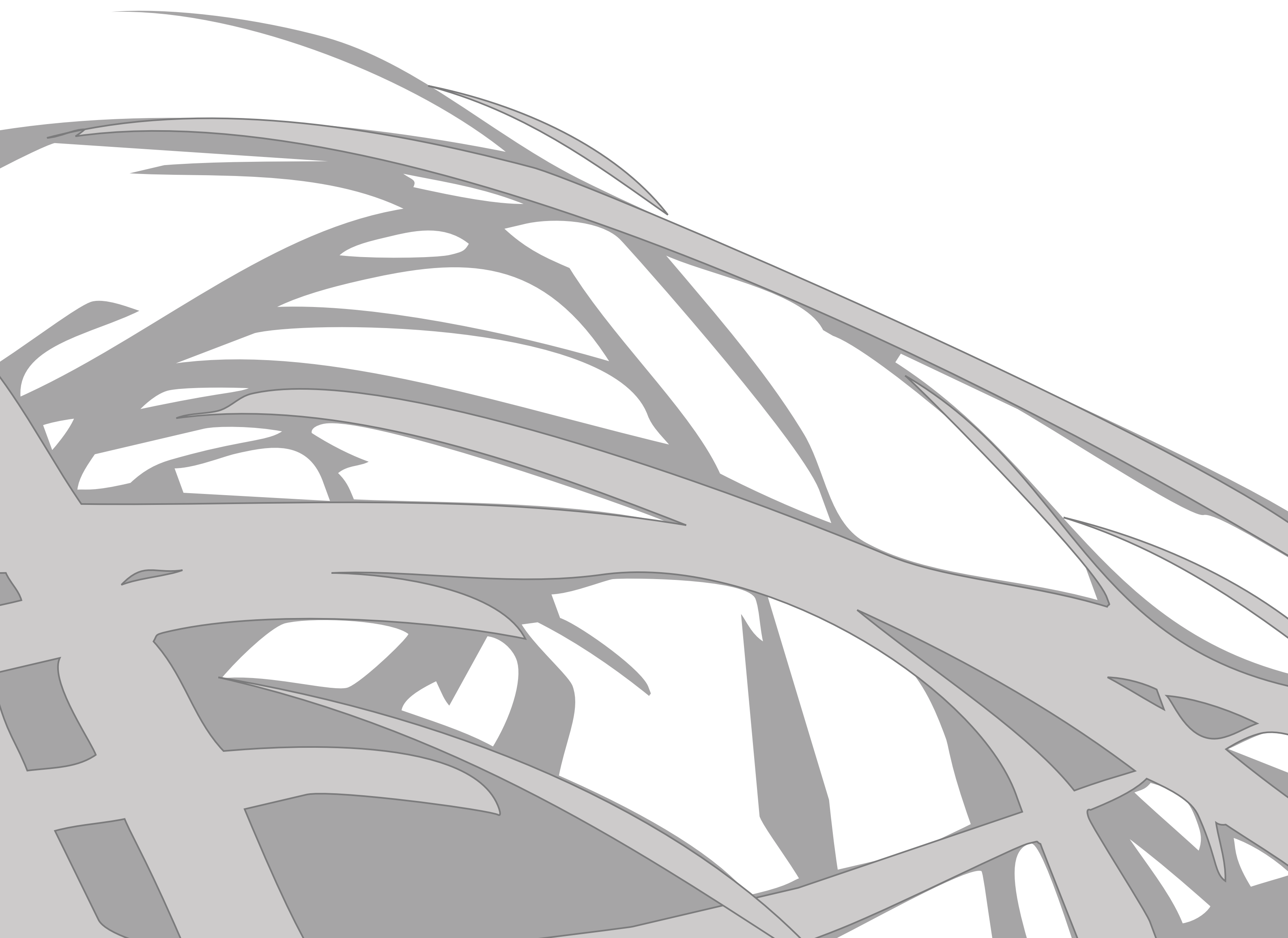
Ahlstrom

Financial statements 2005



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Report by the Board of Directors

Overview of 2005

The global economic environment remained challenging for Ahlstrom in 2005. Growth in European markets still remained unsatisfactory, whereas in North America demand for the company's products improved. In Asia, the growth in demand continued.

Prices for raw materials, energy and logistics increased further in 2005. Ahlstrom was, however, able to partially mitigate this increase by reducing fixed costs and raising sales prices. The company also continued to improve its sourcing of raw materials through centralized purchasing, and used less expensive raw materials, where possible.

Ahlstrom's long-term strategy is to grow profitably by focusing on high value-adding, growing businesses. To achieve this target, the company announced several growth initiatives, both organic investments and acquisitions in 2005. These investments are expected to increase Ahlstrom's production capacity and support its future growth in its key markets in the USA, Europe and Asia.

Financial performance in 2005

The Group's operating profit in 2005 grew to EUR 117.2 million (EUR 62.1 million). The operating profit of 2005 includes net non-recurring gains totaling EUR 18.2 million (non-recurring losses of EUR 20.0 million). The positive development in profitability seen in 2005 is mainly attributable to internal measures, resulting in improved productivity and lower fixed costs.

Net profit for the year 2005 amounted to EUR 62.6 million (EUR 33.4 million). Earnings per share (EPS) were EUR 1.71 (EUR 0.91).

Net sales for the full year 2005 remained nearly unchanged and amounted to EUR 1,552.6 million (EUR 1,567.8 million). However, net sales excluding the divestment of Ahlstrom's cores & board operations in 2004 increased by 4.2% and sales volumes by 3.7% compared with 2004.

Total net financial expenses were EUR 16.8 million (EUR 16.9 million). Net interest expenses totaled EUR 11.5 million (EUR 12.5 million). Foreign exchange loss for financial items was EUR 3.8 million (loss of EUR 0.5 million), of which EUR 3.0 million (EUR 1.1 million) is mainly attributable to increased costs of hedging the Group's translation exposure. In 2004, these costs were reported as an interest expense in accordance with the previous accounting principles (FAS). The net financial expenses for 2004 also include the loss of the sales of divested businesses, totaling EUR 1.7 million.

Ahlstrom's share of the profits of associated companies (Jujo Thermal and Sonoco-Alcore) amounted to EUR 0.4 million (EUR 2.7 million). The decrease was partly due to the labor dispute in the Finnish paper industry that had a negative effect on the companies.

Profit before taxes was EUR 100.7 million (EUR 47.9 million). Income tax expenses totaled EUR 38.1 million (EUR 14.5 million). Return on capital employed (ROCE) was 12.4% (7.0%) and return on equity (ROE) 10.7% (5.6%).

The figures for the year 2004 have been adjusted due to a change of law regarding a state supported early retirement plan in France. This retroactive liability has been revised in 2004 in accordance with the IFRS principles. Consequently, the operating profit for 2004 decreased by EUR 1.7 million to EUR 62.1 million and the employee benefits in the balance sheet increased by the same amount.

Financial position in 2005

Net cash flow from operations (the cash flow after net interest expenses, taxes paid and the change in working capital) amounted to EUR 126.6 million (EUR 128.0 million).

Interest-bearing net liabilities decreased by EUR 21.2 million to EUR 340.6 million (EUR 361.8 million).

Ahlstrom's gearing ratio (interest-bearing net liabilities to equity) was 57.7% at year-end (62.3%). Equity ratio was 43.2% (42.0%).

The Group's liquidity remained good throughout the year. At year-end, cash and cash equivalents stood at EUR 16.0 million (EUR 19.8 million).

Capital expenditure

Capital expenditure excluding acquisitions for 2005 amounted to EUR 62.4 million (EUR 101.0 million). Including acquisitions, capital expenditure was EUR 73.2 million (EUR 167.0 million). In 2006, Ahlstrom Group's capital expenditure, excluding acquisitions, is expected to be significantly above the 2005 level.

Investments in growth

In 2005, Ahlstrom continued to implement its growth strategy which is a key element in its business strategy.

In December, Ahlstrom acquired the absorbent and blotting materials business from FiberMark in North America and the filtration business of Lantor, Inc. including the manufacturing facilities in the USA and in China. Net sales of these acquired businesses were approximately EUR 20 million in total in 2005.

In December, Ahlstrom announced an expansion of the production capacity of the Mikkeli, Finland plant. The EUR 5 million investment will consist of a building expansion and new machinery. The construction work is estimated to be completed in October 2006.

In November, Ahlstrom announced an investment of EUR 30 million to expand the production capacity of supercalendered release base papers at its La Gère plant in France. The project is estimated to be completed in early 2007.

In September, Ahlstrom announced its decision to invest in a new spunlace machine at the Green Bay, USA plant. The additional capacity will primarily serve the growing North American wipes market with spunlace composites technology.

In September, Ahlstrom announced that it will add proprietary nanofiber production capabilities in the Madisonville, USA plant, particularly designed to serve its Filtration business.

In June, Ahlstrom announced that it had commissioned the new EUR 6 million fine fiber line at the Turin, Italy plant.

In March, Ahlstrom announced its decision to invest EUR 18 million to expand its production capacity of supercalendered release base papers at the Turin, Italy plant. The project was completed in January 2006.

Divestments

In August, Ahlstrom sold the share capital of Ahlstrom Kauttua Oy in Finland to Jujo Thermal Ltd. The parties agreed not to disclose the transaction value. In conjunction with this divestment, the plant's paper machine 1 manufacturing face stock and wet glue label papers was transferred to the joint venture Jujo Thermal Ltd. The plant's paper machine 4 continues to produce crepe papers within Ahlstrom.

In July, Ahlstrom sold a hydropower station close to Turin, Italy to Italian power company SIED S.p.A. The parties agreed not to disclose the transaction value.

Research and development

In 2005, Ahlstrom's expenditure on research and development was EUR 27.1 million (EUR 27.6 million), representing 1.75 % (1.76 %) of net sales. In 2005, R & D efforts included, among other things, the development work related to the new fine fiber production line in Turin, Italy plant as well as the development of a new recyclable paper-based material for food packaging. In addition, Ahlstrom developed several new products for various markets.

Environment

Ahlstrom strives to minimize the impact of its operations on the environment, including all phases of production, storage, transportation and use of its products. At the end of 2005, 79% of the production output was already covered by ISO 14001 certifications. With the current environmental programs, Ahlstrom expects that more than 90% of its production output will be covered by ISO 14001 certificates by the end of 2006.

In 2005, there have been no material changes in Ahlstrom's environmental impact compared to 2004, except the 21% reduction in waste to landfill. Total CO_2 emissions declined slightly, and in Europe, Ahlstrom's emissions are below allocated emission rights. There were no significant environmental incidents in 2005.

Ahlstrom currently believes that there are no material issues regarding compliance with applicable environmental regulations at any of its sites. The company continuously works to comply with the new regulations that come into force. Ahlstrom currently does not foresee any significant environmental regulatory change that could have a material impact on Ahlstrom's operations. The company does not presently foresee major difficulties in complying with the Integrated Pollution Prevention and Control (IPPC) Directive.

Personnel

At the end of 2005, Ahlstrom had 5,525 employees (5,755). The average number of employees during the year was 5,605 (6,428). The reduction in headcount was mainly attributable to the creation of the joint venture Sonoco-Alcore in 2004, the divestments of the remaining packaging units in 2004, the divestment of Ahlstrom Kauttua in 2005, and the streamlining of operations across the organization.

Shares and share capital

At the end of 2005, the share capital of Ahlstrom Corporation totaled EUR 54.6 million and the total number of shares was 36,418,419 with a nominal value of EUR 1.50 per share. Equity per share of Ahlstrom Group was EUR 16.21 (December 31, 2004: EUR 15.94).

Annual General Meeting

The Annual General Meeting (the AGM) of Ahlstrom Corporation, held on May 13, 2005, confirmed the number of Board members at seven. Six members of the Board were re-elected for the period ending at the close of the next Annual General Meeting: Johan Gullichsen, Sebastian Bondestam, Jan Inborr, Urban Jansson, Peter Seligson and Willem F. Zetteler. Bertel Paulig was elected as a new member. KPMG Oy Ab was re-elected as the Company's auditor for the period ending at the close of the next Annual General meeting. In addition, the AGM resolved to distribute a dividend of EUR 0.75 per share for the financial year that ended December 31, 2004 (totaling approximately EUR 27.3 million), as proposed by the Board of Directors.

Extraordinary Shareholders' Meeting

The Extraordinary Shareholders' Meeting of Ahlstrom Corporation, held on December 13, 2005, resolved in accordance with the proposal of the Board of Directors to distribute an extra dividend of EUR 0.97 per share (totaling approximately EUR 35.3 million) for the financial year 2004.

The Extraordinary Shareholders' Meeting also resolved to change the terms and conditions of the stock option programs. The share subscription period of the stock option program I (2001) was extended to expire on April 30, 2007. The share subscription period of the stock option program II (2001) was changed to commence on January 1, 2007 for all options and to expire on April 30, 2007. The subscription period will, however, not commence until the listing of the company has occurred. Option holders shall be entitled to demand the Company to redeem the options, provided that the Company has not been listed on the stock exchange by March 31, 2007. The shareholders agreed to extend until May 31, 2007 the period during which the option holders may demand redemption of their options.

Business strategy and long-term targets

The Board of Directors confirmed Ahlstrom's business strategy including growth as a key element. Accordingly, the Board of Directors set the following long-term financial targets:

- Return on capital employed (ROCE) minimum of 13%
- Gearing ratio 50-80% (interest-bearing net liabilities to equity)
- Dividend pay out ratio averaging at least 50% of the net profit

Outlook

The business environment will remain challenging in 2006. Growth expectations in Europe are modest while the demand in the Americas and Asia is expected to enjoy a higher growth rate. Energy and raw material costs are expected to remain at 2005 levels or rise, maintaining pressure on margins while Ahlstrom's announced price increases are aimed to offset these cost increases.

The growth investments and add-on acquisitions decided in 2005 and early 2006 are in line with Ahlstrom's long-term growth strategy. The current market situation supports growth for 2006. Ahlstrom will continue to focus on productivity improvement and maintain strict cost control in order to improve profitability.

Segment reviews

FiberComposites

The segment's net sales increased by 11.8% to EUR 742.3 million (EUR 663.8 million). Sales volumes grew over the period by 7.3%. The growth was mainly due to good demand for nonwovens, particularly in North America, and acquisitions and investments made in 2004 and 2005. Sales developed favorably in all business areas.

The operating profit for 2005 amounted to EUR 65.5 million (EUR 39.8 million) representing an 8.8% margin (6.0%). The improvement in profitability was mainly attributable to strong demand in wipes, enhanced operational efficiency and lower fixed costs. Non-recurring items, including the sale of the company's hydropower assets in Turin, Italy, had a positive effect of EUR 2.8 million in total (non-recurring losses of EUR 7.3 million).

Nonwovens business area (49% of the FiberComposites segment's net sales)

Ahlstrom's Nonwovens business area serves customers in the food packaging, medical, wiping, building, and industrial nonwovens markets.

The market environment for nonwovens varied by geographical area. The relatively solid demand in North

America was contrasted by sluggish demand in certain European markets. Demand was especially strong in wipes and medical nonwovens.

In 2005, the net sales of the business area increased by 17.8% compared with 2004. Sales volumes grew by 20.3%. The growth was driven particularly by additional wipes and medical nonwovens volumes in Europe, the USA and Asia. 2005 was the first full operational year both for the Green Bay, WI, USA plant acquired in October 2004 and for the new wipes production line in the Windsor Locks, CT, US plant commissioned in June 2004.

A focused investment program continued. In September, Ahlstrom announced an investment in a new spunlace machine at its Green Bay, WI, USA plant. The additional capacity will primarily serve the growing North American wipes market with spunlace composites technology. The investment project is scheduled to be completed during January 2007.

The business area closed its office in Edinburgh, United Kingdom in 2005 to streamline its market service operations. In addition, Ahlstrom's group-wide performance excellence program 'a plus' has helped the business area to achieve incremental improvements both in productivity and profitability.

Filtration business area (38% of the FiberComposites segment's net sales)

Filtration media produced by Ahlstrom are used in the transportation industry and in liquid and air filtration applications.

The filtration markets experienced healthy overall growth. However, the market for transportation filtration products was softer in 2005 than for several years, especially in North America and Western Europe. Asian markets continued at good growth rates.

Net sales of the Filtration business area grew by 7.4% while sales volumes were stable compared with the 2004 level. Price increases were implemented in the latter half of 2005 in all geographic regions and in most product areas to partially offset the higher costs for raw materials and energy.

The business area made two acquisitions in December. The acquisition of the filtration business of Lantor, Inc. includes manufacturing sites in the USA and in China and expands Ahlstrom's product portfolio with high temperature dust filtration and other specialty filtration products. The acquisition of FiberMark's absorbent and blotting materials business also strengthens Ahlstrom's position in the specialty filtration market. Additionally, in January 2006, Ahlstrom acquired specialty nonwovens manufacturer HRS Textiles Inc., based in Darlington, SC, USA, serving mainly the North American air and liquid filtration markets. The acquisition of HRS will strengthen Ahlstrom's position in North America, particularly in the HVAC segment. Net sales of these acquired businesses were approximately EUR 37 million in total in 2005.

