Cargotec Corporation
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Chaired by Paula Liimatta

Paula Liimatta

Good afternoon ladies and gentlemen. Welcome to Cargotec's January-September 2012 Report Conference Call. My name is Paula Leamather and I'm the Head of Investor Relations at Cargotec. Today we have a small live audience here in Helsinki and people on the phone lines. We will start with the presentation by our CFO, Eeva Makela. After that we have time for your questions. Eeva please.

Eeva Sipilä

Thank you Paula. Good afternoon ladies and gentlemen *text here* going straight into the highlights of our 3rd quarter. Order intake was 719 million which is 11%(?) down year on year. Sales grew 5% year on year and have reached 794 million. Our operating profit margin reached 4.9% and is clearly somewhat of a disappointment and *text here* was preannounced(?) so we are *text here* towards approximately 5% operating profit margin excluding () for the full year.

Cash flow was the positive highlight, with 34.2 million positive for the quarter and *text here*

Going into some more key figures on the following page, maybe just to highlight a few additional ones, so as mentioned now the 9 month cash flow was also positive at 6.4 million. So we have reached the phase in our terminals and load handling growth where we start to see a work in progress and inventories has going actually a bit down, after a very big increase in growth during the 1st half of the year. We still have quite a lot of accounts received, both due to the 5% growth we've seen in the year, but we do expect a cash flow from operations for the remainder of the year also to continue positive.

Interest bearing net debt at 485 million, which gives us a gearing of 39%. And the 9 month earnings per share, 1 Euro and 31 cents.

On the following page you see a visual illustration of our performance, here maybe a few comments. From the period in 2010/2011 I think you see here quite well the shift in our business. We are gaining more share of sales in terminals and load handling where the profitability is lower than in marine, which used to be a bigger part of our sales in the 2010/2011 period. So that explains that drop; then at the same time of course, as you are well aware, the current profitability is not satisfactory and we have quite a few actions on going to improve that. And I will come back to the more business area specific comments further down in the presentation.

Starting with our marine segment, overall the challenging market environment continues. As such, we don't see the market having changed dramatically during the 3rd quarter; it continues on a low level, you are all well aware of the low number of shifts being ordered and that obviously has an impact on the demand for our marine cargo handling equipment as well. At these levels, 143 arguably was a bit on the low side of order intake for us for the quarter. We were hoping for a few 10s of millions more, but 1 project, 2 projects, these start to have quite a big impact when we are at these quite low levels, so it's more swing between the quarters than really a big change in the market, as such.

Continued the 9 month profitability 12.3% we continued at a healthy level, 3rd quarter was a bit on the lower side, due to the mix we had in the quarter. Some of the postponements of deliveries from the 3rd quarter into the 4th had a bit higher margin and left the 3rd quarter at the 10.3. Again, this is more a quarterly issue, we do expect the 4th quarter mix to be a bit better, thanks to the postponement, even though there will again be further postponements from the 4th quarter into early next year. That is based on our understanding, together with the customers, what will be the year end delivery rate. And hence, of course, this was one reason we highlighted the other week in our Stock Exchange release, that relatively speaking the share of marine sales of overall Cargotec will be somewhat lower than planned, due to these postponements and hence obviously that has an impact on the overall Cargotec profitability.

Services grew slightly, that was a positive thing. It's a tough market also for services at this point when customers are a bit struggling, but we managed to get some progress in that and we're happy for that.

Going into terminal segment, order intake was clearly positive. We had 2 very big orders from Asia Pacific that helped, but overall the market is maybe the best of the 3 segments we have. We also had sales growth of 27% year on year and again this explains part of the growth we've had in that networking capital during this year.

Profitability landed at 3.6% and here the reasons behind that we are not making progress form the 2nd quarter levels, is very much related to a few things listed here on the bullet points. We have not been able to fully manage the larger deliveries; we have cost overruns in those projects. No one single reason I would say several reasons depending a bit on the project. We have cost overruns in some cases on material and erection, the transportation type of issues, whereas on other projects, it's more related to the number of engineering hours being higher than planned and hence that part of the projects costing us more.

Share of services is clearly relatively speaking lower than a year ago, coming from over 30%, down to 25 and due to the difference in profitability between services and equipment that also has an impact, if you look at the year over year comparison. And then thirdly, as has been discussed earlier in the year several times, we continue to have a heavy R&D programme in port automation and that obviously then impacts and increases our SG&A costs in this segment.

We are working very hard with the terminals management team now, a new management since May on obviously getting a better grip on the projects, ensuring execution of the order book and at the same time, as you know we are having certain personnel negotiations on going to also lower the cost structure and those actions are on going.

Going into the 3rd segment, load handling, a slight rebound of the profitability from 2nd quarter as we had guided on, 192 million of orders, Okay number as such, here we do see some weakening in the European market and I think this is in line with the overall comments on the economy and other companies in our sector. US continues to be strong for us and that obviously has a positive contribution on the numbers. Sales up 7% year on year and here, despite the rebound obviously the 3.1% is not a sustainable level we are satisfied with, so we continue and will continue into next year with profitability related actions.

