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AHL1V.HE - Q4 2011 AHLSTROM OYJ EARNINGS CONFERENCE CALL

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CORPORATE PARTICIPANTS

Juho Erkheikki *Ahlstrom Corporation - IR*

Jan Lang *Ahlstrom Corporation - President, CEO*

Seppo Parvi *Ahlstrom Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Mikael Jafs *Chevreurx - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Ahlstrom Corporation Q4 results conference call. At this time, I would like to turn the conference over to Juho Erkheikki. Please go ahead, sir.

Juho Erkheikki - *Ahlstrom Corporation - IR*

Thank you, and good afternoon from Helsinki. Welcome to Ahlstrom's fourth quarter and full year 2011 financial results conference call and audio webcast. My name is Juho Erkheikki, and I'll be your moderator today.

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 the slides are available on our website at ahlstrom.com. Jan, please go ahead with the presentation.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you, and welcome from my side. Good afternoon, good morning, wherever you are. I'm going to talk first through a overview on our strategy situation and execution of that, October to December 2011 numbers, and then, performance, full year, the four month, and then, Seppo is going to go into more detail the financial statements, and then, I will summarize with the future prospects.

So, if we move on first to the slide number three, executing on strategic themes, we have three top line topics that we have high on our agenda -- growth, technology base, and global presence, and a number of initiative topics made progress during the year 2011. And we have had a particular focus on Asia for a good reason. Market is growing strongly, and secondly, our relative sales is significantly under where we think it should be of our total revenue.

So, we have, in Asia, started a specialty reinforcement manufacturing in Binzhou, China. That started towards the end of the year. We have taken decision during the year to invest in a manufacturing of wall cover materials in Binzhou. This is high quality wall cover materials, where we are a market leader in the world on this particular segment.

And we have a joint venture in progress to be started up during 2012, second half. That is crepe paper manufacturing in Longkou, China. So, a number of things in the pipeline right now.

On the technology base, and perhaps, more around a portfolio, major divestment of home and personal was completed in the autumn of last year. And at the same time, we completed -- or, later in the autumn, we completed the acquisition of battery separator technology in -- or, the company being Porous Power Technologies, where we own just under 50% of the shares.



And we also exited from the in-house glass fiber manufacturing. [Karhula] now has closed, and on the other hand, we have made long-term supply agreements to ensure supply over glass fibers to our business.

In terms of global presence topics, we have worked very hard on creating common processes on the culture in the Company under one Ahlstrom umbrella, and a number of things have made good progress here, including our way of managing larger key accounts. We spent about EUR8 million in these development initiatives during 2011.

We then look at briefly October to December 2011 in page number four. Key topics -- one, net sales and volumes are below comparison (inaudible) get their number in a minute. Operating profit at EUR1.7 million, excluding nonrecurring items, and profit improvement program that was initiated in the autumn was implemented, and that will give us in the range of EUR15 million savings for 2012.

Moving on to page number five, net sales, quarter four, against last year, for continuing operations was down by 10.9%, and the volume, 12%, so very significant slowdown during the fourth quarter, in terms of sales volumes. And, of course, a quite significant portion of this slowdown is driven by inventory adjustment by our customer network and their customers. Any numbers we cannot give on that, but certainly, it is a significant portion of this slowdown of 12%.

Moving on to next slide, a -- just a summary of this breakdown on net sales, being 9% effect of volume and positive effect of 1.8% on price and mix. So these are the components, and we are mentioning also divestments and new assets, minus 2.9%.

On slide number seven, operating profit, without nonrecurring items, EUR1.7 million compared to EUR12.7 million the prior year. And, as you can see here on this slide, we had a quite okay first half of the year, but significant slowdowns then in the second half of 2011, particularly driven by volumes and capacity utilization rates at our plants.

By business area, slide nine, building and energy. Net sales down by 12.7%, volumes, 15.3% for the quarter, and in terms of segments, specific topics, demand in wall cover and flooring materials slowed down, as well as wind and energy industry that actually remained weak and had been weak also for some time.

We completed the closure of the Turin hybrid wall covering line that was decided during quarter three to be closed. And we ended the in-house manufacturing of glass fiber in Karhula that we had been doing the last 40 years and have elected to in source that -- source that from third party suppliers. And the wall covering investment in China, as mentioned earlier here, is progressing as planned. And operating profit was negative in the quarter of about EUR1 million, excluding nonrecurring items.

Filtration, page number ten. Part of the decline of volumes, which, down by 7.6%, is due to the dust filtration divestment in 2010. In terms of market activity, we saw on -- [as far as the] car industry and heavy duty truck industry a somewhat improved situation towards the end of the year in North America and South America, whereas, one cannot say the same of the European demand. And certainly, Asia car, and particularly, China, car in this development was much slower in 2011 than it was and has been the years before.