A new fine fibers line was commissioned at the Turin, Italy plant in June. This investment allows Ahlstrom to produce very high performance filtration media with multi layer functionality. An investment in nanofiber filtration production capability in the Madisonville, KY, USA plant was announced in September. The new nanofiber line will serve markets globally and it is estimated to be operational in late first quarter of 2006.

In order to maintain a competitive cost structure and to better serve its customers in North America, the business area closed the New Windsor, USA plant and consolidated its air filtration production lines to the Groesbeck, TX facility in the USA. Strict fixed cost control and the continued 'a plus' performance excellence program resulted in improved productivity and reduced waste volumes, thereby assisting overall cost control that contributed to the overall financial result.

Glass Nonwovens business area (13% of the FiberComposites segment's net sales)

Ahlstrom's Glass Nonwovens business area serves the reinforcement, specialty reinforcement, and glass tissue markets.

The overall market environment developed favorably in 2005. Demand was particularly good in the marine and wind mill industries, but the building sector softened during the second half of the year.

Net sales of the Glass Nonwovens business area grew by 4.0% and sales volumes by 2.3% compared with 2004 levels. Intense competition put pressure on sales prices and margins, but the business area was able to implement price increases during the first half-year.

The EUR 3.5 million investment to increase the production capacity of a glassfibre tissue line in the Karhula, Finland plant was completed successfully in the latter half of 2005. In December 2005, the business area further announced that it will expand its Mikkeli, Finland plant. The investment, consisting of a building extension and new machinery and valued approximately at EUR 5 million, enables a production capacity increase of up to 50% within the next few years.

Specialty Papers

Net sales, excluding the cores and board operations amounted to EUR 814.7 million in 2005 (EUR 808.0 million). Comparable sales volumes grew by 2.1% during the same period. Net sales were affected by the divestment of Ahlstrom Kauttua Oy in August 2005. Net sales and volumes increased particularly in release base papers due to increased market demand. Sales volumes were also positively impacted by increased demand for poster papers. Demand for pre-impregnated decor papers decreased over the period due to a downturn in the furniture markets.

The operating profit for 2005 improved clearly over 2004 and amounted to EUR 57.7 million (EUR 20.9 million). The improvement was a result of a good demand for release base papers, improved operational efficiency and lower fixed costs. In addition, the operating profit for 2005 included net non-recurring gains of EUR 14.8 million of asset sales (net non-recurring losses of EUR 8.9 million, excluding cores & board operations, in 2004).

Label & Packaging Papers business area (67% of the Specialty Papers segment's net sales)

The business area consists of release base papers and packaging and label papers business. Its main products include release base papers, face stock papers, wet glue label papers, metalizing base papers, flexible packaging papers, and office & graphic papers.

The soft market environment for flexible packaging papers, wet glue label papers and face stock label papers was contrasted by strong demand in release base papers, metalizing label papers and office & graphic papers. The positive development in the demand for release base papers was driven mainly by the growing self-adhesive applications business, particularly in Asia, Eastern Europe and South America. In the summer, the demand for Ahlstrom's release base papers was exceptionally high due to a disruption in supply caused by the labor dispute in the Finnish paper industry.

Total net sales and sales volumes of the Label & Packaging Papers business area remained at the 2004 levels. Sales of wet glue and face stock label papers decreased compared to 2004 due to two factors: the labor dispute of the Finnish paper industry caused a shutdown of the Kauttua plant for nearly seven weeks. In addition, the Kauttua plant was sold to Jujo Thermal Ltd in August, and was consequently excluded from the business area's accounts. The other four product lines showed growth both in sales volumes and in net sales.

In 2005, the business area announced two investments to increase the production capacity of release base papers at the Turin, Italy and La Gère, France plants. The investments, valued close to EUR 50 million in total, are in line with Ahlstrom's long-term strategy to grow profitably by focusing on high value adding, growing businesses. The Turin investment was successfully completed in January 2006, and the investment in La Gère is estimated to be completed in January 2007.

Actions to improve efficiency, supported by Ahlstrom's group-wide performance excellence program 'a plus', led to notable results and additional production volumes. The business area will continue strict fixed cost control.

Technical Papers business area (33% of the Specialty Papers segment's net sales)

The main products of the Technical Papers business area are abrasive base papers, crepe papers (such as masking tape base), pre-impregnated decor papers, coated papers (e.g. wallpaper base and poster papers) as well as vegetable parchment papers. The main markets which the business area serves include the furniture and home decoration, healthcare, food, and automotive industries.

During the first half of 2005, demand in Technical Papers business area was relatively weak, reflecting the challenging business environment of the European market. Soft market conditions prevailed especially in the European pre-impregnated decor markets. The masking tape base paper shipments from the Kauttua plant were affected by the seven-week labor dispute in the Finnish paper industry. After the summer, the markets started to recover and this trend strengthened during the third and fourth quarters.

Sales volumes grew by 3.3% from the previous year. However, net sales remained at the same level as in 2004 due to a change in product mix. Sales to the Asian and North American markets continued to grow in 2005.

Upward pressure on input costs, especially in energy and chemicals, affected the business area's margins during the second half of 2005. The Performance Enhancement Program initiated in late 2003 continued. In 2005, the business area was able to achieve substantial fixed cost reductions ahead of the plan.

Investments in 2005 were focused on productivity and quality improvements. In the St. Severin, France plant, Ahlstrom invested in increasing the capacity of vegetable parchment for the growing bakery segment. To increase the output of pre-impregnated decor papers, investments were made to increase the speed of paper machine 3 in the Osnabrück, Germany plant.

Income statement

EUR million	(Note)	2005	2004
Net sales	(1,3)	**1,552.6**	1,567.8
Other operating income	(2,4)	**30.8**	21.7
Change in inventories of finished goods and work in process		**-2.4**	-8.4
Production for own use		**-13.0**	0.2
Materials and supplies		**-876.1**	-873.6
Employee benefit expenses	(5)	**-313.1**	-340.1
Depreciation and amortization	(9,10,12)	**-82.9**	-86.7
Impairment charges	(11)	**-0.8**	-3.6
Other operating expenses	(4)	**-177.8**	-215.1
Operating profit		**117.2**	62.1
Financial income	(6)	**3.2**	5.1
Financial expenses	(6)	**-20.0**	-21.9
Share of net profit of associated companies	(13)	**0.4**	2.7
Profit before taxes		**100.7**	47.9
Income taxes	(7,15)	**-38.1**	-14.5
Profit for the period		**62.6**	33.4
Attributable to:			
Equity holders of the parent		**62.4**	33.2
Minority interest		**0.2**	0.2
Basic earnings per share (EUR)		**1.71**	0.91
Diluted earnings per share (EUR)		**1.67**	0.90

Balance sheet

EUR million	(Note)	Dec 31, 2005	Dec 31, 2004
Assets			
Property, plant and equipment	(9)	**577.4**	574.4
Goodwill	(10,11)	**108.6**	106.9
Other intangible assets	(10)	**39.0**	24.7
Investment property	(12)	**4.0**	3.9
Investments in associated companies	(13)	**49.4**	49.9
Other investments	(14)	**2.9**	3.3
Other receivables	(17)	**4.9**	7.2
Deferred tax assets	(15)	**32.2**	35.5
Total non-current assets		**818.4**	805.7
Inventories	(16)	**212.6**	212.6
Trade and other receivables	(17)	**320.2**	329.8
Other investments	(14)	**0.0**	13.5
Cash and cash equivalents	(18)	**16.0**	19.8
Total current assets		**548.8**	575.7
Total assets		**1,367.2**	1,381.4
Equity and liabilities			
Equity attributable to equity holders of the parent	(19)		
Issued capital		**54.6**	54.6
Share premium		**26.7**	26.7
Reserves		**4.7**	-3.2
Retained earnings		**503.7**	501.5
		589.7	579.6
Minority interest		**0.8**	0.9
Total equity		**590.5**	580.5
Liabilities			
Interest-bearing loans and borrowings	(22)	**119.6**	212.5
Employee benefit obligations	(20)	**112.8**	108.6
Provisions	(21)	**3.7**	3.7
Other liabilities	(23)	**0.4**	0.1
Deferred tax liabilities	(15)	**26.3**	13.0
Total non-current liabilities		**262.8**	337.9
Interest-bearing loans and borrowings	(22)	**237.0**	182.6
Trade and other payables	(23)	**263.6**	262.6
Provisions	(21)	**13.3**	17.7
Total current liabilities		**513.9**	462.9
Total liabilities		**776.7**	800.9
Total equity and liabilities		**1,367.2**	1,381.4

Statement of changes in equity

EUR million	Attributable to equity holders of the parent							Minority interest	Total equity
	Issued capital	Share premium	Fair value reserve	Hedging reserve	Translation reserve	Retained earnings	Total		
Equity at December 31, 2003	**54.6**	**26.7**	**-**	**-**	**-**	**592.5**	**673.8**	**-**	**673.8**
The impact of adopting IFRS (note 32)	-	-	-	-	-	-69.5	-69.5	1.1	-68.4
Adjusted equity at January 1, 2004	**54.6**	**26.7**	**-**	**-**	**-**	**523.0**	**604.3**	**1.1**	**605.4**
Translation differences	-	-	-	-	-8.6	-	-8.6	-0.2	-8.8
Gains and losses from hedge of net investments in foreign operations, net of tax	-	-	-	-	5.4	-	5.4	-	5.4
Other changes	-	-	-	-	-	-	-	-0.2	-0.2
Profit for the period	-	-	-	-	-	33.2	33.2	0.2	33.4
Total recognized income and expense for the period	-	-	-	-	-3.2	33.2	30.0	-0.2	29.8
Dividends paid and other	-	-	-	-	-	-54.7	-54.7	-	-54.7
Equity at December 31, 2004	**54.6**	**26.7**	**-**	**-**	**-3.2**	**501.5**	**579.6**	**0.9**	**580.5**
The impact of adopting IAS 32 and 39	-	-	2.4	-	-	-	2.4	-	2.4
Adjusted equity at January 1, 2005	**54.6**	**26.7**	**2.4**	**-**	**-3.2**	**501.5**	**582.0**	**0.9**	**582.9**
Cash flow hedges, net of tax:									
Gains and losses taken to equity	-	-	-	1.0	-	-	1.0	-	1.0
Translation differences	-	-	-	-	26.4	-	26.4	-0.2	26.2
Gains and losses from hedge of net investments in foreign operations, net of tax	-	-	-	-	-19.5	-	-19.5	-	-19.5
Other changes	-	-	-2.4	-	-	2.4	0.0	-	0.0
Profit for the period	-	-	-	-	-	62.5	62.5	0.1	62.6
Total recognized income and expense for the period	-	-	-2.4	1.0	6.9	64.9	70.4	-0.1	70.3
Dividends paid and other	-	-	-	-	-	-62.7	-62.7	-	-62.7
Equity at December 31, 2005	**54.6**	**26.7**	**0.0**	**1.0**	**3.7**	**503.7**	**589.7**	**0.8**	**590.5**

Statement of cash flows

EUR million	(Note)	2005	2004
Cash flow from operating activities			
Profit for the period		**62.6**	33.4
Adjustments:			
Non-cash transactions and transfers to cash flow from other activities	(28)	**66.9**	92.8
Interest and other financial income and expense		**16.6**	14.8
Dividend income		**-0.1**	-0.7
Taxes		**38.1**	14.5
Changes in net working capital:			
Change in trade and other receivables		**-6.2**	1.8
Change in inventories		**0.5**	3.5
Change in trade and other payables		**-9.5**	-4.2
Change in provisions		**-4.5**	-8.8
Interest received		**0.7**	3.7
Interest paid		**-9.3**	-17.0
Other financial items		**-19.8**	1.5
Taxes paid		**-9.4**	-7.3
Net cash from operating activities		**126.6**	128.0
Cash flow from investing activities			
Acquisitions of Group companies, net of cash	(3)	**-10.8**	-64.9
Purchases of property, plant and equipment		**-55.4**	-101.0
Proceeds from disposal of shares in Group companies and businesses	(2)	**29.7**	1.4
Proceeds from disposal of other investments		**19.2**	11.1
Proceeds from disposal of property, plant and equipment		**5.5**	2.2
Dividends received		**1.0**	2.9
Net cash from investing activities		**-10.8**	-148.3
Cash flow from financing activities			
Change in interest-bearing loans and borrowings		**-57.1**	70.3
Dividends paid		**-62.8**	-54.6
Net cash from financing activities		**-119.8**	15.7
Net change in cash and cash equivalents		**-4.0**	-4.5
Cash and cash equivalents at beginning of period		**19.8**	24.1
Foreign exchange adjustment		**0.3**	0.2
Cash and cash equivalents at end of period		**16.0**	19.8

Significant accounting principles

Ahlstrom Group (the "Group") is a multinational group operating in the fiber-based specialty materials business. The parent company Ahlstrom Corporation is a Finnish public limited company organized under the laws of Finland and domiciled in Helsinki. The consolidated financial statements are available at www.ahlstrom.com or from the address Ahlstrom Corporation Head Office, P.O. Box 329, FIN-00101 Helsinki.

Ahlstrom Group reports its operations in two segments, FiberComposites and Specialty Papers. Products supplied by the FiberComposites segment include nonwovens, filtration media and glass nonwovens products, and products supplied by the Specialty Papers segment include label and packaging papers and technical papers.

Basis of preparation

These are the first financial statements of the Group prepared in accordance with the International Financial Reporting Standards (IFRS) complying with the valid IAS- and IFRS-standards as well as the Standing Interpretations Commitee (SIC) and International Financial Reporting Interpretations Commitee (IFRIC) -interpretations. In the Finnish Accounting Act and ordinances based on the provisions of the Act, IFRSs refer to the standards and to their interpretations adopted in accordance with the procedures laid down in regulation (EC) No 1606/2002 of the European parliament and of the Council. Also the notes to the Consolidated Financial Statements are in accordance with the requirements of the Finnish Accounting and Companies Acts.

The Group's date of transition to IFRS was January 1, 2004 and the adoption of IFRS standards was done in accordance with the IFRS 1 (First-time Adoption of IFRS). However, for the adoption of IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation), the transition date was January 1, 2005.

Comparative figures for 2004 have been restated to comply with IFRS, but for financial instruments the Group utilized the exemption for a first-time adopter of IFRS not to restate comparative information for 2004. The financial instruments are presented in accordance with Finnish accounting standards for the comparative year 2004. The effects of the transition are summarized in note 32, Transition to IFRS.

The consolidated financial statements are presented in euro. They are prepared on the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from these amounts.

Principles of consolidation

The consolidated financial statements include the financial statements of the Parent Company and all subsidiaries. Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The subsidiaries are listed in Note 30. Subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition, whereas companies that have been disposed of during the year are included up to the date of disposal. Acquisitions of companies are accounted for using the purchase method of accounting.

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The equity method of accounting is used to account for investments in associated companies in which the Group has 20 to 50 percent of the voting shares.

All intragroup transactions, receivables and liabilities as well as unrealized profits and intragroup profit distributions are eliminated in consolidation. Minority interest is reported as a separate item in equity in the consolidated balance sheet. Profit or loss for the period attributable to minority interest is presented separately at the end of the consolidated income statement.

Transactions denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rate. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement.

The balance sheets of subsidiaries whose reporting currency is not euro are translated into euro at the exchange rate prevailing at the balance sheet date while the income statements of such subsidiaries are translated at the average exchange rate for the period. The effect of such translation is recognized in a separate component of equity. When a subsidiary is disposed of, translation differences arising from the net investment and from related hedges, are recognized in the income statement as part of the gain or loss on the sale. Translation differences that have arisen before January 1, 2004 have in accordance with the IFRS 1 standard been recognized in retained earnings at the transition to IFRS. Such translation differences will not in the future, at disposal of the subsidiary, be recognized to the income statement.

Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are recognized in the functional currency of that foreign operation and translated at the balance sheet rate.

Financial instruments

The Group adopted amended IAS 32 and IAS 39 standards January 1, 2005. The transition was based on the exemption allowed by IFRS 1, according to which no restatement of comparative financial instrument information is required. In 2004, financial instruments subject to IAS 32 and 39 have been recognized in accordance with the Finnish accounting standards.

Financial assets and liabilities

As of January 1, 2005, the Group classifies the financial assets in accordance with IAS 39 in one of the following categories: financial assets at fair value through profit or loss, available-for-sale investments, or loans and receivables. Classification is made on initial recognition and it is based on the nature of the item. The purchases and sales of financial assets are accounted for at trade date. Transaction costs are included in the initial measurement of financial assets that are not measured at fair value through profit or loss.

