

Conference Title: Cargotec's Q3 2016 Results Briefing

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Hanna-Maria Heikkinen: Good afternoon, ladies and gentlemen, and welcome to Cargotec's Q3 2016 Results Briefing. My name is Hanna-Maria Heikkinen and I'm in charge of Investor Relations.

The key message in our Q3 report was that our operating profit margin improved. Market environment in MacGregor remain challenging and we announced new cost savings programme today. Our CEO, Mika Vehviläinen, and CFO, Mikko Puolakka, will go through the development in more detail level, and after the presentation there is a possibility to ask questions.

Please, Mika.

Mika Vehviläinen: Thank you, Hanna-Maria, and welcome on-board, as well, your first quarterly announcement.

And good afternoon, good morning from my behalf as well. Welcome to the Q3 announcements. And without further ado, the highlights for the Q3, there's obviously – the profitability in Hiab continues to level up favourably. However, the market situation, as very visible, is still very challenging in MacGregor.

Our order book from the end of the year 2015 has declined. That decline is coming primarily from MacGregor. Our sales declined 8% year-on-year to 854 million. That decline came solely from MacGregor. Both Hiab as well as Kalmar had an increased revenues year-on-year in Q3.

Operating profit was somewhat down again, the difference coming solely from the MacGregor development, and operating margin improved to 7.7% from 7.4% one year ago. Our operational cash flow was still satisfactory at 74.4 million, roughly at the same level as it was one year ago. And due to the positive operating profit and cash flow development, our gearing is now down to 41.6%.

Market environment overall from January to September, it starts at the – the container traffic growth continued but at a lower pace than it has done in the previous years. We still see the drivers for further investments to be in place. The larger ships driving up to 30% increase in yard capacity. The new traffic rules due to the Panama Channel expansion and Suez Channel driving for new port investment, as well as their[?] efficiency need increases imports driving automation are still very much in place.

However, due to the situation in shipping area, which is very demanding at the moment, we are seeing strong consolidation of the shipping lines around the alliances as well as real mergers and acquisitions. Those mergers and acquisitions as well as the alliances are then driving further price consistence from the boat operator, and at this stage, it's somewhat unclear for the boat operators, how the new traffic volumes will be landing due to the changes in the shipping line and set up. That answer, that the cost by the consolidation of the shipping line, is then clearly delaying our customer's decisions. As I said, we still see the strong drivers behind that one and our order pipeline still looks strong in Kalmar. I'll come back to that one in a moment.

In Hiab's case, the – sort of the activity, in construction building remains favourable in the US and also in Europe, although, of course, that country by country variations are clear in there as well.

In marine side, both merchant marine as well as the offshore are clearly suffering. There are very few bright spots available on that side.

If I look at the overall numbers and, obviously, one of the headline numbers that is catching attention at the moment is the 19% decline year-on-year in order intake in Q3. And I want to sort of tackle that one right away. So if I look that one business area by business area, first of all, the decline,

obviously, is coming very strongly for MacGregor. Due to the strong position we have in our product segments and due to the segments we are in primarily around the container shipping, bulk ships, etc., the market is affecting our numbers there. And so that it is what it is in terms of that market situation in there and those declines are very visible also in MacGregor order numbers.

In Kalmar's case, the situation is somewhat different, however. If I exclude the large project deliveries and automation orders from Kalmar order numbers in Q3, actually the remaining sort of the base business of Kalmar had an increase in order intake.

The last year, in Q3, we scored two very large projects, automation deals with total value of 85 million. This year, simply, we did not land any significant orders in automation or project. This is primarily due to the fact that customers, very clearly, are right now delaying their decisions due to the shipping line consolidation to that I had mentioned – I mentioned earlier.

We still see – they still see the drivers to be in place when it comes to the order intake in Kalmar market environment with the increase in shipping sizes, traffic rules, etc., and we still see our pipeline remains strong in Kalmar. Obviously, the timing of this order is still a question mark.

In Hiab's case, also, the order declined. We scored one large military order into the Indian market last year in Q3. Without that military order, we were fairly flat year-on-year in Hiab.

Generally, the Q3 is somewhat soft quite often for Hiab due to the holiday season in Middle Europe, etc. If one is, for example, concerned about the US market, our order intake in US, in Hiab, actually increased by about 4% year-on-year in Q3 2016.

So overall, I see that we had a timing issues in orders in Kalmar as well as in Hiab because of the special larger projects landing both in Hiab and Kalmar. MacGregor market situation remains difficult but I see more stronger pipeline and good outlook still remaining both in Kalmar and Hiab's case.

If I look at the order book, it's good to remember that Kalmar order book actually is at the same level as it was at the end of 2015. Furthermore, if I look at the profitability of that order backlog at the moment, it actually is more attractive than it was at the end of the year, with the better[?] mix in there. We have had some delivery issues in mobile equipment due to the products and changes in our order backlog. For example, mobile equipments have increased from the year ago.

Operating profit due to the lower volume decreased somewhat into the 66 million range but the margin actually improved to 7.7%. Cash flow, again, being 74 – 35 million and net debt coming down due to the good, improved cash flow there.

The restructuring costs that are affecting primarily Kalmar and primarily around the move from the products from Sweden to Poland that will drive further efficiencies and margin improvements in mobile equipment business was then affecting the earnings per share in Q3.

With that one, let's look at the detailed analysis, business area by business area, and I'll hand over to our CFO, Mikko. Thank you.

Mikko Puolakka:

Thank you, Mika.

If I started with Kalmar, Kalmar's order intake declined 16%. As Mika also mentioned, their customers postponed a bigger investment decision. I need to point out, however, also, that during the comparison period [inaudible] 2015, we had €85 million of orders, but automation orders and exporting those[?] basically would have been on last year's level or even slightly above.

Kalmar's order book strengthened from 5% from 2015 year-end level and that amounted another €122 million.

If we look Kalmar's sales, our sales grew 6% year-on-year, being €436 million, and profitability was 8.3% versus 8.8% a year ago.

Profitability was, to a certain extent, impacted by the increased investment in automation and software development. Also, the sales mix had a negative impact on our profitability in Kalmar

Also, the service business was not developing in line with our expectations and we have put in place a special programme to correct that.

