Cargotec Corporation
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Chaired by Paula Liimatta

Paula Liimatta

Good afternoon ladies and gentlemen and welcome to the conference call on Cargotec's Second Quarter 2013 Report. My name is Paula Liimatta and I am Head of Investor Relations. Today we have a small live audience here in Helsinki and also people on the phone lines. We will start with a presentation by our President and CEO, Mika Vehvilainen and CFO, Eeva Sipilä. After that we will begin a Q&A session.

Mika, please.

Mika Vehvilainen

Thank you, Paula. Good afternoon from my behalf as well. I will cover the highlights of the Q2 very shortly, then I will hand over to Eeva who will dive into the numbers a little bit more in detail. After that I will share the latest outlook with you and also I would like to discuss a bit more in detail about drive for profitability improvements within Cargotec and what we plan to do around that one to give you a bit more light in terms of the measures we have taken and the potential of those impacts moving forward. But, with that done, let me start with the highlights of the Q2.

First of all we concluded the acquisition of the Hatlapa Group from Germany. I will come back to that one later in the presentation to describe the strategic logic and the impact of that acquisition for Cargotec and MacGregor a little bit later today. In terms of the actual numbers, the order intake declined compared to the Q2 last year by 7% but there is great variations in there between the different business areas. I am very delighted about MacGregor's extremely good order intake in Q2. It actually increased by 67% compared to the same time last year. It is one of the strongest order quarters we have had for quite a time, for about two years in MacGregor. Eeva will discuss about the outlook and the order intake a bit more in her presentation as well.

To compensate for the high growth in MacGregor the order intake in Kalmar actually declined quite a bit. Having said that one we had a very strong sort of order intake, exceptionally strong order intake in Kalmar last year and that for example included one of these mega projects, an order intake of roughly €100 million. So if you look at the—exclude the one time impact of such orders and we didn't have similar orders coming in Kalmar, the rest of the business was actually staying at a relatively same level also in Kalmar. And of course Hiab order intake is more related to the short term sales and remained fairly steady in the Q2 as well.

Operating profit, excluding the restructuring cost, was €37.5 million, a slight decline from last year and that is really explained by the decline in sales of MacGregor. A decline in

MacGregor in terms of operating profit was roughly 18% in terms of revenue and then at the same time the Kalmar and Hiab actually they are growing and showing profitability improvements. Again Eeva will cover those more in detail but really the main driver for the profitability decline was a sales mix difference between the different business areas. In terms of the underlying profitability, both in Kalmar and Hiab, we are starting to show a sort of directional improvement in there.

The cash flow from operations was a disappointment and it was still negative and this included the sale of Tampere real estate as a part of that one so that is clearly a focus area for the management and an improvement area when we move to the second half.

With that one I would like to hand over to Eeva, she will discuss the numbers a bit more in detail. After that one I will talk about the Hatlapa acquisition, the outlook and the profitability improvement measures in Cargotec a little bit more in detail. Thank you.

Eeva Sipilä

Good afternoon everyone on my behalf as well. Going forward in the presentation, I will come back to the details on the other numbers, but from this slide I just want to note the 36c earnings per share and then for the first six months 46c.

Looking at the operational performance from this slide, on the left hand side you see our sales and orders, 833 million of orders, which was 7% down on the 892 from a year ago, but bearing in mind that the 892 contained one very big order for Kalmar on the large crane equipment side, so we are certainly quite pleased about the 833 million. Sales wise 836, slightly down from—if you look at it—year over year, but again important improvement from the first quarter level which as you may remember were on the low side. That also then helped, looking at your right hand side on the profitability volumes helped drive profitability and we also then saw better some improvement actions trying to—starting to be visible in Kalmar and Hiab's results. So €37.5 million of operating profit excluding restructuring costs.

Looking at the business areas, in more detail, starting with MacGregor: a very good order intake; 284 million. Those of you who followed us have noticed that we had a big number of offshore order announcements during the quarter and that really led to this very high number. Market in offshore is very active, but still this high level of a quarter in order intake is maybe somewhat exceptional and that is maybe good to bear in mind. Sales still a bit on the low side, €211 million for the quarter, up from the first quarter but—which helped also profitability improve but we are still clearly below the double digit level we are used to. And we will come back to that in the guidance part as well. The market overall in MacGregor, in shipping, is challenging with really the exception of offshore and some other special ship types.

Looking at Kalmar, the market is quite healthy, although in the second quarter we really didn't have any bigger equipment orders, so the 342 million consists of mainly quite a lot of smaller orders. Sales up to 405 million and is in line with our—also if you look at the sort of order book we started the year with, so it should develop also on the sales top line level. Profitability 3.9% and this excluding restructuring costs, but please note that this does include 10 million cost overruns in projects in the second quarter and also 1.5 million loss from the sale of Tampere real estate. So clearly the sort of underlying business in Kalmar there are many good parts of the business as well.

