

Conference Title: Cargotec Interim report January-March 2018

Date: Tuesday, 24th April 2018

Conference Time: 3:00 PM (UTC+02:00)

Hanna-Maria Heikkinen: Good afternoon ladies and gentlemen, and welcome to Cargotec's Q1 2018 results briefing. My name is Hanna-Maria Heikkinen and I am in charge of Investor Relations. In Q1 Kalmar's operating profit increased, good demand in Hiab continued and MacGregor continues to recover slowly. Today, our CEO Mika Vehviläinen will go through the group level development and then our CFO Mikko Puolakka will continue with the business areas, financials and outlook. And after the presentation there is a possibility to ask questions. Please, Mika.

Mika Vehviläinen: Thank you, Hanna-Maria, and good afternoon from my behalf as well. Maybe as a starter, generally speaking, I'm not a big sort of friend of explaining numbers through the currency changes etc. But then I reflect, I look at the Q1 numbers one can't avoid the fact that the currencies played such a major role when I look at the impact and the finances during the Q1. If I look at year-on-year currency changes there was a 17%, one seven percent, difference between the US dollar and euro within that one.

Obviously, that gap will close down and narrow considerably if the currencies stay roughly at the current level towards the end of the year. And if I look at that and the results in those sort of context, I'm relatively satisfied with the progress. And it also makes me very confident about our progress and capabilities and our performance moving forward. Overall highlights on the Q1 obviously very good and strong demand continues in Hiab. Operating profit margin was roughly at the previous year's level.

We had an improvement in Kalmar operating profit primarily thanks to the cost-saving measures we have taken in there. In Hiab's case, the currencies played a major role in Q1. The impact actually on the US dollar euro exchange rate on Hiab's results on Q1 was EUR 8 million.

However, the whole year impact is still estimated to be on that EUR 20 million to EUR 25 million level we have indicated so very clearly that currency impact should slow down and soften up towards the end of the year.

MacGregor results declined. We're clearly now scraping or hitting the bottom in terms of our revenues whilst we see the market's recovery starting to take shape. Orders grew in Hiab as well as in MacGregor slightly and declined slightly in Kalmar. To put that in context, I'm still relatively happy with the Kalmar orders. We had a large sales event last year in the mobile equipment side in the US with 70 million order intake and we did not organise a similar event this year in Kalmar. Overall the equipment and especially the equipment demand in Kalmar continued at the good level.

Obviously, currencies played a major role when you look at the order intake. And we will come back to those ones in individual business areas later in the presentation. In current also the – in comparable FX rates, the orders would have increased by seven percentage points in Q1 2018. Looking at the market environment, the growth in sea traffic especially in container traffic continued at the strong level. We see that as a relatively good demand continuing in our equipment really primarily driven by replacement investments.

And also in industrial side in Kalmar the equipment demand continued in good level as well as the services demand. There is still a strong interest in automation in many parts of the area. But we also clearly see that the customers are very careful in their investment decisions and the investments tend to take place at smaller, relatively smaller sort of phased levels at this stage. We landed one small automation customer again in Q1 18. In Hiab's case, demand continued strong. European develop – sort of order development and demand continued to sort of accelerate further.

Also in US demand continued at strong level and in US dollars our order intake still increased in the US as well. In the merchant sector the market is starting to recover. We see signs of that one in many different forms, but the market recovery is likely to be a slow one. And in offshore, even though there is a number of sort of activities and different kind of enquiry levels is increasing, it is unlikely to realise into the orders any time soon. So, we are still fairly sort of hesitant on expecting any fast recovery in the offshore sector.

Overall, if I look at the order intake, again MacGregor only slight increase year in year in orders. The drivers are very different in there. In the merchant sector, we actually saw an order increase of 47% compared to a year ago. So, we clearly start to see the signs of market recovery in there, whereas in offshore actually orders declined further. Also, we had a timing issue in terms of the RoRo ferry sector that has remaining really stable. But from timing point of view we actually didn't land any significant orders during the Q1.

Hiab demand was particularly strong. And, of course, especially when we look at these in constant currencies, the order development was strong throughout all business areas. In Kalmar, as I already said, a good demand in equipment side. Also, we saw order increase in the crane sector. However, the automation orders still remained at the low level on that one.

Order book has increased eight percentage points compared to the end of the year '17, but obviously are down on year-on-year level. However, as we have discussed in the past, the order mix is more sort of attractive from our point of view. And the composition of the shorter cycle, businesses such as services and equipment business is larger in the Q1 order book. And as such, one needs to be careful of drawing too many conclusions in terms of the revenue impact from the actual sort of overall order book size.

Again, currencies played a major role in revenue recognition. The revenues as well sales grew both in Kalmar and Hiab compared to Q1. And in MacGregor we are now actually clearly seeing

the bottom of the revenue curve at the very low 126 million of revenues only in Q1, where the sort of the services now play a fairly major role of that revenue mix on that one. Then the sort of favourable mix is of course visible also in our gross margin development that continued to tick upwards. This is really a question of mix. It's a mixture of or a result of the good work we have done in our equipment renewal and cost points in equipment as well as our progress in the project margin that we have been doing to improving project management.

