

# FINAL TRANSCRIPT

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## **AHL1V.HE - H1 2011 Ahlstrom Oyj Earnings Conference Call**

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**Jan Lang**

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**Seppo Parvi**

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## CONFERENCE CALL PARTICIPANTS

**Mikael Jafs**

*Cheuvreux - Analyst*

**Johan Edvardsson**

*SEB - Analyst*

## PRESENTATION

**Operator**

Please go ahead, Mr. Erkheikki.

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**Juho Erkheikki** - *Ahlstrom Corporation - Investor Relations*

Thank you, and good afternoon from Helsinki. And welcome to this Ahlstrom Second Quarter Earnings Conference Call and Audio Webcast. Please note that the link to the webcast and the slides are available on our website at [ahlstrom.com](http://ahlstrom.com). My name is Juho Erkheikki, from our communications team, and I will be your moderator today.

Today's conference will be hosted by our President and CEO, Jan Lang, and our CFO, Seppo Parvi. Jan, please go ahead with the presentation.

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**Jan Lang** - *Ahlstrom Corporation - CEO*

Thank you, and welcome from my side. I will be talking through here the April/June development. I'll be commenting on home and personal divestments, and then a overview of the business area. Thereafter, Seppo will talk about cash flow and balance sheet and income statement, and then I'll finalize with the future prospects.

As we all are aware of, the world is in a fairly turbulent state right now. The difference here compared to the recession in 2008/2009 is that this is a public debt situation, and then we were in a banking crisis primarily. However, in both cases and also now, we have challenges as most -- everybody to see what the future exact visibility is. But nevertheless, we need to manage the situation and then find solutions for these challenges.

But first of all, in terms of April/June, in brief, sales and volumes, were not developing against the previous quarter, [i.e.] were inline with the comparison period. Earnings decreased excluding non-recurring items and for continuing operations is EUR20.4 million against EUR27.4 million.

We have had significantly higher raw material cost inflation throughout the first six months. And we're not able in the last three months to fully compensate these costs. And we also announced the same investment in China for high quality workover material production to be started in 2013.

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Moving then to the net sales, looking at each quarter, the last five months -- five quarters, clearly shows that we have had very little variation from quarter to quarter. At the same time, the business -- we're at the same level as Q2 2010.

2010 first half, however, a reminder that after the recession we, as many companies, made a fairly quick recovery to fill inventories in the market at the same time. Sales volumes were all in at 1.5% down from Q2.

Following page takes a bit of a closer look at the breakdown on net sales. We have had 4.8% positive impact of price -- essentially price, but also mix. Currency has also affected us at negative 3.7%. On a comparable basis, the volume increase is 1.7% and divestments affected the revenue by minus 3%. So, that gives us this minus 0.3% revenue change.

In terms of operating profit, I referred the numbers already. Here, we have clearly the key topic, the raw material inflation not fully compensated by the increased selling prices. But we have however been able to improve -- or, continue to improve efficiencies and the supply chain cost, particularly waste and [purchasing] cost that has then compensated inflationary pressure on -- or, partly compensated the inflationary impact of raw material prices.

We continue to have some challenges renewed production-wise. In addition, we have noted in the reported a 4.2 CO2 benefit in 2010 Q2 that clearly impacted the comparison [IIE]. Without that, the gap is not that significant. Return on capital employed, at about 10% in the quarter. And this is now for continuing operations back to our return of capital employed target in the range of three percentage points.

Then a couple of words on the divestment of Home and Personal to Suominen. This transaction was announced Thursday morning and essentially these documents, the couple of pages I have here are the same as communicated then. Just a repeat of the deals; EUR170 million deal that of which we have committed to invest EUR30 million into Suominen by subscribing for shares in the new share issue that will be taking place later in September. Thereby, we will become the biggest shareholder in the company with a 28% stake.

And Suominen will be financing this transaction through debt and a direct [exchange that] has already been committed to a significant portion of the target. And the transaction is expected to be closed in the end of October 2011. Now, the rationale of this is primarily to achieve a more focused portfolio of Ahlstrom's product range and essentially more towards value added type of positioning of our product range.

And it will allow us to continue to invest in developing these businesses, and at the same time, in Asia, which we have the last -- where we have in the last 12 months initiated and then announced four initiatives to invest in other new assets or buying a business.

