FINAL TRANSCRIPT

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CGCBV.HE - Q1 2007 Cargotec Corporation Earnings Conference Call

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**CORPORATE PARTICIPANTS**

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**CONFERENCE CALL PARTICIPANTS**

**Johan Eliason**  
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**PRESENTATION**

**Operator**

Good day, ladies and gentlemen, and welcome to the Q1 2007 Cargotec Corporation earnings conference call. My name is Frances and I will be your operator for today. At this time all participants are in a listen-only mode. We will conduct a question and answer session towards the end of this conference. [OPERATOR INSTRUCTIONS]. As a reminder, this conference is being recorded for replay purposes. I will now like to turn the call over to Miss. Eeva Makela, SVP of Investor Relations and Communications. Please proceed.

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

Thank you, operator. Ladies and gentlemen, welcome to Cargotec's first quarter earnings review. Our presentation today will be held by our Senior Executive Vice President and CFO, Kari Heinisto. After that, for the Q&A, we will also have our President and CEO, Mikael Makinen, on the line to answer any questions you may have. So, please Kari, proceed.

**Kari Heinisto - Cargotec Corporation - SEVP and CFO**

Yes, good afternoon everybody. Looking at the key points of Cargotec's first quarter of 2007, so, the most illuminating fact was that we received a record high order intake by EUR915m, which exceeded the earlier high first quarter of 2006. The sales grew by 13 percentage, or by EUR80m and reached EUR694m. The result development was flat on the margin with 8.3 percentage, ending up to a growth from EUR50.9m to EUR57.9m.

Cargotec continued with its development plans on develop its Service business, developing our global network, strengthening our knowledge base and we've announced eight acquisitions during this quarter. Next page.

From the market side, so, the market activity was high. Good economic and world trade developed strongly, the only drawback was U.S. construction-related sales which were lower level on year-on-year basis. The container traffic development was good and the activity on our shipbuilding was on a high level. Load handling equipment had, in Europe, a very strong demand. And also the market outlook for our Service business was good. Next please.

When we breakdown the Cargotec's order intake by business area, we can note that the Hiab had, as I already mentioned, very strong development and demand in Europe. And in U.S. the products which have high market shares on construction-related transport, meaning truck-mounted forklifts and tail-gates, had a weakening development. In other words, our [Nutter Boom Crank], which is more niche like market, didn’t suffer at least until now from that development.

Kalmar side, the container handling demand was healthy, both in Europe and in Asia. And, particularly, the demand for reachstackers was very strong. Heavy industrial equipment followed the development of industrial boom in Central Europe.
The biggest boom in order intake was in MacGREGOR and there ship cranes, the RoRo equipment and bulk handling were performing very well. And that leads to a more balanced product portfolio within MacGREGOR. Next please.

As noted, we announced eight acquisitions during January, March. And from these acquisitions already closed are Tagros, a small service business in Slovenia, a service business in Sweden, Truck och Maskin, and our distribution network for Hiab in Australia, BG Crane, as well as the service acquisition -- additional service acquisition called for Kalmar in U.S. east coast.

After the ending of the quarter we have also both Indital manufacturing capacity in India and Hydramarine offshore business in Norway. We are still pending on Plimsoll, which is an offshore business in Singapore, and the East European Hiab network which we have agreed to acquire from Berger.

In addition to this we closed Kalmar Spain after the end of this first quarter and EVS was announced at last year and that is still pending on competition approval. Next please.

And actually the orders received was already discussed so we'll take next.

Looking at the orders received by business area, we can see the very strong development over last five quarters of MacGREGOR orders and, actually, also the growing order in -- strongly growing order intake for Kalmar on the three last quarters. Next please.

Also Cargotec's order backlog, EUR1.8b, so we need to make the note that a big part of that is with long delivery horizon. Part of the deliveries are 2009 and even beyond. Next please.