Then moving to Hiab, Hiab's order intake declined by 8% as we did not get similar kind of large defence[?] orders as we did during the comparison period. Otherwise, the core business development in Hiab was good. Hiab's sales grew 9% and profitability continued to improve. EBIT margin excluding restructuring cost was 13.2% versus 11% a year ago.

In general, we can say that we have been growing faster than the market in Hiab. And the profitability improvement in Hiab is very much driven by higher volumes and improvement in the delivery capability, as well as new products in which we have been investing in the past years.

Then moving to MacGregor, where the challenging market environment continued. MacGregor's order intake declined 38% and the order book decreased 21% from 2015 year-end. Sales for MacGregor declined 42% year-on-year and the profitability excluding restructuring cost was 1.7%, a decline from last year's 4.3%.

On a positive side, we have a new joint venture in China announced very recently. And this joint venture is expected to strengthen the market position and local connections in the Chinese market. MacGregor and Nanjing Luzhou Machine Company Limited from China have signed the joint venture contract in September 2016 to form the CSSC[?] Luzhou MacGregor Machine Company. And LMC will own 51% of this joint venture and MacGregor, 49%.

We have also started new measures to tackle the lower market environment in MacGregor. And as you have seen today, we have announced a €25 million cost savings programme related to that.

Looking a bit in more detail into that programme, as the market situation in MacGregor is challenging, these cost savings are definitely needed. In addition to the ongoing or already completed programmes which are expected to create this year €30 million savings, we have now launched a new programme which will target to lower the 2017 cost by €25 million from 2016 level.

These savings measures include amongst other items business reorganisations and personnel reduction. It is estimated that these measures would especially impact operations in Norway, in China, Sweden, Finland and Singapore. According to the preliminary estimate of savings measures, we see a reduction of approximately 260 full-time equivalent. And the savings measures are estimated to result in restructuring cost in the final quarter of 2016 and then in the early part of 2017.

Then moving to cash flow, as Mika also indicated, our cash flow developed nicely, being €74 million in Q3, on the same level as a year ago. Our gearing, thanks to the good cash flow, has improved 42%. And no notable other changes in our working capital except that the advances received have declined, and this is because of the flow orders, project type of orders in Kalmar and MacGregor.

Looking at the sales mix, business area sales mix, Hiab's share of net sales has increased. Kalmar was still the biggest segment, however. Kalmar is equalling almost half of the total Cargotec sales.

Graphically, EMEA is still the biggest geographical segment, equalling 41% of our net sales. APAC's share has decreased due to the low orders, especially in the MacGregor area.

And moving to the segment information, Kalmar's geographical mix is rather balanced, more or less one-third in the three regions. EMEA is clearly the biggest in Kalmar's business and no major changes in the sales. And also in Hiab, the mix has remained rather unchanged, EMEA being the largest region, basically where all product lines have had a nice growth now in the first nine months.

APAC is still an area for higher [inaudible] to develop as you can see from the pie chart. APAC remains the main region for MacGregor due to the industry concentration.

And when looking[?] our financial metrics, we are definitely moving to the right direction. Operating profit margin was 7.7% and the annualised return on capital employed there as 10.6%.

So with those words, I would invite Mika back to continue with the strategy.

Mika Vehviläinen: Thank you, Mikko.

And a few words about the strategic implementation before we open up for Q&A. Our three strategic [inaudible], as most of you remember, are services, digitalisation and leadership development.

In services, we have made progress to many areas. We have launched the new web shop for our spare parts in Hiab. In MacGregor, we enhance our cooperation with shipping lines regarding the spare parts delivery and acceptance.

Overall, I would say, financially, at the moment, obviously, MacGregor services business is under pressure, [inaudible] shipping lines looking for every possible saving. But we are doing all the right measures in there and able to protect our position there very well despite the tough market condition.

I'm also satisfied with our services performance in Hiab. Better services are growing. And especially considering the install base development over the last 10 years and it could be that against that development we are able to develop our spare parts and other services development into the growth in Hiab.

The one area that I'm not entirely satisfied with is the services development in Kalmar. Obviously, there are some markets related – outside factors related to customer's [inaudible] under pressure financially, but also very clearly we had have some internal execution issues. We are now tackling that by changing some of the structures and reporting line regarding our services business, [inaudible] starting a more sort of focused programme, driving the implementation and revenues in Kalmar's services business on a weekly basis follow-ups. Well, I'm very confident that that programme will deliver the results and deliver the potential we have in that services[?], so.

In digitalisation, we continued the investments based on our new Cargotec IoT cloud-based platforms, and we have a number of initiatives going on where we work together with our customers in all of our segments developing new products and solutions for further delivery into the market.

In leadership development, we have gone through the top 200 executives in Cargotec [inaudible] sort of very three – a heavy three-day workshops, and we'll be expanding that leadership development activity next year into the top 800 in Cargotec.

Overall, very clearly, we have invested into the strategic initiatives and we will continue to invest into our R&D that is delivering better product margins, some more competitive products, into the digitalisation and some of the services development.

Additionally, of course, we have invested very heavily into the global services financial platforms, overall, roughly 100 million over the last few years. And it's very clear that they are now getting to the state where we can start to take an advantage and leverage those platforms, driving further changes in our setup and then delivering operational efficiency and savings into our support functions in the future within this area as well.

In terms of our guidance, that remains unchanged. We expect our sales to be at or slightly down from the 2015 level, and we expect our operational profit to improve from 2015 where it was €230.7 million.

With that one, I'd like to thank you for your attention, and back to Hanna-Maria.

Hanna-Maria Heikkinen: Thank you, Mika.

So then there is a great possibility to ask questions, and we will start with the questions from [inaudible] if there are any.

It seems that the presentation was crystal clear here. So then we will continue with the international questions.

Operator: Thank you. If you would like to ask a question this time, please press the * key followed by the digit 1 on your telephone. Please make sure the mute function on the telephone is switched off to allow your signal to reach our equipment. If you find your question has already been answered, you may remove yourself from the queue by pressing *2. Once again, that's *1 for a question.

I we will take an opening question from Manu Rimpela of Nordea. Please go ahead. Your line is open.

Manu Rimpela: Okay. Good afternoon. My first question would be on the Kalmar. So how do you see the orders for these larger projects in automation business? Are you – what confidence do you have that we will see them returning? And by when would you expect those orders to return and the kind of [inaudible] and they will relate it to all these consolidation being resold?