In terms of services and software, it's now 33% of our Cargotec total sales on our way to the 40% or 1.5 billion target we have set for ourselves in next three to five years' time. Again, the headline numbers don't look that great, only one percentage point growth in services. However, in constant currencies, the story is quite different. 9% improvement in Kalmar service revenues, 10% improvement in Hiab services revenues as well on constant currencies. One can see that in our services business US dollar is a fairly major component.

In MacGregor in constant currencies we would have been flat. A similar story of what we already see in actually in Q4, merchant services are actually slightly recovering already whereas the offshore sales, they are still declining. Again, the offshore sales declined throughout the last year. It was so, so strong as I think in the comparable quarters. And we move ahead that impact will sort of move away in there. Overall, in constant currencies, the total service revenues would have increased seven percentage points.

Again, when we look at our software business which is almost all in US dollars, that obviously again had an impact. In constant currencies, our software sales would have stayed at the relatively same level. The terminal operating systems or port ERP systems stayed roughly at the last year's level. However, I am particularly satisfied about the strategic progress and the market progress we are making now in our software sales. One example of that one is a major breakthrough we had in with the Cosco where they actually now have selected to standardise their port ERP systems into the Navis system.

It's a subscription-based deal. And this is an example of also the very large port operator now reconsidering the in-house systems and the relatively sort of diversified ERP landscape they're still having their operations. Overall, Cosco now operates about 38 ports worldwide. And we expect them to start the transformation to the subscription-based Navis systems at least in about five ports already during this year. Another highlight of the good progress we are now making in software space is the commercialisation efforts we are doing around XVELA, which is our digital platform for information exchange between the carriers or the shippers and the ports. And maybe a few words about that one.

If I look at today the container flows from port to port between the ports and in the shipping, it's a surprisingly inefficient industry. Overall, we estimate based on the studies we have done together with McKinsey that the industry loses about EUR 17 billion every year due to the inefficiencies. The information exchange is done with the fairly old-fashioned and sort of insufficient methods today. And the ports and ships are not able to share the visibility of the loads and loading, unloading plans well enough.

What XVELA is able to do is to share confidentially the information about the ship loading, unloading and stowage during the journey and enables both the shipping lines as well as the ports to optimise the loading, unloading and stowage during the one ship's voyage. This will result to the more efficient loading, unloading, the ship will spend less time in ports. That will enable them to either drive more capacity or do more slow steaming, both of them result into higher revenue or lower cost or both. And in the port side that actually will result to less moves, less operating costs and again more efficient operation and higher capacity utilisation in the ports as well.

Six major shipping lines have now selected XVELA as the platform. The initial deployments are starting on that one. Again, the revenue ramp-up of this one will be relatively slow because it's a

subscription or SaaS based services. But again, obviously this will have a major impact in the profitability when the adoption of that platform will move forward.

Strategically, we are more interested in driving the penetration of the system and the platform today than in the short-term revenues of profitability. And when successful, XVELA will provide a digital platform for also other new services between the shipping lines and ports in the future. From the sort of software business, let's move back to the business areas. I will hand over to my colleague, our CFO Mikko Puolakka. Mikko, please.

Mikko Puolakka: Thank you, Mika. And also, good afternoon from my side. So, let's start with Kalmar's performance. Like Mika indicated already earlier currencies had a significant impact on Kalmar's orders and sales. With actual orders – with actual currencies, the orders declined by 3%. But then calculating with the comparable currencies, the orders grew by 3%. We saw a very good demand on mobile equipment especially for terminal tractors in the US and also for forklift trucks.

We also got a good number of crane orders especially like for the rubber-tired gantry cranes. However, as indicated also by Mika, the automation project orders remained on low level. The sales grew by 2% and with comparable currencies 8%. Like we have been indicating already earlier in the previous quarters, we have had some bottlenecks in the supply chain in Kalmar. However, that situation has stabilised, but is not off the table yet.

We had a good performance in Kalmar services both in spare parts as well as in maintenance contracts. Sales in services grew by 9% in comparable currencies. Kalmar was able to improve the operating profit slightly by keeping the costs on a lower level in quarter one than a year ago. Then moving to Hiab, where the very good development, what we saw already in quarter four has continued also in quarter one. Like in Kalmar also, in Hiab, the currencies played a significant role especially in the year-on-year comparisons.

Orders were record high in the first quarter and grew by 7%. But as Mika indicated, when calculating with comparable currencies, the order growth in Hiab was 14%: significant improvement in comparable currencies. The demand for Hiab products and solutions was especially strong in EMEA supported by the strong economic growth in the region. The demand was especially strong in loader cranes. Also in our Americas region, the demand for Hiab's solution remained on a very good level. We did not get any large orders in the first quarter of this year.

Hiab's sales grew by 2% with actual currencies and then 9% with comparable currencies. Also like in Kalmar, we have had in Hiab supply chain bottlenecks especially in our European operations. But those are more or less stabilised, so have not gotten worse in quarter one. Hiab's operating profit declined due to currencies and fixed cost-related reasons. The currency impact was approximately EUR 8 million in the first quarter. The fixed cost increase is very much stemming from the investments which we are doing in tools which are supporting sales and service operations.

These investments aim at improving Hiab's operational efficiency as we go forward. Then moving to MacGregor where the markets are gradually turning to the better. We saw order growth in merchant shipping sector especially in the cargo handling solutions. In MacGregor we did not get any single major order during the first quarter. Demand for merchant shipping services grew while the offshore service demand was still on a very low level.