A financial asset is derecognized when the Group has lost its contractual rights to the cash flows from the financial asset or when it has transferred substantially all the significant risks and rewards of ownership of the financial asset to an external party.

Financial assets at fair value through profit or loss

This category includes the financial assets held for trading, all derivatives other than hedging instruments, and any financial assets that are designated by the Group at the initial recognition as measured at fair value through profit or loss. Financial assets held for trading are mainly held to generate profits from short-term market price changes. The assets in the category are measured at fair value, which is based on their current market bid price on the balance sheet date. The assets held for trading and the assets due within 12 months are included in the balance sheet current assets. Unrealized and realized gains and losses due to fair value adjustments are recognized in profit or loss in the period they occur.

Loans and other receivables

The loans and other receivables category is for non-derivate financial assets, which arise from the sale of goods and services or from lending activities. They are not quoted in an active market. Payments from loans and receivables are fixed or determinable. Loans and receivables are recognized at amortized cost. They are included in non-current or current assets, depending on their maturity.

Available-for-sale investments

The available-for-sale investments category includes listed and unlisted securities as well as other interest-bearing current investments. They are measured at fair value. Unlisted securities are stated at lower of cost or probable value, if their fair value cannot be measured reliably. Unrealized gains and losses on remeasurement are recognized directly in fair value reserve in equity deducted with the associated tax effect. Amounts recognized directly in equity are transferred to profit or loss when the asset is sold or substantially impaired. Normally available-for-sale investments are included in non-current assets unless the Group intends to hold them for less than 12 months after the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, bank accounts and other short-term highly liquid investments.

Financial liabilities

Group's financial liabilities include loans from financial institutions, trade payables and other financial liabilities. Loans are initially measured at fair value which is based on the consideration received. Transaction costs associated with financial liabilities are included in the initial measurement. Subsequent to initial recognition, financial liabilities are stated at amortized cost calculated using the effective interest method.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at cost reflecting their fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Gains and losses on remeasurement to fair value are recognized according to the intended use of the derivative financial instrument.

The Group holds derivative instruments qualifying for IAS 39 hedge accounting to hedge a cash flow exposure on some floating rate loans, and a currency exposure on a net investment in foreign operations. For hedge accounting purposes the Group prepares the documentation of the hedged item, the risk being hedged, and the risk management objective and strategy for undertaking the hedge. The effectiveness of a hedging instrument is tested both prospectively and retrospectively at every balance sheet date. A hedge is effective if the hedging instrument offsets the changes in cash flows or measurement of the hedged item.

When hedging the cash flow exposure on floating rate loans, the hedging instruments are interest rate swaps. Fair value changes of qualifying cash flow hedges are recognized directly in equity. The associated gains and losses are removed from equity and recognized in profit or loss in the same period with the hedged transaction. When a hedging instrument expires, is sold or no longer qualifies for hedge accounting, the cumulative gain or loss in equity at that point is recognized in profit or loss.

The Group uses foreign currency loans, forward contracts and medium-term cross-currency swaps to hedge its currency exposure on a net investment in foreign operations. The effective portion of the change in fair value (change in spot rate) is recognized in the currency translation reserve in equity. Any ineffective portion of the change, as well as all changes in derivative's time value are recognized in profit or loss. If a foreign currency loan is used as a hedge, the effective portion of the associated exchange gains or losses is taken to translation reserve. When the subsidiary is disposed of, the cumulative amount in the translation reserve is transferred to profit or loss as an adjustment to the profit or loss on disposal.

Other derivative instruments do not meet the criteria for hedge accounting in IAS 39, even if they are economic hedges according to the Group risk management policy. Changes in fair values of these non-qualifying derivatives and potential embedded derivatives defined under IAS 39 are recognized in profit or loss in the period they occur. Fair values are determined by utilizing public price quotations and rates as well as generally used valuation models. The data and assumptions used in the valuation model are based on verifiable market prices.

Revenue recognition

The Group recognizes revenue from product sales upon shipment, when the customer takes ownership and when the Group has transferred the decisive risks and rewards to the customer and the Group retains no effective control of the products. The majority of the Group's revenue is recognized upon delivery to the customer in accordance with agreed terms of sale. The Group recognizes revenue from services when the services are rendered. Sales are presented net of returns, indirect taxes, discounts and annual rebates.

Income taxes

Income tax expense consists of current and deferred taxes. Current taxes include taxes of the Group companies for the year in accordance with the local regulations, as well as adjustments to prior year taxes. The income tax effects of items recognized directly in equity are similarly recognized in equity.

Deferred taxes are accounted for using the balance sheet liability method, as measured with enacted tax rates, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The most significant deferred tax assets and liabilities arise from the difference between the carrying amounts for financial reporting and the tax bases of property, plant and equipment, fair value measurement of net assets in acquired companies, pension and other obligations, untaxed reserves and unused tax losses and tax credits. Deductible temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized. Temporary differences related to investments in foreign subsidiaries or associates are not recognized as deferred tax liabilities to the extent that they will probably not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the income statement in the period that includes the enactment date.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Interest costs on borrowings to finance the construction of major assets are capitalized as part of their cost during the period required to complete the assets for their intended use.

Depreciation on property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets as follows: Buildings and constructions 20-40 years; heavy machinery 10-20 years; other machinery and equipment 3-10 years. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. The Group recognizes in the carrying amount the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost can be measured reliably. Expected useful lives and residual values of non-current assets are reassessed at each balance sheet date and where they differ from previous estimates, depreciation periods are changed accordingly.

Intangible assets

Goodwill

Acquisitions are accounted for under the purchase method of accounting and accordingly, the excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized in the balance sheet as goodwill. Identifiable net assets include the assets acquired, and liabilities and contingent liabilities assumed. The cost of acquisition is the fair value of purchase consideration given and any costs directly attributable to the acquisition added. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but tested annually for impairment.

Acquisitions prior to the IFRS transition date have in accordance with IFRS 1 not been restated but the balance sheet values according to the previous accounting standards are taken as the deemed cost. Prior to the IFRS transition date, the difference between the acquisition cost and the subsidiary's equity at the time of acquisition has been allocated, where applicable, to the assets acquired.

Research and development

Expenditure on research activities is recognized in the profit or loss as an expense as incurred. The Group has no such expenditure on development activities that would qualify for the capitalization criteria set out in IAS 38 (Intangible assets).

Other intangible assets

Other intangible assets include trademarks, patents, licenses and computer software which are stated at cost less accumulated amortization and impairment losses. Trademarks, patents and licenses are amortized on a straight-line basis over their expected useful lives ranging from 5 to 20 years. Computer software is amortized on a straight line basis over their expected useful lives ranging from 3 to 5 years.

Investment property

Investment property includes property held to earn rentals or for capital appreciation or both. Investment property is treated as a long-tem investment and is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis and the useful lives are the same as for property, plant and equipment.

Leasing

The Group leases certain property and equipment under various operating and finance lease arrangements. Leases are classified and accounted for as finance leases if substantially all risks and benefits of ownership of the underlying assets have been transferred to the lessee.

The assets related to finance leases are capitalized at the lower of their fair value or the estimated present value of the minimum lease payments. Each lease payment is divided into reduction of the lease liability and the interest charge for the period, so that a constant rate of interest is recognized on the outstanding balance of the lease liability. The lease liability, net of interest charges, is included in interest-bearing liabilities. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset or the term of the lease.

Payments made under operating leases are expensed as incurred.

Impairment of assets

At each balance sheet date, the carrying amounts of the Group's assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an assets' fair value less costs to sell, or its value in use. The value in use represents the discounted future cash flows expected to be derived from an asset or a cash-generating unit. In Ahlstrom Group the recoverable amount is mainly based on the values in use.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed if there has been a positive change in the estimates used to determine the recoverable amount of an asset or cash generating unit. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior years. However, an impairment loss in respect of goodwill is never reversed.

In the Group the cash-generating units are based on the product line organization. A cash-generating unit is the lowest level for which there are separately identifiable, mainly independent cash inflows and outflows. Goodwill has been allocated to the cash-generating units that are expected to benefit from the business combination. The recoverable amount for the units with goodwill allocation is assessed every year or in case of indication of impairment. For the first time goodwill was tested for impairment at January 1, 2004, the date of transition to IFRS.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of raw materials and supplies is determined on a weighted average cost method. Cost of other inventories is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in process includes all direct costs as well as an allocation of variable and fixed production overheads.

Accounts receivable

Accounts receivable are measured at cost, and recorded net of allowances for doubtful accounts. Management considers current information and events regarding the customers' ability to repay their obligations and makes an estimate of the amount of allowance when it is probable that the full amount will not be collected.

Provisions

Provision is recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provision for restructuring is recognized only when a detailed and formal plan has been approved, and the implementation of the plan has either commenced or the plan has been announced to the persons it concerns. A provision for site restoration in respect of contaminated land is recognized when the land is contaminated.

Employee benefits

Defined contribution and defined benefit plans

Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified either as defined contribution plans or defined benefit plans. Contributions to defined contribution pension plans are recognized as an expense in the period to which they relate.

In respect of each defined benefit plan, the Group's net obligation is calculated by estimating the amount of future benefit the employees have earned in return for their service; that benefit is discounted to its present value and the fair value of any plan assets are deducted. The present value of defined benefit obligations is determined using the projected unit credit method. The discount rate to determine the present value of defined benefit obligation is the yield on high quality corporate bonds or government bonds with a similar maturity to the obligation. The calculations are prepared by a qualified actuary.

All actuarial gains and losses as at January 1, 2004 were recognized in equity. The actuarial gains and losses that arise subsequent to January 1, 2004 in calculating the Group's obligation are, to the extent that the cumulative unrecognized actuarial gain or loss exceeds by 10% the greater of the present value of the defined benefit obligation and the fair value of the plan assets, recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

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

Share-based payment transactions

The Group applies IFRS 2 (Share-based payments) to share-based payment programs granted after November 7, 2002 and not vested before January 1, 2005. The applicable share-based payment program grants key personnel share appreciation rights conditional upon satisfying specified vesting conditions.

The fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the persons become entitled to the payment. The liability is remeasured at each reporting date until settled. Any changes in the fair value are recognized as an employee benefit cost. The measurement is based on an option pricing model, taking into account the terms and conditions on which the share appreciation rights have been granted, and the extent to which the employees have rendered service to date.

Dividends

Dividends proposed by the Board of Directors are not recognized in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

Government grants

Government or other grants are recognized in the income statement in the same periods in which the expenses are incurred. The Group presents the emission rights net of the deferred government grant.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale and assets related to discontinued operations are recognized at the lower of carrying amount or fair value less costs to sell, if the carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the sale is expected to be highly probable.

A discontinued operation is a major line of business or geographical area of operations.

Operating profit

Operating profit is the net amount of net sales and other operating income less cost of finished goods and work in process adjusted with the change in inventories, cost of employee benefits, depreciation, amortization and impairment loss, and other operating expenses. Operating profit includes foreign exchange differences related to normal business operations. Foreign exchange differences related to financial operations are recorded in financial income and expenses.

Application of improved or revised IFRS-standards

In December 2004 the IASB issued the new interpretation IFRIC 4 Determining Whether an Arrangement Contains a Lease that the Group will adopt in 2006. According to the Group estimate it will have no material impact on the consolidated financial statements. As of 2006, the Group will apply IFRS 7 Financial Instruments: Disclosures issued in 2005. Group estimates that the new standard will mainly impact on the notes to the financial statements.

1. Segment information

In segment reporting, the business segment is defined as the primary segment and the geographical segment as the secondary segment. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other operations include mainly financial assets and liabilities, net financing cost, taxes, and corporate and some sales offices' income, expense, assets and liabilities.

The business segments are FiberComposites and Speciality Papers. The FiberComposites segment operates in filtration media, consumer, medical and industrial nonwovens and glass nonwoven reinforcement products. The Specialty Papers segment operates in self-adhesive, packaging and label papers as well as in technical papers, which supplies customers in abrasive materials, furniture, automobile and bakery industries, among others.

The split into segments is based on the organizational structure of the Group. The products, customer groups and markets are also similar within the two chosen business segments as are the production technologies and raw materials used. In addition, the production in the business segments is easily transferable from one production plant to another.

Geographical segments are Europe, North America, Asia and Other countries. Segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Inter-segment pricing is based on market prices.

Business segments 2005

EUR million	Fiber-Composites	Specialty Papers	Other operations	Eliminations	Group
External net sales	738.5	810.5	3.6	-	1,552.6
Inter-segment net sales	3.7	4.2	5.6	-13.5	-
Net sales	742.3	814.7	9.1	-13.5	1,552.6
Operating profit/loss	65.5	57.7	-6.3	0.3	117.2
Share of net profit of associated companies	-	-	0.4	-	0.4
Profit for the period	-	-	-	-	62.6
Segment assets	746.8	499.3	30.4	-16.8	1,259.7
Investments in associated companies	-	-	49.4	-	49.4
Unallocated assets	-	-	-	-	58.1
Total assets					1,367.2
Segment liabilities	135.9	202.0	47.2	-16.8	368.3
Unallocated liabilities	-	-	-	-	408.4
Total liabilities					776.7
Capital expenditure	34.9	25.6	2.0	-	62.4
Depreciation and amortization	45.6	33.3	4.0	-	82.9
Impairment charges	-	0.8	-	-	0.8
Non-cash expenditures:					
Change in provisions	-	-	1.6	-	1.6

Business segments 2004

EUR million	Fiber-Composites	Specialty Papers	Other operations	Eliminations	Group
External net sales	662.6	879.8	25.4	-	1,567.8
Inter-segment net sales	1.3	6.1	15.0	-22.4	-
Net sales	663.8	885.9	40.5	-22.4	1,567.8
Operating profit/loss	39.8	20.9	1.6	-0.2	62.1
Share of net profit of associated companies	-	-	2.7	-	2.7
Profit for the period	-	-	-	-	33.4
Segment assets	672.3	543.8	33.8	-10.6	1,239.2
Investments in associated companies	-	-	49.9	-	49.9
Unallocated assets	-	-	-	-	92.2
Total assets					1,381.4
Segment liabilities	120.4	225.6	41.8	-10.3	377.6
Unallocated liabilities	-	-	-	-	423.3
Total liabilities					800.9
Capital expenditure	71.3	25.1	4.6	-	101.0
Depreciation and amortization	42.4	40.0	4.4	-	86.7
Impairment charges	-	3.2	0.4	-	3.6
Non-cash expenditures:					
Change in provisions	1.1	0.3	2.2	-	3.6

In 2005, the main capital expenditures in the FiberComposites segment include a fine fiber line in Turin, Italy (EUR 6 million) and the expansion of a glass tissue line in Karhula, Finland (EUR 4 million). In 2004, the main capital expenditures were a new nonwoven manufacturing line in Windsor Locks, USA (EUR 38 million) and a new nonwovens and filtration production line in Hyun Poong, South Korea (EUR 30 million). In 2005 and 2004, the Specialty Papers segment made several investments to increase production capacity and to improve production efficiency and quality.

Geographical segments

EUR million	Europe	North America	Asia	Other	Eliminations	Group
2005						
External net sales	993.0	345.1	131.7	82.8	-	1,552.6
Assets	803.6	407.0	56.8	2.1	-9.8	1,259.7
Capital expenditure	47.7	11.7	2.8	0.2	-	62.4
2004						
External net sales	1,065.1	300.8	117.4	84.5	-	1,567.8
Assets	852.8	350.4	44.7	2.8	-11.5	1,239.2
Capital expenditure	59.1	22.2	17.6	2.1	-	101.0

2. Disposal of businesses

In August 2005, the Group sold Ahlstrom Kauttua Oy, part of the Specialty Papers segment. The disposal was consistent with the Group strategy to focus on its core businesses. Another disposal was the sale of the hydropower station in Italy in July 2005.

In October 2004, the Group sold the Tecno Jolly and the Akerlund & Rausing Kuban packaging manufacturing entities. These entities were part of the Other operations segment. The related assets and liabilities were classified as held for sale in the IFRS opening balance on January 1, 2004. At that date, a loss of EUR 9 million arose from the measurement of Tecno Jolly to fair value less costs to sell. These disposals completed the Group's exit from the packaging manufacturing operations.

In 2004, Ahlstrom and Sonoco, a global cores and tubes producer, combined their European paper-based core, tube and coreboard operations by establishing a new company, Sonoco-Alcore SARL. Sonoco-Alcore acquired Sonoco's European based operations as well as Ahlstrom's 14 core and coreboard plants, one board plant and a service center. Ahlstrom holds 35.5% of the shares of the company, which is an associated company of the Group. In a separate transaction, Ahlstrom's paper mill core operations in Shouguang, China were sold to Sonoco Singapore Pte, Ltd. The core and coreboard operations were part of the Specialty Papers segment.

