

FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Johanna Henttonen
Metso Corporation - VP - IR

Jorma Eloranta
Metso Corporation - CEO

Olli Vaartimo
Metso Corporation - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Erkki Vesola
Swedbank Markets - Analyst

Ari Jarvinen
Evli Bank - Analyst

Tomi Railo
Enskilda Securities - Analyst

Lauri Leino
IceCapital - Analyst

Johan Eliason
CA Cheuvreux - Analyst

Ben Maslen
Merrill Lynch - Analyst

Irene Bermont
UBS - Analyst

PRESENTATION

Johanna Henttonen - *Metso Corporation - VP - IR*

Ladies and gentlemen, welcome to Metso Corporation's news conference and webcast on our first quarter 2010 financial results. My name is Johanna Henttonen. And I'm heading Metso's Investor Relations.

Today we will start with a short presentation by our CEO and President, Jorma Eloranta. And after that, we will continue with the Q-and-A session, where we also have our CFO, Olli Vaartimo present.

But before we start, I would like to remind you that certain information we will be discussing today is forward-looking, includes thus uncertainties that might actually result our -- actual results to be different from the current expectations. But, Jorma, please? The floor is yours.

Jorma Eloranta - *Metso Corporation - CEO*

Thank you, Johanna, and good afternoon to everybody. The key thing in this first quarter report, in my opinion, is that the market recovery is truly gaining momentum. And therefore, we have upgraded our net sales guidance and profitability -- satisfactory profitability is also very positive thing in this kind of overall market situation what we have in the past.

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But let's now take a more closer look to the first quarter performance. So during the first quarter, most of our market continued to recover. And what is, in my opinion, very important, that it is today broader based than during the last six months. Activity has improved both in services and capital equipment businesses.

Pricing environment, could I say, stabilized, that the market is getting stronger. And as I said, our order intake, we feel it was on a healthy level, close to EUR1.4 billion. Our net sales were about EUR1.2 billion. And net sales could stay relatively low following last year's modest order intake.

So based on recovered order intake and improved market outlook, we estimate that net sales for the coming quarters will be picking up. So reported EBITA was EUR84 million. This number includes some EUR5 million of non-recurring expenses related to capacity adjustment actions lower than year before. EBITA before these was about EUR89 million, or 7.6%.

So profitability was slightly better than in the comparison period. To me, this first quarter performance confirms that the actions we have taken during the past 18 months have been correct. And also, it confirms to me that we are today a more competitive company than earlier.

So we are ready to deliver when the markets now are gradually improving. So if we now take a look to the first quarter development by reporting segments, these figures in this table are presented excluding the non-recurring capacity adjustment expenses. First is mining and construction technology, MCT. Net sales were EUR472 million. That was down by 11% from the comparison period. And EBITA for third quarter was EUR40 million, and margin 8.4%.

The profitability by the services business within the mining and construction remained on par with the comparison period, and the profitability of the equipment and systems business weakened. The main reason for the weakening profitability in the equipment business were lower volumes, and somewhat also price competition in the second half of 2009.

I mentioned price competition seems to be easing up as markets are recovering. Then in our energy and environment technology, EET, net sales were EUR332 million, down by 16% the year before. EBITA was EUR32 million, and margin 9.6%. EBITA improved in the comparison period in the power business, and weakened in the automation recycling business, mainly as a result of significantly lower delivery volumes.

For paper and fiber technology, PFT, net sales increased -- I hope you heard it correctly -- increased by 27%, and were EUR364 million. Comparable net sales growth, namely excluding the impact of the Tamfelt acquisition, was 15%.

EBITA was EUR20 million, and margin 5.4% in this business segment. Profitability before capacity adjustment costs improved in all paper and fiber businesses, including the recently acquired Tamfelt business, compared to first quarter last year. We have separately published still the first quarter performance of Tamfelt if somebody's interested.

