CARGOTEC

Moderator: Paula Liimatta
April 29, 2014
6:30 a.m. ET

Operator: Thank you for standing by, and welcome to the Cargotec Q1 2014 interim report conference call.

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

I must advise you that this conference is being recorded today, on Tuesday, April 29, 2014.

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

Paula Liimatta: Good afternoon, ladies and gentlemen, and welcome to Cargotec's conference call on January-March 2014 report. My name is Paula Liimatta and I'm Head of Investor Relations at Cargotec.

Today we have a small live audience here in Helsinki, as well as people on the phone lines.

We will start with the presentation by our President and CEO Mika Vehvilainen; and CFO Eeva Sipila. After that, we will begin a Q&A session. Mika please.

Mika Vehvilainen: Thank you, Paula. In addition to Eeva and myself, we have also tried this year to bring some of the BA Presidents and as a part of the conference call, I'm happy to happy to have Eric Nielsen and the Head of the MacGregor here with us today so he can take any specific questions related to MacGregor as well.

Let me get started. So first of all some of the highlights for the Q1. Orders grew roughly 9 percent year on year. If you look at the so-called organic growth, i.e., excluding the Hatlapa and the Aker Pusnes, or as we call it now, MLS internally, MLS acquisitions into the MacGregor, the orders grew roughly 1 percentage point.

Sales grew 11 percent. Again if you exclude the acquisitions, the sales growth was roughly 3 percentage points.

However, we have now also included here the impact of currency. So far during the last year, we didn't actually discuss a lot of currencies for the primary reason that the total impact on the corporate level was actually quite minor.

However, with the fairly strong changes in the Swedish crown, Norwegian crown, U.S. dollar and the Japan yen, to name the main culprits so to say, the impact was a fairly significant one and hence we have called out what the order intake and revenues would have been with the fixed currencies. So 15 percent and 16 percent growth respectively.

Operating profit excluding restructuring was E.U.R24.6 million or 3.3 percent of the sales. So quite an improvement compared to last year. And operating profit E.U.R23.8 million.

As you can see from this one, and I think Eeva come back to that one, the amount of restructuring in the Q1 was very minor.

Cash flow was also an improvement for E.U.R32.5 million but I still – we would not characterize that as satisfactory, and clearly the rest of the year needs to improve in terms of the cash flow production for the Company.

Looking at the year in numbers, and again Eeva will go those through in more detail. By BA, maybe the most interesting number on slide 4 would be the increase in net debt, primarily driven by the closing of the acquisition of the Aker Pusnes Solutions during the Q1.

We are still aiming to bring down the net debt during the year and we expect an operating cash flow to bring down the overall gearing into the neighborhood of 50 percentage points or so during the year.

With that one, we can go through the more detailed performance tables and I hand over to Eeva.

Eeva Sipila: Thank you, Mika, and good afternoon on my behalf as well.

Starting with the picture on the left-hand side, so you see another quarter of a nice book to build development clearly over one. (If anyone) wants to exclude the impact of the acquisitions, in the order number, E.U.R863 million, we had some E.U.R64 million of orders coming from the two acquired businesses in MacGregor, Hatlapa and MLS, and their impact on the sales number of E.U.R751 million was E.U.R49 million.

The respective numbers in the fourth quarter were E.U.R24 million for orders and E.U.R18 million for sales, and that was then, at that time only, Hatlapa, the Aker part we only closed end of January.

Looking on the right-hand side, you see a clear improvement year over year on profitability. Obviously the seasonality in our business means that we still have the – quarter-over-quarter comparison is quite tough. But we are progressing on the profitability improvement.

Looking at the business areas more in detail, I start with MacGregor, and here clearly a good quarter. Order intake continued. It's still somewhat of a challenging market in terms that obviously shipping is still a market where demand and supply are not yet in balance. However, clearly there is activity that is helping us to book orders in the marine cargo handling market.

Offshore clearly more positive, however, also merchant ship has been active, especially on the bulk, bulker side.

We had a sales growth in the quarter, but that was pretty much all coming from the acquisition. So here really organic number year over year was almost flat and this obviously explains part of the sort of profitability issue. The other being that as we have been flagging, the mix in the beginning of this year has been weaker in the sense that there's more offshore than merchant and the profitability difference in those businesses still, for us today, is visible in the numbers.