For Suominen, obviously this is a significant change and it will transform the company to a -- predominantly a wipes fabrics manufacturer, where this product category is the key priority, a strong global player -- the strongest player in the industry for this material. And we think that the company will be better positioned to execute and develop that business compared to being in the family of Ahlstrom Company.

Then to business area reviews, a few comments on the four remaining business areas, i.e., the continuing operations. Firstly, building and energy -- quite strong sales volume increase, but not margin improvement. We have a positive development in revenue on the wall cover and flooring material side, whereas the windmill industry business has been suffering particularly in North America. But also the anti-dumping activities in Europe has impact in the March -- the sales in the quarter for us.

Ramp up of the Turin hybrid wallcover line continues, and we've been somewhat struggling with that. We are delayed, and we'll, however, find a solution on how to deal with this issue in the near future.

Then on filtration, volumes were down by 1.5%, but this is impacted also by the divestments of dust filtration last year, so net-net a positive growth. Here in this business currency impact has been quite significant, as has the raw material cost inflation being



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relative to us being able to increase sales prices -- continued improvement in efficiencies and also in the manufacturing, but earnings is down from previous comparable quarter.

Food and medical sales volume is up somewhat. Here, the medical applications have had positive development in sales, but the currency impact has been negative, a quite significant US dollar-based business.

Same topic about price management as in the other businesses. And the Mundra plant, it is still behind our ambitions in terms of earnings. We are pretty well filled with volumes, but the quality of the product is not where it is planned to be, and we have made or are making an additional investment to get that quality where it needs to be. That will be ready by the end of the year.

On the Turin side, number 25 machine PLA product, we are still in a qualification phase. However, we believe that also here we're starting to make progress on that investment. Operating profit is lower than comparable quarter. Label and processing sales volumes down by 4.6%, including a divestment of Altenkirchen plant, net-net also a negative volume development for the quarter.

The same topic around pricing -- material cost and pricing, and here, we have had a -- as we have reported here in recent quarters, the La Gere plant, a challenging performance, but clearly now, in the last few months, we've been making positive results there. Also, here, operating profit lower than the previous comparable quarter. So in all business areas, we are lower than the previous quarter, so equal trend here.

Seppo then cash flow, et cetera.

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#### **Seppo Parvi** - Ahlstrom Corporation - CFO

Thank you, Jan. So to start with net cash from operating activities. This is before capital expenditures. In Q2 of this year, cash flow stood at EUR27.6 million compared to EUR45.1 million a year ago. If you'll remember, last year, we were still running our working capital project and that released some additional cash from working capital compared to this year.

On the following slide, we see the development of the operating working capital. And I would first of all state that working capital is getting stabilized now to sort of normal levels. After the working capital project that we're running, there is that increase compared to year-end of EUR28.5 million, but it is still clearly below the level we had the year goes end of the Q2 last year. Turnover was 41 days, end of the Q2 this year.

Then at [year end] our net debt development. Net debt stood at EUR338.4 million at the end of the Q2, and that this is clearly down from the level a year ago when we had a net debt of EUR365 million, and slightly up from the end of the year -- in the end of last year.

Then on the following page, maturity profile of our medium and long-term credit facilities. First of all, our liquidity continues to be good, and the total liquidity was about EUR400 million at the end of the quarter including cash, undrawn committed credit facilities and cash pool limits. On top of that, we had EUR 98 million undrawn on committed credit facilities.

Something to note, is that they haven't used our EUR200 million revolving credit facility as much as in 2012. That it is still (inaudible) in the graph on the page because it was officially terminated in July, but the new facility was signed in June.

This, of course, is very good news taking into account the turbulence on the global financial markets during the last couple of weeks. This means that our liquidity is pretty well secure now for the coming year, and we don't have any major maturities coming on. Of course, the cash from Suominen deal, also [EUR140 million] improved the liquidity going forward.



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Here, a couple of words on the income statement and balance sheet. First of all, on income statement, if you look at the cost of the goods sold, that of course reflects higher raw material costs. That is also shown on the operating profit and loss line, where profit was reduced from EUR28.2 million to EUR22.1 million.

As Jan said, we were not able to fully compensate higher raw material prices by increasing our selling prices. You should also notice that the EUR28.2 million from last year includes about EUR4 million income from CO2 rights that we sold this year. I think it was only about EUR0.2 million.

Profit and loss -- sorry, profit for the period from continuing operations was EUR8.5 million. And profit -- loss for the period for discontinued operations was EUR17.1 million. That figure includes EUR18.4 million impairment loss and cost of sales after taxes relating to divestment of Home and Personal business areas, as announced last week.