Then next, order intake, this graph is on quarterly orders received. Starts to show, in my opinion, at least a nice, positive trend. In the fourth quarter, the growth was still coming primarily from the power business. This time, growth was clearly broader based.

For example, we received first larger mining orders since second half of 2008. And in recycling, the orders strengthened clearly after a very big period of 18 months. Orders came from all geographical regions. And the share of emerging markets in new orders was 43%. This 43% is a bit lower than earlier. But I believe it is more of a timing issue relating to the project business.

Services business, that continues to perform nicely. Services business quarterly net sales were steady, around EUR500 million, as you can see from the picture. And that accounted for 44% of our total net sales. However, what, in my opinion, is more important, is that the services orders -- new orders grew strongly by 29% from first quarter 2009, and were some EUR648 million. Yes, that's the figure.



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So services share of new orders in this first quarter was 47%. I think that's the all time high. And order backlog, it is a good indicator that our customer capacity utilizes the rates, and market confidence is improving. And also, our services net sales will be picking up over the coming quarters -- the last quarter performance in order intake.

For the backlog, yes, at the end of March, our order backlog was EUR3.7 billion. It is about 9% stronger than at the year end. Around EUR2.6 billion of the deliveries in our order backlog are expected to be complete in this year.

Uncertainties, we have reported in the order backlog, came down by about EUR50 million, as customers restarted previously suspended projects. Some words about the cash flows and financial position, last year we released large amount of cash from our net working capital. Now in first quarter, net working capital increased by EUR37 million. Increase came primarily from inventories and receivables. We continue naturally to follow the net working capital closely in order to keep turnover rates intact now when markets are recovering. Free cash flow was EUR35 million positive in the first quarter.

At the end of March, our gearing was about 33%, and in April, following the annual general meeting, we paid EUR104 million dividends for 2009. And the impact of this gearing from this dividend payment on gearing ratio was about 6 percentage points. So it would have been 39% if the dividend would have been paid during the March already.

So then moving to short term outlook, this is a kind of summary of our various businesses, how we see at the moment. We see that the global economic recovery is strengthening. And there are positive signs in demand in most of our customer industries.

The improving capacity utilization rates are supporting our services business. And also in most of our businesses, customers are gradually regaining their confidence to increase the level of investment. We have seen, for example, in mining, many announcement of this matter.

Based on recovery in order intake during the past six months, and the current market outlook, we are somewhat raising our net sales guidance for 2010. So today, we estimate our net sales in 2010 will exceed EUR5 billion. The previous guidance, which we came out in the same place in connection with our full year 2009 report, was about EUR5 billion net sales this year. And in connection with the third quarter of last year, our guidance was below EUR5 billion for 2010.

So you can see that our guidance for this year's net sales has been raised quarter by quarter as our confidence on the global recovery has been getting stronger. Global recovery and the recovery, in particular, in our businesses.

So we expect our profitability this year to be satisfactory. And as earlier, our estimates are based on our order backlog and the expectation that the recovery of the global economy will continue. So some closing remarks, I feel that the first quarter confirms that due to our decisive and quick response to the market turmoil and our new operating model, Metso is today a more competitive company than before.

We have gradually started -- gradually, but anyhow -- started ramping up the engineering and manufacturing capacity to match the improved demand. But there seems to be some slowness in component supplier and subcontractors base to ramp up their capacity. But I believe that they will also get up to speed as the overall confidence and recovery is now improving, and we definitely bring the message to them.

On a bit more longer term perspective, we are continuing to further develop our services business and global presence, as we have said earlier, as well also our environmental businesses. So I'm happy to say that Metso, we have emerged as the winner from this downturn. And now we are focusing again on profitable growth now and also long term. So by doing that, I believe we are building a sustainable future for Metso. So, ladies and gentlemen, thank you very much for your attention. We are now ready for questions -- or pretty soon at least.