Positive note -- advanced filtration. We have positive progress, also driven by gas turbine sales. Food and medical, page number 11. Net sales down by 6.7% and volumes, 8.9% down. This slowdown particularly driven by food applications. The medical products, overall, were -- continued to be at a good level.

The result has been burdened the full year of the Mundra plant and the teabag line in Chirnside. We have -- as far as Mundra plant is concerned, we have made a additional investment to upgrade the technology and, at the same time, improve the quality of the product to a new standard. That started around year end, and we have already started to qualify products from that line. So, that should be the solution to solve the Mundra issue.

Chirnside teabag line is making slight progress, but as I've been communicating here earlier, it is very, very slow progress of qualifying these products from this line. And then, finally, label and processing, our specialty paper business. We have seen strongest decline in volumes, [albeit],



that we also have a divestment of the Altenkirchen business in 2010, but clearly, here we've been hurt most by the slowdown of volumes. And these volumes -- these negative volumes have been particularly visible in Europe, where also most of our business is.

Price competition has been increasing, naturally, given the low volume environment. On the positive side, introducing a new product, and release papers have been well received, and we hope to see some good benefits out of that in the coming years.

Then, to total 2011, a couple of slides, page number 14, where the summary of the full year is saying that our net sales from continuing operation is 1.8% down, so this has been particularly then, going on to a negative level, because of the weak quarter four. And sales volumes, in turn, slowed down by 4.1%, so quite significant swing here from 2010 level.

And on page 15, our operating profit -- well, you have several years' development. In terms of operating profit for continuing operations, excluding nonrecurring items, EUR49.7 million for full year and EUR20.1 million for -- including the nonrecurring items. Key topics here -- particularly in the first half, we had challenges with the selling prices to compensate for higher raw materials. New production line in Chirside, Mundra, La Gere, and Turin improved that performance by EUR5 million, but it was still negative in the range of EUR14 million, so still impacting our financial performance.

Waste reduction and cost saving initiatives had a positive trend and impact on our results. And then, we need to know that 2010 we had a gain from selling emission rights that impacted the 2010 results by EUR6.3 million positively, so one should eliminate that to see a like for like performance.

Slide 16, return on capital employed. We made good progress on that in the first half of the year, but basically came severely down then to -- in the second half of the year and ended up with only 2% return on capital employed.

Net sales by business area, slide number 17, shows that building and energy and food and medical had a positive growth for the full year, whereas filtration and label and processing were down by around 5%, 6%.

And then, finally, the EBIT -- operating profits -- I'm sorry -- by business area on slide number 18. Building and energy remained at just over breakeven. Here we have addressed three major topics and eliminated quite a lot of losses -- so, those losses that impacted this performance negatively.

And filtration was down by about 5 -- a good EUR5 million, down to EUR22 million, and this is primarily, then, impacted by sales volumes. And food and medical also down. And the most severely impacted has been label and processing by significant volume shortfall, and at the same time, we have a higher level of market related downtime on our facilities. So this concludes the first [of our review]. Seppo will continue with the financial statements. Seppo.

Seppo Parvi - Ahlstrom Corporation - CFO

Okay. Thank you, Jan. So, moving to slide number 20, a look at the net cash from operating activities. In the slide here, we have figures since 2007, and of course, we can clearly see the positive effect in 2009 and 2010 from our working capital reduction project when we released EUR150 million cash from working capital. 2011 -- net cash from operating activities was EUR83.7 million.

On next page, we have development of operative working capital, and we are happy that we have been able to keep the working capital well under control, even after the project phase of the working capital reduction project has been over. And turnover rate, as you can see in the picture, has remained around 40, 41 days through the year.

On page 23, we have maturity profile of our medium and long-term credit facilities, and -- sorry, I jumped one page. Yes. So, I'm moving to maturity profile. Yes. Sorry.

So, maturity profile shows that there are no major maturities coming up during the next three years. We have about EUR50 million repayments coming up. The next [big] maturity is in 2015 -- EUR100 million bond maturity -- maturing that we issued in late 2010. And also, in 2016, we have EUR250 million revolving credit facility maturing. It is the facility that we renewed last summer in good time before the third one started in the financial markets this year.



Then, moving to income statement and balance sheet analysis. First, couple comments on income statement. Lower sales volumes are on net sales, like Jan already commented earlier. And operating profit -- or, actually, profit and loss for the Q4 2011 was EUR4.2 million and the year before, EUR9 million. This figure includes nonrecurring costs of EUR5.9 million in 2011 and EUR21.7 million in Q4 2010.

In Q4 2010, we had divestments of, for instance, dust filtration business, where there, some onetime write-offs were booked here. And profit and loss for the period, including positive discontinued operations, showed a loss of EUR14.8 million.

