

**Company:** Cargotec Corporation  
**Conference Title:** Q1 2016 Interim Report Conference Call  
**Presenter:** Mika Vehviläinen, Eeva Sipilä, Paula Liimatta  
**Date:** Friday 29<sup>th</sup> April 2016

**Operator:** Good day and welcome to the Cargotec Corporation Q1 2016 Interim Report Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Paula Liimatta, please go ahead.

**Paula Liimatta:** Good morning ladies and gentlemen and welcome to Cargotec's January/March 2016 Interim Report Conference Call. My name is Paula Liimatta and I'm Head of Investor Relations. Today we have a small live audience here in Helsinki as well as people on the phone lines, we will start with the presentation by our CEO, Mika Vehviläinen and after that we have time for your questions. Let's start with the presentation, also I forgot to mention that our CFO, Eeva Sipilä will be presenting as well. Mika please?

**Mika Vehviläinen:** Thank you Paula, good morning from my behalf as well, ladies and gentlemen and thank you for joining the Q1 presentations. Let me start with the highlights for the quarter. The market situation in Kalmar and Hiab remained healthy but obviously their shipping market situation is very challenging at the moment, I will come back to the market situation in a moment. The order book remained strong, actually sequentially compared to the end of last year we had a slight increase in our order book but the orders were slightly down and this was really driven entirely by the order decline in MacGregor. In Kalmar the orders remain flat year-on-year and in Hiab saw a strong increase in orders. Sales declined 7%, this was really driven by two factors, first of all the market situation is driving down the revenue in MacGregor and secondly, as we had communicated earlier the timing of the deliveries in Kalmar was such that we saw some decline there as well year-on-year. The operating profit progressed according to our plans and increased by 12% to €58.5 million compared to the €52.3 million last year that was 7.1% off our revenue compared to 5.9% last year. I'm also very satisfied with the cash flow from our operations that were strong at €90.8 million compared to the €51.6 million last year. During the first quarter we also completed the acquisition of the Interschalt company in

Germany that is enhancing our strategy both in digitalisation and software business as well as the services core marine industry.

Now a few words about the market environment. The demand for container handling equipment and services as well as the interest for the automation solutions remained healthy. I am aware that there are certain concerns expressed around the container handling and port investment so I'd like to address that a little bit more in detail. If I look at our business and position first of all, we have a very strong foundational business in Kalmar. We have more than 50,000 units out there today but there is a replacement cycle somewhere between 5 – 8 years, obviously this gives us a very strong recurring revenue driven by the replacement business, especially in the mobile equipment business. On top of that we have a strong and profitable services business within the port. Those give us a strong foundation to build our other revenue. The container flows have slowed down from previous years and the estimate for the growth this year is 2.1%, still a growth nevertheless. However today the port investments are not driven by the growth in the container flows but by other factors. The two main factors are first of all changes in traffic patterns caused by the changes especially in Panama Channel as well as the previous changes in Suez Channel. The other more significant driver is the changes in ship sizes. We will see 53 new mega ships; roughly 20,000 container ships enter into market during 2016. This will drive necessary changes in the ports. The yard capacity in a port that is serving mega ships has to go up by roughly 30%. It's also good to remember that this of course then cascades down to ships that are serving the larger ports previously and now put on the secondary routes so essentially we will see the cascading and the need for capacity to be able to handle bigger ships going through the whole container port industry as well. We have spent quite a bit of time lately talking to our customers, understanding our own sales funnel and we have strong demand and actually one of them, a large container port operator just came out there recently stating publically that the current market situation actually drives for further investments not less investments. In the longer run we still see interest in automation picking up and it's very clear that at the epicentre of requirements for the port, the need for automation and the business case is very lucrative. The sales cycles though in automation are long and we are not, for example, expecting any automation orders during the first half of 2016. The market for load handling equipment was strong in US and Europe this is a slight positive development as well. The story is somewhat different obviously in the marine cargo handling equipment as well as in

offshore where the markets have significantly declined in terms of the new ship orders. The bright spots in the marine business today is RoRo and special vessels where we actually have seen a strong demand continuing.

