

Cargotec Oyj
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Chaired by Paula Liimatta

Paula Liimatta

Good morning ladies and gentlemen and welcome to the conference call of Cargotec's January-December 2012 conference call. My name is Paula Liimatta and I am the Head of the Investor Relations. Today, we will have a small live audience here in Helsinki and people on the phone lines. We will start with a presentation by our CFO, Eeva Sipilä; after that, we will begin a Q&A session. Eeva, please?

Eeva Sipilä

Okay, thank you Paula, good morning everyone. Going straight into our fourth quarter highlights, an order intake of 710 million; here, when you look at the comparison, please bear in mind that the comparison is pretty tough. We had in 2011, in Kalmar, a big more than 100 million port project in that comparison, so I think the 710 is a good number. Sales growth of 7% in the quarter and the full year of 6%. We booked a restructuring cost of 25.7 million, which is in line with what we published some weeks ago earlier already. Operating profit without those restructuring costs was 4% for the quarter and 4.7 for the full year. We are happy on the cash flow of €90.6 million for the quarter and, obviously, during the year, the year annual cash flow also to clearly positive.

Going into slide number four, a bit more detail on the restructuring costs, nothing new here; this a list of the issues we have been discussing already since the second half of 2012. However, here now the full outcome of our restructuring costs for 2012 of 26.2 million; the 25.7 was the fourth quarter part of this. As we announced earlier, 19 million of this 26.2 are costs that have a cash flow impact. The rest is more write-down types of issues, and here you see the division between our segments, as well as some costs on the corporate commons costs items as well. With these measures we target 30 million of savings in 2013, roughly half coming from Kalmar. We also do expect to have a significant decrease in our corporate common cost row in 2013 due to the new operating model with a lighter corporate structure.

Going into the full year figures, orders 3.058 billion. We had sales of 3.3 billion, as said, the 6% growth on the full year level and the operating profit for the full year, excluding the restructuring costs, was 157 million. Cash flow 97.1, so a good comeback. Interesting bearing net debt increased from a year ago to 471 million, but with a 39% gearing we are comfortable with our balance sheet health. Earnings per share €1.45 then as a total due to a bit higher tax costs in the year than in some other previous years when we've had a bit lower rates.

Here on slide six you see the performance development still on a quarterly and of course the trend is the challenge we have in the mix of business changing. We have less of MacGregor business and more of Kalmar and Hiab, and, as you all well know, the operating margin difference between the segments is still considerable and that obviously weighs on the overall Cargotec performance, but it's probably best I go in this segment specific comments and in the coming slides, and starting with MacGregor. We are very pleased with the order intake of 250 million for the quarter. It corrected nicely the other low level of the third quarter. As you may remember, we discussed then that we did see some postponements of orders going into fourth quarter and, as you see now, from the number that did materialise. As such, we're not indicating any big changes in the market, as such the shipping market remains, it remains tough especially on the financing side and, of course, that has an impact on how much cargo handling equipment is required for ships, but we are performing very solidly on the order book we have, and this 16% margin is a bit inflated by a 7 million capital gain on property in Singapore. Excluding that capital gain, it would have been 13.3%, so still a very strong performance on the quarter and also on the full year, so maybe nothing additional on MacGregor to note.

Going into Kalmar, here clearly, as you all well know, it's been a very challenging year and the fourth quarter was no different. We obviously now are seeing the impact of delivering on the order book where we have had some challenges in the bigger project side, and that does affect the margin. As such, good sales growth, we had a good delivery quarter in the fourth quarter.

On the margin side, nothing new to note as such. We have been discussing about the fact that we have lower margin large projects ongoing and we continue to have some cost overruns in those projects, which naturally didn't help the overall profitability. Then, as has been discussed, relatively speaking the share of services has decreased in 2012 and that has an impact on the overall profitability. Service has grown, but we've had such strong growth in the new equipment side that relative share has decreased. We closed the year also with a theme of heavy investment in port automation technology. We ended up spending some €48 million in R&D in Kalmar business, so a substantial part of the overall 75 million spent in Cargotec and, of course, a substantial increase from the previous years. We do consider that as an investment into the future and do see, as such, that the port automation market is very attractive and very interesting to us, and we continue to believe that our investments will pay back in the coming years.

Higher fourth quarter, good order intake I think overall despite the sort of bit more negative overall sentiment in Europe, it was quite okay; also, of course, helped by a very strong Americas performance and that of course gives a decent start for the year of 2013. Margin of 3.5% we were able to improve on the previous couple of quarters and that of course with the help of higher volumes, and that of course was something we're satisfied with and something we hope we can continue as we continue to focus on profitability in this segment very much as well.

