

Conference Title: Cargotec's half year financial report January-June 2018

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Hanna-Maria Heikkinen: Good afternoon, everybody, and welcome to this news conference regarding Cargotec's Half Year Financial Report. My name is Hanna-Maria Heikkinen and I'm in charge of investor relations. In Q2 2018, we saw strong development in orders received. Today, our CEO Mika Vehviläinen will start with the group highlights. 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. Good afternoon from my behalf as well and regards from very sunny and very hot Helsinki at the moment. In Q2, the demand for our solutions and services was very strong. We had a 23% increase in our orders. Especially the Kalmar order intake was very strong during the Q2. And the good demand development in Hiab continued as well. I'm also very pleased on the fact that the hard work we have done in improving and developing our services operations is paying off and we saw a strong 16% growth in our service orders during Q2 as well. At the same time also, the revenue development in services continued on a positive trend.

The operating profit was a disappointment for us. It was really a combination of continuing currency impact during the Q2 on Hiab for about €5 million. However, the trend there is obviously pointing in the right direction. We had an impact of roughly 8 million during the Q1, 5 million into Q2. And we expect that impact to reduce further moving into the second half.

In Kalmar operating profit, we had a very specific mix issues during the Q2 that impacted the margin, and Mikko will cover those more in detail during his business-area specific presentations. During the Q2, we also booked restructuring costs in 35 million. It was really a combination of

three items. First of all, we reshaped our portfolio with two exits. Those had both plus and minus impacts. And Mikko will cover those a bit more in detail during his presentation. We discontinued one of the product areas, unprofitable product areas in Kalmar and booked a 10 million restructuring cost on that one. And thirdly and the largest item was the impairment loss related to our ownership in the Rainbow Heavy Industries in China.

Market environment was strong during the first half. First of all, we see the port Capex development as very favourable at the moment. The traffic in the container ports is still continuing, and we see investments happening there.

Even though we booked one large automation order during the Q2, we still see that most of the automation orders are developing in a favourable way, but will be happening in a phase, and through the smaller investments moving forward. In Hiab's case, the construction market is continuing strongly both in US as well as in Europe and we see the strong demand continuing in there.

In MacGregor's case, the merchant market is bottoming out and recovering slowly. We actually saw a fairly strong order intake increase already in our Merchant Marine sector. However, in the offshore side as well as in the RoRo segment the demand was relatively slow during the Q2. And that impacted the overall order intake. We see increasing and more concrete interests happening in the offshore site where more projects are coming and the more inquiries with clear backing and funding that are available, and so a sort of stronger interest happening overall in the offshore segment at the moment.

Again, in terms of orders, very strong 43% increase in Kalmar orders. At the constant currencies, that would have been a 50% increase. And in Hiab, the order increase in constant currencies would have been 12% order increase. The orders in US remained at the high level. And we saw

a strong demand increase and order intake by – in the tune of 25% in Hiab in there. And I've already said, in MacGregor, the orders remained roughly at the last year's level.

As a part of the strong order intake in Kalmar, we have booked two automation orders during the Q2. It's very clear that heavy technology and R&D investments we have done in Kalmar in the last of couple of years are now starting to pay off. Our technology leadership in automation is very clear. And both of these deals were clearly sort of leading-edge technology, and industry-shaping deals. The first one is Qube Moorebank which is the one of the largest infrastructure investments happening in Australia. And this is a trend we have somewhat discussed where some of the port operations are actually moved away from the quayside and seaside into the inland, into the more sort of efficient logistics environment and lower cost base. This is the industry's first fully-automated intermodal terminal combined in the port operations and inland logistics centre together. It's a complete system delivery from us including all the Kalmar equipment, automation software as well as the Navis N4 terminal operating system with automation capabilities.

Also, all the equipment is electric showing that technology investment and the competitive edge we have today in terms of our capability offer fully electric offerings. And the whole terminal operation will be powered by the solar energy locally. The order value that was booked into the Q2 was in the neighbourhood of €80 million. Another smaller order, but again, an industry-shaping deal, was the Yara automation order, where we are doing the first fully autonomous sort of container port operation and also again enabling fully-electric and fully-autonomous operations in Norway.