And now we have included also the Rapp Marine numbers in our first quarter results. Rapp Marine deal was closed in the beginning of February. Like in Kalmar and in Hiab also in MacGregor the currencies had a quite significant impact. In comparable currencies MacGregor orders grew by 7%. Sales declined in all MacGregor divisions due to the fact that those good orders what we have been receiving in the past few quarters, those start to generate revenue

later this year then and as well as in next year. MacGregor's operating profit declined primarily due to lower sales. And we are seeking also continuously additional cost optimisation potential.

Then as the next one, let's move to our cost savings programme. The Cargotec-wide EUR 50 million cost savings programme which we started in mid-2017 has yielded so far EUR 12 million of savings to date. 10 million of these savings came in 2017. And now in the first quarter we got EUR 2 million from the EUR 50 million programme. In MacGregor's EUR 13 million cost savings programme, basically the actions have been completed and the savings in the first quarter were EUR 4.5 million. Kalmar's production transfer from Sweden to Poland has been completed and now we are in the production optimisation mode. And, of course, we continue also on the product cost to design, design-to-cost activities in order to mitigate also the raw material price increases. We anticipate that we have roughly EUR 30 million restructuring charges from these ongoing programmes during 2018.

Then having a short look on the key financials for the first quarter. We apply now since the beginning of the year the new IFRS 15 standards and the 2017 comparison period numbers have been restated according to these IFRS principles. The restatement impact was for quarter one sales – for quarter one 2017 sales EUR 1 million and then in operating profit EUR 300,000. So, quite small.

Overall as indicated already earlier our sales declined by 2%. But again, eliminating the currency impact and looking with comparable currencies, the sales grew by 4%. Operating profit was EUR 57 million and the reported operating profit was EUR 53.2 million. We had approximately EUR 4 million restructuring charges. And these are mainly related to the EUR 50 million company-wide restructuring programme.

Next let's move to the cash flow which was very weak in quarter one. There are no kind of fundamental long-term trends behind this cash flow change; but this is very much driven by the

working capital increase both in Kalmar as well as in Hiab. The longer lead times what we are now having because of the supply chain bottlenecks and shortages are causing extended lead times in the overall delivery process. And due to this reason, we are having higher inventories at the moment which are then burdening or have been burdening the quarter one cash flow.

But we anticipate that the situation should be improving once we can get the lead times shorter and sorting out the supply chain bottlenecks. We have a very strong balance sheet. Gearing was 41.5%, so clearly below our 50% target. We do not have any major debt repayments upcoming during this year. And also, as you can see in the coming years also that the repayments are very nicely balanced across the years.

We have paid the Rapp Marine acquisition price in February when the deal was closed. Our return of capital employed was 9.4% on the same level as in quarter one 2017. Our long-term target here is to get ROCE to 15% in the next three to five years. And the main driver for the improving ROCE will be the profitability growth. And then last but not least our outlook for 2018. We reiterate the guidance for this year and expect the operating profit to be above last year's EUR 258.6 million. So, with those words, I would hand over back to Hanna-Maria.

Hanna-Maria Heikkinen: Thank you, Mikko and thank you, Mika. Now there is a possibility to ask questions. And we will start with the questions from Ruoholahti. Are there any questions?

Erkki Vesola: Thank you. It's Erkki from Inderes. Regarding MacGregor and the disappointing order intake, we know that shipyard's order last year I think their order intake grew by some 70% or something of the kind. When will the activity in merchant vessel orders at shipyards start to show finally at MacGregor?

Mika Vehviläinen: It's very difficult to give the exact timing of the orders. Maybe one indication which we look is what we classify as hot projects. And the project becomes hot when we know that the

particular ship we are aiming for has been ordered from the shipyard because then it gets concrete. So, in Q1 last year we – the hot project list was about thirty ships, and today it stands at 130 ships. So, we clearly see a kind of number of prospects increasing at this stage especially in merchant side.

As I said already said, the merchant marine or especially the cargo handling orders went up by 47% on Q1. But against that one, we had still a declining trending in offshore sites. And then also it gives us more I think a timing issue on this RoRo ferry side. We did not land practically any orders in Q1, but that's usually a pretty steady sort of 100 million business for us on the annual level. So, we expect that to be still moving fairly steadily forward. I do think we will see and we've strong indications of the merchant side recovering but it will be relatively slow. We don't see any very fast recovery on that one. And we don't see much of that impacting revenues this year. This will be the lowest revenue year, roughly in the ballpark of last year. And that's of course visible in MacGregor's result at the moment. The offshore side is still – even though the interest levels are up, I think the order recovery will take longer in there.

Erkki Vesola: Thank you. A follow-up on that. You haven't seen MacGregor or you have not seen any kind of indication that you had lost in the competition?

Mika Vehviläinen: No, we have seen no indication of that one. We have been out of some of the markets for a while in China which are being done by the scrap to build national policy where the deals have gone to the Chinese ship equipment building companies. And primarily the TTS has been in a strong role on that one, and that's one of the drivers for TTS acquisition is the strategically stronger position in China as well.

Erkki Vesola: Yeah, and finally regarding TTS, everything going as planned and still closing during the third quarter?

Mika Vehviläinen: That's still is being planned and everything's going according to plan.