Then looking at the overall Cargotec cash flow numbers, as mentioned, 91 million for the quarter, we did indicate already earlier in the year that with the increased growth in Kalmar and Hiab, and their business model which ties more capital, this development of having a first half tie (?) capital and then the second half releasing it was according to our expectations and you will see from our balance sheet that we had a good reduction of

inventories thanks to good deliveries in the fourth quarter, and this is of course gives a good closing for the balance sheet.

Services sales grew 3%, so this you can compare with the overall growth for Cargotec of 6% for the full year, slowly but steadily going ahead, and here of course the capacity utilisation in some of our customer groups is having an impact on their need for the services business.

On the geographical split or maybe on the segmental split here on the left hand side you see what I already mentioned, that we see the blue area, MacGregor, decreasing relatively speaking, 32% of all overall sales compared to 39 a year ago, and Kalmar taking a bigger share of the overall relative composition of sales. On the right hand side you see the geographical mix here; maybe to note the positive development in Americas is visible here, now representing 24% of overall sales and Europe 40% and flat on that, and Asia Pacific two percentage points down.

Earnings per share 1.45 for the year and the Board proposes for the AGM a dividend of 72 cents per B class share and 71 cents per A class share, which is in line with the dividend policy of earning dividend to be between 30 and 50% of earnings per share and the 72 represents 50%.

Going then into 2013, I think you have all noticed that we have been happy to announce our new President and CEO, Mika Vehvilainen, who starts already in a month's time or even a bit less than month's time, actually 1st March, and he will then be in this next quarterly presentation.

To conclude before any questions, just on the outlook, we are stating that overall sales we expect them to be slightly below the 2012 level; at the same time, operating profit, excluding restructuring costs, to be at the 2012 level and here the comparison figure is the 157 million I mentioned earlier. A final comment on the efficiency improvement measurements that we have been ongoing, so note that may be better to expect a bit more of that coming on the second half of the year, so don't gear up your expectations from the first quarter to the max.

That I think is pretty much what we had prepared, so I am happy to answer any questions you may have.

Questions and Answers

Elina Riutta – Evli Bank

About the large projects in Kalmar with cost overruns, how much of those are still going to be delivered this year? How many hundreds of millions? And then what is your expectation for Kalmar profitability this year? And the cost overruns, have they developed as you expected during Q4, or has the estimate of those projects' profitability – has it been worse than what you expected, looking at Kalmar profitability now in Q4? Thank you.

Okay, thank you, on the large projects side, due to being able to deliver some of the first ones in the fourth quarter, we have a bit less now remaining in the order book, roughly some €250 million worth of sales for 2013 from the Group of challenging business, so to say.

Then on the Kalmar profitability, as you can indicate from our guidance, as we do see the relative share of marine going down, the guidance is based on improvement in the other two segments, and then on your final question on how did fourth quarter go, some sort of hiccup, still some unexpected costs, but clearly much more well in line with our expectations due to the work that has been ongoing with the better and tighter management and better and tighter reporting since summer.

Jan Kaijala – Nordea Markets

On a similar topic relating to marine, earlier in...was it in October you said that you expected delivery delays around year end. I don't know what...did they occur and is there something expected to be delivered now in Q1 and what's the situation with those?

Well, the overall delivery volumes were very good in marine, so that is no big impact as you see from the sales number we reported. Typically there is always a bit of business going backwards and forwards over the year end, but nothing...we may been a bit more cautious in October due to the market situation, but things went well both when it comes to sales and order intake.

Coming to this previous quarter on this terminal, you see that 20...if I got right, 250 million would still be in the order book of, as you said, challenging orders to deliver and I kind of missed it, how much was it originally, how big of a jump was it and how much is left, and how long would it take to deliver this remaining?

Well, I think we used the figure in October in the same event of 300 million roughly, so that has now come down to the deliveries in the fourth quarter, and the majority of that is related to 2013 sales, the number I gave. There will be probably some pales (?) in 2014, some of the final sort of milestones, but majority in 2013.

About the R&D costs, you said that the total for this year, or last year, was 75 million. What do you expect for this year?

For this year we expect somewhat of a decrease specifically in Kalmar due to the new Management taking some reprioritisation decisions in the second half, but as such we do expect to continue, as such, to build on the competence and investors, so that's somewhat less than in 2012.

Thank you and then finally, about the market outlook in the different segments, could you talk perhaps a bit about what you're seeing in Marine, and what you're seeing in Hiab and Kalmar? And Marine orders, if there was a kind of positive bounce-back from the Q3? The market as a whole, are you seeing it stabilizing on these levels, or what's your expectation going forward? Thank you.