Let's look at the key figures shortly. I said orders somewhat down, really driven entirely by the MacGregor and then order book sequentially slightly up but down year-on-year, sales slightly down, operating profit up. The cash flow from operations was close to €91 million, this obviously helped them and bring their net debt and the gearing down and it's interesting to note that despite the Interschalt acquisition and the related cash expenditure on that one, we were still able to bring down our net debt gearing during the Q1, really driven by the strong operational cash flow. The earnings per share increased by 9% on a year-on-year basis. With that one I'd like to hand over to Eeva Sipilä, our CFO to cover the business areas more in detail.

Eeva Sipilä: Thank you Mika, good morning for everyone on my behalf as well. Starting with the Kalmar numbers, so we're very pleased with the order intake at 454 million for the quarter. Comparing year-over-year this is a good achievement considering that there were no big projects versus last year in the same quarter. We had a relatively big order, a repeat order from London Gateway. Sales were down 7%, this is in line with what we guided on three months ago, that due to the timing of deliveries in our order book, sales in the first quarter would be down year-over-year. Thanks to the order book strengthening 11% and as I said the good order intake both actually increased our confidence that Kalmar for the full year 2016 will grow. Profitability slightly down at 7% due mainly really to the volume questions, so in that sense we are also satisfied with that level.

Moving onto Hiab, the order intake grew very nicely, 8% and here it's good to note that actually applies to the whole of Cargotec but really saw that there were no currency gains in the numbers either on orders or sales so these are very like to like comparable numbers. Very happy with the sales growth of 16% and obviously strong volume support operational leverage then led to a very high record so far operating profit margin of 13.2%. It was certainly supported by very good mix and also fair to note a word of caution, as you may remember from our capital markets statement and what we also discussed three months ago we are investing in growth in both Hiab and Kalmar in digitalisation and further R&D product development. In Hiab

specifically those investments were not very significant in the first quarter so you can expect some of the margin improvement to be in the coming quarters effected by higher fixed cost. Considering where the market is we do think that the pay-back on the investments made on the growth in Hiab will be earnings enhancing.

Moving on to MacGregor, obviously a difficult market, very well illustrated by the fact that orders were down 20/24% and similarly also sales significantly down. Here the highlight is definitely the margin which I think illustrates well that the restructure measures undertaken in 2015 have protected us against the volume drop. As you may remember from our capital markets day message, we were aiming for a 27 million decrease in costs, in the first quarter we were running at 10 million lower costs and so well in line with the full year target. As you can imagine the comparisons then become a bit tougher towards the end of the year, so we need to be a bit ahead in the first quarter. So good success in containing the market situation.

Moving on to cash flow still our CEO already mentioned this but obviously the highlight of the quarter and shows the very strong operational performance in all the business areas, specifically driven by accounts receivable where we've put a lot of effort on better processes and collection and that is bearing fruit.

Looking at the pie charts, if we start with the left hand side, the sales by reporting segment. Kalmar exactly the same, our biggest business area with 44% of sales but it's worth noting that Hiab and MacGregor have basically changed places, so Hiab is clearly now the second biggest business area. Again this was something we have been discussing with many of you already last year. Looking at the geographical segment the further improvement in Americas is coming through quite well on the Group level. If I take one slide more obviously in Kalmar and Hiab specifically that is where the Americas share is the highest and further growth in both of them.

With that I think we're ready to move back to Mika.

