

# FINAL TRANSCRIPT

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**AHLSF.PK - Q4 2009 Ahlstrom Corporation Earnings Conference Call**

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Feb. 03. 2010 / 2:00PM, AHLSTF.PK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

## CORPORATE PARTICIPANTS

**Heli-Kirsti Airisniemi**

*Ahlstrom Corporation - Director - IR*

**Jan Lang**

*Ahlstrom Corporation - President, CEO*

**Seppo Parvi**

*Ahlstrom Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Linus Larsson**

*SEB Enskilda - Analyst*

## PRESENTATION

**Operator**

Good afternoon ladies and gentlemen and welcome to the Ahlstrom Conference Call. My name is Faye, and I'll be your coordinator for today's conference. For the duration of the call you'll be on listen-only. However, at the end of the call you will have the opportunity to ask questions.

(Operator Instructions).

I'm now handing over to Heli to begin today's conference. Thank you.

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**Heli-Kirsti Airisniemi** - *Ahlstrom Corporation - Director - IR*

Thank you, Faye. Hello, everybody, and good afternoon from Helsinki. My name is Heli-Kirsti Airisniemi and I will be your moderator here at Ahlstrom. I would like to welcome you all to the Ahlstrom Conference Call and for the very first time to the audio webcast as well.

Please note that the real-time slide show is available on the webcast platform on our website, [ahlstrom.com](http://ahlstrom.com) and the presentation of course will be held by Mr. Jan Lang, the President and CEO, and Mr. Seppo Parvi, the CFO. Mr. Lang, please, the floor is yours.

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

Thank you, Heli-Kirsti, and welcome from my side. I think everybody is happy that 2009 is behind us. Now it's time to wrap up and then go forward. I will go through the first part and then Seppo will continue with numbers, more specifically.

If you look at our overall situation last year there were a number of good things and particularly what was pleasing was our cash flow generation and EBITDA and strength from the balance sheet. Our net sales was however, clearly, decreasing whereas EBIT a similar level as in 2008 excluding the non-recurring items driven by material costs and restructuring measures.

When we look at our net sales trend we see that we had a positive development during 2007 and 2008. However, it came down by 11.4% during 2009 driven by volume shortfalls, and that trend when we move to the following slide on quarterly net sales we can see that first quarter we were 19% behind the prior year.

Feb. 03. 2010 / 2:00PM, AHLSF.PK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

Which then improved quarter-on-quarter and quarter four we were pretty much at the same level as 2008. However of course, we need to take into account that 2008, quarter four, was really dismal given the last six to eight weeks when the demands catastrophically dropped. So a recovery of demand as of the end of the second quarter is what we have seen.

If we move onto the following slide, net sales by business area, we can see quite a different picture depending on our division. Advanced Nonwovens was performing best at this minus 7%. However, it is pretty much driven by exchange rate differences and the other business areas, except Glass and Industrial were around 10% compared to prior year.

And the most difficult one was certainly Glass and Industrial Nonwovens where in particular the windmill and marine market demand has been poor throughout the year. And we did not see any improvement in that happening towards the end of the year either. We believe that we have reached the bottom but not necessarily any improvement at this point of time.

Moving to the following slide, net sales by region; the clearly best performing area was Asia-Pacific, of course given the economic environment that is natural as such. We have also, however, invested in additional sales capabilities in that area the last couple of years.

Europe, clearly weakest by 17% behind, and North America and then South America about 7% behind there last year. Europe versus North America is driven by a mix, the difference here is mix related. We have a significant focus on Glass, Industrial Nonwovens in Europe, and that is one key element here.

Now moving then to the operating profits development; here we can see the EBIT trend being a negative, just short of EUR50 million in 2009. However, when we eliminate the non-recurring items, we are at a similar levels; just short of EUR40 million when compared to 2008. This given with the fact that we had 11% lower revenue, it's quite okay from my perspective. This is in terms of EBIT as a whole driven by volumes of course and then the non-recurring items and the impairment charges to the extent of over EUR50 million.