Okay on the market outlook, on MacGregor, as such there is no big change. It really is still a market where single big orders can impact the quarterly order intake flow. It was a bit negative in the third quarter and we had a positive fourth quarter. As such, we do see

in the segments that we highlighted, RoRo and offshore, that there is activity and then there is a possibility to win some big orders as well, which would help on the quarterly outlook, but as such, the overall market there is no bigger change yet to be noted, but no reason to be negative either. I think it's, in that sense, as we have indicated earlier.

Then on the market outlooks of the other two; in Kalmar, container activity is expected to improve a bit in 2013 from 2012; if you look at just overall global throughput estimates, some of the external parties involved in the market, there are geographical differences, but thanks to the good global presence of Kalmar we see that we will be able to profit from those areas where marketing demand will be a bit better. Interest in the automation sector continues and that of course is an area where hopefully we will also see a bit more smaller business not just these bigger projects. For some ports more lighter, smaller solution can also be something worth looking into from an efficiency potential point of view.

Then in hire, Europe as I said has been okayish, of course it is not a booming market but I think also the latest comments from people following the truck market, even more closely than we have been sort of flattish, some a bit negative, some a bit positive, but overall okayish, and US continues strongly. We have no sense to change our view on that, and that of course with our relatively speaking high and better position in that market, that of course supports the overall hire. Let's see. Europe of course there are some concerns on the European market and we can claim to be experts on all the macro things that can or may happen, but okayish.

Juergen Siebrecht - HSBC Global Research

My first question on the savings side; EUR30 million you mentioned for 2013. 50% is at Kalmar; where is the remaining? Is it in the corporate line, or does that come below a corporate cost line? Does it come on top of the EUR30 million? To what extent in your EBIT target of 157 million you have factored in a buffer? You mention here the terminals, the bad projects, which were quite a strong burden in Q4. If I understood right, you had only 50 million sales of these bad projects, and 250 million as the remaining. To what extent you have built that in? That would be the first question.

On the savings question, yes of the 30 million Kalmar is about half, then we do expect corporate common costs down from last year's 46 million to somewhere closer to 30 million range, and then there will be some smaller savings obviously in MacGregor and () to sort sum it up to 30-something.

Then on your next question on our guidance and if I understood it right, we have continued and sort of done obviously very thorough review of all the projects we have in the backlog in the occasion of financial accounts to be sure that we have correctly provided for the things we know, and in that sense certainly the base case is we then start to have a good grip of the items and the problem areas and that we have sort of have taken those into account. Of course it doesn't mean that we have a crystal ball that we know everything that can happen later on, but we have tried to be as thorough as possible.

Then on the Marine side, maybe that's the second question. Orders strong, margins strong; even if you adjusted for the capital gain, margin was good. How sustainable is the order intake? Are we still at the 180 million average order intake potential at this current point of the cycle or do you see higher quarterly order intake coming in, in 2013? Also here on the margin, is 13% a sustainable margin? Then maybe also on terminals, the order intake was relatively weak, you didn't have any larger projects as far as I know, but Konecranes I think mentioned that this terminals market is still quite positive. The latest

outlook here for containers are also not bad. Is the overall market still in a good shape, and are there projects in the market pipeline?

On the MacGregor margin, yes very strong performance in the fourth quarter. I would always caution to use just one-quarter margin as any linear indication, it is project business and the mix. The mix does vary as you see from last year, but overall we are satisfied with the health of the order book we have in MacGregor but I would be maybe a bit more cautious than using the 13% as a sort of go ahead proxy what comes to projects. Then of course in MacGregor we need to then balance the needs to invest in the ongoing work done on the growth opportunities and the structural separation. I would expect a bit more overhead pressure in the business as well.

Then your second question was on MacGregor on the order intake, as said the market is such that one or two single bigger orders can impact the quarterly numbers, so it is very difficult for us to guide on an exact number, but I would say that the run rate you have seen is something we expect to continue in the short term and then as said the quarterly variations can be somewhat... this fourth quarter is more in line with the market as we see it, than the third quarter low, but somewhere in between it is the average probably.

Then of course it is still too early to sort of say on the second half. If financing improves the market could improve and there is some sort of different views on that obviously in the shipping markets, but we will obviously be able to comment on that then later in the year as we know a bit more.

Then your final question was on the Kalmar market outlook, so yes we do agree with your comment on the expectations on overall container volumes, providing a good market. I think our issues have more been internal issues, we cannot really blame the market, and we don't sort of intend to start blaming the market either. There are some geographical differences. It is not equally good in all places, but then there are some areas where it is actually very good. The balance is positive and we just need to make sure that we focus our activities on the more positive areas.