We're obviously working hard following now the acquisitions and integrations, to further improve offshore both the organic as well as the non-organic side. But, as said, this is something that we have been trying to inform you about.

Then obviously the profitability is further impacted by various one-off items. We obviously had the PPA, which continues with us for the (full of the) year, but then also some one-off valuation items as well as pure advisory type of costs related to the closing of the acquisitions.

So maybe the sort of apples to apples operating profit one should look at is actually 5.9 percent versus the 7.4 percent a year ago, rather than the 3.6 percent.

But as said, the PPA is something, the E.U.R2.1 million for the quarter and because of then (inaudible) being sort of only two months included, it will be slightly higher for the coming quarter. So on a full-year level, we're talking about some E.U.R10 million, so that's good to have in your numbers.

Going then further into Kalmar; a more stable market. Americas a good market, Europe similarly. Some hesitancy in Asia and also visible then in the order intake. The year-over-year comparison is tough. We had one big project in the first quarter of 2013 so that maybe makes the drop more significant than reality is.

Sales-wise, a pretty solid quarter, and that also obviously then helped on showing some of the achievements on the profitability.

Improvement actions; unfortunately a big part of those achievements were eaten up by still continued problems in specific Q1 project and so we still had E.U.R9 million extra cost overruns booked in the first quarter.

However, nevertheless the sort of profitability improvement thanks to the improvement actions in all the latter businesses is visible and that's obviously something which we are now, based on the first quarter numbers also comfortable that we are on track with the E.U.R40 million improvement program.

And as you may remember, we've talked about a run rate improvement of E.U.R40 million by the end of this year, meaning in practice E.U.R20 million improvement over the 2013 numbers. And on that, we are on track.

We had hoped for some tailwind in the project side. Mainly because last year numbers include E.U.R34 million of cost overruns from projects. Now obviously the first quarter is clearly a disappointing start, and we still have the late delivery discussions to be held with some of our customers, so it looks like there will be limited tailwind from this side. So the profitability improvement in Kalmar very much comes from the sort of actions taken on other areas.

Going into Hiab; a flat market. However, obviously a very visible improvement in profitability. We had a good delivery quarter on as such, and actually because of maybe a bit lower the delivery capability in the first quarter last year, we are recording 8 percent growth, but it's maybe more – more with a flat market that we would indicate at this point.

Clearly, some highlights in some product areas like truck mounted forklifts and tail lifts support by a good U.S. market.

A sizable improvement in profitability, really 6.4 percent is a good achievement in the margin. Very much coming from continued improvement in the gross margin, we have been talking about already in the fourth quarter. Then we have made good progress on the service business profitability as well as then the sales and service network rationalization and profitability improvement actions which we have been discussing with you in the previous webcast. So clearly starting to pay fruit and we're happy with the progress.

And here perhaps, with sort of the improvement in the first quarter is such that we are actually confident that we will not only achieve the indicated E.U.R40 million run rate by the year end, but we think we are a bit ahead of schedule, so we expect to hit the E.U.R40 million run rate during the autumn which would then help to make the operating profit improvement versus 2013 somewhat more than the E.U.R20 million indicated earlier.

Going then back to Group level numbers again. Our cash flow, as our CEO pointed out, a slight improvement. Typically still first quarter is a buildup of working capital. This was not different, but this is very much a focus area for us because of the increased debt after the acquisitions and hence, we will continue to work hard on the working capital items as the year progresses, to further improve the cash flow.

Looking at sales by geographical area or by business area, no big changes. Here you see that on the Cargotec level, despite the inclusion of the acquisitions, there is not a significant change in the balance of the portfolio. So we're quite happy with the balance of the businesses, what comes to business areas or geographical scope.

Then some further details on the integration of the acquisitions ongoing, obviously now we're fully ongoing in the MacGregor team very busy with various areas.

We confirm our earlier statements that the majority of the synergies are expected to come from a new sales type of top line development actions as well as then efficiency improvement in the supply chain area. And those are – the more we worked, it becomes more clear that those are the areas we will certainly focus on.