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QUESTIONS AND ANSWERS

Johanna Henttonen - *Metso Corporation - VP - IR*

All right, I think we are now ready to start the question and answer session. We'll first take the questions here from the Helsinki audience, and then continue with the conference call participants. Kindly raise your hand if you do have a question. And before the question, state your own name and your company name.

Erkki Vesola - *Swedbank Markets - Analyst*

Hi, Erkki Vesola, Swedbank Markets. You received quite a good number of packaging board orders during the first quarter. Do you see continues -- or do you see these orders to continue going forward?

Jorma Eloranta - *Metso Corporation - CEO*

Well yes. It seems to be that they are activities ongoing in China in particular still. And we were talking last year about the mini-boom in China in paper and board machines. And mini-boom meaning it would be short term. But at least it looks like it continues.

Erkki Vesola - *Swedbank Markets - Analyst*

Then another one, what's the implication of increasing share services, orders to your gross margin going forward?

Jorma Eloranta - *Metso Corporation - CEO*

Slightly positive. But, Olli?

Olli Vaartimo - *Metso Corporation - EVP, CFO*

Of course. I'd say our services gross margins are higher than the capital equipment gross margins. So basically when the share of our services business increases the average gross margin levels should increase as well.

Erkki Vesola - *Swedbank Markets - Analyst*

Thanks.

Johanna Henttonen - *Metso Corporation - VP - IR*

Another question from Helsinki?

Ari Jarvinen - *Evli Bank - Analyst*

Ari Jarvinen, Evli Bank. Two questions if I may. First, related to the ramp up of the production volumes, you're saying that you experienced some slowness in the component segments and subcontractors. So I'm not looking for any number, but could you describe this a little bit more into which division this was related? And do you expect it to continue in the second quarter?

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Jorma Eloranta - Metso Corporation - CEO

I wouldn't say it is truly at least yet material. And as I said in my presentation, I'm quite confident that when our subcontractor suppliers get the understanding that these are improved situation they will hurry strongly to also improve their capacity.

There are a lot of layoffs and there are a lot of saving actions have been taken during the hardest recession we have witnessed after the Second World War. The only thing we now have to take a full speed in the gears and take all the opportunities.

We are still much lower level than we were in this -- when the capacity and the economy was booming. So we are not even close to that. But now ramping up means that there need to be actions. And that's why we wanted to phase it. There has been some of the flow controlled product, some areas and some components -- general components. But nothing major that I can recall.

Ari Jarvinen - Evli Bank - Analyst

Okay, thank you. And secondly, this foreign exchange game, positive impact on the EBIT, but negative on the financials. So could you explain a little bit more about the reasoning? And secondly, was this item booked into the division group head office and others in the EBIT line?

Jorma Eloranta - Metso Corporation - CEO

Olli?

Olli Vaartimo - Metso Corporation - EVP, CFO

We basically saw -- we are talking about an item that at the pre-tax profit level doesn't have any impact on us. It relates basically to our internal hedging arrangements between the segments and the group head office.

And when we have had, at the group level, a neutral currency position in certain currencies, especially in US dollars and Swedish Krona, we have used natural hedging, meaning we have not made any external hedging arrangements.

And in order to show the right operating profit level when we have not hedged anything out, so we make the adjustment at above operating profit line. And then the same -- let's say the adjustment made then on the financial income and net line.

So in a way, so that's an indication of that, that even though -- let's say like our segments would not have made any hedges. So this is how the operating profits would have looked. And simultaneously, when the head had not made any hedges, so we had entered into some currency losses because we had negative cash balances in Swedish krona and US dollar. So it is just to show the items on the right, let's say, point of the income statement. The overall impact is zero.

Jorma Eloranta - Metso Corporation - CEO

And we follow the IFRS in this regards. So it's mandatory accounting principle for us.

Olli Vaartimo - Metso Corporation - EVP, CFO

And basically those -- that EUR9 million is not shown in the segment numbers, because it would have been somewhat more complicated. So we show it at the group head office level.