EUR million	2005 Book values of assets disposed of	2004 Book values of assets disposed of
Property, plant and equipment	17.0	37.4
Intangible assets	-	1.4
Other long-term investments	0.2	10.2
Inventories	7.6	9.4
Trade and other receivables	15.3	34.4
Cash and cash equivalents	0.6	2.6
Assets, total	40.7	95.5
Deferred tax liabilities	2.2	3.4
Employee benefit obligations	0.3	3.1
Interest-bearing loans and borrowings	11.5	34.4
Trade and other payables	12.8	23.5
Liabilities, total	26.8	64.4
Net assets	13.9	31.1
Consideration received (in cash)	30.3	4.0
Cash (disposed of)	-0.6	-2.6
Net cash inflow	29.7	1.4

3. Acquisitions of businesses

2005

In December 2005, the Group acquired FiberMark's absorbent and blotting materials business situated in the USA and filtration business of Lantor, Inc. including the manufacturing sites in the USA and in China. The effects of the acquisitions to the assets and liabilities of the Group have been specified below:

EUR million	Book values before the consolidation	Fair values entered in consolidation
Property, plant and equipment	1.8	4.3
Intangible assets	-	1.9
Inventories	1.7	1.7
Trade and other receivables	3.1	3.1
Cash and cash equivalents	-	-
Assets, total	6.6	11.0
Deferred tax liabilities	-	-
Employee benefit obligations	-	-
Interest-bearing loans and borrowings	-	-
Trade and other payables	1.3	1.9
Liabilities, total	1.3	1.9
Net assets	5.3	9.1
Goodwill arising in acquisition	-	1.7
Acquisition price paid (in cash)	-	10.8
Cash (acquired)	-	-
Net cash outflow	-	10.8

The goodwill relating to the acquisition of FiberMark is due to the future advantages of synergy and increase in market share. The goodwill from the acquisition of the Lantor business follows from the advantages of synergy received in reinforcing Ahlstrom's position in the automotive and air filtration markets by adding production capacity and by expanding the product portfolio. As the transactions took place at the end of December they had only a minor effect on the Group net profit in 2005. If the acquisition had taken place on January 1, the annualized effect to net sales would according to the estimate of the management have been EUR 20 million. Management estimates that the annualized effect to the net profit would have been immaterial due to the size of the units. As part of the same acquisition and in addition to the operations in North America, Ahlstrom purchased a filtration media plant in China. This transaction was finalized in January 2006 and had no cash flow effect in 2005.

2004

In 2004, the Group completed two add-on acquisitions in the USA. In June the Group acquired Hollinee L.L.C.'s Filtration division, a business comprising three filtration materials manufacturing sites in the USA. They produce mainly nonwoven filtration materials for heating, ventilation and air-conditioning applications. In October 2004 the Group acquired Green Bay Nonwovens, a wipes manufacturing company situated in the USA. The acquisition of Hollinee and Green Bay Nonwovens had the following effect on the Group's assets and liabilities:

EUR million	Book values before the consolidation	Fair values entered in consolidation
Property, plant and equipment	18.4	20.2
Intangible assets	0.3	13.1
Inventories	4.2	4.2
Trade and other receivables	7.6	7.6
Cash and cash equivalents	-	-
Assets, total	30.5	45.0
Deferred tax liabilities	2.2	4.1
Employee benefit obligations	-	-
Interest-bearing loans and borrowings	0.8	0.8
Trade and other payables	4.5	4.5
Liabilities, total	7.5	9.4
Net assets	23.0	35.6
Goodwill arising in acquisition	-	29.3
Acquisition price paid (in cash)	-	64.9
Cash (acquired)	-	-
Net cash outflow	-	64.9

Acquisition prices include consultancy fees amounting to an aggregate amount of EUR 1 million. Goodwill has risen from the acquisition of Hollinee's filtration division as the acquisition expands the Group's product offering to the HVAC filtration media business, and brings growth opportunities. During 2004, the acquisition of Hollinee's filtration division reduced the consolidated operating profit for the year by EUR 0.1 million.

If the acquisition had occured January 1, 2004, according to the Management's estimate the Group net sales would have increased by approximately EUR 27 million. The acquisition would have had only a minor effect on the net profit for the year.

Goodwill has risen from the acquisition of Green Bay Nonwovens as the company expands the Group's wipes product line and North American spunlacing capacity. During 2004 Ahlstrom Green Bay contributed operating profit of EUR 1.1 million to the consolidated operating profit for the year. If the acquisition had occurred January 1, 2004, according to the Management's estimate the Group net sales would have increased by approximately EUR 29 million. The effect of the acquisition to the operating profit would have been approximately EUR 2 million on an annual basis.

4. Other operating income and expenses

EUR million	**2005**	2004
Other operating income		
Gain on sale of shares and non-current assets	**19.9**	7.0
Insurance indemnification	**-**	4.0
Gains from litigations	**1.4**	-
Rent income	**1.3**	1.5
Reversal of provisions	**2.6**	0.9
Government grants	**1.7**	1.2
Other	**3.9**	7.1
Total	**30.8**	21.7

EUR million	2005	2004
Other operating expenses		
Maintenance costs	**50.3**	57.4
Consultancy fees	**17.9**	20.9
Rentals	**14.1**	16.2
Property and other taxes	**11.8**	11.0
Labour leasing	**7.2**	7.3
Insurance premiums	**7.3**	7.0
Restructuring costs	**0.0**	10.4
Other	**69.2**	84.9
Total	**177.8**	215.1

The research and development costs included in the income statement were EUR 27.1 million in 2005 (EUR 27.6 million in 2004).

5. Employee benefit expenses

Wages and salaries	**225.1**	254.8
Social security costs	**49.9**	52.5
Contributions to defined contribution plans	**11.4**	8.5
Net periodic cost for defined benefit plans	**10.9**	8.5
Increase in liability for other long-term benefits	**1.6**	0.1
Cash-settled share-based transactions	**0.9**	-
Other personnel costs	**13.4**	15.8
Total	**313.1**	340.1

Management employee benefit expenses are specified in note 30.

Average number of personnel		
FiberComposites	**2,830**	2,803
Specialty Papers	**2,413**	3,050
Other operations	**362**	575
Total	**5,605**	6,428

6. Financial income and expense

Financial income		
Dividend income	**0.1**	0.7
Interest income	**1.2**	3.6
Other financial income	**1.9**	0.8
Total	**3.2**	5.1
Financial expense		
Interest expense	**-12.7**	-16.1
Loss on disposal of available-for-sale investments	-	-1.7
Fair value losses on derivatives, non-hedge accounting	**-0.5**	-
Net foreign exchange losses	**-3.3**	-0.5
Other financial expense	**-3.5**	-3.6
Total	**-20.0**	-21.9

Exchange gains and losses amounting to EUR 5.9 million (EUR -1.3 million) are recognized in the operating profit.

EUR million	2005	2004
7. Income taxes		
Current tax		
Europe	**-16.2**	-7.2
United States	**-2.3**	-0.5
Other countries	**-1.0**	-0.5
Total current tax expense	**-19.5**	-8.2
Deferred tax		
Europe	**-11.9**	-3.4
United States	**-5.9**	-5.0
Other countries	**-0.8**	2.1
Total deferred tax expense	**-18.6**	-6.3
Income taxes in the income statement	**-38.1**	-14.5
Income tax reconciliation		
Finnish income tax rate	**26.0%**	29.0%
Differences between foreign and Finnish tax rates	**7.5%**	3.8%
Italian regional tax (IRAP) and minimum taxes	**4.0%**	5.6%
Adjustment of taxes for previous periods	**-0.2%**	-1.8%
Share of net profit in associated companies	**-0.1%**	-5.2%
Non-deductible expenses and tax exempt income	**0.2%**	2.0%
Adjustments to deferred tax assets regarding losses and credits	**0.1%**	-3.4%
Other items	**0.4%**	0.3%
Effective tax rate	**37.9%**	30.3%
Tax rate, current tax	**19.4%**	17.1%
8. Earnings per share		
Basic earnings per share		
Profit for the year attributable to the equity holders of the Company (EUR million)	**62.4**	33.2
Weighted average number of shares during the period (1,000 shares)	**36,418.4**	36,418.4
Basic earnings per share (EUR)	**1.71**	0.91
Diluted earnings per share		
Profit for the year attributable to the equity holders of the Company (EUR million)	**62.4**	33.2
Weighted average number of shares for calculation of diluted earnings per share		
Weighted average number of shares during the period (1,000 shares)	**36,418.4**	36,418.4
Effect of share option issue (1,000 shares)	**858.2**	367.5
Diluted weighted average number of shares (1,000 shares)	**37,276.6**	36,785.9
Diluted earnings per share (EUR)	**1.67**	0.90

9. Property, plant and equipment

EUR million	Land and water areas	Buildings and con-structions	Machinery and equipment	Other tangible assets	Advances paid and construction in progress
2005					
Historical cost at Jan 1	19.0	210.6	1,297.3	30.1	16.7
Acquisitions through business combinations	-	-	2.6	-	-
Additions	-	1.7	19.3	0.6	42.2
Disposals	-0.6	-10.2	-78.4	-0.7	-1.7
Transfers to other asset categories	-	4.2	26.9	-4.4	-27.3
Other changes	-0.1	0.3	5.9	0.2	-0.1
Translation adjustment	0.8	6.3	40.7	0.3	0.6
Historical cost at Dec 31	**19.2**	**213.1**	**1,314.2**	**26.0**	**30.4**
Accumulated depreciation and impairment at Jan 1	2.6	102.6	873.8	20.5	0.7
Depreciation for the year	-	7.5	67.8	1.6	-
Impairment losses	0.2	1.3	3.6	0.4	-
Reversal of impairment losses	-0.3	-1.2	-3.2	-	-
Disposals	-	-4.8	-66.7	-0.5	-
Transfers to other asset categories	-	0.7	3.5	-4.4	-
Other changes	-	0.4	4.7	0.4	-
Translation adjustment	-	1.4	13.5	0.1	-
Accumulated depreciation and impairment at Dec 31	**2.5**	**108.1**	**897.1**	**18.1**	**0.7**
Book value Jan 1, 2005	**17.3**	**108.0**	**423.4**	**9.6**	**16.0**
Book value Dec 31, 2005	**17.6**	**105.0**	**417.2**	**7.8**	**29.7**
2004					
Historical cost at Jan 1	21.8	225.5	1,280.7	30.3	50.7
Acquisitions through business combinations	0.2	0.9	17.7	0.2	0.3
Additions	0.1	5.9	52.3	0.9	38.3
Disposals	-3.1	-24.5	-102.5	-1.8	-2.4
Transfers to other asset categories	-	4.7	63.6	0.7	-69.1
Other changes	-	0.2	-1.7	-0.2	-
Translation adjustment	-	-2.1	-12.8	-0.2	-1.1
Historical cost at Dec 31	19.0	210.6	1,297.3	30.1	16.7
Accumulated depreciation and impairment at Jan 1	2.7	107.9	884.2	20.3	0.6
Depreciation for the year	-	8.1	70.5	1.9	-
Impairment losses	-	0.4	2.3	-	0.2
Disposals	-	-12.6	-81.4	-1.1	-0.3
Transfers to other asset categories	-0.2	-0.7	1.3	-0.5	0.2
Other changes	-	0.2	3.6	-	-
Translation adjustment	-	-0.6	-6.6	-0.1	-
Accumulated depreciation and impairment at Dec 31	2.6	102.6	873.8	20.5	0.7
Book value Jan 1, 2004	20.0	117.5	396.5	10.1	50.2
Book value Dec 31, 2004	17.3	108.0	423.4	9.6	16.0

In 2004, the Group booked a receivable of approximately EUR 3.5 million from the insurance company in relation to a fire at the Louveira plant in Brazil.

Assets leased by finance lease agreements

EUR million	Land and water areas	Buildings and con-structions	Machinery and equipment
2005			
Historical cost	0.4	6.7	33.9
Accumulated depreciation	-	1.1	17.8
Book value Dec 31, 2005	**0.4**	**5.6**	**16.1**
2004			
Historical cost	0.4	6.7	34.6
Accumulated depreciation	-	0.9	13.1
Book value Dec 31, 2004	0.4	5.8	21.5

10. Intangible assets

EUR million	Intangible rights	Goodwill	Other intangible assets	Advances paid
2005				
Historical cost at Jan 1	49.4	191.6	8.7	1.1
Acquisitions through business combinations	1.7	1.7	-	-
Additions	1.9	-	-	0.4
Disposals	-2.4	-0.5	-1.3	-
Transfers to other asset categories	13.2	-12.4	-	-0.8
Other changes	-0.1	0.3	0.5	-
Translation adjustment	4.1	15.0	0.1	-
Historical cost at Dec 31	**67.8**	**195.9**	**8.0**	**0.7**
Accumulated amortization and impairment at Jan 1	26.6	84.7	7.9	-
Amortization for the year	4.7	-	1.2	-
Disposals	-2.3	-0.5	-1.3	-
Other changes	-0.2	-	-0.5	-
Translation adjustment	1.4	3.0	0.1	-
Accumulated amortization and impairment at Dec 31	**30.2**	**87.2**	**7.4**	**-**
Book value Jan 1, 2005	**22.8**	**106.9**	**0.8**	**1.1**
Book value Dec 31, 2005	**37.6**	**108.6**	**0.6**	**0.7**
2004				
Historical cost at Jan 1	49.4	173.6	18.1	0.7
Acquisitions through business combinations	-	38.5	0.5	-
Additions	0.4	-	-	0.6
Disposals	-4.8	-15.2	-3.6	-
Transfers to other asset categories	6.2	-	-6.0	-0.2
Other changes	0.5	-0.5	-0.3	-0.1
Translation adjustment	-2.4	-4.7	-	-
Historical cost at Dec 31	49.4	191.6	8.7	1.1
Accumulated amortization and impairment at Jan 1	22.8	99.9	13.3	-
Amortization for the year	5.5	-	0.7	-
Impairment losses	0.2	0.2	-	-
Disposals	-4.4	-13.9	-3.7	-
Transfers to other asset categories	2.4	-	-2.4	-
Other changes	1.0	-0.1	-0.1	-
Translation adjustment	-0.9	-1.5	-	-
Accumulated amortization and impairment at Dec 31	26.6	84.7	7.9	-
Book value Jan 1, 2004	26.6	73.6	4.8	0.7
Book value Dec 31, 2004	22.8	106.9	0.8	1.1

EUR million	2005	2004

11. Impairment testing, impairment loss and subsequent reversal

The following production lines' assets include significant amounts of goodwill:

Ahlstrom Windsor Locks, a Nonwovens production line	**31.3**	27.1
Ahlstrom Green Bay, a Nonwovens production line	**17.8**	17.4
Ahlstrom Air Media, a Filtration Applications production line	**14.6**	21.1
Ahlstrom Engine Filtration, a Filtration Applications production line	**13.1**	11.3
Ahlstrom Labelpack, a Label papers production line	**10.9**	10.9
Ahlstrom Ställdalen, a Nonwovens production line	**9.5**	9.9
Total	**97.1**	97.7
Production lines with minor amounts of goodwill	**11.5**	9.2
Goodwill total	**108.6**	106.9

Goodwill allocated to the cash-generating units and other underlying non-current assets were tested for the first time at the IFRS transition date January 1, 2004. As a result, an impairment loss amounting to EUR 60 million was recognised and allocated to reduce the cash-generating units' goodwill and other non-current assets. The reason for the recognition was mainly the underperformance of the plants in question.

In 2004, impairment losses amounting to EUR 3.3 million were recorded relating to non-current assets of several production lines.

Due to the market situation, the Group has changed the product mix at the production site in Italy which has had a positive effect on the profitability of the unit. Following this change, EUR 4.7 million of the initially recognised impairment allocated to reduce the book value of non-current assets was reversed in 2005. New impairment losses amounting to EUR 4.4 million were recorded in 2005 of which EUR 1.3 million were allocated to reduce the book values of non-current assets in Germany and EUR 3.1 million were allocated to reduce the book values of goodwill and non-current assets in France.

The recoverable amounts of the cash-generating units containing goodwill are based on value in use calculations. The calculations use cash flow projections based on EBITDA and four-year business plans. Cash flows for further 5 to 20 years are extrapolated using a 1.7% growth rate corresponding to the general inflation rate. The 20-year period results from the estimated economic lives of the underlying assets. A pre-tax discount rate of 8% has been used in discounting the projected cash flows.