Order book is improving, thanks to the large and good order intake in Q2. This also sets a good basis for us in the second half with the strong backlog and a good mix in backlog buoyed by obviously by our development in software, in services as well as in the equipment side of the business.

Operating profit as discussed declined in Q2. The two main drivers are the currencies in Kalmar and then the specific mix issues we had in Kalmar during the Q2. And Mikko will cover those a bit more in detail in a second.

The solid growth in services continued, 16% increase in orders in Kalmar, 6% increase in revenues, 10% increase in comparable currencies, 11% increase in comparable currencies in Hiab. But it's also very delighting that first time for quite a while we actually saw the MacGregor services business and revenues to start to turn up. And that's also a very important indicator of the state of the cycle and the industry as well.

The total services orders overall increased by 9%. The software sales declined in the Q2. This was really a combination of having one large license deal in Navis during the comparable period last year. And also for the fact that due to a weak order happening in the automation area during 2017, the volume in the automation software during Q2 2018 was quite low. What was very delighting was that we had a very strong order increase in our software. A slight increase in orders in Navis but also a very strong obviously order increase in our automation software due to the new automation deals in the Q2.

We also continue to shape portfolio. We are obviously looking for new mergers and acquisitions to expand our businesses that are more core to our strategy and adjacent to our current businesses. While we are also exiting businesses that are not aligned with our current business strategy.

In the Q2, we actually had two exits. One, Siwertell, which is a bulk handling as the picture there shows, our operation in Sweden where we booked a gain in terms of the exit; and Kalmar Rough Terrain Center which is based in Texas, Cibolo in USA where we booked a small loss and Mikko will cover those costs in detail in a second. We also discontinued certain product line in Kalmar

and booked a 10 million restructuring cost as a result of that one. And then we had this already mentioned re-evaluation of the RHI share value which is a non-cash item of 30 million charge that we took during the Q2.

Now I'd like to hand over to Mikko who will cover the business areas more in detail.

Mikko Puolakka: Thank you, Mika. And also, good afternoon from my side. Let's start with Kalmar where we had excellent orders in the second quarter. Kalmar orders grew 43% in the second quarter. And looking with the comparable currencies, the growth was even 50%. The growth was especially driven by the automation and project division, but also the mobile equipment orders, for example, the terminal tractors in the Northern American market grew very well in the second quarter.

In automation and projects like Mika indicated, we booked €80 million in Qube Moorebank deal in Australia and as well as the leading-edge automation solutions for Yara in Norway in the second quarter. Kalmar order book grew by 2%, thanks to this project but also thanks to the equipment and service orders. And this offers now a very good basis also for our second half 2018 sales. Service sales were up by 6%, and with comparable currencies up by 10%.

However, the overall Kalmar sales declined slightly from last year's quarter two. This decline was driven by a few reasons, the first one being the Siwertell divestment. So, we have been consolidating the Siwertell bulk-handling business until April 2018. So, a couple of months of the second quarter sales were left out. Then we had still certain delivery challenges, delivery bottlenecks. And then also the currencies impacted to a certain extent Kalmar sales especially for the US deliveries.

Operating profit was €25.2 million, minus 22% compared to 2017. And this decline came from a couple of reasons or a couple of sources. Like Mika indicated and showed earlier, our software

sales were roughly €10 million in the comparison period in 2017. So, that impacted to a certain extent Kalmar profitability. Plus, then we have had in mobile equipment one delivery, a fairly large delivery which has had a lower gross margin compared to the average mobile equipment gross margin. But this situation should improve now also going forward.

Then let's move to Hiab where we had again an excellent quarter. This was the second quarter in a row where Hiab was able to book more than €300 million of orders. Orders grew by 8%, and with comparable currencies, the growth was as high as 12%. Excellent performance in all our Hiab business lines. And the EMEA region in particular grew by 25%, but also the US market has been very well-performing in the second quarter. Thanks to these excellent orders, Hiab's order book is up 16%. And this also offers a very good basis for the second half 2018 deliveries.

