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PRESENTATION

Juho Erkheikki - *Ahlstrom Corporation - Financial Corporation Officer*

Thank you and good afternoon from Helsinki. Welcome to Ahlstrom's Second Quarter 2012 Interim Report Conference Call and audio webcast. My name is Juho Erkheikki and today's conference will be hosted by our President and CEO, Jan Lang, and our CFO, Seppo Parvi. Following the presentation, you will have the chance to ask questions. Please note that the links to the webcast and to the slides are available on our website at ahlstrom.com. You may also ask questions online. Now Jan, please go ahead with the presentation.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Okay. Thank you, and welcome from my side also. I shall move in to the presentation directly here and go in April-June in brief slide. Essentially, as everybody knows we have had and continue to have a rather market in the world and I think most part of the world with quite high volatility at the same time. And in light of this, there were a couple of issues that were quite relevant in our performance in April-June that will comment here today.

Soft demand in general. Highlight on filtration business and North America which certainly as an economy has been in better shape than Europe and even China recently. And our lowlight was certainly, regionally, Europe and Asia.

Financial performance was not what we expected and liked it to be. Our operating profit was below compression period. Net sales however increased sequentially. What we need to know here in this quarter is that we did have a rather strong currency impact that when we look at our general situation has been quite neutral over the quarter in the quarterly reporting earlier.

Building and Energy, and filtration improved operating profit compared to prior year. And then we had a couple of new product launch. It also helped or important to note. Just the key figures. Net sales was down by 2.5%. There's a number of components in here that affected that. The volume itself was down 2.1%. We had also an impact of closing some of the operations particularly in the building and energy last year that had the impact of a good 2% also. And then the current net debt was actually rather high at 3.6% in the quarter.

Operating profit, EUR13.2 million against EUR20.4 million and then the year to date first half year now at EUR30.5 million against EUR40 million. And our return on capital employed for the first two quarters or after two quarters was 5.5%. We have some one-time cost that have not affected this number also. [Hungary] is in quite good shape.

On the slide, quarterly next sales development, the highlight here shows that the favorable effect where one impacting element. Sales prices were also positive and volume negative and also, product mix was negative which was particularly related to the label and processing business.

And if we then go in to the quarterly operating profit development, as you can see we had rather large fluctuations during last year and then even further back in this three to four years that we have had a difficult economic development. We have in highlights things that we were able to



mitigate the lower volume particularly our profit improvement programs have worked quite well. They have been executed as expected. Our efficiency gains and supply chain are fine and have been able to mitigate the same short term cost activities that we have taken to address shortfalls particularly within volume.

The net impact to euro/US dollar exchange rate was rather big -- we'll come to that in the next slide -- and also high energy cost and increased specialty pulp prices which affects the difference light filtration.

So if we look at the next slide, we opened up the components here which have been positive/negative. The big negatives are, as we said, volume on the EBIT level about EUR8 million impact, and then foreign exchange rate related impact is EUR4.4 million negative. And as I said earlier, typically, this would be rather neutral for us but due to the fact that the euro weakened significantly, a good 10% within a very short time period that impacted then as through a number of topics in the quarter.

And selling prices, on the other hand, have been positive, EUR3.7 million, which is attributed to moving prices up. And we have announced them and we'll compare the price increases going forward to mitigate the impact of higher raw material cost particular also driven by the weak euro.

And the following slide is on return on capita employed and I already commented some of that clearly. We are not being able to achieve the levels that we have set as target for ourselves, so we're tracking behind there.

On a business area level review; first, building and energy. In building and energy, we have had a rather large volume decrease which is attributed to at the closures last year. We closed a couple of operations and that is primarily the reason for the volume shortfall. Other than on the other hand, we have been able to improve our profits -- operating profit levels. Still not good but the trend is in the right direction. A lot of underlying hard work has been to address the issues that we have had in this business.

So the highlights; flooring materials in Europe. Even if it's in the building industry, it's been quite good which we think is related to a particular renovation activity. The specialty nonwovens businesses performing fine and we had a number of profit improvement programs have set to address fundamental issues in the business.

And then on the lowlights side, talk about volume. What has been particularly negative for us and then did not expect it to last as long as it has lasted is for wall covering business being soft in China market and this is related to the building industry activity being weak and has not started to recover within a timeframe of quarter two. In general, the wind energy market is still poor.