Mika Vehviläinen: Thank you Eeva. Our return on capital employed which is one of the key long term targets for us at 15% is progressing nicely towards the right direction, was at 10.8% level during the Q1 '16. A few words about our strategy that we actually communicated in

connection of the capital market days in London end of last year. The execution of the strategy is actually progressing well in all three key must-win battle areas, services, digitalisation and leadership. In services we have launched in the earlier part of the year a number of new products, for example, the Procure maintenance contract concept for Hiab. We have driven improvements in our spare part logistics and availability and that will enhance obviously our margins and drive sales but it will also reduce our networking capital at the same time. We are hiring more resources in our services, we are enhancing our services sales capabilities and hiring more execution capabilities in our services and that's visible in our headcount numbers especially in Kalmar and in Hiab. We have done a number of pricing adjustments both for the hourly charges as well as spare parts, further enhancing our margins in services. Overall very happy with the execution and progress we are making in services at the moment. Obviously the Interschalt acquisition is enhancing our services capabilities for marine industry as a part of the MacGregor and then our softer capabilities as a part of Kalmar in offering a strong market leadership in on-board loading computing and stowage planning systems.

In digitalisation we have obviously enhanced and strengthened our leadership and capabilities in that one both in the leadership of the cargo deck as well as in our Board of Directors. We have opened up a new ILT cloud, analytical platform for all of our businesses. We increased our R&D by 17% year-on-year during the Q1 enhancing further our product offering as well as our digitalisation capabilities. During the Q1 we also organised a cargo hack which was a very popular timely focus in Kalmar and new applications and capabilities into the container terminals. There were a lot more developers actually willing to join that we were able to handle during the cargo hack. During the Q1 we also launched the high vision product concept which is a virtually operated Forester crane for Hiab really I would say stealing the show in Kalmar in the construction equipment and we have had more than 1 million hits in internet for that product which is pretty good for an obscure product like a Forester crane, at the moment.

In leadership we have started the new leadership development, a fact based leadership development programme that is enhancing our leadership capabilities and driving for more common performance based culture within that cargo deck. Last, our outlook for 2016 remains unchanged. We have said that our sales are roughly at the level or slightly below our last year

level and our operating profit is expected to increase from 2015. With that one, thank you and I hand over back to Paula.

Paula Liimatta: Thank you everyone, Mika, now we are ready to take your questions. We start with the questions from the live audience here in Helsinki and then move over to the conference call participants.

Manu Rimpelä: Good morning it's Manu Rimpelä from Nordea Markets. Could you just give us some more understanding of how do you see the investment step ups and the R&D increase that we're seeing and I mean obviously here as you mentioned a very standard margin and that should come down as these investments step up, so just trying to understand what level that is. I mean R&D for instance was up 3 million compared to the previous year so is that some sort of a guide or?

Mika Vehviläinen: ...the higher margin, it was an exceptionally good quarter, so I think we will certainly improve on last year but I would have sort of count to see that same similar levels in the coming quarters. This Australia product as I was saying, good mix, high revenue and then the fact that we have not been able to ramp up all of our resources both in R&D services and sales and marketing quite at the pace we were expecting and hence the fixed and indirect costs were not quite at the level that we were expecting and that partly explains the margin improvement. And Eeva?

Eeva Sipilä: Maybe to add on that we haven't per se changed the message from the capital markets where we talked about R&D on a group level increasing by some 10 million plus for the year and then we also discussed the other sort of digitalisation and tool systems related investments where I believe we discussed the sort of '15 median range roughly, so it is very much still sort of valid, the same message.

Manu Rimpelä: Okay and then second question on the market share, so clearly stepping up the investments in here and have you already seen that you are starting to take market share and also in Kalmar I understand that your ordering day was better than at least some of the

competitors we are seeing and could you just talk about how you're seeing the competitor dynamics and are you starting to see a change?

Mika Vehviläinen: It's a good question and some of the markets are a little bit difficult to comprehend as there are not a very good sort of statistics or analysis available but if I look at our performance in Hiab and especially growth in Europe, I don't think the market, we're not at least expecting the market to grow at that rate and I don't think it did, so very clearly we took market share I think, at least in Europe on Hiab's case. US markets remain quite strong and that was reflected in our numbers but then again compared to the increases on our competitors' revenues we were clearly growing faster than the competition, so I think there was an element of market share. One needs to remember that Hiab has actually lost market share in the last 3 or 4 years and during the 2013 or '14 and '15, they were very focused on improving their operations and bottom line, and as we communicated now with the stronger sort of platform, we were able to enhance our operations and go for growth and part of that growth is clearly coming from the market share capture as well. In Kalmar's case if you look at some of the competitors' announcement one needs to remember that this is quite lumpy business and many of our competitors are more on the sort of heavy crane side where the business is even more lumpy whereas our primary part of our revenue in Kalmar is coming from the large mobile equipment base and revenue as well as services import that gives us a sort of steady foundation and then you will see larger projects, a larger crane project and automation becoming on top of that one. We still see actually very strong pipeline in the markets and in our sales final and that's also based in the close discussions with our customers.