And then maybe a follow-up question on that, that you mentioned that the order backlog stands at the same level as it was at the end of 2015. So should we interpret that that indicates that sales could be 2016 stay below compared – 2017 sales could be – stay below 2016?

Mika Vehviläinen: [Inaudible] question. So first of all, as I said, the base business in Kalmar is actually performing very well and we are up year on year, but we simply didn't land a single large order in Q3, which of course is unfortunate.

In the springtime, I was a lot more optimistic about that one but we didn't, I think, consider carefully enough what's happening in the shipping side due to the huge pressure in there. And that consolidation now, actually, enabling them, the shipping lines, to drive better deals with the ports, and hence, causing uncertainty in the ports side. And that clearly has made a port sort of – this is [inaudible] and look what will be happening on that one. And that was very visible on that one.

We are still very confident that those orders will come. It's just the physical – physics will drive this partly. As I said, bigger ships, more yard capacity required.

The business case for the automation is quite obvious, and I think we see, for example, yesterday the announcement from one of our competitors that these larger deals will take place and automation will also advance on that one. The tying of this one is something that is a question mark. And it will be possible that some of that will already happen in the Q4, but that's not – by no means certain for us.

I think this consolidation phase and uncertainty with the shipping lines is estimated to last roughly six months. But of course, some of that time has already elapsed as well as – and what stage of that one will then [inaudible] make us pull the trigger is a question mark as well. But that will happen. Whether it will happen in the next three months or six months remains to be seen.

As I said, and you said the sort of backlog is now roughly at the same level as the end of the last year. However, the backlog profile is somewhat different. We have delivered to the larger projects now that their bigger [inaudible] backlog at the end of 50[?]. We have more sort of short term higher profit deliverables in our backlog [inaudible] that's due to the delivery difficulties we have had in the mobile equipment that has been contributed to the mix of Kalmar that Mikko also talked about that one.

So the profit margins in the backlog are now better than they were at the end of 2015, and now, of course, really much depends on the last year orders and the timing of those ones, how much they will then help on top of the existing backlog into the 2017 revenues.

Manu Rimpela: Okay. Thank you.

The second question would be on MacGregor. Can you just give us some idea about how the orders we saw in the third quarter, how those relate to the shipyard orders? Are we already kind of – are

you already taking orders on those ships that shipyard received at the start of this year, meaning that we are kind of already seeing at the very low level, or are you still taking orders for those ships that were ordered at the end of 2015 when activity was at a very much higher level?

Mika Vehviläinen: I think those are all gone. We are clearly, sort of, taking orders for the latest – obviously we've seen a couple of things are happening clearly from the [inaudible] coming down, you probably are likely to see shorter periods. But then again, the ship delivery time stamp[?] are extending them. The ships also have more capacity. They are not in a particular hurry to sort of push the ships out as fast as possible. That tends to always happen into the downturn, and many of these yards, in China, for example, Korea, have an employment defect as well. So that is postponed into delivery times, which is of course visible in MacGregor revenue decline partly as well.

If you look at the clocks and estimates, they estimates that when it comes to merchant marine, the ship order numbers should actually start to increase in 2017 compared to the 2016 order numbers. But the delivery numbers are still going down. And if I look at our order and backlog development, they estimate also that the MacGregor revenues in 2017 will be lower than they were in 2016.

Manu Rimpela: Okay. And then final question. On a group level, the order book stands now almost 350 million below the level of 2015, so, how should we think about the timing of that book? Is it similar to last year? That kind of thinking about 2017, so we're starting from 350 million lower level and – or is there some reason to believe that a larger part, as you said in Kalmar, will be delivered in 2017?

Mika Vehviläinen: Yeah, I think, the dynamics, of course, are very different in all three business areas. In Hiab, besides that, the difference really mainly come from the timing of those large military orders that seem to have a very long delivery time, and we have not landed those now. Lately, there has not been a market for that kind of order. So overall, I think we see a very good positive development.

If I look at the Hiab's market outlook, I think there's sort of slight positive movement going on in Europe. It's an improvement in the construction sentiment; also, the truck registration numbers are expected to grow in 2017 for the – compared to 2016.

US also, the construction industry remains at a very high activity level. The truck registration number states or the HIS statistics are actually expected to grow roughly 10% from 2016 to 2017, so I have a fairly good sort of feeling and sentiment when it comes to the Hiab market outlook and the order intake.

MacGregor, as I said, it is what it is, unfortunately, in that the market is very difficult. And it's yet, I think too hard to sort of predict whether we actually reached the bottom on that one at that state.

Kalmar, this is really – the base business is doing well. The backlog is better, actually, than it was a year ago. The pipeline on that business looks very strong as well. The big question here is now the timing of the larger deals, and when they will [inaudible] to realize. And then you're obviously looking at the repeat orders for the existing automation cases and the extension of those ones and as well as then the new potential deals and the timing and the likelihood of winning those are both, of course, always a question mark.

Manu Rimpela: Okay. Thank you.

Operator: We will take our next question from Antti Suttelin of Danske Bank. Please go ahead. Your line is open.

Antti Suttelin: Thank you. This is Antti. I would have a few questions on Kalmar and then on MacGregor as well. Starting with Kalmar, looking at the drivers you have outlined in the past, big ships has been one and then automation has been one. Would you say that the big ship-related capital expenditure in the terminal industry is still increasing? Has it flattened out or is it falling at the moment?

Mika Vehviläinen: If I take that one first, Antti, I would say that we haven't even yet seen much of that big ship-related investments in there. In many ports today, they handle these bigger ships, for example, turning the ship around during the loading/unloading, which is highly inefficient. So we have seen some of that due to partly by investments into the [inaudible] where we see some of that done by the crane furnishing? But I would say that we are early stages. One has to remember that many of those ships are only now being delivered and are entering the traffic.

Antti Suttelin: Okay. So that driver should improve in your opinion?

Mika Vehviläinen: Yes.

Antti Suttelin: Okay. And then automation, in what geographical regions do you see most demand for automation?

Mika Vehviläinen: Well, I take one area which is – on a purpose, which is of course small but it's sort of interesting, I would say laboratory, which is Australia, where we are now automating the fifth port. And I think like in many other technologies and industries, you start to see these tipping points happening there. So much of the market is already automated that the pressure for the existing players to either sort of – you have to do something. If you know that your competition is operating at 20% to 30% lower operating cost than you are, you start to see that market gravitate towards them. And obviously, we are far from that one in any of the other markets.

