

**CARGOTEC OYJ**

**Moderator: Paula Liimatta**  
**February 10, 2015**  
**8:00 a.m. GMT, 10 a.m. EET**

Operator: Thank you for standing by and welcome to the Cargotec Corporate Q4 2014 Interim Report conference call.

At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press star, one on your telephone.

I must advise you this conference is being recorded today, Tuesday the 10th of February 2015.

I would now like to hand the conference over to your speaker today, Paula Liimatta. Please go ahead.

Paula Liimatta: Good morning ladies and gentlemen, and welcome to Cargotec's conference call on January-December 2014.

My name is Paula Liimatta, and I'm Head of Investor Relations. Today we have a live audience here in Helsinki, as well as people on the phone lines. We will start with a presentation by our CEO, Mika Vehvilainen, and CFO, Eeva Sipila. After that we will begin our Q&A session.

Mika, please?

Mika Vehvilainen: Thank you, Paula. And good morning from my behalf as well, welcome to (team) Q4 2014 results announcement. I will cover first the highlights and

then I will hand over to our CFO, Eeva, who will then cover their performance by business area more in detail.

And as usual we started orders on year on year decline on Q4 by 5 percentage points but then I would highlight that I would not read anything into that one. First of all, 940 million and is still quite satisfactory level. We had a few very large sort of system and project orders at the Q4 2013, and we did not record similar large one time orders.

This quarter I would say the rest of the business, actually the ordering stakes was at a healthy level. We also see at the beginning of the year has been very healthy and the demand outlook looks very promising for 2015 as well.

Overall throughout the year, obviously our orders have been increasing. All of three our business areas have actually had an increase in their orders throughout the 2014, and we ended up with an order book of 2.2 billion Euros which is up 11 percent compared to the 2013.

The sales grew about 5 percentage points including the acquisitions and in their, actually with the acquisitions then sales would have been relatively flat in there. And MacGregor sales started to increase, actually we had a first time for quite a number of years we actually started to see the organic growth of the MacGregor returning, that was the first Q with organic growth for a number of years and Eeva, will talk more about that one in detail in a moment.

We had a significant improvement in our operating profit and it's very clear that the growth that has been done in our organizations regarding the profit improvement both in Kalmar and Hiab is now paying dividends and the results are coming through as well as we obviously had a sort of good volumes and healthy delivery mix in MacGregor as well. And again, Eeva will talk about business area performance in detail in a moment.

Operate, profit as well a significant improvement from the same time last year. We also announced earlier this week a new operating model for Hiab, and we are a sort of very satisfied with the profit improvement plans and the acceleration of profitability in Hiab, and we felt that this is the right time now to move to the next phase. So in addition of driving further profitability then

the organization should be also affected in better focus for the business, and enables us to seek for further growth in the business in addition to that profit improvements as well.

The dividend proposal and I'll be coming back to that one in a moment as well is 55 cents a share and for this spring. If you look at 10-10, whole year numbers and again as said order up by about 9 percentage points throughout the year. All three business areas actually had a positive profit order intake and increase the orders throughout the year and the order book is up by 11 percentage points by the end of the year.

The revenues increased somewhat by 6 percentage points, that increase came primary through the acquisitions of MacGregor and then in the Q4 the actually organic growth of MacGregor to sales in Kalmar and Hiab declined a little bit.

And again operating profit was not satisfactory if you look at the whole year, we still had a few issues as you well know especially in Q2 relative to large cost of overruns, those are now behind us and then that birth we have done in terms of the profit improvement last in Hiab and Kalmar, and the programs that are now ongoing in MacGregor, are starting to yield results and hence we had a significant improvement already visible partly in Q3, and then very visible in the Q4 numbers.

The cash flow from the operations were satisfactory, in Q4 not quite at the same level as it was last year. But overall we have been putting more focus on that one and annual cash flow is clearly improving, we are able to generate sort of positive cash conversion in our business, and that's also visible in our balance sheet as well as our net drop to the close to 700 million from well above 800 million in last quarter, and are gearing is actually now below 60 percent as well.

So overall we are very satisfied with the progress we are making at the moment in Cargotec. With that one, I'd like to hand over to Eeva.