Hiab delivered 15% – sorry 5% sales growth very much supported by the strong orders in the first and second quarter. We have been able to shorten also the delivery times to the customer. So, that has been enabling us also to perform well with the sales. Service sales grew by 7%, and this shows the results of those strategic investments which we have put in place in the past, as well as the expansion of our service product offering.

Despite higher sales, Hiab's operating profit declined and was €39.4 million. And as Mika indicated, this is very much coming basically from the weak US dollar as we are delivering loader cranes and truck-mounted forklift to a great extent from Europe to the US market.

Then moving to MacGregor where the orders were slightly below last year's level. This is very much reflecting the slow recovery of the market. On the positive side, I would say that the cargo handling orders grew very nicely. Also the services orders improved from last year. RoRo orders were exceptionally low in the second quarter, and also the offshore sector orders declined still in quarter two. MacGregor service sales grew by 3%, and this is of course a positive sign for the

market turnaround. However, this service growth was not enough to offset the significant decline in the equipment business. So, the overall MacGregor's sales were €133 million, a 15% decline.

We have been keeping MacGregor profitability on black numbers in quarter two - €2.6 million positive result. And this is very much coming from the cost savings measures we have been taking in 2017 as well as in the early part of this year, and also thanks to the growth of the service business. Also, going forward, we are looking for further cost-efficiency improvement in MacGregor.

Our cost savings programmes are proceeding according to the plans. We have delivered so far €50 million year-to-date, project-to-date savings on the group-wide €50 million savings programme, €10 million in 2017 and then €5 million now in 2018. Also the MacGregor €30 million cost savings programme delivered year-to-date €5 million annual savings. And then the Kalmar production transfer from Sweden has delivered so far €4 million cost savings. We also continue our activities in the cost to design, design to cost activities especially in this kind of the environment where the raw material prices are on the increasing trend.

Then looking at the overall Cargotec financials, as highlighted already earlier excellent orders for the second quarter. And also, now after the first six months, we are 11% above last year's level. As Mika indicated in the beginning, we had significant restructuring costs in the second quarter, €34.9 million. This is coming from various sources. In this €34.9 million, we have almost €13 million positive divestment income coming from the Siwertell divestment. And then from the Kalmar Rough Terrain Center divestment, we booked a €4.7 million restructuring loss or divestment loss. Then from terminating certain product category in Kalmar. In Kalmar, we booked a €10 million restructuring cost. And then the largest restructuring item was the €30 million Rainbow Heavy Industries share ownership valuation. However, most of these restructuring costs are non-cash effective, so not impacting the cash outflow. The total impact of this restructuring costs was €0.47 in our quarter two earnings per share.

Then looking at the cash flow. Our quarter two cash flow was €27 million improving to a certain extent from quarter one, still very much impacted by the networking capital especially in the Kalmar and in Hiab as well as the low advance payments especially in MacGregor where we have had fairly low orders.

We have been able to improve the supply chain situation. The lead times have been going down. So, that's a positive sign, but these improvements will be visible in our cash flow with delay. So, we expect in the second half the cash situation also to improve. But overall, we have still room to improve in the cash flow and that's very much coming from the networking capital reduction, thanks to the actions we have been putting in place in the working capital area or in the supply chain area.

Our ROCE was 6.5% at the end of quarter two. Excluding the restructuring charges, ROCE is 10%. Operating profit was 7.1%. And our long-term target here is to increase that to 10% level.

And last but not least, the outlook for 2018 we reiterate our guidance for 2018. Profitability is to improve from last year's level. And this is very much coming from the strong backlog we have at the moment especially in the equipment software as well as in the service business.

And with those words, I would then hand over to Hanna-Maria.

Hanna-Maria Heikkinen: Thank you, Mikko, and thank you, Mika. Then we will continue with the questions and we will start with the potential questions from sunny and hot Ruoholahti. Any questions? It seems like that there are no questions from Ruoholahti. So, then we will continue with the international questions.

Operator: And if you would like to ask a question over the phone, please do so at this time by pressing star one on your touchtone telephone. A voice prompt on your phone line will indicate when your line is open. And please make sure your mute function is turned off to allow your signal to reach our equipment. We will take our first question from the phone. Caller, please go ahead. Your line is open.