Looking at the operating profit by quarter, the following slide we can see that the trend of EBIT excluding non-recurring items improved quarter-on-quarter. And quarter four was significantly better than quarter four 2008 that was negative. In terms of EBIT as a whole, the big non-recurring items charges took place in quarter four.

Moving to by segment; a short summary. First, Fiber Composite segments; the volume decreased, as we said, in all business areas and especially in Glass and Industrial Nonwovens. Revenue was down by 12.8% year-on-year.

Looking at from specific issues investment related topics; the Tver plant in Russia manufacturing glass fiber products had a difficult startup, but we saw clear improvement here during the second half of the year end and that started to operate on expected levels.

Whereas, the Chirside facility where we have invested in a biodegradable food production line, [feedbacks line], the approval process is still going on and we are clearly behind the ramp up on that facility and had a negative impact for us.

In Mundra we have invested in medical products and this production startup has been planned to quarter one and we are in the process right now of ramping the facility up and going pretty much to plan at this point in time.

Looking at the EBIT development for Fiber Composites being negative just short of EUR20 million. However, this incorporates EUR44 million of non-recurring items. So excluding non-recurring was better than in prior year and that's EUR25 million approximately.

Then moving to the next slide on Specialty Paper segments; sales volumes decreased pretty much a similar trend in both business areas and recovered in H2, the second half of the year. Revenue was down by 9.6%. In terms of [La Gere] where we made a fairly large investment in 2007 to upgrade the facility, we have seen a profitability that has been short of expectations,



Feb. 03. 2010 / 2:00PM, AHLSE.PK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

which is predominantly driven by market overcapacity. This is in France and labeled products that we make in this facility. EBIT improved year-over-year and was 42% higher than 2008 including non-recurring items of about EUR7 million.

Moving to product innovations; a brief summary of our activity last year. In all of our plants we can say that the renewal rate of our products is on a good level. When we look at the rate of new products for the last previous three years, the number is 48% which includes what you would call new new products but particularly renewal of current product offering.

And the highlights here are a few such as Bi-component nonwoven material for medical applications with new features. The Hybrid wallcover, which is behind an investment in Italian Torino, the upgrade of a machine, a piece equipment that is a product that we started to commercialize end of the last year.

In the filtration area, filtration media innovation is key for success and here continues of new products have been floating into the market as both in the car industry and the utility industry. The requirements are being tougher and tougher and we need to follow and are following with upgraded and improved features on all products.

A new range in dry wiping fabrics and one-side coated label paper are other examples and many other things. So a pretty good activity level and good successes here in this arena. Then moving to cash flow generation which was definitely the highlight of last year of earning working capital driven by improvement of EUR104 million our cash flow from operating activities more than doubled to EUR209 million in the year of 2009. So a particularly strong performance here.

And moving to working capital trend, which had been a high priority for us last year. Naturally, when revenues decreasing then working should decrease. However, what we have managed to do is to improve the performance of working capital at a turnover and that has improved on a rate of 23 days by the end of the year. And compared to net sales, we are down closer to 15% level by the end of the year, where we have been in the previous years more on the level of 22%, 23%. So a strong progress here which has helped then to address our balance sheet structure. I will now move over to Seppo Parvi and he will talk through financing issues and details around the P&L. Seppo.

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

Okay, thank you, Jan. So our year is now here inside the target range of 50% to 80%. It came down during 2009 from end of 2008, leveled off at about 95% to 58% by end of last year. Also, net debt was reduced by over EUR200 million thanks to good, positive cash flow as the last hybrid bond issued in November.

On the following page we have maturity profile of our medium and long-term credit facilities. One theme of the year was to expand maturity structure of the loan portfolio. Average maturity at the moment is about 2.3 years. During the year we arranged total of EUR311 million medium-grade facilities. At the end of the year liquidity of Ahlstrom was very good. In total we have EUR328 million liquidity available for the Company.

