.9 million in excess of the EUR 191.9 million redemption liability that had been recognized in Ahlstrom Holding 3 Oy's consolidated financial statements. The additional payment liability was recognized in the consolidated financial statements for 2022. The excess did not have any impact on the income statement as it is limited to a gross presentation in the balance sheet where goodwill, and trade and other payables increased by EUR 39.9 million. Thus, the purchase consideration amounts to EUR 2,091.3 million, including the redemption liability of EUR 231.8 million for the remaining shares in Ahlstrom Oyj. The previously recognized purchase consideration amounted to EUR 1,859.6 million.

Both the redeemer, the trustee and certain minority shareholders have appealed to the District Court, which means that the redemption will not become final and the redemption price will not be due until the appeal proceedings in the District Court, or possibly the Supreme Court, have been concluded. However, the redemption price may be paid up to the undisputed price of EUR 17.84 per share already during the course of the appeal proceedings.

Ahlstrom has leading market positions in various niche markets with diversified exposure in terms of customers, end-markets and geographies. Ahlstrom possesses a high quality, well-invested manufacturing base, technical know-how and had a diversified and talented pool of approximately 7,800 employees at the time of the acquisition in 2021. These underpin the current success and future long-term growth of the business. Ahlstrom sees significant synergies opportunity to accelerate Ahlstrom's operational performance. Ahlstrom is well-positioned to realize its potential and pursue long-term strategic goals along the investment horizon.

The residual goodwill of EUR 1,185.7 million arising from the acquisition was attributable to workforce and to the acquirer's expected synergies through various cost initiatives to be implemented throughout the following years. Ahlstrom expected EUR 32.4 million of the goodwill to be deductible for tax purposes.

The total net cash flows of EUR 1,583.0 million incurred in connection with the settlement of the tender offer consideration of which EUR 1,577.4 million incurred in January-March 2021 and was reported in the cash flow from investing activities and EUR 5.6 million incurred in the year 2020. Acquisition related costs totals to EUR 50.2 million. EUR 35.7 million of the acquisition related costs incurred during the year 2020 and the rest during the year 2021. Acquisition related costs were included in administrative expenses in the income statement and in net cash from operating activities in cash flow statement.

The acquired business contributed all of the net sales reported from February 4, 2021 to December 31, 2021 and net profit of EUR 61.9 million.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed. It has been updated based on the decision by the arbitral tribunal made in February 2022.

EUR million	
Non-current assets	
Property, plant and equipment	1,187.1
Right-of-use assets	49.2
Other intangible assets	857.6
Equity accounted investments	1.6
Other non-current assets	21.2
Deferred tax assets	51.2
Current assets	
Inventories	377.2
Trade and other receivables	306.7
Income tax receivables	12.1
Cash and cash equivalents	276.6
Non-current liabilities	
Non-current borrowings	108.4
Other non-current liabilities	5.5
Employee benefit obligations	91.8
Deferred tax liabilities	294.1
Non-current provisions	22.7
Current liabilities	
Current borrowings	1,050.6
Trade and other payables	615.4
Income tax liabilities	16.0
Current provisions	18.4
Total net assets acquired	**917.7**
Goodwill	**1,185.7**
Non-controlling interest	**12.0**
Purchase consideration	**2,091.3**

Kämmerer

Ahlstrom acquired the electrotechnical paper business related assets from German-based KÄMMERER in 2021. Through the transaction, Ahlstrom expanded its electrotechnical paper offering in area of semiconductor papers used in special applications such as high-performing power cables and transformers. The transaction was treated as a purchase of intangible assets and inventories, and did not have a material impact for Group's result or financial position for the financial year 2021.

Accounting policies

Business acquisitions

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the fair value of consideration transferred comprising of the following:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued as purchase consideration
- fair value of any contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary, if applicable.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values and any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred and presented as administrative expenses in the income statement with the exception of costs directly attributable to the issuance of equity instruments that are deducted from equity, net of tax. Any excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.

Business disposals

On losing control of a subsidiary the Group derecognizes the assets and liabilities of the subsidiary, including related goodwill and other intangible assets, at their carrying amounts. The Group also derecognizes non-controlling interests in the divested subsidiaries. The consideration received from the divestment is recognized at fair value. Accumulated translation differences related to subsidiaries are reclassified to income statement and actuarial gains and losses are transferred to retained earnings. The gain or loss on divestment net of transaction expenses is presented under other operating income or other operating expenses. Any investment retained in the former subsidiary is recognized at fair value. Investments in the acquiring party are recognized as separate transactions.

Accounting estimates and judgements

The application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the acquired intangible assets, property, plant and equipment and the liabilities assumed at the acquisition date, and the useful lives of the acquired intangible assets and property, plant and equipment.

Measurement is based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may materially affect the Group's future results of operations. In particular, the estimation of discounted cash flows for e.g. customer relationships, technology based assets as well as trademarks and trade name are based on assumptions concerning, for example:

- Assumptions related to long-term sales projections and margin development
- Determination of appropriate discount rates
- Estimates related to customer retention rates
- Estimates related to appropriate market based royalty rates

For significant acquisitions, the fair valuation exercise on the acquired assets and assumed liabilities is carried out with assistance from independent third-party valuation specialists. The valuations are based on the information available at the acquisition date taking into account the provisional adjustment period allowed under IFRS of 12 months.

The loss of control in certain subsidiaries requires the Group to stop consolidating them and to recognize a gain or loss. When determining the loss of control, management considers the practical ability to direct the relevant activities in those subsidiaries to generate returns for the Group based on specific facts and circumstances. The terms and conditions of the transactions and their economic effects are assessed to determine whether divestment related transactions should be considered as a single transaction for accounting purposes.

4 DISCONTINUED OPERATION

2022

On May 23, 2022, Ahlstrom Holding 3 Oy's Board of Directors agreed an ownership reorganization plan under which the former Decor business was going to be divested from Ahlstrom to a newly formed company that was named Munksjö Paper AB. As of the second quarter of 2022 the Group classified 100% of its Decor business as assets held for sale and reported them as a discontinued operation. The Group recognized an impairment loss in total of EUR 130 million on the goodwill allocated to Décor business. The divestment was completed on October 1, 2022. All aspects of the disposal of the Decor business were not completed by the end of the year 2022. A best estimate of the sales consideration for the transaction has been made in these consolidated financial statements and any changes in estimated consideration are expected to be immaterial.

Prior to the divestment, the Decor business was one of Ahlstrom's reportable segments. The business offered the broadest assortment of high-quality decor papers in its industry. Decor papers are primarily used as the decorative surface material in laminated wood-panel based furniture, flooring and other interior and exterior building material applications. Key markets are Europe, North and South America, China and selected export markets. The production took place at six plants: Unterkochen and Dettingen in Germany, Tolosa in Spain, Arches in France, as well as Caieiras in Brazil and Xingtai in Chinai (Minglian in Xingtai was acquired in January 2022). The business employed approximately 1,200 people.

The disposal consideration received in 2022 was EUR 295.9 million. The transaction included customary terms and conditions related to the working capital and net debt of the disposed entities. Based on the management's estimate, a receivable of EUR 7.7 million was recognized in December 2022 for a net working capital and net debt adjustment to the purchase consideration. The loss on sale before income tax impact and reclassification of accumulated translation differences to the income statement amounted to EUR -4.8 million. After reclassification of translation differences to income statement and the disposal's tax impact in certain countries, a gain, net of tax of EUR 2.2 million on disposal was recognized.

The cash flow impact of the transaction, i.e. purchase consideration net of disposed subsidiaries' cash and cash equivalents and net of Group's equity contribution and a loan to the acquiring party Munksjö Paper AB, amounted to EUR 216.6 million. See also note 22 Associated companies and joint operations.

The following tables present more detailed information about the discontinued operation's net result and cash flows, gain on sale of discontinued operation and disposal's impact on the Group's balance sheet.

Result of discontinued operation

EUR million	2022	2021
Net sales	**403.3**	**420.5**
Cost of goods sold	-353.0	-371.4
Gross profit	**50.3**	**49.1**
Sales, R&D and administrative expenses	-20.9	-23.0
Other operating income	11.9	2.8
Other operating expense	-134.7	-6.4
Operating result	**-93.4**	**22.5**
Net financial items	-2.5	-1.1
Result before taxes	**-95.9**	**21.4**
Income taxes	-14.2	-6.3
Net result from discontinued operation	**-110.0**	**15.0**
Other comprehensive income	0.2	2.2
Comprehensive income	**-109.8**	**17.2**

Cash flows of discontinued operation

EUR million	2022	2021
Net cash used in operating activities	-18.4	30.2
Net cash used in investing activities	177.1	-25.8
Net cash used in financing activities	86.2	-7.4
Net cash flow for the period	**223.3**	**-2.9**

Effect of disposal on the balance sheet

EUR million	Oct 1, 2022
Assets disposed of	
Property, plant and equipment	177.6
Right-of-use assets	4.8
Goodwill	18.6
Other intangible assets	51.7
Other non-current assets	1.3
Deferred tax assets	0.6
Inventories	117.7
Trade and other receivables	70.0
Income tax receivables	2.3
Cash and cash equivalents	36.8
Sold assets, total	**481.5**
Liabilities disposed of	
Non-current lease liabilities	3.6
Employee benefit obligations	10.6
Deferred tax liabilities	23.8
Current borrowings	30.9
Current lease liabilities	1.0
Trade and other payables	88.8
Income tax liabilities	2.0
Current provisions	0.5
Sold liabilities, total	**161.1**
Non-controlling interest	**19.4**
Net assets disposed of	**300.9**

Effect of disposal on the balance sheet includes net assets disposed of and minor intra-Group balances with discontinued operation that were retained became Group's external balances.

Gain on disposal

EUR million	2022
Estimated purchase consideration	303.6
Carrying amount of net assets sold	-300.9
Costs to sell[1]	-7.6
Loss on sale of discontinued operation before income tax and reclassification of accumulated translation differences	**-4.8**
Reclassification of accumulated translation differences	13.5
Income tax on sale of discontinued operation	-6.5
Gain on sale, net of tax	**2.2**

[1] of which EUR -1.7 million was recognized in 2021

Accounting policies

Discontinued operation

A discontinued operation represents a major line of business or geographic area of operations for which there is a co-ordinated plan for disposal. Discontinued operation is presented separately from continuing operations in the consolidated income statement and statement of comprehensive income. When an operation is classified as a discontinued operation, the comparative income statement and statement of comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year. Although intra-Group transactions between continuing and discontinued operations prior to the disposal have been eliminated in full, certain transactions between them are attributed in a way that reflects the continuance of these transactions subsequent to the disposal. All of the central overheads have been allocated to continuing operations in the Group's income statement.

Assets and liabilities classified as held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale if their carrying amount will be recovered primarily through sale and the sale is highly probable. Such assets or disposal groups are measured at the lower of carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale. Prior to sale, Assets and liabilities classified as held for sale are presented as separate line items in the balance sheet. See also accounting policies in note 3.

Accounting estimates and judgements

Determination of the arrangements between the continuing and discontinuing operations that are expected to continue subsequent to the disposal and the resulting amounts of revenue or costs reported in the continuing operations' net result, requires judgement but the management believes this information is useful to the users of the financial statements.

5 DIVISION INFORMATION

In 2022, Ahlstrom introduced new operating model and reporting structure to support its strategy execution and to build a stronger company for a sustainable future. Based on the end-market focus, Ahlstrom operates under five divisions which are Filtration, Food & Consumer Packaging, Healthcare, Building Materials and Technical Materials and which also form Group's reportable segments. The divisions and Other are described more in detail in the table below. The comparative information has been restated accordingly.

Filtration
Mission-critical air and liquid filtration materials.

Food & Consumer Packaging
Materials for improved food safety, product preservation, and bacteria prevention, helping extend product life and protect human health.

Healthcare
Materials serving essential societal uses in medical, laboratory, and life science settings including diagnostics, bioprocessing, and medical performance barriers.

Building Materials
Highly engineered protective building material applications for every face of the building.

Technical Materials
Highly technical applications including protective materials such as insulation, precision coating, tape, and others.

Other and eliminations
Other and eliminations include certain group and function costs, as well as Aspa market pulp mill and certain other costs not used in the assessment of divisional performance.

Divisions key measures

Financial performance by divisions, EUR million, **2022**	Filtration	Food & Consumer Packaging	Health-care	Building Materials	Technical Materials	Other and elimi-nations	Group
Net sales, external	614.4	1,411.6	184.8	344.5	646.4	147.1	3,348.8
Net sales, internal	3.6	38.3	7.0	6.6	17.2	-72.8	-0.1
Net sales	**617.9**	**1,450.0**	**191.8**	**351.1**	**663.6**	**74.3**	**3,348.7**
Comparable EBITDA	**120.4**	**141.5**	**42.8**	**52.6**	**72.4**	**10.5**	**440.2**
Items affecting comparability in EBITDA[1]							-140.4
EBITDA							299.8
Depreciation, amortization and impairment losses							-185.9
Operating result							**113.8**

[1] See also section Key figures

Additional division information

Additional divisions information, EUR million, **2022**	Filtration	Food & Consumer Packaging	Health-care	Building Materials	Technical Materials	Other and elimi-nations	Group
Capital expenditure	55.6	40.8	4.6	13.4	43.9	36.8	195.1
Operating working capital	67.3	124.6	35.5	20.7	98.1	-31.8	314.2

Financial performance by division, EUR million, **2021, restated**	Filtration	Food & Consumer Packaging	Healthcare	Building Materials	Technical Materials	Other and eliminations and pro forma foreign exchange impact	Pro forma/ reported Group total
Net sales, external	506.2	1,030.0	173.6	307.0	506.5	115.7	2,639.0
Net sales, internal	2.9	28.6	8.0	8.1	10.6	-58.1	–
Net sales	**509.1**	**1,058.6**	**181.5**	**315.1**	**517.0**	**57.6**	**2,639.0**
Pro forma impact	-41.2	-88.4	-21.8	-21.3	-47.2	-6.5	-226.4
Net sales, reported	**467.9**	**970.2**	**159.8**	**293.8**	**469.8**	**51.1**	**2,412.6**
Comparable EBITDA	107.5	81.0	45.5	55.2	47.3	9.0	345.5
Pro forma impact							-30.9
Comparable EBITDA (reported)							314.6
IAC in EBITDA and management fee (reported)							-108.9
Depreciation, amortization and impairment losses							-155.8
Operating result (reported)							**49.8**

Additional division information

Additional division information, EUR million, restated **2021, restated**	Filtration	Food & Consumer Packaging	Healthcare	Building Materials	Technical Materials	Other and eliminations and pro forma foreign exchange impact	Pro forma/ reported Group total
Capital expenditure	24.7	43.9	2.2	15.0	23.5	33.6	142.9
Operating working capital	79.1	112.6	32.3	10.5	100.8	-23.2	312.1

Accounting policies

Reportable

Ahlstrom's CEO together with the Board of Directors is the Group's chief operating decision maker ("CODM") and operating segments are determined on the basis of information reviewed by the CEO and the Board for the purposes of allocating resources and assessing the divisions performance. The divisions performance is assessed internally based on net sales and comparable EBITDA. Comparable EBITDA is defined for internal management reporting purposes as operating result before depreciation, amortization and impairment losses and excluding items affecting comparability. Ahlstrom defines items affecting comparability being material items outside ordinary course of business, such as gains and losses on business disposals, direct transaction costs related to business acquisitions, costs for closure of business operations and restructuring including redundancy payments, one-off items arising from purchase price allocation such as inventory fair value adjustments, compensation related to environmental damages arising from unexpected or rare events and other items including fines (such as VAT tax audit fines) or other similar stipulated payments and litigations.

In addition to comparable EBITDA, the CODM also follows the divisions' net asset position based on the operating working capital which is defined as inventories plus operating receivables before factoring less operating payables.

Sales between the divisions are invoiced at market prices. None of Ahlstrom's individual customers accounts for more than 10 per cent of the Group's revenues.

6 SOURCES OF REVENUE

Ahlstrom's revenue comprise the sale of manufactured products through its five divisions, including filter materials, release liners, food and beverage processing materials, abrasive and tape backings, electrotechnical paper, glass fiber materials, medical fiber materials and solutions for diagnostics as well as a range of specialty papers for industrial and consumer end-uses.