Coming back to cash flow, as I said, 34 million from the operations, so after 2 quarters in the red this was a positive change and again in line with how we see the business developing and as we are being able to start to deliver from the significant work in progress that has been on our books.

Services sales are 3% year on year. It's been a tough year for services, but nevertheless, I think this modest growth is an indication that we've in certain areas made some progress, but the market continues to be challenging due to the fact that customers are very cost-conscious in today's environment and are considering what type of maintenance and service work they do now, what do they do next year? And so on.

Looking at geographic and business areas split, the geographic split is quite stable and balanced, between the 3 different regions and here you see on the left hand side, the share of marine going to 33% from last year's 40%. So that again is () on the overall Cargotec profitability as I discussed.

On going actions, we have quite a few things on going. We obviously have an interim President and CEO whilst we are continuing the search for a new CEO, following the transfer of our previous President and CEO, Mikael Makinen, to head the marine and the listing process of the marine segment. We have announced already earlier, that we will go into a more business focused structure based on the 3 businesses, which will also, we will start to use the brand names, Macroagricol(?) and Macrohyeb(?) when we speak about the 3 segments and in that way have a more segment and line organisation compared to the previous metrics. And then finally we have in 2 big areas, employee cooperation and negotiation is on going; the first one related to the changes in the governance model and the changes in integrating EMEA(?) services into our business segments. And then the other one related to our () operations on our plans to centralise () empty container handler production to Poland.

Final words on the outlook, so this is as per our Stock Exchange release the other week. We are guiding on sales to grow and then on 5% operating profit, profit margin excluding any non-recurring costs that may result from these on going personnel negotiations.

So with that I think Paula, we are ready to take any questions.

Paula Liimatta

Thank you Eeva. Okay we are now ready to take your questions. We will start with the questions from the people here in Helsinki and then we continue with those of our conference call listeners on the phone listeners. Before you ask your question, please state your name and company so that everybody knows who is asking a question. We can now start with the live audience here in Helsinki.

Questions and Answers

Question

So could you tell, is there anything new to tell about the marine listing?

Nothing new to report, we are continuing now the preparation based on our Board's decision to have the readiness for a possible listing during the 2nd half of 2013 and there's obviously quite a lot of actions related to that and one was the one I referred to my Mikael Makinen taking the position as Head of that. I don't expect to be announcing anything necessarily specific more during this year; the work now continues and as earlier announced, the plans are obviously subject to market conditions during 2013 as well.

Thank you.

Paula Liimatta

Okay Operator, we don't have any other questions from the Helsinki audience, so we can take the questions from people on the phone lines.

Juergen Siebrecht – HSBC

Good afternoon, Juergen Siebrecht from HSBC. Firstly, on marine, I have a question on the margin; this was 10% in Q3, so just above your internal benchmark, what is the run rate here for the next quarter, so do we have to extrapolate this margin level or was it also mainly driven due to the late deliveries? Also on marine, in terms of the cycle, at Q2 you guided here order intake levels of around 180 million for the 2nd half of the quarter. We are now at 140 million, what is your expectations for the coming quarters? And then maybe also on your optimisation measures, the things you have so far announced, when do you expect corresponding effects to bite in? And do you still see material further optimisation potential beyond that what you have announced so far? Thank you.

Okay, thank you for your questions. If I start with your question on the marine margin for the quarter, so that was the 3rd quarter being only at slightly above 10% was related to the mix of deliveries in that quarter. We do expect that the full year level is then around the 9 month figure and in project business you have to bear with some variance in the margins between the quarters. But no change to our expectations on a healthy margin as such.

Then going into your question on the marine cycle, so yes this 143 million was a bit below our own expectations as well; we had a few orders that we were hoping would be signed during the 3rd quarter that were postponed and hence the change. A few 10s of millions again to move between quarters at these levels, it's only 1 or 2 projects you really talk about when I think that others are very difficult to currently estimate on the decision making. We don't see, I wouldn't expect big changes on what we've seen in the 3 quarters of the year so far. But again, in any single quarter, one 20 million deal can come or go and of course remains something that we also have a challenge to estimate even in the final weeks of the quarter.

But 180 million theoretically is possible from the sales of the cycle, per quarter on average?

It is possible, based on our strong market position with the deals that are being discussed.

Okay.

And then your final question was on the optimisation, when do we expect the effects? With the on going negotiations, we are hoping to close them well before the year end and hence have the new organisation and a new setup from 1st January when it comes to the way of working and then obviously what comes to the plans relating to () as we announced in the release, after the negotiations, any actions of course do take a bit more time, because we are talking about transfer of production. But I would refer to what we said in the release 2 weeks ago.

But positive effects could be expected for 2013?

Correct yes.

Thank you.