Eeva Sipila: Thank you. And good morning everyone on my behalf as well. Going into the performance a bit more in detail. So you'll see here on the left hand side the quarterly book to bill as our CEO already mentioned a healthy order intake

in the quarter and a good boost in sales. So we're obviously happy for being able to sort of have a very successful deliveries in the quarter, which then helps to take a profit or so to the 7.4 percent level, and basically a sum of all business areas, all business areas delivering and with no sort of negative issues hampering the performance.

Looking first at MacGregor. So the chart I think is a very good illustration of the long lead times in the industry. So this was the first quarter of organic growth we've seen in three years. At the same time it was a quarter when there was a lot of turbulence and discussion around oil price, nevertheless we booked 300 million worth of orders, and obviously the outlook going ahead is somewhat uncertain, but the fact remains that we have an order book that is up 15 percent from a year ago. And so we're quite happy with the situation with which we start 2015.

Focus in MacGregor is obviously on the internal improvement measures now going ahead, which we've discussed already in the previous quarter. And good to note that the operating profit numbers in the graph are including all MNA related issues. So the numbers do include the one off as well as the PPA costs. The only thing excluded is a small amount of restructuring cost.

Then going into Kalmar. Here obviously the market situation is healthy. We've had a good solid growth in container throughput globally, and that is supporting the replacement business in imports throughout. What was nice to know that we had a clear positive impact in the U.S. from distribution center industry demand supported by the economic improvement there. And also actually fourth quarter was a positive quarter in Asia which has been slower earlier in 2014, mainly Southeast Asia.

So with that order intake was 6 percent. Sales we had a very tough comparison so I consider the 452 million quarter sales a very good achievement and as said we are now moving ahead closing the chapter of the project losses and hence we're delivering on a satisfactory level, 7.6 percent margin for the quarter. There are still work to improve but we're happy with the improvement we've seen in both the mobile equipment business as well as the service business in 2014.

Moving then into Hiab. Hiab was actually our best performing business area in the quarter as well as for the full 2014. And here it's, we can't really talk about market support, it's, the demand has been satisfactory. U.S. has compensated for a flat or weakish Europe, and the U.S. outlook does look promising going ahead as well.

We are, if you look at the quarterly order intake it's good to note that the second quarter peak is explained by two big military orders, which are a bit bulk here and come and go. So in that sense the normal business has been as said flat-ish but in the circumstances where Europe has been we're quite happy with that.

Profitability is obviously our main delight. 8.4 percent is a good achievement and you know the business is moving well towards its 10 percent target that we have set for the business for 2016.

The restructuring cost in the quarter were a bit high. That was due to the fact that we closed now finally the (Hodexwell) operations, which obviously is an important milestone in the fourth quarter as well, and now Hiab starts this year with a very competitive supply footprint.

With that looking then on the group level figures, again so cash flow as our CEO already mentioned, was a good quarter. Thankfully a more stable, somewhat more of a stable year compared to 2013 but certainly going into 2015 we focus still very much on cash especially in inventories, accounts receivables and we would hope to deliver even more stable performance on this side, in order then to further continue to deleverage the balance sheet.

The pie charts are not really much of a change. Obviously the MLS acquisition is visible. And the MacGregor increase of the sharing in Cargotec sales, and at the same time you do see a slight increase in the Americas. Obviously the increase in Kalmar and Hiab was more significant but because Americas is not really a market for the ship building business of for MacGregor hence so that on the group level diminishes the impact somewhat. But it's a good geographical balance going ahead.

And with that, really the earnings per share 1 euro or 11 cents for the year, you may note that we had somewhat higher financing cost in the fourth quarter. This was due to an early repayment of Hatlapa capital loan.

In conjunction with the acquisition of Hatlapa there was a capita loan structure built, which would have fitted the separation of MacGregor plans earlier but now in the current circumstances we felt it best to repay it early and that was formerly an expense in quarter but then obviously going into 2015 we're back on below 3 percent average debt cost and hence you will see the finance and cost going down. Tax rate of 27 and then that as I said is, then the outcome is 1.11 Euros per share.