Net sales by geography

Net sales by geography, EUR million	2022	2021
USA	1,263.9	874.0
Germany	270.9	201.1
Brazil	158.4	101.7
China	176.0	150.2
Italy	147.2	105.7
Poland	86.0	72.5
Netherlands	182.6	112.1
Spain	91.2	84.6
France	79.8	49.7
Turkey	97.9	48.2
India	65.2	49.6
Other[1]	729.6	563.0
Total	**3,348.7**	**2,412.6**

[1] Other includes Finland, EUR 24.0 million (17.6)

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

Net sales by region, EUR million	2022	2021
Europe	1,316.7	959.6
North America	1,348.9	933.3
South America	220.7	140.9
Asia-Pacific	420.5	342.0
Rest of the world	41.9	36.9
Total	**3,348.7**	**2,412.6**

Contract assets and liabilities

The Group has advance payments received from customers EUR 3.7 million (EUR 4.6 million), see note 14.

Non-current assets by geography

Non-current assets by geography, EUR million	2022	2021
USA	983.3	877.1
Italy	459.3	457.8
France	374.2	398.7
Sweden	318.3	344.6
Finland	423.9	329.5
Germany	20.1	215.3
Brazil	119.6	158.6
China	121.9	131.1
Korea	110.8	108.2
Other	273.3	326.1
Total	**3,204.6**	**3,347.1**

Accounting policies

Revenue recognition

IFRS 15 Revenue from Contracts with Customers standard defines a five-step model to recognize revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the good or service underlying the particular performance obligation is transferred to the customer.

The Group is delivering goods to the customers where each good provided to the customer is distinct from the other goods provided to the customer. A typical good consist of a packed sheet of paper, a roll of paper or a cube of pulp, which each represent a distinct performance obligation. The Group does not provide significant amount of services. Sale of goods is the revenue stream of the Company that consists of the following divisions: Filtration, Healthcare, Technical Materials, Food & Consumer Packaging and Building Materials.

A typical contract with customer consists of purchase order and order confirmation, including the general terms and conditions of the arrangement.

The Group provides standard assurance-type warranties only and consequently the customer contracts do not include any service-type warranties that should be accounted for as a separate performance obligation.

The transaction price may include variable consideration components, including volume and cash discounts and refunds. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts and refunds. Accumulated experience is used and provide for the discounts and customer refunds, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Revenue is recognised at a point in time when control of goods has been transferred to the customer based on Incoterms.

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

Cost of goods sold

Cost of goods sold, EUR million	2022	2021
Raw materials	-1,416.4	-1,038.3
Production costs	-724.4	-596.6
Energy	-328.0	-186.7
Delivery expenses	-155.7	-111.6
Other variable costs	-181.8	-132.5
Operative exchange gains/losses including foreign exchange derivatives	-13.7	1.2
Total	**-2,820.1**	**-2,064.5**

Other operating income

Other operating income, EUR million	2022	2021
Government grants	8.0	5.9
Sale of scrap and side products	7.2	5.7
R&D and other tax credits	1.2	1.6
Gain on sale of fixed assets	0.2	1.0
Rental and lease income	0.3	0.2
Gain on sale of emission rights and other environmental rights	3.5	0.0
Insurance compensation	1.7	0.2
Other	5.5	3.8
Total	**27.6**	**18.4**

Other operating expense

Other operating expense, EUR million	2022	2021
Depreciation and amortization arising from PPA[1]	-65.1	-57.0
Impairment losses	-3.1	-1.1
Other	-3.5	-3.3
Total	**-71.6**	**-61.5**

[1] Depreciation and amortization arising from PPA comprise depreciation and amortization charges from fair value adjustments relating to the business combinations starting from the acquisition of Ahlstrom on Feb 4, 2021.

Accounting policies

Repair and maintenance
Ordinary repairs and maintenance activities are performed to maintain the plants and equipment in operating condition. Ordinary repairs usually benefit only the period when such repairs are done and accordingly are expensed in the period incurred.

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

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

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

8 EMPLOYEE AND BOARD OF DIRECTORS REMUNERATION

Ahlstrom has some 7.000 employees working in 38 production and converting facilities in 13 countries. The following section outlines the benefits granted to our employees, to our Executive Management including the CEO and the Board of Directors. The section also provides information on shareholdings of the Board of Directors and Executive Management, and details of the long-term incentive plan that the company operates to align the objectives of the shareholders with the Group's key personnel.

Employee benefit expenses (including members of the Board of Directors)

Wages, salaries and other remuneration

Employee benefit expenses for all employees, EUR million	2022	2021
Wages and salaries	-459.9	-368.2
Statutory social expenses	-75.5	-61.2
Pension expenses, defined contribution plans	-35.7	-29.5
Pension expenses, defined benefit plans (note 15)	-1.2	-3.0
Long-term incentives	-0.9	0.3
Other indirect employee costs	-9.2	-9.6
Total	**-582.4**	**-471.3**

Executive Management

The Executive Management Team ("EMT") consists of the CEO, CFO and Executive Vice Presidents of divisions as well as Group functions. See Board of Director's report for changes in Group Executive Management team and members of the Board of Directors. The CEO has a service contract with Ahlstrom Oyj. Executive management remuneration below includes continuing and discontinued operations.

2022

CEO and Executive Management Team remuneration and benefits recognized in income statement, EUR thousand, **2022**[1]	Salaries and other short-term employee benefits	Payments to voluntary pensions	Termination benefits	Total
Total	**3,365**	**245**	**2,201**	**5,812**

Remuneration of the CEO and the Executive Management Team, paid during financial year, EUR thousand, **2022**[1]	Fixed salary payments	Short term incentives and bonuses payments	Fringe benefits	Payments to voluntary pensions	Total
Total	**3,139**	**2,575**	**74**	**433**	**6,221**

2021

CEO and Executive Management Team remuneration and benefits recognized in income statement, EUR thousand, **2021**[1]	Salaries and other short-term employee benefits	Payments to voluntary Pensions	Total
Total	**5,038**	**477**	**5,515**

Remuneration of the CEO and the Executive Management Team, paid during financial year, EUR thousand, **2021**[1]	Fixed salary payments	Short term incentives and bonuses payments	Long-term incentives	Fringe benefits	Payments to voluntary pensions	Total
Total	**2,879**	**2,093**	**6,081**	**55**	**477**	**11,585**

[1] Excluding social costs.

Remuneration of the Board of Directors

Remuneration to the members of Board of Directors of Ahlstrom Holding 3 Oy and Ahlstrom Oyj was EUR 0.3 million in 2022 and 2021.

Shareholding of CEO and Executive management team

The CEO and other members of the management team take part in a co-investment scheme that allows them to invest into Spa Lux Midco SARL, being the shareholder of Ahlstrom Holding 1 Oy. The investment is made through a Management investment company

Ahlstrom Holding Long-term Incentive Plans

The Board of Directors of Ahlstrom Holding 3 Oy decided to establish a synthetic option program for members of the Group's key personnel on September 2, 2021. The program serves as a share value-based long-term incentive scheme for selected key employees of the Company. The Program is established to form part of the overall incentive scheme of the selected key employees of the company.

The objectives of the Long-term Incentive programs are particularly:

- to align the interests of the participants with company's shareholders by creating a long-term equity interest for the participants and, thus, to promote shareholder value creation in the long term;
- to promote long-term performance culture and the achievement of the company's strategic targets; and
- the retention of critical key resources as well as to offer them with the opportunity for competitive compensation for excellent performance.

The program consists of annually commencing synthetic option plans. Within each plan the company may decide that synthetic options are granted to the individuals selected for participation in the plan. Each plan comprises a vesting period of three years and the exercise of the synthetic options after the passage of the vesting period.

Performance conditions

Synthetic options will afford an option holder the right to receive a cash reward equal to the positive difference, if any, between the defined strike price and the value of the company's share either at the time of exercise or on the vesting date of the synthetic option multiplied by the number of the granted synthetic options, as on plan specific basis determined by the company.

Service condition

In addition to the performance condition, the grant of an option holder's synthetic options and his/her receipt of any reward derived from the synthetic options is conditional on continued employment or service relationship with the company throughout the plan period from the grant of the synthetic options until the payment date.

Data related to the LTI plans	Synthetic options 2022	Synthetic options 2021
Initial maximum amount, pcs	849,000	5,545,000
Initial allocation date	Oct 1, 2022	Oct 1, 2021
Beginning of earning period	Oct 1, 2022	Oct 1, 2021
End of earning period	Sep 30, 2025	Sep 30, 2024
Vesting conditions	Share price, Service period	Share price, Service period
Maximum contractual life, years	3.0	3.0
Remaining contractual life, years	2.75	1.75
Number of persons at the end of reporting year	34	111
Payment method	Cash	Cash

Changes in the number of Synthetic options	Synthetic options 2022	Synthetic options 2021
January 1, 2022		
Outstanding at the beginning of the period		4,830,000
Changes during the period		
Granted	507,000	
Forfeited		540,000
December 31, 2022		
Outstanding at the end of the period	507,000	4,290,000

Fair value determination

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

Valuation parameters for instruments granted	Synthetic options 2022	Synthetic options 2021
Grant date	December 31, 2022	December 31, 2021
Share price at grant, EUR	2.02	1.35
Share price at reporting period end, EUR	2.02	2.02
Exercise price, EUR	2.02	1.35
Expected volatility, %[1]	30.3	29.1
Maturity, years[1]	3	2
Risk-free rate, %[1]	2.20	0.62
Expected dividends, EUR	–	–
Valuation model	Binomial Monte Carlo Simulation	Binomial Monte Carlo Simulation
Fair Value, December 30, 2022, EUR million	0.2	2.6

[1] Average during period for the 2021 Synthetic options

Effect of Share-based incentives on the result and financial position

EUR million	2022	2021
Expenses for the financial year, share-based payments	0.9	–
Liabilities arising from share-based payments at the end of reporting year	0.9	–

Cash settlement of Ahlstrom long-term incentive plans in 2021

Based on the acquisition of Ahlstrom on February 4, 2021, all then outstanding share-based long-term incentive plans were terminated and settled during 2021. All future discretionary periods were discontinued. The settlement of the plans were in cash, total cash outflows amounting to EUR 18.1 million including social costs. The settlement costs were recognized in opening balance of provisional purchase price allocation of the acquired Ahlstrom.

Accounting policies

Share-based payments

The long term incentive share based plans are accounted for as share-based payments whereby employees in exchange for providing services receive Ahlstrom Holding share-derived instruments including synthetic options settled in cash. Ahlstrom Holding has classified current programs as cash-settled as it is the Group's intention to settle the rewards in the form of cash.

Ahlstrom Holding's current share-based payments include only non-market performance conditions. The non-market performance condition and the requirement to stay in service are not factored into the grant date fair value. The fair value of the long term incentive share based plans have been estimated at the grant-date based on the synthetic annualized market volatility. If the non-market performance condition or the service condition is not met, the cumulative share-based payment cost will be trued-up accordingly.

The share-based cost related to cash-settled schemes is recognized by the Group under Employee benefit expenses in the income statement. The total cost is determined by reference to the fair value at grant-date and is recognized over the expected vesting period. At each balance sheet date, Ahlstrom Holding revises the cumulative share-based cost expected to be paid out based on the likelihood of achieving non-market performance criteria levels and the estimated retention rate of participants at the end of the performance period.

The rewards will be settled by the Group, net of taxes that will be withheld.

Accounting estimates and judgements

The long term incentive share based plans have been accounted for as cash-settled share-based payments. This is based on a judgment made by the Group that the plans will be rewarded in the form of cash as the options given are synthetic.

The fair value of the long term incentive share based plans have been estimated at the grant-date based on the synthetic annualized market volatility.

The expense recognized in Administrative expenses is based on management's estimate of the likelihood of achieving the non-market performance criteria and the estimated number of participants remaining in the scheme when the vesting period ends.

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

Management estimate the number of participants that they expect to remain in the scheme at the end of the vesting period by reviewing the number of participants remaining at the end of each period, and the expected number of these participants who will remain at the pay-out date, considering the historic rate of staff retention in the Group.

9 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

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

Depreciation and amortization, EUR million	2022	2021
Other intangible assets		
Customer relationships	-20.7	-17.3
Patents and trademarks	-4.8	-3.9
Other	-17.9	-15.8
Property, plant and equipment		
Land improvements and buildings	-20.0	-16.9
Machinery and equipment and other	-104.6	-88.1
Right-of-use assets		
Land and water areas and buildings	-3.1	-2.8
Machinery and equipment and other	-11.6	-9.8
Total	**-182.8**	**-154.7**

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

Depreciation and amortization arising from PPA comprise depreciation and amortization charges from fair value adjustments relating to the business combinations starting from the acquisition of Ahlstrom on Feb 4, 2021. Depreciation and amortization arising from PPA adjustments was EUR 65.1 million in 2022 (EUR 57.0 million in 2021).

Impairment, EUR million	2022	2021
Property, plant and equipment		
Land and land improvements	0.0	–
Machinery and equipment	-3.0	-0.8
Construction in progress	-0.1	-0.4
Total	**-3.2**	**-1.1**

In 2022 impairment losses totalled to EUR -3.2 million. Impairment loss was recognized on several minor assets. In 2021 an impairment loss of EUR -1.1 million was recognized in relation to the paper machine in Rhinelander, US.

Depreciation, amortization and impairment, EUR million	2022	2021
Depreciation, amortization and impairment	-186.0	-155.8

Accounting policies

Depreciation and amortization is recognized in the income statement on a straight-line basis based on estimated useful life of intangible assets, property, plant and equipment and ROU assets, adjusted in appropriate cases by impairments. The useful lives are estimated as the period over which the Group will derive a benefit from the asset.

Goodwill and other intangible assets with an indefinite useful life are considered as non-depreciable assets. For non-depreciable assets, impairment tests are performed annually, as well as if there are any indications of impairments during the year, by calculating the assets recoverable value. See also note 12. Intangible assets and property, plant and equipment.

Other operating expenses include depreciation and amortization arising from purchase price allocations (PPA), impairment losses.

Depreciation and amortization periods

Other intangible assets	
Customer relationships	15-25 years
Patents and trademarks	20-30 years
Other	10-40 years
Property, plant and equipment	
Land improvements	20 years
Buildings	20-50 years
Machinery and equipment	2-20 years
Right-of-use assets	
Land and water areas	5-12 years
Buildings	5-53 years
Machinery and equipment	2-8 years

10 NET FINANCIAL ITEMS

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

Net financial items, EUR million	2022	2021
Interest income from loans and receivables	3.4	0.9
Exchange rate gains	52.8	16.3
Gain on interest rate derivatives	48.3	0.3
Other financial income	0.1	0.1
Financial income	**104.6**	**17.5**
Interest expense from borrowings	-128.1	-88.1
Interest expenses on lease liabilities	-1.9	-1.9
Unwinding of discount on provisions and net interest cost on defined benefit plans (note 15, 16)	-1.1	-0.9
Exchange rate losses	-47.2	-18.5
Other financial expenses[1]	-10.6	-13.3
Financial expenses	**-189.0**	**-122.6**
Net financial items	**-84.4**	**-105.1**

[1] Other financial expenses include bank fees, factoring costs, and various fees related to existing financing agreements.

Exchange rate gains and losses in the income statement, EUR million	2022	2021
Exchange gains and losses		
Operating result	-3.2	-0.1
Financial income and expenses	-2.1	-4.6
Foreign exchange derivatives		
Operating result	-10.5	1.3
Financial income and expenses	7.7	2.4
Total	**-8.1**	**-1.0**

Accounting policies

Financial income and expenses

Financial income in the income statement consists of interest income from financial asset measured at amortized cost, gain on interest rate derivatives, exchange rate gains and gains from foreign exchange derivatives on financial items.

Financial expenses consist of interest expenses on borrowings, commitment fees and other financial fees, net interest costs of defined benefit plans, the interest related to discounted provisions, and exchange rate losses on interest rate derivatives and foreign exchange derivatives. These costs are reported in the income statement in the period in which they were incurred using the effective interest method, except for the interest rate derivatives.

Fair value changes of interest rate derivatives are recognized as financial income or expenses in the period in which they arise. Exchange gains and losses of foreign exchange derivatives on operative items are recorded in operating result.

The premium paid for the purchased interest rate options is amortized over its lifetime and shown in interest expenses. If at any interest rate fixing date the agreed interbank reference rate is above the strike of the interest rate cap, a cash flow will realize. This cash flow will be recognized in interest expenses in the income statement, in order to reduce the actual interest expenses from the underlying hedged item.

11 TAXES

This note explains Ahlstrom's income tax expense and tax related balances in the consolidated financial statements. The deferred tax section provides information on expected future tax payments.