Christer Magnergård –DNB Nor

*Yes, Christer Magnergård from DNB. I have a couple of questions. The first is on the *text here* given the positive impact(?) of the *text here* are you satisfied *text here* And secondly if you do the split up of *text here* and higher, is it theoretically *text here* between the 2?*

Okay thank you. Starting with your 1st question, we are not satisfied with the 3% margin roughly we are currently delivering in terminals and load handling and for those businesses to develop sustainably and to have money to invest in the businesses, we do need that to rise. There is many moving parts in the marine listing timing, some related to marines, some related to very much to the IPO market as such in Asia and then some related obviously to the remaining businesses and the health of them. And we need to of course balance those; it's difficult to give you one number on it, but it is certainly the health of terminals and load handling is one important question in the discussion as we need to consider that what's overall shareholder value created from the listing.

And then to your other questions on possibilities to divest any of the other segments, there are no such plans currently.

*And then *text here* in 2012 ,will the R&D costs come down*text here* already or will they remain high? And secondly, services, can you talk about *text here* services, how will that *text here* backlog of *text here* deliver on 2013? **

Okay, on the first question, on the R&D costs, so we do expect that we will do some prioritisation in the R&D work as well and that should lead to possibilities to look into some savings, but at least we don't expect a similar step up from, as we saw this year, from 2011, but we're currently working on the plans and budgeting for next year. So we can perhaps guide a bit more exactly then going ahead, but that's the kind of thinking what we have now. And then on the share of services, so we have certainly, due to the, thanks to the good order book in terminals, that will sort of support a good start for the year in equipment deliveries and then hence in many things can of course happen during next year and we can also maybe perform a bit better in our services business to balance the share. But as I said, it depends now, now it's clearly been that the big project side has been more active, whereas the services market has been somewhat more challenging and that is also reflected in our order intake and how we move ahead. But certainly we continue to be actively focused on the services business and one key focus area for when we now integrate the services, is really to push for segment within segment, the optimal mix of services and equipment and ensure that the new equipment sales support service sales and vice versa at each customer, so I would certainly expect some results from those actions.

Okay thanks.

Pekka Spolander – Pohjola Bank

It is Pekka Spolander from Pohjola Bank, hello. A couple of questions, first related to terminals where you have quite large order books but problems with the margins as you mentioned, how could you describe the pricing situation with the new orders at the moment? Have you changed your pricing system somewhat? Or what can we expect form the orders now coming in in terminal side?

I think we clearly have a lot better insight into how we need to, how much work we need to put in the pre-calculations; we have much tighter control on the overall project management process, ensuring that the co-operation between sales and delivery organisation is more seamless and there are many ways in which we can improve that will help the overall profitability of the projects, irrespective of the pricing situation. I think that obviously big projects there is a lot of attention and a lot of work related to them, so in that sense, it's always, pricing is always somewhat challenging. But at the same time, what really is important for customers in these big automation projects, is that the supplier can deliver and it starts to work. That is where you make the money that you have a successful start of the operation. So as I said, it's a balance but I would more say that the work is on the kind of issues are more internal making than anything else and then of course we need to focus on them internally and ensure we have the right competencies working with them.

*Thank you, and second question related to Polish () can you tell us something about, so *text here* or the workload in the factory? Are you running at the full capacity or what could you say about that?*

I think we're running a rather balanced operation. By adding shifts you can of course always get more out and we are not running flat out from a shift point of view, if that was your question. Now of course with the on going negotiations, we need to start to think of how we ramp up and add capacity and the learning curve, both what comes to the discussions related to () but then also the on going investment we have on the paid(?) shops, so in the short term we will be more adding capacity and in a way to support the successful operations next year. But it is a well running operation currently, so otherwise we would obviously not be investing more into it.

Okay thank you.

Johan Eliasson – Cheuvreux

Hi this is Johan from Cheuvreux, I might have missed some of the questions but () but I hope you excuse me for that, just on the marine you say some orders were delayed from Q3 into Q4 and then some others into Q1 next year, is that one single customer?

No, it's not one single customer, it's several different projects, so there's no trend in that way from one customer. It seems to be more a market issue that customers are not necessarily pushing to delivery as they were in the boom times, it's more balanced and there's maybe more flexibility from the demand point of view.

Is it one type of ship containers out of shore?

Again, not any one single type now I'm trying to recall the list, but it is on the merchant ship side, so not deliveries in offshore have not been postponed. In orders the discussions are somewhat lengthier in both segments, but if we talk about deliveries, it's on the merchant ship side.

Okay and then you have announced how ()()() you started to take someone off in the quarter etc. could you give an estimate for the one-off charges you expect to come here and potentially the benefits?

Well unfortunately because of the on going negotiations, it's very difficult to give any comments on that. Certainly the 3rd quarter number was a very small number and it will be bigger just considering the number of people we are discussing. I would suggest to you as a rough proxy kind of based on that so it, but as I said, unfortunately today I am not in a position to guide more specifically on that.

Okay thank you.

Closing Comments

Okay well in that case thank you all with Paula for today. Thank you.