The filtration side -- high volume -- high net sales increase but that is also attributed to currency effect. Volume just short 2% up. The transportation market has been fine in North America. The auto industry has been recovering. The usage or demand has driven leading to change of filters have been on quite decent levels. The demand for gas turbine, life science and water filtration, so business is related to our advance filtration business unit has also been doing well and we've been developing that business quite nicely. And we have other improved product mix in this business.

On the lowlight side, the demand is negative and then increased energy cost is Italy. So operating profit slightly better in the quarter compared to prior year. Then to food and medical -- again, here are quite big things related to volume versus net sales. We have higher selling in food and medical and what it is also impacting care which we haven't touched on the document here but it's also currency that has been impacting the net sales number here.

Demand for tape and food packaging beverage materials lower increase -- market related downturn affected earnings and the commercialization of Mundra plant and Chirside teabag line has been slower pace than we anticipated in quarter two. Now also taking steps here to improve our product mix which is one of the reasons why there's a fairly large swing on volume versus net sales.

Then label and processing, which is the one that has been highest impacted by the soft demand if you will. Net sales is down 5.5% whereas volume is down 0.7%. So we kept a decent volume activity, however, it is a mixed impact due to the fact that we have been pushing to maintain volumes but business is [stuck] with lower margins to keep the plants running.



Overall, I think this business given -- and the business that is most easily impacted by soft demand or declining demand typically the responsiveness to the market conditions has been quite good regardless of that that you can also see in operating profit being compared to prior year. Not that dramatically -- although it is a big, big difference but we have particularly here on the lowlight the euro/US dollar impact. This is business has been mostly affected by the processing here. If we then move in (inaudible) if you take the cash flow and et cetera comments.

Seppo Parvi - Ahlstrom Corporation - CFO

Okay. Thank you, Jan. So I'll start with the quarterly net cash from operating activities. There are some comments that cash flow has the rather stable instead of 2010 when we ended our operating working capital approach. And Q2 this year was [EUR97.5 million].

On the following slide, we have a picture development of our operative working capital and I must say that we are happy with the development of the working capital after we close the working capital for the process side as mentioned at the end of 2010. It has remained quite stable if you look at the turnaround rate nowadays around 40 days and actually at end of Q2 we were 38 days, and the end of last year we are at 41 days. So some positive development there as well.

On the following slide, we have information on gearing ratio and net debt development. If you first of all look at the gearing, we are 61% end of the quarter which is at lower end of our target range of 50% to 80%. And net debt increased from EUR241.2 million level to EUR 290.2 million mainly driven by the dividends that we paid during the quarter, and dividend was EUR 60 million.

Then moving forward, looking at the maturity profile of our medium and long term credit facilities, no big changes there since the previous call we had and maturity structure is rather healthy. The next peak of maturity we have is in 2015, then our EUR100 million domestic finish bond matures.

In general, liquidity has remained strong. In total, we have EUR335 million available. We'll the cash and (inaudible) credit facility. On top of that we have additional EUR156 million available, undrawn, uncommitted credit facility and cash pool overdraft.

Then moving next to income statement and balance sheet information. The first couple comments on income statement that is on page 20. While Jan already mentioned net sales went down compared to comparison period mainly due lower sales volumes.

Operating profit was EUR7.4 million for Q2 this year compared to EUR22.1 million last year. Non-recurring items, this year we are EUR5.7 million on cost side (inaudible) we have positive EUR1.8 million. Our profit before taxes was EUR0.8 million while last year it was EUR14.3 million. Our profit and loss for the period minus EUR0.8 million compared to negative EUR8.6 million a year ago.

Then on balance sheet, a couple of comments there also. Cash on cash [influence] was down compared to year-end from EUR94 million to EUR48.4 million and this reflects mainly dividends when you take a look at the cash flow.

Equity is another [EUR563.6 million] and that is also down about EUR60 million from year end. That is still in effect of dividends that was paid by the last quarter. Otherwise no big changes there.

On the cash flow on the following page. First of all, you can see gearing change this or the net working capital positive cash flow [8.3] from the reduction in operating working capital while last year there was an increase of almost EUR7 million. Income taxes paid was EUR2 million this year and net cash from operating activity is EUR27.5 million which is almost the same as last year EUR27.6 million.

Investments were up at EUR20.8 million, a EUR6.7 million increase there. That is mainly coming from the major investment projects that we actually started already during the previous year or previous years. That two major projects still [trace] the materials investment in Turin, Italy were started and we also put out an announcement this year on that project moving forward and also our joint venture for crepe paper production in Longkou, China where we expect to start up the operation towards the end of the year.