Income tax expense, EUR million	2022	2021
Result before taxes	**23.3**	**-55.3**
Current tax income/expense		
Current tax on profits for the year	-23.0	-11.4
Adjustments in respect of prior years	3.3	-1.0
Total	**-19.6**	**-12.4**
Deferred tax		
Relating to tax loss carry forwards	-4.3	1.0
Relating to other temporary differences	10.7	-5.8
Total	**6.4**	**-4.8**
Total income taxes	**-13.2**	**-17.2**

Reconciliation of effective tax rate, EUR million	2022	2021
Result before taxes	**23.3**	**-55.3**
Income tax at Finnish tax rate (20%)	-4.7	11.1
Effect of other tax rates for foreign subsidiaries	-2.8	-0.4
Regional, minimum and foreign withholding taxes	-2.1	-1.7
Effect on deferred tax from change in tax rate	0.0	-0.3
Adjustments to current tax in respect of prior years	3.3	-0.2
Current year losses for which no deferred tax asset recognized	-5.2	-10.8
Revaluation of deferred tax assets and liabilities	2.1	2.6
Non-deductible expenses	-7.4	-18.4
Tax exempt income and tax reliefs	4.7	0.9
Associates' result reported net of tax	-1.2	–
Income taxes in the income statement	**-13.2**	**-17.2**

Uncertain tax positions

The Group had income tax receivables and liabilities where tax recoverability or tax payable amount is uncertain due to pending tax audits, tax disputes or other reasons. At balance sheet date, net liability of uncertain tax position was EUR 3.9 million (EUR 3.8 million). The recorded amounts are based on management's estimates of the outcomes.

2022

Change in deferred tax on temporary differences and loss carry forwards, EUR million[1]	Opening	Business disposal	Translation difference/ other	Recognized in income statement	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	-320.9	27.1	-5.0	3.9	–	-294.8
Employee benefit obligations	10.3	-0.9	0.0	-0.8	-3.0	5.6
Provisions	21.3	-0.4	0.2	8.7	–	29.8
Tax losses carried forward	32.0	-0.2	0.4	-5.2	–	26.9
Other	9.7	-2.5	0.6	-0.5	3.0	10.3
Net of deferred tax liabilities (-) and deferred tax assets (+)	**-247.6**	**23.2**	**-3.9**	**6.1**	**–**	**-222.2**
Assets	0.0					4.0
Liabilities	0.0					-226.2

[1] Include discontinued operation until October 1st, 2022

2021

Change in deferred tax on temporary differences and loss carry forwards, EUR million	Opening	Business combination	Translation difference/ other	Recognized in income statement	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	0.0	-324.2	-6.8	10.1	–	-320.9
Employee benefit obligations	0.0	14.8	0.1	-1.3	-3.4	10.3
Provisions	0.0	21.8	1.0	-1.5	–	21.3
Tax losses carried forward	0.0	30.6	0.4	1.0	–	32.0
Other	0.0	14.2	-0.1	-11.2	6.8	9.7
Net of deferred tax liabilities (-) and deferred tax assets (+)	**0.0**	**-242.8**	**-5.4**	**-2.8**	**3.4**	**-247.6**
Assets	0.0					2.4
Liabilities	0.0					-250.0

	Tax losses carried forward	Recognized deferred tax assets	Unrecognized deferred tax assets
Tax losses and related deferred tax assets EUR million	**2022**	**2022**	**2022**
Expiry within two-five years	64.8	0.0	16.2
Expiry after five years	77.9	0.0	15.8
No expiry	187.7	26.9	18.7
Total	**330.4**	**26.9**	**50.7**

	Tax losses carried forward	Recognized deferred tax assets	Unrecognized deferred tax assets
Tax losses and related deferred tax assets EUR million	**2021**	**2021**	**2021**
Expiry within two-five years	59.4	–	14.9
Expiry after five years	46.5	1.2	8.5
No expiry	192.2	30.8	16.3
Total	**298.2**	**32.0**	**39.7**

Recognized deferred tax assets on losses at December 31, 2022 relate mainly to France, Brazil and India. Unrecognized deferred tax assets on losses at December 31, 2022 relate mainly to China, Finland, France, Spain and the United Kingdom.

Accounting policies

Current and deferred tax expense

The income tax expense is comprised of current tax and deferred tax. Tax is recognised in the income statement except when underlying transactions are reported in other comprehensive income, or directly in equity, in which case the associated tax effect is reported in other comprehensive income or directly in equity.

Current taxes are based on the results of group companies and are calculated using the local tax laws and tax rates that are enacted or substantively enacted as of each reporting date. The Group files tax returns in several jurisdictions and evaluates regularly tax positions taken. Tax liabilities for uncertain tax positions are recognized when it is considered that certain tax positions will be challenged or have already been challenged by tax authorities. Deferred tax is calculated using the liability method on temporary differences between the carrying amounts and taxable values of assets and liabilities. Deferred tax is not recognised for temporary differences that arise on initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction other than a business combination that do not affect either the accounting or taxable profit at the time of the transaction.

Deferred tax is not recognized for temporary differences that arise on investments in subsidiaries where the reversal is in the Group's control and not expected in the foreseeable future.

The valuation of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets for tax-deductible temporary differences and loss carry forwards are recognized only to the extent it is likely that they will be utilized.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities, and when the deferred tax assets and tax liabilities are attributable to taxes charged by the same tax authority and relate to either the same tax entities or different tax entities, where there is an intention to settle the balances on a net basis.

Accounting estimates and judgements

The utilization of deferred tax assets is dependent on the reversal of deferred tax liabilities and generation of future taxable profits. The Group estimates possibilities to use deferred tax assets based on current business plans. The Group periodically evaluates status of ongoing tax audits and disputes and positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It makes a revaluation of the amounts recorded, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Because the Group operates in complex international tax environment, significant degree of judgement is used in identifying outcomes of tax audits and disputes and uncertain tax positions.

Operating capital

Disclosures in this section focus on our operating assets and liabilities including information on our investments in long-lived assets, trade receivables and payables, inventories, benefit obligations towards our current and former employees and provisions.

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

Intangible assets[1]

		Other intangible assets			
Intangible assets, EUR million, **2022**	Goodwill	Customer relationships	Patents and trademarks	Other	Other intangible assets in total
Historical cost					
Opening	1,169.3	423.1	130.0	346.1	899.2
Business combination	58.4	–	–	1.8	1.8
Additions	–	–	0.0	30.5	30.6
Business disposals	-148.6	-25.5	-0.1	-30.1	-55.7
Disposals	–	–	-0.3	-1.5	-1.7
Reclassifications and other	–	–	0.2	-1.2	-1.0
Translation differences	22.8	8.9	0.0	6.4	15.4
Closing	**1,101.9**	**406.5**	**129.9**	**352.2**	**888.6**
Accumulated amortization					
Opening	–	19.4	3.9	18.2	41.6
Amortization	–	21.4	4.8	19.0	45.2
Business disposals	-130.0	-1.4	–	-2.6	-4.0
Impairment	130.0	–	–	–	–
Disposals	–	–	-0.3	-0.5	-0.7
Translation differences and other	–	-0.2	–	0.0	-0.2
Closing	**–**	**39.3**	**8.5**	**34.1**	**81.9**
Net book value at year end	**1,101.9**	**367.1**	**121.5**	**318.1**	**806.7**

[1] Include discontinued operation until October 1st, 2022

Other intangible assets as at December 31, 2022 mainly comprise of customer relationships, favourable contracts (e.g. economic value of the landfill rights) technology related intangible assets identified in business combinations and internally generated development and software. Increase in other intangible assets for year ended December 31, 2022 mainly relate to capitalized development costs, patents and IT projects. An impairment loss of 130 million was recognized on Decor business related goodwill before the disposal.

		Other intangible assets			
Intangible assets, EUR million, **2021**	Goodwill	Customer relationships	Patents and trademarks	Other	Other intangible assets in total
Historical cost					
Opening	–	–	–	–	–
Business combination	1,145.8	410.0	130.0	317.6	857.6
Additions	–	1.6	–	28.5	30.2
Disposals	–	–	–	-0.1	-0.2
Reclassifications and other	–	–	–	-8.0	-8.0
Translation differences	23.5	11.5	–	8.0	19.5
Closing	**1,169.3**	**423.1**	**130.0**	**346.1**	**899.2**
Accumulated amortization					
Opening	–	–	–	–	–
Amortization	–	19.1	3.9	18.0	41.1
Disposals	–	–	–	-0.1	-0.1
Translation differences and other	–	0.4	–	0.2	0.6
Closing	**–**	**19.4**	**3.9**	**18.2**	**41.6**
Net book value at year end	**1,169.3**	**403.7**	**126.1**	**327.9**	**857.6**

[1] Include discontinued operation.

Goodwill impairment tests

Ahlstrom operates under five segments which are Filtration, Food & Consumer Packaging, Healthcare, Building Materials, and Technical Materials. These five divisions form the Group's operating and reportable segments. Goodwill is allocated to the Segments reflecting their share of the deemed fair values of the acquired assembled workforce, expected synergies and other benefits. These five segments correspond to the groups of cash-generating units (CGU) and the lowest level at which goodwill is monitored for internal management purposes. See note 5 for division information.

In 2021 Allocation of goodwill was based on the fair values of acquired assets and liabilities assumed and was performed using relative enterprise values and net assets of the acquired business areas. The goodwill was reallocated in 2022 to the new reportable segments as a result of reorganization of reporting structure effective as of 1 July, 2022. Valuation bases remained the same.

2022

Allocation of goodwill by segment, EUR million	2022
Filtration	507.3
Food & Consumer Packaging	109.9
Healthcare	166.1
Building Materials	203.0
Technical Materials	115.6
Total	**1,101.9**

2021

Allocation of goodwill by business area, EUR million	2021
Filtration & Performance Solutions	686.6
Advanced Solutions	173.1
Industrial Solutions	120.6
Food Packaging & Technical Solutions	80.3
Decor Solutions	108.9
Total	**1,169.3**

The recoverable amounts of each group of cash-generating units are determined using a discounted cash flow model (value-in-use). Key assumptions used in the determination include short-term and long-term growth rate for net sales, development of EBITDA and pre-tax discount rate. Other assumptions include, annual capital expenditure and change in operative working capital.

The cash flows are based on Annual Plan for 2023 & derived business plans covering a period of three years. Cash flows beyond this three-year period are based on the terminal value and have been extrapolated using an estimated long-term sales growth rate of 2.0% considering inflation. All cash flow projections reflect the past performance of the Group's business operations and management expectations for future market development considering the external sources of information when available.

The discount rate used in the calculation is based on weighted average cost of capital (WACC) based on the market view of the time-value of money and reflect specific risks related to each business area.

The following tables set out the key assumptions for the groups of CGUs. Below tables concerns five divisions (groups of CGUs). All have been tested in annual impairment testing cycle.

Key assumptions, **2022**	Filtration	Food & Consumer Packaging	Healthcare	Building Materials	Technical Materials
Average net sales growth % in the testing period	11.5	10.1	2.8	3.9	5.6
Long-term growth-%	2.0	2.0	2.0	2.0	2.0
Average EBITDA margin % in the testing period	18.1	9.0	18.6	13.9	14.3
Pre-tax discount rate %	9.8	9.7	9.6	9.9	9.5

Key assumptions, **2021**	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions
Average net sales growth % in the testing period	4.6	5.7	5.3	3.4	10.2
Long-term growth-%	2.0	2.0	2.0	2.0	2.0
Average EBITDA margin % in the testing period	19.3	14.9	10.9	8.2	8.4
Pre-tax discount rate %	8.7	8.5	8.6	8.5	9.2

The impairment tests for 2022 indicated that the recoverable amount of the groups of CGUs exceeded their carrying value and goodwill has not been impaired. Goodwill impairment tests for 2021 did not result in a recognition of any impairment.

Sensitivity analysis

Management has considered and assessed reasonable possible changes for other key assumptions EBITDA margin and pre-tax discount rate in 2022 and 2021 and has not identified instances that would result in a carrying amount that exceed the recoverable amount of the Group's of CGUs. In order to cause carrying amount to exceed the recoverable amount, a 3.3 % decrease in the EBITDA margin or a 2.6% increase in the pre-tax discount rate would be required in one of the CGUs, keeping other parameters constant, and in the other CGUs, the changes would have to be even greater. At the lowest, the recoverable amount of the assets tested in CGUs in 2022 exceeds their carrying value by approximately EUR 190 million (approximately 170 million).

Research and development

Ahlstrom has product and process development activities focusing mainly on meeting customer requirements in relation to product properties and adaptations. Research and development costs are expensed except those development expenses that meet the capitalization criteria. In 2022 development costs that met capitalization criteria and were capitalized amounted to EUR 12.6 million (EUR 9.2 million).

Emission rights

Ahlstrom participates in the European Union emission trading scheme in which it has received free emission allowances for a defined period. Ahlstrom was granted 249,939. units (299,436 units) of CO2 emission rights for the year 2022. In 2022, Ahlstrom bought 137,500 units (144,000 units) of EU emission rights. As of December 31, 2022 the remaining CO2 credits were immaterial. For 2022 the Group has a net deficit of European Union Allowances (EUA). During 2022 the group has entered into EUA forward contracts to secure an average cost for the forecasted deficit. See note 19 for information on EUA forward contracts.

Accounting policies

Intangible assets

Goodwill

Goodwill arises from business combinations and represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable net assets acquired at the acquisition date. Goodwill is an intangible asset with an indefinite useful life. It is not amortized, but it is subject to impairment testing annually, or more frequently, if events or changes in circumstances indicate that goodwill might be impaired.

For impairment testing purposes, goodwill is allocated to groups of cash-generating units reflecting the lowest levels at which the goodwill is monitored for internal management purposes. A cash-generating unit, as determined for the purposes of the impairment testing, is the smallest group of assets generating separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The carrying value of a cash generated unit includes its share of relevant corporate assets allocated to it on a reasonable and consistent basis.

Ahlstrom conducts its impairment testing by determining the recoverable amount for a group of CGUs. The recoverable amount is defined as value-in-use according to a present value of the estimated future cash flows. The recoverable amount is compared to the group of CGUs' carrying value. If the carrying value exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount. If an impairment loss is recognized, the loss is first allocated to reduce goodwill and then to reduce other assets.

Impairment is recognized as an expense in the income statement. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Other intangible assets

Customer relationships, patents and trademarks, technology related assets and other intangible assets acquired in business combinations are recorded at fair value at the acquisition date and are subsequently amortized on a straight-line basis over estimated useful lives.

Computer software and separately acquired patents and trademarks are recorded at historical cost and amortized on a straight-line basis over their expected useful lives. Configuration and customization costs relating to cloud computing arrangements that meet the definition of an intangible asset and comply with the capitalization criteria in IAS 38 Intangible assets are capitalized. Configuration and customization costs for Cloud computing arrangements that do not meet the definition of an intangible asset and that are distinct from the access to the software are expensed when the service is received. Configuration and customization costs that are not distinct from the access to the software are recognized as prepayments in the balance sheet and expensed over the contract term.

Other intangible assets with definite useful lives are tested for impairment if there are indicators of impairment, see more information on triggering events in Accounting policy of Property, plant and equipment.

Research and development

Ahlstrom has product and process development activities focusing mainly on meeting customer requirements in relation to product properties and adaptations. Activities are divided into a research phase and a development phase. Research costs are expensed as incurred and recorded in the income statement. Expenditures on development activities are also expensed as incurred except those development expenses that meet the capitalization criteria. Development costs arising from the development of new or significantly improved products are capitalized as intangible assets when the costs of the development stage can be reliably determined, the product is technically feasible and economically viable, the product is expected to produce economic benefits and the Group has the intention and the required resources to complete the development effort. Capitalized development costs include the costs of material, labour and testing that are directly attributable to creating, producing and preparing the asset to be capable of operating in the manner intended by management. Amortization period for capitalized development costs is 10 years.

Emission rights

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

Accounting estimates and judgements

Key assumptions used in goodwill impairment testing

The management makes significant estimates and judgements in determining the level at which the goodwill is tested and whether there are any indications of impairment.

The calculations of the value-in-use are based on cash flow projections, which require assessments and estimates from the management. The most significant estimates concern development of net sales and EBITDA including estimates for market prices of pulp and cost levels of main raw materials and energy as well as determination of the weighted average cost of capital (WACC) used to discount cash flows. Management tests the impacts of changes in significant estimates used in forecasts by sensitivity analyses as described above in this note.

The covid-19 has increased the uncertainty related to the cash flow projections as the final impact will depend on the duration and the severity of the virus. In the weighted average cost of capital (WACC) management has included an alfa factor amounting to 3,5% to mitigate the risks related to the future cash flow projections.

Estimates and judgements related to other intangible assets

For more information on the estimation of useful economic life of an intangible asset, see note 9.