Manu Rimpelä: Okay and just a final question on the services quota can you, I think the order in there was really stable in the quarter and that's really been a focus area for you, so are you starting to see those efforts bearing fruit already or is it still too early and you would expect that growth to step up?

Mika Vehviläinen: Yeah the Q1 was a little bit of an issue because January was quite slow especially MacGregor. I think it was obvious that the customers had a sort of spending holiday during the Q1 or during January as well so the February and March revenue numbers in services were actually according to our targets but they didn't quite hit the target, during the Q1

effectively lost sort of part of the first month in those ones but we see actually now that orders and revenues tracking in the last two months pretty much according to our targets.

Question: First question about the MacGregor, could you say that the bottom is close to us or how would you describe the business cycle at the moment?

Mika Vehviläinen: And that's a good question actually, that didn't yet come back to solve. There I think we need to sort of be more cautious than we've probably been in the past, so we were still saying I think in the capital market day that we expect the '17 revenue to be level after '16. Now if you look at the current market situation, ship orders and our own orders effectively for the Q1 as well I think the bottom will be now reached as the market looks at 2017 so we actually expect our revenue still to go further down from '16 to '17 and '17 likely to be the bottom now in the merchant side. Off shore of course is a little bit more tricky depending on the oil prices but there are a number of drivers aside of the oil price itself in terms of the future production output etcetera that would actually kind of encourage further investments to start to come back in at offshore side as well, so the way that things look at the moment we will be bottoming out in terms of revenue in '17. Our strategy very much is in MacGregor's is to contain the situation and remain to be profitable roughly at the level they were in Q1. The benefit of course of this type of business is that we have an exceptionally good visibility of the business and we are able to steer our cost levels and investments based on the sort of revenue outlook on the coming months.

Question: Does that mean that you are planning some further restructuring actions in MacGregor?

Mika Vehviläinen: We are taking actions as necessary, we actually did some restructuring a week or two weeks ago in Norway further cutting the resources in the offshore side as well, so we are adjusting our business according to the business requirements. The good thing here is that the visibility is so good that it gives you ample time to sort of react in the situation.

Question: I will continue the service question also in MacGregor, the service has gone down from last year. I think that quite a many of us has expected that the service growth should support



the margin and support the margin development in '16 and also '17. Could you comment a little bit more about the service situation especially in MacGregor?

Mika Vehviläinen: I actually already partly sort of covered that one, January was a very weak month in the MacGregor services, there was some sort of spending holiday. In February/March we actually tracked according to our targets and then the services actually increased compared to the last year. Obviously there is a concern with the financial situation, many of shipping lines are today, they are trying to save on everything including the maintenance, there are a couple of things that drive against that one. First of all, the Interschalt base is increasing, the large shipping boom that happened in 2007 and '08 and '09 is actually now becoming to the first sort of obligatory maintenance period so the sort of Interschalt base and market is actually increasing against that one. Secondly at least the customers who have the capability and sophistication clearly have actually looked back at the last sort of slump in the shipping area and found out that the savings in the maintenance in short term actually leads to the higher maintenance costs over the period of time because if you start to sweep the assets too much then obviously your sort of equipment wear and tear will go up and that will cause actually further maintenance spending in the longer run and maybe one more additional fact is that when the ship orders actually have dried out as much, they have at the moment you need to start to sweep the assets of your current lead and that actually increases your maintenance requirements as well.