Looking at the projects a bit more in detail, just to update you on where we are, we are having—working with nine major projects as we call them, with a total value of 400 million. The impact on 2013 sales is a bit more than 200 million. Now if we look at the second half, about half of that is yet to come, which means that then from the order book, at the end of June, or €180 million some 80 million are—will go into 2014 sales and revenue recognition at that point. Altogether in the first six months of the year we had cost overruns in projects of €16 million, so it is clearly a huge burden on the Kalmar operational results.

We have made a big improvement in various areas of the project management, but as we have discussed earlier, it is somewhat running behind the moving train all along and that unfortunately is visible in the fact that the second quarter cost overruns were quite significant. Nevertheless we still firmly believe that with the implementation of these projects, Kalmar will be the leading port solution provider in the industry and the future market potential remains attractive. And that is the goal we are working against.

Looking at Hiab, the market no real big changes as you see from the order intake numbers as well. 208 million orders for the quarter and it is a market where US is healthy and Europe is—has some healthy parts, but overall is obviously a big sluggish following the overall economy. Sales were slightly up from the first quarter and from a year ago, so €221 million worth of sales. That partly also helped contribute the 4% margin in operating profits, but there we do start to see some impact of the improvement action taken and our CEO will come back to the roadmap later in this presentation.

So that on the segment level, operational performance, looking at group level items again, cash flow from operations a clear disappointment and we do here expect an improvement in the second half of the year as our operational performance is expected to improve in line with our guidance and also we do expect reduction of net working capital. We are at this point of the year, trying quite a bit of cash in the projects and also in advances(?) from waiting for customer payment.

Service sales, very flat. This is somewhat of a mixed picture. It is actually up in both Hiab and Kalmar, but down in MacGregor where the service market is clearly tougher than in the other two segments. 192 million sales in services for the quarter, which gives 23% if you look at it as a share of overall sales.

These pie charts are as such no big news. You are all very well aware of the fact that due to the low order intake in 2012 in MacGregor the relative share of that business has slowly decreased and obviously the recent order intake will take some time to impact these numbers. Also Asia Pacific share of sales is following the MacGregor development as the MacGregor business has the highest share of Asia Pacific business.

But with that I think we are concluding the details and will go into the outlook and I will leave this to Mika, you again.

Mika Vehvilainen

Thank you, Eeva. Related to outlook we have a sort of sharpened outlook a little bit. In terms of the top line our outlook is the same as before, i.e. we are expecting the top line to be roughly or slightly below the 2012 levels. In terms of the operating profit, excluding the restructuring cost, we are now saying that they will be at or slightly below the 2012 level. Previously we were saying that they were roughly at the level of 2012 levels. The main reason for expanding the guidance also downwards is related to the top line and revenue of the MacGregor. In the Q1 we said that we expect the MacGregor revenue to be 850 million. We had a fairly good visibility on that one. And the order book was covering that well.

Now what has happened in terms of the top line is that there were specific customer cases related to the shipyard and the financing difficulties they have had and that has resulted in the postponement of delivery from this year into the next year. The sale is still there, the customer still needs those ships, but unfortunately due to the financing issues the shipyard is not able to order and deliver those specific equipment this year. This has an impact of roughly 30 million into that 850 million and that is very difficult to cover at this time of the year.

The other shortfall relates to the services sales, it is very clear at the moment that due to the difficulties that the shipping lines are experiencing, they are doing everything to cut costs and that includes maintenance and servicing costs. Many of them—effectively the ships need to be serviced at certain intervals, that is a regulatory requirement. Generally that interval is about five years. Many of the ship owners have now gone back to the authorities and are requesting an expansion in that one to seven years or so and we are seeing many of those requests granted and that obviously pushes back the services and it is very clearly visible in metric or services top line. That impact for the 2013 is in the neighbourhood of €70(?) million. So those two together we are now guiding closer to 800 million in terms of revenue for MacGregor and due to the higher proportion of profitability that also means that our expectations regarding the whole year margin are now at or slightly below the 2012 level.

These numbers do not include the impact of the Hatlapa acquisition. The acquisition was concluded a week ago roughly and obviously the closing depends on the required authority approval. Roughly timeline wise we are expecting that to be closed somewhere in the neighbourhood of October, so some of those numbers would become visible in our Q4 numbers. Talking about Hatlapa, a few have heard about that one. So a privately owned group and primarily based in Germany, involved both in merchant as well as the offshore deck equipment. In terms of sales and revenue between the merchant and offshore the mix is roughly the same as in MacGregor today, about 70% merchant, 30% offshore equipment. The enterprise value and price of the acquisition was roughly 160 million. Some proceedings of that one will be in cash, roughly 70 million, also there will be a 35 million convertible bond that the sellers of the Hatlapa can turn into MacGregor shares upon the listing of the MacGregor and then we took some debt as well from Hatlapa deal as well. Approximately 585 people are located at the primary bases, in terms of development and manufacturing are in Germany, Norway and in certain countries in Asia.