Property, plant and equipment[1]

Property, plant and equipment, EUR million, **2022**	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
Historical cost						
Opening	96.6	229.4	865.5	11.8	125.7	1,329.0
Business Combination	–	11.5	17.1	–	0.0	28.6
Additions	–	1.6	36.3	0.2	142.4	180.5
Business disposals	-20.1	-38.8	-141.2	-2.2	-11.2	-213.5
Disposals	0.0	0.0	-5.2	0.0	0.0	-5.3
Reclassifications and other	4.0	4.8	100.2	0.8	-109.8	-0.1
Translation differences	0.1	1.3	10.9	0.0	-0.5	11.7
Closing	**80.6**	**209.7**	**883.5**	**10.5**	**146.6**	**1,330.8**
Accumulated depreciation						
Opening	0.8	17.7	94.1	1.6	0.4	114.5
Depreciation	1.0	19.8	106.8	3.0	0.1	130.8
Business disposals	–	-2.4	-33.1	-0.4	–	-35.9
Disposals	–	0.0	-4.7	0.0	–	-4.8
Impairment	0.0	–	4.4	–	0.1	4.5
Reclassifications	–	0.1	0.0	0.1	–	0.2
Translation differences and other	0.0	-0.2	0.5	0.0	0.0	0.4
Closing	**1.9**	**34.9**	**168.0**	**4.3**	**0.6**	**209.8**
Net book value at year end	**78.7**	**174.7**	**715.4**	**6.2**	**145.9**	**1,121.1**

[1] Include discontinued operation until October 1st, 2022

Increase in property, plant and equipment for the year ended December 31, 2022 were mainly related to the investments in Madisonville, U.S. EUR 33.7 million, Turin, Italy EUR 14.5 million, in Chirnside, UK EUR 7.1 million, in Rhinelander, U.S. EUR 9.7 million, in Thilmany, U.S. EUR 19.5 million, in Mosinee, U.S. EUR 11.2 million and in Billingsfors, Sweden EUR 9.5 million.

See note 20 for information on capital expenditure commitments and note 9 for information on impairment losses.

Property, plant and equipment, EUR million, **2021**	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
Historical cost						
Opening	–	–	–	–	–	–
Business Combination	95.2	221.7	789.5	10.7	70.0	1,187.1
Additions	–	0.4	15.2	0.4	106.2	122.2
Disposals	0.0	-0.2	-4.6	-0.3	0.0	-5.0
Reclassifications and other	0.3	3.9	48.1	0.9	-53.2	0.0
Translation differences	1.2	3.5	17.3	0.0	2.7	24.7
Closing	**96.6**	**229.4**	**865.5**	**11.8**	**125.7**	**1,329.0**
Accumulated depreciation						
Opening	–	–	–	–	–	–
Depreciation	0.7	17.6	96.2	1.9	–	116.4
Disposals	–	-0.2	-4.1	-0.3	–	-4.5
Impairment	–	–	0.8	–	0.4	1.1
Reclassifications	–	–	–	–	–	–
Translation differences and other	0.0	0.2	1.3	0.0	0.0	1.5
Closing	**0.8**	**17.7**	**94.1**	**1.6**	**0.4**	**114.5**
Net book value at year end	**95.9**	**211.7**	**771.4**	**10.1**	**125.3**	**1,214.5**

[1] Include discontinued operation.

Right-of-use assets ("ROU assets")[1]

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

Right-of-use assets, EUR million, **2022**	Land and water areas	Buildings	Machinery and Equipment	Total
Historical cost				
Opening	0.6	15.3	39.3	55.2
Additions	–	2.7	10.4	13.0
Business disposals	–	-3.4	-2.4	-5.8
Other	–	0.1	-9.4	-9.4
Translation differences	0.0	0.3	0.8	1.1
Closing	**0.6**	**15.0**	**38.6**	**54.1**
Accumulated depreciation				
Opening	0.1	2.5	7.7	10.3
Depreciation	0.1	3.3	11.9	15.2
Business disposals	–	-0.8	-0.2	-1.0
Other	–	0.1	-8.7	-8.6
Translation differences	0.0	0.0	0.1	0.1
Closing	**0.1**	**5.1**	**10.8**	**15.9**
Net book value at year end	**0.5**	**9.9**	**27.8**	**38.2**

[1] Include discontinued operation until October 1st, 2022

The expenses relating to leases for which Ahlstrom applied the practical expedient (short-term leases and low-value leases) amounted to EUR 3.9 million (EUR 4.3 million) and the income from subleasing right-of-use assets amounted to EUR 0.4 million (EUR 0.2 million) for the year end December 31, 2022 and are reported as other operating income.

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

Right-of-use assets, EUR million, **2021**	Land and water areas	Buildings	Machinery and Equipment	Total
Historical cost				
Opening	–	–	–	–
Business Combination	0.6	15.4	33.2	49.2
Additions	–	0.4	8.2	8.6
Other	–	-1.0	-3.2	-4.2
Translation differences	0.0	0.5	0.9	1.5
Closing	**0.6**	**15.3**	**39.3**	**55.2**
Accumulated depreciation				
Opening	–	–	–	–
Depreciation	0.0	3.2	10.4	13.7
Other	–	-0.7	-2.8	-3.5
Translation differences	0.0	0.1	0.1	0.2
Closing	**0.1**	**2.5**	**7.7**	**10.3**
Net book value at year end	**0.5**	**12.8**	**31.5**	**44.9**

[1] Include discontinued operation.

Accounting policies

Property, plant and equipment

Impairment of property, plant and equipment, goodwill and other intangible assets

Ahlstrom assesses the recoverability of the carrying amount of property, plant and equipment and intangible assets with definite useful lives if events or changes in circumstances indicate that the carrying amount may be impaired (a triggering event). Factors that the Group considers when it reviews indicators of impairment include, but are not limited to:

- Observable indications for decrease in value
- Significant adverse changes that have taken place in the technological, market, economic or legal environment
- Increases in interest rates
- Obsolescence or physical damage affecting the asset
- Deterioration in the expected level of the asset's performance or adverse changes impacting the way the asset is used or expected to be used
- Where management's own forecasts of future net cash inflows or operating profits show a significant decline from previous budgets and forecasts

The carrying amount of an asset is written down immediately to the asset's recoverable amount if the carrying value exceeds the recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell or its value-in-use. Value-in-use is determined by discounting future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit).

The impairment of assets is reversed if there is an indication that it is no longer necessary, and there has been a change in the assumptions which formed the basis of the calculation of the recoverable amount. A reversal is only made to the extent that the asset's carrying value after reversal does not exceed the carrying value that the asset would have had, with a deduction for depreciation, if no impairment had been carried out.

Property, plant and equipment

Land and land improvements include the Group's freehold land and the landfills that the Group operates at or near certain of its facilities in the United States. The operation of these landfills require state, federal and local permits for construction, operation and closure and the landfills are subject to constructing final capping and continued monitoring.

The freehold land and land improvements are recognized at cost. The cost of land improvements include the cost of landfill preparation and excavation, construction of liners, related costs for environmental permits and studies and the initial estimate to close, cap and care the landfill, for which the Group has made the environmental provision (see note 16).

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment. The cost includes the purchase price and expenditure directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Interest on borrowings directly attributable to the purchase, construction or production of assets that take considerable time to complete are capitalized.

Property, plant and equipment comprising parts with different useful lives are treated as separate components of the asset. The costs incurred for replacing the part are recognized in the carrying amount of the asset which is depreciated over the useful life of replacement. The carrying value of a property, plant and equipment is derecognized from the balance sheet on scrapping or sale, or when no future economic benefits are expected from use of the asset. Ordinary repair and maintenance costs are expensed as incurred.

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

Government grants

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

Right-of-use assets

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

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

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

Accounting estimates and judgements

Estimates and judgements related to property, plant and equipment as well as other intangible assets

The Group has tangible and other intangible assets with definite useful lives which values are presented above. The assets are tested for impairment when there are events or changes in circumstances indicate that the carrying value may be impaired (a triggering event). The recoverability of these assets is based on market assumptions and managements estimate of future cash flows. Changes in assumptions and failure to meet certain earnings targets could result in impairment. Management has considered the triggering events due to Covid-19 pandemic and other events and tested the assets for impairment accordingly. For impairment testing see more details in note 8.

Estimates and judgements related to right-of-use assets

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

13 INVENTORIES

Inventories consist of products from the Group's five divisions – Filtration, Healthcare, Technical Materials, Food & Consumer Packaging and Building Materials – in varying stages of the production process.

Inventories, EUR million	2022	2021
Materials and supplies	127.9	130.8
Work in progress	41.5	42.2
Finished products	206.2	223.9
Consumables and spare parts	47.7	43.8
Total	**423.2**	**440.7**

Change in allowance for inventory obsolescence for Finished products and Work in progress, EUR million[1]	2022	2021
Opening	**-29.7**	**–**
Business combination	0.0	-29.6
Business disposal	2.0	–
Change in allowance for inventory obsolescence	-1.9	-0.4
Inventory write-downs through profit and loss	-8.3	1.1
Translation differences	-0.6	-0.7
Closing	**-38.5**	**-29.7**

[1] Include discontinued operation until October 1st, 2022

Accounting policies

Inventories are recognized at the lower of cost and net realizable value. Net realizable value is calculated as the selling price less costs attributable to the sale.

The methodology for determining the cost of inventories varies depending on the inventory class.

Materials and supplies
Materials and supplies are valued using the weighted average cost method. Under the weighted average cost method, the cost of each items remaining in inventories at the period end is determined from the weighted average of the cost of similar items at the beginning of the period and the cost of similar items purchased during the period.

Finished products and Work in progress
Finished products and work in progress are valued on a first-in, first-out basis. Costs comprise all costs that are directly attributable to the manufacturing process, including direct material and labour, and production related overheads (based on normal operating capacity and normal consumption of material, labour and other production costs) and depreciation charges.

Accounting estimates and judgements

Inventory obsolescence
If the net realizable value of inventory is deemed lower than the cost, then allowance is established for inventory obsolescence. The amount to be allocated to inventory obsolescence is based on an estimation of the net realizable value of inventory.

14 TRADE AND OTHER RECEIVABLES AND TRADE AND OTHER PAYABLES

Trade and other receivables represent amounts that Ahlstrom expects to collect from other parties. Trade and other payables mainly consist of amounts owed to suppliers, employees and customers.

Trade and other receivables

Current trade and other receivables, EUR million	2022	2021
Trade receivables	229.4	238.5
Escrow cash account	242.2	288.3
Value added tax	31.6	35.0
Prepaid expenses and accrued income	29.7	19.8
Current derivative assets (note 19)	3.4	0.6
Other receivables	24.0	17.7
Total	**560.3**	**599.9**

Trade receivables consists mainly of receivables from contracts with customers.

Ageing of trade receivable

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

EUR million, **2022**	Not due	1-30	31-180	181-360	>360	Total
Trade receivable	183.3	38.9	6.7	0.6	4.3	233.8
Loss allowance	-0.0	-0.0	-0.1	-0.1	-4.3	-4.4
Trade receivables	**183.3**	**38.9**	**6.6**	**0.6**	**–**	**229.4**

EUR million, **2021**	Not due	1-30	31-180	181-360	>360	Total
Trade receivable	216.5	19.5	2.0	0.3	6.3	244.5
Loss allowance	-0.1	-0.0	-0.0	-0.0	-5.9	-6.0
Trade receivables	**216.4**	**19.5**	**1.9**	**0.3**	**0.4**	**238.5**

Recoverability of trade receivable

Change in allowance for trade receivable, EUR million	2022	2021
Opening	-6.0	–
Business combination	0.0	-6.4
Increase in allowance recognized in profit or loss during the year	-0.6	-0.3
Reversal of allowance	2.2	0.7
Business disposal	0.0	–
Closing	**-4.4**	**-6.0**

Credit risk

Financial instruments that could potentially expose Ahlstrom to counterparty risk consist primarily of trade receivables, cash and cash equivalents and derivative financial instruments. The Group is exposed to counterparty credit risks from financial transactions and customer credit risks.

Financial transactions counterparty credit risk
Financial transactions counterparty credit risk refers to the Group's exposure under financial contracts arising from the deterioration of the counterparties' financial position. In order to minimize this risk, Ahlstrom have the following guidelines in place in the Group Treasury Policy:

- Only entering into transactions with leading financial institutions and with industrial companies that have a high credit rating (preferably BBB or higher).
- Investing in liquid cash funds only with financially secure institutions or companies (preferably BBB or higher).
- Requiring parent company guarantees when dealing with any subsidiary of a rated company.

Customer credit risk
Customer credit risk governance is applied centrally for each subsidiary. Customer credit risk and exposure is arising from the deterioration of the customers' financial position.
Methods to mitigate the customer credit risk include credit insurance and trade finance products.

Factoring and financing programs

For the financing of the Group's receivables, the company makes use of factoring and similar financing programs, the utilized programs shall be limited to 60% of the total accounts receivables, before factoring, calculated as a rolling average for three month's ends. In addition to the Groups EUR 300.0 million factoring program, the Group companies may enter into supplier finance or other corresponding financing programs subject to CFO approval and according to the criteria defined in the Group Treasury Policyy approved by the Board. Financing programs are on a non-recourse basis, however, the factoring program allows also a share of recourse factoring (max 15% of the EUR 300.0 million total limit). At the end of the reporting period the outstanding amount under the factoring or similar arrangements was EUR 344.7 million (EUR 281.5 million), of which EUR 217.5 million was non-recourse factoring and EUR 127.2 million was other financing programs. In addition, the recourse factoring at year end was EUR 32.2 million.

Trade and other payables

Trade and other payables, EUR million	2022	2021
Trade payables	576.3	491.1
Accrued expenses	168.9	161.2
Trade payables to equity accounted investments	6.5	3.5
Current derivative liabilites (note 19)	15.7	2.6
Advances received from customers	3.7	4.6
Other liabilities	270.3	223.4
Total	**1,041.3**	**886.4**

Accrued expenses, EUR million	2022	2021
Accrued personnel costs	105.9	95.3
Accrued customer rebates	29.5	30.9
Accrued interest expenses	7.4	8.8
Other	26.1	26.2
Total	**168.9**	**161.2**

Accrued expenses include rebates from contracts with customers amounting to EUR 29.5 million (EUR 30.9 million).

Accounting policies

Trade and other receivables

Trade and other receivables are recognized at amortized cost, using the effective interest rate method, less any impairment losses, with the exception of fair value of unrealized hedges whose treatment is discussed in note 19. The credit quality of receivables that are neither past due nor impaired has been deemed sufficient and payments are expected to be received when the receivables are due. Any changes to the allowance for doubtful accounts receivable are recognized as an expense in the income statement.

The Group applies the simplified approach to assess the credit risk of trade receivables. The loss allowance is measured at the estimate of the lifetime expected credit losses. The Group uses loss allowance provision matrix to determine the expected credit loss rates. It considers historical loss rates for each ageing category and region. The calculated loss percentage is then adjusted with the forward looking macroeconomic data. For trade receivables not due or maximum 180 days overdue, a loss allowance of 0.0%-10.0% is made. The trade receivables, which are overdue 181-360 days a loss allowance of 60.0% will be made and for more than 360 days a loss allowance of 100.0% will be made. The trade receivables are partly insured and the amount that will be received from the insurer is excluded from the calculation of the trade receivables impairment.

Trade and other payables

Trade and other payables represent liabilities for goods and services and are recognized at amortized cost, using the effective interest rate method. The amounts are unsecured and are usually paid within 30 days from initial recognition.

15 DEFINED BENEFIT OBLIGATION

Group has defined benefit plans in several countries, of which the most significant are the United States 65.2% of Group's total defined benefit obligation, France 14.7% and Sweden 8.8%. The plans are in accordance with local laws and practices and are funded to satisfy the local statutory funding requirements.

Ahlstrom's most significant funded defined benefit plans are in the United States. The assets are managed by external fund managers. The funds are allocated between equity instruments and fixed income instruments in order to provide return at target level and limited risk profile. The valuations of the obligations are carried out by independent qualified actuaries.

In the United States, a part of Ahlstrom's employees are members in Group Retirement Plan for U.S. Employees, which is a funded defined benefit plan and the largest of the Group's schemes in the United States. The plan is managed by Ahlstrom-Munksjö USA Inc.'s Pension Committee. The scheme has been closed to new members since 2006. In addition to the Group Retirement Plan for U.S. Employees, Ahlstrom also operates a number of other post-employment benefit plans in the United States, including providing post-employment medical and life insurance benefits, retirement plans for hourly paid employees, and State Earnings Related Pension Schemes (SERPS). These plans are predominantly unfunded.

In France the main funded defined benefit plan operated by the Group is the termination indemnity plan. Termination indemnity plans are designed to finance the severances paid to the employees who leave the company for retirement. Ahlstrom still operates other post-employment benefit plans in France which are closed to new members for many years.

In the United Kingdom, the Group operated a funded defined benefit plan which was sold to an external party during 2021 ("pension scheme buy-out"). The UK pension scheme related gains, losses, contributions, assets and liabilities do not belong to Ahlstrom after buy-out but to an external party, which is reflected in these Group financial statements and the note information presented. Ahlstrom-Munksjö UK was exposed to a 18-month standard-term wind-up period after the buy-out where no material impacts are expected.