And the board proposal for the B share dividend is 55 cents and 54 for the A shares.

With that, I'll leave it back to CEO Mika, please.

Mika Vehvilainen: Thank you, Eeva. And just a sort of going back to then Cargotec's must win battles that we discussed and I'll have to renew all of them in connection of our capital market days a few months ago.

And the top five sort of focus areas for us as a corporate are obviously still driving the Hiab now of course aiming for the best in class profitability and capital return. And I would say we are well on the way achieving the targets and with the new organizational structure I think the focus and effectiveness of organization to drive the growth as well will be in a good shape.

And obviously in MacGregor, a number of internal programs that are now aimed for improving our profitability over the cycle. And then in Kalmar's case the single largest business in Cargotec is still the mobile equipment business and we want to ensure that we remain highly competitive on that. I'm very pleased with the performance last year, we were able to maintain our leading market share of roughly 40 percent globally on that business while we at the same time improve the margins of the business as well.

And one of the bigger upsides in the coming years overall for the Cargotec is definitely further development of our services business both in terms of sort of

revenue but especially in terms of improving our profitability and quality of the operations especially true for the MacGregor, and the Kalmar, and we have actually changed the services and divisions leaders have been in all of the three business areas and this will be very much our focus area now moving forward.

Last but not the least, driving growth in automation in Kalmar. Kalmar has an undisputed leadership when it comes to the port automation at the moment. Many of the ports that Kalmar has been now automating all over the world, in Australia, in U.S., and in Europe are actually already sort of in commercial use or are actually coming into the commercial use during the first half of this year. And we actually see the pipeline and the interest to watch automation overall increasing all the time. So we are quite optimistic about further development in the port automation business as well.

In terms of the outlook, we expect our sales and revenues to increase from 2014 into the 2015. This will be obviously helped by increased backlog of roughly 11 percent up to a 2.2 billion Euros, furthermore the overall (see) the market conditions to be quite favorable for us. We expect the U.S. economic recovery and growth to continue quite strongly.

Nearly 40 percent of our business in Hiab is coming from the Americas and well over 30 percent of the Kalmar business is also coming from the U.S., with the Europe although there are sort of I would say big signs of some recovery and specifically some markets, and are actually looking quite promising, I think the U.K. trucks registration was up 37 percent or so in January.

Overall they are not counting on the European recovery for this year and our market look is still flat-ish and we just have to wait and see how things develop in there overall.

We also expect that the profit improvement programs that are tracking according to our targets are delivering to those 40 million improvements either seeking for both Kalmar and Hiab by the end of '15 and expect our profit improvement and profitability increase from the '14 to the '15 as well.

With that one, I'd like to thank you and I think we are open for questions,  
Paula.

Paula Liimatta: Yes, thank you, Mika and Eeva. We are now ready for your questions. As before we start with the questions here in Helsinki, please state your name and company before your question to benefit the other participants.

(Bektas Bronder): (Bektas Bronder) from (Pohila Bank). A few questions about MacGregor. Could you discuss a little bit about the offshore outlook (I see tu es) and what kind of feedback do you get at the moment from the customers?

Mika Vehvilainen: Yes, I think there is a lot of concerns over the offshore situation, and I would not claim that they will be immune for that one, but again I don't think the situation from our point of view in necessarily quite as dark as some people make it believe.

Most of the equipment we actually deliver (growth through) their products, and the support phase of the offshore. So first of all, the cycles are extremely long. The equipment we deliver for the ships at the moment are going to the oil fields where the decisions on the production had been five or even 10 years ago. So when the oil companies now are cutting CAPEX and for (ix I ble) not necessarily starting a new field development, impact of that one will not be visible in our business for many, many years.

And when you look at offshore industry, generally I think the company that are at the forefront of the new development and production such as the exploration and drilling are seeing according to what they hear, or impact of the slowing down because of the sort of spot that we are serving, which is as I said primarily around the support of the existing operations.

Our actual activity level and ordering take at the moment is still at the healthy level, and then obviously one question is that where does the oil go? The price that's already as we know recovered somewhat from the lower points as well, and starts to be against sort of a commercially feasible for at least some of the offshore productions at this current level.



