

FINAL TRANSCRIPT

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Harri Taittonen

Nordea - Analyst

Johan Peterson

SEB Enskilda - Analyst

PRESENTATION

Operator

Good day and welcome to the interim report January to March conference call. This conference is being recorded. At this time I would like to hand the conference over to Ms. (inaudible). Please go ahead madam.

Unidentified Company Representative

Thank you, Marion. Hello everybody and good afternoon from Helsinki. Welcome to the Ahlstrom conference call and to the audio webcast. Please note that the link to the webcast and the slides is available on our website at ahlstrom.com. My name is (inaudible) and I will be your moderator here in Helsinki.

The presentation will be held by Mr. Jan Lang, the President and CEO, and Mr. Seppo Parvi, the CFO. Mr. Lang, please. We are ready to begin

Jan Lang - Ahlstrom Corporation - President, CEO

Thank you. Hello everybody and good afternoon, and welcome from my side also. The world has recovered somewhat faster than I think many have anticipated, certainly as far as we concerned. The demand picture improved better than anticipated and, hence, we also gave a pre-warning here a week and a half ago to this -- for this reason.

If we look at the highlights, first, on our presentation, a few topics, net sales approached, although it wasn't quite there yet, but certainly approached prerecession levels of 2008. Our profitability continued to improve and as we developed a very strong cash flow last year, this continued again at good levels.

And then, the facility that we have built in Mundra on the west coast in India in the Gujarat area started its operations during this quarter. And if we move on to the following page, we have a brief overview of the Mundra facility where we expect to start deliveries here during this second quarter and this facility is a state-of-the-art multi-layer spunmelt fabrics for predominantly surgical drapes, but some other products also.

And given the overall trend in Asia, we feel that this position that we are building with this business is favorable based on the encouraging market situation in the area. And the total investment here on this facility has been EUR42 million. And that project is as far as the building and setting up of the starting of the facilities is completed.

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If we move in to the net sales development, positive here was obviously the 17.3% growth of sales compared to quarter one 2009. Sequential development was also positive compared to previous couple of quarters. This is, however, this EUR441 million is still somewhat below the prerecession level, but certainly better than we anticipated that the market would develop. However, there is also a key element of price increases in here.

If we look at it by regions, the development has been different from region to region, particularly between Europe and North America. In Europe the growth was 21%, whereas in North America some was on the negative side 2.7% and the North American development here was affected also by the weakening of the US dollar, but also somewhat slower recovery in the demand of our product categories in that region.

Europe, on the other hand, quite strong and very positive also, although still small numbers is the Asia-Pacific development that we have achieved and is also supported by the fact that we have been in the process of building a stronger sales organization in the region.

If we move in to by business area also here quite significant differences, advanced nonwovens minus 3.1% which is also impacted by exchange rate fluctuations, but also remembering that in advanced nonwovens we have key bed materials and hospital garments and that is two product groups that did not have a significant slowdown in the recession time last year. So the comparison is quite different compared to other product categories here and business areas.

Filtration had quite a strong improvement. The business of transportation has recovered quite nicely. That way we also saw some strong performance improvement was in release and technical papers, so the paper area has recovered quite strongly. And the trend in the glass and industrial nonwovens turned compared to a very weak 2009, although the demand in the glass and industrials is still quite slow.

Operating profit EUR14 million, which is clearly stronger than the previous quarter in two thousand and -- or the quarter one in 2009. And this has been obviously achieved through the recovery of the demand, but also the streamlining of course that we put in place during last year has had a positive impact on the earnings development.

Then a brief overview of the segments, fiber composites 10.9% growth and an EBIT of EUR9.5 million, demand of filtration media for transportation industry recovered quite nicely. The food packaging and teabags pretty much steady, the wiping products in the home and personal business area we have seen a demand that is slower than in quarter four. That was also helped at that time by the H1N1 flu impact, but the demand has increased against quarter one 2010. And the wind energy and marine industries showed some signs of recovery, but still on a very slow level.

Then on the specialty papers, on the other hand a very strong recovery, 25% revenue increased which you can say that we see an overall recovery in the markets and the segments where we operate and both in release and labels, but also industrial papers, coated and crepe papers, so in general a good demand situation that recovered clearly faster than anticipated here earlier.

And then finally from my side the net cash from operating activities, last year we had a very successful program to improve the performance of working capital, high turnover working capital and that still continued in quarter one of this year. That helped the strong cash flow that was at EUR32 million in the quarter and this cash on operating activities compared to EUR21 million in the previous year's comparative quarter, so continued good and a strong performance.

And I will now move over to the second part of the CFO to talk a bit more about balance sheet and P&L topics.



