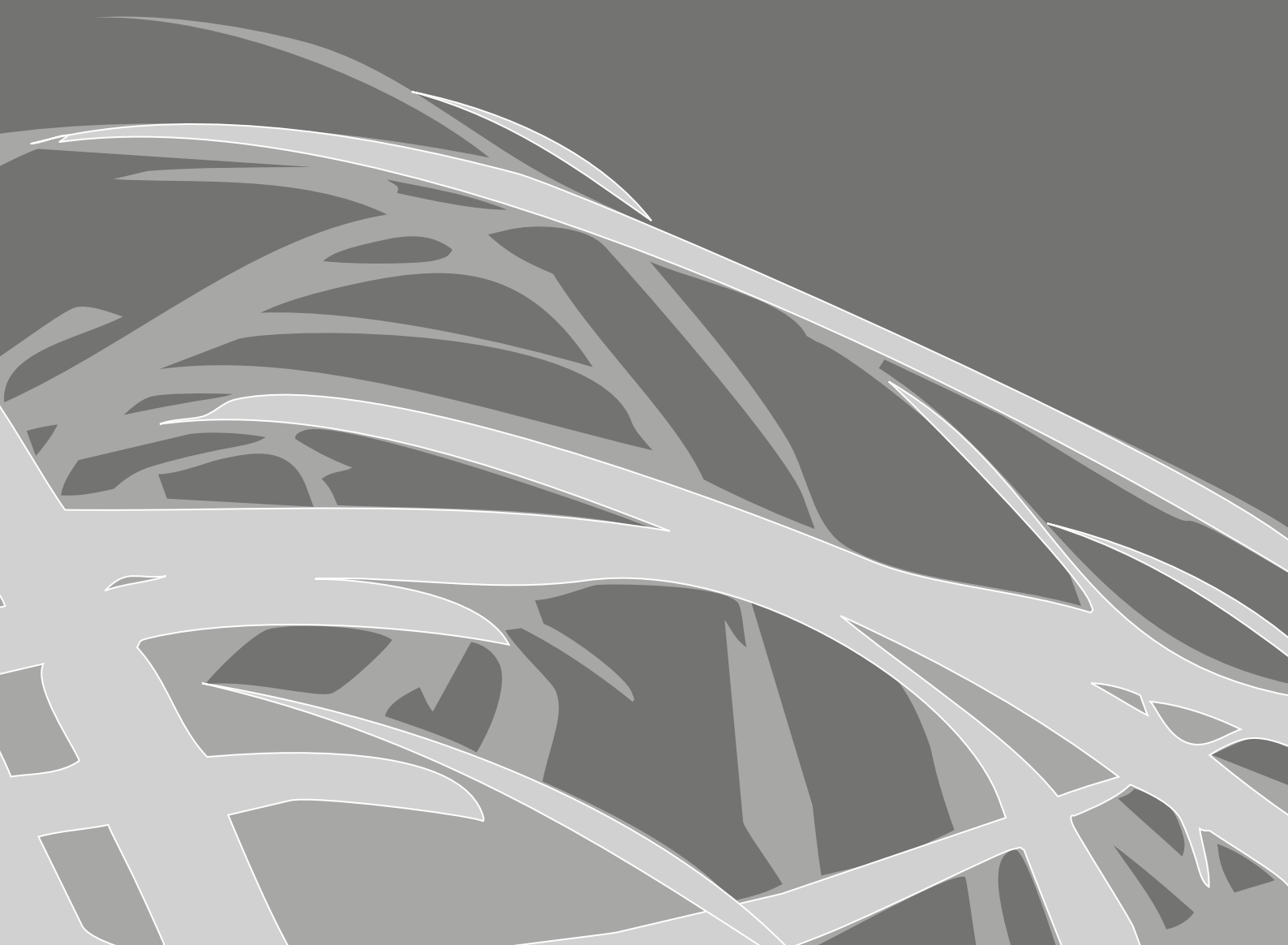


Ahlstrom 

 Annual Report 2005





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# Ahlstrom in brief

Ahlstrom is specialized in the development, manufacture and marketing of high performance fiber-based materials.

Nonwovens and specialty papers produced by Ahlstrom are used in a variety of everyday products, e.g. in filters, wipes, flooring, labels, and tapes. The company, whose heritage spans more than 150 years, employs approximately 5 500 people and serves customers via sales offices and production facilities in more than 20 countries on six continents. In 2005, Ahlstrom's net sales amounted to EUR 1.55 billion. Ahlstrom share is listed on the main list of the Helsinki Stock Exchange.

<b>SEGMENT</b>	<b>FiberComposites</b>	<b>Specialty Papers</b>
Net sales in 2005 Share of Group's net sales Employees	EUR 742 million 48% 2,898	EUR 815 million 52% 2,278
<b>Key customer industries</b>	Filtration and transportation, consumer products, healthcare, building, food industry	Packaging & labeling industry, furniture & building, consumer products & food industry
<b>Production units</b>	Belgium, Brazil, China, Finland, France, Italy, South Korea, Spain, Sweden, UK, USA	Finland, France, Germany, Italy
<b>Business areas and their main applications</b>	<p><b>Nonwovens</b> Wipes Medical gowns and drapes Wallcoverings Teabags Fibrous meat casings</p> <p><b>Filtration</b> Air, liquid and transportation filters Industrial and laboratory filtration</p> <p><b>Glass Nonwovens</b> Windmill blades, flooring, boat hulls</p>	<p><b>Label &amp; Packaging Papers</b> Self-adhesive labels Food packaging: coffee, dairy products, pet food Labels for beverage bottles</p> <p><b>Technical Papers</b> Furniture foils, abrasive paper, masking tape, engine gaskets, posters, baking papers, wallpaper, processing paper</p>

## Year 2005 in brief

Key figures, EUR million	2005	2004
Net sales	1,552.6	1,567.8
Operating profit	117.2	62.1
Operating profit excl. non-recurring items	99.0	82.1
Profit before taxes	100.7	47.9
Profit for the period	62.6	33.4
Balance sheet, total	1,367.2	1,381.4
Capital expenditure (incl. acquisitions)	73.2	167.0
Net cash flow from operations	126.6	128.0
Gearing ratio, %	57.7	62.3
Return on capital employed (ROCE), %	12.4	7.0
Cash earnings per share, EUR	3.48	3.52
Basic earnings per share, EUR	1.71	0.91

- Net sales and sales volumes, excluding divested cores and board business, grew by 4.2% and 3.7%, respectively.
- Profitability improved despite challenging market situation.
- Ahlstrom announced several organic growth investments in its plants in Turin (Italy), Madisonville (USA), Green Bay (USA), La Gère (France) and Mikkeli (Finland).
- Add-on acquisitions in the USA and China support Ahlstrom's growth. Net sales of these acquired businesses were approximately EUR 20 million in total in 2005.

## Financial targets

### 1. Profitability

Return on capital employed (ROCE)  
minimum of 13%

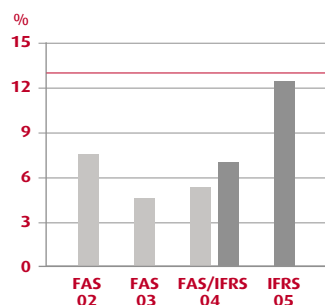
### 2. Financial strength

Gearing ratio 50-80%  
(interest-bearing net debt to equity)

### 3. Dividends

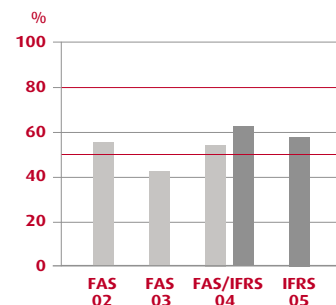
Dividend pay out ratio averaging  
at least 50% of the net profit

Return on capital employed (ROCE)

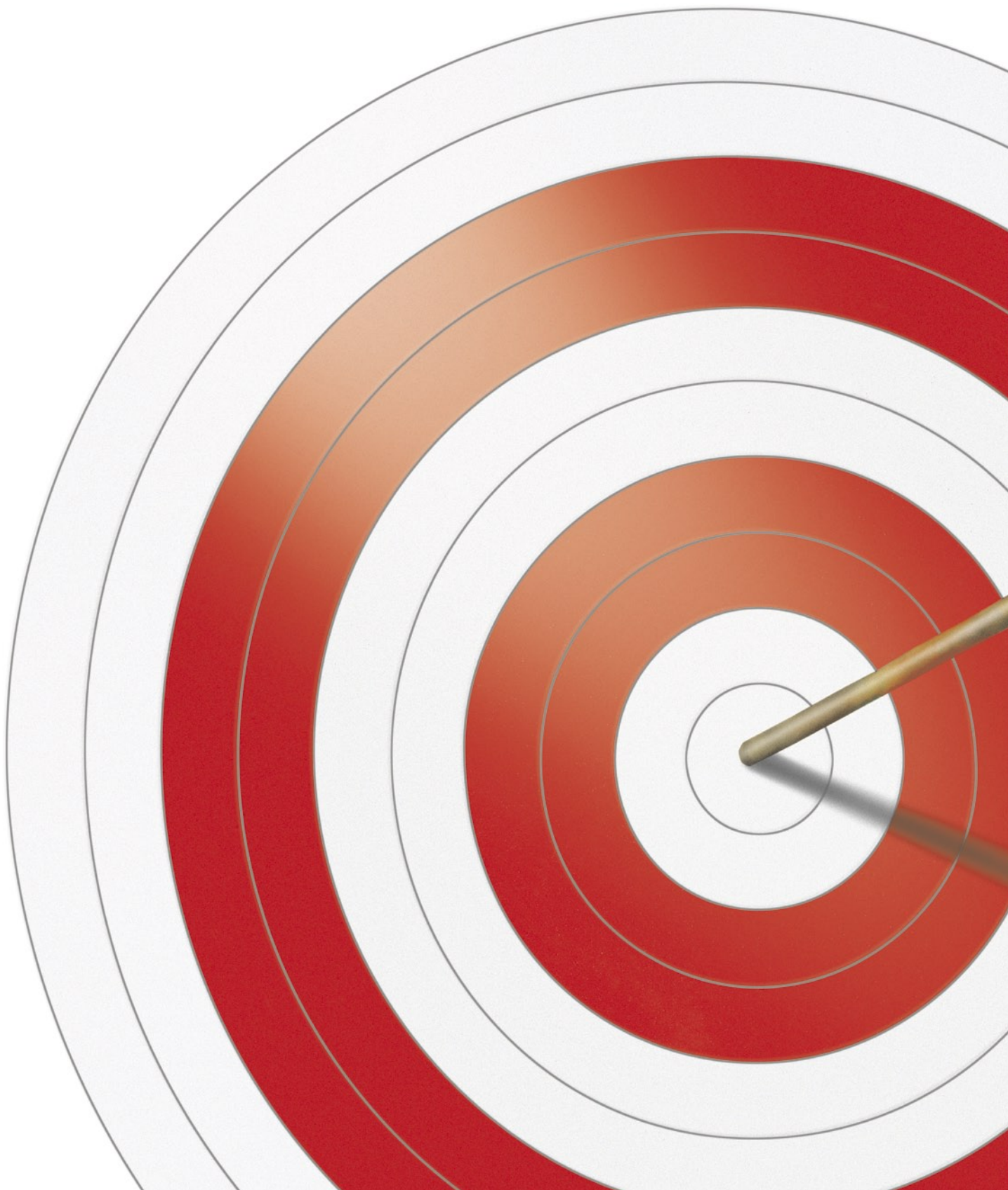


Target level: minimum 13%

Gearing ratio



Target level: 50-80%



# Focused, leading

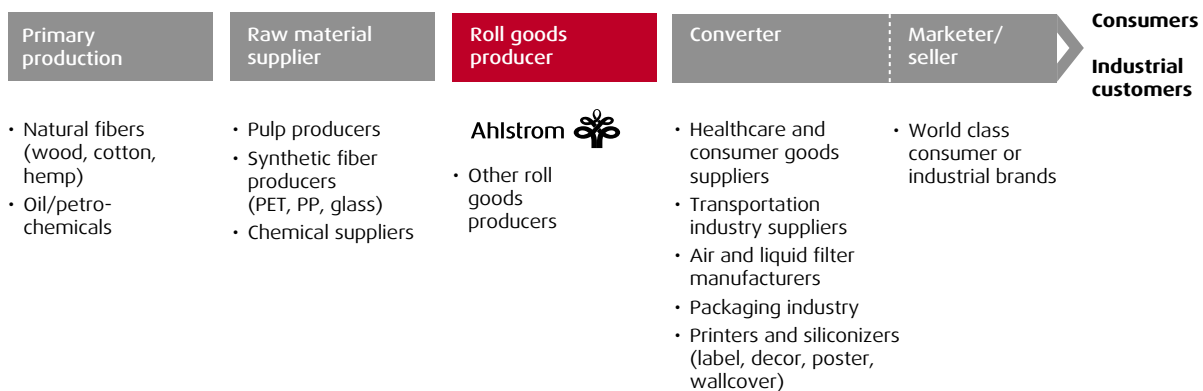
Dedication to the manufacture of purely fiber-based materials and the company's global presence have helped Ahlstrom to achieve a leading position in several market segments.



# Ahlstrom's vision is to be the global source for fiber-based materials

## Ahlstrom in the value chain

Ahlstrom manufactures high-quality fiber-based materials of synthetic and natural fibers. The company supplies these materials to its customers as roll goods for further processing. Converters, such as printers or transportation industry suppliers, deliver the products to a marketer or seller serving consumers or industrial customers worldwide.






Ahlstrom aims to further strengthen its position as a global source of fiber-based materials by implementing the following business strategies:

**Strengthen global presence** by expanding the group's sales network and investing in global production. Ahlstrom is strategically positioned on six continents. In order to provide global service to its customers, Ahlstrom is continuously evaluating opportunities to expand both its sales network and production capabilities into growing markets such as Asia, Latin America and Eastern Europe.


**Achieve significant growth** through innovation, organic investments and acquisitions in high performance roll goods. Ahlstrom focuses on the production of roll goods, with a particular focus on high-performance products and high growth business opportunities. The company seeks to exploit these existing business opportunities by developing new and improved products, investing in technology and considering new targets for strategic acquisitions.



## Strategy based on four cornerstones



**Focus on long-term customer relationships** by expanding product offerings to key customers. Ahlstrom's position as a market leader has enabled it to develop close and longstanding relationships with customers that are global market leaders in their respective industries. Ahlstrom intends to strengthen its existing customer relationships further by capitalizing on its in-depth understanding of customer needs, using its fiber and technology expertise and introducing new and improved products and solutions.



**Competitive operations** through capturing group synergies and through continuous improvement. Ahlstrom continuously evaluates its operations to identify opportunities for cost savings, improved performance of production assets and for cross-fertilization of expertise within the group's various operations. Ahlstrom seeks to capture synergies particularly in production, purchasing, sales and marketing, innovation and administration.

# Understanding market needs, customer processes and applications

## AHLSTROM'S MARKET POSITIONS

Nonwovens	Position
Engine filtration	1
Food	1
Wallcover	1
Medical	2-3
Industrial nonwovens	2-3
Specialty reinforcements	2-3
Specialty papers	
Release base paper*	1
Flexible packaging	1
Pre-impregnated decor paper	1
Poster paper	1
Vegetable parchment	1
Label paper	2-3
Abrasive base paper	2-3
Wallpaper base	2-3
Crepe paper	2-3

\* Shared position

Source: Management estimates based on volume

Ahlstrom operates in several geographic markets and product areas, and has developed a deep understanding of the industries in which its customers operate. Ahlstrom has long-term relationships with its customers, and the oldest customer relationship dates back over 100 years. Through its business areas and product lines, the company works in close cooperation with a large number of customers to provide them with products that meet their specific requirements. Combined with Ahlstrom's continued emphasis on research and development, the company is able to offer innovative products and solutions that address the current and future needs of the market.

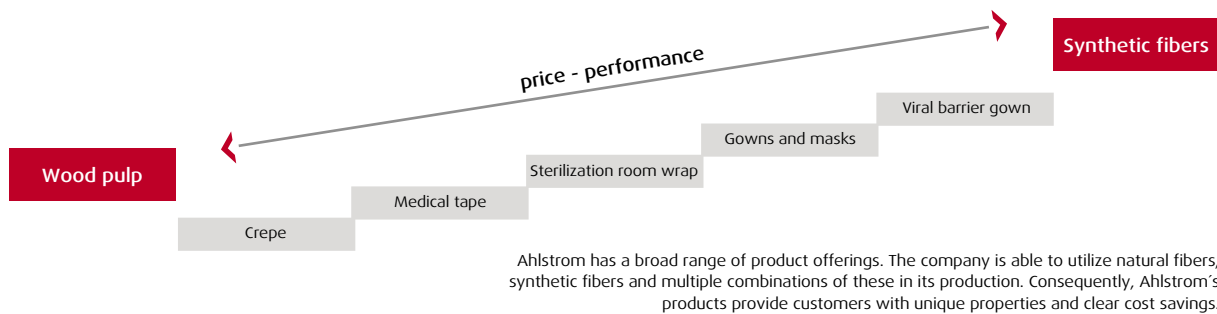
### Fiber expertise

Ahlstrom's knowledge of fibers and fiber processing is based on over 150 years of Ahlstrom entities operating in paper and fiber markets. Ahlstrom's expertise extends to the use of both natural and synthetic fibers, their various combinations, and a range of chemical agents, enabling the company to develop and offer high performance materials that provide customers with unique properties and cost benefits.

### Leading market positions

Ahlstrom has a leading position in many of the markets in which it operates. In 2005, over 50% of the company's net sales were generated in product mar-

**CREATING UNIQUE PRODUCT OFFERING – MEDICAL EXAMPLE**



markets where Ahlstrom is the global market leader. Furthermore, approximately 20% of its net sales were generated in product markets where the company is the second or third largest supplier. These positions provide Ahlstrom with increased visibility and access to leading customers, and often make the company the supplier of choice for its customers.

**Global presence**

Ahlstrom has production on four continents and a global sales network. The company has its production facilities in Europe, North America, South America and Asia. Ahlstrom's sales network currently spans 22 countries on six continents.

This network enables Ahlstrom to serve customers more effectively on a global basis. In 2005, Ahlstrom expanded its production platform to China through the acquisition of the filtration operations of Lantor Inc., and opened new sales offices in India and Poland and a second sales office in China. The geographic reach of Ahlstrom's operations facilitates close cooperation with customers and provides a platform for future expansion.

**Competitive and versatile operations**

Ahlstrom continuously focuses on improving its competitiveness and profitability. The key elements in competitive operations include cost efficiency,

increased productivity, and streamlined operations and support functions, including purchasing, administration, and research and development. In 2005, the company was able to compensate increased production costs by reducing fixed costs (personnel, maintenance and other fixed costs) by 9% from 2004.

Ahlstrom's production base is relatively versatile, which facilitates effective use of capacity, minimizes downtime and allows redirection of resources. For a number of machines, Ahlstrom is able to switch production between several products or even redirect machines to reflect changes in demand.

# Main events

**January 1**

**Ahlstrom's new organization structure in place.**

The new organization structure comprises the FiberComposites and Specialty Papers segments. The FiberComposites segment consists of three business areas: Nonwovens, Filtration and Glass Nonwovens. The Specialty Papers segment includes the Label & Packaging Papers and Technical Papers business areas.

**March 23**

**Ahlstrom expands production capacity of release base papers.**

The EUR 18 million investment, completed in January 2006, will increase the production capacity of supercalendered release base papers by close to 20,000 tons in the Turin plant in Italy.

**June 9**

**Ahlstrom launches innovative fine fiber nonwovens.**

The new fine fiber nonwoven production line was commissioned in June. The new line, located in Turin, Italy plant, allows Ahlstrom to serve multiple applications particularly in the growing air and liquid filtration markets. The investment was valued at EUR 6 million.

June > August >

**August 17**

**Ahlstrom opens sales office in India.**

A new sales office was opened in New Delhi, India, to support Ahlstrom's strategy to expand in Asia.

**August 23**

**Juho Thermal Ltd. to buy the share capital of Ahlstrom Kauttua Oy.**

After the transaction, 145 employees of Ahlstrom Kauttua transferred to Juho Thermal. According to the agreement, the Kauttua plant will continue to produce Ahlstrom's face stock and wet glue label papers for a transition period.

March > May >

**May 13**

**Annual General Meeting.**

The Annual General Meeting (AGM) of Ahlstrom Corporation resolved to distribute a dividend of EUR 0.75 per share for 2004 as proposed by the Board of Directors.

January >

## December >

### December 13

**Extraordinary Shareholders' Meeting.** The Extraordinary Shareholders' Meeting decided to pay an extra dividend of EUR 0.97 per share for the financial year 2004.

### December 14

**Ahlstrom assesses a possible IPO on the Helsinki Stock Exchange.** Ahlstrom announced it considered expanding the ownership structure of the company.

### December 16

**Ahlstrom expands its Mikkeli, Finland plant.** The EUR 5 million investment will consist of an additional building and new machinery and it is expected to be completed in December 2006.

### December 19

**Ahlstrom to acquire filtration business of Lantor in the USA and China.** The transaction includes two production facilities and it strengthens Ahlstrom's position in the automotive and air filtration markets. The acquired business has net sales of EUR 17 million.

### December 22

**Ahlstrom to acquire FiberMark's North American absorbent materials business.** The acquisition further strengthens Ahlstrom's position in the specialty filtration market segments.

## November >

### November 9

**Ahlstrom increases its capacity for release base papers.** Ahlstrom announced a EUR 30 million plan to expand the production capacity of supercalendered release base papers at its La Gère plant in France. The investment includes modification of the PM 6 paper machine and the related off-line finishing equipment. The resulting speed-up will increase the annual production capacity by approximately 25,000 tons and improve product quality.

### November 16

**Ahlstrom builds a co-generation facility in Turin.** The EUR 7 million investment, due for completion in early 2007, will secure a competitive supply of steam and electricity to serve the energy needs of Ahlstrom's Turin plant. It will be built and run by an external partner under an "own and operate" agreement.

## September >

### September 14

**Ahlstrom to add nanofiber production to its filtration portfolio.** The new proprietary nanofiber production capabilities at the Madisonville, USA plant will allow Ahlstrom to apply nanofibers on a variety of filtration and nonwoven media.

### September 22

**Ahlstrom invests in new spunlace machine at Green Bay plant in the USA.** The additional capacity will primarily serve the growing North American wipes market with spunlace composites technology. It will also have the production flexibility to meet demands in other key nonwovens markets including automotive, medical and technical nonwovens.

# Ahlstrom's journey as a listed company began in March 2006

## Background

Ahlstrom decided to seek for public listing for its shares on the Helsinki Stock Exchange to be able to take full advantage of its growth potential. The listing provides Ahlstrom with new alternatives for obtaining financing from the capital markets and allows

the Ahlstrom shares to be used to finance acquisitions. In addition, the offering and the listing of the shares was intended to allow Ahlstrom's shareholders to diversify their investment risk. Further, the listed company status leads to increasing interest among customers and suppliers.