Dividends paid, like I said, EUR60 million compared EUR40.8 million last year and that EUR60 million includes about EUR20 million extra dividend as you all know that we paid this year on top of our normal dividend policy. Okay. Jan, back to you on future prospects.



Jan Lang - Ahlstrom Corporation - President, CEO

All right. We'll take first some of our high priority programs and key activities around that. We have five high priority programs listed here. On the first one, anticipating and delivering customer expectations, high-intensity and continue on developing, bringing to market value added products to various activities.

Growing through differentiation among other things, an important element which we have said very clearly that on Advance Filtration we are looking for and developing to expand that business and look for growth opportunities to both organic and potential M&A activities.

High performance culture -- important topic here is performance in general and then developing strategic capabilities, so knowledge around the important aspect to raise the level of the performance of the business. Supply chain, among other things right now. And this year, we have high intensity on raising the service level to our customers to various initiatives.

And the winning in Asia, a lot of activities to -- a particular one here [noted] are related to investments Longkou crepe paper production in China. We ramp up that towards quarter three and quarter and this is a joint venture and then building a new plant in Binzhou for our wall covering material which is also proceeding.

In terms of the outlook, we have maintained our outlook as communicated earlier during this year despite the fact that the environment is volatile and the visibility is rather poor. We believe that we can make the sales number in the range here stated and also achieving an operating profit, excluding non-recurring items in the range of EUR60 million to EUR80 million. And then last year, we were just short of EUR50 million. And our investments, excluding acquisitions have been in the range over EUR100 million. So that concludes the overview and then back to the operator. Thank you.

Juho Erkheikki - Ahlstrom Corporation - Financial Corporation Officer

Right. 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 ask questions by writing them online. So operator, if you would please go ahead with the questions from the telephone lines and we pause here for a couple of minutes.

QUESTIONS AND ANSWERS

Operator

Certainly, gentlemen.

(Operator instructions)

And we'll take our first question from Mikael Jafs from Cheuvreux. Please go ahead.

Mikael Jafs - Cheuvreux - Analyst

Yes. Hello, good afternoon everybody. Mikael Jafs from Cheuvreux. And I have a question regarding one of your comments there when you talked about specialty pulp prices that increased. Could you please give us some flavor and perhaps some detail on what type of pulp that was and the background to increasing pulp prices when we said that the US dollar overruled for sort normal pulp are going down. Thank you.

Seppo Parvi - *Ahlstrom Corporation - CFO*

Hi, Seppo here. Maybe can take this one. As you know, there are many type of pulps and pulp qualities that we are using. And we use in many cases specialized specialty pulps. And those pulps develop in a different way that bulk pulp [grapes] if you may there. And that is especially the case for our businesses like filtration. And that is one (inaudible) why there are certain pulps where the prices are going up even though the general market will be moving to other direction.

But not just (inaudible) stand than the currency effects on pulp prices. As you know pulp prices have such -- typically, are priced in dollars and start from dollars. And then of course, the currency movement -- US dollar's movement have been a separate effect in the cost structure that we have and that is then coming through the result that was also commented earlier by Jan.

Mikael Jafs - *Cheuvreux - Analyst*

Okay. Thank you.

Operator

And we're going to take our next Linus Larsson from SEB Enskilda. Please, go ahead.

Linus Larsson - *SEB Enskilda - analyst*

Yes. Thank you and good afternoon. First a question on volumes. If you would like to comment on what volumes you expect for the second half if we look into 2010 and 2011, the second half volumes have been clearly weaker than the first half volumes. Is that the seasonal pattern that we should expect also for the current year?

Seppo Parvi - *Ahlstrom Corporation - CFO*

Linus, as you know, we don't of course comment [hugely]. We have given all our guidance on the net sales but what we have said and what can't be mentioned is that the visibility is lower and there's a lot of volatility on the market as we have mentioned. I mean it's a challenging market environment.

Jan Lang - *Ahlstrom Corporation - President, CEO*

If I may add to that, Linus, in terms of the cyclical and then the bi-quarter development. When you look at last three, four years, we have had a quite significant swings by quarter in the revenue development. However, typically, we should see quarter three and -- I'm sorry -- quarter two and quarter three being the strongest ones in a year. However, this has been quite different over the last three or four years.