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Seppo Parvi - Ahlstrom Corporation - CFO

Okay. Thank you Jan. Net gearing came down to 55% level and is now clearly inside the target range that we have set. It has also clearly improved from a level a year ago when we were convex version gearing levels. Net debt came down EUR20 million during the quarter.

Working capital development was strong and continues to go down. As already told last year, our target is to decrease working capital by EUR100 million by end of this year. Project is now at the final stage and we reduced working capital by almost EUR120 million so far and turnover has improved by 28 days since the end of 2008.

Looking at the maturity profile of our medium and long-term credit facilities, we can see that there are no major refinancing needs this year or next year. Also, liquidity remains strong and taking into account cash, unused committed credit facilities and cash pool overdraft limits, our total liquidity was EUR338 million.

Then some comments on the key figures in income statement, net sales grew 17% mainly due to larger sales volumes and increased sales prices. Increased volumes also reflect in cost of goods sold as there is higher pulp prices.

EBIT improved to EUR14 million. Profit eased, took up a loss of EUR10.7 million a year ago. Here we see a reflection of increased sales volumes as there are restructuring programs that we initiated last year.

Profit and loss before taxes was EUR7.4 million and in tax, income taxes, there is a EUR1 million refund from previous periods, reducing the income tax. Profit and loss for the period was EUR5.5 million.

Then looking at the balance sheet and the assets, first of all there is a small increase in sales, but not the receivables, reflecting increased sales volumes a higher sales prices, but turnover has increased. Interest-bearing debt was down by some EUR12 million and net debt was down EUR20 million for the period. Trade and other payables increased thanks for higher volumes on fair chasing side and higher raw material prices as well as longer payment terms also had their own effect there.

And, finally, cash flow there is first of all working capital was further reduced by almost EUR13 million and in financial items EUR16.2 million negative cash flow we see also effect from some currency loan swaps that we have had to protect our loan portfolio. Net cash flow from operating activities was EUR32 million versus EUR20.9 million a year ago.

Investing activities was EUR7 million and this is a level of maintenance investments. Cash flow after investment activities was EUR25.1 million positive compared to about breakeven level a year ago. And return on capital employed for the first quarter was 5.2%. That is a clear improvement from Q4 last year as well as Q1 a year ago, but still of course far away from our target level of 13%, but on the way to the right direction.

And back to you, Jan.

Jan Lang - Ahlstrom Corporation - President, CEO

Okay, thanks Seppo. Then just brief comments on the -- our current key initiatives, our focus of developing the business as part of our strategic agenda talked about in the autumn of last year. We have already said that Asia is and needs to be a next geographical focus area for the Company.

And right now we are in the process of going through various alternative scenarios to step in with a stronger platform in the region. These may be acquisitions. These may be a joint venture or even green field operations, but we are in the process of evaluating these scenarios right now and I believe that during this year we will be able to, can make more concrete comments and announcements around this topic.

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One area that we have spent a lot of effort on is to improve the way we market our products and efficiency of marketing and selling our products in the market. We have two, three separate initiatives to strengthen the way of selling, employing a key account management process that we are enhancing and improving the way we manage large, particularly global customers in the Company.

And we have on the agenda to strengthen our work on communicate, understand our corporate culture that will help us in developing the way we work and, at the same time, working and then training leadership topics in the Company, key functional or global processes, et cetera that we have on the agenda.

And important here is to continue to improve performance being more efficient, more cost efficient and under this topic, continuous improvement measures, the example of our initiatives to improve working capital is a good example of this topic that we are broadening to other areas in the Company as we speak and going forward. So this is an important to element to have on the agenda and organization.

And then, finally, on the outlook we gave an adjusted revenue outlook on April 19 and the overall summary of this is now that we do expect that the demand and net sales will increase to approximately the same levels as they were in 2008 like the prerecession level. And this is a combination of slightly more favorable volumes than anticipated, but also sales prices increases to cover the rising raw materials costs.

In general, the trend has been good and positive in most business and segments. However, in the arena of glass and industrial our glass fiber business we still believe that the market is tough, but that it will be recovering towards the end of the year.

Generally, our business expected to increase from 2009 level, this EBIT being then exclusive of non-recurring items, driven by improved demand, and more efficient cost structure and streamlining efforts that we have taken and will continue to work on.

So that was an overall summary of our quarter one. Then we move back to questions-and-answers session. Thank you.

Unidentified Company Representative

Thank you very much, Mr. Lang and Mr. Parvi. We have now concluded the overview and are ready for the questions. Please note that you can also post questions by writing them online via the audio webcast platform. Operator, please go ahead with the questions-and-answers session. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session will be conducted electronically. (Operator Instructions). We get the first question from Harri Taittonen from Nordea. Please go ahead.

Harri Taittonen - Nordea - Analyst

Yes, good afternoon. One question about the efficiency improvement and the cost reduction program with targeted savings of EUR55 million, can you estimate how much of that impact remains to be seen and how much is in the books already?