Maybe good for you to understand is that due to the long lead time in the MacGregor business, and obviously the acquired businesses are no different in that sense, the impact of these synergies will become more visible in 2015 numbers. We are expecting obviously some positive numbers in 2014 but they're not really material ones on the Cargotec Group level.

However, on the top line side, the first indications are there that we are booking orders which we would have not achieved alone. So I think the one plus one plus one is more than three, and certainly there we have a very clear target for the order intake development which in turn then will materialize into top line in 2015.

So we talk about more than E.U.R50 million worth of orders that would have not been reachable without the combination of the three businesses.

With that, we're ready to look at the overall guidance, so I give the room back to Mika.

Mika Vehvilainen: Thank you, Eeva. Just a few things. The guidance is unchanged, so what we have said in the past was that we expect our sales to – our revenue to grow from 2013. That certainly still holds true. And the operating profit excluding restructuring costs for 2014 also are expected to improve from 2013.

Also, I'm very happy that when I came in, we started the transitional changes in the management team, and with the hiring of Roland Sunden who will actually start on Thursday officially as the new President of Hiab, we have brought transition into end, so the new Executive Board, or the management team is now ready.

So obviously Eeva continuing as the CFO. We have hired Mikael Laine who was the CEO for Moventas, from private equity and wind turbine business and started very recently as the Head of the Strategy and M&A activities for Cargotec.

Mikko Pelkonen who joined us from Nokia or Nokia Siemens as it was known at that time. Eric, who is here with us today, and with the background in Joy Global, Terex, and Volvo Construction Equipment.

Olli, who was formerly the President of MacGregor before taking over Kalmar a little bit more than a year ago. And now Roland Sunden with the background in the private equity world and before, that President for Case Holland, and Volvo Construction Equipment on that one.

So I'm very happy to bring the transition to end and a very strong team to take Cargotec forward.

With that one also, I wanted to reiterate that the strategy or the must-win battles and key focus areas for us are unchanged from the last year, clearly turning Hiab's potential into the profitability. And as you saw from the Q1 numbers, we are off to an encouraging start and tracking according to our program targets.

Building MacGregor growth platform, with the successful integration of acquisitions, and very happy to bring those acquisitions to closure now during the Q1. And Eric then taking ownership of them and starting to drive the growth agenda. And we already see encouraging signs in terms of further orders coming from the cross-selling opportunities in the organization.

Ensuring Kalmar's competitiveness and profitability in mobile equipment. As you saw from the numbers, if you exclude the project cost over-runs, it's very unfortunate we see overall underlying improvement happening also in Kalmar business.

Profitable growth, future growth in services and Kalmar and MacGregor, clearly I would say that there is a potential to develop and run and drive better growth, and especially profitability, both in Kalmar and MacGregor services, but I would say that there we are just starting to touch the development. So a lot of work ahead of us in this area.

And Kalmar, a sustainable leader in container handling automation. A number of these very large projects that we've been executing are now actually coming operational, commercial use; London Gateway a new large harbor for the – or port for London is now in operational use.

We expect the Los Angeles port, TraPac, to come into operational use very soon. The Hamburg port has already been operating for a while and during the Q1, the Brisbane port also started commercial operations, so many of these are actually coming to fruition as we talk.

With that one, I think we are done for the presentation part, and I'm quite happy to take any questions and answers.

Paula Liimatta: Thank you Mika and Eeva. As said, Mika, Eeva and Eric are now ready to answer your questions. We'll start with the questions here in Helsinki and then move forward to those from conference call participants.

Elina Riutta: Elina, Evli Bank. A couple of questions on MacGregor first. Could you talk a bit about what you're seeing in terms of demand now in merchant, the merchant segment, and in offshore and your expectation for this year?

And then as well, if you could elaborate a bit more on the kind of cross-selling opportunities that you are seeing because of this larger scope?

Mika Vehvilainen: These questions are for Eric.

Eric Nielsen: Yes, first off in regards to the overall demand in the marketplace. What we're seeing is actually two different stories, but similar. On the merchant side, clearly it's an uncertain or unstable environment right now from the viewpoint we don't know how far up it will go. We do believe that it has hit bottom and that there are more tailwinds than headwinds in terms of the overall market dynamics.