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Tomi Railo - Enskilda Securities - Analyst

Tomi Railo, SEB Enskilda. A couple of questions. Firstly, out of the service orders, which were EUR648 million, how much was coming from Tamfelt, if that's possible to separate?

Jorma Eloranta - Metso Corporation - CEO

It is possible to separate. EUR30 million something.

Olli Vaartimo - Metso Corporation - EVP, CFO

It was EUR40 million in orders received.

Tomi Railo - Enskilda Securities - Analyst

And then if you can say something about your lead times currently, and how has those changed in say the past quarter?

Jorma Eloranta - Metso Corporation - CEO

Not really very much. We are still fairly competitive in that regard. Some separate items we need to discuss what is a proper lead time. But have not been a difficult discussion with our customers.

Olli Vaartimo - Metso Corporation - EVP, CFO

But maybe just to comment that we have of course, nowadays, a business model that is based very much on subcontracting and making in-house only the final assembly. So you have a fairly long supply chain.

So the comment what Jorma made about some difficulties in subcontractors ramping up their capacity related to that, let's say when we see the recovery, when we book orders, so there is a fairly long supply chain then behind us. And to make sure that every step of the supply chain then reacts quickly enough, so that is a bit of challenge in this type of supply chain structure, what we have. This creates flexibility in many ways as we have seen in our profitability. But then again, when markets recover, so you have to make sure that the whole supply chain reacts quickly and starts to ramp up capacity simultaneously.

Tomi Railo - Enskilda Securities - Analyst

I would also like to ask about the wording in terms of orders, and maybe the next forthcoming quarters. You are saying that, in a way, market is gaining momentum. It sounds like next couple of orders may be even better than the first quarter orders. Or would you in a way guide that maybe first quarter included some spillover, or some orders which were put on hold and now came back?

Jorma Eloranta - Metso Corporation - CEO

No, well we have not given any guidance on order intake. But what I can confirm is it means for us market activity has improved, and there is a lot of discussions with our customers of projects and services.

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But you can never say which quarter exactly they will be booked. Is it the second, third, fourth, next year? But it looks now much stronger than half a year. And not to speak about the year ago. It's totally a different situation.

Johanna Henttonen - *Metso Corporation - VP - IR*

Are there further questions here in Helsinki? Yes?

Lauri Leino - *IceCapital - Analyst*

Lauri Leino, IceCapital. Just one detailed question on the paper side.

There was this order last year, or letter of intent, from MCC Meili. What's the status on that one?

Jorma Eloranta - *Metso Corporation - CEO*

Olli do you recall it?

Olli Vaartimo - *Metso Corporation - EVP, CFO*

We have not that in our order backlog at the moment yet.

Lauri Leino - *IceCapital - Analyst*

So is it still in the negotiations? And can we expect it to unravel soon?

Jorma Eloranta - *Metso Corporation - CEO*

I think I don't want to start to comment on one particular customer situation. That's why I'll turn it to Olli. So it's nothing unusual that it happens so that the financial issues or some other issues to the customer. It takes some time. So that's the -- that is commonly what we book orders only when we feel they are really confirmed orders.

But sometimes it happens -- our policy is not to disclose those kinds of letters of intent, et cetera. But sometimes it happens that customers are disclosing. And then we feel it is prudent market practice to inform also our investor community that we have made a letter of intent or agreement subject to something. And it may create some confusion. But it is not in our hands to control the situation. And we have a statement that the engineering customers access. And we respect customers' opinion in this kind of a situation.

Johanna Henttonen - *Metso Corporation - VP - IR*

Further questions from Helsinki? I guess not. I do think that we are ready to take the question from the conference call participants and if at the end there is more questions from Helsinki, we can get back to here. So, operator, please -- we are ready here.

Operator

(Operator Instructions)

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Our first question comes from the line of Johan Eliason. Please go ahead with your question, announcing your company name.