Erkki Vesola: Thank you.

Hanna-Maria Heikkinen: Are there further questions from Ruoholahti? If not, then we will continue with the international questions.

Operator: If you would like to ask a question, please signal by pressing star one on your telephone keypad. We'll take our first question. Please go ahead. Your line is open.

Magnus Kruber: Hi Mika, Mikko, Hanna. Magnus from UBS. Thanks for taking my questions. We will take it one at a time. How did your organic sales growth develop in Hiab in EMEA in Q1 and what was the similar growth in Q4?

Mikko Puolakka: If we're looking – yeah, this is Mikko Puolakka. So, if we are looking at the organic growth, actually Rapp Marine had a fairly small impact on the numbers. So, roughly at EUR 10 million one should take out from sales if you want to calculate the kind of organic growth numbers.

Magnus Kruber: And that was on EMEA growth in Hiab in Q1 sales growth?

Mikko Puolakka: No, this is basically related to all acquisitions what we have done. So, last year we acquired the Argos business in Brazil. And then now in the first quarter of this year we acquired the Rapp Marine in MacGregor. So, if we are to kind of look only the European-related acquisitions, Rapp Marine is pretty much the one which is related to the European business. And it would be then less than EUR 10 million in the European sales.

Mika Vehviläinen: Yeah, Mika here. If you take about the Hiab growth in EMEA, the growth was about six percentage points in revenue. The US declined roughly two points, but again, in constant currencies or a US dollar basis. That's also grew in Q1.

Magnus Kruber: Okay, got it. Thank you so much. And continuing with Hiab, could you possibly quantify the impact on EBIT from the supply chain issues in the quarter?

Mika Vehviläinen: It's really mostly in lost revenues. As you can see that our order intake is growing clearly faster than our revenues are increasing at the moment. So, we are building backlog on that one. I would say that if I combine Kalmar and Hiab supply chain which is really more leading to sort of longer lead times we talk about, so a few tens of millions of lost revenues in Q1.

Magnus Kruber: Okay. But nothing material on the EBIT apart from that or –

Mika Vehviläinen: No I mean there are some cost elements obviously because we need to babysit them, some of the supply chain processes, etc. But that impact is not that significant.

Magnus Kruber: Got it, thanks. And finally, how do you find pricing in Hiab at the moment?

Mika Vehviläinen: We are pushing – we are doing price list increases due to the raw materials and currency changes. But probably more important tool than the actual list price increases are the sort of the price discipline. So, we tend to sort of – we try not to give discounts as much as we have done in the past and being sort of tougher on the pricing and others. But we are looking at the sort of somewhere between 2-5% price increase efforts in our product lines.

Magnus Kruber: And list price increases?

Mika Vehviläinen: Yes.

Magnus Kruber: Brilliant, okay. Got it. Thank you so much.

Mika Vehviläinen: Thank you.

Operator: We will now take our next question. Please go ahead. Your line is open.

Speaker: Thank you. I have a question which maybe asked the other side, the previous one. And in terms of the Kalmar and Hiab revenue trends, how much would you say the effect has been from deliveries of the previously postpones due to the supply chain issues, as in any catch-up effects yet?

Mikko Puolakka: No, if I start with Hiab, there is no catch up I think. We are seeing lead times in sort of 15 weeks, in some cases well over 20 weeks in certain product areas as well. Due to the fact that the orders are coming in so strong, we have not been able to catch up on those lead times at the moment even though the factory capacity is going up all the time. And also, I would say in the Kalmar side, we really haven't seen a significant catch up at this stage. So, we've really pushed kind of orders or deliveries from Q4 to Q1. And then you'll see the same push effect from Q1 to Q2 now.

Speaker: Okay. Thank you very much. And in terms of Kalmar, the business more broadly, do you see any – do you see demand's in Kalmar is mostly maintenance Capex or would you see greenfield Capex just in small size orders?

Mika Vehviläinen: We mostly see sort of small Capex taking place at the moment. As I said, the equipment demand side is good. If I look at our mobile equipment business, we now have had a several months of strong demand and order intake in there. I was also pleased on some of the

crane business that we achieved in Q1. But sort of larger projects, larger automation projects clearly have been all been pushed back at this stage.

Speaker: Okay. And last question would be, what sort of effects you've seen on margin from this mix?

Mikko Puolakka: Yeah, generally the mix is – and if I look at the order backlog at the moment, the mix I would say more favourable for us at the moment. And obviously for the couple of things, the MacGregor portion of that one in terms of the gross margin is lower. That generally increases the gross margin. And also in Kalmar's case, generally the equipment and services business obviously has a higher margin than the related larger projects and crane project business does. So, the backlog mix is obviously more favourable for us at the moment.

Speaker: Yeah. Okay, thank you very much.

Mikko Puolakka: Thank you.

Operator: Please state your name before you are posing your question. Your line is now open.

Johan Eliason: Yeah, hi, this is Johan Eliason from Kepler Cheuvreux. Can you hear me?

Mika Vehviläinen: Yeah, Johan we can hear you fine.

Johan Eliason: Yeah, good. So, on services you said Kalmar services grew 9% in comparable currencies which is a really strong number. Now, how much is that actually organic because I think you had this acquisition in Australia if I remember it impacting the service part?