In terms of the impact for the numbers, the profitability of the Hatlapa EBIT number is somewhat lower or slightly lower than the MacGregor respective numbers, however the profile is different. Their gross margin is actually clearly above MacGregor as well as their EBITDA is better but they are having certain write-offs in terms of the—or depreciations, sorry, for related certain acquisitions that they have done previously in offshore areas that is impacting their EBIT slightly. So that will sort of start to mix through with the MacGregor numbers moving to the next year.

In terms of the rationale for Hatlapa, we have been in discussion with the company for a few years actually now and very happy to be able to finally conclude the deal. What we see happening in the marine sector overall is that the sector is consolidating and there is quite a lot of movement going on in there. The acquisition power or the procurement power of the customers is increasing, the worldwide share of the largest shipyards is increasing at a great rate. If you compared to 1999, large shipyards now have about tenfold the volume in terms of deadweight tonnage that they had at that time. Also the ship owners are consolidating at the same time and more and more people are looking to buy larger, integrated packages, bigger sort of entities from one supplier. MacGregor has an extremely strong share and position in different kind of cargo handling deck equipment in the marine sector. This will definitely strengthen that position and we clearly see that MacGregor has now a chance and has effectively become a tier one supplier for both shipyards and ship owners when it comes to big machinery that then enables us to participate into the deals and be a strong integrated sort of solution and system provider for our customer base as well.

One of the key important product areas for Hatlapa has been the winches and combine that with MacGregor’s own winch development products and that makes us the worldwide leader in that segment. This is clearly supporting the aggressive growth plans we have in MacGregor, both in offshore as well as in the merchant marine and we will be strengthening our product position as well. That said we clearly see that this sector is consolidating. There is a number of moves going on and our wish is to actually the growth strategy in the MacGregor, as well as to potentially participate in further consolidation that could take place in this industry. This will not impact the listing plans we have for MacGregor. We have said that the IPO in Singapore for MacGregor will take place earliest in the first part of the 2014 and the acquisition does not change that guidance one way or the other and does not have a direct impact into that one as such.

And that is about Hatlapa acquisition, then next I would like to turn to something different, talking to a number of you analysts and then also investors, one of the feedbacks I got throughout my first three, four months in the company is that in terms of sharing the visibility on the improvement plans and their potential impacts we have probably not painted a picture very clearly for you. And now we are trying to sort of talk about a little bit what is the roadmap for us in driving a better financial performance in Cargotec and also sort of give you a little bit of highlights of what you can expect in terms of the result improvement as well. I kind of think this in terms of the three phases. Already before I joined as CEO for Cargotec, a number of saving initiatives and improvement initiatives have been taking place. For example overhead reductions and certain things that are already starting to be visible very clearly in our Q1 and Q2 numbers as well. And we want to extend and continue to drive those improvement initiatives.

Very clearly in terms of just getting quick fixes and fixing some of the things that have not been in such great shape, the biggest short term potential for us effectively is just to improve and bring the current business performance of our current businesses up to an industry standard. If I look at performance of some of the business areas, divisions on the Cargotec area, it is very clear that we are not performing up the industry level compared to the peers. We know pretty clearly what are the measures that need to be taken to drive forward that performance and am I going to explain in a little bit more detail in a moment. But driving effectively towards the industry performance has a great EBIT potential impact for us. Beyond that one obviously we can't be satisfied by just sort of performing to the industry standard, but then we need to decide at what specific areas in terms of businesses, competencies and skills we actually want to then better than our competitors and the industry as well. That clarification work is still going on and we expect to come back to that one later in the year. That of course includes defining what businesses and specific areas we want to be involved in as well.

A very important part of sort of laying the foundation for this performance is making sure that we have better globally integrated systems and tools. Our ERP roll out is still going on. Overall I would say that in terms of global processes, globally integrated operating systems and tools, Cargotec has still a ways to go, but we are having many of those plans already in implementation and we will introduce further measures this year. One clear area on performance is of course not related only to the EBIT numbers that I will explain a little bit more in detail, but also in terms of managing our net working capital and cash flow better down the road as well as the numbers so far. So for this year we are clearly not on the satisfactory level on that area.

Next I would like to sort of cover the main improvement initiatives and their impact by business area starting with Kalmar. Kalmar already initiated a number of global organisational efficiency and R&D impacts late last year those numbers start to be visible very clearly in the cost level of Kalmar at the moment. And we have discussed quite a bit about the project delivery capabilities and in many of these large projects that we now have roughly 180 million going a lot of the damage was done right up on the specification and scoping of the project.

We have clearly improved in terms of the people quality processes and tools, managing those projects, but obviously many of those ones the damage was done quite a while ago and we are starting to sort of control that part. But our sort of capabilities are improving very clearly in terms of looking at further expansion and new projects we are much more confident in terms of our capability to manage them in a profitable way. We are changing our production footprint considerably and the move in here has already been done in terms of moving the so called counter balancing equipment from () production into Poland as well.