Johan Eliason - CA Cheuvreux - Analyst

Yes, hello. This is Johan Eliason, Cheuvreux in Stockholm. I just had a question. I might have missed a little bit of the presentation, what you said about the cash generation. But wasn't it so that should be a little bit more net working capital to be released going forward? But I couldn't really see that in this quarter.

Jorma Eloranta - Metso Corporation - CEO

Yes. Now we didn't decrease but increased the net working capital in the first quarter. And it was both inventory and invoicing. But Olli, would you please comment?

Olli Vaartimo - Metso Corporation - EVP, CFO

Basically we set last year a target to release at least EUR500 million over two year's period -- last year and this year. Last year we already released over EUR500 million. And we have not set a new target in that way.

I think that we have commented in some connections that we see that there are still some opportunities to take down some inventories. But of course now when volumes are increasing, so we will see some increases in receivables. And so we have not set any specific targets for net working capital this year.

Johan Eliason - CA Cheuvreux - Analyst

Okay. Thank you. And then just on pricing, you seem to say that it's improving a little bit. And I guess the worst hit area was when you were selling out your construction equipment. Can you say anything about the different areas there? Is construction still the most difficult one in terms of pricing? Or --

Jorma Eloranta - Metso Corporation - CEO

Yes, well that might be true. So we just wanted to convey a message that pricing is always an issue. But the similar kind of situation, like half a year ago, seems to be easing up. And naturally there is a price issues, price pressure, we convey that message also to our subcontractors and suppliers that's one thing we have taken cost out -- capacity costs. And so that improves our situation. Then it's the volumes and so forth.

And as an overall situation, the conclusion, what we have taken, that the gross margin level is not going to change very much on a Metso level this year. That kind of generic feeling we have at the moment. And then it is very much the volumes. If the volumes go up, then naturally it helps that kind of an issue. Then comes these -- what is the mix in services and equipment and so forth, as we discussed a bit earlier.

Johan Eliason - CA Cheuvreux - Analyst

Okay. And then finally just a nitty gritty question here on your new guidance. You say we estimated our net sales in 2010 will exceed EUR5 billion, and that profitability will be satisfactory. And I read that previously you said that profitability will remain satisfactory. Is this kind of implying that the margin on a year-on-year basis could be both up and down now, but still within --

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Jorma Eloranta - Metso Corporation - CEO

I'm happy that somebody else but me reads them carefully.

Johan Eliason - CA Cheuvreux - Analyst

Should we read anything into it?

Jorma Eloranta - Metso Corporation - CEO

No, well reading that when the net sales is growing normally, when we control our fixed expenses and so on, and the gross margin is not deteriorating, that I think you then can take the conclusions.

Johan Eliason - CA Cheuvreux - Analyst

Excellent. Many thanks.

Operator

Our next question comes from the line of Ben Maslen. Please go ahead with your question, announcing your company name.

Ben Maslen - Merrill Lynch - Analyst

Yes, hi, everyone. It's Ben Maslen from Merrill Lynch in London. Two questions, please. You talked about the tender activity you saw in the mining area. Based on the tender activity you see at the moment, do you think the same kind of order rate we saw in the first quarter can be maintained or improved upon going forward? I guess were there any exceptional orders in there?

And secondly, a question on your longer term targets. You set them, I guess, at a fairly unfortunate time, given the cycle went down pretty soon afterwards. Given the work you've done on the cost base, and as this economy troughs and starts to improve, are they still relevant longer term in terms of where you think you can take the group to? Thank you.

Jorma Eloranta - Metso Corporation - CEO

The first question, yes. Meaning that there was nothing unusual in the first quarter in mining orders, in that sense. But it remains to be seen what will be -- what projects will truly materialize, and what will be our share of those projects. But nothing in particular in the first quarter. Then longer term, we have made a decision not to change our long term financial targets. And we have made a decision not to change our strategy even in this downturn.