And then maybe very lastly on your competitor Palfinger which is also active here in load handling. He was quite positive here on the overseas market and also saw Marine plays a role. To what extent as a positive cost to you or is there any, also more competition arising here from that side? Thank you. That was the last question.

If I assume Palfinger means with overseas outside European sales then we certainly have that same view in US and Americas. I think Asia Pacific, the volume and the market size is not as significant. That said, it would sort of have a big impact but yes there are certainly good markets in those areas as well. As I said, Europe okayish, and positive good growth in Americas.

Is it becoming a competitor in Marine because I think it has () also into the marine crane business? Can you elaborate about that?

Yes I understand they have entered some smaller marine cranes. I think the bulk of the MacGregor cranes are very different in size and scale. Of course there are customers for various types, but it is really when we talk about MacGregor cranes it is very big and heavy cranes for big cargo, dry cargo or merchant ships, and offshore vessels. I think we have a bit of a different offering in that market.

Tom Skogman - Handelsbanken Capital Markets

I've got a couple of questions, starting with MacGregor. Can you confirm, as you have done so far, that the EBIT margins remain above 10% also in 2013 in distribution?

Based on the order book health we are looking at. We are expecting double digits yes.

Then about the savings, you mentioned 30 million of savings. First of all, how will this materialize? Should we expect 30 million of them to be materialized this year, implying the run rate will be much higher by the end of the year, or should we expect just perhaps 15 million of this to materialize this year?

I believe at least we try to be clear in our release that we talk about 2013 savings, so some of those actions will have more clout in 2014 as we progress, so this is a 2013 number, but then as said in the guidance of that 30 million is a bit weighted towards the second half.

Right, so the run rate saving will be significantly bigger than, by the end of this year. That must be the conclusion that we approach some 50 million of savings then I guess?

I think we have given the number of 30 for 2013 and we deliver on that first and then we comment on what we do in 2014 later on only.

then about the cost base in Kalmar, you seem to have a bit less large projects left in the order backlog now to deliver and then you also are scaling down your costs so that you don't put your hope on more large project orders this year or can you mention how many projects there are still to be likely ordered this year in terms of larger scale projects?

Well in Kalmar we have three parts of the business and we need to develop and take care of all of them. We need to develop our service business, and there of course the overall market activity of more containers, the throughput is growing helps us and we have a good installed base. On the volume equipment side, we need to take care of our competitiveness, so we have initiated and as we have said today have now finalised the discussions in () and are proceeding with those actions, and then the third area is this large project area where of course the main focus has been to improve our own skills and competencies in project management and handling our own competence to be able to take more business , but we do plan to take more business, and as I was saying earlier we see the automation market continuing to be a very attractive market to be in and we would want to continue to be the number one player in that segment in that part of the Kalmar business as well.

Then when exactly customers will decide on projects, that as always is difficult for us to comment, the activity continues and we would hope to be part of that activity depending then on whatever the timing is.

However, the large projects are more or less flat year on year in terms of, let's say, hot discussions. There is no material deterioration given the quite weak growth in container volumes in 2010?

Well I think the overall number we have when we talk about big projects is a small number. We booked four last year, so in that sense it is difficult to sort of say that there would be material changes, either way the percentages () bigger. We see that the market

activity continues to be there. I think of course both we and the customers want to see some of the first ones delivered and then of course the better performance we are able to generate when we start up those first ones, that is probably the best marketing we can do on our part for the coming business.

Sebastian Ubert - UBS

I've got a few questions regarding the cost savings also. Assuming 30 million back-end loaded cost savings and guiding for flattish EBIT development, included even 7 million one-offs positive from capital gains in Marine. Do you see then the Marine business dropping to an EBIT level of around about 100 million? Is that a fair assumption, so about 10%, plus margin only?

Second question would be regarding the Hiab business. Can you give us an update on your move into China with CNHTC? So what do you expect here for revenues and EBIT? Will it be hampering your margin in 2013? Then last but not least on Kalmar, can you remind me again on how much of those more challenging or negative margin projects you have to work off this year? Thank you.

At this point we would really not want to give more detailed guidance on exact numbers on the segments. We have stated what we feel comfortable stating today and that is for operating profit excluding restructuring to be at the 2012 level, so at this 157 to use as a comparison and that includes then the sort of contribution of MacGregor as well as Kalmar and Hiab.