Mika Vehviläinen: It's not really – that I think it's just one million is probably coming from the acquisition.

Yeah, these people are nodding their head here. So, one million was the right number. So, it's primarily organic, and we have been investing in this for quite a while now as you know in terms of the sales force, systems, equipment and other. And it's good to see that that started to bear fruit now. We already saw a relatively good increase in six or seven percentage points in Kalmar last year. And that strong progress is clearly now continuing in Q1 as well.

Johan Eliason: Are you seeing spare part capture going up significantly in any particular regions or what's driving this?

Mika Vehviläinen: No, it's – I mean the services comes from a small streams. So, it's the spare part capture rates we're getting better on that one. We're better in doing maintenance agreements. We are monitoring attachment of maintenance agreements with our equipment. We have increased our sales force in services. So, it's coming from many small improvements that we are doing across the whole sort of "smörgåsbord" in a way.

Mikko Puolakka: And we have also launched last year the web shop both in Kalmar and in Hiab for the spare parts as well. So, one additional channel for the customers to buy spare parts.

Johan Eliason: And is that generating a good take up?

Mika Vehviläinen: It is. We see actually a good take up on that. In Hiab side, so far, that channel has only served dealers. And we are now in the consideration of actually opening it up for directly customers as well. So that should hopefully give us additional opportunities as well.

Johan Eliason: Yeah. So, with the service growth coming through like this, that should have a positive margin mix I assume going forward. Can you confirm that on the major crane projects you're sort of still at breakeven or are you increasing your expenditure there as we speak?

Mika Vehviläinen: That business operates roughly at the breakeven.

Johan Eliason: Yeah, good. Then just on the supply chain issues, I guess the most important thing to see here is when we can see the negative impact on the cash flow reversing. Do you see this for this year or do you think you will have to carry these higher inventories to whole year in 2019?

Mika Vehviläinen: It's somewhat hard to predict because the main bottlenecks at this stage are not necessarily in our own hands entirely. If I look at the different parts of the performance, first the sort of upstream supply chain to us. Then I look at our manufacturing performance and then our downstream. The good news in the upstream is that at this stage a very large proportion of our suppliers are actually having their on-time deliveries happening on time.

But however, you only need about you know at this – if I remember right about 4% of our suppliers are not hitting their on-time deliveries at this stage. The problem of course is that that missing percentage can still delay the entire product to be getting out of there. But having said that one, so the on-time delivery side is in the better shape, but on-time or the lead times for those deliveries are longer. And some of the supply chains are fairly complicated that long we get equipment from China or components from China, for example, our sort of inventory levels in our factories have gone up due to the uneven lead times on that site. Factory performance actually has seen a very good improvement in the last quarter or so. So, the metrics if I look at our manufacturing performance have been improving. We have another issue in our downstream clearly at the moment; because of that supply chain our own organisation as well as our dealers have got to be more careful and build buffers in the lead times and others.

So, we have also ready goods inventories that have gone up at the moment. So, we have issues both upstream and downstream. We expect to start to recover from those ones. But I think it would be too early to promise that we would be clearing all of that out throughout this year. I

would expect that that to move to the positive territory. But again, part of that performance relates to our sort of supply chain capabilities to improve their capacity and lead times as well.

Johan Eliason: But you would still I hope expect to see an overall positive cash flow from operations this year or –

Mika Vehviläinen: Absolutely. And I mean if you compare to last year, you saw very clearly the Q1 tends to be tough for us, anyway, as it was last year, and I do expect the cash flow to recover throughout the year. But I don't necessarily expect the whole inventory issue to go out from that this year either.

Johan Eliason: Yeah, good. And then finally just on the cost savings just reiterating so I understand the numbers correctly here. So, on the 50 million group-wide savings you say the cumulative savings are 12 million out of which 10 is in 2017. So, you say sort of the run rate number that you have achieved, if you look at Q1 separately there is a year-on-year benefit yet in those numbers or is it just a run rate by the end of Q1 2018?

Mikko Puolakka: This two million is comparing to the beginning of 2017 cost level. So, basically, one can consider it as a kind of a run rate saving already – as we speak now.

Mika Vehviläinen: It's good to remember that this savings programme is somewhat back-weighted. Effectively what we are doing is primarily removing our back-office activities in different operations. This global business centre, we will be ramping up the global business centre. We have Mikko now, what 200 plus?

Mikko Puolakka : Almost 200.

Mika Vehviläinen: Almost 200 people in the centre today. So, there is a upfront cost on that one. And then we are moving country by country, moving into the new operational mode. And we have done some of the measures in Finland and Sweden. We are moving to the next countries as we speak. So, we clearly start to see some of the benefits coming through. But because of the front-end investments, the savings tend to be backend weighted as well.

Mikko Puolakka: And one has to remember that a part of this EUR 50 million savings programme is also coming from the indirect procurement savings. And, actually, most of this 12 million generated so far is coming from the indirect procurement savings like travelling, like logistics, like buying certain external services at lower price than what we have done in the past.

Johan Eliason: Okay. Thank you very much.

Operator: Please state your name and ask your question. Your line is now open. Please make sure your mute function is turned off.