### Initial Public Offering

The Annual General Meeting of Ahlstrom decided on February 14, 2006, in accordance with the proposal of the Board of Directors, to increase the company's share capital by issuing a total of up to 8,000,000 shares in deviation from the shareholders' pre-emptive subscription rights. In addition, the decision of the Annual General Meeting allowed for the issuance of an additional 1,150,000 shares.

The institutional offering started on February 27 and ended on March 13, 2006. The retail offering began on March 1 and ended on March 9, 2006. The offer price range was EUR 20.00 to 24.00. The Board of Directors determined to set the offer price at EUR 22.00 based on the results of the book-building process during the marketing of the offering.

Initially, the institutional offering comprised 7,300,000 and the retail offering 700,000 shares. The institu-

tional offering was approximately 9.5 times subscribed at the offer price and the Finnish retail offering was approximately 6.6 times subscribed. The Board of Directors decided on March 13, 2006 that 6,600,000 shares will be allocated to institutional investors and 1,400,000 shares to retail investors. Approximately 43 percent of the demand in the institutional offering came from Finnish investors and approximately 57 percent from international investors. In total, 14,159 investors participated in the retail offering.

On March 16, SEB Enskilda exercised the over-allotment option to subscribe for 1,150,000 additional shares of Ahlstrom to cover over-allotment in the institutional offering.

### Use of proceeds

The net proceeds for Ahlstrom from the offering were EUR 172.1 million, plus additional net proceeds amounting to EUR 24.7 million after the exercised

over-allotment option. Ahlstrom intends to use the proceeds of the offering to expand and further improve its operations mainly through:

- Investments in new capacity and new technologies in existing operations
- Investments in geographical expansion, particularly in Asia, Russia/Eastern Europe and the Americas to grow with its global customer base
- Acquisitions to expand its geographic presence and enhance its product offering

### Trading with Ahlstrom share in Helsinki Stock Exchange

Trading with the Ahlstrom share commenced on the Prelist of the Helsinki Stock Exchange on March 14, 2006 and on the Main list on March 17, 2006.

Trading code: AHL1V  
ISIN code: FI0009010391

### MAJOR SHAREHOLDERS AFTER IPO MARCH 17, 2006

Shareholder	Number of shares	Holding, %
Antti Ahlströmin Perilliset Oy	4,574,802	10.0
Varma Mutual Pension Insurance Company	1,532,200	3.4
Mona Huber	1,256,700	2.8
Jacqueline Tracewski	1,007,600	2.2
Krister Ahlström	970,919	2.1
Ulla Ahlström	743,538	1.6
Kaj Nahi	717,538	1.6
Niklas Lund	693,738	1.5
Kim Kylmäla	663,000	1.5
Samuel Huber	639,600	1.4
Nominee registered	3,755,555	8.2
Other	29,031,547	63.7
<b>Total</b>	<b>45,586,737</b>	<b>100.0</b>

### SHAREHOLDERS BY CATEGORY AFTER IPO

Category	% of shares
Foreign ownership	12.2
Households	58.0
Public communities	5.6
Financial institutions	11.4
Non-profit organizations	1.6
Corporations	11.2
<b>Total</b>	<b>100.0</b>

The total number of Ahlstrom shareholders was 15,950 on March 17, 2006.



The end of 2005 marked the completion of Ahlstrom's first full financial year as a dedicated fiber-based materials company. The improved clarity of structure and streamlined operations that this strategy has delivered, together with our continued focus on customer needs, have helped us to boost our overall financial performance. Over the years, we have demonstrated that our innovation activities clearly benefit from close cooperation with our customers and suppliers. This in turn enables us to make new investments. We continued on this path in 2005 and the decisions made during the year will lead to new product launches and increased volumes in our markets in 2006 and 2007. Ahlstrom's target is to introduce and implement several important organic growth ideas and investments each year.

### **Profitability improved significantly in 2005**

The operating environment was challenging in 2005 due to the continuing upward trend in prices for raw materials. This price escalation was particularly evident in oil-based synthetic fibers, energy and chemicals and put pressure on margins. We were able to partially offset the effect of the rise in production costs by increasing our sales prices. Ahlstrom's performance excellence program "a plus" helped us in lowering costs through improved production efficiency (improved quality consistency, reduced waste, higher machine uptime). At the same time, our fixed costs reductions also paid off. In the future, we will strive to maintain and improve the competitiveness of our operations and the performance excellence program will play a critical role in this.

We have set an ambitious growth strategy and the funds raised in the IPO will be used to finance this growth.



Our performance improved clearly in 2005 although it still remained below the company long-term target level for return on capital employed (ROCE) of 13%. The main factors contributing to the improved ROCE were a more competitive cost structure and better manufacturing performance. Good cash flow supports our financial strength which we will use to develop and launch new products and invest in new manufacturing capabilities. In addition, we aim to pay competitive dividends to our shareholders.

### **Initial Public Offering to finance growth**

As a result of the significant improvement in our financial performance, Ahlstrom's shareholders – the majority of them descendants of Antti Ahlström – decided in February 2006 to seek a public listing of the company on the OMX Helsinki Stock Exchange. Trading in Ahlstrom shares began in March, 2006. The Initial Public Offering (IPO) was a new issue and raised approximately EUR 200 million of new capital. The listing of Ahlstrom Corporation completes Ahlstrom's evolution from a closely-held conglomerate to a publicly-owned, dedicated fiber-based materials supplier.

We have set an ambitious growth strategy and the funds raised in the IPO will be used to finance this growth. Currently, we are in the process of implementing a number of organic growth investments that will either add capacity or result in new, innovative technologies to better serve our customers. We are also identifying acquisition targets and will not hesitate to close deals offering the right syner-

gies and sufficient potential to meet our long-term financial targets.

During the past 10 years in the fiber-based materials business, we have been successful in implementing multiple, organic growth investments each year. In addition, we have also carried out several add-on acquisitions, as well as two large, company-transforming, acquisitions. All of these actions have helped Ahlstrom grow in this business at an average rate of more than 10% per annum.

### **Good understanding and a long track record in global operations**

Ahlstrom has a 40-year track record in international operations. Our very first international expansion took place in 1963 when we acquired Cartiere Bosso, an Italian "specialty and technical" paper manufacturer. In fact, a large proportion of our businesses have international origins, as well as a history of growth aided by organic investments and add-on acquisitions. Consequently, already since 1995, we have had production plants in Europe, Asia, North America, and South America.

As our customers expand their businesses and increase their geographic reach, we seek to continue our cooperation as their source for fiber-based materials by establishing corresponding competitive sales, technical service, development, and local manufacturing facilities. Our expertise in roll-goods manufacturing, combined with Ahlstrom's financial strength and long-term commitment to the fiber-based materials business, gives us a solid base for both our current and start-up operations. Furthermore, our cumulative know-how in transferring

technology and exchanging information within multi-cultural environments, enables us to serve our customers with consistent quality for global products and brands. Similarly, our local development teams are capable of tailoring solutions for regional products.

### **Ahlstrom as a listed company**

Our business environment is dynamic and offers significant opportunities for growth, be it in new products or solutions, new technologies, or geographic expansion. Our consistency in developing the business and in serving our customers will not change with the public listing. In fact, as a listed company, we have even more potential for the successful implementation of our growth strategy in the future.

We will continue to focus our efforts on striving to deliver earnings in line with our targets. Since our business is, under normal operating conditions, cash generative, we are proposing an attractive dividend policy. Furthermore, large expansion steps can be more easily financed as a publicly listed company. We acknowledge that our status as a publicly listed company requires us to pay attention to transparency and to engage in dialogue with all our stakeholders.

Finally, I would like to thank all of Ahlstrom's customers, our employees, suppliers, shareholders and other stakeholders for contribution and support during 2005. I welcome your continued participation in the "2006 leg" of our voyage in fiber-based materials.

**Jukka Moisio**  
President and CEO

# Clear improvement in profitability

## Overview

The global economic environment remained challenging for Ahlstrom in 2005. Demand for the company's nonwoven products in the United States developed favorably while overall demand in Europe still remained unsatisfactory. In Asia, which has become an increasingly important market for Ahlstrom, the growth in demand continued. Strong demand in wipes, release base papers as well as glassfiber reinforcements contributed to the positive sales development.

The company announced several new investments during the course of 2005 to support the higher demand and increase production capacity especially in wipes and release base papers. Add-on acquisitions in the USA and China were announced in December for the Filtration business area. The total amount of investments in 2005 was, however, quite moderate and the majority of the investments decided will commence in 2006 and 2007.

2005 was the first full year after the completion of Ahlstrom's structural change from a multi-business company to a focused fiber-based materials supplier. Accordingly, Ahlstrom was

able to improve its profitability due to a more competitive cost structure and better manufacturing performance. High raw material prices put pressure on the margins but the higher costs were partly offset by increased sales prices. The company also continued to improve its sourcing of raw materials through centralized purchasing, and used less expensive raw materials where possible.

The Group achieved a 10.5% return on capital employed in 2005 (excluding non-recurring items) which represented a clear improvement in profitability compared to the previous year. The Group's cash flow remained good. The gearing was 57.7%, well within the target range of 50-80%.

## Deliveries

Excluding the cores & board operations comparable volumes delivered to customers increased by 3.7%. The increase in volumes was mainly a result of increased demand in wipes, medical nonwovens and release base papers as well as acquisitions and investments made by the company. On the other hand, the divestment of Ahlstrom Kauttua decreased the sales volumes of

the Specialty Papers segment.

Weaker than expected demand in certain product lines resulted in machine downtime. For the whole year, market related downtime was 4.9% and capacity utilization 84%.

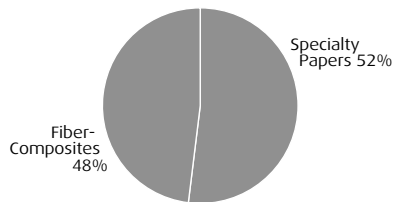
## Net sales unchanged

Consolidated net sales was nearly unchanged in 2005 totaling EUR 1,553 million (EUR 1,568 million). Excluding the divested cores and board operations, net sales grew by 4.2% (EUR 1,490 million). The increase of EUR 63 million was attributable to the following factors:

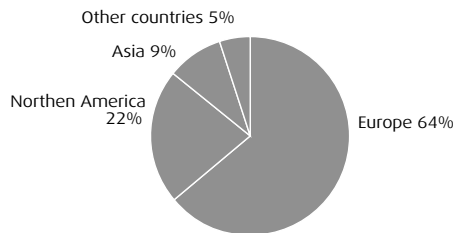
EUR million	2005
Volumes	+67
Sales prices + mix	-5
Exchange rates	+4
Other	-3
	+63

The growth was mainly driven by new sales volumes in the Fiber-Composites segment. The divestments of the flexible packaging units in October 2004 as well as Ahlstrom Kauttua in August 2005 decreased the net sales. Foreign currency fluctua-

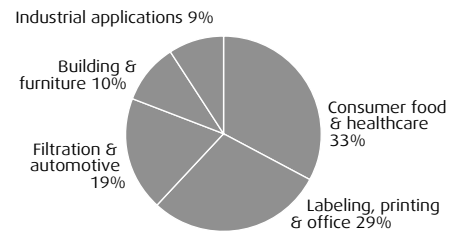
Net sales by segment



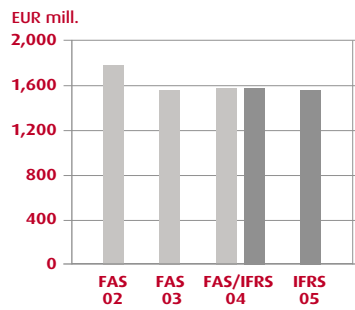
Net sales by market area



Net sales by end-use sector

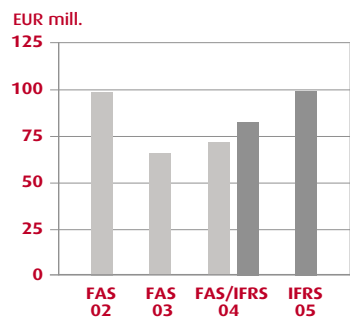


Net sales



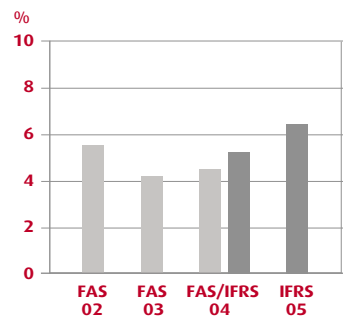
Operating profit

(excluding non-recurring items)



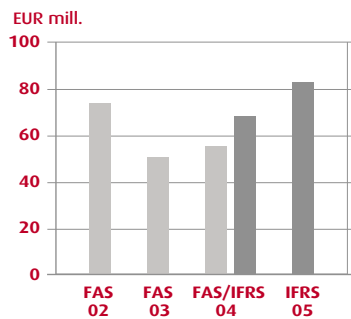
Operating profit %

(excluding non-recurring items)

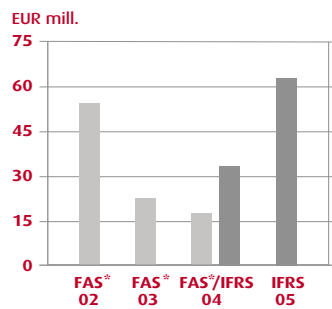


Profit before extraordinary items and taxes

(excluding non-recurring items)



Profit for the period



\* before minority interest

tions had only a limited effect on the development of the net sales over the period.

Europe remains the key geographic market for the Group accounting for 64% of sales in 2005 (62%). Net sales in North America increased to 22% from 18% in the previous year and Asia increased slightly to 9% (8%).

### Clear improvement in profitability

The Group's operating profit increased significantly to EUR 117.2 million (EUR 62.1 million) representing a margin of 7.5% (4.0%). The operating profit includes certain exceptional transactions which are not related to normal business operations and which are accounted for as non-recurring items shown below:

EUR million	2005	2004
Operating profit (EBIT)	117.2	62.1
- sale of assets	-18.4	-5.3
- restructuring costs	2.3	23.2
- other non-recurring items	-2.1	2.1
EBIT w/o non-recurring items	99.0	82.1

In 2005, non-recurring items mainly consisted of capital gain from the sales of Ahlstrom Kauttua plant in Finland, and the hydropower station in Turin, Italy. Restructuring costs related to the closure of the New Windsor plant, from where the air filtration production lines were relocated to another site in the USA in order to improve the cost structure and provide better customer service.

In 2004, the sale of assets included the sales of the Tecno Jolly and Kuban plants as well as the forming of the

Sonoco-Alcore joint venture. Restructuring costs related to writedowns of assets and provision charges for personnel reductions in underperforming units.

The operating profit of both the FiberComposites and the Specialty Papers segments showed a clear improvement mainly due to strong demand in wipes, medical nonwovens and release base papers, enhanced operational efficiency and lower fixed costs.

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

Profit before taxes was EUR 100.7 million (EUR 47.9 million). Net financial expenses for the Ahlstrom Group amounted to 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) was attributable to increased costs of hedging. In 2004, the hedging costs were reported as an interest expense in accordance with the previous accounting principles (FAS). The net financial expenses for 2004 also included the loss of the sale of divested businesses, totaling EUR 1.7 million.

Profit for the period was EUR 62.6 million (EUR 33.4 million). Income tax expenses totaled EUR 38.1 million (EUR 14.5 million). The increase in taxes was due to higher taxable income in 2005

arising from higher profitability and divestments. Earnings per share (EPS) increased to EUR 1.71 (EUR 0.91).

Return on capital employed (ROCE) was 12.4% (7.0%) and return on equity (ROE) was 10.7% (5.6%). As a result of lower investments in 2005 compared with 2004 the capital employed reduced slightly to EUR 947 million at December 31 (EUR 976 million).

### Healthy cash flow

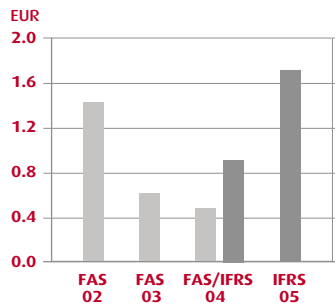
Net cash from operating activities, i.e. the cash flow after net interest expenses, taxes paid and the change in working capital, amounted to EUR 126.6 million (EUR 128.0 million). The slight reduction in spite of the improved profitability was mainly a result of an increase of working capital.

Interest-bearing net liabilities decreased by EUR 21.2 million to EUR 340.6 million as a result of the healthy operating cash flow and the divestment of assets. Dividends of EUR 62.8 million were paid to shareholders in 2005.

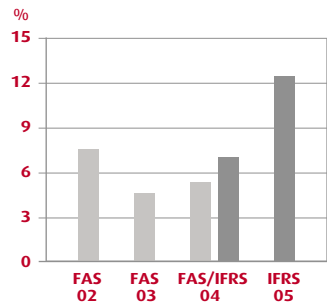
Ahlstrom's gearing (interest-bearing net debt to equity ratio) was well within the long-term target range of 50-80%, reaching 57.7% at year-end (62.3%). Equity ratio improved to 43.2% (42.0%).

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). Committed credit facilities available to the Group amounted to EUR 657 million on December 31, 2005, including a 5-year EUR 400 million syndicated revolving credit facility raised in November 2004. As of December 31, 2005, the undrawn

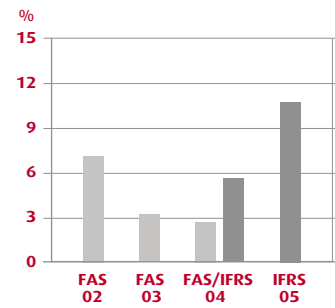
Earnings per share



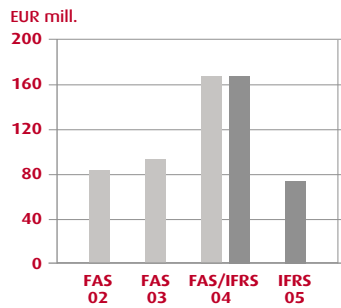
Return on capital employed (ROCE)



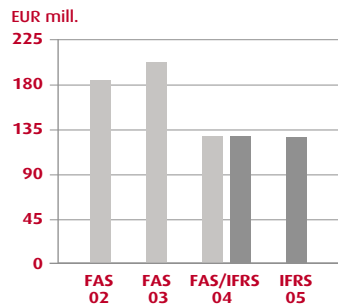
Return on equity (ROE)



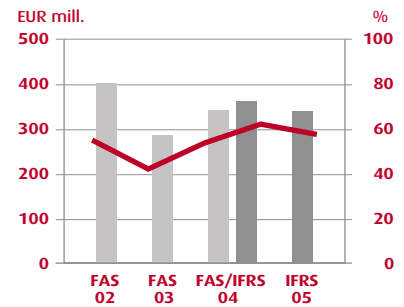
Capital expenditure (including acquisitions)



Net cash from operating activities



Interest-bearing net liabilities and gearing ratio %



amount under these credit facilities was EUR 464 million.

### Investments in growth

Capital expenditure for the year totaled EUR 62.4 million (EUR 101.0 million). Including acquisitions, capital expenditure was EUR 73.2 million (EUR 167.0 million).

The biggest investments announced in 2005 were the investments in the Turin and La Gère plants to expand the production capacity of release base papers, totaling EUR 48 million, and the investment in a new spunlace machine for wipes at the Green Bay, USA plant. In addition, Ahlstrom decided to add nanofiber production capability to its filtration portfolio in the Madisonville, USA plant and to expand the production capacity of the Mikkeli, Finland glassfiber production plant.

At the Turin, Italy plant a new fine fiber line was started in June to serve the growing air and liquid filtration markets.

At the end of 2005, the FiberComposites segment acquired the filtration business of Lantor Inc. including the manufacturing facilities in the USA and in China.

After the review period, in January 2006, Ahlstrom acquired HRS Textiles Inc., a manufacturer of specialty non-wovens operating primarily in the air and liquid filtration market.

In 2006, Ahlstrom Group's capital expenditure is expected to be significantly above the 2005 level.

### Divestments

In August 2005, Ahlstrom sold the share capital of Ahlstrom Kauttua Oy

in Finland to Jujo Thermal Ltd, a joint venture in which Ahlstrom holds a 41.7% stake. In conjunction with this divestment, the plant's paper machine 1 manufacturing face stock and wet glue label papers was transferred to Jujo Thermal. The plant's paper machine 4 continues to produce crepe papers within Ahlstrom.

In July Ahlstrom sold its hydropower station close to Turin, Italy to the Italian power company SIED S.p.A.

Ahlstrom realized a gain of EUR 17.5 million related to these two divestments.

### Financial performance by segment

#### 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 had a positive effect of EUR 2.8 million in total (non-recurring losses of EUR 7.3 million) including the sale of the company's hydropower assets in Turin, Italy.

#### 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 (in 2004, net non-recurring losses of EUR 8.9 million excluding cores & board operations).

#### Other operations and eliminations

Other operations for 2005 included corporate units in Finland, France and the United States as well as Ahlstrom's sales offices. In 2004, other operations also included Ahlstrom's Tecno Jolly and Kuban packaging plants in Italy and Russia, which were sold in October 2004. Eliminations mainly consisted of internal sales among Group companies, including the cores & board operations, which were divested at the end of October 2004.

The operating loss from Ahlstrom's other operations and eliminations in 2005 amounted to EUR 6.0 million (operating profit of EUR 1.4 million in 2004).

## QUARTERLY INCOME STATEMENT

EUR million	Q1/2004	Q2/2004	Q3/2004	Q4/2004	Q1/2005	Q2/2005	Q3/2005	Q4/2005
<b>Net sales</b>	397	405	393	372	384	403	382	384
Other operating income *	11	5	3	10	1	2	5	1
Expenses *	-366	-365	-354	-342	-338	-356	-344	-343
Depreciation, amortization, impairment charges *	-22	-22	-22	-21	-20	-21	-21	-20
Non-recurring items	-12	-3	-2	-3	1	2	12	3
<b>Operating profit</b>	8	20	19	16	29	30	34	24
Share of profit of associated companies	1	1	1	1	1	0	1	-1
Net financial expenses	-4	-3	-4	-7	-2	-4	-5	-5
<b>Profit before tax</b>	5	18	16	10	27	25	29	19
Income taxes	-2	-6	-5	-1	-9	-11	-11	-7
<b>Profit for the period</b>	3	12	11	9	18	14	18	12
Attributable to:								
Equity holders of the parent	2	12	11	9	18	14	18	12
Minority interest	0	0	0	0	0	0	0	0
Operating profit *	20	23	21	18	27	28	21	22
Operating profit, % *	5.0	5.7	5.3	4.9	7.1	7.0	5.6	5.7

\* Excluding non-recurring items

## QUARTERLY DATA BY SEGMENT

EUR million	Q1/2004	Q2/2004	Q3/2004	Q4/2004	Q1/2005	Q2/2005	Q3/2005	Q4/2005
<b>Net sales</b>								
FiberComposites	164	166	165	169	176	193	183	189
Specialty Papers (excl. C&B)	204	210	199	196	209	211	199	195
Other operations and eliminations	5	6	6	0	-1	-2	0	-1
<b>Total</b>	373	382	370	365	384	403	382	384
Cores & Board (C&B)	25	23	23	7	0	0	0	0
<b>Group total</b>	397	405	393	372	384	403	382	384
<b>Operating profit</b>								
FiberComposites	12	12	9	6	14	17	21	14
Specialty Papers (excl. C&B)	4	9	9	6	15	13	22	8
Other operations and eliminations	-1	-1	-1	4	0	0	-9	3
<b>Total</b>	16	21	18	16	29	30	34	24
Cores & Board (C&B)	-9	0	1	0	0	0	0	0
<b>Group total</b>	8	20	19	16	29	30	34	24
<b>Operating profit excluding non-recurring items</b>								
FiberComposites	13	13	9	12	12	17	18	15
Specialty Papers (excl. C&B)	10	11	9	8	14	12	8	8
Other operations and eliminations	-2	-1	1	-2	0	-1	-5	-1
<b>Total</b>	21	24	19	18	27	28	21	22
Cores & Board (C&B)	-1	0	2	0	0	0	0	0
Non-recurring items	-12	-3	-2	-3	1	2	12	3
<b>Group total</b>	8	20	19	16	29	30	34	24

# Factors affecting Ahlstrom's profitability

## **General economic conditions and demand for end-user products**

Ahlstrom's results may be affected by general economic conditions and by demand in the end-user markets and industries it serves, although these vary in different industries and geographic regions. Ahlstrom's main geographic markets, Europe and the United States represented together approximately 86% of Ahlstrom's net sales in 2005. Sales in the United States developed favorably in 2005, especially towards the end of the year, while demand in Europe remained relatively stable. Demand in the Asian markets has become increasingly important for Ahlstrom. The diversity of industries in which Ahlstrom's customers operate helps to protect Ahlstrom against particular customer industry cycles.