On the following page we have income statement and some key details there. First of all, net sales was reduced from EUR1.8 billion to EUR1.6 billion driven by lower volumes. Lower volumes are also reflected on expenses but we have to note is that we can see about 5% reduction in fixed costs excluding non-recurring items. That is about EUR20 million, EUR22 million. EBIT negative EUR14.6 million, that is burdened by non-recurring items already mentioned by Jan earlier.

Net financial expenses came down from EUR34 million to EUR26 million. This reflecting lower interest rates and reduction of our debt level during the year. Loss for the period was EUR33 million. Then on the following page some comments on the balance sheet. Inventories came down, that this reflecting an improved inventory turnover thanks to our working capital project. The same in trade and other receivables, but the focus was paid on improving collections of receivables.



Feb. 03. 2010 / 2:00PM, AHLSPK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

Equity was EUR686 million. Equity went up despite the loss for the year thanks to hybrid bond and also positive translation difference during the year. Interest-bearing debt went down by EUR240 million thanks to our strong cash flow and hybrid bond issued. And also you can see positive development on trade and other payables as we have been focusing on payment terms, also by accounts to payables; and clear strengthening of the balance sheet, like I already mentioned earlier.

Then moving to cash flow on the following page; I've several times mentioned already, positive development of the net working capital is reflected on cash flow statement. Other financial items went up by [EUR12 million], and that is a reflection of negative cash flow from some sporadic change-related hedges.

Looking at the investments, the reduced investment level is from previous years, EUR153 million to EUR66 million last year. Last year we reduced CapEx for necessary investments only. And thanks to all of these exercises altogether our cash flow after investment activities improved by EUR200 million, that [we have allowed us] to reduce our debt significantly. Over to you, Jan.

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**Jan Lang** - Ahlstrom Corporation - President, CEO

Thank you, Seppo. Now we had a numbering of restructuring initiatives during last year that was started in two phases; January and April. These actions have advanced our cost base by a EUR55 million level that we will have a full impact of during 2010, part of that already been achieved and taken home, if you will, in 2009.

The total cost of this program has been about EUR32 million, EUR18 million of that being cash-related. All in all, we have reduced employees by 740 persons, of which 560 has left the Company by the end of 2009 and during the early parts of 2010, an additional 180 persons will leave. And the programs we have communicated separately, that are listed here, during the year.

Moving on the following slide on dividends and the dividend proposal by the Board to the AGM; that was also decided today. Just a reminder about our adjusted policy that was issued towards the end of last year; our aim is to pay a dividend of not less than one-third of net cash from operating activities, after operative investments and this is calculated as a fee of rolling average.

Based on this, the proposal is to distribute EUR0.55 per share and dividends, and this one works out to about EUR26 million. And on the following page, you'll find dividend calculation. To reflect this based on our net cash from operating activities and operative investments, that in 2009 was EUR28 million. And based on this then, has set a payable dividend of EUR26 million.

Then moving to our outlook for this year; as has been discussed here earlier, the market sentiment improved during the latter half of 2009 and we see that the overall business should be stable in most business areas, however, the biggest challenge we see is in the [medical] and marine market. And whereas I said earlier, we expect that we have reached the bottom towards the end of last year, but not seeing any improvements there.

Net sales is expected to be improving against 2009, however, it will remain lower than 2008. The operating profits, through a more efficient cost structure and improved demand, are all in all, compared to 2009, we expect that profitability will be improving and that the EBIT excluding non-recurring items is to increase from 2009. Our investments are estimated to be at EUR60 million level excluding acquisitions.

As we have indicated here earlier, we estimate that our operative investments are and should be running at about EUR40 million to keep the facility structure in good adequate shape. Then the final comment from my side is our management agenda for 2010. Key and critical here is to implement the strategy that we informed about after end quarter, quarter three, and this is predominately a resolve to drive profitable growth and to execute the two business models, our value-added business and operational excellence business as we have indicated and to get that operationalized during this year.