Manu Rimpelä: Good afternoon. It's Manu Rimpelä from Nordea Markets. My first question would be on Kalmar. Can you please comment on the way you see the supply – sorry how you see your utilisation rates in that business going into 2018? Obviously, we in previous quarters discussed that you need to win more orders to kind of be able to maintain good utilisation rates. So, can you just talk through how do you expect that kind of profitability and the utilisation rates to evolve this year?

Mika Vehviläinen: Are you talking about overall Kalmar or specific business, sorry, I am not sure if I understood?

Manu Rimpelä: Yeah, I guess we talked about the lack of bigger orders putting pressure on the project business especially in 2018. So, do you have an update on that end?

Mika Vehviläinen: The order backlog in the project business remained roughly at the Q4 levels. So, we had some deliveries, but we also got some orders. Nothing major about that. Overall the backlog is fairly steady on that stage. So, we are still very much on the sort of mode that we need to review the market progress and, if necessary, then draw conclusions, but there is no major urgency around that one at this stage.

Mikko Puolakka: Yeah, we got – in the first quarter we got a quite nice number of orders, for example, RTG's like rubber tired gantry cranes, so these kind of large cranes.

Manu Rimpelä: Okay. So, we are basically in a situation where we are taking it day by day to see whether we need to cut costs or are you seeing that the pipeline is kind of building up in terms of improving larger order activity or why are you waiting with the potential cost savings actions?

Mika Vehviläinen: We don't really need – sort of feel that there's a particular pressure. We have a number of automation deals that we have done, three in the last three or four months. There are certain technology commitments that go with those deals. And we are still believers; in terms of the automation uptick, we're clearly seeing that that's going to take place at a slower rate at the more phased approach. But we still believe that that's a good business opportunity for us. And it's also strongly – that that capability is strongly supporting of course even the existing business today. Because when you look at the existing business and demand having the automation capabilities built in even though they would not be part of the product offering today is an important sort of competitive advantage for us.

Manu Rimpelä: Okay. Then a follow-up question on MacGregor. So, just to confirm that I understood it correctly. So, did you say that you expect the MacGregor sales to be roughly flat this year?

Mika Vehviläinen: Yes.

Manu Rimpelä: Okay. So, then we should see the kind of acceleration starting to take place in the coming quarters or at least bottoming out of the sales?

Mika Vehviläinen: That's true.

Manu Rimpelä: And final question on the services business. So, that was 7% organic growth in services business or excluding the currencies. So, do you see that you are kind of – should we start seeing an accelerating pace because we are coming from a very low level? And what kind of ambitions do you have if you think about the services sales growth for the next couple of two to three years? So, obviously, you have this group by target as percentage of group sales, but that is dependent on the equipment business. So, if you just think about service sales alone and the growth rate, so what level would you be happy with?

Mika Vehviläinen: To target, we have set this 1.5 billion together with software. And I think we are on the way to that target. And, obviously, – I mean the needle in the service is not going to move fast and upwards either because it's coming from relatively small streams. You need to win it by spare part by spare part and customer by customer. But very clearly the hard work that our services organisation has done in the past two years or so has sort of started to bear fruit and it's visible in our numbers.

Manu Rimpelä: Okay. Thank you.

Mika Vehviläinen: Thank you.

Operator: We'll take our next question. Please go ahead. Your line is open.

Tom Skogman: Yeah, this is Tom Skogman from Carnegie. I was wondering, first of all, if you have seen any kind of softness from the political situation in the discussions with customers.

Mika Vehviläinen: We have not actually directly. I mean, obviously, a lot of speculation around the topic, but the whole situation of course is very, very unclear at this stage. I mean what we of course are seeing especially in the port side is that sort of larger one-time investments are not taking place as we speak. And it could well be that the political environment is one element of that one, but I have no direct evidence or customer's quote in that direction. There are a number of factors that are affecting that one.

Tom Skogman: And then I wonder about TTS; when is it fair to expect that it will be consolidated given the knowledge we have at the moment?

Mika Vehviläinen: We stated that we expect that to be closed at the Q3. Obviously, this is out of our hands in a sense that that really depends on the competitive authority decisions. And we will follow on that one. But I would say that that's the earliest timeline that we have available at this stage.

Tom Skogman: So, it could be consolidated already from the beginning of the third quarter, that will be possible?

Mika Vehviläinen: No, I think when we say Q3, I am probably at this stage talking towards the end part of it. The earliest I think we would be seeing would be the Q4. But it could well slip further as well. Again, this is depending on the competitive authorities and also in places like China and Korea. And so, the predictability of that one is not particularly good. Obviously, we are already in discussions especially in countries that this is possible. But again, it's sort of not directly in our hands.

Tom Skogman: Okay. And then trying to get a better understanding about what's happening in Kalmar.

So, if you go back to 2012, we – had sales of 1.4 billion, then 1.6 billion, 1.5, billion 1.6 billion and then the two last years 1.7 and the last year down to 1.6 billion. But what I understand is that this mobile equipment as a share of the business is growing pretty rapidly. So, you know, how large share of Kalmar sales are coming from the mobile equipment this year and the last two years?

Mika Vehviläinen: It's a good question. I mean in hindsight, of course, when we talk about the market, when all the numbers are out from 2017, we clearly saw that 2017 was a fairly soft year for port investments. So, now that the reported numbers from all the relevant players are out, if I quote them off the top of my head, ZPMC port crane business, if I remember correctly, declined by about 22 to 23 percentage points.