Then, moving to balance sheet, you can still see assets classified asset for sale, asset as liabilities. This reflects the fact that Brazilian part of the home and personal divestment is not closed yet. We expect to close that with the coming months, most likely, into Q1, and that will disappear after that.

On the equity, there is a reduction from EUR703.8 million to EUR622.7 million, reflecting restructuring costs, dividends paid during the year, some write-offs. This figure in equity includes sales, EUR80 million hybrid bond issued in 2009. Provisions are up from EUR9.7 million to EUR24.9 million. This is reflecting restructuring costs booked towards end of 2011, and those will be released as we go forward this year.

Then, moving to statement of cash flows, and there, couple comments. Net cash from operating activities, EUR10.9 million in Q4 2011 and EUR22.8 million in Q4 2010. Other investing activities, EUR111 million. That is reflecting cash received from home and personal divestment. And net cash after investing activities, EUR95 million. And future prospects -- Jan, over to you.

Jan Lang - Ahlstrom Corporation - President, CEO

Thank you. Current priorities and management agenda, page 29. Our execution on our strategy will continue to focus on expanding our operations in Asia. As we go forward, we will particularly focus growth opportunities on the strategic growth business areas that we have identified and communicated about.

And thirdly, high emphasis on building and leveraging our technology platform and, potentially, also looking for -- to expand our technology capabilities as a Company. This is a key driver of our future success at the same time.

Focus on efficiency gains, particularly in supply chain. We have a number of initiatives going on there without specifying them here, but it is about continued improvement here, where there is, certainly, still room for better performance.

And in terms of our Ahlstrom -- One Ahlstrom initiative, to continue to the group wide development programs to support the execution of our strategy, particularly to implement and finalize, next couple of years, the global processes that are of most importance here for our business.

Then, on following slide, a dividend proposal that will go to the AGM today, recommended by the board, a -- to pay a total dividend of EUR1.30, which is based on two components, EUR0.87, based on our dividend policy and principles, which is modeled -- based on our cash flow generation. This policy has been clearly communicated also. And then, a second component, which is a extra dividend of EUR0.43, which we are justifying by the cash generated from the divestment of our home and personal business. That generated for us net EUR140 million cash.

[Based on the] outlook for the full year 2012, we will continue with giving a guidance based on a range in net sales and operating profit plus guiding on the investment level. So, net sales expected to be between EUR1.575 billion and EUR1.735 billion in -- for the full year.

And our profit -- operating profit, excluding nonrecurring items, is expected to be EUR60 million to EUR80 million, as compared to the -- just short of EUR50 million in 2011. And we expect our investments to be at around EUR100 million for the full year, excluding acquisitions. Thank you.



Juho Erkheikki - Ahlstrom Corporation - IR

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Our first questions come from Mikael Jafs from Cheuvreux. Please go ahead.

Mikael Jafs - Cheuvreux - Analyst

Hello. Good afternoon. Yes, I have a question regarding the development of your costs you have described that you are taking down your internal costs, but it seems now, as [if the pulp] market is closing into a trough, we also note that oil prices aren't really declining anymore. How concerned are you that you would save additional margin squeeze from potentially rising costs going forward?

Jan Lang - Ahlstrom Corporation - President, CEO

Michael, Jan here. Hi. Thanks for the question. How are you? I hope you are okay?

Mikael Jafs - Cheuvreux - Analyst

Yes, yes.

Jan Lang - Ahlstrom Corporation - President, CEO

Now, firstly, we -- as you know, there has been a downward trend of pulp prices towards the end of the year, although, not dramatic in -- certainly, in euro terms, and recent trends have been that suppliers have been positioning themselves to increase prices, however, not being successful of it. To us, it seems that right now and as of the end of the year, that we have had a fairly stable situation as far as pulp is concerned.

Secondly, we saw the whole autumn and still in the beginning of quarter four that chemical prices tended to move upwards, but then, have balanced off that trend. All in all, we don't believe that there is any merit to say either/or -- going down or up, as we go forward here. So, we -- it's very, very difficult to give a forecast on it, but [rather], it seems like what the -- some of the estimates have been on a short-term basis that pulp prices probably are going to be somewhere where they are right now. So we don't see that -- and particularly in quarter four, there would not be any particular trends that would be significant to note. (inaudible)

Mikael Jafs - Cheuvreux - Analyst

Okay. Thank you very much.



Operator

(Operator Instructions)

We have no further questions.

Juho Erkheikki - *Ahlstrom Corporation - IR*

Well, if there seem to be no further questions this time, I think we are therefore ready to conclude this conference call. Thank you again, ladies and gentlemen, and we hope to hear from you again in late April when we are scheduled to report our first quarter financial results. Thank you.

Jan Lang - *Ahlstrom Corporation - President, CEO*

Thank you, everybody. Okay. Bye-bye.

Operator

That will conclude today's conference call. Thank you for your participation. You may now disconnect.

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