Magnus Kruber: Hi, Magnus here from UBS. A couple of questions from my end. Have you seen any impact from the trade war issues notably in Kalmar indicates some interest for your equipment?

Mika Vehviläinen: Thanks, Magnus. We have seen no impact. Actually, if you look at the actual traffic volumes at the moment, they are very strong in Asia as well as across the world at the moment as well. Obviously, my concern would be around the kind of the indirect or sentiment type of impact into the potential Capex moving forward. But we see no direct impact and we actually see the port investments continuing fairly strong at the moment.

Magnus Kruber: Got it. Thank you very much. And then some details on in MacGregor. So, how large contribution to orders or sales did you get from acquisitions in the quarter?

Mikko Puolakka: This is Mikko Puolakka, so we had the Rapp Marine in the early part of the year and from there approximately €8 million.

Magnus Kruber: Perfect, thanks. And on the Qube order, would that order have a higher or lower gross margin than the average for Kalmar?

Mika Vehviläinen: No, actually the order in overall the automation orders have a healthy gross margin. This is very much in line with what we have seen in the last few years as well.

Magnus Kruber: In line with the group – in line with the vision?

Mika Vehviläinen: Exactly, yeah.

Magnus Kruber: Brilliant. And it's the final one. I think you alluded to it already, but the order growth in Hiab in North America, was that flat on a nominal basis?

Mika Vehviläinen: Yeah, I think it was one or two points or a couple of percentage down on the actual. And then in the constant currencies would have been slightly up, so pretty flat.

Magnus Kruber: Fantastic. Thank you very much.

Mika Vehviläinen: Thank you.

Operator: We'll move to our next caller. Please go ahead. Your line is open.

Manu Rimpelä: Good afternoon. It's Manu Rimpelä from Nordea Markets. Can you help us a bit better understand how to think around your guidance of improving EBIT? I mean you are some 6% behind full-year EBIT and just back of the first half of the year. So, you're kind of assuming a pretty strong catch-up in the second half of the year. And you did mention some of the reasons, but could you just give a bit more colour and more details on that, please?

Mika Vehviläinen: Yeah, the main reasons really are the fact that the backlog is strong. If I look at the mix of the backlog, it's also very strong. We had a very specific sort of – a little bit order almost – mix in Kalmar during the Q2 where the proportion of the software was lower than normal. And then even in the equipment mix itself, we had this one very specific large customer delivery. That all was sort of happening during the Q2.

When I look at the backlog in the equipment business now for the second half that the gross margins are clearly higher than they were in the first half due to the mix issues in there. And also, obviously in Hiab, we have 16% up in backlog at the moment. So, the equipment side, we have a good very healthy backlog moving forward. We still sort of suffered in the Q2 with some of the shortages in the deliveries, but the delivery situation is stabilising and improving. We start to see improvements in the delivery times.

And you could say that the problem has shifted from the supplier delivery and the factory issues into the downstream now. So, our – most of our suppliers are able to deliver on time at the moment. Our factory performance has improved quite clearly both in Hiab and Kalmar. And now sort of because of the delivery issues we had earlier, it's very clear that the downstream had sort of built some buffers. And we need to work through those ones.

So, that impacted the revenue in Q2 where we had a sort of quite a bit of ready equipment that we weren't able to ship as per our assumptions. And all of that will be then shipped during the second half. Our order backlog is growing. So, that will obviously also – sorry, in services by 16%. So, that will help us in terms of the mix moving to the second half as well.

And then a third element of course is the currency development. So, compared to the early part of the year, the dollar has strengthened. That's visible in the changes in Hiab. So, we went from 8 to 5 million. And as we hedge now; even though there will be further movements in the currencies, we are sort of covered towards sort of October-November timeframe in terms of the current exchange rates roughly. And that will also obviously help on the second half.

Manu Rimpelä: Okay. That's very helpful. And then, can you just comment on why did you decide to make these write-downs now in the second quarter?