And definitely we had a different practical management agenda. Concentrating on cost cutting and concentrating improving our competitiveness and supply chain, net working capital, these kind of shorter term issues. But definitely when looking forward, when we kept our capacity in full speed, and the order situation is -- and the market situation is truly activating, then there are, in the coming years, good chances that we will deliver what we have targeted. They are demanding targets, as we said then, when we set those targets. But I think companies need to have dreams.

Ben Maslen - Merrill Lynch - Analyst

Thank you very much.

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Operator

Our next question comes from the line of Irene Bermont. Please go ahead with your question, announcing your company name.

Irene Bermont - UBS - Analyst

Yes, hi. This is Irene Bermont from UBS. I have a couple of questions, first of which is whether you can elaborate a bit more on what the situation is in the pulp market. A revenue statement that demand for new fiber lines has picked up. Are you seeing that coming through in orders? Or is it just tendering activity?

Jorma Eloranta - Metso Corporation - CEO

Well that depends on our customers. But I'm hopeful that there will be orders to us or somebody. And I'm very committed that we will take our fair share of those orders in case the customers make a decision to proceed. But if you want to say propabilities more likely, the orders will come during this year already. They're not coming.

Irene Bermont - UBS - Analyst

I see. In that respect, is there any more clarity on the Fibria order? Are they still uncertain?

Jorma Eloranta - Metso Corporation - CEO

That is still uncertain. And we have a continuous discussions with them. But I think we are not disclosing anything before they will say something.

Irene Bermont - UBS - Analyst

I understand. And last question, I just wanted to check with you regarding the interest charge going forward. It appears to be slightly higher in this quarter. Should we expect it to remain at that level?

Jorma Eloranta - Metso Corporation - CEO

I think, if Olli clarifies it, it's very much relating those exchange rate issues. But, Olli, could you please?

Olli Vaartimo - Metso Corporation - EVP, CFO

But of course. We have two items there in financial income and net. So I think that total number was 27. 18 of that was interest net. So there, in the actual interest net, we do not see any big change. We have the gross debt what we have. And that carries some cost towards the end of the year. So we will have some maturities coming up. And the gross debt will start to gradually come down. But it will only start to happen towards the end of this year.

Irene Bermont - UBS - Analyst

Okay, thank you very much.

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Operator

We appear to have no further questions at this time. I'll hand the conference back to you.

Johanna Henttonen - Metso Corporation - VP - IR

Thank you, Operator. I think we do have more questions here from the Helsinki audience.

Erkki Vesola - Swedbank Markets - Analyst

Erkki Vesola, Swedbank, again. Regarding your recent services order intake, could you give us an update on the division between spares and wares and man hours, and if there's any trend?

Jorma Eloranta - Metso Corporation - CEO

Spare and ware parts and similar something, 80%, 90%. But natural, they also will labor in content in those. We produce them and design a lot of them. So roughly we have some 9,000 people in services -- 9,000 plus in services business. So that kind of a content goes to the services. But it is in the form that we have a services network. We have promises to our customers to supply them in certain time interval. And that is also the part of the service.

Erkki Vesola - Swedbank Markets - Analyst

Some 80% to 90% sounds like you can't trace any trained there -- that would have been increasingly.

Olli Vaartimo - Metso Corporation - EVP, CFO

No major change. I would say the only change, of course, is that we acquired Tamfelt Services business. And that is mainly consumables. So actually the zero spares and wares has increased as a result of that.

But of course I'd say our long term ambition is definitely to grow also the other part of the services business, than spare parts and ware parts. But like Jorma said, so they often go hand in hand also in the field.

Erkki Vesola - Swedbank Markets - Analyst

Okay, thanks.

Johanna Henttonen - Metso Corporation - VP - IR

More questions from the Helsinki audience? I guess not even from the conference call lines. Okay, thank you, ladies and gentlemen. I thank you all for participating. This concludes our webcast of today. Our second quarter report will be published in the summer time in July - 29th of July is the date. The full details of the report can be found on our website. Thank you.

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