The pricing, the average that we see that – in all markets – for example, China, even though the – of course, the decline probably in the volume is maybe the strongest and there is plenty of capacity available, we see many of the Chinese ports contemplating and planning and some of them implementing automation solutions today as well. Those are primarily driven not so much by the labour cost savings but the access to the labour, and in some locations also land utilisation and [inaudible].

In the US, I think the business case for the automation is a very strong one with a very high cost of unionised labour. But that unionised labour is probably one of the reasons why the progress has been – why it's slow there. But we are seeing a [inaudible] on that one. And I think the current ports – two ports that are operating in Los Angeles are both viewing the development and the performance they are achieving quite favourably at the moment.

Europe, again, same labour, sort of, cost issues there as well. And there are a number of ports we are in a discussion in terms of actually starting the automation projects as well. But again, the timing of this one is a question mark.

Obviously, even though the market is getting harder for the ports in a way that the container traffic growth is slowing down and then the consolidation of the shipping lines is actually putting more pressure into the ports, one can take also the view that the – this is actually – could be favourable for the audit – automation development because the further financial pressure for the ports will start to drive them to seek for further efficiencies, because the port business traditionally has been quite a profitable business. And for the financial pressure to do this investment [inaudible] be in there.

Antti Suttilin: Yeah. Okay. And then if you could just clarify what you mean by alliances asking for better deals with terminals? Did you mean that they are pushing simply prices lower?

Mika Vehviläinen: Yeah, exactly. I mean, what they will do is – and we're hearing them doing – is that they consolidate their volume. So as you know, in many of the larger ports, you have a number of operators and [inaudible] as an example. And if you're an alliance, one of your shipping lines might have gone to an Operator A and the other one has gone to Operator B and maybe the third one goes to Operator C. And what you do now is that you combine your volumes and then you go back to the A, B, and C and say that this is my combined volume now for you, what's the best price? And that's what we see happening at the moment.

And obviously, if you don't – if you're A, B and C and you don't know whether you're going to land that alliance deal or not, that certainly will put for the consideration in your investment decision.

Antti Suttelin: Yes. Thanks. That's all for Kalmar. Then a couple of quick questions on MacGregor. First of all, is the 30 million cost cutting program now fully visible? Was that fully visible in Q3?

Mikko Puolakka: This is Mikko Puolakka. So it's not fully – fully visible yet. We have done some €24 million from that compared to last year in the first nine months, so you will see some impact – positive impact from that during Q4. But by the end of the year, it'd be €30 million.

Antti Suttelin: Okay. And then I would like to ask, where is currently the average employer cost per capita or per employee in MacGregor? Where are we now?

Mikko Puolakka: We don't disclose those numbers. We are of course quite heavily – heavily-weighted to the more expensive countries.

Mika Vehviläinen: Yeah. I don't think [inaudible] average, the employee number also gives you the answer because we have, for example, factory [inaudible]operations in China where the cost per average.

And then again, we have some fairly heavy operations in Norway where the average employment [inaudible] is quite high. And as you have seen from the previous risk-factoring announcement and the prior risk-factoring announcement, today, many of the cost saving measures are targeted for the higher cost countries such as Norway, Finland, Sweden and others. So you will see higher than average labour cost savings coming from these things and elsewhere.

Antti Suttelin: Yeah, yeah. But I would like to know is how your P&L looks like. What is the variable cost and how much is labour cost? So, okay, let's rephrase this. What is your total personnel cost in MacGregor currently?

Mika Vehviläinen: That we have not disclosed.

Antti Suttelin: Okay. That's all, thank you.

Mika Vehviläinen: [Inaudible] structural cost is very specific. There is a relatively little direct labour really. In production, we have very, very few production facilities. And then one of the challenges, to be specific, on that one is the absorption rate. So some of the costs are either fixed or direct cost depending whether they are enrolled in certain products, projects or others as well. So that tends to vary.

So we are – and that's why, also, when we talked about the savings, we don't talk about fixed cost alone but it's a combination of fixed and then indirect cost as well because the labour moves between the indirect and fixed or direct and fixed depending on the projects. I mean, the project volumes are down. It's very important that we tackle both the under-absorption and [inaudible] direct fixed cost there as well.

Antti Suttelin: Yes. Thank you very much.

Operator: We will take our next question from Johan Eliason of Kepler Cheuvreux.
Please go ahead. Your line is open.

Johan Eliason: Yeah, hi. This is Johan. I was just curious what you said about this – the [inaudible] sort of announced yesterday. Did you say that the automation part is still to come and you are tendering for that one?

Mika Vehviläinen: So my understanding is the deal is that it's – it is including the automation and automation [inaudible]. First of all, congratulations if we are able to close the deal, but it's – I also view it from the positive angle in the sense that, first of all, it confirms that there are still – both operators are still into – willing to invest. Secondly, it also confirms that people are believing into automation and willing to invest into automation.

It also shows, by the way that how big it is, the automation deals are, because it's an existing customer of theirs that they are certain very specific software structures around the automation that are – and it just shows how important is winning these customers. The automation deal and software-related deals tend to be quite [inaudible] and that's good evidence of that one as well.

Johan Eliason: Maybe it wasn't so surprising that they would win this one on the East Coast, obviously. Now, I was also intrigued by the value of that one. Do you have similarly big-sized €200 million plus type of orders in your pipeline?

Mika Vehviläinen: I don't think we have anything. But it really depends how you order. My understanding is that this was a multi-year large deal that they ordered a number of others. If you look at our larger automation deals, they have tended to come in phases. So if you look at the London gateway, we are now on phase four or five, I think, if I remember correctly. The [inaudible] Los Angeles port, we have done, I think, three phases, if I remember correctly, and I could be off one or two phases on these ones.

And there are still both in London and through APAC[?] room and space for further expansions as well. So they will end up being probably in that ballpark. But some customers are actually doing this so that they make separate investments and sort of [inaudible] into the automated ports phase by phase or P-by-P. In this particular case yesterday, I understand they actually did a deal for the whole yard at one go.