The Group's main unfunded defined benefit plans are in Italy (TFR Trattamento di Fine Rapporto, termination indemnity plan) and in Sweden. The pension schemes in Italy are closed for new entrants. In Sweden, the pension cover is organized through unfunded defined benefit plans (ITP system, Industrins och handels tilläggspension).

Risks associated with defined benefit plans

Through its defined benefit pension plans the Group is exposed to a number of risks.

Changes in bond yields

The employer's defined benefit obligations pension liability are calculated using a discount rate which is determined with reference to corporate bond yield as at the balance sheet date. A decrease (increase) in used discount rates increase (decrease) the defined benefits obligations. However, a decrease (increase) in the used discount rate yield also increases (decreases) the fair value of the assets partially offsetting the total impact of the change in yield on the net defined benefit pension liability.

Inflation risk

The benefit of the plans is tied to the future pension increase, which depends on inflation and common salary index. Higher inflation increases the benefit increase, which leads to an increase in liabilities and annual payments to the insurance company.

If the active employee's salary increases more than the common salary index, the amount of promised benefit and the benefit obligation increases together with annual payments to life insurance company.

Life expectancy

Longevity risk arises in case the actual timing of mortality differs from the assumed. Possible adjustments in mortality assumption have an effect on the employer's liability.

Post-employment and other long-term benefit plans

Employee benefits liability recognized in the balance sheet, EUR million	2022	2021
Present value of funded benefit obligations	109.5	139.0
Present value of unfunded benefit obligations	35.1	53.8
Fair value of plan assets	-105.8	-128.5
Net defined benefit liability - closing	**38.7**	**64.3**
Other long-term employee benefits	4.5	7.6
Total net liability	**43.2**	**71.9**

Amounts in the balance sheet, EUR million	2022	2021
Employee benefit obligations	52.0	83.3
Other non-current assets	-8.8	-11.4
Total net liability	**43.2**	**71.9**

Changes in the present value of obligations, EUR million[1]	2022	2021
Present value of defined obligation - opening	**192.5**	**–**
Business combinations	–	202.3
Business disposal	-7.9	–
Current and past service cost	2.5	3.1
Interest cost	4.1	3.2
Remeasurement gain/loss on pension scheme liabilities	-39.5	-10.2
Gains and losses on settlement	-1.2	0.0
Benefits paid	-11.9	-12.5
Translation differences	5.7	6.7
Present value of defined benefit obligation - closing	**144.4**	**192.5**

Changes in the fair value of the plan assets, EUR million[1]	2022	2021
Opening fair value of plan assets	**128.5**	**–**
Business combinations	–	122.2
Interest income on plan assets	3.4	2.6
Remeasurement gain/loss on pension scheme assets	-27.5	3.6
Contributions by employer	6.2	6.5
Benefits paid	-11.9	-12.5
Translation differences	7.1	6.1
Closing fair value of plan assets	**105.8**	**128.5**

Amounts recognized in income statement, EUR million[2]	2022	2021
Personnel costs		
Current service cost	-2.7	-3.0
Past service cost	0.2	-0.1
Gains and losses on settlement	1.2	–
Finance costs		
Net interest cost	-0.6	-0.6
Cost recognized in income statement	**-1.9**	**-3.7**

Remeasurement effects recognized in other comprehensive income (OCI), EUR million[2]	2022	2021
Remeasurement gain/loss on pension scheme assets	-27.5	3.6
Remeasurement gain/loss on pension scheme liabilities	37.2	10.2
Remeasurement effects before tax	**9.7**	**13.8**
Income tax relating to remeasurement effects	-2.3	-3.4
Remeasurement effects recognized in OCI net of tax	**7.4**	**10.4**

The Group expects to contribute EUR 4.8 million to its defined benefit plans in 2023.

Plan asset categories, EUR million[1]	2022	2021
Equity instruments (listed)	15.5	48.3
Debt instruments	73.8	64.6
Other	16.5	15.5

[1] Include discontinued operation until October 1st, 2022.
[2] Includes only continuing operation.

Principal actuarial assumptions, %	2022	2021
USA		
Discount rates	5.2	2.7
Future salary increases	n/a	n/a
Future pension increases	n/a	n/a
France		
Discount rate	3.8	1.0
Future salary increases	3.0	2.8
Future pension increases	n/a	n/a
Sweden		
Discount rate	3.7	1.8
Future salary increases	3.0	3.1
Future pension increases	2.0	2.1
Germany		
Discount rate	3.4	0.7
Future salary increases	2.5	2.5
Future pension increases	2.2	1.7

The actuarial assumptions in other countries are immaterial.

Assumptions regarding future mortality are based on actuarial guidelines in accordance with published statistics and experience in each region.

The sensitivity of the defined benefit obligation to changes in discount rate, future salary growth and future pension growth is presented in the following tables (increase of liability (+)/decrease of liability (-)).

Sensitivity analyses: Discount rate impact, EUR million	2022	2021
Discount rate change + 0.50%	-6.5	-8.2
Discount rate change - 0.50%	7.0	12.0

Sensitivity analyses: Future salary growth, EUR million	2022	2021
Future salary growth + 0.50%	1.8	2.6
Future salary growth - 0.50%	-1.6	-2.3

Sensitivity analyses: Future pension growth, EUR million	2022	2021
Future pension growth + 0.50%	1.2	1.6
Future pension growth - 0.50%	-1.1	-1.5

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

Accounting policies

Defined benefit obligation

The Group has various pension schemes and other post-employment benefits in accordance with local practices in different countries. The post-employment plans are classified as either defined contribution plans or defined benefit plans. The schemes are mostly funded through payments to insurance companies or trustee-administered funds according to local regulations. A defined contribution plan is a post-employment plan under which the company and usually also the employees pay fixed contributions to an insurance company. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay the benefits to the employees. Contributions to defined contribution pension plans are recognized as expense in the period when they incur. All pension plans which do not meet the criteria for defined contribution plans are defined benefit plans. Defined benefit plans typically define a fixed amount of benefit that an employee will receive after retirement and which the company is responsible for.

The Group's net obligation of defined benefit plans is calculated and recorded separately for each pension or other post employment plan based on calculations prepared by independent actuaries. The present value of defined benefit obligations is determined using the projected unit credit method. The net liability recognized in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The discount rate used to determine the present value of the defined benefit obligation is equal to the yield on high quality corporate bonds or, if not available, government bonds.

The interest rates of the high quality corporate bonds are determined in the currency in which the benefits will be paid with a similar maturity to the obligation.

The Group's net obligation in respect of long-term service benefits, other than post employment benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The defined benefit obligation schemes that have been sold to external parties, and where all the key rights, obligations and commitments are transferred to an external party, are not recognized on Balance Sheet anymore afterwards to the extent there are no probable obligations left in the Group.

Accounting estimates and judgements

Pension calculations under defined benefit plans include several factors that rely on management estimates: the discount rate used in calculating pension expenses and obligations for the period, the rate of salary increase and the rate of future discretionary bonuses decided by the insurance company. Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses.

16 PROVISIONS

Provisions are estimated liabilities with uncertainty over the timing and amount that will be paid by Ahlstrom in the future.

Provisions, EUR million, **2022**[1]	Environmental	Restructuring	Other	Total
Opening	**19.9**	**3.5**	**13.5**	**36.9**
Business disposals	–	–	-0.5	-0.5
Unwinding of discount	0.4	–	–	0.4
Provisions made during the year	0.8	0.7	6.5	8.0
Provisions used during the year	-0.2	-2.8	-6.9	-9.8
Provisions reversed	-0.4	-0.1	-2.5	-3.0
Reclassification	-0.1	–	0.1	–
Translation differences	0.2	0.1	1.0	1.2
Closing	**20.6**	**1.5**	**11.1**	**33.1**
Non-current provisions				21.1
Current provisions				12.0

[1] Include discontinued operation until October 1st, 2022

Provisions, EUR million, **2021**	Environmental	Restructuring	Other	Total
Opening	**–**	**–**	**–**	**–**
Business combination	18.2	5.0	18.0	41.1
Unwinding of discount	0.4	–	–	0.4
Provisions made during the year	0.9	2.0	4.6	7.5
Provisions used during the year	-0.2	-3.3	-6.6	-10.1
Provisions reversed	–	-0.1	-2.8	-3.0
Translation differences	0.5	0.0	0.4	0.9
Closing	**19.9**	**3.5**	**13.5**	**36.9**
Non-current provisions				20.4
Current provisions				16.6

Environmental provisions of EUR 20.6 million mainly consist of landfill related provisions in the U.S. EUR 10.6 million, future restoration costs of old Fitchburg mill in the U.S. and old buildings in Sweden. Provisions made are mainly other provisions and provisions related to customer claims. For the most part the provisions used relate to the landfill related provisions in the U.S.

Accounting policies

A provision is recognized when a present legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are split between amounts expected to be settled within 12 months on the balance sheet (current) and amounts expected to be settled later (non-current).

Restructuring
A provision for restructuring is only recognized when a formal plan has been approved and the implementation of the plan has either commenced or the plan has been announced.

Environmental
Environmental provisions are recorded based on current interpretations of environmental laws and regulations. Such provisions are recognized when it is probable that an obligation has arisen and that the amount of the obligation can be reliably measured. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

Accounting estimates and judgements

Environmental
The estimates used in determining the provisions for environmental costs are based on management's expectations of, for example:
- Timing and scope
- Future cost levels
- Laws and regulations enacted at time of the restoration works

The timing of the environmental costs depends on the expected useful lives of the Group's sites. These range from 50 – 70 years. In measuring the future cost levels, the Group estimates future costs and adjusts these for the effect of inflation, cost-base development and discounting. The estimated costs are based on current laws and regulations in place at the time of making the provision.

The Group utilizes a third party consultant to estimate both the closure and long-term care costs for the landfills. The estimate is based on the area finally to be capped and the capping materials and activities required along with the permit and regulatory requirements for closure and post-closure maintenance. These costs are reviewed periodically by the Group's environmental experts and by a third party consultant.

Because actual outflows can differ from estimates due to changes in law, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take into account any such changes. The discount rate used is reviewed annually.

Net indebtedness and capital management

This section outlines the Group's net debt and how Ahlstrom manages its capital including liquidity management. The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

17 NET INDEBTEDNESS

Net indebtedness is Ahlstrom's key measure to evaluate the total external debt financing of the Group. Net debt is defined as borrowings less cash and cash equivalents. The Group's sources of borrowing for funding and liquidity purposes are primarily term loans, bonds, bank loans, factoring, and commercial paper. The Group has also entered into a number of lease liabilities to secure the availability of assets used in the production process.

Net indebtdetness, EUR million	2022	2021
Cash and cash equivalents	240.7	**162.6**
Senior secured credit facilities	1,415.4	1,327.9
Senior secured notes	614.3	594.9
Senior secured net indebtedness	**1,788.9**	**1,760.2**
Bank loans	64.7	124.2
Pension loan	5.0	15.0
Commercial papers	–	119.9
Lease liabilities	39.7	45.9
Other financial liabilities	31.7	19.0
Net indebtedness	**1,930.0**	**2,084.2**

Reconciliation of net indebtedness

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

Reconciliation of net indebtedness, EUR million, **2022**	Opening	Business Combinations	Business Disposals	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	2,246.8	11.1	-35.5	-76.2	-23.7	48.2	**2,170.7**
Cash and cash equivalents	162.6	0.4	-36.8	114.5	–	0.0	**240.7**
Net Indebtedness	**2,084.2**	**10.7**	**1.3**	**-190.7**	**-23.7**	**48.2**	**1,930.0**

Reconciliation of net indebtedness, EUR million, **2021**	Opening	Business Combinations	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	–	1,159.0	718.7	352.8	16.4	**2,246.8**
Cash and cash equivalents	30.7	276.6	-146.0	–	1.3	**162.6**
Net Indebtedness	**-30.7**	**882.4**	**864.7**	**352.8**	**15.1**	**2,084.2**

Borrowings

Ahlstrom Holding 3 Oy has entered into the following debt financing arrangements to finance the tender offer purchase consideration for the acquisition of Ahlstrom to refinance certain of Ahlstrom's existing debt arrangements and for the other uses described below:

Senior term facilities

Ahlstrom Holding 3 Oy entered into a senior secured credit facilities agreement on January 29, 2021 (as amended and restated on 18 March 2021) with several financial institutions. The senior secured credit facilities agreement provides for (i) senior term loan facilities in principal amounts of: (A) EUR 350 million, which was increased by EUR 250 million to a total amount of EUR 600 million on March 18, 2021 ("TLB1"), (B) USD 363.7 million (EUR 300 million equivalent), which was increased by USD 183.3 million (EUR 150 million equivalent) to a total amount of USD 547 million (EUR 450 million equivalent) on March 18, 2021 ("TLB2"); (C) EUR 282 million, which was entered into on June 21, 2021 in relation to the financing of the squeeze-out of minority shareholders (and related steps) ("TLB3"); and (D) EUR 60 million, which was entered into on March 11, 2022 in relation to the financing of general corporate purposes (including acquisitions) ("TLB4" and together with TLB1, TLB2 and TLB3, "Senior Term Facilities") and (ii) a revolving credit facility in a principal amount of EUR 325 million (the "Revolving Credit Facility").

The Senior Term Facilities will mature on February 4, 2028 and the Revolving Credit Facility matures six months before the Senior Term Facilities. The Revolving Credit Facility may be utilized until (and including) the date falling 1 month prior to the maturity date of the Revolving Credit Facility.

The TLB1, TLB 3 and TLB4 term loans carry interest of EURIBOR (with zero floor) plus a margin of 3.00-3.75% p.a. (applicable margin based on Senior Secured Net Leverage Ratio and margin ratchet, which applies for all Senior Term Facilities and Revolving Credit Facility) and will be repaid in full at the maturity date. The TLB2 term loans carry interest of LIBOR (with 0.75% floor) plus 3.75-4.00% p.a. and will be repaid in instalments on a quarterly basis (i.e. the last day of each full quarter) by 0.25 per cent of their outstanding principal amount, with the remaining balance to be repaid in full at the maturity date. The Revolving Credit Facility carries interest of IBOR (with zero floor) plus 3.00-3.75% p.a. for drawn commitment. For the undrawn commitment, 30% of margin is charged as commitment fee.

As at December 31, 2022, all of the Senior Term Facilities have been drawn in full and and no amounts were outstanding under the Revolving Credit Facility. The principal amount of outstanding guarantees from ancillary facilities under the Revolving Credit Facility were EUR 85.2 million (EUR 64.9 million).

2022 National currency	Weighted average interest rate %	Carrying value, EUR million
Committed loans from banks grouped by currency		
EUR	5.45	923.8
USD	8.48	492.6
CNY	5.42	57.4
Uncommitted loans from banks grouped by currency		
BRL	18.00	5.3

2021 National currency	Weighted average interest rate %	Carrying value, EUR million
Committed loans from banks grouped by currency		
EUR	3.74	863.6
USD	4.75	466.4
CNY	5.53	60.1
BRL	7.29	45.5
Uncommitted loans from banks grouped by currency		
BRL	8.35	16.6

Senior Secured Notes

On March 19, 2021, Ahlstrom Holding 3 Oy issued EUR 350 million senior secured notes (the "EUR Notes") and USD 305 million senior secured notes (the "USD Notes" and together with the EUR Notes, the "Notes"). The proceeds of the Notes, together with a portion of the proceeds of the Senior Term Facilities, were used to refinance the Bridge Facilities (as defined below) and to pay costs associated with the refinancing. The EUR Notes and the USD Notes bear interest at a rate of 3.625% and 4.875% per annum, respectively. The Notes will mature on February 4, 2028. Prior to February 4, 2024, Ahlstrom Holding 3 Oy will be entitled, at its option, to redeem all or a portion of the Notes by paying a "make-whole" premium. At any time on or after February 4, 2024, Ahlstrom Holding 3 Oy may redeem all or part of the Notes at the redemption prices set forth in the Notes. Interests on the Notes are paid semi-annually in arrears on April 1 and October 1 of each year. The Notes were admitted on the Official List of The International Stock Exchange on May 25, 2021.

				Carrying value, EUR million	
Notional currency	Initial notional amount, EUR million	Maturity	Coupon, %	2022	2021
EUR	350.0	February 04, 2028	3.63	338.6	336.6
USD	286.0	February 04, 2028	4.88	275.7	258.3

Commercial paper programme

In December 2021 Ahlstrom Oyj decided to enter a Finnish Commercial Paper program with the aggregate nominal amount of outstanding notes under this program limited to EUR 300 million. The notes are guaranteed by Ahlstrom Holding 3 Oy.