Ahlstrom has long-standing relationships with many customers. Consequently, product demand has been relatively predictable in the past. However, margins from products manufactured vary from one product to the other, and therefore the product mix has an effect on profitability. In addition, reductions, delays or cancellations in anticipated or confirmed orders by customers could cause Ahlstrom to incur downtime on its machines or require Ahlstrom to shift production to lower-margin products.

## **Raw materials**

In 2005, raw material costs were EUR 661.4 million and represented 47.8% of total expenses. The three most important categories of raw materials for Ahlstrom are pulp, chemicals and synthetic fibers. In 2005, pulp accounted for 50.7%, chemicals for

30.0% and synthetic fibers for 13.6% of Ahlstrom's raw material costs.

## **Fibers**

Ahlstrom Group's pulp costs in 2005 were EUR 335.0 million. As Ahlstrom does not produce wood pulp, the company's profitability is exposed to variations in pulp prices, with certain exceptions for prices of specialty pulps, which have fluctuated less in the past. The purchasing of pulp is managed on a centralized basis. Ahlstrom benefits from economies of scale in its purchasing activities by coordinating purchases across the company's business areas.

Although the price variations can often be passed on to customers with a little delay, Ahlstrom is sensitive to quick changes in the highly volatile pulp markets. Ahlstrom's goal is to limit the price sensitivity by setting firm prices, or by agreeing floor and ceiling price level contracts.

Ahlstrom also uses a wide variety of synthetic fibers in its production. The costs for synthetic fibers amounted to EUR 90.0 million in 2005. Prices for synthetic fibers are influenced by changes in crude oil prices and have increased in connection with the escalation of oil prices.

## **Chemicals**

Ahlstrom uses a wide variety of chemicals, such as latex binders, fillers, pigments and resins, in its production processes. The total cost of chemicals in 2005 amounted to EUR 198.7 million. Latex binders represent a significant share of the costs of chemicals. As petrochemical derivatives latex binders face price volatility and show strong correlation with the oil price. Historically,



prices for chemicals have been less variable than those for pulp.

**Energy**

Energy inputs, including natural gas and electricity, are important components of Ahlstrom’s production processes. Ahlstrom’s total energy costs in 2005 amounted to EUR 127.6 million and accounted for approximately 9.2% of the total expenses. Natural gas and electricity accounted for more than 90% of these energy costs. In 2005, energy prices increased especially in Western Europe. However, more than half of Ahlstrom’s electricity and gas needs in Europe, and a certain proportion in the United States, are covered by fixed price or index-linked purchase contracts for 2006. Ahlstrom aims to decrease price sensitivity through coordinated purchasing, firm price contracts, and energy savings.

The carbon dioxide emissions trading program within the European Union began in 2005. In nearly all of the EU countries where Ahlstrom has

production, the emission rights for 2005 to 2007 have already been allocated and distributed. Ahlstrom has sufficient rights to cover its present carbon dioxide emissions until 2007.

**Foreign currencies**

A large part of the Group’s cash flows, receivables, payables and loans are denominated in currencies other than the euro. In 2005, approximately 63% of Ahlstrom’s net sales were denominated in euro, approximately 31% in U.S. dollars and approximately 6% in other currencies. Changes in the U.S. dollar rates have a significant impact on the reported net sales of Ahlstrom. The effect is more pronounced in the FiberComposites segment, where over 60% of net sales for 2005 were denominated in non-euro currencies. In the Specialty Papers segment, on the other hand, only approximately 20% of net sales for the same period were denominated in non-euro currencies. In 2005, foreign currency fluctuations had a limited effect on the development of

Ahlstrom’s net sales.

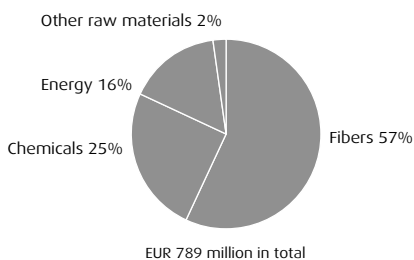
Although changes in foreign currency rates affect the reported net sales of Ahlstrom, profitability is not affected by these changes to the same extent because sales and costs denominated in the same currency offset each other. For example, a significant part of the company’s sales are denominated in U.S. dollars and Ahlstrom’s principal raw material, pulp, is also mainly priced in U.S. dollars.

In order to mitigate its currency transaction and currency translation net exposures at the Group level, Ahlstrom operates a currency hedging policy which is described in more detail in the Financial Statements under Financial Risk Management section on page 32.

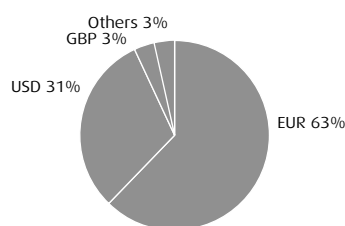
**IFRS**

Ahlstrom applied International Financial Reporting Standards (IFRS) for the first time in 2005. See the notes to the financial statement for more information on the transition to IFRS.

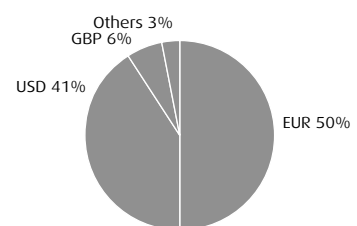
**Raw material and energy costs**



**Currency breakdown of net sales**



**Currency breakdown of expenses**



# Risk management

Ahlstrom has defined risks as uncertain events, which could have an effect on the sustainable achievement of the company's strategic and operational goals.

According to the company's policy, threats to the achievement of the organization's goals will be identified, analyzed, evaluated and responded to, in order to protect the company against loss, uncertainty and lost opportunity.

The Board of Directors is responsible for overseeing the establishment and implementation of the risk management policy and the effectiveness of risk management. The Board has delegated the responsibility for reviewing risk management principles and information regarding risk management to the Audit Committee. The CEO and the Corporate Executive Team are responsible for defining and implementing risk management procedures and ensuring that risks are taken into account in the group's strategic planning.

In Ahlstrom, the main principle is to manage risks at their source, i.e. within the business unit or function where risks may occur. To realize economies of scale and ensure proper control on the group-level, certain risk management activities are, however, centralized. These include, among others, the establishment of group-wide insurance programs and management of

the group's financial risks. In addition, the corporate and business area HSEA (health, safety, environment and asset protection) as well as IT organizations provide guidelines and review procedures for all business units and functions. Significant investments are controlled by the Investment Council before submission for approval by the CEO and the Board. Major contracts are analyzed by the corporate legal department.

In 2005, risk management issues were given further attention, and accordingly, a process to further support the Ahlstrom group risk management approach and framework was initiated by company's management. This development effort under the direction of the Chief Financial Officer includes, among other things, fine tuning of risk management principles, risk assessments in certain areas and implementation of more structured and comprehensive risk management activities group-wide. The effort is expected to enhance further the competitiveness of the business areas and the entire Ahlstrom Group by focusing attention on risks that are central to the adopted strategy.

Ahlstrom has currently classified risks affecting its operations in three

categories, which are strategic business risks, operational risks and financial risks.

## **Strategic business risks**

Strategic business risks relate to the nature of the business and are often difficult to quantify. They are often related to customer relationships, product development, efforts to maintain competitive capacity, as well as capital investments and acquisitions. In accordance with the operative organization of the company, strategic business opportunities and risks are primarily addressed by the business area and product line management.

Some of the strategic business risks that Ahlstrom is exposed relate to:

- global fiber-based materials market
- production capacity utilization
- sourcing of raw materials

## **Global fiber-based materials market**

The markets for fiber-based materials are steadily growing and highly competitive. Some of Ahlstrom's competitors have a stronger market presence and/or better financial and other resources. Ahlstrom is building its market position on a combination

of continuous innovation and long-term customer relationships. One of Ahlstrom's key strengths is its technical expertise and know-how that has allowed it to be innovative and to thereby address its customers' needs.

Ahlstrom's future growth will depend on its ability to foresee the direction of the commercial and technological progress of production processes or technologies in all of its key markets. Future growth and Ahlstrom's ability to reach its innovation targets will also depend upon Ahlstrom's ability to successfully develop new and improved products, using its existing or new production capabilities, and manufacture and market the products in changing markets. Proper R&D investments, skilled research teams and close co-operation with customers in product development has been a well working concept, producing good results for both parties.

**Production capacity utilization**

Ahlstrom's ability to utilize its production capacity efficiently may be affected by variations in customer demand or interruptions in production. Ahlstrom has a relatively versatile production base with 33 production facilities worldwide, which effectively use capacity by, for example, allowing for the redirection of resources to reflect changes in demand. Nevertheless, many of Ahlstrom's production facilities are one-machine sites with set fixed costs making utilization rates particularly important for Ahlstrom.

Ahlstrom typically only produces goods against orders received, rather than for stock. However, a variety of conditions may cause customers to reduce, delay or cancel anticipated or confirmed orders. Close customer relationships help the company to make accurate estimates of future orders and thus mitigate the risk of down-time.

**Sourcing of raw materials**

The main raw materials for Ahlstrom are various wood pulps and other natural fibers (cotton, abaca etc.) as well as synthetic fibers. Ahlstrom also uses a wide variety of chemicals (latex binders, fillers and pigments, resins, etc.) in production. Raw material (e.g. fibers and chemicals) and energy costs account for the majority of total expenses. Wood pulp prices are subject to substantial cyclical fluctuations, including the potential for rapid increases. In addition, Ahlstrom's energy costs may be subject to significant variations. Ahlstrom has to a certain extent been able to pass on increases in purchasing prices from suppliers to its customer sales prices, typically with some delay. In general, the prices payable under its supply agreements are adjusted periodically.

An interruption in the supply of raw materials or an increase in the



Focusing on the strategically most critical risk factors will further enhance the competitiveness of Ahlstrom.

prices of raw materials due to market shortages or natural disturbances could significantly affect Ahlstrom's ability to provide competitively priced products to customers at the time they are wanted. To mitigate the risk of a significant interruption in the supply of any raw materials, or a significant increase in the prices of raw materials, Ahlstrom has identified certain alternative suppliers.

### **Operational risks**

Operational risks often arise as a consequence of inadequate or failed internal processes, people's actions, systems or external events. Risks of this kind are often connected with a plant's operations, projects, information technology or infrastructure. If the risks materialize, they can lead to injuries, damage to property, interruption of operations, environmental impacts, or liabilities to third parties.

In order to mitigate operational risks, Ahlstrom has established a group-wide insurance program for risks related to property damages and business interruption, liability exposure and cargo transport.

Some of the operational risks that Ahlstrom is exposed to relate to

- Health, safety, environment and asset protection
- Human resources

### **Health, safety, environment and plant asset protection**

Site managers of the business units are responsible for ensuring that the sites comply with local regulations. In Ahlstrom, accident risks in the operations, including injuries of people and damages to property or the environment, are managed by each plant, while the corporate and business area HSEA (health, safety, environment and plant asset protection) organization provides guidelines and reviews procedures that all plants have to follow. Natural catastrophic events, to which Ahlstrom is exposed, include windstorms, floods, earthquakes, and severe winter weather that are inherently unpredictable in terms of both their occurrence and severity. Ahlstrom is also exposed to man-made catastrophic events.

Many of the company's manufacturing facilities are located on properties with a long history of industrial use, including possible use for storage and disposal of hazardous materials. Several of Ahlstrom's facilities have on-site landfills currently or formerly used for waste generated by the operations of the company or prior occupants of the site. The company believes it is in material compliance with applicable environmental and related laws.

Ahlstrom's HSEA risk management is discussed in more detail on pages 52–55.

### **Human resources**

Ahlstrom's success depends to a significant degree upon the continued contributions of its key personnel, as well as its ability to attract qualified new personnel. Ahlstrom has not had problems in the past with attracting and retaining skilled employees.

### **Financial risks**

Financial risks are managed by Group Treasury, under a Treasury Policy approved and overseen by the Board through the Audit Committee. The Treasury Policy covers funding, interest rate, foreign currency and counterparty risks.

In order to mitigate the foreign currency transaction and translation net exposures at the group level, Ahlstrom operates a currency hedging policy.

Financial risks and the hedging policy are discussed in more detail in the Financial Statements on page 32.

# Business operations

Ahlstrom reports its operations in two segments: FiberComposites and Specialty Papers. Operatively, the segments comprise five business areas.

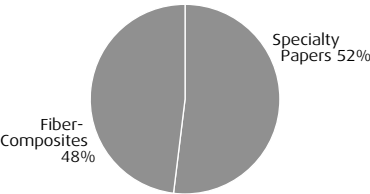
## FiberComposites

- Nonwovens
- Filtration
- Glass Nonwovens

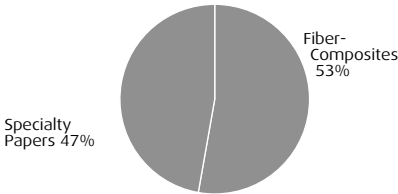
## Specialty Papers

- Label & Packaging Papers
- Technical Papers

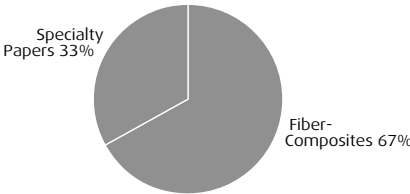
Net sales by segment



Operating profit by segment



Capital employed by segment



The graphs reflect business operations in segments in 2005.

# Protective, cleaning

Ahlstrom's FiberComposites segment manufactures nonwovens, filtration media and glass nonwovens for global customers. These innovative and tailor-made products meet customers' specific requirements with their ability e.g. to protect people and clean the environment.





# Capacity increases supported growth

The FiberComposites segment is one of the leading nonwoven roll goods producers in the world. It manufactures and supplies nonwoven fabrics, filtration media, and glassfiber reinforcements to customers in several industry sectors and geographic markets. The segment consists of a worldwide network of development, sales and marketing resources with 20 manufacturing plants on four continents. FiberComposites segment comprises three business areas: Nonwovens, Filtration and Glass Nonwovens.

The strong global position held by the FiberComposites segment is based upon its ability to offer innovative products to customers. The products incorporate a wide range of synthetic and natural fibers, making it possible to develop and customize the product

features and performance to meet specific customer needs. It is estimated that the volume of the overall market for FiberComposites segment is currently growing at an approximate annual rate of 6–7%.

The financial performance of the FiberComposites segment improved clearly compared with 2004. In 2005, the segment's net sales grew to EUR 742.3 million (EUR 663.8 million). This increase was mainly attributable to increased demand for nonwovens, especially in the North American markets, additional production capacity, more favorable product mix and increased sales prices. Operating profit for 2005 amounted to EUR 65.5 million (EUR 39.8 million) due to enhanced operational efficiency, higher sales prices and lower fixed costs.

## Eye-catching exhibition banners achieved with Ahlstrom nonwovens

Printers in the sign and display market are constantly looking for improvements in the appearance of large, nonwoven banners for exhibitions, displays and shop window decoration. The banners are produced by ink jet printing companies with machines that use water or solvent based inks and who can also print on film, PVC and paper. Printers may also convert for

end users, cutting the banner to the dimensions required.

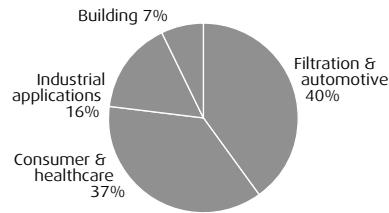
Previously only pale, pastel shades could be used on nonwovens, but printers required improved ink jet printability properties that would allow them to use more vivid colors, while flameproof properties required for indoor exhibitions were maintained.

The technical challenge for

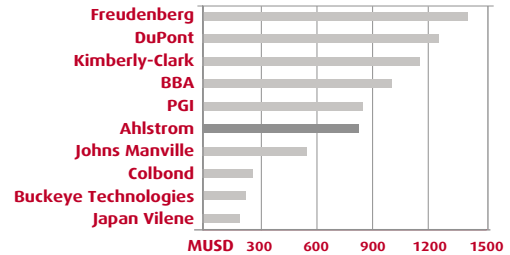
Ahlstrom was to develop a coating formulation for the nonwoven based material that would combine vivid colors with flameproof properties. The result is a range of revolutionary new coated nonwovens which combine the softness and drapeability of traditional textiles with the print quality of paper and dimensional stability and cost effectiveness of nonwovens.



Net sales by customer industry



Top 10 in nonwovens



Based on net sales. Source: Nonwovens Industry 9/2005

In addition, the operating profit of 2005 includes net non-recurring gains of EUR 2.8 million in total (non-recurring losses of EUR 7.3 million in 2004).

**Nonwovens business area**

The Nonwovens business area serves customers in the food packaging, medical, wiping, building, and technical

goods sectors.

Ahlstrom’s nonwovens are designed to provide multi-functional product characteristics and are used alone, or as components, in a variety of applications. The company seeks to build on the combination of its know-how in natural and synthetic fibers, its production techniques, and the multi-layering

of materials, to generate demand for new nonwoven and composite materials in both existing and new markets. Ahlstrom focuses especially on high value-adding product areas that offer significant growth opportunities, and where a leading position can be achieved.

Case story

In addition, the nonwovens manufactured in Brignoud, France, offer ease of conversion and high resistancy for use over several weeks.

For the first time printers are able to use really bright, attractive colors and print any kind of image or design on nonwoven based materials.



**Good growth in certain areas despite competitive market conditions**

In Europe, markets for most product applications were sluggish in 2005. However, the North American market was relatively solid with good results particularly in the wipes and medical nonwovens. Price competition was intense and there was pressure on margins. Energy and raw material prices steadily increased during the year, but the business area was able to partially offset this development by increasing its sales prices on certain products.

2005 was the first full operational year for the Green Bay, USA plant acquired in October 2004, as it was also for the Windsor Locks, USA plant's new wipes production line, which was commissioned in June 2004. This new capacity, together with overall market

growth, helped to significantly improve sales volumes.

**Productivity gains and cost reductions emphasized**

In 2005, the focus on productivity improvements and cost savings continued to sustain incremental gains. The group-wide efficiency improvement program "a plus" was widely implemented in order to improve productivity and reduce waste, thereby assisting overall cost control. One notable example of manufacturing performance improvement was at the Ställödal, Sweden plant, where productivity gains contributed significantly to the plant's profitability.

Additionally, the Edinburgh, UK office was closed to streamline the business area's market service opera-

tions in Europe.

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

**Filtration business area**

Filtration media produced by Ahlstrom are used in the transportation industry and in liquid and air filtration applications. Filtration media is produced and delivered to filter manufacturers in roll goods form. They in turn sell the finished products to producers of industrial and consumer goods.



## Synthetic media extends automotive filter life

Ever since the first long-life disposable automotive filters were created, cellulose based filter media have been an essential element in filtering efficiency. Today, they are still standard for all transportation applications, from passenger cars to heavy-duty trucks. However, due to increasingly demanding require-

ments for engines and for the life cycles of filters, filter manufacturers are turning to Ahlstrom to develop solutions that offer longer life for their air and lube filters.

In responding to these needs, Ahlstrom has leveraged its extensive knowledge of synthetic nonwovens, and its decades of experi-

ence in wet-laid forming technology, which traditionally has been used in manufacturing cellulose filter media. This has enabled the development of a 100% synthetic wet-laid nonwoven that maintains the performance characteristics of traditional filters, while extending the usable life of the filter.

Ahlstrom is the leading manufacturer of filtration media, and the company holds a particularly strong position in transportation filtration. The company also aims to further expand its presence in liquid and air filtration applications, particularly in heating, ventilation and air conditioning (HVAC) markets, as well as in water filtration and life sciences. As a result of its know-how and customer driven approach, Ahlstrom is well positioned to meet market demand for more specialized filtration media and sophisticated technical processes. Furthermore, the company continues to address increasingly stringent environmental, health and regulatory requirements.

**Asian markets driving growth**

Filtration markets experienced healthy overall growth in 2005. Ahlstrom benefited from this growth, especially with its transportation filtration materials. Net sales of filtration materials increased in 2005, while sales volumes remained stable. This development was mainly attributable to the shift in product mix towards higher value materials. Sales to specific segments of the air filtration market were strong. Since costs for raw materials and energy rose rapidly in 2005, the business area had to increase its sales prices to partially offset this development.

While the markets for transportation filters were softer in 2005 than in recent years, particularly in North America and Western Europe, Asian markets continued to expand at good

growth rates. In general, the Filtration business area successfully built market share in Europe, and recovered market share in Latin America in 2005 from the levels of the previous year.

**New production lines set up to meet demand**

A new fine fibers line serving mainly the Filtration business area 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 during the first half of 2006.

Case story

As a result, Ahlstrom's filtration media have been approved by leading filter and automotive manufacturers in Europe for their flagship models. The market for these longer-lasting filters will continue to grow along with more traditional media, since they cater to different market segments.

By combining proven and time-tested technology with newer synthetic fibers, Ahlstrom has been able to respond to market demands and bring tailored solutions to benefit its customers.



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 Fiber-Mark'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 Textiles will strengthen Ahlstrom's position in North America, particularly in the HVAC segment. Net sales of these three acquired businesses were approxi-

mately EUR 37 million in total in 2005.

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 at the Groesbeck, Texas facility in the USA. Strict control of fixed costs, together with the "a plus" performance excellence program, resulted in improved productivity and reduced waste volumes. This contributed significantly to overall cost control and to the improved financial result.