Question: And the final question at MacGregor could you talk about the delays or possible delays or have you seen any cancellations or cancellation risks?

Mika Vehviläinen: We saw one cancellation in offshore side, 8 or 9 million if I remember correctly and that actually happened during the Q1. There are some delays but nothing exceptional at this stage either in offshore or on the merchant side.

Question: Thank you.

Paula Liimatta: Thank you, now we are ready to take the questions from the conference call participants. Operator please?

Operator: Thank you. If you would like to ask a question, please signal by pressing \*1 on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press \*1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal.

Thank you we'll take our first question today from Ante Suttelin from Danske Bank, please go ahead.

Ante Suttelin: I have a few questions starting with MacGregor, would you say that the contraction in ship ordering is now fully visible in MacGregor order intake in Q1 or would you expect a further hit to come towards later quarters of the year?

Mika Vehviläinen: I would say that that starts to be visible in Q1 in terms of, if you look at the level of orders it's particularly low in MacGregor probably kind of them starting to be the bottoming out of the order intake.

Ante Suttelin: So there is no lag anymore, ship ordering is instantly becoming visible in MacGregor order intake nowadays?

Mika Vehviläinen: Well the ship ordering as we know has sort of slowed down considerably already during the Q4 last year as well.

Ante Suttelin: But there was another notable hit down in Q1 versus Q4?

Mika Vehviläinen: Certainly in the number of ships it was the multi ship orders that affected I think pretty close to the zero then again the orders for the sort of the container ships were still relatively strong at the moment and obviously the ship, the value of our solutions and equipment by the ship type changes quite a lot so if you look purely at the number of ships one would draw the conclusion but the mix from the order value point of view is more favourable for us.

Ante Suttelin: Alright understand. Then if we look the book to bill ratio in MacGregor I think it was about 80% in Q1, that number indicates that the sales levels would still go down in MacGregor, now I wondered what that means for EBID because if I understand correctly you had all cost cutting visible in Q1?

Mika Vehviläinen: That's right, I think as I just mentioned we still expect the revenue to actually go down from '16 to '17 and we then actually may adjust our cost level according to that of requirements, that might then require further restructuring if still needed. One thing to note that obviously we are actually tackling the situation in MacGregor from the two different angles, the one is the cost level and so obviously we have taken about 10 million out in that Q1 compared to last year, the other important factor here is the gross margin. So the gross margin actually first time for quite a while was up in MacGregor and that's driven by the efforts we started a while ago in terms of beside the cost, the project execution and sourcing and also the mix is turning more favourable for us, away from the bulk ships and cranes that we are heavy price competition towards container ships and then RoRo services of course that also helps the gross margin, so really what we are trying to do to manage the profitability of MacGregor is efforts both targets are for the gross margin as well as for the costs.

Ante Suttelin: Alright, alright. Good and then you know on these certain concerns on container handling situation, I think you said at the AGM that order intake would improve year over year for Kalmar in Q1, now it ended flat year over year, I wonder if there was something special that happened in March?

Mika Vehviläinen: Not really, we didn't plan any larger orders in March compared to last year and that was really the difference. The base business was doing very strongly but there were not sort of any larger crane orders, automation orders that would have helped us. I was saying we had a very large sort of repeat order for London Gateway on the Q1 last year and this time in March they didn't land anything, so I look at the sort of the pipeline at the moment and what we're having in there as first order book, still very positive about the market and Kalmar performance in there.

Ante Suttelin: Alright, so you were expecting some larger orders to land in March but they didn't yet land in March, is that the correct way to say?

Mika Vehviläinen: Any orders, there are always issues of sort of the timing of those ones and nothing atypical on that one.

Ante Suttelin: Okay, okay and then finally on Hiab could you just quantify, just that we understand, if you had a normal mix and if you had these R&D cost step up already visible in Q1, how much would that have eaten up margin compared to what we saw in Q1?

