

FINAL TRANSCRIPT

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CGCBV.HE - Full Year 2006 Cargotec Corporation Earnings Conference Call

Event Date/Time: Jan. 30, 2007 / 9:00AM ET

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the full year 2006 Cargotec Corporation Earnings Conference Call. My name is Cheryl and I'll be your audio coordinator for today. At this time all participants are in listen-only mode. [OPERATOR INSTRUCTIONS]. I would now like to turn our presentation over to your hostess for today's call, Ms. Eeva Makela, Senior Vice President of Investor Relations and Communications. Please proceed, ma'am.

Eeva Makela - *Cargotec Corporation - SVP IR & Communications*

Thank you, operator. Ladies and gentlemen, welcome on our behalf to Cargotec's conference call on the 2006 results. We will start with a presentation by our President and CEO, Mikael Makinen, which will last some 15 minutes. After that we will be ready to answer your questions. To answer your questions we have, in addition to our CEO and myself, our CFO, Mr. Kari Heinisto, present as well. Mikael, please.

Mikael Makinen - *Cargotec Corporation - President & CEO*

Thank you very much and very welcome, everybody. I hope you have the presentation in front of you. I will run through it, let's say, as Eeva said, in 15, 20 minutes and then I hope that we have a number of interesting questions.

So let's start at the next page, please. The key financials for 2006. First of all, the orders that we received, EUR2.9b. Very good figure; we are very, very happy with that, also with the quarter four order intake, EUR716m. So there was a significant growth compared to the previous year.

Net sales we grew by 10%, reaching EUR2.6b, EUR2.597b to be exact. We had a few deliveries that were postponed over the New Year but one would say that we reached our target of EUR2.6b.

Operating income EUR221m compared to EUR179m last year, representing 8.5% of net sales compared to 7.6% one year ago. Again, we feel that this was a good result and a very good development in the Company, coming from 6.5% to 7.6%, now 8.5%.

One has to remember that the operating income includes the EUR17.8m capital gain that we recorded in July and that's compared to the EUR15.4m that we had one year ago. That led to an operating income of totally EUR240m.

The Board proposal for the dividend is, as you have seen, EUR1 per class B share and EUR0.99 for class A shares.

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Next page, please. We have been working during the year 2006 a lot with the strategy and the vision where Cargotec should be. And that's why we came out, I will come back to that a bit later, the new financial targets.

We know, or we feel we know, that this is a growing consolidating market and we are a good player in that market. We have focused on growing the business, especially in Asia Pacific and Americas, as you will see a bit later. Within services we are setting up ourselves to be the real market leader in services, services related to our businesses. Of course we want to use our scale and the know-how that we have in the whole Group really to be the technology leader and to utilize all the skills in our whole Company.

We have also said that we want to invest in personnel development. We want to shift persons from Hiab to MacGREGOR to Kalmar and so on, so that we really create one company and take out all the possible synergies within the Group. We have also expanded the sales and service network globally. I'll come back to that a bit later. And then we have been working a lot in Hiab and Kalmar on increasing the flexibility of our operations in the production units.

Yes, next page, please. In line with what I just said, we made a number of acquisitions during 2006. I have gone through them already earlier. I won't go more in detail into them but just to remind you that the BMH Marine, the dry bulk handling equipment, I will come back to that a bit later. The acquisitions that were included in our company during 2006, they brought about only EUR50m of net sales in 2006, 465 people. We still have two acquisitions here on this list, the Kalmar Espana and CVS. They are waiting for competition authority approval.

Yes, next page. The business environment was favorable. The global economy was good, container traffic was growing. Shipbuilding was on a high level at shipyards worldwide. There was strong demand for all kinds of load handling equipment, although leveling out in the U.S. because of the building materials supply there. Services has been growing. There's an increased demand from our big customers to outsource the service and we, of course, try to take -- grab that opportunity.

Next, yes. Okay. That influences the Cargotec's orders received, of course. If you take Hiab, the load handling equipment was very buoyant, especially loader cranes in Europe. In Kalmar we had a record demand for quite a number of different types of products. And there was a healthy demand also in the heavy industrial handling equipment. So, a good market. In MacGREGOR, good in all the markets but here I would like to bring up the bulk handling equipment market was very strong and it seems to continue as a very strong market. And that's why we are very happy that we made that BMH acquisition last year, to be able to fully utilize that market [out there].

All of this led to, as I said earlier, a growth in orders received of 22% compared to one year ago. If you take it on the fourth quarter it was 25% increase. So a good order intake, which is something that we guided already in quarter three, saying that quarter three we see that the following quarters will be -- have a good order intake.

Of course the good order intake led -- yes, next page. The good order intake led to an order book at a record level, EUR1.62b. I've usually said that EUR1.6b would be the, let's call it, ideal order book for us. If the order book grows very much beyond that, that means that we can't deliver everything that we have in the order book, that we have problem in the system. Or if it's much, much lower, of course that means that the market isn't as good. But EUR1.5b, EUR1.6b is ideal for us. Now, this EUR1.62b includes a few of these orders that were postponed over the New Year.