So we believe that we're properly positioned with our product offering now to be able to take advantage of continued but gradual upturns in the merchant side.

Offshore it's a little bit more promising. It has stabilized, but also it has stabilized at a very high level in terms of order rate. We have a very nice order book in our offshore legacy business and now we're continuing to expand with the acquisition specifically of the MLS business.

And this actually leads right into your second part of your question in terms of the cross-selling opportunities. With both acquisitions, we now have the largest portfolio of products for both the merchant and offshore space, and we're going through and looking at how we can best position our total offering now in both sectors, merchant and offshore.

What this means in practice is that we are leveraging both the product offering, but also the customer base coming from the Hatlapa organization as well as the MLS organization.

And as Eeva pointed out, we've already recognized E.U.R50 million of new orders that would not have come otherwise, and I emphasize this as from both the product combination, but also the combination of separate customer bases.

Elina Riutta: Thank you. And then a second question on Kalmar profitability and the comment on the cost overrun so far, and that perhaps this year that wouldn't be such a tailwind kind of the E.U.R34 million last year, and well this year.

Can you give – well on potential further cost overruns; do you have an idea of where those are going to land at for this year?

Mika Vehvilainen: It's very clear that the number for the Q1 was quite disappointing coming specifically from very, very large STS project and there has been issues especially around the site, site work and implementation.

We have said in the past that we expect that number to be totally below the E.U.R34 million we recorded last year. We still expect that to be the case. And then of course we will still have some of the late penalties; it's a potential risk that these are still under discussion with the customers.

And overall, I would say it's a bit early to quantify the totality of that one, but we would not expect that to exceed the E.U.R34 million at least considerably. Then again, I don't think it will necessarily be probably as much below as we were expecting at one stage.

It's very clear that the tail end of some of these projects has proven to be quite problematic for us, and in that sense that has been a disappointment.

The positive side of all of this is of course that we only have about E.U.R35 million as a backlog any more on this project to go.

Elina Riutta: Thank you.

Jari Harjunpaa: Jari Harjunpaa, Pareto. I have a couple of questions. First of all in MacGregor, could you actually elaborate a little bit on this impact stemming from the mix; so what would be the kind of size of it in terms of margins?

Mika Vehvilainen: Do you want to go ahead first?

Eric Nielsen: Yes, just generally speaking, the legacy merchant business that we have has produced higher operating margins than our legacy offshore business.

We expect the legacy merchant business to remain at the margin level we're at, recognizing now that there is improvement potential through some of the actions we're taking around the cross-selling, and implementing some operational excellence activities. So there is upside to the merchant, but I'm not able to quantify that right now.

It's actually on the offshore though where we see the larger upside potential, starting with our legacy business. Part of the rationale of bringing in the both acquired businesses was to strengthen our base in offshore, and now we have a very credible offering across a much wider portfolio, and are recognized as a significant player in the offshore space.

This is giving us some greater pricing power than we previously had, and it's also allowing us to go into customer order situations with a larger portfolio and get a larger share of a given vessel contract, which is allowing us to participate in some of the higher profit portions of the vessel build out.

I would specifically add to that, the MLS acquisition is bringing in a higher margin than our legacy business, so that will favorably impact our mix scenario as we go forward.

So in summary, it's a situation where we can expect merchant to remain stable with a slight improvement potential, but then on the offshore side, a material development, favorable development in our legacy offshore, coupled with the already good performance coming from MLS will allow a better balance and more favorable operating margin position in total for MacGregor.

Mika Vehvilainen: In terms of what to expect this year, I think the safe assumption would be that we obviously expect to improve from the Q1, but we don't think we will be able to reach the operating profit level of the 2013 in MacGregor during 2014.

Jari Harjunpaa: OK, thank you for that one. Then another question concerning Hiab, and the question there a little bit related to this gross margin.

What was the main reasons for the better gross margins? Was it stemming from the new kind of improved design in your products, or was it more related to the cost restructuring in – and product shifts from different factories to Poland?

Mika Vehvilainen: It was actually neither of those was yet a significant contributor. The new product is – the new loader crane is in a ramp-up phase that did not contribute that significantly yet.