As at December 31, 2022, no amounts were outstanding under the Commercial Paper program.

For further information on the maturity of financial liabilities of the Group, see note 19.

Interest rate risk

Interest rate risk refers to the risk that changes in interest rates would have a negative effect on the result of the Group and could affect the long-term competitiveness of Ahlstrom. There is a risk of interest rates moving both upwards and downwards. During 2022 interest rates rose quickly and breached the interest rate floors of the Group's Senior Term facilities. As such the currently applicable interest expenses depend on the movements of the relevant IBORs and the applicable margin based on margin ratchet. The senior secured notes are fixed rate borrowings and the Group has also actively been hedging its interest rate risk with interest rate derivatives. The average maturity of the interest rates of the total debt portfolio, was at the reporting date 19 months (i.e. this is the average reset interval that applies to the interest rates).

Consideration is taken at all times to assess how exposed the Group is to a change in interest rates. In order to limit the impact of movements in interest rates, the Treasury Policy provides the following guidelines:

- Aim is to achieve an average maturity of the interest rates in the debt portfolio, including the interest rate derivatives, of 2 years +/-1 year
- Interest maturities are preferably spread out evenly over time in order to avoid substantial risk concentrated to one period.

In accordance with its policy, Ahlstrom can hedge its interest rate risk by using derivative instruments.

In October 2021 the company entered into interest rate cap transactions to hedge part of its interest rate risk of its floating rate USD debt, the nominal amount hedged was USD 370 million. In February 2022 the company entered into interest rate cap transactions to hedge part of its interest rate risk of its floating rate EUR debt, the nominal amount hedged was EUR 400 million. In June 2022 the company entered into interest rate cap transactions to further hedge part of its interest rate risk of its floating rate EUR debt, the nominal amount hedged was EUR 220 million.

The gross nominal amount of interest rate derivatives at the end of the reporting period was USD 370 million and EUR 620 million. All outstanding interest rate options are maturing in September 2025. The company decided not to apply IFRS hedge accounting for its interest rate options. At December 31, 2022, the fair value of the interest rate derivatives was EUR 63.2 million.

More information on how Ahlstrom manages its financial risks is presented below in note 19.

Sensitivity analysis of Ahlstrom position to changes in interest rates

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

Interest rate sensitivity, EUR million	2022	2021
Variable rate cash equivalents	240.7	162.7
Variable rate bank loans	-1,509.1	-1,476.5
Position used in sensitivity analysis	**-1,268.4**	**-1,313.9**
Interest +1%, impact on net result	-3.0	-8.4
Interest +2%, impact on net result	-6.0	-19.2

Effect of IBOR reform and management of the transition

In November 2020, the ICE Benchmark Administration (the administrator of LIBOR) announced its intention to cease publication of the one-week and two-month US dollar (USD) LIBOR settings as well as all non-USD LIBOR settings immediately following the LIBOR publication on December 31, 2021. It will cease publication of the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. Concerns about the sustainability of LIBOR and other interbank offered rates (IBORs) globally has led to an effort to identify alternative reference rates.

The Group currently has debt arrangements and derivative contracts which reference USD LIBOR and extend beyond 2023. At the time of reporting, it is expected that the USD LIBOR will be replaced with Term SOFR (The Secured Overnight Financing Rate), however some uncertainty around the timing and precise nature of the replacement remains.

There has been general communication with derivative and debt counterparties, but specific changes required by IBOR reform have not yet been agreed. Risks arising from the transition relate principally to the potential impact of, rate differences if the debt and related derivative instruments do not transition to the new benchmark interest rate at the same time and/or do not use exactly the same methods of calculation and/or the rates move by different amounts.

The main contracts which reference USD LIBOR are the Groups USD floating-rate senior term facilities (in total USD 537.5 million) as well as its USD interest rate cap transactions (in total USD 370 million), which hedge part of the interest rate risk of the mentioned USD floating-rate senior term facilities. Other exposures to the IBOR transitions within the Group are minor, including for instance lease liabilities.

Cash and cash equivalents

Ahlstrom utilizes cash pools to centralize and optimize its cash and liquidity management; and to reduce the cost of carry otherwise incurred on credit and debit balances held at various individual accounts. Group Treasury is responsible for the Group's cash management, including the cash pool structures.

EUR million	2022	2021
Cash and cash equivalents	240.7	162.6

Bank deposits are subject to variable interest based on the bank's daily deposit rate. The cash and cash equivalents disclosed above include restricted cash amounting to EUR 52.8 million (EUR 35.8 million).

Accounting policies

Borrowings

Bonds, bank loans and loans from multilateral institutions are recognized at their inception at their fair value (typically the proceeds received) net of directly related transaction costs incurred. The borrowings are subsequently measured at amortized cost using the effective interest method. Transaction costs are amortized over the life of the borrowings based on the effective interest method.

Facility fees

Fees paid on the establishment of loan facilities are recognized as transaction costs of the credit facilities and facility loans to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

De-recognition of borrowings

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss within financial items.

Lease liabilities

For the accounting policy please see note 12.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts, as applicable, are shown within borrowings in current liabilities in the balance sheet. Restricted cash includes cash balances in countries with regulatory restrictions or other limitations, that are therefore not immediately available to the other entities of the Group.

Effect of IBOR reform

In calculating the change in fair value attributable to the hedged risk of floating-rate debt, the Group has made the following assumptions that reflect its current expectations:

a. The floating-rate debt will move to alternative rate during 2023, and the spread will be similar to the spread included in the interest rate option used as the hedging instrument.
b. No other changes to the terms of the floating-rate debt are anticipated.

18 EQUITY

The Board of the Directors of Ahlstrom together with the Group management considers appropriate financial targets for Ahlstrom and agrees on a financial target framework.

Distributable funds of Ahlstrom

The following table shows distributable funds of the parent company Ahlstrom Holding 3 Oy as at December 31, 2022 and December 31, 2021:

Distributable funds, EUR million	2022	2021
Reserve for invested unrestricted equity	1,054.1	1,095.3
Retained earnings	-83.4	0.0
Net result	-60.5	-83.4
Total distributable funds	**910.2**	**1,011.9**

Equity

Ahlstrom Holding 3 Oy has one series of shares issued under Finnish Law. The shares have no nominal value. Each share entitles the holder to one vote at the general meetings of shareholders of Ahlstrom Holding 3 Oy. As at December 31, 2022, Ahlstrom's share capital amounts to EUR 0.0 million (EUR 0.0 million) and the total number of shares is 1000 (1000). No treasury shares were held during 2022 or at December 31, 2022.

Reserve for invested unrestricted equity

In 2022, EUR 41.2 million was returned to owners from the reserve for invested unrestricted equity.

Accounting policies

Return on equity and dividends

Return of equity and dividends proposed by the Board of Directors are recognized in equity and liability in the balance sheet when they have been approved by the shareholders at the Annual General Meeting

Treasury shares

The parent company's shares that are acquired are recognized as a reduction of equity at cost of acquisition, including any directly attributable costs (net of tax). When the shares are cancelled or reissued, the acquisition cost of treasury shares is recognized in retained earnings.

Cumulative translation adjustment

Translation differences consist of translation differences arising from translation of foreign Group companies' assets and liabilities into euro, the presentation currency of the consolidated financial statements. On disposal of all or a part of a foreign Group company, the cumulative amount of translation differences is recognized as income or expense in the income statement when the gain or loss on disposal is recognized.

Reserve for invested unrestricted equity

Any consideration received for the issue of new shares or treasury shares of the parent company is recognized to reserve for invested unrestricted equity unless otherwise decided. Transaction costs directly related to the issue of these shares are recognized, net of tax, in the reserve for invested unrestricted equity as a reduction in the proceeds.

Hedging reserve

The hedging reserve comprises the unrealized fair value changes of cash flow hedges, net of taxes, qualifying for hedge accounting and the amount recognized is reclassified in income statement when the hedged item affects the profit or loss. See note 19 for more information on cash flow hedges.

Retained earnings

The following are recorded directly to retained earnings:

- The Group has had certain long-term incentive plans for key personnel. These plans were accounted for as share-based payments where the fair value of the awards granted in shares are classified as equity-settled and recorded in the income statement and retained earnings in equity over the vesting period. The shares have been acquired through the Public Tender Offer and Acquisition on Ahlstrom Oyj. See note 7 for more information on share-based payments.
- The Group has had a hybrid bond before the redemption. Interest on hybrid bond has charged to retained earnings as well as the related arrangement fees until the redemption.
- The Group has defined benefit plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions for these defined benefit plans are charged or credited to retained earnings. See note 15 for more information on defined benefit obligations.

Financial risk management

This section discusses the Group's exposure to various financial risks, explains how these affect Ahlstrom's financial position and performance and how management manages the risks.

This section also describes the Group's financial instruments and the risk exposures, sensitivities and monitoring strategies related to these financial instruments.

19 FINANCIAL RISK MANAGEMENT

General

Financial risks of the Group consist of credit risk (see note 14), funding risk, liquidity risk and market risks. Market risks are further divided to currency risk, interest rate risk (refer to note 17) and commodity risk.

The Treasury Policy sets the Board of Directors' guidelines on how finance and treasury operations are carried out and how financial risks within the Group are managed. The guidelines aim to ensure that the Group's financial risks are kept at an acceptable level.

The Treasury Policy is approved by the Board of Directors of Ahlstrom. The Board of Directors has the overall responsibility for managing financial risks. Executive Treasury Committee monitors and manages the financial risks. Operational management of financial risks is carried out centrally by the Group Treasury under the Treasury Policy. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

Group Treasury is handling all hedging of foreign exchange, commodity and interest rates, unless otherwise agreed. In case all applicable criteria are met, and if deemed appropriate, hedge accounting is applied to remove P/L volatility due to remeasurement risk.

Currency risk

Due to the global operations of Ahlstrom, the Group is exposed to currency risk. Currency risks refers to the risk that fluctuations in the foreign exchange market will affect the company's cash flow (including tax cash flows), net result and equity (including distributable equity) negatively. Currency exposure, defined as all unhedged exposure in foreign currency, is split into two types of exposure: transaction exposure and translation exposure.

Transaction exposure

Ahlstrom manufactures and sells its products around the globe and is therefore exposed to transaction risk from foreign currency exposures. As such, transaction exposure arises from commercial and finance-related transactions and payments in a currency other than the respective applicable functional currencies, e.g. internal transactions, external sales and purchases, or external financing transactions in foreign currencies. Additionally, firm commitments to acquire businesses may expose the Group to foreign currency transaction risk.

Foreign currency cash flows are hedged on a net exposure basis in accordance with the rules set out in the Treasury Policy. The Group's risk management strategy in terms of currency risk is to hedge 75% (+/-10%) of the forecasted cash flows for a period up to 9 months if the total exposure to forecasted net flows of foreign currency exceeds the equivalent of 2% of the total turnover of the company. The Group uses forward contracts to hedge this commercial foreign currency exposure and applies cash flow hedge accounting. The forward contracts' maturity is materially reconciled with the timing of the forecasted sales and purchases. At December 31, 2022, the fair value of the foreign currency forwards under hedge accounting was EUR 2.6 million. In 2022, the Group recognized a gain of EUR 10.0 million to the cash flow hedge transferred to this year's result in OCI. To a certain extent, ineffectiveness in the hedging relationship can arise from timing differences, however, material ineffectiveness from the hedging relationships has not been incurred.

In addition to using derivatives for hedging, Ahlstrom also aims to limit currency exposures at their source by applying natural hedges and by reducing the number of currencies used in intercompany transactions where possible.

The following tables show the Group's exposure to currency cash flow risk during 2022 full year, as well as our current forecast for 2023.

Cash flows by currency before hedging activities

EUR million, **2022**	BRL	CNY	EUR	GBP	KRW	SEK	USD	Other
Net sales	146	84	1,269	25	19	69	1,509	44
Operating costs	-162	-54	-1,010	-40	-34	-229	-1,282	-44
Net cash flow	**-16**	**30**	**259**	**-15**	**-15**	**-160**	**227**	**–**

EUR million, **2023**	BRL	CNY	EUR	GBP	KRW	SEK	USD	Other
Net sales	195	94	1,664	32	15	58	1,795	46
Operating costs	-209	-68	-1,377	-57	-50	-225	-1,480	-47
Net cash flow	**-14**	**26**	**287**	**-25**	**-35**	**-167**	**315**	**-1**

At the end of the reporting period, the hedge ratios for the forecasted cash flows for the next 9 months, including indirect exposure embedded in pulp prices and other adjustments, were approximately 75% for USD, 77% for SEK, and 68% for GBP. The exposures in other currencies are limited and are not hedged. Outstanding nominal amounts at the end of the year for these forward contracts were USD 52 million, SEK 1110 million, and GBP 10 million.

The following table shows the Group's estimated sensitivity for the next 9 months to a depreciation of EUR by 5%, including FX-hedges and indirect exposures. The table is based on information monitored by the Board for currency risk management.

EUR million, **Q1-Q3 2023**	BRL	CNY	GBP	KRW	SEK	USD	Other
Depreciation of EUR by 5%	0.7	1.3	-0.4	-1.3	-1.5	0.8	-0.1

Ahlstrom Oyj as the Group´s In House Bank (IHB) provides financing to its foreign subsidiaries through IC loan agreements and cash pools. The resulting exposures are hedged by the IHB with FX forward contracts. Hedge accounting is not applied to these relationships. The FX forward contracts are recognised at fair value with changes in fair value passing through the FX gain/loss accounts within the financial items. The fair value for the FX forwards was EUR 0.5 million at December 31, 2022.

Translation risk

Ahlstrom's income statement and balance sheet are both exposed to foreign exchange fluctuations, as these affect the translation of subsidiaries' assets and liabilities denominated in foreign currencies.

The Group aims to minimize currency risk related to translation exposure by aiming to balance assets and liabilities, e.g. equity in subsidiaries, in foreign currencies in order to minimize the foreign exchange risk in the consolidated balance sheet. According to its hedging directive, the company may use non derivative financial instruments such as foreign currency borrowings to hedge foreign currency risk on net investments in foreign operations. Derivative instruments are not allowed to be used to hedge this risk. Equity hedging needs to be approved by the board of directors.

During 2021 the parent company started hedging a portion of its USD net investment in foreign operations by applying USD borrowing, which offsets the FX gains and losses previously recognized in OCI.

The following table shows the Group's translation exposure arising from net investments in foreign subsidiaries in the main currencies for the Group.

	Net investment in subsidiaries	
Group translation exposure, EUR million	**2022**	**2021**
USD[1]	742.1	666.8
SEK	335.9	261.6
KRW	110.7	109.1
BRL	73.0	91.3
GBP	74.2	93.0
RUB	107.2	92.9
CNY	84.8	90.8
INR	63.4	66.3

[1] At the end of the reporting period the net investment hedge has a hedge ratio of 79.1%.

The following table shows the consolidated equity's estimated sensitivity to a depreciation of EUR by 5%, excluding the net investment hedge.

EUR million	BRL	INR	CNY	RUB	GBP	KRW	SEK	USD
Depreciation of EUR by 5%	3.7	3.2	4.2	5.4	3.7	5.5	16.8	37.1

Accounting policies

Derivative instruments and hedging activities

Ahlstrom uses derivative instruments to manage certain exposures to fluctuations in foreign currency rates and interest rates. These derivative financial instruments are recognized initially at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting is applicable when, at inception of the hedge, there is a formal designation and documentation of the hedging relationship and other criteria for hedge accounting are met. At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management strategy and objective for undertaking its hedge transactions.

The Group only applies cash flow hedge accounting, which is used to hedge exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecasted transaction or firm commitment. The effective portion of changes in the fair value of the hedging instrument is recognized in OCI and accumulated in equity. It is reclassified in income statement when the hedged item affects the income statement, or in the initial cost of the hedged item when it relates to the hedge of a firm commitment to acquire a non-financial item (for example, business combination). The Group does not separate forward points in a hedge relationship.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecasted transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to income statement. Subsequent changes in the value of the hedging instrument after the hedging relationship is terminated are recorded in income statement.

Commodity risk

Commodity risk refers to the risk that changes in the cost of raw materials (pulp, titanium dioxide etc.) and energy (electricity, gas, oil etc.) have a negative effect on the result and/or competitiveness of Ahlstrom. The overall objective of the commodity hedging is to reduce cost volatility and control risks over time with a systematically executed hedging strategy. To mitigate the commodity risk exposure, the Group hedges commodity exposures in line with the Group Treasury Policy. In accordance with the policy, commodity hedging , including both physical and financial hedges, should have a maximum length of 3 years and can be up to 50% of forecasted consumption in the first year, 40% of forecasted consumption in the second year and 30% in the third year. All hedging transaction are also to be connected to projects, customer agreements or other direct identifiable business risks. This is in order to avoid speculative hedging.