Another important step in terms of driving the improvement and profitability in Kalmar is development in the services business. We are trying to and will be moving more from sort of labour oriented sort of selling pair of hands into the IP based, proprietary based services and processes. A couple of examples of that one; we launched the Kalmar care, a new services concept and services productisation in the TOC conference a while ago. One good area of example there also that we see great expansion possibilities in terms of services and development is the crane refurbishment. There are thousands of old cranes in there that need to be modernised and they also need to be expanded taking into account the increasing size of the ships. And Kalmar acquired the rest of Mareiport, which is established in and the market leader in Europe in terms of crane refurbishment and we see great expansion potential in terms of services in this area as well.

The Rainbow Cargotec Industries is an important step for us in ensuring our product competitiveness, not only in terms of production costs in China, but as I said we are moving the whole value chain related to engineering and R&D in there and I am very happy to tell you that we have actually now delivered our first order for RTGs out of the factory close to Shanghai and we are very satisfied in terms of the quality and cost level of those products coming out of the new joint venture.

Clearly a very growing area at the moment, a focus area for us is the port automation. As Eeva was saying already in her presentation, although we of course can't be satisfied with profitability and cost expansions we have had in these large projects we are engaged in, we are clearly making an investment business in there. Those projects will enable us to become the clear market leader when it comes to automated port solutions. Also we have a number of assets in there that are actually strengthening our position among them and maybe of the most important is the Navis acquisition we did a while ago and Navis is actually performing very well and above our expectation in terms of revenue and profitability at the moment. Overall there are many businesses in Kalmar that are actually doing well at the moment, but of course they have been partly masked by the different balance sheet items and cost exceedings we have had in the Kalmar area.

Another important profitability improvement area is clearly the improvements in design cost to ensuring the product cost competitiveness in those areas. If I look at the financial impact of a number of these profitability improvements, roughly we expected 20 million run rate improvement by the end of this year primarily driven by the organisational efficiency and refocusing of the R&D as well as our project delivery capabilities. Furthermore in terms of the different production footprint development of services business, design to cost etc. initiatives we expect a further run rate improvement of approximately €40 million by the end of 2014.

In Hiab quite a large number of different product improvement initiatives rolling out as well, we have looked at the route to market. We have selected not to participate in certain product market areas ()()() one off items. Again in Q2 we cancelled certain product regions sort of activities as well and that does drive in better proportional profitability there as well. The same as in Kalmar we are changing the production footprint in Hiab as well, moving the European production into the Polish facilities as well and we are fairly far down with that project as well.

Different efficiency improvement and process improvements in Hiab as well that we see enhancing our activities as well and very importantly for us the improvements in design to cost in a number of areas. Our product quality is extremely well and—extremely good. Our customer satisfaction is at a very high level, but we clearly have over engineered some of our products in areas. Hiab is now rolling out a number of new product developments and we introduced a new loglift a little while ago, we introduced a new Moffett, a sort of truck mounted forklift, an electric version of that one a while ago and we are expecting to roll out a number of important new product introductions that will improve the product competitiveness in terms of functionality. But will also have impact in terms of cost of those products as well.

We clearly see much improvement possibilities in terms of our distribution and marketing and sales activities. We hired a new head of our sales and marketing from Volvo Construction Equipment a while ago. He has now started and we will be driving a number of initiatives improving and enhancing our distribution, our pricing capabilities and generally sort of the discipline and better efficiency in terms of processes and tools in our market activities as well. From Hiab's point of view the current initiatives should have a small impact this year roughly in the neighbourhood of €3 million, 2013. The improvements in design to cost should result in roughly 15 million gross margin improvement by the end of this year and then further initiatives throughout this and next year should improve our run rate by an additional €40 million by the end of 2014.

In Kalmar's case the story is somewhat simpler. The operation today already is performing at the high level and is generally quite a sort of lean and mean machine. This is more driven by the market development and in many of the product areas that the MacGregor is—our market position today is already so strong that the only way to sort of drive up the revenue is actually the recovery of the market as well. We have developed and are very happy with our development in the offshore. We have a number of strong sort of orders coming in and investments and acquisitions we did for offshore capabilities in Norway and Singapore are clearly starting to pay off. We are further, in terms of sort of taking into account downturn in our revenues, we have taken and are taking certain organisational operational efficiency improvements in there.

We have clearly great possibilities to develop MacGregor services business further. We see organic growth possibilities as I said to the past investments in our offshore business and obviously then growth through the acquisition as well of Hatlapa is a good example of the direction we are moving in in there. And obviously the listing preparations are continuing as well. We have not given any more specific guidance MacGregor other than that current downturn. We are responding to that one in terms of introducing further savings () roughly in the neighbourhood of €4 million and we have not been particularly specific about '14 and one reason for that one obviously is that the upcoming listing that puts certain restrictions what we can say about the forthcoming year as well in there. But with that one and hopefully this will sort of enlighten a little bit about the efforts we are doing and gives you a little bit better sense in terms of the profitability improvement initiatives and their potential impact both in Kalmar and Hiab side of the business.