Looking at the sales development for the first quarter we can notify that the sales growth in absolute numbers was EUR80m. Half of that was organic, half of the growth came from acquisition. Taking down that development in acquisitions, to the 2007 acquisitions, so it was almost negligible the amount, only a few millions, and the effect carried over from 2006 acquisitions was EUR40m. Next please.

The geographical development of sales gives a very strong growth in Asia for the quarter to quarter, which is 35 percentage and a strong growth in Europe, 12 percentage. The U.S. development partly was due to the market leading to a slower growth bid of 3 percentage, but also here it needs to be noted that comparable currencies between these two quarters had a significant impact on a consolidated basis. Next please.

The Service development gave a growth of 30 percentage on year-on-year basis and the share of Service business from total sales grew from 22 to 25 percentage. Also, looking at the profit analysis coming ahead, so we need to make here a note that MacGREGOR had a very strong Service growth on this quarter ending up to EUR42m, which also had a positive result impact on MacGREGOR quarterly results. Next please.

The operating profit total ended up to EUR58m and refreshing the memories that non-recurring items 2006 were sale of real estate and 2005 was the sale of non-core assets -- [or] shares.

On the next page we have the development -- profitability development broken down by business area, giving for Hiab a growth both in terms of operating margin from 9.8 to 10.1, or comparing the 2006 total year 9.4 to 10.1 and also in absolute terms to EUR24.3m.

Kalmar had a growth in absolute terms of EUR1.8m to EUR26.8m, but had 0.5 percentage slower operating margin for this quarter.

MacGREGOR had a very strong development partly due to the Service business, partly due to [several] deliveries during this quarter and ended up to an operating profit of EUR10.6m representing 8.1 percentage of sales.
We have added to this chart also the central cost development and that is due to the earlier mentioned investment on development of knowledge base and development of Service business which effect, of course, will be [undisclosed]. Next please.

The earnings per share grew from EUR0.52 to EUR0.62 from quarter-to-quarter comparison. Next please.

The cash flow from operations followed clearly the operating profit development and grew with EUR11m from EUR41m to EUR52m. Next please.

On the key figures, it is worthwhile mentioning that the interest bearing debt grew from EUR107m to EUR180m, but the biggest single item within this growth was the dividend payment which took place between these two measurement points, starting from a very low level so this increase of interest bearing net debt also has an impact on the gearing numbers. Next please.

And the outlook for 2007 tells that we still expect the general market activity to remain healthy and we want to make the notice that we continue our development work on the Service business in line with announced Cargotec strategy.

Due to the record high order intake on the first quarter we are convinced to state that the book to bill ratio will be above one and order intake will increase the same.

Also the sales is expected to clearly -- the growth in sales is expected to clearly exceed the announced 10 percentage target level. On the operating margin side we do expect the same level of operating margin as last year, before taking into account the investments in knowledge base and efficiency as well as the purchase price allocation treatment of acquisitions.

So, I think this is the short review of the quarter 1, 2007.

Eeva Makela - Cargotec Corporation - SVP IR and Communications
Operator, we would now be ready for the questions.

Questions and Answers

Operator

[OPERATOR INSTRUCTIONS]. And the first question comes from the line of Johan Eliason. Please proceed.

Johan Eliason - Cheuvreux - Analyst

Yes, hello this is Johan here from Cheuvreux. A couple of questions. The Ferrari -- or CVS Ferrari is still, as I understand, pending. Do you have any visibility on when you would get the approval and put it into your numbers?

Kari Heinisto - Cargotec Corporation - SEVP and CFO

The reason is the competition approval and, unfortunately, the system is such that visibility is limited how the time is measured in these cases.

Johan Eliason - Cheuvreux - Analyst

Is this the European authorities or is it Italian?
Kari Heinisto - Cargotec Corporation - SEVP and CFO
[Bundes Bank], Germany.

Johan Eliason - Cheuvreux - Analyst
In Germany. Okay. But that means if we look at your net debt you still have the payment to come from the Ferrari deal, as well as these last couple of days in the MacGREGOR division. I suppose we should expect the interest [based] payments to increase significantly on the back of this. Is that correct?