Net sales 10% increase reaching, as we guided, EUR2.6b. Out of this EUR2.6b net sales there was 8% organic growth and only 2% related to acquisitions. Especially the net sales during the fourth quarter grew by 12%, a very good figure taking into consideration that we had Christmas and New Year during those periods.

As I told you earlier, we have been focusing very much on increasing the net sales in Asia and in Americas, and on page 10 you can see that now there seems to be fruits of this development. Our net sales in Asia Pacific grew by 26%, for the first time reaching more than EUR0.5b. Our net sales in Americas grew by 16%, bringing it up to EUR700m. So now we start to have a

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good size business, both in Americas and Asia Pacific. There was growth in Europe as well, 2% growth, but I think that this is a very balanced growth and I'm very happy about this development.

Other question has been Service. Service grew by 16% year on year and represents now 22% of our net sales. Our Service business is now, or was 2006, EUR573m, also there a good development. Now we have a Service business in excess of EUR0.5b we start to be a considerable size business. The development has been good in all the three business areas. We have absolute growth in both Hiab, Kalmar and MacGREGOR.

In MacGREGOR, of course, the new business has been so buoyant that it has been growing very fast and that's why you see the percentage of service compared to the whole MacGREGOR business going down. For me a more important measure is the absolute value or absolute growth of Service. And here I would like to bring up Kalmar, where the development has been excellent and now we have reached more than EUR300m in Kalmar services.

Operating income we discussed already earlier, EUR240m. But we have to remember that there is the EUR18m capital gain on property, so EUR222m is the figure for this quarter, if you look at it as -- sorry, for this year, for 2006. If you look at the last quarter, then we increased our operating income from EUR53m to EUR58m.

Operations. If you look at one quarter and compare it to one quarter the previous year, it's usually a far too short period because of the mix of the products. You might have one business that has a not so favorable mix in one quarter and had a very favorable the previous corresponding quarter. And that's why I am more interested in looking at the half year or a yearly development of the operating income.

If we look at the yearly development, then we can see that Hiab has gone from 6.4%, 7.9%, 9.4%, a very good development. Kalmar from 7.7%, 8.5%, now 9.3%; very good development. MacGREGOR going from 6.2%, 7.5%, now 7.7% [sic - see documentation]. In MacGREGOR we don't have the same operational leverage that we have in Hiab and Kalmar, and that's why the further development takes more time than in the other businesses. But of course, we are not going to stay at the 7.5% level. Our targets, which you have seen, the financial targets, means that we have to improve in all three businesses.

Maybe one final word about the Kalmar, because if you compare the Kalmar quarter four operating income it was 9.4% one year ago and now 8.8%. Is that a trend? Is there something happening in the market? No, it just happens to be that it's the mix of products, mix of service versus products, different types of product. I don't see actually any downturn or downwards trend in this development, so. We have got this question earlier, "Is something happening on the Kalmar business?" No, we are developing, we are going towards the targets that we have given out as the financial targets for the Group, and this is purely a one-quarter result.

On a Group level that means that we have gone from 6.7 -- 6.5% to 7.6% to 8.5%. Again, a good development.

Earnings per share, more mathematics, EUR2.57. The proposal -- dividend proposal is EUR1 for B shares, which is 39% of the earnings, well within the line that we said 30 to 50% should be delivered on the dividends.

Cash flow. I'm very happy to say that, again, cash flow has been extremely good in the Company. And maybe one of the strengths in the Company is that we have an organization that also understands the value of getting in the cash and not only selling and delivering products.

Key figures, again more mathematics. The gearing is now down at 12.3%. We feel that in this market situation this is a very, very good way of -- or let's say a very good situation for us. The market will consolidate. You have to have firing power. You have to know that you can act in a very dynamic market environment. That means then acquisitions, whatever type of alliances and so on. In a very consolidated market, of course, 12% gearing is maybe not correct but today we feel that this is the right level.

The return on capital employed, 23%. Okay, starts to be -- there's been a good development from 12.9% to 23% here.

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January 17 we published new financial targets. We said that the annual net sales growth exceeding 10% including acquisitions. We want to raise the operating income margin to 10%. We want to have a gearing below 50% and we want to have a dividend of 30 to 5 -- 50% of the earnings per share.

These targets are set for a five-year period and we don't see any major obstacles. These are just a few weeks old and the targets that we have set are based on all the work that we have done over this year. Looking at the strategy, looking at the market, looking at areas where we can further streamline, where we can further reduce costs, where we can further bring down the subcontracting costs, where we can change production to other parts of the world and so on. So it's a very ambitious target but in our opinion it's a realistic target over this five-year period.

During 2007 we will continue the path. We will develop and expand our Service network, our Service offering. We will invest in R&D, because as a market leader we want to be the R&D leader as well. We want to develop and invest in our personnel and we want to improve the efficiency of the sourcing. And then, of course, have a global reach, which means a global network.