In 2022, the Group started using commodity derivative contracts to reduce the risk of price fluctuations in natural gas. Hedging is executed based on the calculation of exposure to be hedged by taking forecasted energy consumption and subtracting natural hedges resulting from sales contracts with explicit energy price index components. In accordance with the energy hedging policy, hedging should have a maximum length of two years and the hedging level can be on average 76% of forecasted consumption in the first year and 41% of forecasted consumption in the second year. At the balance sheet date, the fair value of the natural gas derivative contracts amounted to a liability of EUR 10,7 million. Hedge accounting is applied for all natural gas derivative contracts.

The Group monitors and forecasts its carbon dioxide emissions and granted emission allowances. For 2022 the Group has a net deficit of European Union Allowances (EUA). Consequently, during 2022 the group has entered into EUA forward contracts to secure an average cost for the forecasted deficit. Trading has occurred on a monthly basis according to forecasted need for the year. The Group has elected to account for the allowances as inventory. As such, the EUA forward contracts market value is not calculated. The commitment from these contracts are shown in off-balance sheet commitments. In addition, at the end of the reporting period, the Group has an immaterial amount of EUA's on its balance sheet.

Derivative contracts (natural gas), 2022	Region	Outstanding notional at balance sheet date	Average contract rate per unit	Units
	US	2,800,000	4,87 USD	MMBTUs
	Europe	315,000	108,41 EUR	MWh

Derivative contracts (natural gas), 2022	Region	Reasonable possible change in variable	Impact on OCI (millions)	Currency
	US	20 %	2.3	USD
	US	(20)%	-2.3	USD
	Europe	20 %	4.7	EUR
	Europe	(20)%	-4.7	EUR

Funding and liquidity risk

Funding risk

Funding risk refers to the risk the Ahlstrom does not at all times have access to financing or financing at an acceptable cost. This may arise should the Group become too dependent on a single source of financing. In order to mitigate funding risk, the Group aims to spread its debt across different lenders, and different forms of financing.

Ahlstrom has outlined the following guidelines in its Treasury Policy, which aim to mitigate the funding risk. The Group aims to ensure that the average maturity of the long-term finance should be at least 2 years. The Group also aims to avoid the inclusion of covenants in all types of financing agreements.

Liquidity risk

Liquidity risk is the risk that Ahlstrom will not have sufficient funds to pay foreseen committed obligations in addition to unforeseen expenditures. In order to mitigate this risk, Group Treasury monitors the Group's cash pools, headroom under committed and uncommitted facilities, and cash forecast to ensure at all times that there is sufficient liquidity.

Ahlstrom's cash needs in respect of meeting its financial liabilities are show in the tables below. The maturity analysis was determined at the balance sheet date based on the existing contractual obligations. The maturity analysis is based on undiscounted cash flows, excluding interest payments that are shown separately at the bottom of the table.

Maturity of financial liabilities, EUR million, **2022**	2023	2024	2025	2026-	Total
Non-derivative financial liabilities					
Notes	–	–	–	636.0	636.0
Term loans	5.0	5.0	5.0	1,430.9	1,445.9
Bank loans	64.7	–	–	–	64.7
Pension loan	5.0	–	–	–	5.0
Revolving credit facility	–	–	–	–	–
Commercial papers	–	–	–	–	–
Lease liabilities	13.4	9.7	7.0	9.6	39.7
Other financial liabilities	31.7	–	–	–	31.7
Trade payables	582.8	9.3	–	–	592.1
Total	**702.6**	**24.0**	**12.0**	**2,076.5**	**2,815.1**
Future interest on financial liabilities	-111.0	-111.6	-118.0	-232.8	-573.3
Derivative financial liabilities					
Forward exchange contracts used for hedging:					
- Outflow	238.4	–	–	–	238.4
- Inflow	-239.9	–	–	–	-239.9
Commodity derivatives used for hedging	–	-10.7	–	–	-10.7

Maturity of financial liabilities, EUR million, **2021**	2022	2023	2024	2025	Total
Non-derivative financial liabilities					
Notes	–	–	–	619.3	619.3
Term loans	4.8	4.7	4.7	1,347.2	1,361.3
Bank loans	93.1	21.4	10.2	–	124.7
Pension loan	10.0	5.0	–	–	15.0
Commercial papers	119.9	–	–	–	119.9
Lease liabilities	13.3	10.2	7.6	14.9	45.9
Other financial liabilities	18.7	0.3	–	–	19.0
Trade payables	478.0	–	–	–	478.0
Total	**737.7**	**41.6**	**22.5**	**1,981.3**	**2,783.1**
Future interest on financial liabilities	-93.0	-86.7	-83.4	-258.1	-521.2
Derivative financial liabilities					
Forward exchange contracts used for hedging:					
- Outflow	307.1	–	–	–	307.1
- Inflow	-309.1	–	–	–	-309.1

The table below represents the total amount of funds that are available to the Group at year end. In addition to Bank overdrafts and cash and cash equivalents, the Group´s funding programmes include committed Revolving Credit Facilities of EUR 325 million, and a Finnish Commercial Paper programme totalling EUR 300 million and available uncommitted bank overdrafts.

Liquidity position, EUR million	2022	2021
Available committed bank overdrafts	23.9	34.7
Cash and cash equivalents	240.7	162.6
Committed revolving credit facilities	239.8	260.1
Finnish Commercial Paper programme	300.0	180.0
Available uncommitted bank overdrafts	12.2	36.8
Liquidity position	**816.6**	**674.2**

Ahlstrom uses factoring or similar arrangements for working capital management. For more information please see note 14.

Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements

Ahlstrom have a number of counterparties in respect of which the Group is both buyer and seller. Consequently, Ahlstrom's gross financial assets can be significant before offsetting. Offsetting is typically limited within specific products and is possible when payment and receipt from the same counterparty occur simultaneously. These financial assets and liabilities are not offset on the balance sheet as the offsetting in the balance sheet is allowed only in certain, limited circumstances.

The table below shows the Group's derivative contracts that are subject to offsetting agreements. The column net amount shows the impact on the Group's balance sheet if all set-off rights were exercised. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet.

Derivative instruments, EUR million	Carrying value of recognized financial assets (liabilities)	Master netting arrangements	Net amount
2022			
Derivative assets	67.1	-11.6	55.5
Derivative liabilities	-15.8	11.6	-4.2
2021			
Derivative assets	0.6	-0.6	–
Derivative liabilities	-2.5	0.6	-1.9

Accounting policies

Offset of financial instruments

Financial assets and liabilities are offset and recognized with a net amount in the balance sheet only when there is a legal right to offset the recognized amounts and an intention to balance the items with a net amount, or to simultaneously realize the asset and settle the liability.

Financial assets and liabilities by category

Financial assets and liabilities recognized in the balance sheet include cash and cash equivalents, loans and other financial receivables, trade receivables, other investments, trade payables, borrowings and derivatives.

The following table summarizes the carrying value of financial assets and liabilities by categories.

EUR million, December 31, **2022**	Carrying amounts	Information on financial assets and liabilities: Of which financial assets and liabilities	Measured at amortised cost	Derivatives at fair value through income statement	Other financial items through income statement	Derivatives under hedge accounting
Non-current assets						
Other non-current assets	106.9	70.9	10.8	59.7	0.4	–
Current assets						
Trade and other receivables	560.3	480.0	476.6	1.0	–	2.3
Cash and cash equivalents	240.7	240.7	240.7	–	–	–
Carrying amount by measurement category	**908.0**	**791.5**	**728.1**	**60.7**	**0.4**	**2.3**
Non-current liabilities						
Non-current borrowings	2,024.6	2,024.6	2,024.6	–	–	–
Non-current lease liabilities	26.3	26.3	26.3	–	–	–
Other non-current liabilities	11.2	9.8	9.8	–	–	–
Current liabilities						
Current borrowings	106.4	106.4	106.4	–	–	–
Current lease liabilities	13.4	13.4	13.4	–	–	–
Trade and other payables	1,041.3	602.2	586.4	0.2	–	15.6
Carrying amount by measurement category	**3,223.3**	**2,782.7**	**2,767.0**	**0.2**	**–**	**15.6**

EUR million, December 31, **2021**	Carrying amounts	Information on financial assets and liabilities: Of which financial assets and liabilities	Measured at amortised cost	Derivatives at fair value through income statement	Other financial items through income statement	Derivatives under hedge accounting
Non-current assets						
Other non-current assets	57.6	5.6	0.9	4.3	0.5	–
Current assets						
Trade and other receivables	599.9	536.3	535.7	0.2	–	0.4
Cash and cash equivalents	162.6	162.6	162.6	–	–	–
Carrying amount by measurement category	**820.1**	**704.5**	**699.2**	**4.5**	**0.5**	**0.4**
Non-current liabilities						
Non-current borrowings	1,954.7	1,954.7	1,954.7	–	–	–
Non-current lease liabilities	32.6	32.6	32.6	–	–	–
Other non-current liabilities	1.7	0.5	0.5	–	–	–
Current liabilities						
Current borrowings	246.3	246.3	246.3	–	–	–
Current lease liabilities	13.3	13.3	13.3	–	–	–
Trade and other payables	886.4	501.8	499.2	0.2	–	2.4
Carrying amount by measurement category	**3,134.9**	**2,749.1**	**2,746.6**	**0.2**	**–**	**2.4**

Fair values of financial assets and liabilities

The following table shows the carrying values (book values), fair values and valuation hierarchy of the Group's financial instruments as at the balance sheet date.

	2022			2021		
EUR million	Carrying value	Fair value	Level	Carrying value	Fair value	Level
Non-current financial instruments measured at amortized cost						
Notes	614.3	560.0	1	594.9	622.5	1
Term loans	1,410.3	1,403.4	1	1,323.2	1,366.5	1
Bank loans	–	–	2	31.3	31.3	2
Pension loan	–	–	2	5.0	5.0	2
Lease liabilities	26.3	26.3	2	0.2	0.2	2
Other financial liabilities	–	–	2	32.6	32.6	2
Financial instruments measured at fair value						
Forward contracts - cash flow hedge accounting	-2.6	-2.6	2	-2.0	-2.0	2
Forward contracts - fair value through income statement	0.9	0.9	2	0.0	0.0	2
Interest rate derivatives - fair value through income statement	59.7	63.2	1	4.3	4.5	1
Commodity swap contracts – cash flow hedge accounting	-10.7	-10.7	1	–	–	1

The Group considers that the carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements. In addition, the carrying amounts of non-current and current loan from financial institutions and other loan are measured at amortized cost using the effective interest rate. The fair value amounts are reasonable approximations of their carrying amounts.

Accounting policies

Financial assets at amortised cost

The group classifies its financial assets as at amortised cost only if both of the following criteria are met:
- the asset is held within a business model whose objective is to collect the contractual cash flows;
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

The financial assets in this group are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired (see note 14), as well as through the amortization process. This category of financial assets includes trade and other receivables and cash equivalents (see note 17).

Financial assets and liabilities at fair value through income statement

The Group classifies derivatives for which hedge accounting is not applied as financial assets at fair value through profit or loss (FVPL).

Financial assets at fair value through income statement are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Other investments include unlisted shares and interests carried at fair value. Fair value changes are recognised in the other comprehensive income. For unlisted shares and interests the fair value cannot be measured reliably and therefore the management considers that the cost is a reasonable approximation of the fair value.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are initially recognized at fair value, net of transaction costs. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in interest and other income and finance costs respectively.

This category of financial liabilities includes trade and other payables and debt (see note 17).

Fair values of financial assets and liabilities

The financial assets and liabilities measured at fair value in the balance sheet have been classified based on the three hierarchy levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2: inputs that are observable for the asset or liability, either directly or indirectly;
- level 3: unobservable inputs for the asset or liability.

The Group considers that the carrying amount of cash, trade receivables and various deposits provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements.

For financial liabilities at amortized cost, the fair value of financial liabilities is determined using:

- the quoted price for listed instruments (a detailed analysis is performed in the case of a material decrease in liquidity to evidence whether the observed price corresponds to the fair value; otherwise the quoted price is adjusted);
- the present value of estimated future cash flows, discounted using rates observed by the Group at the end of the period for lease liabilities and other instruments.

Fair values of derivatives are based on valuations provided by external parties using various valuation techniques. The fair value of the forward exchange contracts is determined using forward exchange rates at the balance sheet date with the resulting fair value discounted to present value.

Other notes

This section provides the additional information required to be disclosed under IFRS and Finnish statutory requirements. However, these are not considered critical in understanding the financial performance or the financial position of Ahlstrom.

20 OFF-BALANCE SHEET COMMITMENTS

Ahlstrom has the following off-balance sheet commitments at the balance sheet date.

Off-balance sheet commitments, EUR million	2022	2021
Assets pledged:		
Pledges	243.1	282.0
Commitments:		
Guarantees and commitments given on behalf of Group companies	65.3	45.4
Capital expenditure commitments	63.9	48.0
Other guarantees and commitments	105.1	84.9

Assets pledged include minority squeeze-out liability related loan's escrow account among others.

Capital expenditure commitments are mainly related to the IT investment in parent company, Finland, and the strategic investments in Filtration division in Madisonville, US and in Turin, Italy as well as Food & Consumer Packaging division and Technical Material division in Wisconsin, US.

Other guarantees and commitments include binding contracts for purchases of energy and IT development projects among others.

At the end of December, 2022, the Group does not have any contingent liabilities.

Accounting policies

Commitments

Unrecognized commitments are disclosed where the Group has an agreement or a pledge to assume a financial obligation at a future date.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed by uncertain future events that are not wholly within the control of the entity. They can also include obligations that are not recognized because their amount cannot be measured reliably or because settlement is not probable. A contingent liability is not recognized in the statement of financial position but as off-balance sheet commitments.

21 RELATED PARTY TRANSACTIONS

Related parties

Ahlstrom's related parties comprise of several parent companies of which the ultimate parent company for the Group is Spa Lux Topco SARL, whose owners exercise significant influence in Ahlstrom, the members of the Board of Directors of the Ahlstrom Holding 3 Oy (parent company) and the Board of Directors of Ahlstrom Oyj and the Executive Management Team of Ahlstrom and their closely related family members and the entities over which they have control or joint control. In addition, the Group's investments in associated companies are related parties.

Parent companies

Related parties include the parent companies Ahlstrom Holding 2 Oy, Ahlstrom Holding 1 Oy, Spa Lux Midco SARL and Spa Lux Topco SARL which all belong to the same Group with Ahlstrom Holding. The ultimate parent company is Spa Lux Topco SARL, an entity domiciled in Luxembourg.

Owners

The ultimate parent company Spa Lux Topco SARL is owned by a consortium comprising of:

- Spa (BC) Lux Holdco SARL (entity owned and controlled by funds managed and/or advised by Bain Capital Private Equity (Europe), LLP, and/or its affiliates). Bain Capital indirectly owns 54.8% of the Ahlstrom Holding 3 Oy, representing the ultimate controlling party.
- Ahlstrom Invest B.V., a company owned by individual members of the Ahlström family and Ahlstrom Capital BV, a wholly owned subsidiary of Ahlström Capital Oy. Ahlstrom Invest B.V. (including through its affiliates) own 36.6% of the Ahlstrom Holding 3 Oy.
- Viknum AB, a wholly-owned subsidiary of Nidoco AB, which is indirectly owned by Alexander and Albert Ehrnrooth. Alexander Ehrnrooth is a member of the company's and Ahlstrom Oyj's Board of Directors. Viknum AB owns 8.6% of the Ahlstrom Holding 3 Oy.

Key Management

- Board of Directors - Ahlstrom Holding 3 Oy (the parent company)
- Board of Directors - Ahlstrom Oyj
- Executive Management Team of Ahlstrom
    - The Group's Executive Management Team consists of the CEO, Division Executive Vice Presidents (EVPs) and EVPs responsible for Group Functions.

Remuneration to Key management is included in note 8.

Associated companies

Details of the associated companies are included in note 22.

Cont. note 21

Related party balances, EUR million	Dec 31, 2022 Trade and other receivables	Trade and other payables	Loan receivable
Associated companies	14.9	6.4	10.0
Owners	–	0.1	–
Total	14.9	6.5	10.0

Related party balances, EUR million	Dec 31, 2021 Trade and other payables
Associated companies	3.5
Parent companies	0.1
Total	3.6

Dec 31, 2022

Related party transactions, EUR million	Net sales	Other income	Cost of goods sold[1]	Sales, R&D and administrative expense	Interest income	Return on equity
Associated companies	1.6	3.2	-43.1	-0.6	0.1	–
Parent companies	–	–	–	–	–	-41.2
Owners	–	–	–	-6.1	–	–
Total	1.6	3.2	-43.1	-6.7	0.1	-41.2

[1] The Group purchased wood and wood chips from associated company Sydved AB amounting to 778,312 m^2 (677,953 m^3).