With that one I would like to thank you for coming here and participating in this conference call and I think we open for questions and answers.

Questions and Answers

Pekka Spolander – Pohjola Bank

A couple of questions; first concerning Kalmar, you have now booked €60(?) million extra cost in the first half related to these cost overruns. Can you say that most risks are now behind or how do you see the situation? What kind of risks are still there to be expected in the second half?

I wouldn't declare the victory in terms of the risk being behind us, but I would say that the risk profile has somewhat changed moving forward. Obviously when the backlog decreases that will, on its own, improve the situation but a lot of the engineering and the hardware delivery, site deliveries are ongoing or happened already, so that leaves less room for further cost overruns in that side area. But all of these mega projects, as we call them, have a strong automation and integration aspect involved there as well, and that work has only started. So moving from the sort of overruns that we have clearly seen in the engineering and site costs and implementation the risks are now more related to sort of the functionality and the performance of the equipment while it is on the customer's site and then related to the sort of automation and integration implementation in there. Those risks would involve potential () damages performance sort of guarantees or delays from the customers. So there are still risks there that could be visible for the second half of the year and some of those will be with us for the first part of 2014 as well.

Thank you. And the second question concerning this Hatlapa acquisition; do you expect to get some synergies in the () side or subcontractor network? It seems that Hatlapa and MacGregor, they have quite a similar type of operations, all the production is outsourced.

The business models are somewhat different. Hatlapa has a very efficient, highly automated factory operation in Germany and that for example is manufacturing overnight spare parts for deliveries. There are some interesting possibilities there we can do cooperation as well, but we see quite significant synergies between Hatlapa and MacGregor. The products are mostly complementary but there are significant sort of top line as well as cost synergies that we will be (). We will probably come back to those ones a bit more in detail after the deal has been closed.

Elina Riutta – Evli Bank

Still on the cost overruns for the projects, big projects in Kalmar; earlier, if I remember correctly, you talked about 200 million of the projects where there are cost overruns and that those had been booked so that they would come through with a zero margin this year. Could you talk a bit about the way you are talking about it now? Is it that you have found similar problems in other big projects as well? And what do you expect?

Well this is actually what we wanted to say today is very much a repetition of what we said earlier. So we are talking about roughly the same 200 million impact on revenues for this year, but wanted to open a bit more then specifically the order book now at the end of the June and the impacts on the second half but also the early 2014. So, no, the number of the projects and the projects that are in this group are exactly the same and as such there is nothing new apart obviously from the cost overruns that we reported for the second quarter.

Thank you, my mistake. Then the second question on savings; what is the run(?) rate for savings currently in the different businesses?

In terms of the overhead savings I think we were still indicating about 30 million improvement in cost levels and our run rate at the moment, we are pretty well at that target at the moment right, Eeva?

Yes, I would say that we, with the sort of numbers our CEO was showing for the business areas and then if you add the corporate savings we are comfortable that we will be clearly above 30 million at the end of the year. So that impact will be visible in the 2013 numbers.

Jari Harjunpää – Pareto Securities

Still about those projects with some profitability problems, how about the cash flow profiles? Are they actually consuming a lot of cash or what is the situation? Is there a lot of account payments or…?

Very clearly seeing disappointing sort of performance in terms of cash flow the first half was big factor there, ()()() right now in the middle of a lot of the deliveries and hence there is quite a bit of net working capital tied into those. As Eeva was indicating we expect a significant improvement in the second half cash flow and one important part of that via our capability to release the net working capital and get payments from the customer projects.

Just to continue in questions, so it is basically the progress payments are then coming in for those progress—projects?

Yes, progress payments coming in after the deliveries are one important factor on that one.

Juergen Siebrecht – HSBC

A question on the acquisition; you have said its margin was somewhat below marine(?) but it still double digit on a standalone basis and ()() further upside then from synergies. And then on marine(?), the order intake, could you split that positive number into onshore and offshore? And how would be the margin quality? Is there a high portion of offshore and rural included there? And then how do you see demand in marine, which I think remains important, develop further in the second half? I think () was more optimistic today in terms of the merchant demand, so how do you see that? And could you also comment in terms of marine on certain developments in the market () the depreciation of the yen, what could it mean here in terms of Japanese shipyards? Could there be more price competition on the shipyard side and which could then positively impact the demand for ships? And also on the price hike which we have seen here in July for shipping rates.

That was quite a few questions, I will try to respond first, if I can remember, and leave Eeva; she clearly has written this down. So let me start with Hatlapa acquisition. The Hatlapa standalone EBIT is a high single digit number and we said expect synergies, but having said that one I said it is a slightly different profile from MacGregor current profitability profile, partly coming from a slightly different business model as well. Hatlapa's gross margin is well above the MacGregor gross margin. Their EBITDA is also I would say at the good level but then due to the acquisition they have done in offshore side the depreciation impacts the EBIT quite a bit and that is at the lower level than MacGregor is and again I will come back to the synergies more in detail after the deal has been closed. As I said we are seeing significant opportunities both in top line as well in the cost side of that one.