Mika Vehviläinen: Well, the timing I think was really was a coincidence in a way that we would be looking for buyer for both the Rough Terrain Centre as well as for the Siwertell business for a while. Both of those deals just happened to happen in the Q2. When we have looked at the Kalmar business and, obviously, improvement opportunities there, we decided to discontinue the unprofitable product line where we didn't really see clear opportunities to move that business into the black numbers. So, we decided to discontinue on that one. Took a hit as a part of the savings efforts in there and the RHI sort of re-evaluation of – it's just reflecting what the company's value has been happening in China and we needed to adjust that into the more realistic level.

Manu Rimpelä: Okay. Would you be able to provide us some sort of idea about the sales that these three businesses had in kind of helping modelling purposes?

Mikko Puolakka: Yeah, I mean if we look at first half sales, what for example Siwertell has contributed. So, in January-June, Siwertell sales were €8.7 million. So, Siwertell has been consolidated in our results in the first four months. And so, that's the first four months' sales of that Siwertell business. And then the Kalmar Rough Terrain Centre sales, that has been consolidated in our books during the first six months. And the sales impact – or the sales for that period have been €8.1 million. So, both roughly in the level of €8 million to €9 million.

Mika Vehviläinen: Both of them, of course, had a component of service sales as well. So, that will obviously have an impact there on the comparable service sales in the second half as well.

Manu Rimpelä: Okay. And my final question is on the services. So, what explains the kind of very strong increase in the service orders now in the second quarter?

Mika Vehviläinen: There were no real larger project type of services. So, it was really sort of the underlying maintenance and spare parts business that are performing well. I think it's a

combination of the fact that we worked very hard on sort of improving our capture rates and improving our sales efforts, etc. And those are starting to pay off. There is an element of favourable market there as well. Obviously when the economies are doing well especially in the US, the driving hours for the equipment are increasing. And that leads to somewhat higher spare part consumption as well. But primarily it's really driven by the sales help and the work we have been doing there.

Manu Rimpelä: So, would you be able to give some idea about the divisional split in growth?

Mika Vehviläinen: I don't think – I think if you look at the revenue growth by the division, that probably is a fairly good reflection on that one. So, MacGregor services orders did not increase as strongly as the Hiab and Kalmar.

Manu Rimpelä: Okay. Thank you, no further questions.

Mika Vehviläinen: Okay. I think again the good news is that the MacGregor services are turning because as we have known, there's been a decline in trends now for few years. And that's hopefully an indication of the market cycle turning as well.

Operator: We'll move on to our next question. Caller, please go ahead. Your line is open.

Erkki Vesola: Hi, it's Erkki from Inderes. Most of our questions have already been answered, but a couple of more housekeeping ones. The TTS acquisition progress, anything new to add on that? That's the first one?

Mika Vehviläinen: TTS acquisition. So, we have filed in all the countries that needed the filing. We have moved in the phase two which was expected in these countries. We have been answering the competitive authorities' questions. There has been nothing in the process that would sort of

make us think that there would be any changes on that one. So, it's moving along as per plan. What we did say in the sort of – there it's managed a little bit better maybe the expectations. So, instead of saying that it will be closed in Q3, we are now saying second half. It's still entirely possible that it will be closing into Q3. But again, it's, I would say, entirely out of our hands at the moment. The competitive authorities, they are following up on the situation. But there has been nothing in the process that would make us alarmed.

Erkki Vesola: Okay, then the second one on the RHI down writing. Was it written down to zero or is there still a possibility that there's more to come?

Mikko Puolakka: Well, of course, we are evaluating the RHI remaining valuation on a continuous basis. The original starting point where we started, so that was €55 million. So, we have taken it now down to €25 million. And this is roughly reflecting the current market value as well. But we have done cash flow, discounted cash flow. The evaluation has been based on the discounted cash flow analysis, which has resulted to very similar results what the current market value is. So, it depends very much on the business outlook going forward. But this is our current best understanding about the valuation as we monitor it on a regular basis.

Erkki Vesola: Would you like to open up? At least then what has gone so badly wrong with RHI?