EUR million	2005	2004

12. Investment property

Historical cost at Jan 1	**4.3**	4.3
Transfers from property, plant and equipment	**0.4**	-
Historical cost at Dec 31	**4.7**	4.3
Accumulated depreciation at Jan 1	**0.5**	0.3
Depreciation for the year	**0.1**	0.1
Transfers from property, plant and equipment	**0.2**	-
Accumulated depreciation at Dec 31	**0.8**	0.4
Book value Jan 1	**3.9**	4.0
Book value Dec 31	**4.0**	3.9
Rental income from investment properties	**0.9**	0.9
Maintenance expenses of investment properties	**0.1**	0.5
Fair value of investment properties	**12.9**	12.9

The fair values have been determined in the previous fiscal period by using external valuation. The circumstances have not changed essentially from that.

EUR million	2005	2004

13. Investments in associated companies

	2005	2004
Balance at Jan 1	**49.9**	12.9
Share of net profit for the periods	**0.4**	2.7
Dividends received	**-0.9**	-2.2
Acquisitions	**0.2**	16.2
Disposals	**-0.2**	-0.8
Transfer from investments in subsidiaries (see note 2)	**-**	21.1
Balance at Dec 31	**49.4**	49.9

Financial information of major associated companies

	Domicile	Ownership (%)	Assets	Liabilities	Net sales	Profit/loss for the period
2005						
Ahlström Karhulan Palvelut Oy	Finland	37.0	3.0	2.2	8.5	-
Jujo Thermal Oy	Finland	41.7	80.8	51.1	62.9	3.5
Sonoco-Alcore SARL	Luxembourg	35.5	231.7	106.3	266.8	-8.1
2004						
Ahlström Karhulan Palvelut Oy	Finland	37.0	3.0	1.9	7.9	0.3
Jujo Thermal Oy	Finland	41.7	35.5	6.3	54.4	6.0
Sonoco-Alcore SARL	Luxembourg	35.5	256.7	124.4	46.5	-10.7

In 2004, the Group recognized costs relating to Sonoco-Alcore SARL which have been included in the result of Sonoco-Alcore only in 2005.

EUR million	2005	2004

14. Other investments

	2005	2004
Non-current investments		
Investment in life insurance policy	**2.7**	-
Other shares	**0.2**	3.3
Total available-for-sale investments	**2.9**	3.3
Current investments		
Listed shares	**-**	8.5
Other current investments	**-**	5.0
Total available-for-sale investments	**-**	13.5

15. Deferred tax assets and liabilities

	2005	2004
Deferred tax assets		
Tangible and intangible assets	**11.2**	20.8
Employee benefits obligations	**25.2**	25.6
Tax loss carried forward and unused tax credits	**15.8**	15.0
Other temporary differences	**21.8**	21.0
Total	**74.0**	82.4
Offset against deferred tax liabilities	**-41.8**	-46.9
Deferred tax assets	**32.2**	35.5
Deferred tax liabilities		
Tangible and intangible assets	**62.5**	57.5
Other temporary differences	**5.6**	2.4
Total	**68.1**	59.9
Offset against deferred tax assets	**-41.8**	-46.9
Deferred tax liability	**26.3**	13.0

Tax effect amounting to EUR 5.7 million of certain hedging instruments and some minor items has been booked directly to the equity in 2005. In 2004 IAS 39 was not applied.

Deferred tax liabilities on undistributed earnings in foreign subsidiaries have not been recorded, because such retained earnings are regarded as permanently invested in the countries in question or such retained earnings can be transferred to the parent company without any tax consequences. If all retained earnings would be distributed to the parent company, the witholding tax payable would not be a material amount compared to the deferred tax liability of the Group.

Changes in corporate tax rates had no signficant impact on the Group deferred taxes in 2005 and 2004.

At December 31, 2005 the Group had loss carry forwards, primarily attributable to foreign subsidiaries in Germany and Belgium (and USA in 2004) of EUR 62.0 million (EUR 60.3 million) in total, of which EUR 46.3 million (EUR 46.1 million) has no expiration period. Regarding losses amounting to EUR 23.9 million (EUR 24.8 million) no deferred tax asset was recognized due to the uncertainty of utilization of these loss carry forwards.

EUR million	2005	2004
16. Inventories		
Material and supplies	**70.3**	72.5
Work in process	**12.8**	13.2
Finished goods	**128.1**	125.9
Advances paid	**1.4**	1.0
Total	**212.6**	212.6
17. Trade and other receivables		
Non-current		
Loan receivables	**0.8**	3.5
Trade receivables	**0.4**	0.1
Prepaid expenses and accrued income	**0.2**	0.4
Other receivables	**3.4**	3.2
Total	**4.9**	7.2
Current		
Loan receivables	**2.7**	0.8
Trade receivables	**285.1**	272.3
Receivables from associated companies	**1.9**	1.9
Prepaid expenses and accrued income	**16.4**	41.2
Other receivables	**14.2**	13.7
Total	**320.2**	329.8
Doubtful receivables deducted from trade receivables		
Balance at Jan 1	**10.3**	9.9
Increase	**1.9**	3.8
Decrease	**-3.4**	-0.7
Recovery	**-1.1**	-2.6
Balance at Dec 31	**7.7**	10.3
Specification of prepaid expenses and accrued income		
Fair value of derivative financial instruments	**3.2**	11.0
Accrued discounts	**0.1**	8.5
Prepaid expenses	**6.2**	6.5
Income tax receivable	**0.7**	2.3
Other	**6.3**	13.3
Total	**16.6**	41.5

EUR million	2005	2004
18. Cash and cash equivalents		
Cash, bank accounts and interest-bearing instruments maturing within three months	**16.0**	19.8
Cash and cash equivalents in the balance sheet	**16.0**	19.8

Cash and cash equivalents in the statement of cash flow equals to the cash and cash equivalents in the balance sheet.

19. Capital and reserves

Shares
At December 31, 2005, the authorised share capital comprised 21,190,100 series A shares and 15,228,319 series B shares. No changes were recorded from the year 2004. Both series have a par value of EUR 1.50. All shares have one vote and an equal right to dividend, but the series A shares are encumbered with the redemption clause in § 14 of the Articles of Association.

Reserves
The share premium reserve was formed in the demerger of A. Ahlström Osakeyhtiö in 2001. Fair value reserves contains the measurement of available-for-sale investments at fair value. The hedging reserve contains the fair value changes of cash flow hedges qualifying for hedge accounting. The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of instruments that hedge the net investment in a foreign subsidiary.

Dividends
After the balance sheet date, the Board of Directors proposed a dividend of EUR 1.79 per share totaling EUR 65.2 million.

20. Employee benefit obligations

The Group has defined benefit pension plans in various countries. Plans have been arranged both in pension insurance companies and pension funds. In the defined benefit plan the benefits at retirement are determined based on for example salary and retirement age.

Finnish Statutory Employment Pension Scheme (TEL)
At the end of 2004, the Finnish Ministry of Social Affairs and Health approved changes to the calculation principles of the disability pension component of TEL. As a result, TEL disability pension component is to be accounted for as a defined contribution plan in the IFRSs. Ahlstrom has recognized this change as a curtailment to the plan and recorded EUR 3.0 million as deduction of employee benefit expenses in 2004.

Early retirement plan in France
The law regarding a state supported early retirement plan in France was passed in 2004 and came into force on January 1, 2005. The change in the plan was analogised to the introduction of a new plan and accounted for as past service costs. The resulting employee benefit expense of EUR 1.7 million was recognized in 2004.

EUR million	2005	2004
Post-employment benefit plans		
Employee benefits liability recognized in the balance sheet		
Present value of funded benefit obligations	**182.7**	155.4
Present value of unfunded benefit obligations	**77.4**	62.1
Fair value of plan assets	**-128.0**	-109.8
Present value of net obligations	**132.1**	107.7
Unrecognized actuarial gains and losses	**-19.2**	-0.3
Recognized liability for defined benefit obligations	**112.9**	107.4
Unrecognized prior service cost	**-0.1**	1.2
Net liability at Dec 31	**112.8**	108.6
Movements of liability recognized in the balance sheet		
Net liability for defined benefit obligations at January 1	**108.6**	111.2
Translation difference	**4.4**	-2.0
Net periodic cost recognized in the income statement	**10.9**	8.5
Contributions paid	**-9.1**	-7.1
Other changes	**-1.9**	-2.0
Net liability for defined benefit obligations at Dec 31	**112.8**	108.6

EUR million	2005	2004
Expenses recognized in the income statement		
Current service cost	**-6.8**	-5.9
Interest expenses	**-12.0**	-11.7
Expected return on plan assets	**8.9**	8.3
Net actuarial gains and losses recognized	**-0.5**	2.2
Past service cost	**-0.5**	-3.3
Gains and losses on curtailments and settlements	**-**	1.9
Total charge (Net periodic cost)	**-10.9**	-8.5
Actual return on plan assets	**13.6**	9.0
Principal actuarial assumptions (expressed as weighted averages)		
Europe		
Discount rate at December 31, %	**4.4**	5.1
Expected return on plan assets, %	**6.7**	6.9
Future salary increases, %	**2.9**	2.9
Future pension increases, %	**1.8**	1.9
North America		
Discount rate at December 31, %	**5.7**	6.0
Expected return on plan assets, %	**8.2**	8.5
Future salary increases, %	**4.5**	4.5
Future pension increases, %	**4.0**	3.9
Other countries		
Discount rate at December 31, %	**6.0**	5.5
Expected return on plan assets, %	**6.0**	6.0
Future salary increases, %	**4.7**	4.1
Future pension increases, %	**6.0**	6.0
Other long-term employee benefit liability		
Other long-term employee benefit liability at Jan 1	**17.8**	17.7
Increase	**1.6**	0.1
Other long-term employee benefit liability at Dec 31	**19.4**	17.8

21. Provisions

EUR million	Restructuring	Environmental	Other	Total
Balance at Jan 1, 2005	11.0	4.0	6.5	21.4
Translation adjustment	-	-	0.2	0.2
Increase in provisions	0.4	1.0	2.6	4.1
Used provisions	-4.1	-0.2	-1.8	-6.1
Reversal of provisions	-0.6	-1.0	-1.0	-2.6
Balance at Dec 31, 2005	**6.7**	**3.7**	**6.5**	**17.0**
Non-current	-	3.3	0.4	3.7
Current	6.7	0.4	6.1	13.3
Total	**6.7**	**3.7**	**6.5**	**17.0**

The restructuring provisions relate mainly to the remaining social plan charges in Germany at the Osnabrück and Altenkirchen plants. In addition there is a social plan in France, Pont-Audemer plant of EUR 0.6 million remaining at December 31, 2005.

The used provisions in 2005 relate to a large extent to the modifications made to the buildings and machinery at the Pont-Audemer plant in France. Environmental provisions have been made in 2003 for landscaping of dumps in Finland which was reduced by EUR 1.0 million in 2005, but at the same time a new provision was made for another landscaping of a dump. Other provisions comprise mainly of customer claim provisions.

EUR million	2005	2004

22. Interest-bearing loans and borrowings

	2005	2004
Non-current		
Loans from financial institutions	**95.1**	182.9
Finance lease liabilities	**20.4**	24.7
Other non-current loans	**4.1**	4.8
Total	**119.6**	212.5
Current		
Current portion of non-current loans	**66.7**	19.9
Current portion of finance lease liabilities	**3.3**	1.1
Other current loans	**167.0**	161.7
Total	**237.0**	182.6

Repayment schedule of non-current interest-bearing liabilities

2005	2006	2007	2008	2009	2010	Later	Total
Floating rate loans from financial institutions	65.9	5.0	-	65.0	-	25.1	161.0
Finance lease liabilities	3.3	2.6	2.3	1.8	1.6	12.2	23.7
Other non-current loans	0.8	0.8	0.7	0.7	0.7	1.1	4.9
Total	70.0	8.4	3.1	67.5	2.3	38.3	189.6

2004	2005	2006	2007	2008	2009	Later	Total
Floating rate loans from financial institutions	15.7	112.8	25.0	-	20.0	25.1	198.7
Finance lease liabilities	1.1	5.2	2.8	2.4	1.9	12.4	25.8
Other non-current loans	4.1	0.8	0.8	0.7	0.7	1.7	8.9
Total	20.9	118.8	28.6	3.2	22.7	39.2	233.4

Floating rate loans amounting to EUR 92.4 million, maturing within the next five years, have been changed into fixed rate loans by interest rate swaps.

EUR million	2005	2004
Currency distribution of non-current interest-bearing liabilities:		
EUR	**72.6**	161.1
USD	**45.2**	48.6
Others	**1.8**	2.7
Currency distribution of current interest-bearing liabilities:		
EUR	**133.7**	115.4
USD	**96.9**	64.5
Others	**6.4**	2.7
Weighted averages of effective interest rates for non-current interest-bearing liabilities at Dec 31		
Loans from financial institutions	**3.9%**	2.8%
Loans from financial institutions including interest rate swaps	**3.7%**	3.0%
Finance lease liabilities	**3.5%**	3.5%
Other non-current loans	**1.8%**	1.8%
Weighted averages of effective interest rates for current interest-bearing liabilities at Dec 31		
Loans from financial institutions, current portion	**4.0%**	2.8%
Finance lease liabilities, current portion	**3.2%**	3.2%
Other current loans	**3.3%**	2.5%

EUR million	2005	2004
Finance lease liabilities		
Minimum lease payments		
Less than one year	**3.5**	1.1
Between one and five years	**11.9**	17.2
More than five years	**17.2**	17.2
Total minimum lease payments	**32.6**	35.5
Future finance charges	**-8.9**	-9.7
Present value of minimum lease payments	**23.7**	25.8

23. Trade and other payables

EUR million	2005	2004
Non-current		
Other liabilities	**0.1**	0.1
Accrued expenses and deferred income	**0.2**	-
Total	**0.4**	0.1
Current		
Trade payables	**167.9**	165.9
Liabilities to associated companies	**0.9**	1.0
Accrued expenses and deferred income	**74.5**	75.9
Advances received	**0.5**	0.3
Other current liabilities	**19.9**	19.5
Total	**263.6**	262.6
Specification of accrued expenses and deferred income		
Accrued wages, salaries and related cost	**37.7**	35.3
Income tax liability	**19.9**	13.1
Deferred income	**-**	8.3
Fair value of derivative financial instruments	**4.6**	1.4
Accrued interest expense	**1.0**	0.7
Other	**11.4**	17.1
Total	**74.8**	75.9

24. Financial risk management

Ahlstrom's approach to financial risk management is to secure the timely availability of funds required for the financing of the business operations of the Group at optimal cost, to protect the net result and balance sheet from movements in foreign exchange and interest rates as well as to minimize counterparty risks. Principles and guidelines for the treasury activities are defined in the Group treasury policy on the basis of which the Group entities have specified their own procedures, which take into account the special aspect unique to their businesses. The treasure activities are coordinated by Group treasury.

Funding risk

The Group aims to secure the timely availability of funds by maintaining an appropriately designed mix of cash, short-, medium- and long-term loans and committed and uncommitted credit facilities provided by banks and other financial institutions both in the domestic and international financial markets. In Finland the Group also accesses short-term funds under a commercial paper program. In November 2004, the Group signed a five-year EUR 400 million syndicated credit facility for corporate purposes and to refinance part of existing bilateral facilities maturing during 2005 and 2007. The maturity profile of the long-term loans of the Group is shown in note 22.

Foreign exchange risk

The Group has an exposure to movements in foreign exchange rates relating to its operations outside the Euro-zone both in terms of cross-border sales and purchases as well as foreign investments.

In 2005, approximately 63% of Ahlstrom's net sales were denominated in euros, approximately 31% in U.S. dollars and approximately 6% in other currencies. Ahlstrom's raw materials are generally purchased in U.S. dollars and euros. For foreign exchange exposure, the Group applies hedge accounting only when hedging net investment in foreign operations. Other hedges do not necessarily meet the criteria of IAS 39 hedge accounting, even if they are considered economic according to the Group treasury policy. Foreign currency denominated cash inflows and outflows are hedged on a net exposure basis per currency against the base currency of the respective exposed Group company in accordance with a formula defined in the Group treasury policy. The length of the transaction exposure periods is determined individually by the Group companies in accordance with their specific guidelines in order to allow for as accurate a match with the underlying risk profile as possible. Foreign currency denominated loans, forward contacts, and to a lesser extent, options are used as hedging instruments. The derivative fair values are presented in note 25.

Ahlstrom applies a policy of hedging its net investment in foreign operations. Foreign currency denominated medium-term loans, forward contracts, and medium-term cross-currency swaps are used as hedging instruments.

Interest rate risk

The primary focus of Ahlstrom's interest rate risk management is to maintain a sound balance between floating and fixed rate obligations in respect of the interest bearing liabilities of the Group. Interest rate exposures are hedged using derivative financial instruments such as interest rate swaps, forwards and options. Swaps are usually of maturities between two to five years. The Group applies hedge accounting to selected derivatives hedging cash flow exposure on floating rate loans. Other derivative instruments are classified as financial assets held for trading. Derivative fair values are shown in note 25.