Dec 31, 2021

Related party transactions, EUR million	Cost of goods sold	Sales, R&D and administrative expense	Interest income	Return on equity
Associated companies	-31.6	–	–	–
Key management	–	-1.0	–	–
Parent companies	–	–	0.1	-25.7
Owners	–	-5.8	–	–
Total	-31.6	-6.8	0.1	-25.7

Description of the Group’s related party transactions

The Group conducts transactions with related parties on an arm’s length basis.

Transactions with parent companies

In 2021, the parent companies provided an equity contribution of EUR 1,084.6 million. The equity contribution was provided to obtain capital to execute the tender offer and to settle the tender offer consideration in connection with the acquisition of Ahlstrom.

Transactions with owners

Transactions mainly relate to management fee paid to the consortium pursuant to a management agreement whereby Group has received general business consulting services; financial, managerial and operational advice; advisory and consulting services with respect to selection of advisors; advice in different fields; and financial and strategic planning and analysis.

In the Décor business ownership reorganization, Ahlstrom Holding 3 Oy divested the majority share of and remained with a minority share in the new Munksjö company to Ahlström Capital BV (wholly owned subsidiary of Ahlström Capital Oy) and Nidoco AB, both of which are affiliates of the current minority owners of Ahlstrom Holding 3 Oy.

In 2021, expenses to owners related to the acquisition of Ahlstrom Oyj shares incurred by the consortium and recharged to Ahlstrom Holding 3 Oy.

Key management remuneration

Key management remuneration and shareholding information are included in note 8.

Transaction with a member of the Ahlstrom Oyj Board of Directors in 2021

In the comparison period, Ahlstrom Holding 3 Oy issued equity in exchange of services provided by Karl-Henrik Sundström, through Alma Patria AB, an entity controlled by him, in connection with the tender offer process. The costs incurred amounted to EUR 1.0 million of which EUR 0.3 million was paid in cash and EUR 0.8 million was settled against invested equity.

Accounting policies

Related parties

The Group's related parties are considered to be related parties if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operational decisions. The related party transactions disclosed consist of transactions and balances carried out with related parties that are not eliminated in the consolidated financial statements

22 ASSOCIATED COMPANIES & JOINT OPERATIONS

Associated companies

On October 1, 2022, Ahlstrom completed the ownership arrangement of its Decor business and disposed it to a newly formed Swedish company named Munksjö Paper AB. Following the disposal, Ahlstrom provided an equity contribution of EUR 32.5 million and a loan of 10 million to its parent company Munksjö Paper Holding AB and holds a 24.99% share of the company's equity and voting rights. The equity contribution and loan were offset against the purchase consideration payment for the divestment of Decor business. Munksjö Paper Holding AB and its subsidiaries ("Munksjö") offer the assortment of papers that are primarily used as the decorative surface material in laminated wood-panel based furniture, flooring and other interior and exterior building material applications. Key markets are Europe, North and South America, China and selected export markets. The main transactions with Munksjö subsequent to the divestment include leases of certain assets to Munksjö, the provision of administrative or other services, sale of goods and purchase of contract manufacturing services from Munksjö. See also notes 4 and 21.

In addition, Ahlstrom holds a 33% share of the equity and 33% share of the voting rights of associate company Sydved AB ("Sydved") in Sweden. Sydved is a forest management company and Group purchases wood and wood chips from it.

Transactions and balances with associated companies are presented in note 21.

			2022		2021	
Name of entity	Place of business	Nature of relationship	Ownership	Carrying amount, EUR million	Ownership	Carrying amount, EUR million
Munksjö Paper Holding AB	Sweden	Associate	24.99 %	25.0	–	–
Sydved AB	Sweden	Associate	33.00 %	0.8	33.00 %	1.1
Total equity-accounted investments				**25.8**		**1.1**

Accounting policies

Joint operations and associates

Associated companies are those in which the Group has a significant influence over operational and financial policies. Significant influence is the power to participate in, but not control or jointly control, the financial and operating decisions of the investee. These investments are accounted for using the equity method.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses in accordance with the Ahlstrom's contractual rights and obligations.

Unrealized gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest, unless otherwise contractually agreed by the parties. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

	Munksjö Paper Holding AB		Sydved AB	
Reconciliation of carrying amount of associated company, EUR million	2022	2021	2022	2021
Book value at the beginning of the year	–	–	1.1	–
Business combination	–	–	–	1.6
Equity contribution	32.5	–	–	–
Dividend	–	–	–	-0.4
Share of result for the year	-5.9	–	-0.2	-0.1
Share of OCI	-1.6	–	–	–
Translation differences	–	–	-0.1	0.0
Book value at the year end	**25.0**	**–**	**0.8**	**1.1**

	Munksjö Paper Holding AB		Sydved AB	
Associate's assets, liabilities, equity, net sales and profit before tax, EUR million	31 Dec, 2022	31 Dec, 2021	31 Dec, 2022	31 Dec, 2021
Current assets	211.8	–	74.7	75.6
Non-current assets	294.8	–	2.0	1.9
Current liabilities	129.4	–	74.7	73.9
Non-current liabilities	246.5	–	0.2	1.0
Equity	130.6	–	1.8	2.6
Non-controlling interest	30.4	–	–	–
Net sales	109.4	–	339.3	303.3
Result before tax	-33.2	–	-0.6	-0.0
Group's share in %	24.99 %	–	33.00 %	33.00 %
Group's share in EUR	25.0	–	0.6	0.9
Goodwill and other	–	–	0.2	0.3
Carrying amount	**25.0**	**–**	**0.8**	**1.1**

Joint operations

Until October 1, 2022 Group company Ahlstrom-Munksjö Paper GmbH was buying electricity and gas from Stadtwerke Aalen GmbH that owned 40% of Ahlstrom-Munksjö Paper GmbH's subsidiary Kraftwerksgesellschaft Unterkochen GmbH. The related purchases amounted to EUR 3.9 million (EUR 4.9 million). The companies were disposed of as part of the Decor business.

23 SUBSIDIARIES

Group companies
The consolidated accounts include the following entities:

Company name	Registered Office	Share of equity %
Ahlstrom Holding 3 Oy[1]	Finland	Parent
SPA US Holdco Inco	USA	100
Ahlstrom Oyj[1]	Finland	100
Ahlstrom Sweden AB[1]	Sweden	100
Ahlstrom Aspa Bruk AB[1]	Sweden	100
Ahlstrom-Munksjo Paper (Taicang) Co. Ltd	China	100
Ahlstrom-Munksjo Paper Inc.	USA	100
Ahlstrom Italia S.p.A[1]	Italy	100
Ahlstrom France Holding S.A.S[1]	France	100
Ahlstrom Arches S.A.S.[1]	France	100
Ahlstrom Stenay S.A.S.[1]	France	100
Ahlstrom-Munksjö Rottersac S.A.S.	France	100
Ahlstrom La Gère S.A.S[1]	France	100
Ahlstrom-Munksjo Paper Trading (Shanghai) Co., Ltd	China	100
Ahlstrom-Munksjo Asia Holdings Pte Ltd	Singapore	100
PT Ahlstrom Indonesia	Indonesia	100
Ahlstrom-Munksjö Barcelona, S.A	Spain	100
Ahlstrom Brasil Indústria e Comércio de Papéis Especiais Ltda[1]	Brazil	100
Ahlstrom-Munksjö Chirnside Limited	United Kingdom	100
Ahlstrom-Munksjo Fibercomposites (Binzhou) Limited	China	100
Ahlstrom Munksjo Fiber Composites India Private Ltd	India	100
Ahlstrom-Munksjö Germany GmbH	Germany	100
Ahlstrom Glassfibre Oy[1]	Finland	100
Ahlstrom Tver LLC[1]	Russia	100
Ahlstrom Industries S.A.S[1]	France	100
Ahlstrom Brignoud S.A.S.[1]	France	100
Ahlstrom Tampere Oy[1]	Finland	100
Ahlstrom-Munksjö Specialties S.A.S.	France	100
Ahlstrom Japan Inc.[1]	Japan	100
Ahlstrom-Munksjo Korea Co., Ltd	South Korea	100
Ahlstrom-Munksjö Malmédy SA	Belgium	100
Ahlstrom-Munksjö Monterrey, S. de R.L. de C.V.	Mexico	100
Ahlstrom-Munksjö South Africa (Pty) Ltd	South Africa	100
Ahlstrom Ställdalen AB[1]	Sweden	100
Ahlstrom Falun AB[1]	Sweden	100
Ahlstrom-Munksjo USA Inc.	USA	100
Ahlstrom-Munksjo Filtration LLC	USA	100
Ahlstrom-Munksjo Nonwovens LLC	USA	100
Windsor Locks Canal Company	USA	100
Ahlstrom-Munksjo NA Specialty Solutions Holdings Inc.	USA	100
Ahlstrom-Munksjo NA Specialty Solutions LLC	USA	100
Ahlstrom-Munksjo Brokaw LLC	USA	100
Ahlstrom-Munksjo Nicolet LLC	USA	100
Ahlstrom-Munksjo Mosinee LLC	USA	100
Ahlstrom-Munksjo Rhinelander LLC	USA	100
Ahlstrom-Munksjo Coated Products LLC	USA	100
Ahlstrom-Munksjo Vilnius UAB	Lithuania	100
Ahlstrom-Munksjö Warsaw Sp. Z.o.o	Poland	100
Ahlstrom-Munksjo Yulong (Shanghai) Specialty Paper Trading Co. Ltd	China	60
Ahlstrom-Munksjo Yulong Specialty Paper Company Limited	China	60
Akerlund & Rausing Kuban Holding GmbH	Germany	100

[1] Name change registered before the reporting date

In addition, the Group has branch or representative offices in India, Indonesia, the Netherlands, Norway, Sri Lanka, Taiwan and Thailand.

Accounting policies

Subsidiaries
Subsidiaries are entities that are directly or indirectly controlled by Ahlstrom, i.e. when the Group is exposed to, or has rights to, variable returns from its involvement and has the ability to affect those returns through exercising power. Subsidiaries are consolidated from the date control is achieved to the date when the Group ceases to exercise power.

Transactions eliminated on consolidation and transactions between the owners of the parent
Transactions between Group companies, including intra-group receivables and liabilities, income or expenses and unrealized gains or losses are eliminated in full. Unrealized gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest, unless otherwise contractually agreed by the parties. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Transactions with the owners of the parent are reported within shareholders' equity. Transactions with non-controlling interests are reported as transactions with equity owners of the Group. Divestments to and purchases from non-controlling interests result in gains and losses for the Group, which are reported in equity.

24 AUDITOR REMUNERATION

Ahlstrom's Annual General Meeting ("AGM") makes resolutions each year to elect the Group's auditors. It was resolved at the 2022 AGM that in accordance with the proposal of the Board that KPMG Oy Ab would be appointed as the Group's auditor.

Auditor remuneration, EUR million[1]	2022	2021
Audit fees	1.6	1.7
Audit-related fees	–	0.5
Tax service fees	0.0	0.0
Total	**1.6**	**2.2**

[1] Includes discontinued operation until October 1st, 2022.

KPMG Oy Ab has provided non-audit services to the entities of Ahlstrom Group in total of EUR 0.0 million (EUR 0.0 million) during the financial year 2022.

25 NEW ACCOUNTING STANDARDS

The Group doesn't expect any material impacts on the financial statements regarding the new standards, amendments nor improvements becoming effective in the following financial years:

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2023)
- Disclosure of Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (effective for financial years beginning on or after 1 January 2023)
- Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial years beginning on or after 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 Income Taxes (effective for financial years beginning on or after 1 January 2023)
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 Leases* (effective for financial years beginning on or after 1 January 2024)
- Non-current Liabilities with Covenants – Amendments to IAS 1 Presentation of Financial Statements
- (effective for financial years beginning on or after 1 January 2024)

26 POST-BALANCE SHEET EVENTS

EVENTS AFTER THE REPORTING PERIOD

Appointment of President and CEO
On December 13, 2022, Helen Mets was appointed President and CEO, effective January 1, 2023, and succeeded Hans Sohlström who left Ahlstrom at the end of December.

Change of name to Ahlstrom Holding 3 Oy
On January 16, 2023, Ahlstrom-Munksjö Holding 3 Oy registered with the Finnish Patent and Registration Office as its business name Ahlstrom Holding 3 Oy.

Ahlstrom Holding 3 Oy return of equity
On February 1, 2023, Ahlstrom Holding 3 Oy decided on a cash distribution in the aggregate amount of EUR 8,348,142.7899 (the "Distribution Amount") by way of return of equity from invested unrestricted equity reserve. Payment was made on February 1, 2023.

Signatures to the Financial Statements and the Board of Directors' Report

Helsinki, February 22, 2023

Ivano Sessa

Andrej Busch

Alexander Ehrnrooth

Lasse Heinonen

Halvor Meyer Horten

Peter Seligson

Michael Siefke

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

Independent Auditor's report

To the Board of Directors of Ahlstrom Holding 3 Oy

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Ahlstrom Holding 3 Oy (business identity code 3156762-4,) for the year ended 31 December 2022. The consolidated financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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 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 consolidated 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.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill and acquisition related intangible assets (refer to accounting principles for the consolidated financial statements and note 12)	
• At the end of the financial year, the group had EUR 1.102 million of goodwill and EUR 889 million of other intangible assets. The goodwill amounts to 123 % of the group equity and 25 % of the group's total assets at 31 December 2022. • Goodwill is tested for impairment when indicators of impairment exist, or at least annually. Goodwill impairment testing is conducted by comparing the carrying value with the recoverable amount using a discounted cash flow model. • Determining the key assumptions used in the impairment tests requires management judgement and estimates especially relating to long term growth, profitability and discount rates. • Acquisition related intangible assets have a definitive useful life, however, the useful lives and related amortization periods are assessed annually. • Valuation of goodwill and acquisition related intangible assets are considered a key audit matter due to the significant carrying values and high level of management judgement involved.	• We assessed the impairment tests prepared by the Company. • Our detailed audit work with the involvement of KPMG valuation specialists included testing the integrity of the calculations and the technical model. We challenged the assumptions used by management in respect of forecasted growth rates and profitability as well as the appropriateness of the discount rates used. We also validated the assumptions used in relation to market and industry information. • We also evaluated the cash flows used by comparing them to the group's business plans and to the understanding we gained from our audit. • Furthermore, we have considered the adequacy of the group's disclosures in respect of the impairment testing. • For acquisition related intangible assets, we challenged management's assumptions regarding the remaining useful life of identified intangible assets based on our own expectations and on our knowledge of the client and experience of the industry in which it operates.

Revenue recognition (refer to accounting principles for the consolidated financial statements and notes 5 and 6)

- Revenue is mainly generated through the sale of manufactured goods. The revenue is generated by subsidiaries in different countries. The revenue earned from the sale of goods is recognised when the control associated with ownership is transferred to the buyer in accordance with the terms of delivery.
- In general, revenue recognition within the group is not complex but the large volumes of transactions and the fact that the revenue is generated through subsidiaries in different countries makes revenue recognition an area of focus in the audit and is therefore determined as a key audit matter.

- During our audit we have focused on identifying unusual sales transactions. Auditors of subsidiaries have performed testing of controls related to revenue recognition and also performed substantive procedures such as testing of sales agreements and year-end transactions.
- We have on group level assessed the revenue recognition principles and based on work performed by the auditors in the subsidiaries tested compliance with group revenue recognition principles.

Valuation of Inventories (refer to accounting principles of the consolidated financial statements and note 13)

- The value of inventories amounted to EUR 423 million at the end of the financial year.
- There are several different systems for inventory accounting in the group. It is essential from an accounting perspective that the internal control related to inventory accounting and valuation is appropriately organized.
- The valuation of inventories is based on management estimates in respect of obsolescence assessment.
- Due to the significant carrying amount and management judgement involved, valuation of inventories is determined as a key audit matter that our audit is focused on.

- In our audit the key focus has been on the pricing and valuation of inventories. Our component auditors carried out appropriate controls testing and substantive testing in relation to standard cost setting, accounting for variances and obsolescence provisions including monitoring of inventory levels.
- On group level we have assessed the work performed by the auditors in the subsidiaries and on group level made an overall assessment of the valuation of inventories.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors 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. The Board of Directors are also responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors are responsible for assessing 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 consolidated financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the consolidated 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 consolidated 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 consolidated 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 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' 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 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 consolidated 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 group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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.

Helsinki, 22 February 2023
KPMG OY AB

Anders Lundin
Authorised Public Accountant, KHT