We have put quite a lot of more effort in pricing discipline and managing our pricing; that clearly improves the product gross margin. Some of the design cost effort in existing products improved also the product gross margin.

And then also a fair amount of effort was put into our services business and improving the profitability of services business sort of term. Operating cost in spare parts side and then the spare part margin and the price in both contributed quite considerably.

So there is a clear improvement in our services business profitability. Together with the improving product gross margin coming primarily from pricing and existing product design to cost that contributed to the gross margin.

The production shift is not that visible yet. Polish factory ramp-ups started to happen in the first quarter 2013. But again, we only expect to close the Swedish production by the Q1 next year.

Jari Harjunpaa: OK, thank you.

Elina Riutta: Just one follow-up. How much for MacGregor sales now in Q1 is offshore?

Eeva Sipila: It's around 40 percent, which is a significant increase from, if you remember, last year; we were talking about either 20 percent or 25 percent between the quarters. So in the first quarter, really that mix impact was more significant than we necessarily expect in the coming quarters.

Mika Vehvilainen: It's good to remember the a long cycle the nature of the business in the sense that if you look at overall the big picture, this is actually the first year we now expect in the merchant marine the orders to exceed deliveries. So we actually have been on the declining slope.

And if you look at the Clarkson estimate, the delivery bottom is only reached according to those estimates; in 2016 there is a bottom out in terms of the merchant marine deliveries. And if you look at our again numbers into Q1, it's very clear that organically we actually did not grow. I think there's a slight decline still on the merchant marine side.

Paula Liimatta: OK, thank you. Operator, I think we are ready to start with the questions from the people on the phone lines.

Operator: Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone and wait for your name to be announced. Your first question comes from the line of Juergen Siebrecht. Please ask your question.

Juergen Siebrecht: A question on marine first. In terms of synergies, sale synergies, cost synergies, could you get a bit more precise on what we can expect? You mentioned E.U.R50 million of orders which you have generated through the acquisitions. You wouldn't have generated those without them. It is a couple of months now, so could you extrapolate some expectation regarding the sale synergies?

Then secondly, on the cost effects from your program, the E.U.R40 million, how much have you consumed in Q1 regarding this program?

And then on load handling, you mentioned the U.S. market and as I understood, the market has developed better than you had expected. Can you also elaborate a bit on that and how sustainable that could be?

And then lastly maybe, one of your competitors has an issue with the production plant in Eastern Europe. You are also shifting to Eastern Europe. Do you see or oversee increased country risks resulting from the unrest in that area? Thank you.

Mika Vehvilainen: Quite a few questions there. Eric, do you want to start first with the MacGregor synergies?

Eric Nielsen: Sure. Just to be clear, the E.U.R50 million number we spoke about in orders, that's our full-year prospect right now. It's not incurred just in the first quarter here.

In terms of what to expect going on, we're still working through that right now. Again, it's very much driven by the fact that we have one of the most comprehensive product portfolios now.

And we're going through and doing portfolio alignment and looking at the smartest ways we can integrate not only the behind-the-scenes activities in terms of the R&D and marketing management of it, but then also in terms of how we can bring to the market more of a systems approach, leveraging these new products.

So I'm really not able to go into any more numbers than to say that it's a work in process but the opportunity is very real.

Mika Vehvilainen: And I would add on that one that obviously we see also clear possibilities in the supply chain side, leveraging the very efficient MacGregor merchant marine supply chain that we have had in place in the lower-cost countries, primarily in China for many, many years now in the past. And there are clear opportunities to leverage that supply chain across the whole portfolio now.

Again, one would need to caution that any decisions we would do now regarding change in supply chain would only realize upon the deliveries of this equipment. So we really are looking at the primarily cost-related synergies coming through in 2015 and 2016. And as Eeva was saying at the beginning, there will be some benefit for this year but they are not, on the overall Group context, material yet.

Eeva Sipila: I will continue with your questions two and three; how much of the E.U.R40 million is visible? Well, our guidance has very much been that it is a net impact visible on the bottom line. So if you look at Kalmar numbers, excluding the E.U.R9 million project overruns, I believe you have an E.U.R8 million improvement and in Hiab, you see a E.U.R10 million improvement. So in that sense, that's how much is visible or has come through.