Counterparty risk

The Group seeks to minimize counterparty risks associated with foreign exchange transactions, derivatives contracts and occasional external placements by limiting its exposures to first-class banks and financial institutions and other counterparties with high credit ratings only. Whilst counterparty risks cannot be entirely eliminated, the management is confident that they are under control. Customer related counterparty risks are limited by the combination of a diversified customer base and the impact of a policy of concluding risk sharing arrangements in respect of larger exposures with banks and insurance companies. Over 95% of Ahlstrom's customers are industrial companies.

25. Nominal and fair values of derivative financial instruments

Fair values of derivative financial instruments	2005		2004	
EUR million	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Hedge accounting				
Interest rate swaps	**0.8**	**-0.1**	0.5	-0.4
Foreign exchange forward contracts	**0.4**	**-2.3**	7.0	-0.5
Total	**1.2**	**-2.4**	7.6	-0.9
Non-hedge accounting				
Foreign exchange forward contracts	**1.7**	**-2.3**	4.0	-1.5
Options sold	-	-	0.2	-
Total	**1.7**	**-2.3**	4.2	-1.5

Nominal values of derivative financial instruments	2005	2004
Interest rate swaps	**67.4**	109.4
Foreign exchange forward contracts	**434.6**	462.9
Options	**-**	6.8
Total	**502.0**	579.1

Fair values of foreign exchange forward contracts have been determined by using listed market prices at the balance sheet date or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps and options sold, the market price is obtained from the banks.

Of the outstanding forward foreign exchange contracts EUR 201.6 million (EUR 193.4 million) relate to the hedging of the operational and financial cash flows and EUR 233.0 million (EUR 269.5 million) to the hedging of the foreign currency denominated net equity investments in foreign subsidiaries.

26. Fair values of other financial instruments

EUR million	2005 Book value	2005 Fair value	2004 Book value	2004 Fair value
Available-for-sale investments	**-**	**-**	8.5	11.6
Finance lease liabilities	**23.7**	**21.4**	25.8	22.5

The fair value of the other financial assets and liabilities substantially equals to their book values.

EUR million	2005	2004
27. Operating leases		
Minimum lease payments from operating lease contracts:		
Less than one year	**4.6**	4.8
Between one and five years	**16.3**	12.8
More than five years	**7.3**	7.3
Total	**28.2**	24.9
28. Notes to the consolidated statement of cash flows		
Non-cash transactions and transfers to cash flow from other activities		
Depreciation and amortization	**83.8**	90.3
Gains and losses on sale of non-current assets	**-18.4**	-
Gains and losses on sale of subsidiary shares	**-0.2**	-1.0
Change in employee benefit obligations	**1.7**	3.6
Total	**66.9**	92.8
29. Commitments and contingent liabilities		
For own liabilities:		
Loans from financing institutions		
Amount of loans	**0.2**	0.8
Amount of mortgages	**0.2**	9.0
Other loans		
Amount of loans	**3.3**	0.6
Book value of pledges	**3.6**	0.6
For own commitments:		
Guarantees	**24.1**	36.0
For commitments of associated companies:		
Guarantees	**8.3**	-
For commitments of third parties:		
Guarantees	**-**	30.8
Capital expenditure commitments	**11.2**	2.4
Other contingent liabilities	**8.4**	4.9

Group companies are currently not a party to any legal, arbitration or administrative proceedings. In May 2004, however, the Group was informed that the European Commission is carrying out an anti-trust investigation of Ahlstrom and a number of other companies that operate in the release liner and face stock markets to determine whether companies within the industry have engaged in anti-competitive practices. At this stage of investigation, it is impossible for the Group to predict what further actions, if any, the competition authority will effectively take. Company cooperates with the competition authorities in the investigations.

The main item in other contingent liabilities is a binding contract for raw material purchases.

Contingent assets

Tons	2005
Emission rights received	735,461
Pollutants emitted	569,662
Emission rights at Dec 31, 2005	165,799

Emission rights have not been sold during 2005. The allowances in excess of pollutants emitted at December 31, 2005 are transferred to the following year. Their fair value at the balance sheet date is approximately EUR 3.5 million. Emission rights had no effect on the Group profit for 2005.

30. Transactions with related parties

The Group has a related party relationship with its subsidiaries, associated companies and its management.

At Dec 31, 2005 the Group parent company and subsidiaries are as follows

	Ownership interest, %	Country
Parent company Ahlstrom Corporation		Finland
Ahlcorp Oy	100.0	Finland
Ahlstrom Australia Pty Ltd	100.0	Australia
Ahlstrom Finance Canada Inc.	100.0	Canada
Ahlstrom Finance Ireland	100.0	Ireland
Ahlstrom International B.V.	100.0	The Netherlands
Ahlstrom Japan Inc.	100.0	Japan
Ahlstrom Korea Co., Ltd	100.0	South Korea
Ahlstrom Louveira Ltda	100.0	Brazil
Ahlstrom Milano S.r.l.	100.0	Italy
Ahlstrom Nordic Oy	100.0	Finland
Ahlstrom Norrköping AB	100.0	Sweden
Ahlstrom Sales LLC	100.0	Russia
Ahlstrom Ställdalen AB	100.0	Sweden
Ahlstrom Ställdalen Holding AB	100.0	Sweden
Akerlund & Rausing Kuban Holding GmbH	99.0	Germany
ALS-Soft Oy	100.0	Finland
Fiberflow Oy	100.0	Finland
Norrmark Limited	100.0	Isle of Man
Ahlstrom Asia Holdings Pte Ltd	100.0	Singapore
Ahlstrom Seoul Co. Ltd	100.0	South Korea
PT Ahlstrom Indonesia	99.0	Indonesia
Ahlstrom Barcelona, S.A.	100.0	Spain
Ahlstrom Spain SL	100.0	Spain
Ahlstrom B.V.	100.0	The Netherlands
Ahlstrom Paper Group Holding B.V.	100.0	The Netherlands
Ahlstrom South Africa (Pty) Ltd	60.0	South Africa
Ahlstrom Chirnside Limited	100.0	UK
Ahlstrom (UK) Limited	100.0	UK
Ahlstrom Glassfibre Oy	100.0	Finland
Karhulan Teollisuuskeräys Oy	100.0	Finland
Ahlstrom Holding GmbH	100.0	Germany
Ahlstrom Munich GmbH	100.0	Germany
Ahlstrom Osnabrück GmbH	100.0	Germany
Ahlstrom Altenkirchen GmbH	100.0	Germany
Ahlstrom Nümbrecht GmbH & Co. KG	100.0	Germany
Ahlstrom Nümbrecht Verwaltung GmbH	100.0	Germany
Ahlstrom Papiervertrieb GmbH	75.0	Germany

	Ownership interest, %	Country
Ahlstrom Industrial Holdings Limited	100.0	UK
Ahlstrom Group Finance Limited	100.0	UK
Ahlstrom Industries	100.0	France
Ahlstrom Benelux S.A.	100.0	Belgium
Ahlstrom Brignoud	100.0	France
Ahlstrom Tampere Oy	100.0	Finland
Ahlstrom Chantraine	100.0	France
Ahlstrom Labelpack	100.0	France
Ahlstrom Malmédy SA	100.0	Belgium
Ahlstrom Research and Services	100.0	France
Ahlstrom Specialties	100.0	France
Ahlstrom Turin S.p.A.	100.0	Italy
Ahlstrom Ibérica, S.L.	51.0	Spain
Nordica Nord Italia Carta S.r.l.	60.0	Italy
Ahlstrom U.S. Industries, Inc.	100.0	USA
Ahlstrom Air Media LLC	100.0	USA
Ahlstrom Atlanta Inc.	100.0	USA
Ahlstrom Capital Corporation	100.0	USA
Ahlstrom Engine Filtration, LLC	100.0	USA
Ahlstrom Green Bay Inc.	100.0	USA
Ahlstrom Holdings, Inc.	100.0	USA
Ahlstrom Lantor, LLC	100.0	USA
Ahlstrom Mount Holly Springs, LLC	100.0	USA
Ahlstrom Windsor Locks, LLC	100.0	USA
Windsor Locks Canal Company	100.0	USA
The Youngstown Welding and Engineering Company	100.0	USA
Titanium Foreign Sales Corporation	100.0	USA
Elmerks Holding AB	100.0	Sweden
Elmat Holding A/S	100.0	Denmark

Ownership interest does not differ from the voting rights.

Related party transactions with associated companies

EUR million	2005	2004
Sales and interest income	**12.1**	2.9
Purchases of goods and services	**-4.9**	-2.9
Trade and other receivables	**1.9**	1.9
Trade and other payables	**2.4**	3.9

Market prices have been used in transactions with associated companies.
Commitments on behalf of associated companies are shown in note 29.

Management employee benefit expenses

EUR thousand	2005	2004
Short-term employee benefits	**3,292**	3,097
Post-employment benefits	**70**	61
Cash-settled share-based transactions	**297**	-
Total	**3,659**	3,158

Board remuneration

EUR thousand	2005	2004
Board members at Dec 31, 2005		
Johan Gullichsen, Chairman	**62**	55
Urban Jansson, Vice Chairman	**35**	32
Sebastian Bondestam	**29**	28
Jan Inborr	**33**	32
Bertel Paulig	**19**	-
Peter Seligson	**33**	32
Willem F. Zetteler	**34**	28
Former Board member		
Mikael Lilius	**14**	28
Executive remuneration		
President and CEO Jukka Moisio	**588**	152
Former President and CEO Juha Rantanen	**-**	516
Corporate Executive Team (CET)	**2,516**	2,256
Total	**3,362**	3,158

The Group also provides non-cash benefits to the management.

The President and CEO and the Finnish members of the Corporate Executive Team may be eligible for early retirement at the age of 60 according to the voluntary collective pension plan.

Share appreciation rights granted to key personnel (cash-settled share-based transactions)

In 2004, the Group granted share appreciation rights to key personnel that entitles them to a cash payment (synthetic stock option). The amount of the cash payment is determined based on the growth in profit, among other things. The share appreciation rights are granted under a service condition. The number of instruments related to the arrangement amounts to 652,500.

The fair value of the share appreciation rights at grant date is determined based on the Black-Scholes formula. The model inputs were the share price of EUR 25.90, the excercise price of EUR 12.21, expected volatility of 30%, a term of three years and a risk-free interest rate of 3%. The fair value of the arising liability is remeasured at each balance sheet date and at settlement date.

The terms and conditions of the non-IFRS 2 applicable option arrangements are as follows:

Additionally, two stock option arrangements granted before November 7, 2002 exist. In accordance with IFRS 1 and IFRS 2, IFRS recognition and measurement principles have not been applied to these arrangements.

Duration and terms of stock options arrangements are:

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Option granted to key personnel in 2001 (arrangement number 1/2001)	659,448	Service period	16 months
Option granted to key personnel in 2001 (arrangement number 2/2001)	877,559	Service period Public listing	16 months
Total stock options	1,537,007		

The number and weighted average exercise prices of stock options are as follows:

	2005		2004	
	Weighted average exercise price, EUR	Number of options	Weighted average exercise price, EUR	Number of options
Outstanding at the beginning of the period	**11.01**	**1,537,007**	12.73	1,537,007
Outstanding at the end of the period		**1,537,007**		1,537,007
Exercisable at the end of the period		**659,448**		659,448

31. Subsequents events after the balance sheet date

The Group has announced its intention to expand its ownership base. One possibility is to increase the share capital through new issue of shares and the listing of the shares on the main list of the Helsinki Stock Exchange. The invitation to the General Meeting of Shareholders has been published on January 25, 2006.

On January 20, the Group announced that it has signed an agreement to acquire HRS Textiles Inc., based in Darlington, SC, USA, a manufacturer of specialty nonwovens, serving mainly the North American air and liquid filtration markets. This acquisition will strengthen Ahlstrom's position in the air and liquid filtration markets in North America, particularly in the HVAC segment. It continues Ahlstrom's growth strategy in filtration, and comes as a strategic fit to complement previous acquisitions. The transaction is estimated to add approximately EUR 17 million in sales to Ahlstrom's Filtration business and includes all assets of HRS in Darlington, SC, USA. The new entity will operate as part of Ahlstrom FiberComposites segment. HRS currently has 120 employees.

On January 2, the Group announced that it has decided to invest approximately EUR 2 million in production capacity expansion of filtration media at its Tampere, Finland plant. The plant is part of the FiberComposites segment. The investment further strengthens the plant's position as an important developer and manufacturer of advanced filtration media.

32. Transition to IFRS

These are the Group's first consolidated financial statements prepared in accordance with IFRS.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the Finnish Accounting Standards (FAS). An explanation of how the transition from FAS to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the accompanying notes.

Balance sheet reconciliation January 1, 2004 and December 31, 2004

EUR million	FAS Dec 31, 2003	Effect of transition	IFRS Jan 1, 2004	FAS Dec 31, 2004	Effect of transition	IFRS Dec 31, 2004
Assets						
Property, plant and equipment	632	-38	**594**	601	-27	**574**
Goodwill	78	-4	**74**	100	7	**107**
Other intangible assets	33	-1	**32**	26	-1	**25**
Investment property	-	4	**4**	-	4	**4**
Investments in associated companies	13	-	**13**	50	-	**50**
Other investments	4	-	**4**	3	-	**3**
Other receivables	6	-2	**4**	8	-1	**7**
Deferred tax assets	36	5	**41**	26	9	**35**
Total non-current assets	802	-37	**765**	814	-9	**805**
Inventories	239	-13	**226**	223	-10	**213**
Trade and other receivables	346	-8	**338**	327	3	**330**
Other investments	14	-1	**13**	17	-4	**13**
Cash and cash equivalents	24	-1	**23**	20	-	**20**
Assets classified as held for sale	-	19	**19**	-	-	**-**
Total current assets	623	-4	**619**	587	-11	**576**
Total assets	1,426	-42	**1,384**	1,400	-19	**1,381**

EUR million	FAS Dec 31, 2003	Effect of transition	IFRS Jan 1, 2004	FAS Dec 31, 2004	Effect of transition	IFRS Dec 31, 2004
Equity and liabilities						
Equity attributable to equity holders of the parent	674	-70	**604**	633	-53	**580**
Minority interest	-	1	**1**	-	1	**1**
Equity	674	-69	**605**	633	-52	**581**
Minority interest	1	-1	**0**	1	-1	**0**
Liabilities						
Interest-bearing loans and borrowings	173	19	**192**	196	16	**212**
Employee benefit obligations	65	46	**111**	64	45	**109**
Provisions	21	-16	**5**	19	-15	**4**
Deferred tax liabilities	29	-14	**15**	27	-14	**13**
Total non-current liabilities	288	35	**323**	306	32	**338**
Interest-bearing loans and borrowings	147	2	**149**	179	3	**182**
Trade and other payables	289	-11	**278**	263	-	**263**
Provisions	27	-13	**14**	18	-	**18**
Liabilities classified as held for sale	-	14	**14**	-	-	**-**
Total current liabilities	463	-8	**455**	460	3	**463**
Total equity and liabilities	1,426	-42	**1,384**	1,400	-19	**1,381**

Income statement reconcialition for the period January 1 - December 31, 2004

EUR million	FAS Jan 1, - Dec 31, 2004	Effect of transition	IFRS Jan 1, - Dec 31, 2004
Net sales	1,568	-	**1,568**
Other operating income	19	3	**22**
Expenses	-1,435	-3	**-1,438**
Share of profit of associated companies, FAS	3	-3	**-**
Depreciation, amortization and impairment charges	-104	14	**-90**
Operating profit	51	11	**62**
Share of net profit of associated companies, IFRS	-	3	**3**
Net financial expenses	-16	-	**-16**
Profit before taxes	35	13	**48**
Income taxes	-17	3	**-15**
Profit for the period	18	15	**33**
Attributable to:			
Equity holders of the parent	18		**33**
Minority interest	0		**0**
Basic earnings per share (EUR)	0.48		**0.91**
Diluted earnings per share (EUR)	0.48		**0.90**

Reconciliation of equity January 1, 2004 and December 31, 2004

EUR million	Jan 1, 2004	Dec 31, 2004
Equity 2004, FAS	**674**	**633**
By IFRS standard		
IAS 1 Presentation of Financial Statements	1	1
IAS 2 Inventories	-8	-10
IFRS 3 Business combinations	0	9
IAS 12 Income taxes	18	19
IAS 19 Employee benefits	-28	-23
IAS 36 Impairment of assets	-60	-45
IAS 37 Provision, contingent liabilities and assets	9	-3
Other standards	-1	0
Total effect on equity	**-69**	**-52**
Equity 2004, IFRS	**605**	**581**

Reconciliation of profit for the period, January 1 - December 31, 2004

EUR million	Jan 1, - Dec 31, 2004
Profit for the period 2004, FAS	**18**
By IFRS standard	
IAS 2 Inventories	-1
IFRS 3 Business combinations	11
IAS 12 Income taxes	2
IAS 19 Employee benefits	2
IAS 36 Impairment of assets	14
IAS 37 Provision, contingent liabilities and assets	-12
Other standards	-1
Total effect on profit for the period	**15**
Profit for the period 2004, IFRS	**33**

Additional information on reconciliations

1. Operating expenses

The increase in operating expenses is due to the provisions related to the reorganization carried out at the beginning of 2004. The provisions were reversed on the IFRS opening balance sheet and re-entered as costs in the first-quarter result of 2004 in accordance with the IAS 37 (see note 9 below).