#### Glass Nonwovens business area

Ahlstrom operates within various high-end sectors of the European glass nonwoven market, and its products are used in the building, marine, transportation, windmill, and sporting goods

sectors. In certain glassfiber product markets, such as the vinyl floorings, marine and windmill sectors, the company holds a leading position.

The business area specializes in areas where it has identified opportunities to differentiate its products from those of its competitors. This ambition is achieved by combining glassfiber and nonwoven production know-how to produce specialty glassfiber products. The business area is able to provide its customers with advanced and customized solutions.

#### Slowdown in second half of the year after solid start

The overall market environment developed favorably in 2005. Demand was particularly good in the marine and windmill industries, but in certain

### FIBERCOMPOSITES

Business area	Nonwovens				Filtration			Glass Nonwovens		
	Industrial nonwovens	Food	Medical	Wipes	Transportation filtration	Air filtration	Liquid filtration	Glassfiber tissues	Glassfiber reinforcements	Specialty reinforcements
<b>Plants</b>										
Barcelona (E)					•			•		
Bellingham (USA)					•	•				
Brignoud (F)	•			•						
Chirnside (UK)	•	•	•	•						
Darlington (USA)						•	•			
Green Bay (USA)			•	•						
Groesbeck (USA)						•				
Hyun Poong (ROK)	•				•	•	•			
Karhula (FIN)								•	•	
Louveira (BR)					•					
Madisonville (USA)					•					
Malmédy (B)	•									
Mikkeli (FIN)										•
Mt. Holly Springs (USA)							•			
Stålldalen (S)	•			•						
Tampere (FIN)	•				•	•	•			
Taylorville (USA)					•					
Turin (I)					•	•	•			
Windsor Locks (USA)	•	•	•	•						
Wuxi (CHN)						•				

The overall market for the FiberComposites segment is estimated to grow by 6-7% annually.

sectors, such as building, it softened during the second half of the year. The business area succeeded in increasing its market share, notably in the marine, windmill, and also building sectors.

Despite the below-par market conditions, the business area grew both in terms of volumes and sales during 2005. Intense competition put pressure on sales prices and margins, but the business area was able to partially compensate for this effect by implementing price increases.

#### Capacity increased

The Glass Nonwovens business area was able to increase its production

capacity during 2005 for those products where demand was good. In addition to increasing production volumes, this also supported customer service. Productivity improved in 2005, and the Mikkeli, Finland plant showed particularly encouraging development.

The EUR 3.5 million investment to increase the production capacity of a glassfiber tissue line in the Karhula, Finland plant, was completed successfully during 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 expansion and new machinery and valued at

approximately EUR 5 million, enables a production capacity increase of up to 50% over the coming few years.

Ahlstrom seeks to evaluate organic investments and potential acquisitions that would expand the geographic reach of its glass nonwovens business to the Americas and Eastern Europe, where opportunities for higher growth exist. Consequently, the business area announced in March 2006 that it will invest EUR 38 million in a new glassfiber tissue plant in Tver, Russia. Currently, the business area operates two plants in Finland.

## Case story

### Successful partnerships in the marine industry since 1970's

Since the 1970's, Ahlstrom has been one of the main suppliers of glassfiber reinforcements to major European boat builders. Ahlstrom's in-depth know-how of glassfibers and their behavior in boat laminates has enabled the company together with its customers, to develop solutions with superior properties.

Glassfiber reinforcements have long been used in composite marine hull manufacturing, for leisure, commercial and naval applications.

One example of Ahlstrom's capability to meet changing market

demands is the company's cooperation with Brunswick Corporation. Brunswick is one of the leading recreational boat manufacturers in the world, with well-known marine brands such as Sea Ray, Sealine, Aquador, Bella, Flipper, Uttern, Askeladden, Valiant, Quick Silver, Arvor and Bayliner in its portfolio.

Ahlstrom has been supplying Bella Boats with glassfibers for close to thirty years.

Brunswick held its first Europe-wide bid for glassfiber suppliers in 2003. Thanks to its long, successful history with Brunswick and its affiliated companies, Ahlstrom was

chosen as a main glassfiber supplier to the whole group.

Today, environmental issues and strict quality requirements for final products are moving the marine industry towards new technologies, such as light resin transfer molding. Ahlstrom, with its high-end multi-layered flow products, is again Brunswick's choice for this critical new production development.





# High gloss, wet strength

Ahlstrom is the global leader in the specialty papers markets. Based on its extensive knowledge of fibers and chemicals, the company is able to develop label and packaging papers as well as technical papers with features offering maximum product performance.

# Profitability improved

The Specialty Papers segment comprises two business areas: Label & Packaging Papers and Technical Papers. The segment serves its customers through 13 plants and 12 product lines. The main plants are located in France, Germany and Italy.

The segment's customers represent a wide range of industries, with new product applications constantly being sought. One such development relates to recent rise in oil price that has increased the cost of plastic, consequently contributing to the competitiveness of paper-based materials. New and innovative products that are able to capitalize on market opportunities are the focus of ongoing investments.

The competitive advantage that Specialty Papers enjoys lies in the significant know-how inherited through decades of experience in this sector.

This advantage is enhanced by a commitment to work closely with customers in developing innovative solutions to meet specific application needs. Ahlstrom's extensive knowledge of natural fibers and chemicals, together with its ability to adapt them for product use, are essential factors in achieving maximum product performance.

Already one of the world's leading manufacturers of specialty papers, Ahlstrom seeks to strengthen its global position through the development of industry-leading products, investments in productivity and manufacturing capacity, and by targeting suitable acquisitions. It is estimated that the volume of the overall market for Ahlstrom's specialty papers is currently growing at an average annual rate of 3-4%.

## Advertising on anything that moves

Advertisers are constantly looking for new ways and media to promote brands and attract consumers' attention. One of the most effective new forms of communication is unconventional outdoor advertising. Cars, buses, planes - anything that moves - can be used not only as a vehicle to transport passengers, but also as a visible means of brand promotion.

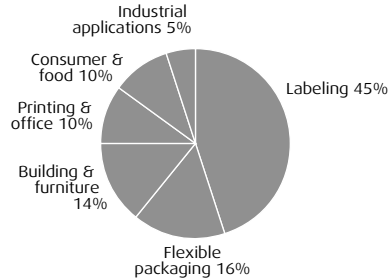
The trend began when new technology made it possible to decorate large surfaces with high quality images, quickly and at relatively low cost. Equally important, the original surface can be easily restored whenever desired.

The key to this technology is self-adhesive laminates made of a release paper backing and an adhesive film top layer.

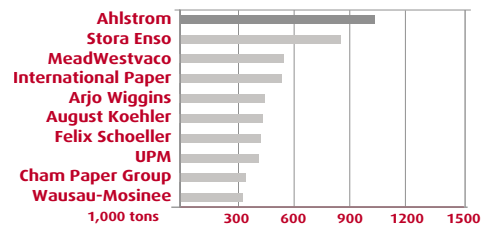
Ahlstrom, a global leader in the supply of release base papers for self-adhesive laminates, recently developed Silco™ Flat, a new range of two-side-coated ultra-flat and ultra-smooth release base papers. When coated with silicone by laminate producers, Silco™ Flat becomes an ideal backing layer for thin self-adhesive films, ensuring excellent printing quality.



Net sales by customer industry



Top 10 in specialty papers



Allocated specialty paper capacity in tons  
Source: Jaakko Pöyry Consulting, Ahlstrom

Specialty paper grades include all papers excluding newsprint, magazine, fine, tissue and sack papers.

In 2005, net sales of the Specialty Papers segment decreased to EUR 814.7 million (EUR 885.9 million) due to the divestment of cores and board operations in 2004. Excluding the divestment, net sales remained nearly stable. Operating profit for 2005 improved clearly over 2004 and amounted to EUR 57.7 million (EUR

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

Label & Packaging Papers business area

The Label & Packaging Papers business area supplies release base papers for self-adhesive applications, wet glue label papers, flexible packaging papers, metalizing papers, face stock papers and office and graphic papers. The main geographic markets for label and pack-

Case story

The extremely smooth texture of Silco™ Flat prevents any “orange peel” effect on the printed film, resulting in a brilliant and impeccable finish. The films conform to the surface and can be applied on flat or curved objects alike. When the campaign expires, they can be removed leaving no trace.

In addition to transportation vehicle advertising, other applications include reflective films for

road signs, as well as the decoration of shop windows or even entire buildings.



aging papers are Europe and the United States, but Ahlstrom is also increasingly selling products in Asia and other parts of the world.

Ahlstrom is the leading global producer of both supercalendered and clay-coated release base papers for self-adhesive applications. The main customers in the release base paper business include global and regional producers of self-adhesive laminates.

Within the label and packaging papers, specialized printers and producers of metalized papers are the main customers for wet-glue label papers. These customers supply labels to major breweries worldwide, as well as to producers of soft drinks, mineral waters, and other bottled and canned foods or beverages.

Ahlstrom holds a leading position in flexible packaging base papers, the main customers being converters offering packaging solutions to a number of food as well as non-food industries. Pet food, soap, confection-

ery, chocolate bars, yogurt and coffee are typical products that utilize flexible packaging papers.

Face stock label papers are used for the printing of self-adhesive labels used in the packaging of food and beverages, pharmaceutical products and cosmetics. The customers of these papers are very much the same as those for release base papers. The main end uses of Ahlstrom's office and graphic papers are repositionable notes, envelope windows, and photographic papers.

#### **Growth in one area offset by soft demand in the other**

During 2005, Ahlstrom's release base paper business developed very positively. This was mainly due to the growth of the self-adhesive market, notably 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.

The market for packaging and label papers remained soft during 2005. In particular, there was slow demand for flexible packaging papers, wet-glue label and face stock label papers. Conversely, metalizing label papers and certain office and graphic segments showed a positive trend.

Ahlstrom aims to grow its label and packaging business primarily through organic investments and by optimizing the efficiency and utilization of its production assets. Moreover, the company is looking for opportunities for geographic growth in the Americas and Asia through organic investments and acquisitions.

#### **Productivity gains despite the labor dispute**

The labor dispute in the Finnish paper industry had a direct impact on the production of face stock and wet glue label papers at the Kauttua, Finland plant. Fortunately, no market share was lost due to backup production in other



## Pearlescent label paper offers outstanding packaging

**Food and beverage producers compete in challenging markets, making brand identification and strengthening ever more important. New and innovative ways to achieve such product recognition are constantly being sought. Investing in packaging design is certainly one means of differentiating products, and staying ahead of the competition.**

**Ahlstrom, one of the world's leading producers of label and packaging papers, has developed a completely new pearlescent label paper that offers a significant advance in packaging possibilities. Known as Go Print Brio™, the new label paper can help distinguish customers' products from the competition.**

**The product launch took place in September 2005 at the Drinktec**

The overall market for Ahlstrom's specialty papers is currently growing at an average annual rate of 3–4%.

plants outside Finland.

In August, the Kauttua plant was sold to Jujo Thermal Ltd, a joint venture of the Nippon Paper Industries (NPI), Ahlstrom and Mitsui. The production volumes of the Kauttua plant will be gradually transferred to Ahlstrom's other sites.

The "a plus" efficiency improvement program continued to increase productivity and volumes. This was especially emphasized where additional capacity was needed, for example with release base papers. There was a trend towards improved productivity at all plants during the year.

Actions to control and reduce fixed costs continued. Price increases in

non-European weaker currency markets were implemented during the third quarter. Due to rising raw material, energy, and logistics costs, all related to the oil price, the business area also announced and implemented sales price increases in the fourth quarter.

**New investments announced aimed at increasing capacity**

Investments to increase the production capacity of release base papers at the Turin, Italy and La Gère, France plants were announced. These investments, totaling close to EUR 50 million, are both in line with Ahlstrom's long-term strategy to grow profitably by focusing on high-value adding, growing busi-

nesses. The Turin investment was successfully completed in January 2006, and the investment in La Gère will be completed in January 2007.

In addition, the business area invested in new coating equipment at the Stenay, France plant in order to improve the quality, cost and flexibility of its coated papers. Other minor investments in 2005 focused on the continuous improvement of product quality and efficiency.

**New products increasingly able to compete with plastic packaging**

Ahlstrom continues to invest in R & D activities that produce innovative, new and improved products based

## Case story

fair in Munich. This is one of the world's leading exhibitions dedicated to the beverage and liquid food industry. The launch was followed by a direct marketing campaign targeting 4,500 printers and end-users. The result was extremely positive, with a lot of interest generated and numerous requests for trial samples.

The gleaming pearlized surface of Go Print Brio™ is unaffected by

the converting and printing processes. Depending on the label design, large unprinted areas remain lustrous, and standard ink used in the printing becomes attractively pearlized as well. This makes the paper ideal for wet-glue or self-adhesive labels used for wines, spirits, beers and soft drinks, as well as for cosmetics or any other high-end product.

At the same time, the funda-

mental advantages of the paper remain unchanged. Go Print Brio™ is as rigid, printable, recyclable and biodegradable as all label papers produced by Ahlstrom. Furthermore, in addition to its labeling potential, the Brio technology offers attractive possibilities for manufacturers of flexible packaging for coffee, confectionary, soap, pet food and countless other products.

on its know-how in this field. Within the Label & Packaging Papers business area, three new innovative label papers were launched at the Drinktec fair in September, 2005 as a result of the efforts. Additionally, Silco™ Flat, a new range of release base papers for graphic applications, was developed.

In 2005, Ahlstrom also announced the development of a recyclable paper-based material for food packaging. The new product is visually attractive, easy to tear, suitable for contact with food, and compatible with the customers' existing converter machines. As a result, the product is able to compete with plastic packaging.

#### Technical Papers business area

Ahlstrom's technical papers are used in a variety of applications in many different sectors, the primary markets being

the automotive, furniture and home decoration, medical, and food industries. Product requirements and market drivers can, however, vary substantially as each specific end use requires a particular paper grade.

The main products of the business area include abrasive base papers, crepe papers such as masking tape base, pre-impregnated decor papers, coated papers such as wallpaper base and poster papers, and vegetable parchment. They are relatively similar as regards sales volumes, but wallpaper base and vegetable parchment represent a somewhat larger proportion of sales.

Ahlstrom estimates it is the leading supplier in three of its six technical paper product lines, namely pre-impregnated decor papers, vegetable parchment and poster papers, and

among the top three suppliers in its other product lines.

#### Recovery after a slow start to the year

Ahlstrom aims to grow its technical papers business primarily through organic investments and new product innovations. In order to reduce dependence on the European market, the company seeks to expand its geographic production platform to South America and Asia, where growth opportunities exist. To support this, Ahlstrom intends also to evaluate suitable strategic acquisitions.

Demand during the first half of 2005 was weaker than anticipated, reflecting the challenging business climate in the main European markets. Soft market conditions prevailed especially in the pre-impregnated decor segment and in the masking

### SPECIALTY PAPERS

Business area	Label & Packaging Papers						Technical Papers					
	Office & graphic papers	Metallizing papers	Face stock papers	Release liners	Wet glue label papers	Flexible packaging papers	Abrasive base paper	Pre-impregnated decor	Wallpaper base and poster paper	Crepe paper	Vegetable parchment	Sealing and shielding
<b>Plants</b>												
Altenkirchen (D)												•
Ascoli (I)	•	•		•	•	•						
Bousbecque (F)											•	
Chantraine (F)						•	•					
Kaattua (FIN)			•	•	•					•		
La Gère (F)				•								
Nümbrecht (D)								•				
Osnabrück (D)				•			•	•				
Pont-Audemer (F)										•		
Rottersac (F)	•		•	•		•						
Saint-Séverin (F)											•	
Stenay (F)		•		•	•	•						
Turin (I)				•						•		

tape markets (crepe papers) in Europe. Masking tape shipments from the Kauttua plant were further affected by nearly seven weeks of labor dispute in Finland. After the summer, markets began to recover and this trend gained momentum during the course of the third and fourth quarters. Sales to Asia and North America continued to grow in 2005.

Upward pressure on input costs, such as energy and chemicals, adversely affected margins during the second half of 2005. To offset this development, the business area initiated actions to improve margins.

**New products offer added sales opportunities**

A new range of decal papers was introduced to the European market. These multicoated papers, produced at

the Saint-Séverin plant in France, are mainly used in the ceramics industry for the decorative printing of tableware. Similarly, a new pre-impregnated product was launched for the decor paper market. This product is intended to replace standard decor papers in the post-impregnation phase of producing low-pressure melamine films. Also, a classical print base grade was introduced to expand the range of decor papers.

New applications for Ahlstrom's vegetable parchment products have been created in the bakery market. Certain product features of vegetable parchment, such as high heat resistance and grease proofness, have opened new opportunities for these highly sophisticated products, notably in the fast-growing quick service restaurant segment.

The Performance Enhancement program, initiated in 2004 within the segment's German operations and at one of the French plants, was continued during 2005. The business area was able to achieve substantial fixed costs reductions ahead of the plan.

**Productivity and quality improvements targeted**

Investments in 2005 were mainly focused on productivity and quality improvements. At the Saint-Séverin plant in France, Ahlstrom invested in increasing the production capacity of vegetable parchment for the growing bakery segment. Also, as a part of the program to develop the production of pre-impregnated decor papers, the business area invested in increasing the speed of PM3 at the Osnabrück, Germany plant.

Case story

Premium decal papers for platinum and gold transfers

Surface decoration of porcelain, glass and other substrates with sophisticated designs requires precision decals. Typical applications include tableware, giftware, helmets, models, toys and temporary tattoos, and to ensure a perfect decorative finish, Ahlstrom offers printers a superior paper surface for the most demanding transfer applications.

The base paper with the pre-coat is produced at the Osnabrück plant in Germany on one of the decal market's most efficient paper machines. This production line was rebuilt in 2003 to allow for excellent firing properties and short cycle times, particularly for more

difficult applications with platinum, gold and cobalt blue.

Application of the functional coatings, as well as the final converting is carried out in the Saint-Séverin plant in France. The coater at this site is state-of-the-art thanks to recent significant upgrading investments. From this site Ahlstrom is superbly placed to serve the key European ceramics markets in Germany, Italy, France and Iberia. Overall, the decal market is growing. In Asia, and China in particular, year on year increases of greater than 15% can be seen. Trends indicate a progressive substitution of the old Chinese technology using tissue paper.

In addition, the markets for white goods, sports goods and mobile phone products, utilize decal papers for decorative finishes. Rising wealth in Asia is driving domestic consumption while increasing demand for the European and US premium niche brands should also ensure a promising future for decal paper manufacturers.



# Capturing group synergies

Ahlstrom continuously evaluates its operations to identify opportunities for cost savings, improved performance of production assets, and for cross-fertilization of expertise within the Group's various operations. The aim is to capture synergies particularly within production, performance excellence, purchasing, sales and innovation.

## Significant productivity gains with "a plus" program

Ahlstrom's performance excellence program, "a plus", is designed to consolidate the know-how and experience of Ahlstrom employees, and to incorporate best practices within daily routines. The ultimate target is to ensure the smooth running of industrial operations, and a safe working environment. Ultimately, this will result in increased customer satisfaction, improved product quality, consistent and reliable services and operations, higher employee motivation, and improved financial performance.

The program is in use at all Ahlstrom sites.

## Innovations support business group-wide

Active research & development (R&D), as well as innovative products and technologies, are essential to Ahlstrom's long-term success and

competitiveness. Ahlstrom's innovations are strongly customer-oriented, and development work is done in close cooperation with the customers. The target is to have 30% of Ahlstrom's net sales generated by new or upgraded products.

Ahlstrom's global innovation function is organized at three levels. The Ahlstrom Research Corporate Center (ARCC) focuses on longer-term development projects, and works with suppliers to improve product features and identify areas for cost-savings. ARCC has a large international network that includes universities, research centers and laboratories. In addition, Ahlstrom has a total of seven R&D centers in Europe and the USA. At the product line level, the company has R&D specialists in all 22 product line teams around the world, who provide customers with day-to-day R&D services.

In 2005, a total of 187 of Ahlstrom's employees were dedicated to research and development, representing 3.4% of the overall workforce. Approximately 35% of Ahlstrom's net sales were generated from new and improved products launched during the last three years. In 2005, Ahlstrom spent approximately EUR 27 million, 1.7% of net sales, on research and development.

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. For the automotive industry, Ahlstrom has developed a web that provides sound and thermal insulation for motors. For the labeling industry, Ahlstrom introduced three new label papers.

## Centralized purchasing secures consistency in procurement

Ahlstrom's purchasing function is organized on three levels: corporate, regional and local. The main tasks of corporate purchasing are to establish the purchasing strategy, set targets, and negotiate framework purchase agreements where relevant. The regional and local purchasing functions implement the corporate purchasing strategy and place orders under the framework agreements. The local purchasing function also seeks to identify opportunistic raw material purchases.

Through its centralized purchasing organization, Ahlstrom aims to adopt a consistent approach to purchasing by focusing on limiting price volatility, and by negotiating favorable payment terms. The centralized organization can also better evaluate alternative sources of raw materials, and identify potential supply risks. Ahlstrom seeks to develop close relationships with key suppliers in order to improve its products.

## Focus on own sales channels

Ahlstrom serves customers via direct sales by its product lines, own sales offices in 22 countries and through third-party agents. The company has consistently and successfully worked to increase the portion of sales generated through its own channels. By using its own sales channels, Ahlstrom seeks to develop closer relationships with customers to initiate development of new products, and to increase sales of advanced and higher value-added products. During 2005, Ahlstrom opened a second sales office in China and new sales offices in India and Poland.

Ahlstrom's sales organization has appr. 450 employees worldwide.



## Improved efficiencies bring double digit sales growth

The La Gère, France plant is one of the sites where the "a plus" program has brought positive results. The program has been implemented in all areas of the plant, including the paper machine, the supercalenders and the finishing area, as a means of increasing operating efficiency. The high motivation and commitment of those involved, combined with great team spirit, has resulted in measurable improvements in

industrial performance as well as in customer satisfaction. Overall, there has been a marked enhancement in the quality of the products and services.

The main achievement in La Gère has been an increase of 8% in the overall equipment efficiency (OEE) of the paper machine from 2003 to 2005. Together with the optimization of the product mix, managed by the sales team, this increased efficiency resulted in

a 12% growth in annual production and sales. The direct impact on gross margin was even more remarkable.

Today, the "a plus" activities are focused on the early equipment management groups due to the ongoing capacity expansion investment. Here, the project target is to rebuild the plant's PM6 machine in order to speed up production. This work is planned for completion in January 2007.

## Very small fibers make a big difference

It is a widely acknowledged fact that in filter media, the smaller the fibers used, the better the filtration performance. Ahlstrom has again proven the truth behind this principle. In 2005, Ahlstrom commissioned a new proprietary technology known as FineFibers, to serve fuel, air and liquid filtration markets.