And then about, maybe I will start with your question about overall how do I see the marine industry. I would say that I briefly looked at the () sort of statements today and I would say that we are pretty much in line how they are seeing the situation. I think it is probably too early to sort of call for a sort of recovery at this stage, but I would also say that we are probably quite comfortable with calling the bottoming out at this stage. We already saw sort of positive indications in Q1 and I think those have been reconfirming as you said yourself the contracting rates are improving in the shipping at the moment. And then also we see that there is a sort of upward pressure in terms of ship building cost as well. There has been more ships ordered beginning of this year, I think more than 700 if I remember the number correctly that is more than the previous year. So overall I do think that we start to see sort of an improving picture in the marine sector. Obviously the offshore side has continued to be strong throughout and we see that strong demand in the offshore continuing whilst we see a potential recovery taking place in the merchant shipping side of that one.

Now I think I need to hand over to Eeva to sort of look at the further questions. Thank you.

Okay taking up on what remains, I think you had a question on the order intake in MacGregor, so yes offshore was a significant part. Close to half of the second quarter orders came from offshore, so really that was the sector that was clearly most active whilst the other sectors, ship type still on the merchant ship side were quite low despite the fact that there maybe are these positive signs in the market. But I think it will take some time before they are visible in our order intake. On the margin quality we are satisfied with the quality of the offshore business and we do expect that as we get more volume and business up and running that that also kind of creates opportunities to improve our performance from what it has been in the past.

And then I think your final question was on the currencies, on the Japanese yen. Obviously these current rates can have an impact and at least earlier have had impacts on the competitiveness of the different shipyards in different countries. For MacGregor, our strategy for quite a long time has been that we need to be strong in all the shipbuilding countries, be it China, South Korea or Japan, as we cannot sort of base our business or even claim to have much visibility on where the FX rates go or don’t go. So difficult to say if that will have an impact; it depends, I guess, obviously on how permanent a change that will be.

My only catch up here on the freight rates, normally you say higher purchase, better demand, but at the moment is the low freight rate not also a trigger for—in the bulk area at least to buy this larger ships because the other ones are not worthwhile? And maybe just coming back to offshore, so you expect it to remain strong, do you see Q3 orders in marine on Q2 level or do we come down again? Thank you.

Well I think that in order for us to reach the second quarter level in orders in MacGregor we would need to have a similar high number of announcements made and at least it has been a bit slower in July, so I think that you should probably expect that this was a bit of a lot of things happening in one quarter. But overall as such we see no reason to change our view on the offshore. We expect the market segment to continue active. The freight rates are tricky. There has been some upturn even and—but I think your point is correct on the fact that the economics do speak for the bigger ships in these sort of rather tight and tough circumstances the ship operators are living in. And that is one reason why we think that there are these orders coming for very big ships as the economies are quite appealing. But of course they are not for everyone and not all the ports, so it is a balance of having different size vessels for different routes.

Antti Suttelin – Danske Bank

This is just a clarifying question on your profit improvement plans and if we take Kalmar for example, do I understand correctly that you are aiming for 20 million savings by the end of 2013 and then another 40 million savings by the end of 2014? So 60 million together by the end of 2014; is that correctly understood?

A small correction; the 20 million savings which is based on the actions launched in 2012 are fully expected in 2013, and as I commented earlier we are well on the run rate after the six months already. So we are very comfortable that the 20 million will fully be visible in 2013. For the 40 million we talk about run rate at the end of 2014 so you should more view it that if you divide the annual run rate by two, so to say, you would end up with roughly 20 million also in 2014.

The 40 million does not include the 20 million.

Is it is additional, yes.

So if we compare 2015 cost level relative to 2012 it should be 60 million lower?

Correct.

Christer Magnergart – DNB

I was just about to ask the same question as the previous analyst, but if you look on the cost savings programme or the profit improvement programme is that dependent on volumes at all or is just based on the current demand levels? Secondly, when you look at the Kalmar 40 million improvement you are targeting by end of 2014, does that include that you will not have any project cost overruns or is that excluded from that? I will stop with that.

That is not taking into account any considerable changes in the volumes, this is sort of based on the current run rates roughly. Our plan is not to take loss making projects in the future. I think we have been quite clear in there. It is very clear that there are further opportunities in the projects side as Eeva was saying. It is also very clear that the general average profitability of those projects are not that great and many of them are quite demanding, however, our plan is not to take anything that we forecast to be at a loss at that stage. That was somewhat different situation. We clearly wanted to strengthen our market position and expand the volume and be the leader in automation, so the projects we have at the moment they are done at the risk and of course more—those risks are more than realised. The plan moving forward is to only do them at the positive margin.

To clarify your question, the 40 million is improvements coming from other areas. So they are on top of the fact that we obviously hope that we don't have () million in the first half of next year as well.