On Hiab China the work is proceeding, we are still waiting for the final permits from the Chinese regulators regarding the Sinotruk venture, but we have certainly continued work to have the key people in place and to be ready with that. We don't foresee big investments in 2013 for the start of the business and certainly any investments we foresee are in the sort of Capex guidance I have earlier.

Then your final question on Kalmar, to repeat what I said earlier on the 2013 expected sales of the order book that related to big projects where we have had the challenges. I used the number 250 million and that is it, so hopefully that answers your question.

Christer Magnergard - DNB Markets

Just two questions on Kalmar. When it comes to the larger projects, we had some cost overruns this year. When you're taking new project orders going forward, do you have to raise the price on those orders or do you expect costs to come down on those orders? That's the first one. The second one is, given that the project orders, large project orders, is not new to your business, I guess the automation project is new but larger orders is delivered on before. What has changed in the market, given that you have experienced so much extra costs for these orders now, compared to the history? I just want to compare the large projects' orders now compared to the history.

I will start with the second part, yes it is correct that we have certainly struggled in big projects where there is no automation component involved, and that what has changed I think the challenge has been that there were several years in between when there was very limited big projects and then when the market came back in a rather short timeframe, I think in hindsight we overstretched our resources in those and the projects, there were more of them they were bigger and in some also in more complex areas than where we had experience in operating into and those reasons have led to the problems in that specific

group of projects. Then in the automation area obviously it has been more related to the fact that we have been developing the automation and understanding the scope and exactly the engineering hours required has not been an area where we have been very successful so far.

We are obviously working on the cost level together with our joint venture in China, Rainbow Cargotec, that is an important part of the supply chain we have planned for big cranes and we do have pretty ambitious plans on the cost set up. I think most importantly however is the competence we have when taking projects, estimating which projects we take, what exactly is the scope required so that we price accordingly and that we sort of take into all the components the need to be taken based on our experience now where we know what can happen. I would certainly expect that just by gaining more competence, it has been a painful learning by doing, but of course it tends to be a pretty effective way to learn on how to manage projects. That is a significant area then obviously we need to price our projects so that we can earn some return for our shareholders.

Pekka Spolander - Pohjola Bank Markets

A couple of questions. First about that Chinese joint venture with Rainbow, could you give us an update how is the project going on at the moment and when can we see some effects on the numbers?

The factory has now been built, it is ready for anyone going around the () area, and the first orders have now been taken by the joint venture and they are starting work on them. We would expect towards the end of the year some of the first deliveries to come out. We have already been taking deliveries from the parent company, Rainbow Heavy which is the supplier of MacGregor, and they have used their existing operations to supply some of the deliveries we have done, but obviously this purpose built factory is where we really get the sort of efficiency and the competitiveness at the level we have intended to.

Can you give us any idea what effects we might see, some cost savings this year and some sales increases 2014? Is it relative to the current business operations, is it a remarkable figure we could expect or, how would you say?

Well I think most of our shareholders would certainly want to see a significant improvement in Kalmar growth margin, I don't know if remarkable is a word I can use, but certainly significant, but of course it doesn't come overnight. We have very sort of recent experience from starting our Poland operations a few years ago and even in a very successful start up like that, still there is of course a ramp up and learning period. Where you need to see the outcome I would say is more on the operating profit line, then of course in future sales, yes when we have it up and running it will provide us a basis to then sell more than our supply chain has been able to do today, but I think right now the first priority is get it up and running and your profitability up and growing sales only follows.

Then another question. You have already discussed quite a lot about the Kalmar cost base, but what could you say about the general cost development in the business at the moment? Do you see the raw material prices stable, or up or down, and how about labor costs? Related to this question also, what would you say about pricing situation, any changes there in the fourth quarter, or in the beginning of this year?

Overall on the raw materials we don't see big changes, we don't see pressure up but also I think overall maybe there are some specific areas where there are some small differences, but we are more sort of looking that we shouldn't have an uphill from raw materials, but we do need to improve in our way of working to get a significant reduction in costs.

On labour maybe in the European region there is a bit less pressure but then again there are some areas in the world where we see quite high inflationary pressure on labour costs. It really is difficult to give a global figure as such. Maybe no sort of significant changes on that area either.

Then your final point on pricing, we haven't really seen much change in the fourth quarter and of course it does depend on the outlook, for instance in Europe, how things develop. Certainly in Europe the customers are not looking forward to price increases, obviously when everyone is a bit uncertain about the future. As said our main challenge perhaps has not been on that side. We need to be better on that side, but it is more through sort of having a better knowledge of what business we take in some cases than choosing not to take some business.

Closing Comments

If we don't have any more questions here in Helsinki either, we thank you for your attention and I would like to wish you a good day. Thank you.