Then a couple of words on balance sheet, on the following page. The inventory [sum was] up in euros, reflecting maybe higher raw material costs. Then we have on both sides of the balance sheets separate lines for assets and liabilities classified as held for sale. This is again relating to the divestment of Home and Personal.

And in the equity line in the middle of the page, you see a reduction in equity. (Inaudible) the dividends that we have paid during the quarter, as well as the impairment for the divestment of Home and Personal.

Then we have cash flow on the following page. There, if you could look at the change in net working capital that was minus 6.9 [effect] in the cash flow. And last year, Q2, I think it was positive [4.6].

On financial items, there's negative EUR2.7 million this year compared to negative EUR20.5 million a year ago. And last year, they have their effect on currency swaps relating to our loan portfolio included. Net cash from operating activities this year was EUR27.6 million compared to EUR45.1 million last year. And the capital expenditure net this year, EUR10.7 million, gross investment EUR14.1 million, compared to about EUR6 million level a year ago.

Okay, back to you, Jan.

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**Jan Lang - Ahlstrom Corporation - CEO**

Thank you, Seppo. Then a couple more topics -- current priorities on our agenda. Obviously, pricing is still an issue to safeguard our profitability, however, this is more a question of following up on those things that have been initiated. We think that given the current environment, one cannot assume any further significant price increases here going forward.

We continue to address with rigor to improve our cost structure and supply chain. We have the first two topics being on the agenda, we'll continue to work on those. We will also, next few weeks and then months, evaluate other possible opportunities and issues that we potentially can address here.

Our strategy execution will continue along the lines we have outlined, to focus on high performance opportunities in the strategic priority businesses. And at the same time, we will seek further opportunities in Asia.

We have continued and we will continue with finalizing the group-wide development initiatives to support execution of strategy. And, here, we talk primarily about integrating the company through what we have called One Ahlstrom model, which started with particularly the new operating model in our organization structure, including a number of initiatives to simplify the way we run the business.

And, finally, outlook for the year which is essentially in line with the -- which is line with the July 18th adjustment that we made for the full corporate company, which we then adjusted based on the divestments of Home and Personal business; and now

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reach then for the operating profit to achieve EUR67 million to EUR87 million operating profit, which the lower bracket is at the same level as last year. Investment we expect to be around EUR100 million for the full year.

So that completes our introduction, now to questions.

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**Juho Erkheikki** - *Ahlstrom Corporation - Investor Relations*

Yes. Thank you very much, Jan, and Seppo. We have now concluded the first part of this conference call, and are ready for your potential questions. Please note that you can also pose questions by writing them online.

Operator, please go ahead with the questions from the telephone lines. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

And the first question comes from Mikael Jafs of Cheuvreux.

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**Mikael Jafs** - *Cheuvreux - Analyst*

Yes, hello. Good afternoon, everybody. A couple of questions. Now, you spoke there and said that you don't (inaudible) additional price increases for your end products due to the current uncertainty. What is your view on the raw material cost development now, and -- post this few weeks of the turmoil we have seen? That's the first question.

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**Seppo Parvi** - *Ahlstrom Corporation - CFO*

Okay. Yes, it's Seppo. I can take that one. (inaudible) I think you're also aware that at the end of June, early July, there were some price decreases. This is already varying the prices. Also, I think we saw some stabilization of the raw material price increases also in other materials.

Of course, taking into account the (inaudible) in the past weeks, it remains to be seen what kind of effects that has on raw material prices. We have seen spot prices (inaudible) and have been coming down, but how our market will be and when it will stabilize, it is difficult to say at this stage.

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**Mikael Jafs** - *Cheuvreux - Analyst*

Okay. And then -- I mean, I note there that you talked about challenges with the new product lines on page six in the presentation. Are those product lines then -- the Mundra plant and the Turin side machine -- I wonder if you can sort of talk a little bit about what you are going to do. But, can you please give some sort of flavor or color so that we can understand the problems?

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**Seppo Parvi** - Ahlstrom Corporation - CFO

Well, the ones that we have referred to here now are essentially around three production lines or plants. As far as the Mundra is concerned, we are solving that by an additional investment that will be completed by the end of the year. And we think by doing that, that issue will be resolved.

That facility which started off in the spring of 2010 is running at good volume. So, we've been able to fill the capacity of that equipment, but not at the quality level (inaudible) we have had ambition for. But we believe that that will be solved.