Mika Vehviläinen: I think if you look at Hiab you probably get fairly close if you take the sort of the ceiling to be the operating profit percentage in Q1 and the bottom would be the last year's performance or we will land somewhere within those two numbers in 2016.

Ante Suttelin: Okay, that's clear. Thank you very much for your answers.

Mika Vehviläinen: Thank you.

Operator: Thank you, we now have a question from Paul de Thierry from Kepler, please go ahead.

Paul de Thierry: Yeah, good morning, firstly congratulations on what looks like a very good set of numbers and also congratulations on the fruits of your efforts in restructuring over the last few years which seem to have come through very well. Can I just – a few questions if I may – firstly, on this Interschalt acquisition and especially, I'm looking at the potential of the Interschalt acquisition on Kalmar, how much of a driver do you think that's going to be when we're talking about these extremely large container ships now arriving in port and the ability to get the containers off in a sensible and methodical manner to ensure that they then leave the ports for their external destinations, is this a very important acquisition for you?

Mika Vehviläinen: It's a very exciting acquisition from our point of view, so there are some direct and then there's indirect benefits on that. If I look at the direct first of all, the Interschalt acquisition gives us a market leadership specifically in two soft areas, it's the stowage planning

systems where we have more than 60% global market share after the acquisition there so this is a system that actually enables the container ships to do a more efficient planning of the stowing using softer and then it's a lowering computer that actually enables the ships rather than doing the manual calculations to actually do a very fast sort of loading planning there and very effectively to give you a sort of picture, out of the 14 largest ocean carriers we are supplying the system to 13 of them at the moment, so there is obviously revenue streams and I think we have an opportunity to enhance that revenue stream and going forward it's not a significant revenue stream, it's clearly below the nearest business today but there are opportunities to enhance that one, perhaps more importantly there certainly is an opportunity to actually build around the services and eco system on that one, so what we have now accomplished through the Interschalt acquisition is that we have a clear market leader both in actual container terminals in terms of the operating system from Navis and then we have now the leadership also, the on-board computing systems and software as well, we introduced it I think we discussed this shortly in the connection of the capital market day, the cloud based carrier services called Xvela that actually enables the shipping lines as well as the carriers to share information and make the whole container flow more effective. This product is now on trial pace at many of the leading ports and carriers and we expect to actually run that service, that will be a subscription on sort of cloud based services where we offer the software as a service for our customers.

Paul de Thierry: Okay, thank you. Sorry I've had to turn my speaker on so I can read my notes, can you still hear me?

Mika Vehviläinen: Yes, I can.

Paul de Thierry: Okay great, just looking concentrating on Kalmar again, you mentioned at the CMD that you thought that Kalmar was at the beginning of a multi-year sort of structural growth cycle driven by, obviously in the face of falling global container volumes the need for port authorities to reduce costs and one of the big problems I understand from reading the papers is the cost of employees, especially in the US. How do you think it's going to pan out because obviously automation seems to be extremely compelling from a cost reduction point of view? What's the pay-back period of a port deciding to automate?

Mika Vehviläinen: First of all just remind you about the content and volumes are not falling but the growth is slowing down so the expectation is still over 2% growth this year but as we discussed, growth drivers actually are now elsewhere, the larger ships, also the consolidations that are now happening rapidly in the ocean liner industry actually means that there will be winners and losers in the port side of the traffic is going to be pushed more between the different ports, this will actually require the winners to sort of be investing further, it actually requires tools to enhance their operations as well and that probably requires investments. The traffic patterns Panama/Suez scheme certainly driving investments especially in the Americas in the coming years and the new traffic patterns are becoming more clear and then the automation as you pointed out, the finer benefits are very clear, typically in the western world the labour costs are at least 40% of your operational cost. Now with the automation you should be able to take out at least half of that cost so it's very significant cost saving and doing our own analysis as well as discussing this with our customers, the pay-back is actually within a few years, so for industrial investment it's a very attractive thing. Why this hasn't picked up faster I think it's a fairly conservative industry, the sales cycles and planning is taking it's time and obviously this is a very risky investment from a customer's point of view because if you plan the port to be an automated port there is no plan B, the automation technology needs to work, you can't sort of replace the technology anymore with the manual work, there are only few ports today that are actually operating fully automatically today and those references that they are now coming into commercial use will be very important to sort of convince the customers that this is the way to go but we see the continuing interest increasing and there we mention in capital market day that there are more than 70 operators or ports that are today actually in some phase of planning for automation and if anything that number has gone up but the sales cycle fell long and as I said we don't expect to land any automation orders and not many significant orders during 2016 yet?