Konecranes Terex port business declined by about 11% last year. What I have understood from Liebherr announcement is that their port crane business declined by about ten percentage points last year. Kalmar revenues declined by six points last year. So, we did relatively well, but it's quite clear that the market was soft last year. Now, if I look at the demand at the moment, it's clearly been steady or I would say even a sort of strength now in the equipment part.

Part of that is coming from port. Also, the industrial side is showing the strength there. I don't know, Mikko, if we have actually seen it. Obviously, the services proportion is increasing at this stage. But it's the mobile equipment – I don't think it actually has moved in terms of proportion that much.

Mikko Puolakka: Not that much.

Mika Vehviläinen: Yeah.

Mikko Puolakka: I mean if we take mobile equipment and the related services, then it has been 70-75% of total Kalmar. The increase is coming, like Mika said, mostly from the services which are related to mobile equipment.

Tom Skogman: Given you have moved your production to Poland in the last years there and you should have a pretty significant cost advantage to your peers? Do you see that you're gaining significant market shares in the mobile equipment?

Mika Vehviläinen: I don't think we are gaining significant market shares. I mean we are the market leader. We remain to be a market leader. We obviously want to sort of ensure our sort of profitability remains at the best in the marketplace at the moment as well. On the reachstacker side, I think our market share has been relatively steady, if slightly improving on that one. The heavy forklift truck market is more difficult to estimate because it's so fragmented on there. I think the revenue improvements are probably very much due to the good demand as well. I haven't really seen or can't see a significant market share shift between the players at this stage. From our point of view, our target is to remain as market leader roughly at today's market share, but very much then driven by also protecting the profit and improving the profitability on that business.

Tom Skogman: Okay, thanks. And then finally about – your best understanding on MacGregor's profitability from an EBIT level this year given the lack of offshore orders. Will it improve this year even if sales last year - flat sales kind of excluding any impact from this year?

Mika Vehviläinen: Yeah, I think the flat sales is still – I mean the order – as you know we saw the order starting to uptick a little bit towards the end of last year and slightly up again in Q1 as well. But that – those slight order upticks should start to be visible in our revenues in 2019. They're not so much in this year. And as Mikko has said, we are clearly monitoring the situation, the demand in

different parts of the organisation and are looking at the different cost – further cost saving measures if necessary.

Speaker: Okay, thank you.

Operator: As a reminder, if you wish to ask a question, please press star one on your telephone keypad. Please state your name and ask your question. Your line is now open.

Tomi Railo: Yes, this is Tomi Railo from SEB. Just on the group-wide cost savings, can you tell us are those visible on the group cost level? And what is the guidance for the group cost level for 2018?

Mikko Puolakka: The savings are actually not that much visible at the group cost or the corporate cost level because most of these savings are done in the business areas. So, most of this year-to-date or to date project to-date EUR 12 million is visible actually in the business areas own costs in partially above the gross profit and partially below the gross profit. The best proxy for the corporate costs would be more or less on last year's level. So, roughly EUR 40 million.

Tomi Railo: And I believe it was around 8 million in the first quarter. Any particular reason why it was a bit low?

Mikko Puolakka: Typically, this first quarter is a bit lower, not necessarily all service providers are sending all their invoices in the first three months' time. So, the year starts always a bit lower.

Tomi Railo: Thank you.

Operator: Please go ahead. Your line is open.

Magnus Kruber: Hi, this is Magnus from UBS. Just a follow up. Just on one of your earlier comments - post by question from Johan on inventories. Did you say something that dealers build up buffers in equipment due to longer lead times or you mentioned something about downstream issues. Could you clarify that?

Mika Vehviläinen: It's not so much the buffers, but when we have had difficulties as we saw in Q3, people are building sort of an expectation. So, typically, for example, we see now cases. When we looked at that one that we have said that the delivery time is say seven weeks, our own organisation or the dealer takes the view that well you know it probably could be as much as ten weeks. And then they sort of – that's a customer promise that is done. Then we actually now are able to deliver. So, our on-time delivery performance actually is getting pretty good again. So, we delivered within the seven weeks, in some cases in six weeks. And suddenly we have a situation that the customer is not ready to receive the equipment within that timeframe. So, we have some of the front – so, the ready equipment at this stage that we sort of there too early from the customer promise point of view. I think that will sort of when people start to build confidence back on to the deliveries, that the issue will disappear. And we obviously have a number of kind of ready equipment that we are able to recognise in revenue fairly quickly though.

Magnus Kruber: Okay. Can you mention any specific equipment from Poland again, all the same?

Mika Vehviläinen: Yeah, it is. And I would not be particularly concerned about the kind of building of buffers in a sense that most of the equipment we deliver is customer-specific. They are usually manufactured as particular orders. There's a customer and a deal behind that one, so they are not sort of ordered just in case in the stock. We do very little of that one.

Magnus Kruber: Yeah, that's all. Okay, great. Thank you.

Operator: Please go ahead. Your line is open.

Antti Kansanen: Hi, it's Antti Kansanen from DNB. I got a question regarding the longer lead times.

Do you see our customers reacting by placing orders more earlier than usually, or is it the organic growth that you're seeing in orders a fair representation of the underlying demand? And secondly, do you see your competitors suffering of the same supplier or lead time issues? So, it's not affecting or going to affect your market shares or pricing? Thank you.