But that said we are not pretending to be entirely immune on that one, and we are obviously taking measures to be prepared for potential down there if there would be a further sort of a slow down of the investments and oil price would go even further down on that one.

The numbers would be first visible for us probably in order intake towards the end of the year and then potentially start to have an impact in 2016 revenues. At this stage we are still quite comfortable with what we are seeing in there.

(Bektas Bronder): OK. And what about the margin in the orders coming from offshore segment at the moment?

Mika Vehvilainen: No significant change on that one either.

(Bektas Bronder): And the last one, if I recall right, at the capital market day you indicate that the MacGregor margin could be this year around the level (it means so) last year, it was 5.2, and this would mean that this 8 percent in fourth quarter is not yet sustainable, is that the right conclusion?

Mika Vehvilainen: Well the 8 percent in Q4 result of course of volumes and obviously we expect the volumes to increase into the next yeas as the backlog is quite strong. And also the fact that it was sort of clean from the deliveries point of view, and whereas in the Q3 of course they had no low sort of margin because there were issues (hit to cert a very) profitable deliveries as such.

I think where we are expecting to land in MacGregor this year is somewhere between the results of the last year and they are not going to reach 80 percent either. So if you put numbers somewhere in between those two we are probably failing at the right level.

Paula Liimatta: Are there any other questions from the Helsinki audience? If no, operator, please we can start taking questions from the conference call participants, please.

Operator: Thank you. Your first question comes from the line of (Antes Saptali). Please go ahead.

(Antes Saptali): Yes. Thank you. On MacGregor, could you talk about, I didn't quite understand, we are seeing that the order intake was down 16 percent the report date and I think 46 percent on an organic basis if we exclude the impact from acquisition. This is a sharp change compared to what we saw during the nine months period when order intake was up. Did I understand it correctly that this was because of merchant ordering going down but basically no impact yet from offshore demand falling? Is this correctly understood?

Mika Vehvilainen: I think as an overall say that the order decline in Q4, once you'll not read that this is sort of directional at this stage yet.

And as we have said in the past, and it's quite visible if you look at our quarterly order intake in MacGregor, it's a quite lumpy business because there are, some of the orders are, there is sizeable, in Q4 last year we had two very large orders and sort of system sales, one was to United Arab Shipping and the other one was sort of the high-end, heavy industry and I think they've over \$100 million overall last year, and this year we did not land similar orders on the Q4 but I would still say that this is more to do with quarterly variation as done any directional issue at this stage.

Again the merchant shipping market looks difficult, the expectation is that the bulk ship boom that we had from the early part of '13 to sort of spring '14, starts to impact the order intake in our merchants marine, at the same time there are indications that the container ship market would start to sort of invest further this year again.

But overall I would say that the outlook on the merchant marine is softer but I would not read too much and directionally in the Q4 numbers on that one yet. And overall in offshore actually the order intake was quite strong in Q4 as well, and we actually still see the activity at this stage to be at the high level.

(Antes Saptali): So you expect the merchant driven ordering to fall into the finance '15 but do you expect offshore related order intake to remain stable versus 2014?

Mika Vehvilainen: I would say it's still safe to assume that we would see the merchant side order intake to start to go down somewhat in '15 compared to '14. The

offshore really that's sort of a \$100 question at this stage, I think if I look at the activity and the pipeline at the moment, we are pretty comfortable with the first part of the year then obviously very much depends on where the oil price goes and how will the further decisions sort of be taken in this industry and that might impact them on the second of the year, but you know that's really anybody's guess at this stage.

(Antes Saptali): OK. Thank you. And then moving on to Kalmar. I think you have set a target of 20 million underlying EBIT improvement in 2014 versus 2013. According to my calculation, you reached 11 million increase. So it seems that Kalmar is lagging a little bit behind your target. Could you talk about this please?

Mika Vehvilainen: So if I look at, we set the targets and by product lines and divisions. We are actually tracking along the target but the mix of the sales was not quite well. We have invested quite heavily in the automation. We did not receive significant new orders in the automation division throughout the 2014, and as you see then, we are expecting the Kalmar top line to sort of increase somewhat throughout the 2014.