In terms of Turin side, this is about the biodegradable PLA product which has been a qualification issue with the market and key customers. It is a product that is quite unique. It is very different in terms of its behavior compared to the traditional teabag, which is a paper material and this is essentially a synthetic material.

Although it is biodegradable type of material, it's a synthetic type of material. And it behaves differently on the production lines -- packing lines of tea manufacturers, tea packers, which are high efficient equipment. And the issue here has been how this material is working on those packing lines.

We are making progress there. And given the commitment I feel that the market has for this kind of a product, I am confident that we will be making progress here in the coming months and we'll solve this issue.

The third issue that we referred to is the hybrid lines of wallcover materials. Hybrid means a combination of synthetic and natural fibers; a different type of product compared to paper, or a fully synthetic wallcover product.

This is an existing machine that has been upgraded to run this type of material. And, here, we have had technical issues, technical problems with the technology, and are working on to solve that. But, all in all, these pieces of equipment have a negative effect on our financial performance.

And if you recall at the time when we reviewed our full year 2010 results, we stated that four pieces of equipment have made a EUR5 million negative impact on our -- I'm sorry, on average EUR5 million each impact on our EBITDA at EUR20 million all together.

We have made some progress. We particularly made progress on the (inaudible) piece of equipment where we now can say that we are on a pretty much around a breakeven EBIT and have solved the major issues we had there. But these three pieces of equipment, we still have challenges with. But we are working on solving them, and we will solve them. There is no alternative as such, but they are taking clearly longer time than we have liked it to do, of course.

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**Mikael Jafs** - Cheuvreux - Analyst

Okay. Thank you, very much.

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**Seppo Parvi** - Ahlstrom Corporation - CFO

Thank you.

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**Operator**

Our next question comes from Johan Edvardsson of SEB. Please go ahead.

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**Johan Edvardsson** - SEB - Analyst

Good afternoon, gentlemen. I have a couple of questions regarding your growth strategy. To begin with, what is your approach to growth in this environment? Do you see any opportunities for acquisitive growth -- any good deals being made near term?

**Seppo Parvi** - Ahlstrom Corporation - CFO

We have said all along that we are screening and are evaluating possible acquisitions (inaudible). And that situation is not changing given the environment where we are.

Now, it is not a question of finding quick solutions, it's a question of finding the right solutions that are relevant and specific for us. And I don't think the current situation would necessarily change that opportunity picture to any large degree. But we will continue to evaluate and look at some of these types of possibilities.

**Johan Edvardsson** - SEB - Analyst

Okay. Thank you. And also regarding the label and processing business area which is a part of the operational excellence divide that you set up for your strategy earlier this year. What is the view on that business area? Do you see -- do you see that as a core area, or do you see possibly any other role for that business area going forward?

**Seppo Parvi** - Ahlstrom Corporation - CFO

Well, I see that as a very, very important business for us. It's been strongly performing in terms of cash flow (inaudible). It is also is that it's return on capital employed is quite good relative to our overall target. It's not far away from our 13% target. It has strong market positions, all in all. So, we do see that as an important business for us also in the future.

It is different from the -- as we have indicated, to the other three business areas in terms of strategic growth ambitions, but nevertheless we believe that we have and can continue to compete and make good money out of this business.

**Johan Edvardsson** - SEB - Analyst

Okay. Thank you very much for your answers.

**Seppo Parvi** - Ahlstrom Corporation - CFO

Thank you.

**Operator**

(Operator instructions)

You have no further questions on the queue. And I turn the call back to Mr. Erkheikki, for any additional remarks.



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**Juho Erkheikki** - *Ahlstrom Corporation - Investor Relations*

Well, it seems like we have no further questions from our online audience. And if there are no further questions from the telephone lines, we may be ready to conclude this conference call. So, perhaps, if the operator could check one more time whether there are further questions on the telephone lines.

**Operator**

We have no further questions in the queue.

**Juho Erkheikki** - *Ahlstrom Corporation - Investor Relations*

Thank you, ladies and gentlemen. This concludes our second quarter earnings conference call and webcast. We hope to hear you again in October, when we report our third quarter results. Thank you.

**Jan Lang** - *Ahlstrom Corporation - CEO*

Thank you.

**Seppo Parvi** - *Ahlstrom Corporation - CFO*

Thank you. Bye-bye.

**Operator**

Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.

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