2. Share of net profit of associated companies

Under FAS, the share of profit of associated companies after tax was included in operating profit. Under IFRS, the share of net profit of associated companies is reported after operating profit.

3. Depreciation, amortization and impairment charges

The decrease in amortization is mainly due to the abolition of goodwill amortization under IFRS 3. The impairment of assets has decreased the non-current assets and thus decreased the asset depreciation. On the other hand, finance lease agreements have partly compensated for the decrease of assets.

4. Financial expenses, net

Foreign exchange gains and losses caused by cash flow hedging are reported within operating expenses in the income statement. Thus, the loss accrued in 2004 decreased the IFRS net financing expenses for the year.

5. Income taxes

The effective tax rate for 2004 was 30.3% under IFRS and 49% under FAS. Under FAS, deferred tax assets have not been recognized on amortization of non-deductible goodwill. Under IFRS, no amortization of goodwill exists, which mainly explains the lower effective tax rate under IFRS.

6. Non-current assets and inventories
As a result of impairment tests performed, non-current assets decreased by EUR 60 million at January 1, 2004 and by EUR 45 million at December 31, 2004. On the other hand, finance lease agreements have increased the non-current assets by EUR 25 million at January 1, 2004 and by EUR 35 million at December 31, 2004. The decrease in inventories is mainly due to more accurate principles in providing for obsolete inventories and changes in accounting of spare parts.

7. Deferred tax assets and liabilities
The increase in deferred tax assets on transition to IFRS is mainly attributable to the temporary differences related to benefit pension liabilities and impairments of assets. The increase in deferred tax assets on IFRS adjustments at the date of transition amounts to EUR 5 million.

8. Employee benefit obligations
Under FAS, pension liabilities are generally recorded in accordance with local accounting practices of each country. On transition to IFRS additional pension liabilities were recognized for certain defined benefit plans. In accordance with IFRS 1, the Group decided to recognize all cumulative actuarial gains and losses for all plans in the balance sheet at the date of transition to IFRS. Consequently, the Group's employee benefit obligations increased by EUR 27 million. The largest increases by country are as follows: EUR 10 million in the UK, EUR 8 million in Germany and EUR 4 million in Finland.

9. Provisions
At the beginning of 2004, Ahlstrom closed down the coreboard production in France and reorganized a plant in Germany. The reorganization provisions booked at the end of 2003 under FAS did not fully comply with IAS 37 and therefore the provisions were reversed on the IFRS opening balance sheet and re-entered as costs in the first-quarter result of 2004.

10. Interest-bearing liabilities
Certain long-term lease agreements classified as finance leases in IFRS have been booked in the balance sheet. They increase the interest-bearing liabilities by EUR 20 million at December 31, 2004 and by EUR 21 million at January 1, 2004.

Reconciliation of IAS 32 and IAS 39 adoption, January 1, 2005

EUR million	IFRS Dec 31, 2004	Effect of adoption	IFRS Jan 1, 2005
Assets			
Property, plant and equipment	574	-	**574**
Goodwill	107	-	**107**
Other intangible assets	25	-	**25**
Investment property	4	-	**4**
Investments in associated companies	50	-	**50**
Other investments	3	-	**3**
Other receivables	7	-	**7**
Deferred tax assets	35	-	**35**
Total non-current assets	805	-	**805**
Inventories	213	-	**213**
Trade and other receivables	330	-	**330**
Other investments	13	3	**16**
Cash and cash equivalents	20	-	**20**
Total current assets	576	3	**579**
Total assets	1,381	3	**1,384**

EUR million	IFRS Dec 31, 2004	Effect of adoption	IFRS Jan 1, 2005
Equity and liabilities			
Equity attributable to equity holders of the parent	580	2	**582**
Minority interest	1	-	**1**
Equity	581	2	**583**
Liabilities			
Interest-bearing loans and borrowings	212	-	**212**
Employee benefit obligations	109	-	**109**
Provisions	4	-	**4**
Deferred tax liabilities	13	1	**14**
Total non-current liabilities	338	1	**339**
Interest-bearing loans and borrowings	182	-	**182**
Trade and other payables	263	-	**263**
Provisions	18	-	**18**
Total current liabilities	463	-	**463**
Total equity and liabilities	1,381	3	**1,384**

In the comparative period ending December 31, 2004, the current assets includes EUR 8.5 million listed shares which have been valued at historical cost under FAS. Starting January 1, 2005 listed shares are classified as available-for-sale investments according to IAS 39 and valued at fair value amounting to EUR 11.6 million. The unrealized change of EUR 2.4 million, EUR 3.1 million net of deferred taxes EUR 0.8 million, is included in the fair value reserve.

Key figures

EUR million	2005 IFRS	2004 IFRS	2004 FAS	2003 FAS	2002 FAS
Financial indicators					
Net sales	**1,552.6**	1,567.8	1,567.8	1,556.4	1,778.0
Personnel costs	**313.1**	340.1	338.5	357.0	409.5
% of net sales	**20.2**	21.7	21.6	22.9	23.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**200.9**	152.4	155.1	160.9	207.1
% of net sales	**12.9**	9.7	9.9	10.3	11.6
Depreciation *)	**82.9**	86.7	91.6	94.3	101.8
Goodwill amortization and impairment of non-current assets *)	**0.8**	3.6	12.5	18.1	12.9
Operating profit	**117.2**	62.1	51.0	48.5	92.4
% of net sales	**7.5**	4.0	3.3	3.1	5.2
Net interest expense	**11.5**	12.5	12.0	10.4	11.9
% of net sales	**0.7**	0.8	0.8	0.7	0.7
Profit before taxes	**100.7**	47.9	34.8	33.7	67.9
% of net sales	**6.5**	3.1	2.2	2.2	3.8
Profit for the period attributable to the equity holders of the parent	**62.4**	33.2	17.5	22.4	55.2
% of net sales	**4.0**	2.1	1.1	1.4	3.1
Capital employed (end of period)	**947.1**	975.6	1,008.9	994.5	1,171.8
Interest-bearing net liabilities	**340.6**	361.8	341.8	285.8	401.5
Total equity	**590.5**	580.5	632.9	673.8	725.9
Return on capital employed (ROCE), %	**12.4**	7.0	5.3	4.6	7.5
Return on equity (ROE), %	**10.7**	5.6	2.7	3.2	7.1
Equity ratio, %	**43.2**	42.0	45.3	47.4	45.4
Gearing ratio, %	**57.7**	62.3	53.9	42.3	55.2
Capital expenditure, including acquisitions	**73.2**	167.0	167.0	93.1	83.1
% of net sales	**4.7**	10.7	10.7	6.0	4.7
R&D expenditure	**27.1**	27.6	27.6	32.9	27.7
% of net sales	**1.7**	1.8	1.8	2.2	1.6
Net cash from operating activities	**126.6**	128.0	128.0	202.0	184.0
Number of employees, year-end	**5,525**	5,755	5,755	6,486	6,585
Number of employees, annual average	**5,605**	6,428	6,428	6,536	6,761
Net sales per employee, EUR thousands	**277**	244	244	238	263

EUR million	2005 IFRS	2004 IFRS	2004 FAS	2003 FAS	2002 FAS
Share indicators					
Earnings per share, EUR	**1.71**	0.91	0.48	0.61	1.42
Earnings per share, diluted, EUR	**1.67**	0.90	0.48	0.61	1.42
Cash earnings per share, EUR	**3.48**	3.52	3.52	5.55	5.05
Equity per share, EUR	**16.21**	15.94	17.38	18.50	19.93
Dividend per share, EUR	**1.79** **	1.72	1.72	1.50	1.55
Dividends, EUR million	**65.2** **	62.6	62.6	54.6	56.4
Payout ratio, %	**104.7** **	188.9	358.1	245.9	109.2
Adjusted number of outstanding shares, end of period	**36,418,419**	36,418,419	36,418,419	36,418,419	36,418,419
Adjusted number of outstanding shares, average	**36,418,419**	36,418,419	36,418,419	36,418,419	36,412,567

Net sales and operating profit are determined in the significant accounting policies of the consolidated financial statements.

* According to IFRS, there is no amortization on goodwill.
** The Board of Directors' proposal to the Annual General Meeting.

Calculation of key figures

Interest-bearing net liabilities: Interest-bearing loans and borrowings – Cash and cash equivalents – Other short-term investments

Equity ratio, %: $\frac{\text{Equity}}{\text{Total assets – Advances received}} \times 100$

Gearing ratio, %: $\frac{\text{Interest-bearing net liabilities}}{\text{Equity}} \times 100$

Return on equity (ROE), %: $\frac{\text{Profit (loss) for the period}}{\text{Equity (annual average)}} \times 100$

Return on capital employed (ROCE), %: $\frac{\text{Profit (loss) before taxes + Financing expenses}}{\text{Total assets (annual average) – Non-interest bearing liabilities (annual average)}} \times 100$

Earnings per share, EUR: $\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average adjusted number of shares during the period}}$

Cash earnings per share, EUR: $\frac{\text{Net cash from operating activities}}{\text{Average adjusted number of shares during the period}}$

Equity per share, EUR: $\frac{\text{Equity attributable to equity holders of the parent}}{\text{Adjusted number of shares at the end of the period}}$

Dividend per share, EUR: $\frac{\text{Dividends paid for the period}}{\text{Adjusted number of shares at the end of the period}}$

Payout ratio, %: $\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Income statement

EUR million	(Note)	2005	2004
Net sales	(1)	**28.9**	32.4
Other operating income	(2)	**79.3**	2.3
Personnel costs	(3)	**-9.8**	-10.8
Depreciation and write-downs	(10)	**-0.7**	-0.8
Other operating expense		**-23.5**	-41.8
		-34.0	-53.3
Operating profit/loss		**74.2**	-18.6
Financing income and expense			
Dividend income	(5)	**52.7**	22.6
Interest and other financing income	(6)	**20.9**	17.2
Interest and other financing expense	(7)	**-16.2**	-16.4
Write-downs of subsidiary shares		**-33.5**	-28.0
Gains and losses on foreign currency		**-25.9**	8.5
		-2.0	3.9
Profit/loss before extraordinary items		**72.2**	-14.7
Extraordinary items	(8)		
Extraordinary income		**9.8**	5.8
Profit/loss after extraordinary items		**82.0**	-8.9
Provisions			
Change in depreciation difference		**-**	0.1
Income taxes	(9)	**5.1**	-3.4
Net profit/loss		**87.1**	-12.2

Balance sheet

EUR million	(Note)	Dec 31, 2005	Dec 31, 2004
Assets			
Non-current assets			
Intangible assets	(10)		
Intangible rights		**0.5**	0.7
Advances paid and construction in progress		**0.1**	0.2
		0.6	0.9
Tangible assets	(10)		
Land and water areas		**0.4**	0.6
Machinery and equipment		**0.1**	0.2
Other tangible assets		**0.1**	0.2
		0.6	1.1
Long-term investments	(11)		
Shares in Group companies		**489.6**	467.2
Shares in associated companies		**2.8**	2.8
Shares in other companies		**0.5**	3.1
		492.9	473.0
Current assets			
Long-term receivables			
Receivables from Group companies	(18)	**19.2**	33.9
Notes receivable		**-**	2.6
Deferred tax assets	(17)	**1.5**	1.3
		20.7	37.8
Short-term receivables			
Accounts receivable		**0.3**	0.2
Receivables from Group companies	(18)	**485.6**	509.8
Receivables from associated companies	(19)	**0.7**	0.4
Deferred tax assets	(17)	**1.9**	0.3
Other short-term receivables		**1.4**	0.2
Prepaid expenses and accrued income	(12)	**8.6**	14.2
		498.5	525.0
Short-term investments		**-**	13.5
Cash and cash equivalents		**2.8**	0.4
		2.8	14.0
Total assets		**1,016.1**	1,051.8

EUR million	(Note)	Dec 31, 2005	Dec 31, 2004
Shareholders' equity and liabilities			
Shareholders' equity	(13)		
Share capital		**54.6**	54.6
Retained earnings		**553.7**	628.6
Net profit/loss		**87.1**	-12.2
		695.4	671.1
Liabilities			
Provisions for contingencies	(16)	**6.8**	6.0
Long-term liabilities	(15)		
Loans from financial institutions		**94.9**	150.4
Liabilities to Group companies	(18)	**14.6**	14.5
		109.5	164.9
Short-term liabilities			
Loans from financial institutions		**110.5**	86.0
Accounts payable		**0.9**	0.7
Liabilities to Group companies	(18)	**79.0**	107.1
Liabilities to associated companies	(19)	**1.6**	3.0
Other short-term liabilities		**0.7**	4.5
Accrued expenses and deferred income	(20)	**11.7**	8.7
		204.4	209.9
Total liabilities		**320.7**	380.8
Total shareholders' equity and liabilities		**1,016.1**	1,051.8

Statement of cash flows

EUR million	2005	2004
Cash flow from operating activities		
Operating profit/loss	**74.2**	-18.6
Depreciation. amortization and write-downs	**0.7**	0.8
Gain on liquidation of Group company	**-72.9**	-
Other adjustments	**1.1**	-1.7
Operating profit/loss before change in net working capital	**3.1**	-19.5
Change in net working capital	**2.0**	4.2
Cash generated from operations	**5.1**	-15.3
Interest income	**13.8**	16.3
Interest and other financing expense	**-8.3**	-16.7
Gains and losses on foreign currency	**-17.9**	7.5
Income taxes	**-4.8**	-
Net cash from operating activities	**-12.1**	-8.2
Cash flow from investing activities		
Capital expenditures	**-0.2**	-
Acquisitions of Group companies	**-24.2**	-2.2
Investments in other shares	**-**	-0.1
Proceeds from disposal of shares in Group companies	**13.5**	38.8
Proceeds from liquidation of Group companies	**27.0**	-
Proceeds from sale of non-current assets	**2.8**	0.2
Dividends received	**52.7**	21.7
Group contributions	**18.5**	14.0
Net cash used in investing activities	**90.1**	72.4
Cash flow from financing activities		
Change in notes receivable and short-term investments	**50.1**	6.5
Change in long-term debt	**-41.5**	-38.7
Change in short-term debt	**-21.6**	20.5
Dividends paid	**-62.6**	-54.7
Net cash used in financing activities	**-75.6**	-66.4
Net change in cash and cash equivalents	**2.4**	-2.2
Cash and cash equivalents at beginning of period	**0.4**	2.6
Cash and cash equivalents at end of period	**2.8**	0.4

Accounting principles

Description of business

Ahlstrom Corporation is the parent company of the Ahlstrom Group and acts as a holding company for its subsidiaries. The parent company coordinates the treasury functions of Ahlstrom and also the group internal financing. In addition, the parent company sells management services and other administrative services to its subsidiaries.

Basis of preparation

The financial statements of the company have been prepared in euro and in accordance with accounting principles generally accepted in Finland.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and management liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from these amounts.

The main accounting principles are:

Transactions denominated in foreign currencies

Receivables and liabilities denominated in a foreign currency are restated at the year-end exchange rate with the resulting gain or loss recorded in the income statement.

Derivative financial instruments

The company is exposed to foreign currency exchange and interest rate risks arising from the business operations and financing. In the normal course of business, the company uses a variety of derivative financial instruments to manage these risks so as to minimize their impact on the company's profitability and financial position.

The derivative financial instruments used by the company are designated as either hedges of forecasted transactions or firm commitments (cash flow hedges) or as hedges of net investments in foreign entities. In addition, the company uses derivative financial instruments for trading purposes to a very limited extent in accordance with the Group's Treasury Policy.

The gains or losses on forward foreign exchange contracts are comprised of an interest rate component and a currency component. The interest rate component is amortized over the lifetime of the contract and is reported in interest income or interest expense in the income statement. The currency component of the transaction is valued at the end of each reporting period based on the currency exchange rates in effect on the last business day of the reporting period and the resulting gain or loss is reported in the income statement under exchange gains/losses.

The fair values of all option based derivative financial instruments, whether related to foreign exchange rates or interest rates, are determined on the last business day of each of the reporting period. Changes in the fair values are recorded as income or expense in the income statement.

Interest rate swaps that are designated as cash flow hedges are accounted for on an accrual basis. Interest payable and receivable under the swap terms are accrued and recorded as an adjustment of the interest expense of the designated liability.