Linus Larsson - *SEB Enskilda - analyst*

And you have hiked -- you have announced some price hikes, if you could please update us on those. I think you announced the price hikes on label and processing in June. How has that been received in the market and what other price hikes are underway if you could please comment on that.



Seppo Parvi - Ahlstrom Corporation - CFO

Jan, I can take that one. We have announced, especially, on label and processing, a price increase relating especially as it was mentioned pulp price development in euros. And as you know it's very typically in our -- especially [tax] basis in our business in general that prices are not index but prices are negotiated based on the raw material especially pulp price development.

It's of course too early to say how they go through but we are confident like earlier that we are good position to push them through and also that we have put also (inaudible) like in the previous years, a lot of effort and focus on marketing management and managing our selling prices. And the key thing based on sales force in line and keep pressure on them. And we have of course some other price increases going on in the businesses to mitigate the changes.

Linus Larsson - SEB Enskilda - analyst

Okay. But nothing that you would like to quantify or in other ways specify where, when and how much?

Seppo Parvi - Ahlstrom Corporation - CFO

No, no. It's a necessary -- those announcements that they have made and that we -- it is normal partnership going on.

Linus Larsson - SEB Enskilda - analyst

Okay. I understand. And then also, if you could please comment a little bit more on the currency situation. You said that year on year the EBIT impact was EUR4.4 million negative. Please, if you could explain that. Is that entirely an effect of cost going up effectively? And also, what do you expect in the third quarter compared to the second quarter? I mean, the euro has continued to weaken, does that mean that we should expect even harder currency hit in the third quarter or how should we understand this? If you please could help us understand that a bit.

Jan Lang - Ahlstrom Corporation - President, CEO

Yes. Sure. Of course, it is a combination of many things. It's coming partly from transaction exposure, currency flows and such. We also sell also in US dollars exporting from European countries especially. And then there is this effect coming from Europe or US dollar take pulp pricing range, it's converted to euro at the time of invoicing or push the currency position as such.

Now, I don't want to speculate on how currency rates will move during the Q3 but I would expect that in fact, that we have seen this quarter to flatten out of this (inaudible). So it's not -- so coming through in such a way. And also keeping in mind the price increases that mitigate especially related to processing fees, cost that we have seen is important to keep in mind.

Linus Larsson - SEB Enskilda - analyst

But you see my concern that much of euro weakness actually happened after the closing of the second quarter.

Jan Lang - Ahlstrom Corporation - President, CEO

Not clearly. It was more during the Q2 and towards the end of the Q2.



Seppo Parvi - Ahlstrom Corporation - CFO

Linus, we had a weakening of the euro very quickly during a few weeks time at about 11%. Typically, as we have stated from quarter to quarter or in this quarterly reports, we are rather on an EBIT level neutral to currency impact. But this quarter we had a very fast change of particularly the euro/US dollar rates.

This similar situation happened in quarter three 2010. Not that severe but some resemblance of this situation. So given the high swing during a very short period of time, that's what caused this problem particularly here.

So all things being equal and generally the trend has been over the last three or four years, we should see a different and a normalized situation going forward. But of course, we can't guarantee that natural, it depends on how the world is developing naturally in this respect.

Linus Larsson - SEB Enskilda - analyst

That's great. Coming back to volumes just finally, do you expect higher or lower market related downturn to be taken in the third quarter compared to the second quarter?

Jan Lang - Ahlstrom Corporation - President, CEO

Linus, we will not be able to give you a comment on that. That of course depends on the demand situation not as such. We have given our guidance base on the best knowledge we have for the rest of the year. And we're going to have to live with that information.

As you have seen, we have a guidance of EUR60 million to EUR80 million and we made a good EUR30 million the first six months. Meaning that there is a (inaudible) to catch then and that's the assumption we have that we got, that we can do.

Linus Larsson - SEB Enskilda - analyst

That's fair enough. Thank you very much.

Jan Lang - Ahlstrom Corporation - President, CEO

Thank you.

Operator

(Operator Instructions)

Gentlemen, we currently do not have any questions in the queue.

Juho Erkheikki - Ahlstrom Corporation - Financial Corporation Officer

All right. It seems that we have no further questions at this time, so I think we are therefore to conclude this conference call. And thank you, ladies and gentlemen, and we hope to hear from you again in October when we are scheduled to report our third quarter interim financial report. So thank you.

Jan Lang - Ahlstrom Corporation - President, CEO

Thank you.

Seppo Parvi - Ahlstrom Corporation - CFO

Thank you. Bye-bye.

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