Growth in Asia is important right now and when we to look at 2009 numbers, it represents about 10% of our revenue and our ambition is definitely to strengthen our position there and are looking for ways to do that. We are going to develop a number

Feb. 03. 2010 / 2:00PM, AHLSP.PK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

and with certain priorities, obviously, our global processes, to ensure that we are able to simplify and manage the business in a more efficient way and at the same time to offer our customers with efficient and good service.

We will be working on our cultural and leadership topics as a key priority also. Working capital is going to be high on the agenda to complete the project that we started earlier this year and we will continue with improvement activities to drive improvements throughout the business. And one particular topic that we have on the agenda for this year is our base levels in the manufacturing that we aim to improve as we go forward. So that is an overview by myself and thank you for that. And then over to potential questions from you. Thank you.

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## QUESTIONS AND ANSWERS

**Heli-Kirsti Airisniemi** - *Ahlstrom Corporation - Director - IR*

Okay, thank you, Mr. Lang. We are now ready for the questions and please note that you can also post questions on-line by the audio webcast platform on our website. So Fay please go ahead with the question-and-answer session. Thank you.

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**Operator**

Thank you.

(Operator Instructions).

We have a question from the line of Linus Larsson at SEB, please go ahead.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Thank you very much and good afternoon. I wonder if you could give some more help on the very immediate, near-term outlook and maybe, in particular, as regards to the raw material developments. It's encouraging to see that you were able to expand margins in the fourth quarter compared to the third quarter. What should we expect in the first quarter, that's my first question please?

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

Thank you for that question. Now, as you know, and has been seen, the raw material products have been increasing here during the latter half, the second half, of last year. They're quite strong now, and particularly pulp prices, which is a key raw material for us. As those have been publicized, the raw material prices for pulp have continued to receive price increase pressures. There have been announcements by various suppliers on that area.

The view is that this is going to stabilize during quarter one and at least not increase in quarter two, rather decrease. However, as you know it's very difficult to estimate where raw material prices are going. We feel it's somewhat unnatural that the prices have been rising as much as what they have right now.

In terms of quarterly guidance, we have elected not to do that and therefore I cannot give you a clearer view and position on where we are moving as far as the quarter is concerned. We have elected to guide on a full-year basis. In terms of price increases, we obviously, to reflect the change in raw material prices, we have been very active during last year and we believe that we have had a pretty good success to do that and assuming, and if the raw material prices are staying where they are, or even going higher, we will go for additional price increases. The key area is to manage the margin on an active basis and we have



Feb. 03. 2010 / 2:00PM, AHLSE.PK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

put processes in place to be more active in this respect, so that is a key element. However, in this industry, it is always challenging to move prices up just to keep up with the increases as they come through, so, I wouldn't say that it's easy but that is there.

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**Linus Larsson** - *SEB Enskilda - Analyst*

And, on the pulp side, what's the lag before a list price hits your P&L, would you say?

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

That, of course, depends very much on stock letters, et cetera. But if you look at the last year and how fast the effect of pulp prices came through, it's roughly a quarter.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Okay, and then, also, on the price hikes that you are referring to, could you give us some figures as how big a percentage of your total sales where you are seeing successful price increases coming through in the first quarter or at the start of this year?

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

That is something we are not commenting.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Does it vary a lot across the various markets where you -- I would assume there are big differences between the very different segments where you are active.

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

Well, there are differences. Of course, particularly what you will find is between specialty paper and fiber and particularly where we have synthetic fibers, so you will see a different mix of raw material impact, if you will. And there is a variant there, but pretty much in most areas we have seen price increases also on the synthetics side, but the big steps have been definitely on the pulp side.

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**Linus Larsson** - *SEB Enskilda - Analyst*

You mean on the pulp, now you're talking about your own pulp-based products?

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**Jan Lang** - *Ahlstrom Corporation - President, CEO*

That's correct, yes, correct.