Since the beginning of 2007 the acquisitions have continued. We have Tagros in Slovenia, giving us a good foothold in that part of the world. Berger gives us a sales and distribution network in Eastern Europe. It's a very interesting growing market, where we can also source components and sell our products.

Truck och Maskin is a Swedish company that sells services and also partly operates equipment in Northern Sweden. And that's a new area for us that we want to see, we want to test how can we operate, how can we take a bigger share of the operation of our customers' plants.

We have also bought the rest of BG Crane in Australia, increased our equity stake there because Australia is an interesting market both for Hiab and Kalmar and MacGREGOR.

[Inaudible] the market outlook for 2007 is positive. We are very positive about the coming year in all businesses. And that gives a very, very good start for the year and we don't see any big clouds in the horizon in any of the business areas. We will look at further acquisitions, maybe not at that speed that we have done -- that we have seen this year. Now it's time to consolidate. It's also time to get out all the synergies, to get all of the benefits of the acquisitions that we have done.

We also said that operating income from operations is expected to continue to increase but, at the same time, the operating margin might be slightly affected by the fact that we invest in the future growth. That's also a decision that we have taken, yes, the business is growing, yes, we are growing both top and bottom line, but, yes, we have to do investment into the future and this is the right time to do it.

Okay. Thank you very much.

Eeva Makela - Cargotec Corporation - SVP IR & Communications

Operator, we would now be ready for the Q&A, please.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]. Our first question will come from the line of Johan Eliason of Cheuvreux. Please proceed.

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Johan Eliason - *Cheuvreux - Analyst*

Yes, hello. This is Johan at Cheuvreux. Just a question on the revenues from the acquisition; you said it was only EUR50m. What's -- the big acquisition was BMH. Was there something happening to the revenues in that business, which I thought was close to EUR60m on an annual basis or so?

Mikael Makinen - *Cargotec Corporation - President & CEO*

No, actually what I meant was that, in our 2006 figures, because you have to remember that we did not buy the company at the beginning of the year. 2006 figures includes only -- when did we, Kari, please? It's only --

Kari Heinisto - *Cargotec Corporation - CFO*

Summer [multiple speakers].

Mikael Makinen - *Cargotec Corporation - President & CEO*

End of the -- so it's only five months of BMH -- four months of the BMH was included in our figures.

Johan Eliason - *Cheuvreux - Analyst*

Okay. But the kind of turnover indications that you gave at the time of the acquisition has kind of fully been met on the full year for that unit or --?

Mikael Makinen - *Cargotec Corporation - President & CEO*

Yes.

Johan Eliason - *Cheuvreux - Analyst*

Yes. But that implies that the organic growth was, in fact, a little bit faster, this roughly 8% then, and only 2% from acquisitions. Do you expect that this is the organic growth level we will see '07 as well?

Mikael Makinen - *Cargotec Corporation - President & CEO*

That's a good question. If we say that our target is to grow by more than 10%, I would say that at least half of that should come from organic growth. It's very -- it will vary year to -- year on year.

Johan Eliason - *Cheuvreux - Analyst*

Okay.

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Mikael Makinen - Cargotec Corporation - President & CEO

Maybe I should rephrase it, that we are targeting considerable organic growth as well. It's not so that we are going to hide the growth by just buying companies, no. No, we will always analyze them separately, so our people's incentive programs will be based on the sales [figures] on organic growth.

Johan Eliason - Cheuvreux - Analyst

Yes. Okay, good. Then you said that the operating income from operations in '07 is continuing to increase. When you compare that, is that the basis including this capital gain? I supposed that you'd be excluding it.

Mikael Makinen - Cargotec Corporation - President & CEO

Yes, it's excluding it, sorry. Yes, we are looking at the operational.

Johan Eliason - Cheuvreux - Analyst

And do you know what type -- the level of these investments you are talking about, in terms of costs, how much are they supposed to increase if you look at the plans you have for the year so far?

Mikael Makinen - Cargotec Corporation - President & CEO

Actually we have not specified how much the costs are. We're just guiding that there will be costs. And if you will just to try to run the Company flat out you will not invest in the future, you will not invest in R&D, you will not invest in building up the service network and so on.

Johan Eliason - Cheuvreux - Analyst

But [it seems right] that you're recruiting more heavily in the R&D and the sales organization, or is it other types of costs we should anticipate?

Mikael Makinen - Cargotec Corporation - President & CEO

No, the R&D is not only recruitment, it's also using subcontractors to quicker get R&D results and that then costs only, it's not only people. While in Service it's recruiting people that are not, let's say, income bringing during 2007.

Johan Eliason - Cheuvreux - Analyst

Okay. Excellent. I have no further questions.

Operator

[OPERATOR INSTRUCTIONS]. I see no further names in queue.

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Eeva Makela - Cargotec Corporation - SVP IR & Communications

Thank you. If there are no further questions, then thank you for everyone's participation.

Mikael Makinen - Cargotec Corporation - President & CEO

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes our presentation and you may now disconnect. Good day.

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