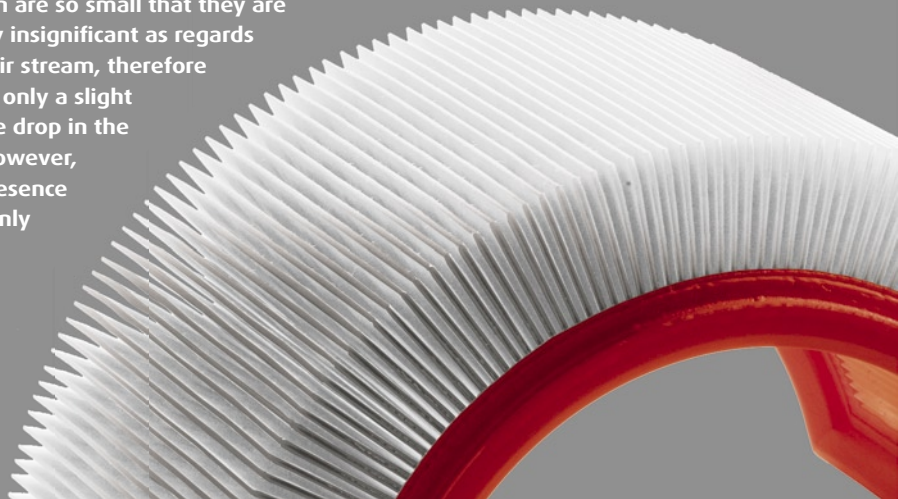
This fine fiber technology allows Ahlstrom to produce 100% synthetic filtration media with more than half of the fibers being less than one micron in size (micron = 1/1000 of a millimeter). Such fiber distribution enables the media to achieve high efficiency levels without static charging. This new Ahlstrom technology improves

the well-known melt-blown nonwoven manufacturing process.

Small fibers offer other benefits as well. In 2006, Ahlstrom will start producing filtration materials treated with nanofibers, which are produced by Ahlstrom's own process. Ahlstrom's nanofibers are less than 0.3 microns in size and represent the current state-of-the-art in filtration technology. For example, nanofibers used in air filtration are so small that they are virtually insignificant as regards to the air stream, therefore causing only a slight pressure drop in the filter. However, their presence is certainly

noticeable when it comes to the particles they trap.

Ahlstrom, with its advanced technologies, continues to push the limits of filtration efficiency while maintaining filter performance and usability. New technologies complete Ahlstrom's extensive portfolio, making the company today's most versatile filter media producer.





# Sustainability

Ahlstrom's goal is to better serve its stakeholders through continuous improvement in economic performance, social responsibility and environmental protection.





# Summary of the Code of Business Conduct

The main areas addressed in Ahlstrom's Code of Business Conduct are:

## **Compliance with the law**

Ahlstrom and its employees will abide by the letter and the spirit of all applicable laws and regulations, and will act in such a manner that the full disclosure of all facts related to any activity will always reflect favorably upon Ahlstrom.

## **Adherence to high ethical standards**

Ahlstrom and its employees will adhere to the highest ethical standards of conduct in all business activities, and will act in a manner that enhances Ahlstrom's standing as a vigorous and ethical competitor within the business community. Customer relations shall be based on honesty and trust.

## **Responsible business citizenship**

Ahlstrom and its employees will act as responsible citizens in the communities where the company does business. Ahlstrom expects its employees to be honest in dealings with fellow employees, the Company, its management, suppliers, customers and other members of the business community.

## **Avoidance of conflicts of interest**

A conflict of interest is a divided loyalty between the interests of Ahlstrom and the personal interest of the employee. Employees must not allow personal considerations or relationships, whether actual or potential, to influence them in any way when representing Ahlstrom in dealings with other persons or organizations.

## **Completeness and accuracy of books and records**

All entries made in the books, records, and accounts of Ahlstrom Corporation and each of its subsidiaries and affiliates must properly and fairly reflect the transactions being recorded, to the best knowledge, information, and belief of the employees making the entries. Ahlstrom expects open and transparent internal and external communications of the Company's information.

## **Use of Ahlstrom's name, assets and information**

The Ahlstrom name, assets and information belong to Ahlstrom and not to individual employees, regardless of position within Ahlstrom. All of the business information generated and used within the business is valuable to Ahlstrom and may be valuable to outsiders. Employees should carefully control the release of any business information, including confidential information given to Ahlstrom by a third party.

## **Human rights**

Ahlstrom is committed to maintaining a safe, healthy workplace for all employees. No employee shall be subject to any form of abuse or harassment, whether physical or psychological. Ahlstrom shall not discriminate in employment on the basis of age, gender, race, ethnicity, religious beliefs, or political affiliation.

## **The environment**

Ahlstrom shall employ state-of-the-art means for environmental protection.

The Code of Business Conduct is communicated through internal training sessions arranged by Corporate Legal Department. The entire Code of Business Conduct can be reviewed at [www.ahlstrom.com](http://www.ahlstrom.com)

# Sustainability reporting within Ahlstrom

Ahlstrom provides performance reports on all three dimensions of sustainability: environmental, economic, and social performance.

Ahlstrom follows the Global Reporting Initiative (GRI) guidelines in reporting on sustainability to the applicable level, and reports on sustainability issues as part of its Annual Report.

## Scope of reported sustainability information

Information in this sustainability section, covering pages 46–75, follows the boundaries of the annual accounts, with the exception of the environmental data, which covers all of Ahlstrom's 33 manufacturing plants. Units divested in 2005 have been excluded from Ahlstrom's accounts as of the dates of sale.

Health and safety data covers all Ahlstrom sites using the same principle. As regards asset protection programs, the priorities are determined by the asset values, the potential risks, and recommendations by insurance experts.

Ahlstrom is continuously improving and refining its sustainability data gathering systems and procedures.

## Changes in company structure in 2005

In August, Ahlstrom sold the share capital of Ahlstrom Kauttua Oy in Finland to Jujo Thermal Ltd.

In July, Ahlstrom sold a hydropower station close to Turin, Italy to the Italian power company, SIED S.p.A.

## Policies and practices on data reporting

Data concerning health, safety and the environment was collected at the various Ahlstrom sites by the persons responsible. The data was then passed to the Health, Safety, Environment and Assets directors of the business areas, who work closely with the sites to make sure that the data is collected properly and in accordance with corporate guidelines. Sensitivity checks are performed twice a year.

Environmental data is measured, calculated and reported with all facilities utilizing common practices based on the Best Available Technique Reference

Document (BREF) for the industry. BREF was issued by the European Commission in the context of the Integrated Pollution Prevention and Control Directive (IPPC) of the European Union. Health and safety data is collected at all sites and consolidated at both business area and corporate level.

Reporting principles are basically the same as previous year: Where steam and power generation are outsourced, Ahlstrom reports related CO<sub>2</sub> emissions only if they are allocated to Ahlstrom facilities in the National Allocation Plan. In 2005, Ahlstrom has taken into account the CO<sub>2</sub> credit acquired by burning renewable biofuel in waste-to-energy plant. For simplicity, this principle has been backdated to past years' figures. Where outside partners treat Ahlstrom's effluents, Ahlstrom does not report on their water pollutants. However, the total effluent volume is reported by Ahlstrom.

# Policies related to sustainability

## **Environmental policy**

Ahlstrom complies with applicable laws and regulations.

The company goal is to minimize the impact its processes and products have on the environment.

Ahlstrom acts proactively within a program of continuous improvement, with most production sites covered by ISO 14001 certification.

Continuous improvements at local site level lead to better practices globally.

The company develops its assets and processes guided by the principle of best available techniques, following the European Union directive for Integrated Pollution Prevention and Control (IPPC).

Ahlstrom strives to minimize the impact on the environment during all phases of production, storage, transportation and use of its products.

As extensive users of water and energy, the production units continuously strive to improve their efficiency in the use of these finite resources.

Ahlstrom prefers to use raw materials from sustainable resources, and cooperates with suppliers and customers in managing sustainable development.

The company strives to conserve resources through appropriate re-use or recycling.

Ahlstrom communicates openly on all matters relating to its environmental impacts.

More information on Ahlstrom's performance in environmental issues can be found on pages 60–65 of this report.

## **Corporate Human Resources (HR) policies**

Ahlstrom's values, trust in the individual, and high ethical standards are the key principles by which HR issues are handled in a professional way, and in accordance with the rules and regulations of the respective country.

The mission of Ahlstrom's HR function is to support the business by functioning proactively in partnership with management to attract, retain, develop and motivate employees in an effective and efficient way. Corporate HR policies that support the HR organization in achieving this mission, are broken down into specific procedures. The policies include individual sections related to the HR organization, recruitment, job evaluation, compensation, performance dialogues, training and competence, and the management plan.

The Corporate HR Policies are available to all Ahlstrom employees via the corporate intranet.

## **Health & safety**

Ahlstrom considers its main asset to be its employees, and the safety of people, therefore, takes priority over

all other considerations.

By recognizing that safety is the responsibility of all employees, Ahlstrom creates and maintains a safety culture built on proactive attitudes and continuous improvement, supported by the training and commitment of its employees.

Ahlstrom complies with international, national and local rules, regulations and agreements. In addition, Ahlstrom has developed its own internal standards and guidelines, with which business units are required to comply. Internal assessments are undertaken to ensure that operations comply with regulations as well as internal standards, and that they conform to the industry's best practices.

Ahlstrom communicates openly on health and safety related matters, and promotes the implementation of OHSAS 18001 or similar standards.

More information on Ahlstrom's health & safety performance can be found on pages 72–75 of this report.

## **Plant asset protection**

As a leading supplier of specialized fiber-based materials to customers around the world, Ahlstrom's target is for all plants to achieve a high level of loss control. Ahlstrom is working under a multi-year program to raise the protection of all major plants.

Plant asset risk management contributes to operational risk management by systematically improving the prevention of accidents and the protection of the company's production facilities. Most production facilities are examined once a year and continuous loss prevention and protection improvement programs are set up and reviewed. In this task, Ahlstrom is supported by the worldwide engineering capabilities of its insurers. These effects include both protective investments and "human element" loss prevention procedures such as smoking and hot work control, regular inspections, housekeeping, and fire response training.

Additional information on Ahlstrom's plant asset risk management can be found on page 53.

### **International trade (anti-bribery)**

In 1997, the nations belonging to the Organization for Economic Cooperation and Development (OECD) signed a treaty under which each member nation agreed to pass legislation that

would criminalize bribery and corruption. Consequently, virtually all developed nations around the globe have now passed laws that make bribery a criminal act. In addition, it is widely recognized that the use of bribery to obtain business usually leads to other poor business practices, and creates the danger of further extortion.

In addition to the fact that it is Ahlstrom's policy to comply with all applicable laws and regulations, the company has formulated a specific corporate policy for international trade and anti-bribery. The key principle of the policy is that Ahlstrom, its subsidiaries, officers, employees, agents and representatives shall not engage in, participate in, or encourage any act of bribery of any official of a government in order to obtain business, to secure favorable treatment, or for any other corrupt purpose. The entire policy is made available to all Ahlstrom employees via the corporate intranet.

### **Competition and antitrust**

Ahlstrom supports the idea of free

enterprise and competition. Competition and antitrust laws seek to preserve and protect competition. These laws should therefore be viewed not simply as a set of restrictions on the way business is conducted, but also as a legal tool which will further Ahlstrom's objectives.

Ahlstrom's competition and anti-trust policy sets forth the elements of European Commission competition law and US antitrust law, of which every Ahlstrom employee should be aware. The competition and antitrust policy prohibits, for example, price-fixing and other unlawful cooperation among competitors, while also providing Ahlstrom's employees with concrete practical guidelines, such as how to participate in trade association meetings.

The entire competition and antitrust policy is available for all Ahlstrom employees in the corporate intranet. Employees are encouraged to regularly review the guidelines in the policy. In addition, Ahlstrom organizes internal seminars where in-depth information on antitrust compliance is given.

## Product responsibility: A delicious cup of tea – and nothing more

When people purchase prepared foods, they have an implicit trust that the food and the containers in which they are packaged, will be completely safe and pose no health risk. Unseen to the consumer is the myriad of regulations and laws that ensure that their expectations of food safety will be met.

As one of the world's largest suppliers of tea bag papers, Ahlstrom is familiar with its food safety obligations. The principal regulatory bodies include the Food and Drug Administration (FDA) in the United States, and the Bundes-

institut für Gesundheitlichen Verbraucherschutz und Veterinärmedizin (BgVV) in Germany. Under both regulatory schemes, the general approach is the same: extraction testing must be routinely performed on tea bag papers to demonstrate that no harmful materials can be released during tea brewing.

As the inventor of teabag papers, Ahlstrom has over 70 years of experience with tea bag paper testing and compliance. The company maintains its own testing facilities to ensure the continued safety of its products and

conformance to regulatory standards. Therefore, when consumers purchase tea bags made with Ahlstrom paper, they can rest assured that they will get a delicious cup of tea and nothing more.



# Health, safety, environment and plant asset risk management

Managing operational risks covers, among other things, the health and safety of people, and the protection of the environment and assets (HSEA).

Ahlstrom's HSEA organization is headed by the Senior Vice President, Technology, who is a member of the Corporate Executive Team. The HSEA risk management organization is responsible for developing and implementing HSEA risk management strategies, setting corporate targets, and supporting business areas and sites. The management of each business area, together with local site management, is responsible for compliance with local laws and regulations, the implementation of policies, and also for managing risks to which their unit is exposed. The business area directors of Health, Safety, Environment and Asset Protection (HSEA) support plant managers in this task. The HSEA organisation works also in close cooperation with the corporate and business area investment directors, and with the director of insurance.

In addition to the external audits done in conjunction with the management systems, internal assessments

are conducted at all plants every three years. These are to ensure that policies, guidelines and standards regarding health, safety, environment and asset protection, are properly applied. The aim is threefold: to support cross fertilization of best practices between the sites, to ensure that plants adhere to the requirements of managing their health, safety, environment and asset risk management issues, and to support the principle of continuous improvement. To learn more about Ahlstrom's internal assessments, see the case story on page 55.

## Health and safety

Protection of people is Ahlstrom's key priority. The company recognizes that the number of lost time accidents is still too high and zero accidents is the ultimate target.

Applying international and local safety regulations, installing proper safety guards on equipment, applying

Ahlstrom standards and guidelines, and working according to proper safety rules are the key elements of protecting our employees and for avoiding, reducing or controlling the risks. Specific attention in these matters is paid to subcontractors.

The human element is a key factor in this field, and management has a significant role to play in the implementation of a safety culture. In many units, safety has been adopted as an element of the management bonus system, a practice encouraged by the corporate human resources function.

Safety training programs are in place in most of the units. Health and safety is also one of the key elements of the group-wide "a plus" performance excellence program. An award is given each year to the plant achieving the best safety results, and another to the one with the best safety improvement record.

**Protection of the environment**

All units are responsible for minimizing their environmental impact, and for applying existing regulations. The main potential environmental risk is water pollution.

According to Ahlstrom standards, plants are obliged to develop specific programs to avoid accidental environmental pollution, namely with hazardous materials and chemicals, as well as for hazardous operations.

In addition to the ISO 14001 audits for certified plants, Ahlstrom

also conducts internal assessments to provide recommendations for minimizing risks.

**Plant asset risk management**

The loss control program continued in 2005 by improving loss prevention at all plants, and by investing in further sprinkler equipment for enhanced protection. Currently, about two-thirds of the company's facilities are HPR (High Protected Risk) qualified by insurers.

In 2005, sprinkler installations continued at the Malmédy (B), Brignoud

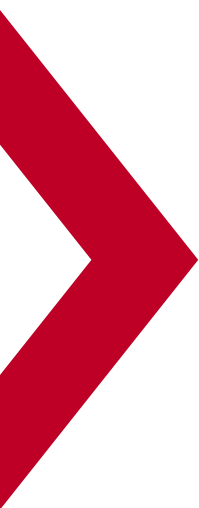
(F), Bousbecque (F), and Hyun Poong (ROK) plants. At the Chirnside (UK) and Turin (I) plants, the existing sprinklers were upgraded. Further improvements are in progress at a number of facilities. Based on the five-year loss experience, the loss control program is paying off through reduced loss frequency and severity.

**Certification of management systems**

Ahlstrom's operational risk management is supported by management

Management system	ISO 14001	ISO 9001	OHSAS 18001 or equivalent	IPPC
Implemented	20*	27	9	7
Under construction for certification according to target	7	1	No official target	

\* Including the production of PM4 of the Kauttua, Finland plant.



Ahlstrom's target is to have more than 90% of its production covered by ISO 14001 certification by the end of 2006.

systems that are committed to the implementation of continuous improvement methodology, with a wide coverage of certificates provided by external auditors.

In 2005, ISO 14001 certification was renewed at the Brignoud (F), Karhula (FIN) and Rottersac (F) plants. Recently acquired plants, such as Green Bay and Groesbeck in the USA, are actively working to become certified. By the end of 2005, 79% of Ahlstrom's production output was covered by ISO 14001 certification. With the programs that are in place today, more than 90% will be covered by the end of 2006.

Seven of the 20 plants located in Europe already comply with the European IPPC Directive (Integrated Pollution Prevention and Control). The majority of the European production sites are obliged to comply by 2007, and Ahlstrom is confident that this will be achieved.

Ahlstrom plans to have, when possible, an integrated audit (ISO

14001, ISO 9001 as well as OHSAS 18001) and signed an agreement with a certification body to use it preferentially.

Ahlstrom is committed to comply with applicable laws and regulations wherever it operates. Over and above such regulations, Ahlstrom has issued internal standards and guidelines that are to be applied, regardless of local regulations.

#### **Internal programs improving sustainability performance**

Ahlstrom has initiated water consumption and energy efficiency programs, and aims to reduce its water use per ton of product by 17% and energy input by 10%, over a period of five years between 2002 and 2007. At the end of 2005, the company had succeeded in reducing water usage only by 3%, mainly due to a change in product mix.

For the same reason, energy consumption did not reduce during the

period despite actions and investments at some sites (e.g. Windsor Locks, Altenkirchen), which have, however, contributed clearly to energy savings. These actions will continue in 2006.

The company has also focused on reducing the amount of landfilled waste and has achieved 63% reduction between 2002 and 2005.

A long-term program is in place to ensure that more than 70% of the assets will be rated HPR by insurers by 2006. With the actions taken this target will be achieved.

Internal assessments are conducted regularly at the production sites to check that they use the best available techniques for operational risk management, including health, safety, environment and asset protection.

Internal training programs, including the performance excellence program "a plus" are in place to increase awareness and capability of the employees.





## In search of recommendations instead of non-conformances

Growth, both organic and by acquisitions, has created many challenges for Ahlstrom. One is controlling risks in the areas of health and safety, environment, and assets protection (HSEA).

The method selected for implementing HSEA risk management was to develop, in line with general ISO principles, a set of internal standards and guidelines based on the industry's best practices. In order to offer practical assistance to the sites with the implementation of these internal standards and guidelines, it was decided to capitalize on Ahlstrom's inherent expertise and form teams of internal assessors. This approach had the dual advantage of enabling Ahlstrom to train its staff in assessment techniques, and thus allowing them to provide support to the plants, while at the same time providing the individual assessors the chance of experiencing industry best practices at first hand. In addition, Ahlstrom's approach enables all employees to air items of concern for consideration.

Among the plants so far assessed are the Madisonville, USA, and the Karhula, Finland plants. Glen Wooley leads the HSEA function at both the Madisonville and Taylorville, USA plants, both of which primarily produce transportation filtration media. Madisonville has been Ahlstrom's safest site for the past two years. Mr. Wooley assessed the Karhula plant, and in turn, Timo Lehto, who is responsible

for the HSEA function in Karhula, assessed the Madisonville plant.

Visiting Karhula provided Mr. Wooley with the opportunity to familiarize himself with both the different culture, and also the way in which the site manages its HSEA matters. "On completion of the assessment, we were able to make recommendations to the plant management on those areas that should be focused in order to attain further improvement. I left with a very positive feeling, and gained a lot of knowledge of an entirely different type of operation."

### Simple but effective tools

The Karhula plant manufactures glassfiber tissues and reinforcements. The working environment is very different compared with Ahlstrom's other plants, as the glass furnaces used in manufacturing glassfibers operate at 1,600° C. Consequently, HSEA is a critical part of the plant's operations.

"Our assessment looks to conclude with recommendations, rather than non-conformances, which was my experience with the ISO system," stated Mr. Lehto. "It was imperative that I kept an open mind and eyes. One has to examine how other people view and measure a problem, and consider the advantages and disadvantages of their methods. Overall, it prepares one to question benchmarks, taking into account not only Ahlstrom's standards but also the regulations, culture, and


working conditions of the plant you are assessing."

According to Mr. Lehto, it was useful to draw comparisons as Madisonville has a long history of good safety practice. In Finland, it is required to report to the authorities on an annual basis, whereas in the USA more frequent reporting is mandatory. This creates a different mindset when looking at such things as various aspects of environmental protection.

"I was able to bring back many simple but effective safety tools. The process helped my personal development by letting me see things I had not seen before, and it also equipped me to be more positive in assessing my own plant."

Both assessors emphasized the message that the assessments carried to the organization. Both felt that Ahlstrom's senior management's commitment to HSEA matters contributes strongly to the day-to-day risk management work carried out at all the sites.

"In conclusion, it's a daunting challenge to create an injury-free work environment and improve safety but as long as there is a single injury, our mission is not done," Mr. Wooley says.



# Ahlstrom's stakeholders

Since the company's operations can influence its stakeholders in a number of different ways, Ahlstrom considers it is essential to maintain a continuous dialogue with the stakeholders. Ahlstrom's key stakeholders include:

- Customers
- Employees
- Shareholders
- Suppliers
- Society, including amongst others, national and local authorities, neighbors
- Other stakeholders, including non-governmental , organizations, media, business associations, etc.

## Cooperation for more efficient infection prevention

High-performance, single use medical nonwovens have contributed remarkably on infection control in hospitals. However, global threats such as Avian Influenza, Hepatitis, HIV (human immunodeficiency virus), SARS (severe acute respiratory syndrome) and severe hospital infections such as MRSA (methicillin resistant staphylococcus aureus), are challenging the performance requirements of surgical drapes, gowns and Sterile Barrier Systems.

So with the emergence of bacteria and viruses associated with the transmission of blood-borne pathogens, the topic of infection prevention and control is on the top of people's agenda. In addition, a lack of cautiousness in healthcare

practices and the resistance of bacteria against antibiotics and penicillin attribute to this alarming situation.

It is critically important to raise awareness and educate stakeholders (e.g. medical professionals and nonwovens manufacturers) on the importance of infection prevention, on certain procedures, like the correct opening of sterilized medical devices, or the proper use and disposal of used face masks. Proper practices combined with the use of professional medical devices will lead to efficient infection prevention and clear cost savings in hospitals.

The nonwovens industry is active to improve infection prevention. As an example, EDANA, the European

Disposables and Nonwovens Association, organized In Control, an infection prevention conference in Prague, Czech Republic in March, 2006. Ahlstrom's **Tim Galekop**, Director of Global Business Development for Medical Fabrics, acted as the Chairman of the steering committee that organized this event of strong current interest.

Ahlstrom, a global manufacturer of medical nonwovens (including fabrics for surgical gowns, patient drapes) and medical crepe paper, has fought in the forefront of increased efficiency in infection prevention and will continue to support the global issue of infection control.