As I mentioned on the Kalmar side, we believe we are on track to deliver the E.U.R20 million for the full year. Obviously, we started to have some benefits in the later part of last year. So the comps get a bit tougher.

And then in the Hiab side, as I said, we think we are ahead of the original schedule. So we hope to be able to show more than E.U.R20 million as an improvement on the 2013 numbers.

But we'll continue, obviously, to report quarterly on the progress on that's I guess the best way for you to see how much is (has made it) visible.

Then to your question on the Hiab U.S. market, I don't think it's actually been very different from our expectations. I think we have sort of mentioned the U.S. to be a well progressing market already throughout last year, thanks to the improvement in the economy and a kind of a (what the) replacement that comes back after a multi-year slump.

That continues to be the case, but as such, there's no dramatic change now in the first quarter. If anything, actually, the weather conditions were very severe in the U.S. and that actually had a negative impact in our types of business for just the obvious inability to deliver when the roads are blocked type of impact.

Mika Vehvilainen: Yes, and obviously the (building) industry which is the primary application for Hiab type of equipment was not doing particularly well with the weather conditions we had in the U.S. on Q1.

Your last question was about the political risks. Our major manufacturing facility and the supply chain around that is located in Poland, which I don't regard to be a source of the political risk.

Juergen Siebrecht: OK, thank you.

Operator: Your next question comes from the Johan Eliason. Please ask your question.

Johan Eliason: I was just wondering if you could provide us with an update on your China joint venture. I was mainly referring to Cargotec Rainbow. Is it delivering a cost benefit for, I guess, primarily Kalmar? And have you been able to secure any local container port orders in China through this joint venture?

Mika Vehvilainen: Thanks for the question, Johan. So the RCI as we know Rainbow Cargotec Industries started operations last year. Our first products coming from them effectively due two things in there.

One is that we have moved the complete value chain regarding our large crane business in there, so that's not just the production but the R&D, design engineering and product management. And that's really in answer to the very tough competitive environment that one sees in the large port crane environment where PMC has been dominating the market.

So the first product coming out of that result has been our RTGs. We shift already quite a large number of RTGs and we have a very solid order book on that one. We've been very happy with this, both in terms of the quality, as well as the cost position we have been targeting with that product. So that's doing well. We are expanding that portfolio into the automatic straddle carriers now and the approach is going on and delivery is starting in that area as well.

And we also use the RCI asset as a source for production for local production sources. So, for example, as a part of this, we talked about leveraging the supply chain of MacGregor's offshore cranes that were formerly done in higher cost locations are now actually manufactured for MacGregor in our facilities in RCI in China.

So we are progressing according to plan. We are very satisfied with the progress happening there.

Johan Eliason: On the total local sales side, is it having any impact for your positioning in the port equipment in China or that part of Asia?

Mika Vehvilainen: Yes, we have had our first orders in the RTG in China but, again, they're a little bit too early to call that one way or the other if the market development is happening.

Eeva Sipila: And just a correction on the products you were talking about expanding into automatic stacking cranes.

Mika Vehvilainen: Stacking cranes, sorry.

Johan Eliason: OK, many thanks.

Operator: Your last question comes from Tomi Railo. Please ask your question.

Tomi Railo: Tomi, SEB. Just coming back on Mika's comment on the MacGregor 2014, you indicated that the margin is better in the next quarter. But did you say that profit is not reaching 2013 level?

Mika Vehvilainen: With that one, I mean operating margin.

Tomi Railo: OK.

Operator: Your next question comes from Jan Kaijala. Please ask your question.

Jan Kaijala: Just a couple of housekeeping questions. If you could quickly give us indications for your CapEx for this year and the tax rate. And restructuring charges, where are we and what can we still expect for this year?

Eeva Sipila: On the CapEx side, we have no reason to change our earlier comments that we expect CapEx to be clearly down from 2013. Obviously, we don't see the trend yet in the first quarter because the expansions on growing in Poland are building quite heavy in the first quarter. But CapEx will then, during the coming quarters, come down. So we would expect to be in the range of somewhere below E.U.R60 million in CapEx for fixed assets.