It did not materialize actually we had a slight decline and the further investments in the automation division and then the lower volume, and (tierment) meant that the automation divisions profitability was well below our expectations.

But on the other businesses and such as mobile equipment and services, we were actually tracking along the profitability targets. So from our internal kind of tracking point of view, we are actually hitting the targets and hence quite confident of that improvement coming through in 2015. But you are absolutely correct because of the mix and the profitability issue in automation division the full impact did not come through in the overall Kalmar numbers in '14.

(Antes Saptali): All right. And then lastly, SX, could you talk about the sensitivity of Cargotec EBIT to dollar please?

Mika Vehvilainen: Well again as I said U.S. market on its own is quite a significant, it's the single largest market for us, and then obviously the whole MacGregor business is effectively or to a large extent U.S. dollar based some of those offshore could be Norwegian crowns as well but to a large extent it's U.S. dollar base.

The report in currency of MacGregor actually is dollar, or the functional currency is dollar in MacGregor. And then of course the Asia market. So we have a significant exposure overall for the U.S. dollar obviously we are hedging against that one so that the significant change that they have seen in the U.S. dollar, euro is actually not visible in our '14 numbers, actually in Q4 I'm looking at (tail a year) I think they have still slight negative impact on the currencies into our numbers.

Due to the hedging, we will not start to see the dollar impact coming through until sort of midway throughout the second quarter of this year, and that can be fully visible on the second half of the '15.

(Antes Saptali): All right. OK. Thanks a lot. Thank you.

Operator: Your next question comes from the line of (Yohan Elyosam). Please go ahead.

(Yohan Elyosam): Yes, hi. A few questions, just on the acquisitions in MacGregor. What sort of was the net additions to the EBIT line from these acquisitions post PPAs in '14?

Mika Vehvilainen: I look at the overall and we actually just did a review on those, in the board of directors yesterday. From against the business case, we had for our sales team hit the order targets in both businesses, both in Hatlapa and (Posnes).

We were below the revenue target, this was primarily due to the Hatlapa missing the top line and that was really sort of inline with what we have seen in the merchant marine development and the slower revenue uptake than we expect it throughout the 2014, that really started to only turn into growth actually that Q4 '14.

And Hatlapa of course from the set up point of view is more capital intensive or heavier than the rest of the MacGregor, which is very asset light so we have a fixed production operations in Germany, and that meant that the, in Hatlapa's case we actually missed the EBIT number we have set for ourselves.

From the (Posnes) case we are somewhat below the revenue but not significantly and pretty much on target in terms of the profitability on that one.

(Yohan Elyosam): And did they add to your profit sort of bottom line this year or is that expected to be visible in '15?

Mika Vehvilainen: That should be mostly visible in '15. Again the issue here is that the slow cycle of (mean if we), hit our targets in terms of the material cost reductions but they are primarily contracted and cost reductions because most of the (dealeries) that we and are (not) able to leverage the MacGregor procurement power are of course on the deliveries that we will be shipping out now in 2015, start to see the margin improvement in there.

(Yohan Elyosam): Good. And just on the cost cutting program, you are basically saying that you're on track in both Kalmar and Hiab, previously you said Hiab was a little bit ahead. What is the sort of remaining year over year impact in '15 if you were on a linear case you would have reached sort of 20 million this year and the remaining 20 in '15. Start the equations once you'd consider or how is it looking into 2015?

Mika Vehvilainen: Well in Kalmar's case we expect to this the profitability improvement target program and be in the target by the end of the year. Again likely so in 2014 some of the automation projects and others might have an impact on the overall mix and then the visibility of that one might not come entirely through. It depends a little bit on sales mix and what's happening in other businesses.

But on the business itself there, the targets have been set. I think they are tracking along fine and expecting the full results to be visible by the end of the '15.

Hiab as you said, quite correctly that sort of maybe, sort of I didn't quite say it correctly, is ahead of the plan. It's of course very visible into 2014 numbers compared to the 2013 numbers. And we have not changed the target but I think what this obviously means that the sooner we actually get to the target and we expect to get there before the end of the year, Hiab can start to move and start to address other opportunities that are out there.