# Sustainability in financial figures

Economic performance should be measured not only by the company's ability to meet shareholders' expectations, but also as it relates to its wider importance within the society it operates. Ahlstrom's plants are often located in smaller communities, where the company is a major employer and taxpayer. Currently, Ahlstrom concentrates on reporting the direct economic impacts of the Group's operations.

## Direct environmental investments

In 2005, Ahlstrom invested approximately EUR 2.3 million for environmental protection. The main environmental investments focused on water treatment, water consumption reduction, solvent recovery and air emissions treatment. Ahlstrom also invested EUR 2 million for health and safety improvement at its operational sites.

Asset protection has been drastically improved over the past three years, thanks to an active investment program and human factor improvements. In 2005, Ahlstrom invested EUR

2.4 million, mainly in supporting the sprinklering program described in the plant asset management review on page 53.

At the end of 2005, Ahlstrom's environmental provisions amounted to EUR 3.7 million, the majority of it being used for landscaping dump sites.

## Donations

In 2005, the Board of Directors of Ahlstrom Corporation donated a total

of EUR 70,000 to communities and civil societies within the framework approved by the Annual General Meeting. The Board approved 16 donations. The two largest individual donations were made to support Maire Gullichsen's Art Foundation and the "Tali-Ihantala 1944" film project. In addition to the donations made by the parent company, subsidiaries within the Ahlstrom Group worldwide also made numerous donations on a local basis.

## THE MOST IMPORTANT DIRECT ENVIRONMENTAL INVESTMENTS IN 2005

Plant	EUR mill	Purpose
Hyun Poong (ROK)	0.5	Solvent recovery (1st step)
Turin (I)	0.28	Water consumption reduction
Windsor Locks (USA)	0.26	Waste water treatment, plant containment (1st step)
Osnabrück (D)	0.25	Air emission measurements
Karhula (FIN)	0.2	Waste water treatment
Louveira (BR)	0.12	Water consumption reduction
Brignoud (F)	0.1	Waste water treatment and water consumption reduction
Barcelona (E)	0.1	Waste water treatment, asbestos removal

## DIRECT ECONOMIC IMPACTS IN 2005 (compared with 2004)

### Customers

Net sales  
EUR 1.55 billion  
(EUR 1.57 billion)

### Public sector

Subsidies received  
EUR 1.7 million  
(EUR 1.2 million)

### Sources of funding

Dividends received, interest  
and other financing income  
EUR 3.2 million (EUR 5.1 million)



### Suppliers

Raw materials, energy and services purchases  
EUR 876.1 million (EUR 873.6 million)

### Employees

Wages, salaries and other personnel expenses  
EUR 313.1 million (EUR 340.1 million)

### Financial institutions

Interest cost and other financial items  
EUR 20.0 million (EUR 21.9 million)

### Shareholders

Dividends paid EUR 62.8 million  
(EUR 54.6 million)

### Public sector

Income taxes EUR 38.1 million  
(EUR 14.5 million)

# The environment





Ahlstrom strives to minimize the impact on the environment during all phases of production, storage, transportation and use of its products.

# Decline in CO<sub>2</sub> emissions continued

Environmental protection and product stewardship continues to be high on Ahlstrom's agenda. In 2005, improvements were achieved in the areas of CO<sub>2</sub> emission reductions and in the levels of waste to landfills. However, lower manufacturing production levels, coupled with changes in product mix, resulted in higher energy consumption per ton of product produced.

Ahlstrom's total gross production in 2005 was 1,092,259 tons, representing a 4.7% reduction from 2004 levels. The decrease was mainly due to market conditions, the divestment of cores & board operations in late 2004, and the sale of the Kauttua, Finland facility to Jujo Thermal Ltd in August 2005. This loss of production capacity was partially, but not fully, offset by the full year operations of the Groesbeck, New Windsor and Green Bay facilities in the USA, all three of which were acquired in 2004.

## Materials

The main raw materials used by Ahlstrom are various natural and man-made fibers. While natural fibers are considered to be the most important of the raw materials, Ahlstrom also utilizes artificial, synthetic and glass fibers, since the company has the unique capability to blend all kinds of fibers in its processes to give specific features

to its products. In 2005, Ahlstrom used 874,000 tons (847,000 tons in 2004) of virgin raw material fibers, representing a 3% increase. In addition, the company utilizes a variety of chemicals, e.g. binders, resins, fillers and pigments to produce or add value to its webs. In 2005, Ahlstrom utilized 404,000 tons of chemicals, an increase of 15% over 2004, reflecting the change in product mix and the development of new products.

## Use of waste materials

Whenever feasible and based upon the intended end-use of the product, Ahlstrom uses internal recycled material (broke) in its products. In 2005, recycled paper and non-valued material decreased to 41,000 tons from 105,000 tons in 2004. This significant drop was mainly due to the first full year of operations following the divestment of the cores & coreboard operations, whose main raw material was waste paper.

## Energy

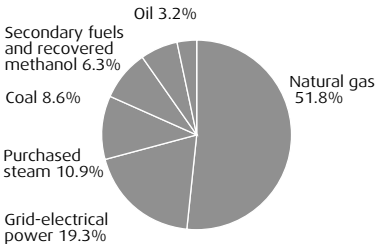
Total energy usage in 2005 remained virtually unchanged from 2004 levels and amounted to 4.49 million MWh (4.47 million MWh).

Use of natural gas as the preferred fuel continued to increase. In 2005, natural gas accounted for 51.4% of the total fuels utilized, compared with 48.6% in 2004. The use of secondary fuels (solid waste in Osnabrück and recovered methanol at the Filtration business area plants) increased by 22% from 2004 levels, and accounted for 6.3% of the energy mix.

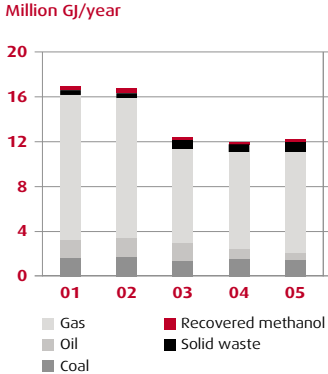
## Energy efficiency

Energy efficiency refers to the input of both electricity and heat for the drying process, divided by the gross tonnage produced. Ahlstrom has set a target to reduce energy input per ton of product by 10% over the five-year period from 2002 to 2007. The specific targets for 2005 were 1.0 MWh/ton for electricity

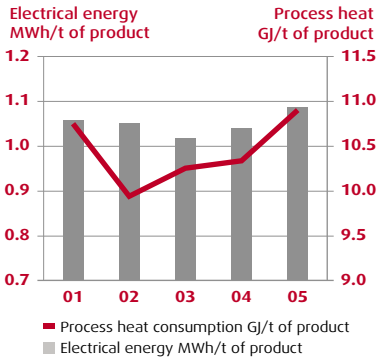
Sources of energy



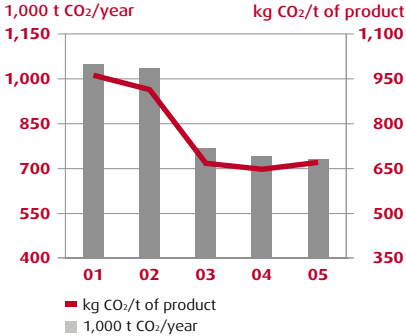
Shares of fuels



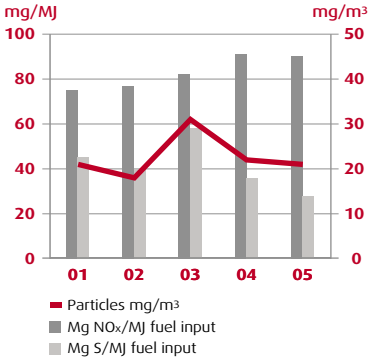
Energy efficiency



Combustion related CO<sub>2</sub> emissions



Emissions into the air: NO<sub>x</sub>, sulfur and particles



## MATERIAL USAGE

Raw material	2005 tons	2004 tons
Natural fibers <sup>1)</sup>	775,000	751,000
Chemicals <sup>2)</sup>	404,000	351,000
Paper and board <sup>1)</sup>	13,000	103,000
Other fibers <sup>3)</sup>	99,000	96,000
Recycled paper/ Non-valuated material <sup>1)</sup>	41,000	105,000
Packaging <sup>4)</sup>	25,000 <sup>6)</sup>	22,000 <sup>5)</sup>
Total (excluding fuels)	1,357,000	1,428,000

The table covers more than 90% of total material usage.

<sup>1)</sup> All paper and fiber materials are indicated in their air dried weight

<sup>2)</sup> The weight of chemicals as supplied

<sup>3)</sup> Includes synthetic and glass fibers bought, as well as the raw materials used to produce them internally.

<sup>4)</sup> Excludes pallets, as this information is not available in tons.

<sup>5)</sup> Cores not fully included

<sup>6)</sup> Cores fully included

and 9.6 GJ/ton for heat.

In 2005, energy consumption per ton was short of the established targets and has increased over the past three years. The underlying causes of this trend were low production levels and changes in product mix, with more lightweight and more energy intensive products being produced. Despite the overall increase in energy usage per ton, significant improvements were achieved at a number of individual plants:

Site	Heat	Electricity
Windsor Locks, USA	-6%	-2%
Malmédy, B	-6%	-8%
Altenkirchen, D	-13%	-7%
Karhula and Mikkeli, FIN	-9%	-9%
Green Bay, USA	flat	-12%
Rottersac, F	-1%	-13%

In 2006, Ahlstrom intends to put particular emphasis on energy effi-

ciency. A new internal database has been established whereby performance against targets will be monitored on a monthly basis. In addition, Ahlstrom will retain the services of outside energy experts to conduct comprehensive energy audits at selected sites. This approach provided positive results in 2005 at the Windsor Locks and Altenkirchen plants.

### Emissions to air

#### CO<sub>2</sub> emissions

2005 marked the inaugural year of Greenhouse Gas (GHG) Emissions trading in Europe. Under the National Allocation Plans (NAPs) adopted by the European nations, the majority of Ahlstrom's European manufacturing sites have been granted CO<sub>2</sub> allocations. While four sites (Altenkirchen, Ascoli, Barcelona and Turin) will be CO<sub>2</sub> debtors, for the year, the Ahlstrom Group's emissions as a whole are below

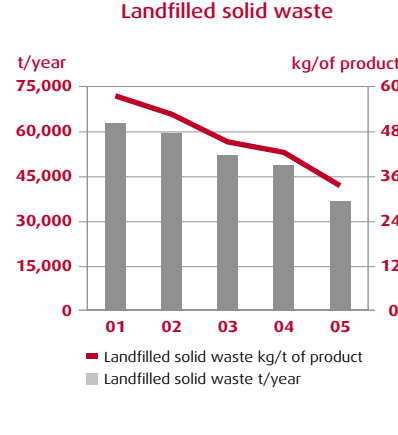
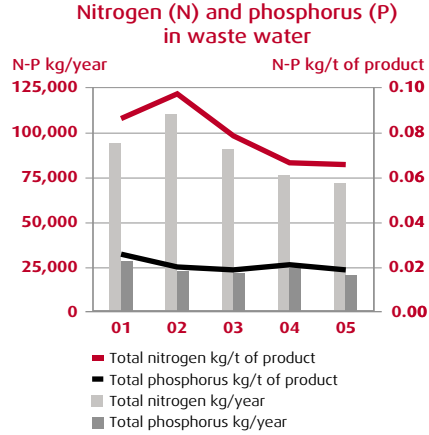
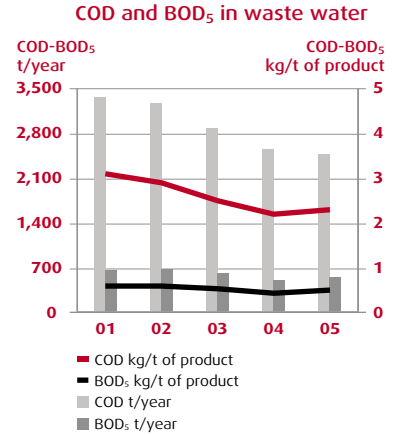
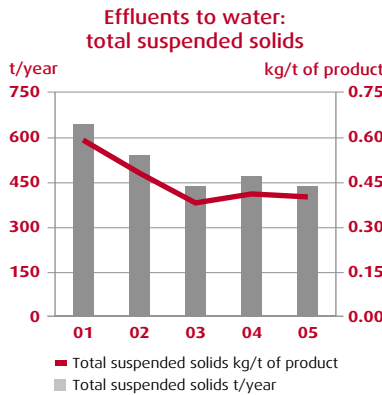
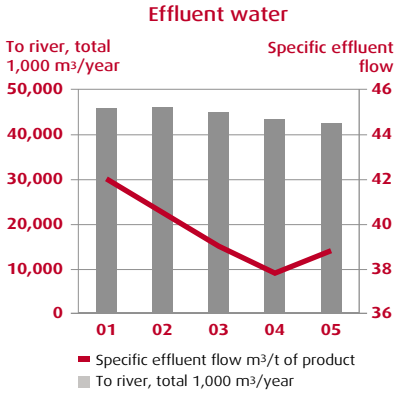
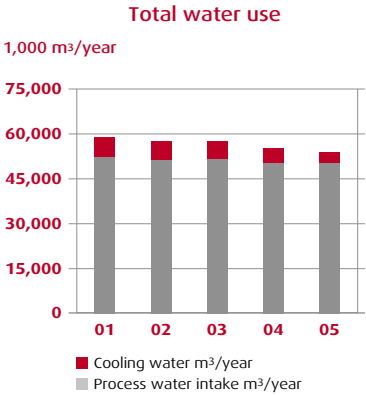
allocated levels in Europe.

Although Europe is currently the focus of GHG reduction regulations, Ahlstrom has adopted a goal of reducing greenhouse gases at all of its facilities worldwide. This approach is driven mainly by energy savings and by switching to cleaner burning fuels whenever possible. Also, under the terms of the German NAP, the Osnabrück facility in 2005 acquired a significant CO<sub>2</sub> credit (42,404 tons) for the burning of renewable biofuel in its waste-to-energy plant. For comparative purposes, graphs of past years' CO<sub>2</sub> emissions have been normalized to reflect this credit throughout the time period represented.

In 2005, total CO<sub>2</sub> emissions were 733,257 tons (742,122 tons), a reduction of 8,865 tons from 2004. As mentioned above, because energy efficiencies slid slightly in 2005, the bulk of the CO<sub>2</sub> reduction was related to lower levels of overall production and changes in the fuel mix.

Carbon dioxide emission calculations are based on fuel specific net calorific values and associated emission factors. These calorific values and emission factors are gathered from local energy suppliers and industry associations. Where National Allocation Plans stipulate and direct emissions calculations, these directives have been followed. Ahlstrom reports only its direct combustion emissions.





### NO<sub>x</sub>, sulfur and particles

In 2005, emissions of all three compounds (nitrogen oxides, sulfur oxides and particles) decreased both on a total mass basis and on a concentration basis. While somewhat driven by reduced production levels, the principle cause for the reduction was the increased usage of cleaner burning natural gas.

### Water and wastewater

The total amount of water used in 2005 was 54.1 million m<sup>3</sup> (55.2 million m<sup>3</sup> in 2004), representing a reduction of 2.1%. The reduction was caused primarily by reduced production. When

taken as a proportion of tons produced, however, water usage actually increased in 2005 to 49.5 m<sup>3</sup>/ton from 48.2 m<sup>3</sup>/ton in 2004. This level of usage is short of the target of 46 m<sup>3</sup>/ton established for the year. This shortfall relates primarily to changes in the product mix. As with energy efficiency, there will be a focus on water reduction programs in 2006, wherever technically and economically feasible.

### Wastewater

Total wastewater discharged in 2005 amounted to 42.3 million m<sup>3</sup>, (43.3 million m<sup>3</sup>), a 2% reduction from 2004. Ahlstrom has targeted a reduction of

17% over the five-year period spanning 2002 to 2007. Of the total wastewater discharged in 2005, 9% (3.8 million m<sup>3</sup>) was treated by third parties, principally local municipality operated treatment plants. The graphs indicating discharges to water reflect effluents of Ahlstrom operated treatment plants only. Pollutant loads contained in flows to outside sewers are not represented here.

Total suspended solids (TSS) in wastewater effluents totaled 434 tons in 2005 (470 tons in 2004), with a specific value of 0.40 kg/ton of product. This represents a slight improvement over the 0.41 kg/ton level recorded in 2004. The change reflects marginal

## ENVIRONMENTAL IMPACTS IN 2005

Natural fibers	775 kt
Other fiber raw materials	99 kt
Chemicals	404 kt
Recovered fibers/ non-valued material	68 kt
Paper and board	13 kt
Packaging	25 kt

Purchased electricity	3,367 tJ
Purchased fossil fuel	11,115 tJ
Utilized bio fuel	1,110 tJ
Purchased steam	1,900 tJ

Internal production power	795 tJ
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Water	54.1 million m <sup>3</sup>
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<b>Tons produced (gross)</b>	<b>1,092 kt</b>
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<b>Emissions to air</b>	
CO <sub>2</sub>	733,257 t
SO <sub>2</sub>	695 t
NO <sub>x</sub>	1,105 t

<b>Discharge to river</b>	
Water	42.3 million m <sup>3</sup>
Suspended solid	434 t
COD	2,468 t
BOD <sub>5</sub>	552 t
Phosphorus	20 t
Nitrogen	72 t
AOX	11 t

<b>Landfill</b>	
Landfilled solid waste	36,441 t

improvements in removal efficiencies at the Turin, Italy wastewater treatment plant.

#### **Biological and Chemical Oxygen Demands**

Biological Oxygen Demand (BOD<sub>5</sub>) and Chemical Oxygen Demand (COD) provide an indication of the strength of the wastewater effluent in terms of its ability to deplete oxygen from the receiving stream. In 2005, Ahlstrom discharged 2,468 tons of COD, 80 tons less than in 2004. BOD<sub>5</sub>, on the other hand, increased by 53 tons to a total of

552 tons. This increase reflects more frequent and more accurate sampling in Turin, the increased use of starch in Rottersac, and overall variations in the product mix.

#### **Nitrogen and phosphorus**

In 2005, Ahlstrom's discharge of nitrogen decreased by 5.7% from the corresponding 2004 level. The reduction in phosphorus levels was even more dramatic, dropping from 24,093 kilograms in 2004 to 20,410 kilograms in 2005, a reduction of 15%.

#### **Waste management**

In 2005, Ahlstrom was able to reduce the amount of landfilled solid waste by 21%, from 48,500 tons in 2004 to 36,441 tons in 2005. This significant achievement was driven by a three-pronged initiative:

- reduction in waste levels at the production level
- recycle/reuse efforts
- waste to energy operations.



## From waste to energy conservation

Ahlstrom believes that first and foremost, the best waste is that which never gets generated. Accordingly, waste elimination has been one of the key successes of the company's "a plus" performance excellence program. However, not all waste can be eliminated. Therefore, in order of preference, Ahlstrom looks first for beneficial recycling opportunities, both within and outside the company, followed by incineration for energy generation, with landfill as the final and least desirable option.

The Taylorville and Madisonville plants in the USA have for years searched for viable recycling options for their scrap engine filter paper. The proprietary resin coating that gives the

paper its unique filtering capability, severely limits the opportunities for beneficial reuse of the scrap. However, in cooperation with a partner company, a solution to this problem was identified in 2005.

#### **Considerable savings**

This particular partner manufactures a cellulose-based building insulation material as a more natural alternative to traditional fiberglass insulation. There are a couple of key product requirements: First, the product may not promote corrosion when in contact with steel, copper, aluminum or galvanized building materials. Secondly, the raw materials must not support fungal growth. Ahlstrom's scrap filter paper fits

these criteria perfectly. The waste that was earlier either burned or landfilled, is today finding a new use in home and building insulation, where it reduces energy usage at a lower cost than possible with traditional solutions.

Ahlstrom has benefited dramatically as well. Its Madisonville plant has been able to shut down an onsite incinerator, thereby reducing emissions, lowering natural gas usage and eliminating certain regulatory obligations. Additionally, the Taylorville plant has significantly reduced the amount of material it sends to landfill. These actions have resulted in considerable savings, once again demonstrating that what is good for the environment is also good for the business.

# Social performance

Ahlstrom's social performance reporting focuses on the company's human resources as well as the health and safety issues.



# Human Resources has a clear mission

The mission of Ahlstrom's Human Resources (HR) function is to be a proactive partner providing support to management in HR matters. In particular, the function works to attract, retain, develop and motivate employees, and to ensure compliance with legislation applicable to the HR area.

## **Focusing on global HR processes continued**

The company's global HR processes were defined in 2003, and have been given a high priority ever since. Special attention has been given to the ongoing implementation of the following key processes: Compensation & Benefits, Management Development - including Management Planning (succession planning) and Performance dialogue, and Training & Competence.

Ahlstrom strives to uphold competitive incentive programs, and in 2005 launched renewed corporate compensation programs. These programs are specially designed to support all organizational units and individual managers in reaching or exceeding their preset annual targets. The new long-term incentive plan is explained in more detail in the Corporate Governance section of this report, on page 79.

The uniform annual Management Planning (succession planning) process was again implemented throughout Ahlstrom to identify and develop

capable management resources as well as to recognize future managerial requirements and needs early. Special emphasis was placed on high potentials.

The Performance Dialogue Process also continued in 2005, as it is considered vital to Ahlstrom's overall performance. This process is designed to ensure that all of Ahlstrom's key people know and understand their roles, responsibilities and priority targets. Furthermore, it is of equal importance that motivational aspects and development needs are identified, reported and acted upon.

The overall aim of all these global HR processes is to create a positive, motivating work environment wherein Ahlstrom's employees are skilled, competent, duly recognized, and given opportunities to advance. Ahlstrom emphasizes its strong commitment to personal development through the promotion of continuous improvement of skills and competencies.

## **Global HR organization**

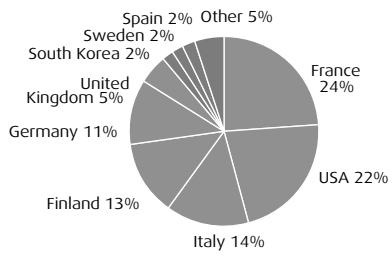
A new global HR organization was launched as of January 1, 2005. This new HR organization consists of the Corporate HR and six regions covering different parts of the world. The role of Corporate HR is to focus on enhancing management resources through advanced development programs and competitive compensation systems. Regional HR Leaders are responsible for the HR function activities within their respective regions, and for ensuring that the global HR processes are consistently implemented throughout the Group.

## **Employee opinion survey: second roll-out**

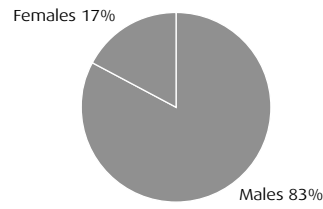
This corporate initiative was first introduced in 2004 when employees at nine plants and three offices were surveyed. In 2005, additional sites were included, and so far the majority of Ahlstrom's sites have conducted the survey.