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**Linus Larsson** - *SEB Enskilda - Analyst*

Yes, okay. Then, just finally referring to your management agenda, you've gone through some quite significant re-structuring processes in your company. What should we expect for 2010, will you continue announcing further re-structuring measures, potentially closures? Are there further charges to expect in the next 12-month period?

Feb. 03. 2010 / 2:00PM, AHLSPK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

**Jan Lang** - Ahlstrom Corporation - President, CEO

I believe that the key topic here is that the big steps that we needed to make we did during last year and they have been announced and the costs have been taken for that. Of course, there's always, in any company, there's always improvement potential and I cannot exclude that we potentially might do, or have to do something. Right now we do not have any concrete plans on that and certainly, if you look at it from a significance point-of-view, I cannot see that there will be anywhere near as we did, any need to do anything near as we have done last year. We believe that we have done a pretty job in this respect during last year.

**Linus Larsson** - SEB Enskilda - Analyst

Okay, excellent. Thank you very much.

**Jan Lang** - Ahlstrom Corporation - President, CEO

Thank you.

**Operator**

Thank you.

(Operator Instructions)

We have no questions coming through so I'll hand you back to your host.

**Heli-Kirsti Airisniemi** - Ahlstrom Corporation - Director - IR

All right, we have some on-line questions here. First question is: What is your estimate on cost inflation in 2010?

**Jan Lang** - Ahlstrom Corporation - President, CEO

We are not giving specific finance on cost inflation for the coming year.

**Heli-Kirsti Airisniemi** - Ahlstrom Corporation - Director - IR

Okay. Second question is: How would you describe your possibilities for implementing price increases in 2010.

**Jan Lang** - Ahlstrom Corporation - President, CEO

I think we answered that question already earlier. We will and are active on this side, it's a key topic of course, to maintain the margins and that is a focus area for the whole organization, so we will go for, as there is a need to increase prices.

**Heli-Kirsti Airisniemi** - Ahlstrom Corporation - Director - IR

Okay. Then we have a long question; you say that the stronger balance sheet gives you financial ability to implement your revised strategy. Why do you need this financial ability and what exactly are your first concrete steps to implement the strategy?



Feb. 03. 2010 / 2:00PM, AHLSPK - Q4 2009 Ahlstrom Corporation Earnings Conference Call

**Jan Lang** - Ahlstrom Corporation - President, CEO

Well, of course, any flexibility that the Company has is good for developing the business. In our strategic agenda there's a couple of topics that we have indicated; one is that we want to, and need to, strengthen our Asian position and this is a possible step that we will work through during this year. It might and at some point it will require financing.

The second topic that I have indicated in our strategic agenda is that -- smaller acquisitions to strengthen our position as part of a portfolio or geographical expansion acquisitions is not excluded but that's final and of course [held].

**Heli-Kirsti Airisniemi** - Ahlstrom Corporation - Director - IR

Okay, thank you. The next question is; growth in Asia, will that be organic or non-organic?

**Jan Lang** - Ahlstrom Corporation - President, CEO

I think organic is certainly one key priority, but we will need to establish a stronger, if you will, infrastructure or facility structure in Asia. It will be around our current key priority product lines but that can be an organic investment or it can be a joint venture or it can be an acquisition. So, all options are available at this point in time.

**Heli-Kirsti Airisniemi** - Ahlstrom Corporation - Director - IR

Okay, thank you Mr. Lang, we have no more on-line questions at this point. Are there any questions by the conference call?

**Operator**

We have no further questions coming through.

**Unidentified Company Representative**

All right. Okay, so we have finalized this session here today. Thank you everybody and please be informed that the on-demand version and the transcript of the call will be available on our website and on Thomson Street Events. Thank you and goodbye for today.

**Jan Lang** - Ahlstrom Corporation - President, CEO

Thank you.

**Operator**

Thank you for joining today's call. You may now replace your handsets.

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