Mikko Puolakka: Well, RHI is a listed company. And, of course, the share price in overall has declined significantly. So, I would not necessarily start to comment here on other listed company's matters. The top line and the profitability of the company has not been necessarily developing perhaps exactly according to the market expectations. And that has resulted to this share price development.

Erkki Vesola: Okay, fair enough. Thank you.

Operator: We'll go to our next question. Caller, please go ahead. Your line is open.

Johan Eliason: Yeah, hi. It's Johan Eliason here from Kepler Cheuvreux. While we are into this subject on your Chinese business, this is obviously the parent of your joint venture company. Do you see that the joint venture company and the idea behind that moving the manufacturing of your heavy port equipment is still the right thing to do? And that is developing according to plan now when you start getting deliveries or orders for these cranes going forward? Or how do you see it? I mean the RHI has a lot of other businesses as well, obviously, which is affecting the share price development.

Mika Vehviläinen: Yeah, this has no implication in the joint venture as such. I mean we are very satisfied how the joint venture has performed. And then the cost levels and the development even in terms of the operational quality and the cost levels have been going very much according to our plans. It's actually a matter of course that in hindsight the investment to support the joint venture partnership into the mother company in 2011 or 2012, I can't remember exactly when it was done. The Chinese company's market valuations were on a different level they are today. And we need to adjust sort of our valuation to more realistic level looking at the current situation.

Johan Eliason: Yeah. And talking about some other things. Prices versus your steel prices input cost, how are those developing?

Mika Vehviläinen: There is a clear pressure in terms of our suppliers' pricing. Obviously, we don't buy raw materials directly. So, this is visible for us through the price increase pressures from our suppliers. Obviously, we have in many cases longer supplier contracts. Our design cost efforts and the investments we have done and acceleration of R&D is helping us to counteract those. But I would say that compared to previous years where we've been able to reduce our equipment overall cost and improve gross margins, at this stage the pricing pressure is coming on the components and the design to costs are sort of a wash. So, we are actually being fairly steady in

equipment costs. However, obviously, with the strong market demand we see an overall sort of price increase pressures. We're pushing the price increases especially in Hiab and Kalmar towards our customer as well. So, we are looking at both in the services spare part pricing as well as equipment prices in the ballpark of about 4% price increases into our customer base.

Johan Eliason: Yeah, good. And that will compensate you think?

Mika Vehviläinen: As I said, I don't think necessarily in most cases, we don't really necessarily see the increasing component pricing resulting to the increase of cost in the equipment. But this is, obviously, in this environment, a good opportunity to try to sort of push your pricing up as well.

Johan Eliason: Okay, good. And then this low gross margin you talked about on some mobile equipment order, has that anything to do with your final move of the base here, mobile equipment out of Sweden into Poland, or why did this gross margin happen?

Mika Vehviläinen: No, it was one very specific. We took one very large deal that was not announced in the mobile equipment space last year. And all the deliveries happened to happen, and within the Q2 over two months. And then the mix from our point of view was quite specifically lower. The gross margins on that deal, it was still a very worthwhile it's a strategic entry for us into a customer account. But that reduced into lower than typical gross margins we see in that type of equipment.

Johan Eliason: Okay, good. And then Kalmar order intake, obviously very strong. But also if you adjust for maybe 80-plus something for this Norwegian order, it looks like the underlying order growth was well into 20% last year over year. Why is this sudden growth coming right now? And is this sustainable you see on the underlying business? I understand that the big-ticket items, they will often come when they come. But how can you explain the underlying sort of order development that was really strong?

Mika Vehviläinen: I think the underlying equipment business demand is clearly very strong at the moment. We see demand both in the industrial segment, in the logistics segment as well as on the port side as well. And that strong underlying equipment demand combined then with this kind of larger one-off type of sort of automation and project deals resulted in the combination of very strong order intake. So, it's really a combination of some higher orders that you don't necessarily expect to see every quarter as well as sort of stronger underlying demand in the equipment side as well.

Johan Eliason: Yeah, good. And then just finally. So, weak orders to some extent in MacGregor. Do you think this year will still be the trough in terms of revenues and we should start to see some top line growth next year from MacGregor or has that been pushed out?