In order to obtain a global overview, the survey's content has been identical

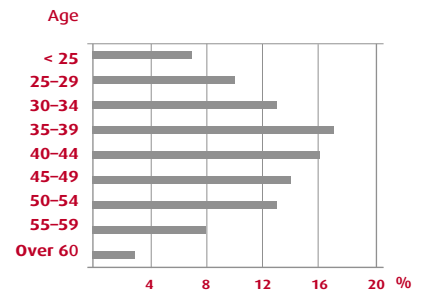
Employees by country



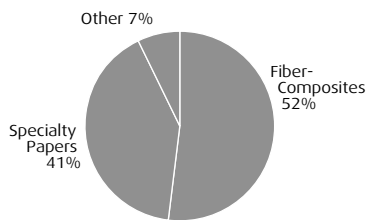
Employees by gender



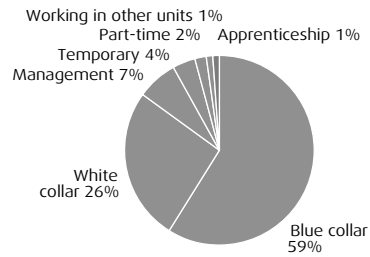
Employees by age group



Employees by segment



Employees by employment type



## KEY FIGURES

	2005	2004	2003
Number of employees at year-end	5,525	5,755	6,486
Number of employees, annual average	5,605	6,121	6,536
Net sales per employee, thousand euros	277	256	238
Average length of service, years	11.87	11.20	12.50

in all countries. However, each site has had the possibility to add some locally important questions. The surveys have measured four key indicators (satisfaction, motivation, employer advocacy and product advocacy), all of which are essential to knowing the level of engagement of the respondents. Other areas were also assessed, such as commitment, supervisors, trust, quality, the job, personal development, and the working life.

The outcome of these surveys shows clearly that one of Ahlstrom's main driving forces is the commitment of its employees to manufacturing high performance products. Another strength highlighted by the survey has been the attractiveness of Ahlstrom as an employer. Areas for improvement have been noted and acted upon through the creation of appropriate action plans and relevant discussions.

### Training and competence

Ahlstrom's training and development activities are an essential element in supporting the company's expertise in order to boost performance.

In 2005, the internal training programs, called "Stretching Knowledge", offered six different seminars all targeted at building the 'one company'

expertise. Eleven sessions were held across Ahlstrom, in Europe and the USA. The new seminar, 'Ahlstrom's Journey, from fibers to specialty materials', was developed to provide a complete and unique overview of the company's production processes. Altogether 200 employees participated in these seminars organized in 2005.

Ahlstrom's leadership development programs also continued throughout 2005. The Junior Management Program (JUMP) was attended by 24 future leaders, while 30 managers participated in the Leadership Triathlon program. Both programs are designed to measure and strengthen the participant's leadership skills.

Two sessions of the Process Kaizen Engineer (PKE) program were attended by a total of 26 engineers and professionals during the year. This intense program is today recognized as being an important managerial program in supporting performance excellence throughout Ahlstrom (see separate case story on page 71).

Ahlstrom's top management played a key role in assisting the learning process of the participants by acting either as mentors in JUMP, internal performance auditors in the PKE program, or as leadership ambassadors

in Leadership Triathlon. The personal development plan process was integrated within all the programs, and the participants were required to be active in identifying individual development needs.

### Promoting social dialogue

In order to foster relations between employee representatives and management, the annual meeting of Ahlstrom's European Dialogue (AED) was held in June.

During the first meeting day, the 19 employee representatives from eight European countries – Belgium, Finland, France, Germany, Italy, Spain, Sweden and the UK – got together to discuss topics of common interest. The employee representatives also prepared questions on topical issues, which were then discussed with the corporate management representatives during the next day's joint session. The plenum discussion elaborated on issues such as corporate-wide safety and training policies, R&D issues, as well as job security.

### Other events

Two Corporate Management Meetings (CMMs) were organized in 2005. Reinforcing the vision, innovation, performance delivery and personal accountability were the key themes of the May, 2005 meeting. This unique event brought together 108 senior managers from around the world.

The second CMM, held in November 2005, also served to inspire the attendees, with a total of 57 Ahlstrom



managers being given an overview of the company's direction and plans for 2006. The meeting culminated in an informal celebration, with three teams rewarded for their outstanding performance in "selling more".

"One Ahlstrom. Big difference!" was the theme of Ahlstrom's second Sales Network Forum held in September, 2005. This major annual event gathered 135 sales, product line and Executive Team members from around the globe, to share successes and strengthen relationships through the exchange of ideas and experiences. The ultimate goal of the meeting was: to sell more. It was also emphasized that everyone has

an important role to play in Ahlstrom's success.

#### Changes in the number of personnel

At the end of 2005, Ahlstrom had 5,525 employees, while the average number of employees during the year was 5,605. 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.

In December 2005, Ahlstrom

acquired the filtration business of Lantor, Inc. in the USA and China with 107 employees. In early 2006, Ahlstrom announced that it will acquire HRS Textiles Inc. in the USA with 120 employees.

#### Future focus

In 2006, HR will focus on the alignment of the HR practices with Ahlstrom's business strategy. The operational focus of HR will include providing an efficient HR infrastructure with state of the art processes, systems and services, and the on-going support of management and employees in their day-to-day operations.

## Process Kaizen Engineers program – key to continuous improvement of operations

Ahlstrom's Process Kaizen Engineers (PKE) program is designed for site managers and business leaders to enable them to carry out and manage initiatives that aid continuous improvements in the company's performance, such as reduced machinery set-up times, decreased levels of scrap, and fewer breakdowns.

The program helps the participants to develop skills and tools needed to manage the evolving technological environment, and to meet the challenges of their future positions. In addition, the participants become fully

qualified to lead the "a plus" processes in their respective units.

The PKE program consists of six modules, each with a specific area of focus, such as industrial engineering or quality. The theoretical phase of each module is followed by an eight-week period during which the participants carry out a project at their sites.

So far, 54 employees have completed the program since its introduction in 2003. Amongst the participants in the latest wave is **Jan Hainari-Maula**, Director, Manufacturing Excellence for Technical Papers. Mr. Hainari-Maula,

who joined Ahlstrom in 1989, is currently responsible for internal development of operations within the Technical Papers business area. He also acts as "a plus" coordinator for the business area.

In outlining the most notable benefits of the program, Mr. Hainari-Maula points out: "The PKE program supports the 'One Ahlstrom' concept by bringing the Ahlstrom way of doing things to the plant level. By introducing to all units those best practices, the PKE process facilitates the continuous improvement of our processes at all levels of operation."

## Encouraging results in injury prevention

Ahlstrom's Corporate Executive Team (CET) remains strongly committed to the process of continuous improvement within health and safety by maintaining the goal of year-on-year reduction of the Accident Frequency Rate (AFR). During 2005, sites continued to work towards their targets. As a result, the overall number of lost time accidents reduced by 10%, while the number of days lost due to occupational accidents decreased by 18.4% - despite a 5.4% increase in the number of hours worked.

Ahlstrom's improvement program was initiated in 2002. At that time, results regarding safety were poor with an AFR of 38.5. An ambitious target was set to reduce the AFR by 50% over a two-year period, and by 2004 the

AFR had been reduced to 21.7, slightly missing the target. However, the CET determined that the improvement was sufficiently encouraging, and indicated that target AFR for 2006 is 13 or below. By the end of 2005, Ahlstrom's AFR was 17.7.

The actual improvement can be quantified as 397 Lost Time Accidents (LTAs) in 2002, with 6,445 days lost. In 2005, the number of LTAs reduced to 171 LTAs with 2598 days lost. This means that 226 fewer employees were injured and there were 3,547 fewer days lost.

Ahlstrom awards annually one business unit for the best overall safety performance, and one unit for the clearest improvement in safety performance.

### **Assessments help plants to comply with guidelines**

At the forefront of this improvement was the introduction of Ahlstrom's Operational Risk Management policy in 2002, outlining the guiding principles for all sites. These principles were then defined in a series of guidelines and standards, against which all business areas and plants were required to prepare procedures to ensure compliance. The advantage of this approach was that it established a common standard capable of being implemented in a manner appropriate to the level of risk pertaining to each individual plant.

Fundamental to the improvement program is a site-by-site risk management assessment of the health, safety, environmental, and plant asset pro-

Each year, Ahlstrom awards one business unit for the best overall safety performance and one unit for the clearest improvement in safety.

tection (HSEA) situation. In 2005, this rolling three-year program continued through its second year. The objective of the assessments is to ensure that each site has a clear understanding of where they stand in comparison with the corporate HSEA standards. The intention is also to provide plant management with support and recommendations for systems development.

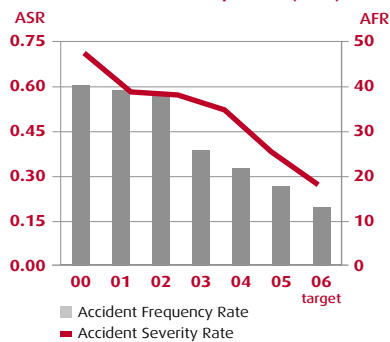
Thus far, assessments have been undertaken at two thirds of Ahlstrom's sites, and have involved 24 assessors from eight different countries.

Each assessed site has prepared an action plan and is actively working to implement the recommendations identified by the team. According to the summary reports, 57% of the elements evaluated were rated as 'excellent' or 'good', 30% were rated as 'fair', with the remainder rated as 'poor' or 'not applicable'. The assessment teams have made a total of 438 recommendations for improvements, and on the majority of these, corrective actions have been undertaken within the agreed timescale.

**Self-assessment under "a plus"**

The rapid expansion of Ahlstrom's "a plus" performance excellence program has also enabled improvements to be made in health and safety matters. Particular benefit has been derived from the use of problem-solving tools. These include the '5S' methodology for organizing, cleaning, developing, and sustaining a productive work environment, and the '4M' analysis tool, that assists teams in categorizing the many potential causes of problems or issues in an orderly way, and in identifying

**Accident Frequency Rate (AFR) and Accident Severity Rate (ASR)**



**Accident frequency rate (AFR)**

$$\frac{\text{No. of accidents that result in absence}}{\text{Man hours worked}} \times 1,000,000$$

**Accident Severity Rate (ASR)**

$$\frac{\text{Number of days of absence}}{\text{Man hours worked}} \times 1,000$$

The performance excellence program “a plus” has enabled improvements also in health and safety matters.

their root causes. The improvements generated by the “a plus” approach have fully justified the emphasis placed on this important program.

#### **Commitment to injury prevention**

A review of the processes dealing with contractors and sub-contractors to ensure that regulations and internal rules are strictly adhered to, has now been completed. With the establishment of best-practice guidelines and procedures for the each site to follow, Ahlstrom is now confident that every effort has been made to ensure the safety of its contractors and sub-contractors.

No fatal accidents of employees or contractors occurred at any Ahlstrom site during 2005. However, at the Windsor Locks, USA plant, a serious injury occurred to an employee, which

resulted in him losing a hand. To ensure that as far as possible a similar accident will not recur, a multi-national committee that included representation from the equipment manufacturer was established to undertake a full investigation and to create standards for the operation of all similar equipment throughout Ahlstrom. A program has been introduced to ensure that the recommendations of the report are implemented at all sites during 2006.

The process to identify best practices and to offer them for development by all sites has continued. For example, a system for the isolation of vehicle trailers whilst loading or unloading is underway. The creation of this simple system at one site has led to an effective, low-cost safety improvement to be promoted throughout the Ahlstrom Group.

#### **Accident reporting database established**

Ahlstrom’s Accident Reporting database was developed during 2005. The major objective of this initiative is to provide a central platform whereby sites will report accidents, incidents and statistical information. Since this initiative is compatible with the requirements of the “a plus” performance excellence program for information gathering and problem solving techniques, this system will provide an enhanced facility for the analysis of data at both site and corporate level. Trends or particular characteristics can then be addressed much more effectively through direct action by the site, or by the identification of ‘best practice’ processes or the promotion of training initiatives by the corporate team.



## Health & safety managed by the Chief Fire Officer

The Saint-Séverin, France plant has produced genuine vegetable parchment for bakery uses, fat wrapping and industrial applications for more than 100 years. At this plant, health and safety matters are efficiently handled by the local Fire Chief, Mr. Christophe Montrignac.

Mr. Montrignac manages a team of 18 firemen at the Saint-Séverin town fire station, seven of them Ahlstrom employees. He has over the years acquired solid experience in the requirements for the implementation of efficient emergency plans. These include skills in communications, organization and training.

Mr. Montrignac joined Ahlstrom in 1975. Appointed Health & Safety Officer in 2002, his current role is to analyze the plant's health & safety situation, to suggest solutions that lead to constant improvement and to educate employees on safety matters.

"My current function as the local Fire Chief is helpful in many ways at Ahlstrom. It gives me considerable credibility during training sessions with the employees, and it also means that I have some influence with management when making suggestions for improvement. Also, I have regular contacts with the local community as Chief

Fire Officer, which eases communications and understanding on both sides."

The Saint-Séverin site has very good safety procedures, the latest safety equipment, and extremely well trained employees. "The biggest strength we have at the plant in terms of health & safety is the high level of involvement by the employees. In 2004 we installed two "idea-boxes" in the coffee break areas. We received more than 255 suggestions for improvements, and the plant implemented nearly all of them, 236 in total", Mr. Montrignac explains.

## Organization-wide commitment is essential for successful safety record

In 2004, Ahlstrom acquired Green Bay Nonwovens, located in Green Bay, Wisconsin, USA. The company was a natural fit for Ahlstrom due to its strong position in the industrial wipes market. In addition, with its strong commitment to workplace safety, it matched the Ahlstrom culture. The Green Bay facility, with its 75 person workforce, has operated three years without a lost time accident.

The key to the facility's successful work safety record is the total commitment and involvement in safety issues - from top management down to individual

line workers. All employees receive safety training upon initial hiring, and monthly safety training is required thereafter. All accidents, incidents and near-misses are recorded and analyzed for corrective actions. Indeed, every employee knows that he or she has the freedom to shut down a production line for an obvious safety hazard.

The employee safety committee is very active and, among other things, maintains a list of safety projects suggested by employees. Management, in turn, grants the Committee 5,000 euros per month

to apply to the projects they deem most beneficial.

The site also takes time to celebrate successes. For every six, nine and twelve months that the workforce manages to work accident-free, there is a party with gifts and monetary rewards for each employee.

Focus areas for the future include ergonomics (materials handling) and Job Hazards Recognition Training. The track record established by the Green Bay site bodes well for continued safety success, and serves as a benchmark for the global Ahlstrom family.

# Corporate governance

In addition to applicable laws and its Articles of Association, in its corporate governance, Ahlstrom complies with the Corporate Governance Recommendation for Listed Companies issued by HEX, the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry (2003), as well as the OECD Principles on Corporate Governance (1999).

## Organization

Ahlstrom reports its business in two segments, FiberComposites and Specialty Papers. Operationally, Ahlstrom is organized into five business areas, Non-wovens, Filtration, Glass Nonwovens, Label & Packaging Papers, and Technical Papers, which are accountable for their business results and operations.

The governing bodies of Ahlstrom are the General Meeting of the Shareholders, the Board of Directors and the President & CEO. In addition, the company has a Corporate Executive Team, which is not a body under the Finnish Companies Act, and which operates within the mandate of the President & CEO.

The parent company of the Ahlstrom Group, Ahlstrom Corporation, is responsible for the administrative,

business development, accounting, finance and legal functions of Ahlstrom and also provides corporate services to the other group companies.

## Annual General Meeting

The General Meeting of the Shareholders is the ultimate decision-making body of Ahlstrom, and normally convenes once a year. Certain important matters, such as amending the Articles of Association, approval of the consolidated Financial Statements, approval of the dividend, election of the members of the Board of Directors and the auditors fall within the sole jurisdiction of the General Meeting of Shareholders.

In 2005, Ahlstrom Corporation held its Annual General Meeting of the Shareholders in Noormarkku, Finland on May 13, 2005. An Extraordinary General Meeting of the Shareholders was held on December 13, 2005.

The notice to the Shareholders' Meetings is published in a Finnish language as well as a Swedish language newspaper published in Helsinki, Finland. Information regarding the General Meetings of the Shareholders is also posted on the internet site of the company. The Annual Report

of the company is sent on request to shareholders prior to the Annual General Meeting. The announcements of the company are posted on the internet site of the company.

## Board of Directors

The Ahlstrom Corporation Board of Directors (Board) consists of a minimum of five (5) members and a maximum of seven (7) members. The Annual General Meeting confirms the number of members of the Board, elects them, and decides on their compensation. The mandate of each member of the Board expires at the end of the Annual General Meeting immediately following their election. There are no limitations as to the number of terms a person can be member of the Board and no maximum age. Presently the company has seven (7) board members among which the Board has elected a Chairman and Vice Chairman. All of the board members are non-executive. The board considers all of the board members independent from the company and its major shareholders.

The Board has general authority to decide on and act in any matters not reserved by law or under the provi-

sions of the Articles of Association to any other governing body of the company. The Board is responsible for the company's administration and the due organization of its operations. It confirms the company's long-term business strategies and approves the company's business plans and annual plans. The Board decides on major capital expenditures, acquisitions and substantial divestments of assets as well as approves the general framework for other capital expenditures. It also monitors the company's performance and human resources development. Each board member receives a monthly performance report from the company, including financial data and management comments. The Board appoints and dismisses the President & CEO of Ahlstrom Corporation and his deputy.

Most of the Board meetings are held at the corporate head office in Helsinki, but from time to time the Board also visits other locations of the company and holds meetings there. If

necessary, the Board also holds telephone meetings. The Board annually holds a two-day strategy meeting. The General Counsel of Ahlstrom acts as Secretary to the Board. In 2005, the Board convened ten (10) times, including two (2) meetings held as telephone meetings. The average attendance frequency was 98.6%.

The Board has established and approved Rules of Procedure of the Board to be a complement to the Articles of Association and Finnish applicable laws and regulations. The main principles of such rules are described in various parts of this Corporate Governance section.

The Board makes a self assessment of its performance, practices and procedures annually, by each board member filling out a questionnaire. The response of the board members is compiled, and discussed in a subsequent board meeting, and actions are taken to address the issues raised.

The remuneration of the Chairman, as decided by the 2005 Annual General

Meeting, was EUR 4,850 per month and EUR 2,425 per month for the other members of the Board. In addition, each member of the committees receives EUR 1,050 for each committee meeting in which he participates. None of the board members receives any other remuneration from the company than that based on board membership. There is no pension scheme for board members.

#### Permanent Committees

The Board may appoint permanent committees and establish their working procedures. These committees report to the Board. In 2005, the Board appointed two committees, the Compensation Committee and the Audit Committee.

According to the Rules of Procedure of the Board, the Compensation Committee decides on the compensation and benefits of the persons reporting to the President & CEO. In 2005, the members of the Compensation Committee were Johan Gullichsen (Chairman), Mikael Lilius (until May 13,

#### SALARIES, FRINGE BENEFITS AND BONUS PAYMENTS IN 2005

EUR	Salaries and fringe benefits	Bonus payments	Total
Board members	257,430		257,430
Jukka Moisio, President and CEO	500,882	87,500	588,382
Other members of the Corporate Executive Team (CET)*	2,160,188	356,078	2,516,266

\* The number includes the salaries, fringe benefits and bonuses paid in 2005 to those being CET members on January 1, 2006.

2005), Urban Jansson (from May 13, 2005) and Willem F. Zetteler. The Board in corpore decides on the compensation and benefits of the President & CEO. In 2005, the Compensation Committee convened three times.

According to its Charter approved by the Board, the Audit Committee assists the Board in fulfilling its oversight responsibilities. It reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the committee will maintain effective working relationships with the Board, management, and the internal and external auditors.

The Audit Committee shall regularly update the Board about Committee activities and make appropriate recommendations. The Committee shall ensure that the Board is aware of matters which may significantly impact the financial condition or affairs of the business. All Board members receive copies of the minutes of the Audit Committee meetings, and an oral report from each committee meeting is given to the board by the Chairman of the Audit Committee.

The members of the Audit Committee in 2005 were Peter Seligson (Chairman), Jan Inborr, Urban Jansson (until May 13, 2005), and Bertel Paulig (from May 13, 2005). All of the members must be independent of management and should each be

capable of making a valuable contribution to the Audit Committee. In 2005, the Audit Committee convened seven (7) times.

### **President & CEO**

The President & CEO is in charge of the company's operations and administration. He is accountable to the Board for the achievement of the goals, plans, policies and objectives set by the Board. He prepares matters to be decided on by the Board and carries out the decisions of the Board. The President & CEO is the Chairman of the Corporate Executive Team.

The total remuneration of the President & CEO's, including fringe benefits and bonuses, was EUR 588,382 in 2005.

The President & CEO is participating in a voluntary collective pension insurance to which both he and the company make contributions of equal size. The annual maximum contribution of the company is one month's base salary of the President & CEO. According to the terms and conditions of the pension insurance the President & CEO may retire at the age of 60, at the earliest. The President & CEO's contract, which has been made in writing, may be terminated by either the President & CEO or the company with six (6) months' notice. In the event the company terminates the contract without cause, the company shall pay to the President & CEO a severance payment corresponding to eighteen (18) months' salary.

The company at this point of time

does not have a Deputy of the President & CEO.

### **Corporate Executive Team**

The Corporate Executive Team (CET) consists of the corporate top management as well as business area and functional leaders. The members of the CET are proposed by the President & CEO and appointed by the Board. The General Counsel of Ahlstrom acts as Secretary to the CET. The members of the CET report to the President & CEO. In total, there were eleven (11) members of the CET in the beginning of 2006.

The role of the CET is to support the President & CEO in performing his duties and to align the business organization and functions. Within the framework given by the Board, the CET monitors business performance, implements strategy and direction, initiates actions and establishes policies and procedures.

The total remuneration of the members of the CET, including salary, fringe benefits and bonus, was EUR 2,516,266 in 2005. The remuneration of the President & CEO is not included in the figure. According to the Short Term Incentive Plan approved by the Board, the annual bonus payable to a member of the CET is performance based and can as a maximum amount to the equivalent of 40-60% of his annual base salary. The CET members are also participating in the Long Term Incentive Plan approved by the board.

No separate remuneration is paid



to the President & CEO or the other members of the CET for membership on governing bodies of group legal units or associated companies.

The company has not given any guarantees or other securities on behalf of the members of the CET or the Board.

### Stock options for management and key persons

On September 26, 2001, in conjunction with the approval of Ahlstrom Paper Group Oy's merger with Ahlstrom Corporation, the Extraordinary General Meeting of Shareholders decided to exchange the shares and stock options in Ahlstrom Paper Group Oy owned by the top management to shares and stock options in Ahlstrom Corporation. 70,219 shares and 659,448 stock options were issued. According to the terms of the stock option program the subscription period for shares starts not earlier than May 1, 2002 and ends on April 30, 2006. Each stock option gives its holder the right to subscribe for one share in Ahlstrom Corporation.

In the same Shareholders' Meeting it was decided to issue 1,092,620 new stock options to management and key employees that did not participate in the first stock option program. According to the terms of the stock option program, the subscription period for shares starts not earlier than May 1, 2003 and ends on April 30, 2006. The subscription period does not, however, commence before the shares in Ahlstrom Corporation have been

listed on the HEX, Helsinki Exchanges or another stock exchange for two months. Each stock option gives its holder the right to subscribe for one share in Ahlstrom Corporation.