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Seppo Parvi - Ahlstrom Corporation - CFO

We have not given out these figures of the placing itself, but we expect to get the full effect this year as all the programs were already finalized last year.

Harri Taittonen - Nordea - Analyst

Okay, excellent. Then another one, it seems that at least judging by the Q1 results and also with your guidance you have really been able to mitigate the cost inflation very well. Can you put a bit of color on if you had to give a range of your estimate on the variable cost inflation for this year compared to last year based on the currently available knowledge, what would be the number or the range?

Seppo Parvi - Ahlstrom Corporation - CFO

That is something we have not given out, but it is clear that the pressure, especially from pulp side as pulp products have been continuously increasing since last summer and also the same kind of pressures that fall on that side. But like you said, we are working hard to compensate for the increasing raw material prices.

Harri Taittonen - Nordea - Analyst

Absolutely. And it seems that the combined impact of the volume and the pricing will be sort of more than the cost increase, but if you look at the Q1 just sort of once more can you -- is it possible to sort of give a feel of there, in percentage terms where the sort of the cost percentage versus pricing percentage lies in Q1 compared to Q4? Is there any sort of color on that?

Seppo Parvi - Ahlstrom Corporation - CFO

Yes. Slide 15 I am not giving specific volumes and issues out, but if you count the Q1 major part in the development is coming from higher volumes.

Harri Taittonen - Nordea - Analyst

Yes, yes, because pricing, it comes to me that it is sort of a bit of a -- or your end product price increases are, I would assume that they will be --

Seppo Parvi - Ahlstrom Corporation - CFO

Excuse me. I cannot hear you now.

Harri Taittonen - Nordea - Analyst

I assume that the price increases you started to work on during -- at the yearend that they started to be enforced gradually during the quarter and sort of that momentum is going on.

Seppo Parvi - Ahlstrom Corporation - CFO

Yes, but there is always a small lag when it comes to reacting to increasing raw material prices and before the increases in sales prices come through. Normally we are talking about two to three months.

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Harri Taittonen - *Nordea - Analyst*

Yes, okay. Many thanks.

Operator

We will now take our next question from Johan Peterson from SEB. Please go ahead.

Johan Peterson - *SEB Enskilda - Analyst*

Yes, hello. It is Johan Peterson from SEB. Just coming back to pricing issue, can you say given a percentage number, roughly how much prices were up in Q1 compared to Q4 on average?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Yes. These we are not giving out financial on specific price increase levels. It is just that as I said, we are working hard with price increases to cover increase in raw material prices.

Johan Peterson - *SEB Enskilda - Analyst*

Okay. So for how long can we expect margin pressure, for example, to start looking at Q2, is it reasonable to assume further margin pressure into Q2 and then maybe more positive development in the second half of the year? Or what can one expect on the timing side?

Jan Lang - *Ahlstrom Corporation - President, CEO*

Right. It is Jan here. Well, it is clear that there is as a continuation of quarter one a continued pressure, particularly on pulp, we have moved into quarter two where prices have still been announced to be increased. So clearly right now there are continued pressures on margins and prices. And as we have said in the report here is we will -- we are continuing to adjust prices upwards as needed.

In terms of how we go forward then, in our -- I am sure you are probably as good as I am to get to where the trend is going, whether that will continue or not. What we know of course is at some point they are going to hit the roof here since we are right now, particularly on the pulp, that starting to achieve all-time highs in terms of price levels. But we don't want to and intend to guess exactly when this is going to happen and whether we are going to see any further increases as we go into the second half of the year, very difficult to say. Depends --

Johan Peterson - *SEB Enskilda - Analyst*

I -- sorry --

Jan Lang - *Ahlstrom Corporation - President, CEO*

Yes, please, go on.

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Johan Peterson - SEB Enskilda - Analyst

Yes, I understand that. But how -- can you say anything how the market is responding to price increases? Is it a good response or do we need to see the economy pick up a little bit more for price increases to be accepted?

Jan Lang - Ahlstrom Corporation - President, CEO

Right. Well, I -- my and our assessment is that during this quarter one we have been quite successful to execute price increases. Yes, we are.

There are some time lags and you are always somewhat behind in the implementing these, but we feel that the demand picture is that good that price increases can predominantly be passed through. Depends a bit on the segment, et cetera, but in general I would say that it is reasonably good, has been and given and assuming that based on what we have indicated in the demand for the rest of the year, I would assume that this to continue here right now.

Johan Peterson - SEB Enskilda - Analyst

Okay. And also if you can say something on the pulp dynamics, for example, how much you buy, and how large a proportion of that that follows the spot price development and much that has been more smooth price development?