On the tax rate, the first quarter is quite indicative; we are expecting around a 30 percent tax rate for the full year, depending of course a bit on the mix of countries where we make profits and in some countries we still have some tax losses to use, whereas in other countries, they are already used thanks to the (incremental) business, but roughly 30 percent.

And then on the restructuring costs, yes, as our CEO mentioned, a very small number in the first quarter mainly because there were no new actions started and we were, if anything, quite successful in running the tail ends of the earlier announced programs.

However, we of course, as you hopefully remember, have announced union negotiations at Hudiksvall related to ceasing production in that location and those negotiations are still ongoing. We have hence not booked anything yet, but we have indicated a sizeable cost.

And as those negotiations progress, you can expect those costs to be booked in during this year. Let's see which quarter, but E.U.R14 million is I believe the number we have indicated in February.

Operator: Your next question comes from Johan Eliason. Please ask your question.

Johan Eliason: I just came back on these acquisitions you did in MacGregor. You said Hatlapa was loss making in Q4 and I was just wondering roughly what the impact of those two acquisitions was in the quarter now, also including this Aker Pusnes.

Eeva Sipila: Both of the acquisitions were operationally profitable but when deducting the PPA costing in Hatlapa it was still a small minus, but an improvement from the fourth quarter.

Johan Eliason: OK, great. Thanks.

Operator: Once again, if you wish to ask a question please press star one on your telephone.

Your next question comes from Jan Kaijala.

Jan Kaijala: Maybe this has been discussed already, but I'm relating to pricing and you've been saying that these savings targets are net of whatever inflation and so forth you might have. But if you look at the pricing component in isolation for Kalmar and here, how does that come to question into equation and what does it look now compared to, for example, a year ago or last let's say six months' ago?

Mika Vehvilainen: What we have said is that the savings targets are for the volume (neutral), so we base those estimates, our targets, on effectively a flat revenue as such.

In terms of the pricing components, in Kalmar I would say that impact has not been significant. So far, we are probably a little bit further behind in terms of implementing some of the lessons learned and the disciplines and systems that we are already deploying in Hiab. In Hiab, it's one of the components visibly in there, but I would say compared to that.

So the main components in terms of the size would be the cost – fixed and overhead costs that we cut down compared to the similar time last year and then (March activities) an equal combination of – sort of (decide) to cost efforts as well as (ten and) margin improvements coming through the pricing.

And the third big element is the margin improvements in services.

Jan Kaijala: Services. OK, thank you.

Operator: There are no further questions at this time. Please continue.

Paula Liimatta: Thank you, operator. We still have one question in Helsinki.

Elina Riutta: Elina, Evli. On the demand outlook in Kalmar, what do you expect to see there?

Mika Vehvilainen: A kind of mixed bag at the moment. As we see, we have seen quite a bit of market activity in North America and Europe, haven't seen it all realized into the orders, perhaps in the way we would have expected.

We see China being fairly stable in terms of the demand growth and then APAC being quite quiet; obviously the currency crisis has hit many of the developing APAC countries as well. So that's been more quiet.

For the whole year, we have indicated a slight growth. We still believe that that's the case, but I think in a way, the Q2 is quite important for us in a sense that again the cycles are (starting) there for the revenue for 2014. The Q2 is quite a critical role to secure the volumes in our equipment to secure the revenue for 2014.

Elina Riutta: A follow-up on that. If Q2 falls short or if it's down or weaker than you expect, would there be additional cost savings initiatives that you would take in the face of looking at lower volumes 2014 or is everything being done already that would be done anyway?

Mika Vehvilainen: Well, I would never go that far. I think we would need to then make those decisions as the situation then potentially changes. I wouldn't go and speculate it that one at this stage.

Elina Riutta: Thank you.

Paula Liimatta: OK, operator, do we have any more questions from the phone lines?

Operator: No further questions on the phone lines have come through.

Paula Liimatta: OK, then I would like to thank everyone for your attention today and wish you a good day. Thank you.

Mika Vehvilainen: Thank you. Bye-bye.

Operator: That concludes our conference for today. Thank you for participating and you may all disconnect.

END