Johan Eliason: Yeah. And then on Kalmar. In the beginning of the year, you sort of warned a bit about the margin in the first half of the year and you expected it to improve in the second half. And we looked at it a little bit, Q1 more than [inaudible] down year-over-year, but Q2 was up. And now Q3 more than is down[?] year-over ye-r, what's your expectations here for the full year? You said you have a good backlog and it's more mobile equipment. Should we expect a strong Q4 delivery period with equally strong margin? So what's happening here?

Mika Vehviläinen: Yeah. Honestly speaking, I think Kalmar margin development has been somewhat of a disappointment for us, and there a number of factors affecting that one; Mikko also elaborated this.

First of all, according to our strategy, we have increase our reinvestment in software development as well as automation. Those are increasing our cost in there according to our plan.

And the delivery mix hasn't been quite what we expected it to be. We have had some delivery issues in our mobile equipment because of the plant has changed from Sweden into Poland. And we have lost labour in our Swedish factory at a faster rate than we were expecting. The Swedish employment market is still very good. And hence we have not been able to keep up the planned production volumes [inaudible]. Manufacturing capabilities are not yet in place. We need to actually expand the factory there to enable that one. So we are behind in deliveries in there and that's increased the backlog and that's one of the [inaudible]. Whereas the project deliveries actually have gone according to plan and are at the better profitability than had been in the past, but there still obviously the mobile equipment businesses is more favourable for us.

The third element and the one I'm personally quite disappointed is that the services business has not progressed quite as well as we planned. It's practically flat year-on-year. I understand we have some headwind in certain markets due to the customer situation, but also, frankly, we have room for improvement in our execution, and that's now put on the sort of weekly follow-up and programme mode to enable that one, so.

I expect us to be able to recover in the services side and start to show growth. And that together with the mobile equipment business will improve the margins of the – of the Kalmar.

Now, the question, of course, is that the new larger deal – if and when we get those funds – tend to be at the lower margin than the existing ones. And they tend to [inaudible] the time. So the timing – timing of those orders are related to delivery still, of course, then have a sort of impact on the proposal [inaudible] margin of the Kalmar as well.

Johan Eliason: And if I understood you correctly, I noticed that the associated income has gone up quite a lot. And I guess a big chunk of that goes into the Kalmar division, which, to some extent, is related to this big project. How much R&D costs did sort of specifically hit Kalmar year-over-year for the first nine months?

Mika Vehviläinen: In total – in total in our R&D cost – let me take the exact number. We are talking in total in the R&D spending for the whole Cargotec roughly 90 million for the full year. Out of which – which something like 60 million would be going to Kalmar on full year level.

Johan Eliason: But this is – and then how much was that last year? So what's the delta?

Mika Vehviläinen: The delta is roughly – we are talking about – let me now check. If we think the year-to-date – the year-to-date number, so we have been spending €66 million year-to-date. Out of which, 57 – or basically 57 compared to last year. Out of these, 66 probably goes to Kalmar.

Johan Eliason: Okay, good. And then we've seen this fantastic development in Hiab with the strong [inaudible] Polish plant seems be ramping up, and you talked about these problems in Sweden for Kalmar; should we expect something similar to happen when those issues for Kalmar are solved?

Mika Vehviläinen: Yes, absolutely. I mean, we expect this sort of – trust, you know, having one production plant less will, obviously, impact directly our fixed production overheads decline, and then there's the labour cost then which is about one-third in Poland compared to the one we had in Sweden. So there will be direct product-related impact on that one as well.

Those improvements will not be visible in 2017 after the second half. We still have cost related to the actual transfer and the production ramp-up. So you should start to see some of that impact coming through in the second half of 2017 and fully visible in 2018.

Very clearly, we have, of course, learned in Hiab's case that it takes a while for the new production facilities to ramp up. But the difference, of course, with the Kalmar is that they already have an existing production operations that's they are just expanding us[?] here. So we should be able to reap the benefits faster than we did in the Hiab's case.

Johan Eliason: Okay, great. Thank you.

Operator: We will take our next question from Philip Salida[?] of HSBC. Please go ahead. Your line is open.

Philip Salida: Yeah, hello. Just a question on the new restricting programme on MacGregor. What would be the restructuring costs associated to that and what would be the split for 2016/2017?

Mika Vehviläinen: We have not yet finalised all – all the – of course, the negotiations need to take fully in place. But the estimation would be somewhere in the range of €30-€35 million for the total programme. And the bookings of those one-time costs are depending then on the finalisation of negotiation. So if negotiations can be completed by the end of this year then some of that can be booked already for 2016.

Philip Salida: Okay.

Mika Vehviläinen: I think it depends mainly on the personal[?] negotiations.

Philip Salida: Okay. Then relating to MacGregor, what are the margins in the order book? Are they on the – on a similar level as in the first – the first nine-months' sales or is it a better margin order book?

Mika Vehviläinen: Roughly at the same level. However, when I look at that one, we've been able to maintain MacGregor profitability despite the quite heavy decline in revenues and that's

coming from two factors: one is, of course, that we have been able to save in cost up 30 million by the end of this year, as Mikko said. Their other issue is that we've been able to improve our gross margin. As we have discussed in the previous calls and the capital market day, we started a number of initiatives in terms of the project management controls designed to [inaudible]. Our gross margins have improved in MacGregor all the time, so I think my confidence is able to manage that and backlog and the gross margins there is, is clearly higher now.

Philip Salida: Okay. And then in terms of positions below the EBIT line if – I mean, adjusted – or adjusted EBIT is roughly the same level as last year, so we had some differences in terms of net financing cost which was up by 3 million. And we had quite a low tax rate in the last year and a higher one this year. Could you maybe elaborate on these issues briefly?

Mikko Puolakka: Yeah, in [inaudible] we had €3 million additional interest booking related to VAT, ForEx and what we have done for several past years in certain countries, so that increased the [inaudible] by €3 million. Without that the interest [inaudible] roughly on last year's level. And then what comes to the tax rate, it depends very much on business needs[?], so we've kind of – we've kind of planned this. We have the revenues coming from – and that tax rate – tax rate there between the quarters and years.