According to the terms of both stock option programs the subscription price of a share subscribed with a stock option is EUR 16.13 decreased by the amount of dividends per share distributed after January 1, 2002 and prior to the share subscription. Accordingly, as of December 31, 2005, the subscription price was EUR 11.01.

If Ahlstrom has not been listed by January 2006, the option holders may request the company to redeem their options, whereupon the company has an obligation to redeem the options of the option holders who have made such a request. The redemption price is the difference between the fair market value of the Ahlstrom share, as established by an independent expert, and the subscription price.

On December 31, 2005 in total 319 990 stock options were held by management.

On December 13, 2005, the extraordinary shareholders' meeting resolved to amend the terms of the stock option programs:

The share subscription period of the Option Program I was extended to expire on April 30, 2007. Moreover, it was decided to extend the period during which the option holders may demand redemption of the options until May 31, 2007. Accordingly, the option holders shall be entitled to demand

that the Company redeem the options, provided that the Company has not been listed on the stock exchange by March 31, 2007. For the redemption, the Company must receive a written redemption request from the option holder by May 31, 2007.

The share subscription period of the Option Program II was changed to commence on January 1, 2007 and to expire on April 30, 2007. The subscription period will, however, not commence until the listing of the Company has occurred. It was also decided to extend the period during which the option holders may demand redemption of the options until May 31, 2007. 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. For the redemption, the Company must receive a written redemption request from the option holder by May 31, 2007.

Holder of stock options in both programs (I and II) must confirm their acceptance of the new terms and conditions for the stock options in writing to the Company no later than January 31, 2006. If the Company does not receive a holder's written confirmation by January 31, 2006, the old terms and conditions continue to apply to that holder's stock options.

On October 27, 2004, the board approved a new Long Term Incentive Plan for key employees. During the period 2005-2007, each participant in the plan will each calendar year have

the possibility to earn a predetermined maximum number of synthetic stock options based on which category the person in question belongs to. The actual number of options received for each year separately is based both on the performance of the Group (EPS) and the personal performance of the participant. The value of the options is based on the development of the value of the Ahlstrom share during a three-year period. The pay-out, which is made in cash during the third year following the year for which the options have been earned, is determined by multiplying the number of options received with the change in the value of the Ahlstrom share. The value of the Ahlstrom share is determined by an independent expert if the Ahlstrom share is not publicly listed.

The maximum aggregate number of options to be earned during 2005-2007 is 2,002,500 and the dilution is 5%. The number of participants at the end of 2005 was 104. The President & CEO has the possibility to earn maximum 40,000 options per year while the other members of the CET have the possibility to earn maximum 20,000 options annually. If the Ahlstrom share is publicly listed, the recipient should invest at least 20% of the annual pay-out in Ahlstrom shares. Each CET member should invest 20% of the pay-out until the value of the shares owned by the CET member amounts to his annual base salary. In total 205,884 options were earned by management for 2005.

### **Insiders**

Ahlstrom follows the Guidelines for Insiders issued by the Helsinki Stock Exchange, complemented by the company's own Insider Rules approved by the Board. The company maintains its public and company-specific insider registers in the Finnish Central Securities Depository's SIRE system.

In accordance with law, Ahlstrom's public insiders include the members of the Board, the President & CEO and Auditors as well as certain members of the Corporate Executive Team. Ahlstrom's list of company-specific permanent insiders includes individuals who are defined by the company and who regularly possess insider information due to their position in the company.

Persons listed as permanent insiders may not trade in the company's securities within the three (3) weeks immediately preceding the publication of the company's interim reports or financial statements release.

The company's legal department also maintains a project-specific insider register when necessary. Project-specific insiders are prohibited from trading in the company's securities until the termination of the project.

### **Audit**

The Annual General Meeting of the Shareholders re-elected KPMG Oy Ab as the company's auditor and Sixten Nyman, Authorized Public Accountant, as the auditor in charge. The fees of the statutory audit for 2005 were EUR

824,044 in total in the Group. Other fees charged by the firm of auditors amounted to EUR 630,259 in the Group. The other fees were primarily related to tax advice, acquisitions and the adoption of the IFRS accounting principles.

### **Risk management**

The objective of Ahlstrom Corporation's risk management is to support the achievement of agreed targets while avoiding unwanted operational and financial events, including lost opportunities. The Board of Directors has the ultimate responsibility for the Group's risk management. The Board has delegated to the Audit Committee the responsibility for reviewing management's reports and information regarding business risk management. The President & CEO and the Corporate Executive Team are responsible for defining and implementing risk management procedures and ensuring that risks are taken into account in the Group's strategic planning.

In Ahlstrom, risks are generally managed within the business units or functions where risks may occur. To realize economies of scale and ensure appropriate group-level control, certain risk management activities, particularly the management of financial risks and administration of insurance are centralized. In 2006, Ahlstrom will further develop its risk management approach. The company has currently classified risks that may affect its operations in three categories, which are strategic business risks, operational risks and

financial risks. Risk management is discussed in more detail on pages 24-26. Financial risks are discussed in more detail in note 24 to the consolidated financial statements.

#### Internal Audit

The Ahlstrom Internal Audit is responsible for assessing and assuring the

adequacy and effectiveness of internal control in the company. The Internal Audit is granted free and unrestricted access to all relevant company units, functions, processes, records, property and personnel. The Head of the Internal Audit administratively reports to the Chief Financial Officer, but on audit matters, the Internal Audit reports

to the management and to the Audit Committee.

#### SHAREHOLDINGS AND STOCK OPTIONS OF THE BOARD AND MANAGEMENT ON DECEMBER 31, 2005

Board of Directors	Shares	Stock options
Johan Gullichsen	634,451	-
Sebastian Bondestam	100	-
Jan Inbarr	9,159	82,431
Urban Jansson	-	-
Bertel Paulig	-	-
Peter Seligson	225,538	-
Willem F. Zetteler	-	-
	869,248	82,431
<b>Corporate Executive Team</b>		
Jukka Moisio	15,265	137,385
Gustav Adlercreutz	3,053	27,477
Risto Anttonen	3,053	27,477
Tommi Björnman	0	9,044
Diego Borello	3,053	27,477
Randal Davis	0	9,044
Claudio Ermondi	0	9,044
Leif Frilund	3,053	27,477
Patrick Jeambar	3,053	27,477
Jari Mäntylä	0	9,044
Laura Raitio *	0	9,044
	30 530	319,990
The Board of Directors and management in total	899,778	402,421

\* including Laura Raitio, member of the Corporate Executive Team as of January 1, 2006

Johan Gullichsen



Urban Jansson



Sebastian Bondestam



Jan Inbarr



Bertel Paulig



Peter Seligson



Willem F. Zetteler

### Johan Gullichsen

born 1936, M. Sc. (Chemical Eng.) 1962, Åbo Akademi University, D.Tech h.c. 1988, professor emeritus, Helsinki University of Technology; owner of Arhippainen, Gullichsen and Co

**Chairman of the Board** 1987-98 and since 1999. Board member 1972-98 and since 1999

**Member:** the Finnish Academies of Technology (FACTE), the Swedish Academy of Engineering Sciences (STV), the Royal Swedish Academy of Engineering Sciences (IVA), the Technical Association of the Pulp and Paper Industry (TAPPI)

#### Other key positions of trust:

Chairman: the Walter Ahlström Foundation, the Runar Bäckström Foundation

Vice Chairman: the Maj and Tor Nessling Foundation, the Walter and Andrée de Nottbeck Foundation and the Millennium Technology Prize Foundation

#### Primary work experience:

Professor in Pulping Technology, Helsinki University of Technology, 1989-99, founder and CEO, Arhippainen, Gullichsen & Co, 1970-, project engineer, Ekono, 1964-70, scientist, Finnish Pulp and Paper Research Institute (KCL), 1962-64

### Urban Jansson

born 1945, Higher Bank Degree, 1972, Director

**Vice Chairman of the Board** since 2005  
Board member since 1999

**Chairman of the board:** Siemens AB, Tylö®

**Vice chairman:** Plantasjen A/S

**Board member:** Addtech, CapMan Plc, Clas Ohlson, Eniro, Ferd A/S, HMS, SEB

**Other key positions of trust:** member of Stockholm Stock Exchange Listing Committee

**Primary work experience:** President & CEO, Förvaltnings AB Ratos, 1992-98, Executive Vice President, Incentive Group, 1990-92, President and CEO, AB HNJ Intressenter (subsidiary of the Incentive Group), 1984-90, different positions, Skandinaviska Enskilda Banken, 1966-84

### Sebastian Bondestam

born 1962, M.Sc. (Eng.) 1989, Helsinki University of Technology, Converting Director – Converting EU Clusters, Tetra Pak

**Board member** since 2001

**Primary work experience:** Vice President - Converting Americas, Tetra Pak Asia & Americas, 2001-04, Converting Director, Americas, Business Unit Tetra Brik, 1999-2001, Production Director, Tetra Pak, Wrexham, UK, 1997-99, Factory Manager, Tetra Pak, Foshan, China, 1995-97

### Jan Inbarr

born 1948, B.Sc. (Econ.) 1970, President and CEO of Ahlström Capital Oy

**Board member** since 2001

**Chairman of the Board:** Enics AG, Vacon Plc

**Vice Chairman of the Board:** Å&R Carton AB

**Board member:** Nordkalk Corporation

#### Other key positions of trust:

Board member: Stiftelsen för Åbo Akademi

**Primary work experience:** President and CEO, Ahlstrom Paper Group, 1996-2000, Deputy to the Group President and CEO, Ahlstrom Group, 1994-2000, Member of the Executive Board, Ahlstrom Group, 1985-2000, various managerial positions, Ahlstrom Group, 1972-1984

### Bertel Paulig

born 1947, M.Soc.Sc. (macro economics) 1969, Executive Chairman of Paulig Ltd

**Board member** since 2005

**Chairman of the Board:** Paulig Ltd, Veho Group Oy Ab, Economic Information Office

#### Other key positions of trust:

Board member: Aseman Lapset ry, International Chamber of Commerce Finland, National Board for Economic Defence, Central Section

Treasurer: Institute for Scientific Information on Coffee (ISIC)

**Primary work experience:** Executive Chairman, Paulig Ltd, 1997-, Chief Executive, Paulig Ltd, 1986-97, Deputy Managing Director, Oy Gustav Paulig Ab, 1982-86, Managing Director, Finnboard (UK), 1979-82, various assignments, Finnboard 1969-78

### Peter Seligson

born 1964, Lic. Oec. (HSG) 1986, Partner of Seligson & Co Oyj

**Board member** since 1999

**Chairman of the Board:** Broadius Partners Oy

**Board member:** Atine Group Oyj, Aurajoki Oy

**Member:** Folkhälsan

**Other key positions of trust:** Chairman of Skatte- och Företagsekonomiska Stiftelsen

**Primary work experience:** Managing Director, Alfred Berg Finland 1991-1997, Head of Sales and trading, Arctos Securities 1987-1991

### Willem F. Zetteler

born 1945, B.Sc. (Econ.) 1971, former President and CEO of Otrá N.V.

**Board member** since 2001, member of the Ahlstrom Paper Group Board 1998 - 2000.

**Board member:** Trespa International B.V., Mercurius Groep B.V., PontMeyer N.V., Pearle Europe B.V., Kon. Ahrend N.V., Hoogland & Masee Holding B.V.

**Primary work experience:** President and CEO of Otrá N.V. 1996-99, Member of Executive Board of Sonepar Distribution 1998-99, Member of Executive Board of Otrá N.V. 1995-96, Managing Director and CEO, Koninklijke KNP BT's paper merchanting division, 1993-95, Managing Director and CEO, Corrugated Europe B.V. 1990-93, Managing Director, KNP Royal Dutch Paper mills in Belgium 1985-90, Managing Director, Proost & Brandt, 1982-85, various managerial positions at Fri-Jado-Wilmeta (OGEM) and Rank Xerox, 1971-82

Gustav Adlercreutz

Risto Anttonen

Jukka Moisio

Tommi Björnman



Randal Davis



Diego Borello

Claudio Ermondi



Leif Frilund

Laura Raitio

Patrick Jeambar

Jari Mäntylä

**Jukka Moisio**

born 1961, President and CEO of Ahlstrom Corporation, M.Sc. (Econ.), MBA

**Previous major positions:**

Executive Vice President and Deputy to the President & CEO of Ahlstrom Corporation (2003-2004). From 2000 until 2004 he worked as President of the FiberComposites division. Previously, he was the CFO and Director of Business planning for Ahlstrom Paper Group. Before joining Ahlstrom in 1991, Mr. Moisio worked as an Associate for McKinsey & Company.

**Gustav Adlercreutz**

born 1957, Senior Vice President, Administration, General Counsel, LL.M.

**Previous major positions:**

Group Director, General Counsel of Ahlstrom Paper Group (1996-2000). From 1984 until 1995 he was Corporate Legal Counsel at A. Ahlstrom Corporation. Prior to joining Ahlstrom in 1984, he was an Associate at Roschier-Holmberg & Waselius Attorneys-at-Law.

**Positions of trust:**

Chairman of the Board: Jujo Thermal Oy  
Board Member: Oy Sandman-Nupnau Ab, Suomen Vaimennin Oy, Suomen Autotuote Oy

**Risto Anttonen**

born 1949, Senior Vice President, Commercial Operations, B.Sc. (Econ.)

**Previous major positions:**

President of Ahlstrom's Specialties division (2001-2003) and of the former Industrial Products division (1999-2001). Prior to that, he was Managing Director of Ahlstrom Alcore Oy. Before joining Ahlstrom in 1991, he was Managing Director of Norpe Oy.

**Positions of trust:**

Board Member: Ensto Oy, Paperinkeräys Oy, Uusimaa Oy

**Tommi Björnman**

born 1966, Senior Vice President, Glass Nonwovens, M.Sc. (Eng.)

**Previous major positions:**

Various managerial positions in Ahlstrom Glassfibre since 1996, when he joined Ahlstrom. Prior to that, he worked as Planning and Sourcing Manager for Suomen Unilever Oy in Finland, and as Product Manager (R&D) for Wisapak Oy Ab.

**Positions of trust:**

Board Member: APFE, European Glass Fibre Producers Association, KET, the Association of Consumer Goods and Special Product Industries. Member: Energy Committee of EK, the Confederation of Finnish Industries

**Diego Borello**

born 1953, Senior Vice President, Label & Packaging Papers, M.Sc. (Chemistry)

**Previous major positions:**

President of the LabelPack division and the former Self Adhesive Division. Prior to that, he worked as General Manager, and earlier as Deputy General Manager and Commercial Director, of Ahlstrom Turin in Italy. He joined Ahlstrom in 1979.

**Positions of trust:**

Chairman of the Board:  
PaperPlus - Specialty Paper Manufacturers Association AISBL  
Board Member: Italian Association of the Paper Industry (Assocarta), Industry Federation in Turin

**Randal Davis**

born 1956, Senior Vice President, Filtration, BSBA, Finance, MBA

**Previous major positions:**

Various leading positions within Ahlstrom's Consumer & Medical Nonwovens. In September 2000, when Ahlstrom acquired Dexter Nonwovens, he held the position of Vice President Sales & Marketing for Dexter. From 1983 until 2000 he served in several sales & marketing positions within Dexter Corporation.

**Positions of trust:**

Board Member: New England Air Museum

**Claudio Ermondi**

born 1958, Senior Vice President, Nonwovens, M. Sc. (Theoretical Chemistry)

**Previous major positions:**

Vice President for the Filtration business area. During 1999-2000 he was Deputy Vice President, and from 1991 to 1998, European General Manager for the Filtration business. He joined Ahlstrom in 1984.

**Leif Frilund**

born 1953, Senior Vice President, Technical Papers, M. Sc. (Eng.)

**Previous major positions:**

President for the Specialties division in 2003-2004. Prior to that, he served as Vice President and General Manager of the Cores & Board business area (2000-2003) and as Managing Director of Ahlstrom Alcore Oy (1998-2000). In addition, he has held various managerial positions within Ahlstrom's specialty paper business. In 1995-1998 he served as Managing Director of Albany Fennofelt Oy. He joined Ahlstrom in 1986.

**Positions of trust:**

Board Member: Sonoco-Alcore (S.a.r.l.),

Tukeva (The research and higher education committee of the Finnish Forest Industries Federation)

**Patrick Jeambar**

born 1946, Senior Vice President, Technology, M.Sc. (Paper Eng.), MBA

**Previous major positions:**

From 1997 until 2003, Mr. Jeambar worked as Business Area Manager for Industrial Nonwovens. He joined Ahlstrom in 1996 following Ahlstrom's acquisition of Sibille Dalle, where he had served since 1987 as General Manager of the nonwoven activity. From 1974 to 1986, he held managerial positions at the Brignoud nonwoven plant.

**Positions of trust:**

Board Member: EDANA, the European Disposable and Nonwoven Association

**Jari Mäntylä**

born 1959, Chief Financial Officer, M.Sc. (Econ.), M.Sc. (forest products technology)

**Previous major positions:**

Financial Director from 2000 until 2005. Prior to joining Ahlstrom in 2000, Mr. Mäntylä worked as Corporate Controller of Fortum Corporation in 1998-2000. From 1994 to 1998 he was assistant vice president, group financial planning, of Outokumpu.

**Laura Raitio**

born 1962, Senior Vice President, Marketing M.Sc. (Chem. Eng.), Lic. Tech. (forest products technology)

**Previous major positions:**

Vice President and General Manager for Wallpaper & Poster, Pre-impregnated Decor, Abrasive Base in Osnabrück, Germany 2002-2005. Previously, she served as Managing Director of Ahlstrom Kauttua Oy in 2001-2002 and as Director, Communications & Marketing, Specialties & industrial products division in 1999-2001. In addition, Ms. Raitio has held several managerial positions within Ahlstrom's specialty paper business since she joined the company in 1990.

# Glossary

**“a plus”** Ahlstrom’s improvement program. The program consolidates the know-how and experience of Ahlstrom’s employees and converts these best practices into daily routine. “a plus” plays a significant role in Ahlstrom’s performance improvement.

**Biochemical Oxygen Demand (BOD<sub>5</sub>)** A measure of the amount of oxygen consumed by micro-organisms in breaking down organic matter in effluent during a certain period.

**Calender** Machine used to make the surface of paper smooth and/or glossy. Two or more heavy cylinders impart heat and pressure as the paper web passes between them.

**Chemical Oxygen Demand (COD)**

A measure of the amount of oxygen required for the total chemical breakdown of organic substances in water by chemical oxygen-consuming substances.

**Coating** Process of applying a liquid or clay-based paste to one (or both) surface(s) of a paper web, followed by drying or curing. It is used to give a smoother surface to improve the printability of paper or board.

**Composite** Combination of two or more specific materials that have a distinct interface between them.

**Crepe** Characteristic added to a paper to give a crimped surface to provide stretch or increased absorbency.

**Fiber** Basic, threadlike structure that is the basis from which nonwovens, textile yarns, and papers are made. There are vegetable fibers, such as wood, cotton, and flax, and natural animal fibers, such as wool and silk. Man-made fibers include synthesized polymers such as polyester and nylon, modified natural polymers such as rayon, and mineral fibers such as glass-fiber.

**Fine fibers** A proprietary process developed by Ahlstrom derived from the melt-spun nonwoven process. This technology produces 100% synthetic nonwoven materials with a unique fiber size distribution, 50% of the fibers

being below 1 micron. The materials produced are especially well suited for various filtration applications including HVAC and liquid filtration.

**Genuine vegetable parchment**

Paper that has been modified by sulphuric acid, to give it a high number of unique natural properties such as a dense surface, a high mechanical strength, and a high degree of resistance to grease, water, and heat. These features make it the ideal paper for many uses: baking, fat wrapping, graphic art, textile tubes covering, decorative and technical laminates, and other industrial processes.

**Label papers** Usually one-side coated papers for producing labels of all kinds for application to bottles, cans and packages of food and beverage products, as well as for industrial and office use.

**Medical fabrics** Nonwoven, composite and crepe fabrics, which can be used in sterilization wraps, drapes, gowns, disposable devices, and accessories. Medical fabrics offer uniformity, strength, absorbency or repellency and are low-linting.

**Nanofibers** Fibers that are sub-micron in size. Ahlstrom produces nanofibers through its own process with fiber sizes below 0.3 microns. These synthetic fibers are “spun” onto another media (paper or nonwoven for example) and dramatically enhance the properties of the media, especially for filtration.

**National Allocation Plans**

**(NAPs)** Organizations in the energy, iron and steel, mineral or the pulp, paper and board industry emitting greenhouse gases must have an appropriate permit issued by the competent authorities. Each European Union member state has drawn up a national allocation plan indicating the total allowances allocated for the relevant period and how they are allocated to each organization.

**Natural fibers** Fibers that come directly from wood, other plants or animals; such as mechanical wood pulp, chemical pulp, silk, wool, flax, and cotton.

**Nonwoven** A sheet, web, or batt of fabric that is manufactured by bonding fibers together by other means than weaving. Nonwovens are produced from both natural and man-made fibers.

**Pulp** The basic raw material for producing paper and board, derived through a cooking process of wood chips, cotton, or other source of cellulose with water and other required chemicals.

**Recovered methanol** Methanol from the process, which is burned to destroy volatile organic compounds and to generate energy.

**Release base papers** In a self-adhesive label stock, the back page of a label that is removed and discarded.

**Resin bonded nonwovens** A nonwovens process that involves carding fibers, forming a web and bonding with resins such as acrylics or EVAs. The resins bond the fibers together.

**Roll goods** Nonwoven fabric or a paper web rolled on core-tubing after being produced.

**Specialty paper** Custom-designed coated and uncoated papers designed and produced to meet the unique and specific needs of industrial products and materials, packaging, and printing and for other customers with diverse and highly specialized paper needs.

**Specialty pulps** Modified fibers made out of wood, different from commodity pulp, and used in very technical applications (filtration, absorbent materials, textile).

**Spunlaced nonwovens** A nonwovens process that involves use of high pressure water jets to entangle staple fibers with themselves.

**Synthetic fibers** Polymers synthesized from chemical compounds (nylon, polyester), transformed natural polymers (rayon, acetates), or minerals (glassfiber).

**Wetlaid nonwovens** Wetlaid web bonded to provide fabric integrity.





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Thailand, United Kingdom, United  
States, Vietnam

● Production units  
Belgium, Brazil, China, Finland,  
France, Germany, Italy, South Korea,  
Spain, Sweden, United Kingdom,  
United States

# Financial information in 2006

**Ahlstrom Corporation will publish three interim reports in 2006:**

Interim report January–March April 28, 2006

Interim report January–June July 27, 2006

Interim report January–September October 27, 2006

Ahlstrom Corporation has published the Financial Statements  
Bulletin for the financial year 2005 on February 3, 2006.

The financial reports of Ahlstrom Corporation are published  
in English, Finnish and Swedish at [www.ahlstrom.com](http://www.ahlstrom.com).

**Publications can also be ordered from:**

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