Seppo Parvi - Ahlstrom Corporation - CFO

It's Seppo here. Our total pulp changes are a little over \$700,000 a year. We have long-term relationships with our pulp suppliers, but as you know the pulp markets works very much on, say, at least monthly pricing basis, so a volatility point from spot market as such. But of course monthly pricing is reflecting what is happening on the spot market.

And of course the key issue that we have been working each spring on is the relativity spot. There has been quite a lot shortage of pulp on the market because of the situation after the earthquake in Chile. And there we have been very successful at being able to secure the supply of pulp all the time and move, but not being forced to shut down our factories because of the pulp situation.

Johan Peterson - SEB Enskilda - Analyst

Oh, that's good. And just finally my question, are there any seasonality aspects that one should think of with your results for --?

Jan Lang - Ahlstrom Corporation - President, CEO

Yes. I think that is a good question. There is definitely a seasonality aspect in our business. If you look at the history by quarter here, the first quarter is in combination, in general with the second quarter, smaller quarter and number two and number three bigger.

And the business starts to pick up in, typically in March, April and May, June, and then it slows down July and August, and then it picks up again in September, October. That is how the cycles tend to work and we don't see any significant difference there as we go forward. That has been -- if you look a bit longer history on our development, that it how it has been working.

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Johan Peterson - *SEB Enskilda - Analyst*

Okay. Thank you. That was everything from me.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you.

Operator

(Operator Instructions). We will now take a follow-up question from Harri Taittonen from Nordea. Please go ahead.

Harri Taittonen - *Nordea - Analyst*

Yes, thank you, just a group one. I am just sort of wondering how separate are the product price negotiations to the sort of the raw material price development? And is there any way you sort of could, say, link the sort the sales price negotiations to some key raw material pricing on? Do you have any part of your sales portfolio negotiated that way?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Yes, we do. We have some of our sales agreements, particularly with certain large, particularly certain larger usual sales of global customers. You would have the price mechanism linked to a raw material price index.

However, I wouldn't say this is overall very significant of our total customer portfolio, but it is better off, definitely. And even if there no official indexation as such in the sales agreement, it is quite typical in these businesses that that price is largely is based on the pulp price level.

Harri Taittonen - *Nordea - Analyst*

Okay, very good, yes. Thanks.

Seppo Parvi - *Ahlstrom Corporation - CFO*

It is negotiated case by case.

Harri Taittonen - *Nordea - Analyst*

Yes, yes. Thank you.

Operator

(Operator Instructions). There are no further questions on the telephone.

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Unidentified Company Representative

Okay. We have received some online questions and I will read them aloud first and then Mr. Lang and Mr. Parvi will answer in their turn. So the first question is what your ultimate target in working capital? How many percentages of net sales should it be?

Jan Lang - Ahlstrom Corporation - President, CEO

We have -- if you look at our performance right now, we are approaching the 13% level. This is on a short-term basis, but the trend has been, as you have seen on the curve in the presentation here, clearly down and we believe that we can start to stabilize around this level or perhaps even a bit lower, but in that range about 12% is possibly feasible in our business and industry to stabilize on, but probably not less than that.

Unidentified Company Representative

Okay, thank you Mr. Lang. The next question, last year you announced many financial arrangements. What about in 2010? Have there not been any?

Seppo Parvi - Ahlstrom Corporation - CFO

Well, I think I can take this except for here. This year we do not have any major refinancing needs as we did some particular arrangements last year. Of course that is part of the normal treasury activity we had a couple bilateral arrangements.

Unidentified Company Representative

Okay, thank you, Seppo. And the final question from the online is what do your continuous improvements measures mean? Any specific projects?

Jan Lang - Ahlstrom Corporation - President, CEO

Well, it is -- in general it is -- the thinking there is that any processes, any cost-based that where you have improvement potential that we address those. And it is very much around the supply chain as a whole, i.e. manufacturing logistics and then purchasing type of activities.

And in all these type of areas we do have continuously initiatives to address these types of topics. And a good example in manufacturing is rate management, i.e. improving the efficiency of material usage is a key topic in our business, in our type of a company. And we also do have this on the agenda and I am sure as we go forward here we will come back to these types of topics more to clarify what potential benefits we are going to get out of these type of efficiencies.

Unidentified Company Representative

Okay, thank you, Jan. We have no further online questions, back to the operator, please.

Operator

There are no further questions on the telephone.

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Unidentified Company Representative

Okay. So thank you very much, everybody. Please remember that the on demand version of the transcript of the call will be available on our website and on Thomson Street Events. Thank you and goodbye. Have a nice day.

Jan Lang - Ahlstrom Corporation - President, CEO

Thanks very much. Bye bye.

Seppo Parvi - Ahlstrom Corporation - CFO

Thank you.

Operator

Thank you. That will conclude this conference call. Thank for your participation, ladies and gentlemen.

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