Philip Salida: Okay. And then in terms of MacGregor, you also mentioned that you see high risk of cancellations and postponements of ship deliveries, and also that some of the clients prefer to purchase spare parts from decommissioned ships. And that is something that was not mentioned in the last two quarters, so how substantial are these risks and these effects? How substantial could they also be –

Mika Vehviläinen: It's probably more a reflection of that change you see unfold and the changing market situation that Mikko has been more prudent – I would say that overall, obviously, the MacGregor market situation, the cancellation and postponements are a risk that – postponements is something that we actually witnessed all the time, and that's very clearly visible in the declining revenues as well.

The – in terms of cancelations, we have seen very few. I can think of one specific offshore cancelation that happened earlier this year that's of any significance, but the postponements in terms of deliveries is clearly sort of happening at the moment.

If I look at some of the external reports, depending on the ship size, the cancellations tend to be sort of somewhere in the – like 5%. I think our case is lower than that one, but the postponements in ship deliveries are about 30% of the total volume now and that's very visible in our numbers as well.

Philip Salida: Okay. Okay. And then you said that in general, we're performing better than the market – if we look at each – at this segment by segment, what's – what do you mean by that in terms of figures, and maybe also relating to your peers? Could you go into more detail regarding that?

Mika Vehviläinen: Well, if you look at segment by segment in MacGregor, if you start at the bright spots at the moment, they're overall [inaudible] businesses doing quite well. It's – and not declining and there are some positive signs on that one as well. And we have a very strong market share there, so we are very happy with that performance in there.

Some of the specialty fishery research vessels are doing quite well. It's fairly typical, I guess, when the offshore costs gets down these are sort of replacement businesses, so we are tracking quite well there.

And then obviously, in terms of the actual the market position in the harder times, the smaller players tend to bolster more, so we see some of that progress in there as well, but the – on the other areas, I would say that not a significant shift in market share. Our market share tends to be quite strong both in the bulk side as well as [inaudible] market conditions are of course quite rough at the moment.

Philip Salida: So also – you think that you did better than your peers overall?

Mika Vehviläinen: Always interesting, when we go out first in reporting at least the track record

I think for the past quarters has been that we've been clearly outgrowing the market. And very clearly, when we started the Hiab turnaround in 2013 when we did 3% operating target, we made the decision of being very focused on profitability rather than top line. And when that started to show the results, and we withdrew from the number of [inaudible] combinations, that we didn't feel that we are having the required profitability level.

I would say that to us then, the [inaudible] Q3, we came to a conclusion that we are now tracking so well in our profitability targets that we can actually become more assertive in the marketplace again. And obviously, when we have now for three, four years, invested heavily in R&D, our products are clearly more competitive, both from the gross point of view but in more important, from customer point of view for features and functionality.

There was an IAA show which is the large sort of transport-related show in, sort of – would be more a month ago. We launched a record number of new products in there. We actually have seen that reaction for the market already in the sort of strong order intake we took for – into production October timeline as well.

Philip Salida: Okay, thank you very much.

Mikko Puolakka: [Inaudible] sales growth, that has been 15% on the – during the first nine-months, so clearly higher than the overall market for the – if we think the GDP development in any of the markets.

Philip Salida: Thank you very much.

Operator: We will take our next question from Christer Magnergård of DNB. Please go ahead, your line is open.

Christer Magnergård: Good afternoon. Yes, a follow-up question on that. So you mentioned that you [inaudible] higher in North America, and that market is collapsing basically when it comes to the truck market on the heavy duty side at least. Also on the construction side for the truck – for the truck industry although not as much, but still you report growth. As we said, only your market share gains or is it – so that you're – your orders and you were saying it's a lagging orders for the industry to – more than I expected –

Mika Vehviläinen: Well, a few things maybe on that one. First of all the Hiab sales tends to be better correlated with the construction indices that exist directly with the truck registration, because obviously only about 10% of the trucks will have a leasing equipment there. We have seen this in the past, so the construction industry index, in a way, is more telling probably than the truck registration.

I might challenge you a little bit in terms of the collapse. I – the truck registrations, to my understanding, they have come down this year compared to last year, which was one of the highest in the memory, but it's still at a relatively high number. If you look at the truck registration numbers this year compared to the past cycles, six years is still are at the pretty high level. And now if I look at the latest IHS[?] forecast for next year, I think they are expecting over 15[?] on segment[?] to grow about 10% again next year. So in that sense, I'm quite satisfied. And as I've said already earlier today, we had a year-on-year increase about 4% within our order intake in Hiab in US markets as well.

Christer Magnergård: Okay. I think – I mean, truck production is down almost 50% year-over-year on the heavy side for the moment for some producers. So that's why I'm a bit concerned about –

Mika Vehviläinen: Yeah, and, of course, one needs to remember that a big part of the truck market is sort of the heavy duty, long haul lorries that we have – or trucks that we have very little to do about us as well in there, so...

We have – we saw the same the other way if you remember when we had this sort of year or five year or six truck registration boom. Was it end of 2014, in Europe, where the truck registration

numbers actually shot up quite a lot. They didn't see any of that one in Hiab, again because many of those trucks were used for the, sort of, long haul where the fuel saving indications – and that's why I'm always a little bit careful when I look at the truck registration numbers.

So there is only about 10% of that one is sort of Hiab any equipment-related, and even less total order train development, and in that sense the applications specific indices [inaudible] round of construction is – tends to follow-up our revenues better than the pure truck registration numbers.

Christer Magnergård: When you mentioned trucks – sorry, construction activity, how big is your exposure to the UK in Hiab?

Mika Vehviläinen: UK is one of the largest markets we have had in Europe. So fairly high exposure. We are – we saw some hesitation actually in terms of orders immediately after the Brexit. We have seen those orders now realised the construction activity in UK continues still at the high level. We have obviously an issue because most of the products, the manufacturer are imported into UK. We are – have hedged the pound, so we should be okay in that sense until sort of mid next year, and looking at mid [inaudible]. But obviously after that one, the – if the pound continues to tumble that will have somewhat of an impact on the UK revenues then.

Christer Magnergård: Okay. And then just a final question on MacGregor. If you look at the [inaudible] investor contracting, which quarter would you say represents your order [inaudible] in Q3? Was that like Q1 orders for investor contracting or is it more like Q2, or what's the lag roughly now?

Mika Vehviläinen: I'm sorry. I'm not sure I followed you on that one.