And again at the same time, must be clear also, start to look at Hiab not only as a profit improvement. We've been very focused on sort of making even some cut in terms of our product portfolio and country operations, and I think with that stronger sort of foundation we can start to turn to focus more into the growth opportunities there as well.

(Yohan Elyosam): And then finally, you also target an 8 percent plus margin in '16. How important is growth in the service business to reach that 8 percent margin target?

Mika Vehvilainen: They're not very dependent on the growth, I think, and they look into that sort of what needs to be happening by business areas to reach the 8 percent. That's not really built on any significant changes in our top line. This is more coming through the programs we have in place. And in macro, it's really primarily driven by that improvement opportunities in our profitability and services.

Obviously we will seek for further growth but like in Hiab's case and in some cases you might actually cut some of your service portfolio because you're not able to reach a profitability of else you need. And then again boost some other parts like spare parts business and to drive but then, I'm more interested in the absolute profit and gross margin generated from the services rather than the top line as such.

(Yohan Elyosam): OK. Great. And then finally, just confirming, are we finished with all the cost related to the Kalmar project overruns now?

Mika Vehvilainen: We feel pretty comfortable with the situation. There are still some tails of the projects going on as the last commissions of those large grains are done so

there are still some people on ground. Also in terms of actually penalty demands and the performance sort of guarantees and others, we feel that there is quite manageable and we are able to put the downside at the moment into a single digit million number at this stage.

(Yoan Elyosam): OK. Thank you very much.

Mika Vehvilainen: Thank you.

Operator: Your next question comes from the line of (Viay Kayela). Please go ahead.

(Jan Carlos): Hi, this is (Jan Carlos) from (Nordale). Just at the beginning of the presentation you said that the year of 2015 have started good in terms of orders. You did say something about the offshore already but how does this comment relate to the different business areas, has it been unanimous or across, or how would you describe it?

Mika Vehvilainen: I would say that actually when I look at this sort (successful) we ended up and then the visibility we know have had much of activities. That applies to all three businesses. The one I probably would be most concerned is just (soft test for fee), the more (nourge in gender impact fees), the offshore activities (feel that) very high level and both in Kalmar and Hiab I think market activity remain strong.

(Jan Carlos): OK. I think it was already asked but I'll ask it again about the savings, I mean could you put in terms of numbers, you had 40 and 44 for the divisions 20 and 20 last year, and this year.

How much do you really see in numbers that was reached last year for Kalmar and Hiab? And how do you, how much do you still expect for this year? I mean it might have been said but just checking on this.

Mika Vehvilainen: So it's well, I started the Kalmar so it was visible for you when you look at overall results is 11. When I look at the divisions that they're under the program, I see 20.

So that – the line and the difference comes (free) that with the performance of that and automation approach division that's driven not just by the project cost over losses but more on revenues and investment in this (certain) area.

So and in that sense the internal, we are looking at the 20 and see that number moving into the 40. This year in Hiab's case we actually are over the 20 – you can sort of calculate that, it's almost directly from the P&L after – during the '14 and obviously we expect the remaining part of that one to come through during the '15.

(Jan Carlos): OK. That's fine. Thank you.

Operator: Your next question comes from the line of (Elena Rota). Please go ahead.

(Elena Rota): Yes, hello. My questions have been answered. Thank you.

Operator: There are no further questions on the telephones. We do have another question comes from the line of (Antis Abdali). Please go ahead.

(Antis Abdali): Thank you. Just making sure on MacGregor profitability, I missed a little bit what you said before, but did you raised the guidance for MacGregor margin for 2015? Previously you said it would be in line with last year and now you said it's something, it will be between last year and something.

Mika Vehvilainen: Correct, that was – we are looking at that at the moment a somewhere in between the last year's and the 8 points this on Q4.

(Antis Abdali): All right. Thank you.

Operator: There are no further questions on the telephone.

Paula Liimatta: Thank you operator. Do we have any more questions from the people in Helsinki office? If no, I would like to thank everyone for your attention today. And I wish you a sunny day. Thank you.

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