Kari Heinisto - Cargotec Corporation - SEVP and CFO
The net debt number will increase when these payments are made.

Johan Eliason - Cheuvreux - Analyst
Your Service growth was quite good. How much of this growth came from acquisition and how much was the organic growth?

Kari Heinisto - Cargotec Corporation - SEVP and CFO
When we look at the -- first the breakdown of the acquisition-related growth, so the acquisitions made 2007 only contributed with a few million which doesn't make any difference here. And then we need to look at what were the acquisitions 2006. And from those acquisitions, in the text mentioned, that the number is EUR40m which stays in first quarter which is contributed on 2006 acquisitions.

The biggest three acquisitions 2006 were ECC, which is clearly Service business, MacGREGOR Bulk, which is about one-third Service business, two-thirds new equipment and Catracom which is our -- mainly our [own] dealer and service unit but also has a new product base component in it. Totally meaning that, roughly speaking, around half of that acquisition-related growth was related to Service. And that leaves a significant organic growth still for the Service business.

Johan Eliason - Cheuvreux - Analyst
Yes. So half of this EUR40, EUR42m was Service related, is that what you mean, or [half of] Catracom?

Kari Heinisto - Cargotec Corporation - SEVP and CFO
Around half is Service related.

Johan Eliason - Cheuvreux - Analyst
Of the 40, 45% total acquired growth?

Kari Heinisto - Cargotec Corporation - SEVP and CFO
Yes.
Johan Eliason - Cheuvreux - Analyst

Yes, okay. Good. Then I have this question regarding your statement on the margins, that you say that the margins should be in line with last year, if you adjust for these efficiency-related investments and PPA depreciations. Now, can you give any guidance on how big this will be, these two items?

Kari Heinisto - Cargotec Corporation - SEVP and CFO

Well, we can give the guidance that you see the increase of central cost which is shown in the chart on the operating profit page. This is one indication we wanted to open. The other indication is that the R&D-related expenses grew from 1.3 to 1.6 percentage and the third item, which is the purchase price allocation issue. So we have opened that number in the text in the profit, but as we have closed so many acquisitions on this quarter yet, so you don’t see any effect in this quarter.

Johan Eliason - Cheuvreux - Analyst

No, on [peak area], I suppose, the same as Ferrari and the MacGREGOR acquisitions are the main items for the PPA depreciations. But in this efficiency-related investment I should be able now to calculate from the central costs plus the R&D development. Is that a fair [play]?

Kari Heinisto - Cargotec Corporation - SEVP and CFO

That gives an indication to the right direction.

Johan Eliason - Cheuvreux - Analyst

Okay. Excellent.

Kari Heinisto - Cargotec Corporation - SEVP and CFO

Then in the end of the year you still need to also remember, of course, the impact of the announced restructuring in the Truck-Mounted Forklift Division, which is mentioned in the report, all the issues after the end of the period.

Johan Eliason - Cheuvreux - Analyst

Yes. Good. Then, finally, regarding your buyback and obviously you got the mandate on the AGM and then you sent out a note that you have decided to utilize this share buyback mandate as well, and then nothing happened. How should we think of this?

Kari Heinisto - Cargotec Corporation - SEVP and CFO

That most obviously shows that with that guidance we have given in that buyback so we have not acquired any shares.

Johan Eliason - Cheuvreux - Analyst

But was there a specific reason why you didn't do that or you should we still expect that to happen during the year?
Kari Heinisto - Cargotec Corporation - SEVP and CFO

I don't have any answers to that one.

Johan Eliason - Cheuvreux - Analyst

Okay. Thank you very much.

Operator

[OPERATOR INSTRUCTIONS]. And there are no further questions at this time.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

Okay, if there are no further questions then we will thank all participants for their interest in Cargotec. Have a nice day.

Operator

Thank you for your participation in today’s conference. This concludes the presentation and you may now disconnect and have a good day.

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