Christer Magnergård: If you look – sorry. If you look at investor contracting on the order data we have some charts on, and would compare that with your contracting or your order intake in the third quarter, which quarter would you say that your order intake would represent if you look at the charts on the investor contracting basically. If it's a six months' lag from investor contracting to your orders, or if it's a three months or...

Mika Vehviläinen: That's a slightly difficult question to answer directly because it really depends a little bit on the ship type and the customer etc., as well. What we have said in the past, as well, it's roughly to 6-12 months, sort of, from the ship contracting to our order contracting. Right now, I would say that when the pipeline is getting lower, one would expect generally the lead times to go down as well, so you would probably look at the shorter audit order cycle. And at the same time as I said, however, the delivery cycles are getting longer because this one don't have necessarily the urgency to force the ship out from the shipyard as well. So you got those two things sort of working against each other now.

Christer Magnergård: Great, thank you very much.

Operator: We will take our next question from Tomi Railo of SEB. Please go ahead, your line is open.

Tomi Railo: Yes, thank you. And still continuing on the MacGregor. What's your view on the order intake for the fourth quarter? Do you think we could go still below the third quarter level or would you expect the – even weak development in the fourth quarter?

Mika Vehviläinen: I don't expect a weaker development purely because the base business is doing quite steadily and well. And if I remember now correctly, we didn't plan such large projects on Q4 last year, so year-to-year I don't expect a similar kind of trend you saw in the Q3.

Overall, as I said, I expect the base business to actually continue to perform well. The pipeline looks quite – looks actually strong in there overall, so one would expect that to remain that to remain at least the same level as it is at the moment.

Then the big question is whether we will land any bigger orders or not, and that's really difficult. Clearly, we see the tendency for customers to sort of postpone. There has been one automation deal for [inaudible] we had discussed from early this year. It's been postponed and now we are

talking about potential pileup only in the first half or first quarter of 2017, so these things have clearly been slipping lately. And it's – and sort of very difficult for us to comment and say that we will land any of those in Q4 or not.

Tomi Railo: My question was actually relating to the MacGregor business but –

Mika Vehviläinen: Oh, sorry. I heard Kalmar, sorry. In MacGregor, actually, I don't expect that to be worse in Q4 than it was in Q3 on a sequential basis. If I look at the sort year-on-year basis, I think obviously the number already last year was lower I think – will get us the number, 179. So we started sort of I think, to get to the level that you will not see a similar decline in the order numbers anymore, as we have, sort of, already shown in the sort of weakness in the Q4 last year.

Tomi Railo: Okay, and then the –

Mika Vehviläinen: [Inaudible] than Q3 order and probably we will see first time that we will not see such a dramatic difference in order intake anymore in Q4 year-on-year basis.

Tomi Railo: Okay. Okay. And then if we look at the fourth quarter profits, would you be able to say whether you can be on black numbers in the fourth quarter? Because we have seen sort of gradual decline from the first quarter, second, third quarter. And now, there is, of course, risk of postponement on the 3 million in the third quarter, and you are launching a cost savings program. What's your – what's your sort of feel for the fourth quarter?

Mika Vehviläinen: Well, the feel is that we do our best to keep it black numbers. Always in annual basis, and hopefully also quarterly basis. The challenge, of course, is that when you get to the [inaudible] slow numbers, as you said yourself, and you do sort of you know, 10 – below 10 million profitability on quarterly basis, one little slip in projects or something can easily take that into the negative territory, quite easily. So in that sense, I think we are looking at – roughly at the same ballpark numbers that you have seen in the previous few quarters and Q4 as well. So the target very much exceeds that. Profitable, but not a significant profitability there.

Tomi Railo: Okay, thank you.

Operator: We will take our next question from Tom Skogman of Carnegie. Please go ahead, your line is open.

Tom Skogman: Hello, thank you. If I continue a bit on the same subject but looking into next year and take your comment about order intake into account for MacGregor, it looks like your sales will be around €600 million MacGregor next year if you don't have any worse kind of slippage in fails or deliveries. Could you first comment on that? And if that is right, is your cost cutting you announced today, enough to, you know, safeguard at least a good profitability in 2016? Or can you fall into red numbers – ?

Mika Vehviläinen: Yeah, when it comes to the – first with the revenues, I don't want to take another view than it's slower than in 2016. Of course, you cannot have the [inaudible] there with services business that has declined, but it's probably starting to sort of be at the bottom of that one. You have the raw, raw business, which is actually continuing at a very steady rate, so there are some things that are kind of holding it back in that sense. But the target, very clearly, is to be profitable throughout the cycle, so that also concerns next year.

25 million is the cost savings that we have now started the planning, and we announced today we are starting the labour union-related discussion in those sites and locations. We obviously continue to plan and look at the further cost saving potential that we'll be able to adapt to the market conditions.

Tom Skogman: Alright, thanks. And then, my second question is on Hiab and Kalmar. So let's exclude MacGregor in your answers here, and what I would like to get is an update on key changes to cost[?] items in 2017 compared to 2016. I think about this transfer of production to Poland for Kalmar, and then you have IT and R&D spending going up, and some other cost items that you would like to highlight.

Mika Vehviläinen: Okay. So you're talking – are you talking below or on top – above the line items? If I talk restructuring first, so we have now booked MacGregor, I think, onto the [inaudible] in terms of what we have announced prior today, that restructuring charge.

Mikko Puolakka: Basically, a million[?] that we have booked in restructuring cost in Kalmar so far, and roughly 4 million[?] in MacGregor.

Mika Vehviläinen: Yeah. So the 25 million that we announced today, that restructuring charge is obviously to come. Some of that – probably that – or this year, some of that next year. In the 8 million[?] that Mikko just mentioned, is related to the lead [inaudible] restructuring. There is more to come still there as we ramp down the production in there. There are certain costs, but they are related to a cost ramp-up of the Poland, and the investments related to that one; those will continue for the first half of 2017.

So you are not going to see a financial benefit coming from the Swedish-Poland change in the first half. Those impacts to be visible in the second half. We have –

Tom Skogman: But if –

Mika Vehviläinen: – as I said, continued to invest in – to continue the investments in the R&D because they clearly are yielding results and making us more competitive, and that will help us both in terms of top-line market share, as well as you can see that in favourable gross margin.