Mika Vehviläinen: I think we are scraping the bottom at the moment. Actually, in the sort of core Merchant Marine business in the bulk ships and the container ships, we actually saw fairly strong order intake growth already, but from a very low basis. At the same time, what's been somewhat disappointing has been the RoRo segment, that has remained fairly strong in the last two years. It actually has a very low order intake in the first half of this year.

So, those two are kind of washing out in terms of the merchant side. Offshore side was still weak in terms of orders. But as I said or indicated in the market environment, we actually see more concrete project line emerging in that area as well. And the activity really is increasing. But again, we are already into the third quarter. So, I don't expect that the order intake will change that much. And the timing of the orders is such that then if we move into the revenue-wise, I don't think the organic growth from 2018 to 2019 will be particularly strong in MacGregor. Obviously, it will be helped by the Rapp Marine acquisition and then potentially, obviously, the TTS should already be of course visible in 2019 numbers.

Johan Eliason: But organic, it might be flat on equipment side?

Mika Vehviläinen: The equipment side, I think you don't see a big swing moving from 18 to 19. Obviously, there is a chance that this service side that is now actually turned around and hopefully we will see the further continuing demand of services. And that will obviously help us. But too early to tell yet.

Johan Eliason: Okay. Thank you very much.

Mika Vehviläinen: Thank you.

Operator: We'll go to our next caller. Please go ahead. Your line is open.

Leo Carrington: Good afternoon. It's Leo Carrington from Credit Suisse. On Kalmar, clearly, the macro environment is very supportive in terms of growth of containerised trades. And you have already told us about kind of underlying smaller orders from logistics and so on. But what can you tell us about your customer discussions around port automation? Have you seen any change in sentiment around that?

Mika Vehviläinen: I think there is a growing confidence in port automation. And the interest level is high, and it's actually been high for a while. But at same time, as I said, we clearly see the trend where this kind of large greenfields as the Qube Moorebank are few and far between. And most of the automation strategy is very clearly for customers are so-called brownfield, i.e., you automate or partially automate existing port facilities. So, you either take a part of the port quay-wise or then you take a certain segment of the container handling and automate that one.

So, I think the trend there we will see a number of automation deals but at the lower value is probably the most realistic scenario. We have seen actually steady stream of automation deals

coming at the latter part of last year and beginning of this year. But most of those are sort of plus, minus 10 million categories and these kind of 80 million deals I think there will be very few around this year as well.

Leo Carrington: Right. Understood. And you also mentioned earlier the desire to do some more M&A, especially now the Kalmar business has been cleaned up a bit. Can you share any specifics or early conversations that you might have had around that in terms of which areas or geographically which regions you might be looking at?

Mika Vehviläinen: I would say the key area for us is still look at the potential software assets in our business around Navis. We are looking at entries into developing markets in our product areas especially in Hiab and adjacent product areas in Hiab and Kalmar that would fit into our current strategy. In MacGregor's case, obviously, with the Rapp Marine and TTS acquisition, our pipeline is pretty full at the moment. And frankly speaking also, there are not that many assets available anymore in that space either.

Leo Carrington: Okay. Thank you very much.

Operator: And once again, ladies and gentlemen, if you'd like to ask a question, you can do so by pressing star one on your telephone keypad. We'll next go to our next question. Caller, please go ahead. Your line is open.

Speaker: I just wanted to go back to what you said about the question about trade war and what – Does that have any impact on the Kalmar, the customer discussions or propensity to delay or anything like that? You said no before, but I just wondered whether it was as clear cut as that?

Mika Vehviläinen: We have not seen any impact on that one. But, obviously, my concern and I think many others as well is that there are potential indirect impact on that one, is the overall concern

around trading conditions would remain that potentially leads then into the situation where the boards of the different companies would sort of get more careful. So, that scenario obviously is there. However, if you look at – sort of try to put that in context and the whole discussion is that this is obviously primarily around, the US and the current administration.

The US portion of the world trade is less than 10% today. Most of the growth is coming from intra-Asian traffic. And then you look at the current development in China. You look at the trade relations development between Europe and Asia and then intra-Asia as well. There are also positive trade sort of developments happening as well. So, one is to look at the US market then and what's happening there in the context of the overall trade volumes as well.