Paul de Thierry: What's your market share in port automation globally and who is your nearest competitor?

Mika Vehviläinen: It's a typical sort of emerging technology where I am sure you will hear many different claims in terms of the market share, it's very difficult to point it out, I would say that what really matters here is the references, I'll be clear here I've heard of any of the competitors

in terms of number of references being very high profile ports. The Los Angeles trade back automation, London Gateway, I would say that you will probably see a situation where markets become to a tipping point and if any market is close to that one I would name Australia as well at the moment, they are now automated if I remember correctly, three ports in Australia, actually four ports, Paula is pointing up to me, four ports and I think we start to see a situation where the rest of the operators are actually forced to contemplate that you can remain competitive without an automation as well and I think that will start to spread out in the same way as the container station changed that sort of the seafaring and actually redraw the maps of the ports, the automation, redraw the maps of the container ports, if you don't join in the automation and the efficiencies it will bring to you.

Paul de Thierry: Okay, perfect, sorry couple of more questions. Hiab, what's driving Hiab in the United States, is it the construction sector that's the main driver of purchase here?

Mika Vehviläinen: Yeah, it's primarily construction sector, I know there has been conscious related slowdown of the track registration if you look in detail the track registration obviously the slowdown has been most pronounced in the heavy segment where the loading equipment is not used. It's the construction sector and there I would say even more the residential sector is typically sort of for unique track bolted fork lifts and loader trains for sort of dry walling roof tiles etcetera and that market outlook of course remains quite strong at the moment.

Paul de Thierry: Okay and very briefly, two more questions, number one on your conglomerate, you've got three divisions that don't have huge synergies between them, any thoughts of divesting one of them, maybe Hiab because you know it could be a good fit with another operator maybe like Power Finger and secondly on your new CFO, obviously good luck to your outgoing CFO, but why did you choose the new CFO, what did you like about this person?

Mika Vehviläinen: Okay if I start with the kind of the portfolio, actually, yes we had three businesses but in a way if you look what the portfolio really is there are about 15 different segments that are actually fairly sort of independent in terms of their supply chain and distribution customers etcetera, that's the portfolio we are looking at, as we said in connection to capital market data certainly are certain areas that we are not necessarily holding onto either

because they are not aligned with our overall strategy towards becoming the leader in intelligent cargo handling or we don't see the possibilities to drive the performance in terms of profitability up to the level we are aiming as a Group. The way I look at that one actually at the moment is if you look at the segments we operate in, those 15 segments, they are usually global segments, they are quite small segments, we tend to be clear market leader or at least strong number two in all of those segments and the key to success for us is to leverage the capabilities of 3.7 billion company for businesses that are sort of few hundred million, so hundred millions in size and most of the competition we are facing actually in these segments tend to be quite smaller companies, not particularly sophisticated operators if I may say so and really leverage in the capabilities in terms of business platforms, systems and then the technological capabilities through the digitalisation of services development gives us a clear competitive advantage and drives for sort of a further distancing us from our competition in terms of performance.

Paul de Thierry: Great, and the CFO?

Mika Vehviläinen: Oh CFO, sorry, yes. I wasn't trying to avoid the question. We were looking for, I think we still have opportunities to drive more efficiency and effectiveness in our financial platforms. Be clear, we've done a very good job so far, we have now the SAP. SAP systems covering very large part of our revenues, many of the other business systems are in place and I was looking for somebody who has had the experience and track record actually driving sort of new type of business platforms and financial platforms that enable us to be more effective but also driving further efficiency and cost savings coming through the utilisation of those platforms.