Mika Vehviläinen: Yeah, it is the underlying demand actually that is driving that very much. We are very sort of conscious or careful of avoiding the situation where we would still start to build sort of orders or stock in there. As I said, because effectively to a very large extent our equipment is always built for a specific customer case. We don't really have a standard product as such. If I look at them, the competition situation and Palfinger of course is the one that is quite visible direct competitor to Hiab. Very clearly, they have suffered from the same supply chain issues. At this stage when you look at, for example, the loader crane business, obviously our sales as well as Palfinger is having longer lead times. But the actual single biggest bottleneck that is forming in Europe at the moment is actually the installation capacity. And I believe in places like France, the lead times for installation can go up as much as six months at this stage. So, the biggest bottleneck right now is funnily enough it's not the manufacturing capability of the equipment vendors but the installation capability out there in the field.

Antti Kansanen: All right, thank you. And secondly, just a clarification on the previous question on the work load issues in Kalmar automation projects. So, are you saying that the current number of activity related to the smaller automation deals and other orders is enough for you to see that the workload situation, the utilisation and therefore the profitability will remain satisfactory going in later this year and next year or are you expecting or pricing in a pickup in customer activity in there?

Mika Vehviläinen: I don't expect any quick pick-up on customer activities. The clear need is there talking to customers. They understand the benefit. The labour costs are still clearly rising faster than the productivity of the terminals. And this is the situation they have to sort of face in the coming years. And we are kind of balancing the technical requirements and capability with the order book we have at the moment.

Antti Kansanen: All right. Thank you.

Operator: Please go ahead. Your line is open.

Manu Rimpelä: Manu Rimpelä from Nordea Markets with a follow-up question. Can you comment on the pricing situation in Hiab? I think you mentioned that you are raising prices to some degree to offset the raw material costs. But are you able to offset the US dollar impact in the US business that most of your competition also produces their equipment in Europe, so they have the same impact from dollar. So, can you comment on that?

Mika Vehviläinen: I would say so that in terms of raw material prices, the product development we are doing is able to compensate at least at this stage the raw material price increases. So, we still are looking at declining product costs compared to the previous year but at lower decline rates than we saw in the previous few years, because despite the good work that we do to design the cost and product renewals, the raw material prices are slowing down the progress at the moment.

We are able to push some of that into the customers as well on the range that I indicated earlier. But it is very clear that the currency change and difference right now especially in Q1 is way too big to be able to compensate that number to customer pricing. Even though as you said yourself, most of the competition is facing the same situation. But there is usually a limit to how much you can sort of push the customer price without getting too negative reaction on that one.

Manu Rimpelä: But is it fair to say that if the dollar stays at the current level, you will be gradually able to start offsetting the impact of the EUR 20 million to EUR 25 million hit you expect from a dollar to the EBIT in 18. You could get a potentially gain from price increases if the momentum in the US end markets remains strong from the demand point of view?

Mika Vehviläinen: Certainly – I mean we are doing a number of things to offset for that one. The customer or the price increases is one factor and you need to do that gradually. But then obviously, you are looking at our supply chain as well and the components, etc and different other ways to fight for the currency impact. But obviously, and as Mikko was saying, the impact of the currency will be diluted towards the end of the year. The difference in today's rate is still that 20 million to 25 million and the impact was clearly the biggest in Q1 in the neighbourhood of eight million.

Manu Rimpelä: Okay. Thank you.

Operator: We will now take our next question. Please go ahead. Your line is open.

Johan Eliason: Yeah, hi this is Johan again. Just a short question on the automation projects. You took a small order in January, I believe it was, from a pilot, EUROGATE, Wilhelmshaven. And I saw that the CEO of EUROGATE at the annual conference a few weeks ago said they will clearly focus on automation going forward to be competitive. Is it mainly referring to this pilot project or are you actually seeing that they are taking further steps already in automation? And what could EUROGATE alone imply for you in terms of order value if they decide fully on automation?

Mika Vehviläinen: Yeah, the EUROGATE deal was actually already done in Q4. Even though I think the announcement came out, there was another deal that we did in Q1. But EUROGATE is a good example of – in a way that the potential when they deploy the automation fully into the scope that we have agreed will be substantial. But at this stage all we are doing is doing a kind of

trial project in one of their ports and only in one area of one of that port initially, only a selected number of equipment in there.

So, the deal value is sort of relatively low at this stage. Obviously again, the sort of the potential is there once they are satisfied with the technology. And we'll deploy that fully, that can be a substantial opportunity for us. But very clearly, I mean when I look at that as a good example, our expectations a while ago, and we clearly were too optimistic in our expectations at the early part of 17; we have seen this coming down and port operators approaching this whole area very conservatively with this kind of phased investments and moving very gradually and slowly ahead.

Johan Eliason: Thank you very much.

Operator: It appears there are no further questions at this time.

Hanna-Maria Heikkinen: It seems like there are no further questions. So, thank you for very active participation in this event. We will publish our Q2 results on 19th July in the middle of hopefully hot Finnish summer. Before that, we will also host an event with the President of MacGregor Michel van Roozendaal and Head of our Sustainability, Karoliina Loikkanen in Helsinki on 21st May. So, you are also warmly welcome to that event. Thank you.

Mika Vehviläinen: Thank you.