Speaker: Okay. Thanks very much.

Operator: We'll go to our next caller. Please go ahead. Your line is open.

Karl Bokvist: Yes, hello. This is Karl Bokvist from ABG Sundal Collier. I was wondering, could you specify the organic part of your growth this year? I mean you mentioned the 4% FX effect. But I mean in terms of strict organic growth, was that flat, was it slightly negative or slightly positive?

Mikko Puolakka: Yeah, this is Mikko Puolakka. If you look at the overall acquisitions we have done, basically the only single largest item is the Rapp Marine acquisition. And the total impact of Rapp Marine during the first six months has been roughly €22 million in sales. €22 million out of our total first half sales. And the first half sales were in total €1.6 billion. So, kind of most of the growth was still coming from the organic basis.

Karl Bokvist: I see. And – sorry?

Hanna-Maria Heikkinen: Yeah, just adding to Mikko's comments. So, Argos was €3 million and Inver €3 million. So, the acquisitions contributed totally €28 million to the net sales during the first half of the year.

Karl Bokvist: Okay. Thank you. And then when you mentioned a solid activity in the mobile equipment, could you just please define where you sort of draw the line in terms of size of the equipment? Does this include – which cranes does this include for example?

Mika Vehviläinen: You could almost say that it's across the board. So, the logistics sector, for example, the terminal tractor demand was very strong in US. Our kind of distributors – kind of inventories are effectively sort of zero. So, right now, we are almost in a situation where we need to start to sell 2019 in terms of volumes. In the industrial sector, the demand has continued to be strong. And then also in the port side, where the lighter equipment also goes. And you could say that it's hard to spot sort of the weak area. At the moment, it's pretty much across the board.

Karl Bokvist: Okay. And my final question. Do you see any sort of change in dynamics when it comes to insourcing and outsourcing of services among port operators?

Mika Vehviläinen: I think what's very interesting of course is this balance of power shifting between the shipping lines and port operators, which the port operators are also openly discussing. So, with the strong consolidation and the alliances in shipping lines, it's clear that today they are able to exert more pricing pressure for the ports that we have seen in the past. And this very clearly has lead into sort of port needing for efficiencies.

I mean it was visible in a negative way for us in 2017 where very clearly port operator were sweating the assets and the Capex was down. But ultimately, for you to be able to stay competitive on this one, you also need to invest for the efficiency. And I think this is obviously a technology and automation opportunity for us. But it's clearly also an opportunity when the port

operators need to evaluate other ways to increase efficiency. And one of those potential areas, of course, is the outsourcing of the services.

We see some individual cases here and there. And we have done it in a number of different ports, but I haven't seen a sort of any sort of fundamental shift on that one. That's clearly still a very strong upside for us moving forward. The port services market which is today in-house is a multi-billion of euro annual market.

Karl Bokvist: Okay. Thank you very much. That's all from me.

Operator: And we'll take our next question. Caller, please go ahead. Your line is open.

Johan Eliason: Yeah, hi. It's Johan Eliason. Just a short follow-up here talking about the container liner consolidation and what has happened. The final one was obviously now concluded only few a weeks ago when Chinese Cosco acquired OOCL. In that deal, they had to promised in the US to divest OOCL's port asset in Oakland and the west coast of the US. Is that a customer of you, and do you see any impact for you with the potential new owner?

Mika Vehviläinen: Actually, the Oakland has not been a major customer for us in the past. It's fairly funny in a way. Our Navis headquarters is right next to the Oakland port, but they have bought very little from us so far.

Johan Eliason: Okay. So, it cannot be an opportunity. Okay, thank you.

Operator: It looks like we've no further questions at this time.

Hanna-Maria Heikkinen: It seems like there are no further questions. So, thank you for active discussions.

Our Q3 report will be published on 26th October. So, we are looking forward to meet you then.

And I hope that you have a possibility to enjoy the summer before that. Thank you.

Mikko Puolakka: Thank you.

Mika Vehviläinen: Thank you.