Revenue recognition

The company recognizes revenue from services when the services are rendered.

Extraordinary items

The extraordinary items in the financial statements include group contributions granted or received.

Income taxes

Income tax expense consists of current and deferred taxes as well as adjustments to prior year taxes.

Deferred taxes are provided for timing differences between book and taxable income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Non-current assets

Property, plant and equipment are carried at the original acquisition cost less depreciation or amortization and possible impairments.

Depreciation on property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets as follows: machinery and equipment and other intangible assets 3-10 years.

Other intangible assets include trademarks, patents and licenses which are stated at historical cost and amortized on a straight-line basis over their expected useful lives ranging from 5 to 20 years. Computer software costs are amortized on a straight-line basis over their expected useful lives ranging from 3 to 5 years.

Impairment of property, plant and equipment, and other intangible assets is recognized if it is evident that the value of the non-current asset is expected to be permanently lower than the historical cost, net of depreciation or amortization. Impairment is recorded as an expense. Non-current assets, excluding goodwill, may be revalued upwards to recover the amounts previously recorded as impairment.

Leasing

Payments made under operating leases, or under rental agreements, are expensed as incurred.

Accounts receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. Management considers current information and events regarding the customers' ability to repay their obligations and makes a provision against amounts when it is probable that the full amount will not be collected.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid current investments. Shares, deposits and other highly liquid investments with a tenue time of less than one year are presented as current investments. Bank overdrafts in use are included in current interest-bearing loans and borrowings.

Investments

Investments in marketable securities held as current investments are recorded at the lower of cost or market value. Non-current investments are recorded at cost less any permanent declines in the value of the individual investments.

Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Pension plans

A statutory pension liability and supplementary pension benefits are funded through compulsory insurance policies. Payments to pension insurance institutions are determined by the insurance institution according to prescribed actuarial assumptions and other rulings.

Pension insurance premiums are charged to income. In Finland, the accrued pension liabilities not covered by insurance policies and changes thereof are recorded in the balance sheet and income statement.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

EUR million	2005	2004
1. Distribution of net sales		
USA	**5.0**	5.3
Germany	**4.0**	4.0
France	**8.1**	8.4
Italy	**5.0**	5.3
United Kingdom	**1.2**	1.4
Spain	**0.3**	0.4
Sweden	**0.6**	-
Finland	**3.7**	5.3
Belgium	**0.3**	0.3
Other	**0.7**	2.1
Total	**28.9**	32.4
2. Other operating income		
Gain on sale of shares	**74.7**	-
Insurance indemnification	**3.3**	-
Reversal of provisions	**-**	0.8
Other	**1.3**	1.5
Total	**79.3**	2.3
3. Personnel costs		
Remuneration of board members	**0.3**	0.2
Remuneration of managing directors	**0.5**	0.8
Bonuses to managing directors	**0.1**	0.1
Other wages and salaries	**6.8**	6.8
Pension costs	**1.7**	1.9
Other wage-related costs	**0.5**	1.0
Total	**9.8**	10.8

The President and CEO and the Finnish members of the Corporate Executive Team may be eligible for early retirement at the age of 60 according to the voluntary collective pension plan.

	2005	2004
4. Average number of personnel		
Salaried	**88**	94
5. Dividend income		
from Group companies	**51.7**	18.9
from associated companies	**0.9**	3.1
from other companies	**0.1**	0.6
Total	**52.7**	22.6
6. Interest and other financing income		
from Group companies	**15.9**	14.7
from others	**5.0**	2.5
Total	**20.9**	17.2
7. Interest and other financing expense		
to Group companies	**-3.9**	-4.0
to others	**-12.3**	-12.4
Total	**-16.2**	-16.4

EUR million	2005	2004
8. Extraordinary items		
Group contributions	**13.2**	8.1
Tax related to extraordinary items	**-3.4**	-2.3
Total	**9.8**	5.8
9. Income taxes		
Taxes for current and previous years	**-0.2**	-5.0
Deferred taxes	**1.9**	-0.7
Tax related to extraordinary items	**3.4**	2.3
Income tax in the income statement	**5.1**	-3.4

10. Intangible and tangible assets

EUR million	Intangible rights	Land and water areas	Machinery and equipment	Other tangible assets
2005				
Cost at Jan 1	2.5	0.6	1.4	0.6
Increases	0.1	-	0.1	-
Decreases	-0.1	-0.2	-0.2	-
Cost at Dec 31	**2.5**	**0.4**	**1.3**	**0.6**
Accumulated depreciation and amortization at Jan 1	1.6	-	1.2	0.4
Depreciation and amortization for the fiscal year	0.4	-	0.2	0.1
Decreases	-0.1	-	-0.2	-
Accumulated depreciation and amortization at Dec 31	**1.9**	**-**	**1.2**	**0.5**
Book value at Dec 31, 2005	**0.6**	**0.4**	**0.1**	**0.1**
2004				
Cost at Jan 1	2.4	0.6	1.9	0.7
Increases	0.1	-	-	-
Decreases	-	-	-0.5	-0.1
Cost at Dec 31	2.5	0.6	1.4	0.6
Accumulated depreciation and amortization at Jan 1	1.1	-	1.2	0.3
Depreciation and amortization for the fiscal year	0.5	-	0.3	0.1
Decreases	-	-	-0.3	-
Accumulated depreciation and amortization at Dec 31	1.6	-	1.2	0.4
Book value at Dec 31, 2004	0.9	0.6	0.2	0.2

11. Long-term investments

EUR million	Shares in Group companies	Shares in associated companies	Shares in other companies
2005			
Cost at Jan 1	467.2	2.8	3.1
Increases	73.2	-	-
Decreases	-19.8	-	-2.6
Write-downs	-31.0	-	-
Cost at Dec 31	**489.6**	**2.8**	**0.5**
Book value at Dec 31, 2005	**489.6**	**2.8**	**0.5**

EUR million	Shares in Group companies	Shares in associated companies	Shares in other companies
2004			
Cost at Jan 1	531.8	2.8	3.1
Increases	2.2	-	0.1
Decreases	-38.8	-	-0.1
Write-downs	-28.0	-	-
Cost at Dec 31	467.2	2.8	3.1
Book value at Dec 31, 2004	467.2	2.8	3.1

EUR million	2005	2004

12. Prepaid expenses and accrued income

Short-term	**8.6**	14.2
Main items:		
Accruals of hedging contracts	**2.4**	10.9
Accrued rebates	**5.1**	3.0
Accrued insurance indemnification	**0.1**	-
Accrued interest income	**-**	0.1
Other	**1.0**	0.2
Total	**8.6**	14.2

13. Shareholders' equity

Balance at Jan 1	**671.1**	738.0
Dividends paid	**-62.6**	-54.6
Other	**-0.1**	-0.1
Net profit	**87.1**	-12.2
Balance at Dec 31	**695.4**	671.1

14. Share capital of parent company by classes of share, December 31, 2005

The shares are divided into two classes, Series A and B. The par value of all shares is EUR 1.50.

	Number of shares	EUR million
Series A, 1 vote/share, with redemption clause	21,190,100	31.8
Series B, 1 vote/share	15,228,319	22.8
Total	**36,418,419**	**54.6**

EUR million

15. Maturities of long-term liabilities

2005	2007	2008	2009	2010	2011-	Total
Loans from financial institutions	5.0	-	64.9	-	25.0	94.9
Liabilities to Group companies	-	-	-	14.6	-	14.6
Total	5.0	-	64.9	14.6	25.0	109.5

2004	2006	2007	2008	2009	2010-	Total
Loans from financial institutions	80.4	25.0	-	20.0	25.0	150.4
Liabilities to Group companies	-	-	-	-	14.5	14.5
Total	80.4	25.0	-	20.0	39.5	164.9

EUR million	2005	2004
16. Provisions for contingencies		
Restructuring costs	**-**	0.1
Environmental responsibility	**1.0**	-
Pension and other employee benefit plan liabilities	**4.9**	5.0
Discontinued operations	**0.9**	0.9
Total	**6.8**	6.0
17. Deferred tax assets		
Long-term assets	**1.5**	1.3
Short-term assets	**1.9**	0.3
Total	**3.4**	1.6
Arising from:		
Timing differences	**3.4**	1.6
18. Receivables from and liabilities to Group companies		
Long-term notes receivable	**19.2**	33.9
Accounts receivable	**3.2**	7.0
Notes receivable	**478.0**	492.7
Prepaid expenses and accrued income	**4.4**	10.1
Total	**504.8**	543.7
Long-term liabilities	**14.6**	14.5
Accounts payable	**0.6**	1.9
Accrued expenses and deferred income	**9.5**	5.1
Other short-term liabilities	**68.9**	100.1
Total	**93.6**	121.6
19. Receivables from and liabilities to associated companies		
Short-term notes receivable	**0.7**	0.4
Short-term debt	**1.6**	2.9
Accounts payable	**-**	0.1
Total	**1.6**	3.0
20. Accrued expenses and deferred income		
Short-term	**11.7**	8.7
Main items:		
Accrued personnel costs	**2.8**	2.9
Current tax payable	**3.5**	3.8
Accrued interest expense	**0.7**	0.5
Accruals of hedging contracts	**4.5**	1.3
Other	**0.2**	0.2
Total	**11.7**	8.7

EUR million	2005	2004
21. Commitments and contingent liabilities		
For own commitments:		
Guarantees	**22.4**	34.3
For commitments of Group companies:		
Guarantees	**99.8**	89.3
For commitments of associated companies:		
Guarantees	**8.3**	-
For commitments of third parties:		
Guarantees	**-**	30.8
Leasing commitments		
Current portion	**1.7**	1.8
Long-term portion	**6.5**	5.7

22. Shares in subsidiaries

The list of subsidiaries can be found on page 35.

23. Financial risk management

Ahlstrom's approach to financial risk management is to secure the availability of funds required for the financing of the business operations of the company at optimal cost, to protect the net result and balance sheet from movements in foreign exchange and interest rates as well as to minimize counterparty risks. Principles and guidelines for the treasury activities are defined in the Group treasury policy on the basis of which the individual members of the company have specified their own procedures, which take into account the special aspects unique to their businesses. The treasury activities are coordinated by Group treasury.

Funding risk

The company aims to secure the timely availability of funds by maintaining an appropriately designed mix of cash, short- and medium-/long-term loans and committed and uncommitted credit facilities provided by banks and other financial institutions both in the domestic and international financial markets. In Finland, the company also accesses short-term funds under a commercial paper program. The maturity profile of the medium- and long-term loans of the company is shown in note 15 to the financial statements.

Foreign exchange risk

The company has an exposure to movements in foreign exchange rates relating to its operations outside the Euro-zone both in terms of cross-border sales and purchases as well as foreign investments. Good management of foreign exchange transaction and translation exposures is therefore essential. Foreign currency denominated cash inflows and outflows are hedged on a net exposure basis per currency against the base currency of the respective exposed Group company in accordance with a formula defined in the Group treasury policy. The length of the transaction exposure periods is determined individually by the Group companies in accordance with their specific guidelines in order to allow for as accurate a match with the underlying risk profiles as possible. Foreign currency denominated loans, forward contracts and, to a lesser extent, options are used as hedging instruments.

Ahlstrom applies a policy of in principle hedging 100% of its foreign currency denominated equity in foreign subsidiaries. Foreign currency denominated medium-term loans, forward contracts and medium-term cross-currency swaps are used as hedging instruments. Foreign exchange differences relating to these transactions are booked against translation differences in the consolidated balance sheet.

Interest rate risk

The primary focus of Ahlstrom's interest rate risk management is to maintain a sound balance between floating and fixed rate obligations in respect of the interest bearing liabilities of the company. Interest rate exposures are hedged using derivative financial instruments such as interest rate swaps, forwards and options. Swaps are usually of maturities between two to five years. The fair values of these transactions are monitored on a continuous basis.

Counterparty risk

The company seeks to minimize counterparty risks associated with foreign exchange transactions, derivatives contracts and occasional external placements by limiting its exposures to first-class banks and financial institutions and other highly credit rated counterparts only. Whilst counterparty risks cannot be entirely eliminated the management is confident that they are well under control. Customer related counterparty risks are limited by the combination of a well diversified customer base and the impact of a policy of concluding risk sharing arrangements in respect of larger exposures with banks and insurance companies. Over 95% of Ahlstrom's customers are industrial companies.

Derivative financial instruments*

	Nominal values		Fair values**	
EUR million	**2005**	2004	**2005**	2004
Interest rate derivatives				
Interest rate swaps	**67.4**	98.4	**0.7**	0.4
Foreign exchange derivatives				
Foreign exchange forward contracts	**189.0**	182.2	**-0.3**	3.0
Options bought	**-**	3.4	**-**	-
Options sold	**-**	3.4	**-**	0.2
Equity hedging				
Foreign exchange forward contracts	**232.9**	269.5	**-1.9**	6.5

* The values illustrate the extent of the hedging activities and do not as such measure the risk exposure of Ahlstrom.

** The fair values of interest rate swaps are based on actually quoted market rates at year-ends. The fair values of all other financial instruments have been calculated from prevailing market rates at year-ends.

Shares and shareholders

Major shareholders on Dec 31, 2005	Number of shares, total	% of shares
Antti Ahlströmin Perilliset Oy	3,423,464	9.4
Varma Mutual Pension Insurance Company	1,416,200	3.9
Mona Huber	1,344,700	3.7
Jacqueline Tracewski	1,007,600	2.8
Krister Ahlström	970,919	2.7
Ulla Ahlström	737,738	2.0
Kaj Nahi	717,538	2.0
Niklas Lund	693,738	1.9
Kim Kylmälä	663,000	1.8
Samuel Huber	639,600	1.8
Others	24,803,922	68.0
Total	36,418,419	100.0

Shareholders by group on Dec 31, 2005	Number of shares, total	% of shares
Companies	3,788,564	10.4
Financial and insurance institutions	382,800	1.1
Public corporations	1,416,200	3.9
Finnish households	24,643,295	67.7
Foreign households	5,514,460	15.1
Others	673,100	1.8
Total	36,418,419	100.0

Distribution of shareholdings on Dec 31, 2005

Number of shares	Number of owners	% of owners	Number of shares and votes	% of shares	Number of average ownership
1–10,000	106	38.7	289,302	0.8	2,729
10,001–50,000	53	19.4	1,423,159	3.9	26,852
50,001–100,000	16	5.8	1,250,960	3.5	78,185
100,001–250,000	56	20.4	8,319,353	22.8	148,560
250,001–500,000	24	8.8	8,316,368	22.8	346,515
500,001–	19	6.9	16,819,277	46.2	885,225
Total	274	100.0	36,418,419	100.0	132,914

Management's shareholding
On December 31, 2005 the members of the Board of Directors and the President & CEO held in total 884,513 shares of Ahlstrom Corporation, representing 2.4% of the voting rights and shares.

Shares and share capital
On December 31, 2005 Ahlstrom Corporation's share capital was EUR 54,627,628.50. The share capital is divided into 36,418,419 shares each with a par value of EUR 1.50. Of the shares 21,190,100 were of A series and 15,228,319 of series B. All shares have one vote and an equal right to dividend, but the shares of series A are encumbered with the redemption clause in § 14 of the Articles of Association. The shares are not of different kind under the Companies Act.

Proposal for the distribution of profits

The consolidated balance sheet on December 31, 2005 shows:

	EUR
Retained earnings	445,914,000
Gain for the period	62,413,000
Total	508,327,000
of which distributable funds total	487,004,000

The Parent Company's balance sheet on December 31, 2005 shows:

Retained earnings	553,720,085
Gain for the period	87,095,092
Total	640,815,177

The Board of Directors proposes that:

- a dividend of EUR 1.79 be paid on the 36,418,419 outstanding shares, totaling EUR 65,188,970.01
- EUR 70,000 be reserved to be used at the disposal of the Board of Directors
- and the reminder be retained.

Helsinki, February 2, 2006

Johan Gullichsen

Urban Jansson　　Sebastian Bondestam　　Jan Inborr

Bertel Paulig　　Peter Seligson　　Willem F. Zetteler

Jukka Moisio
President & CEO

Auditor's report

To the shareholders of Ahlstrom Corporation

We have audited the accounting records, the financial statements and the administration of Ahlstrom Corporation for the period January 1 – December 31, 2005. The Board of Directors and the President and CEO of Ahlstrom Corporation have prepared the Report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that includes parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements as well as on the parent company's financial statements and administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

In our opinion, the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion, the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable funds is in compliance with the Companies Act.

Helsinki, February 3, 2006
KPMG OY AB
Sixten Nyman
Authorized Public Accountant

Small fibers. Big difference.

Ahlstrom Corporation
P.O. Box 329 Eteläesplanadi 14 FI-00101 Helsinki, Finland www.ahlstrom.com