And secondly, continuing on Kalmar, if you exclude this project cost over runs in the second quarter and also exclude the one off we had, under line profitability was actually quite okay. And what has driven this improvement in profitability is that a mix thing or is it entire cost savings that have started to be seen here?

I think you are picking up the right point. Many of the Kalmar businesses are actually pretty good. So the Navis, as I said that is a software business, we are well on the plan or ahead of the plan on that one. Bromma (), the spreaders is performing well at the moment, the mobile equipment business we have been able to drive the product cost improvement in there that is actually showing us an improvement in there and we see healthy demand in our mobile equipment side. So a lot of the underlying businesses are actually doing relatively well and have been masked by some of the balance sheet items and clean ups we are doing there as well as the project cost over runs.

And then also MacGregor, the delays in deliveries or the postponement of deliveries, have you also started to experience cancellations or is it only postponements this far?

No, these specific are postponements. As I said this is—there is clearly a demand for this particular equipment and we have double checked that with the customer. This is more a question that they probably need to find a new shipyard for the build out and that will slip the deliveries from this year. We have not seen postponements in our—sorry cancellations in our order base.

Then finally, you also talk about that you will announce another programme later this year. Is that similar size as this programme as you have outlined today? Or is it even larger?

No, I mean that is slightly two different things. This programme now that we are showing is really aimed to driving what I refer to as an on par performance on our existing businesses. So the plan really is () must be focused on sort of just getting our businesses in shape especially in Kalmar and Hiab. We have clearly underperformed the market so far. Beyond that one we obviously need to look more strategically then where we drive the superior performance against our competitors and what are the ways and tools on that one. As well as then of course like any business unit to be able to review your business portfolio and decide where you want to further invest and what business you don't necessarily be in. But that is something that I would say is not on the agenda until next year. The focus at the moment is just on the sort of execution of the current plan and driving up the business performance in existing businesses.

Johan Eliasom – Kepler Cheuvreux

I just have a short question remaining really now. On this Hatlapa acquisition you are awaiting the antitrust authorities I suppose. Was the risk there—obviously in history you have had some problems with antitrust issues when trying to buy some companies.

We don't see any risk in here. We don't have actually effectively a product overlap in there and I think generally the market definitions are not that narrow in the marine sector. So we don't foresee—this is more a question of just timing and obviously some of the authorities are probably enjoying or about to start to enjoy their supper holidays so that is why we sort of think that October is probably fairly realistic.

Okay, so you plan that the deal will be done in October?

Yes, close will be roughly in October timeframe, but of course that is not in our hands.

Juergen Siebrecht – HSBC

Sorry to ask again but I have another question regarding offshore. I mean what makes you so sure that this remains a strong business? I mean it has been () over the recent years and now we have this shale gas seam and if that is spreading couldn't that make your offshore exploration less worthwhile? That is a follow up on that. And on Hatlapa, is it fair to assume that EBITDA margin would be more in line with the marine? I think EBIT margin you stated it is below due to PPA depreciation. Apart from that the business seems to be more vertically integrated, if I understand that right, so then it is more cyclical or how would you see that? And lastly on Kalmar again, on the underlying profitability, just to get it right, what do you consider as cost over runs, are those zero margin orders which you still have booked? And if nothing new pops up, then it remains as you have stated before, with the remaining deliveries in H2 and H1 2014?

Again a number of questions. If I start with our confidence level in offshore; whilst we are looking at a further consolidation and expansion possibilities we have obviously spent quite a lot of time trying to understand the offshore market and demand and we are very, very confident about that one. The underlying demand in oil is continuing strong. The shale gas of course will have an impact but that is primarily actually within the United States and of course the United States' role as an energy consumer today is not what it used to be. It is the developing markets that are driving the energy requirement very much today. There are considerable new oil fields that are discovered whilst the current oil fields and production of some of them are expected to actually decline in some cases quite strongly in the coming years.

Then there is a specific sort of change in the way the production is happening in offshore. More and more the production is moving from the surface production or exploring such as oil rigs into the seabed exploring and production where more and more the equipment is actually not located on the surface, it will be actually located at the seabed. And that is clearly a strong trend happening. That actually means that the requirements for load handling equipment capabilities to lift and then you know lower different loads is going to proportionally increase further and that is going to play more and more in our hands. Some of the offshore deals that we have announced in Q2 for example included a 900 tonne heave-compensated—and by heave-compensated it means that you are lowering 900 tonne loads down to the seabed whilst you expect the sort of load to remain stable whatever the conditions on the surface are. These are quite high technology systems and effectively people are ordering cranes and they just need a ship around that one then to execute on that one. We had four orders for 250 tonne cranes as well as winches.

The other thing is then the winches and sort of the mooring and anchor equipment also for a capability to sort of remain at the place whilst you are doing this and lowering and lifting of the equipment is becoming more critical. So both in terms of the actual offshore exploration we see that continuing strongly and then due to the changes in terms you actually do the exploration that is probably going to further enhance the demand for the kind of equipment we are operating in. And for the other questions I turn to Eeva again.