Development, obviously, we have had a sort of heavy increase. The increased R&D at 20% from 2014 to 2015, and I think end of Q2, we had increased it 17% on that one. You can see that rate now sort of proportionally going down as we start to reach higher levels in there, so I would sort of expect that – or growth to actually decline – growth to decline, but not the actual expense to decline, then we move the [inaudible].

We have also, as I said in my presentation, looking at the certain [inaudible]. We have invested quite heavily to our financial and HR platforms and systems. They start to be now having a very high coverage, and it's very clear that the next phase of the development will then start to drive further efficiencies in our – especially in our different support operations, and we are looking into how do we – we'll drive those cost improvements for the next year.

Tom Skogman: But is it fair to say that kind of fixed cost savings 2017, from this transfer to Poland from Sweden, more or less match the incremental increase in cost that you will get from increased spending on R&D and IT? I mean will this balance each other? But that means, of course, that you will have more – it will be easier in the second half next year than in the first half?

Mika Vehviläinen: Well, those are not the only cost items. As I said, we are looking into other cost items at the moment as well. And some of the investments that we have done should be actually starting to yield benefits in our fixed cost structure as well. And that's something that is under review at the moment, and we will come back to that one.

Tom Skogman: Alright, thanks.

Operator: We will take our next question from Johan Eliason of Kepler Cheuvreux.
Please go ahead, your line is open.

Johan Eliason: Yeah. Hi again. Just to follow up, just about a year ago, you launched a profit improvement potential for the Kalmar business, and now there seems to be some delays, etc. Are you comfortable with the numbers you indicated, 60-100 million? And what proportion of that do you think you've already achieved in the way of getting there? Thanks.

Mika Vehviläinen: Yeah. And I remember that slide. I actually – we did an update on that one a while ago, so I can actually update on that, and that you – some of this were cost related, some of those were pending on the top-line improvements. So we have invested according to those targets into the automation and software business. Our software business is actually ramping up and hitting

the targets that we have set for our – we are actually ahead of the target in terms of that one, but it's still a small enough not to be that visible in there.

Automation business is obviously behind in terms of the order intake at the moment, due to the fact that it seems to be taking longer than we anticipated. We still strongly believe in the automation, and the fact that it will start to drive the revenues and profitability on that one.

The one that I'm most disappointed in at the moment in terms of the non-improvement, has been the traction in services, and [inaudible] the market has been a bit more unfavourable than we thought, and – but very much also, there, we have had – I think an execution issues in sort of making sure that the – within our local organisations, the service is getting the traction it requires, and we have done some [inaudible] into sort of organisational setup, and we are putting a strong project – product programme management organisation in place to track that now on a weekly basis. So we are taking corrective actions. So that's the one that I would say is behind the plan at the moment. I'm confident that we can correct that one.

In terms of efficiency targets, the production and layout plans are running according to the targets as well. So if I look at the targets we set for ourselves, and where we are in terms of the revenue, the biggest single sort of gap, in terms of performance and [inaudible] services has not increased as we were hoping – planning to do at the moment. And that's one we need to correct. Otherwise, I think we are pretty much going according to those plans.

Johan Eliason: So you would still be able to reach somewhere around 60 million improvement if it continues according to these expectations?

Mika Vehviläinen: Target. I don't see actually fundamentally, when I look at that target setting – what we set in there, all the pieces are still in place to make that happen.

Johan Eliason: Yeah. And then, I saw that on this [inaudible] alliances – the Ocean Alliance got the US approval last week. Do you think that will get your pipeline going now?

Mika Vehviläinen: Yeah, certainly. It's required. So basically, for them to be able to make the deals with the port operators, they need to have the approval for these alliances. So that's the first step on that one. And I would imagine, and I know for a fact that commercial discussions has been on-going as well, and if the approvals – that hopefully then leads to the deals done between the alliances and port authorities, with the deals happening, the clarity in terms of the volumes is actually, you know – generally, you sort of talk about deals as five-year deals or so, because obviously they need to be long enough to kind of enable the investments.

It's – commercial contracts done between the shipping lines and the port operator, that gives clarity for the port operators tend to be able to plan and execute the investments they've been planning. That's sort of the order that these things need to happen.

Johan Eliason: Yeah. So maybe no short-term improvement on that side, but hopefully, next year, or –

Mika Vehviläinen: We will see.

Johan Eliason: Yeah. Good. Excellent. Thank you.

Operator: Our next question comes from Pekka Spolander of OP Financial Group. Please go ahead. Your line is open.

Pekka Spolander: Hello, this is Pekka. I would like to ask about the Hiab margin, very strong margin again, and better than expected. And the nine-month margin is now 13.8. When we look at the history, the fourth quarter margin has seasonally been typically the strongest, but is that something we could expect also this year?

And then when looking forward, what is the underlying margin in Hiab? What is your feeling at the moment? Is it somewhere between 13 and 14, where we are at the moment?

Mika Vehviläinen: The – I will say that the current margin indication is probably a fairly good basis for the Q4 as well. And we said that the Q2 was exceptionally high due to the high delivery, and I think that the Q3 is probably kind of a good indication of the underlying performance.

Pekka Spolander: Okay. Thank you.

Operator: We will take our next question from Philip Salida of HSBC. Please go ahead. Your line is open.

Philip Salida: Yeah. On the 13 million verdict, could you just give an indication when the local jury could make a decision on that, and how high do you see the likelihood? And once the decision is made, would it mean it would also be booked in the – in the very same year, or could there be sort of a time, like in terms of P&L booking?

Mika Vehviläinen: Well, the 13 million is initial jury verdict that has not been confirmed. The [inaudible] actually confirmed. My latest understanding is that hasn't even happened yet. And if the – if the judge confirms the verdict, then we will appeal directly. Our own view on this one is that the likelihood of this coming to is quite small, and that's why we have said that we are not going to book that into our results at the moment.

I think it's – generally, you can ask that sort of – these kind of fairly complex commerce matters to be handled in local [inaudible] sort of – that very kind of – I would say good way to handle these issues.

Philip Salida: Okay, thank you.

Operator: We have no further questions in the queue.

Hanna-Maria Heikkinen: Okay, thank you for active participation. Summarising, still, the key messages: our operating profit margin improved, and we announced a new cost savings programme to safeguard the profitability in MacGregor.

Our financial statements review will be published on 8th February, looking forward to meet you then.