You had a question on Hatlapa, whether the EBITDA margin would be more in line with MacGregor's and then the EBIT. And, yes, your assumption is correct due to the sort of high depreciation level mentioned by our CEO earlier in the questions. Then you had a question on the Kalmar cost overruns, so if I understood the question right, so what we want to say is that yes we know have in the operational results included 16(?) million cost overruns, which from our point of view are not restructuring costs, they are operational costs and they are included in operational results. And we obviously hope that those don't—that we don't have similar ones in the future, but as discussed earlier the risk cannot be ruled out at this point so our improvement targets as such are based on the numbers excluding that. Because of course you could sort of arrive at almost a 20 million improvement in 2014 just by not having those repeated. And that would not really be much of a guidance for you. I think that is something you would expect anyway. So yes that sort of 40 million annualised run rate at the end of 2014 is coming from other areas.

Very last question on the sales outlook, it is unchanged despite the marine sales, so what is the offsetting factor here? Or have you implicitly lowered the sales guidance?

We kept the sales guidance the same. I mean we have seen a growth in the revenue both in Kalmar and Hiab in the Q2 and we expect that trend to sort of hold in there.

On a sales line obviously 50(?) million () is not so material as it is on the operating profit due to the clearly higher profitability MacGregor compared to the other businesses. So it has a bigger effect there, which meant that we felt that it was appropriate to be more specific on the operating profit guidance.

Sanna Kaje – FIM

I was just wondering how you see Kalmar's competitiveness in the big projects in the future as looking at the cost overruns it seems that you took the projects previously with too low prices.

That is probably true in terms of—or I would say that service sales probably was the scoping of the projects and to be quite precise in terms of what we are selling and what the customer is buying. And I think our competitiveness in terms of the integrated, automated () from the technology point of view is extremely strong. Clearly I think there our competitiveness has been not at the level we would hope that to be was in the large cranes and there we have of course taken now the step or the measure to move that whole value chain including the development, engineering and production in the joint venture into RCI in China. We expect that to improve our cost competitiveness in the crane side. In the actual sort of software automation side as I said we actually are very confident about capability and really that is the position there.

Johan Edwardsson – ABT

I just had some further questions on the same, getting some clarification on how to think on a year on year basis aiming for the 40 million run rate by end of 2014. We already have significant savings materialising this year and should you think—yes as you said half of the 40 million for next year on top of the current trades () sequential improvement also in the second half of the year.

Yes, you should think of it in the sort of 2014 improvement on top of what we achieve by the end of 2013. In the Kalmar case, if I understood right your question, it was more on that. I think we are well on the way on the savings for 2013 so not necessarily from those a big further improvement in the second half so to say, but obviously we are expecting profitability improvement in Kalmar hopefully through volume and more of a mix issue in order to reach our guidance as well. So—but if you are purely talking about the savings, then I think the run rate is more flattish now. We are at a good rate and we just need to follow through the full year.

And could you also give some more details on and concrete examples on what will drive this as you say it is clearly the savings that will generate this 40 million and on top of that you have these other issues not coming back hopefully. So it sounds quite significant and I would just like to know a little bit more on what concrete actions will be made to reach this?

I take a few examples. We just announced a few weeks back our new reachstacker called Gloria in the TOC conference. That is clearly a sort of next generation reachstacker, an important product for us here. We have a significant market position and that will be very competitive in terms of functionality, very good reception from the customer but also very important from our point of view on the cost of goods sold or from the design to cost perspective. Also more competitive than the current model. Also in terms of products like automatic stacking carrier, our design to cost has progressed there as well. The () opportunities to improve the profitability and number of our services businesses as we have said, plus improving the performance and the processes and moving more from the labour oriented services sales to the sort of really selling proper IP(?) such as to crane refurbishing projects that we have sort of announced in the last week and in Hong Kong. Also the product mix will obviously play into our hands here. We see good progress in the automation software integration, Navis for example, happening at the moment.

Jan Kaijala – Nordea

Just a little nitty gritty question on the corporate costs line; you have six million for the second quarter that is quite a good reduction from last year and also from the first quarter. What would be the going rate going forward?

Overall we had a significant reduction and ***audio*** so the sort of the 30(?) million cost reduction we indicated that that is of course very important ***audio***. What is driving— the other element there is the investment ***audio*** MacGregor business and the listing, so that will be in the neighbourhood of seven to ten million euro this(?) year and we have not realised— Well we have realised less than half of that so far so I think possibly we will probably see the sort of general costs going a bit further down but then *audio* we will see some cost increases in the—related to the listing of MacGregor ***audio***. Eeva ***audio*** you would probably see that number overall being fairly stable ***audio***?

Yes. So that would then lead on a full year level to what we have roughly said previously that the corporate admin cost should be ***audio*** ten million lower than in 2012.

Closing Comments

I would like to thank you all for your attention and wish you a nice end of the week. Thank you.