Paul de Thierry: Okay thank you and congratulations once again, you have some very happy shareholders this morning.

Mika Vehviläinen: Thank you very much Paul.

Operator: Thank you. As a reminder if you wish to ask a question please press \*1. We'll now take a question from Johan Eliasson from Kepler Cheuvreux, please go ahead. Johan Alyson your line is open. I'm sorry we are unable to hear you at this time. Johan Alyson we're unable to hear



you, can you increase the volume on your telephone? Okay we'll now move to our next question from Tomi Railo from SEG.

Tomi Railo: Yes, good morning, I hope you can hear me better than the previous. Couple of questions if I can ask still on the MacGregor, if you can give the savings update and if you are still guiding or expecting the 27 million savings to be raised for the full year?

Mika Vehviläinen: Yeah MacGregor the savings in terms of Q1 we are about 10 billion, 10 million below the Q1 2015, that is a combination of reductions in fixed cost, that's less the reductions in indirect cost so we are obviously well on the way now there is a 27 million SA level already pointing out obviously the gap between the spending last year and this year is narrowing around as we are heading to last end of the year, very comfortable with that 27 million at the moment.

Tomi Railo: Okay and I think you have also been talking about this margin improvement in MacGregor as well as the profit improvement then I think the margin was slightly down in the first quarter but you are expecting a sort of pick up in the margin in the rest of the quarters?

Mika Vehviläinen: Yes, sorry I might have been unclear, I was talking about gross margin in that sense so the gross margin in MacGregor picked up from the last year actually. One of the challenges in MacGregor has been that the gross margin has been under pressure for two years now coming down from the higher points and we've been working now very hard on the initiatives we started already in 2014 in terms of driving for better margin, that's really coming from many efforts, the project execution enhancement, the design to cost efforts we are doing also in MacGregor and then obviously with a change in mix as well and that helps us to drive the shoulder. If you look at how we are able to roughly maintain the proportional EBID despite the fact that our revenue declined by 25% it was really a combination of the savings in cost but also improvement in gross margin and we will be leveraging those tools further when we go forward.

Tomi Railo: Okay and still to make sure you repeat the guidance for all the divisions to improve profits including Kalmar and MacGregor this year?

Mika Vehviläinen: Yeah what we actually have said in terms of guidance is that as a Group we will be improving profit, obviously the improvement comes primarily from the Kalmar and Hiab and we sort of aim to keep the proportion of EBID roughly at the level we are now at in MacGregor, obviously that in terms of the absolute profit is going to be at the best if I remember correctly at the level of last year's EBID, absolute EBID. Eeva?

Eeva Sipilä: ...because of the way in the fourth quarter in 2015 so the comparison is not a very demanding 2.6% EBID margin so in that sense with the 4.2 we are now at in the first quarter we're well in line with that as well.

Tomi Railo: And finally Eeva mentioned about the currency in the first quarter but just to make sure that there was no material impact or any impact in the first quarter profits from the currency?

Mika Vehviläinen: Yeah, there was no material impact, slight negative impact if you want to be kept very particular.

Tomi Railo: Okay, thank you.

Mika Vehviläinen: Thank you.

Operator: Thank you, we have a question now from Tom Skogman from Handelsbanken, please go ahead.

Tom Skogman: Yes, hello and I got a couple of questions on Hiab. First of all, I would like to understand what do you think about the cycles here, now Americas is 44% of sales and historic has been around one third and in some construction equipment areas we start to see that despite the good construction activity continuing demand for some construction equipment started to go down just before replacement cycles in the US. How do you see this playing out in the US in Hiab and where do you see that we are in the cycle in Europe given that the construction environment is improving there?

Mika Vehviläinen: US I think the outlook at the moment and one needs to be of course somewhat careful with this one, the visibility in here be shorter than it is in the two other businesses but at the moment we see actually still a strong demand for our products also in US. Europe I think is encouraging at the moment, as you said yourself the construction activity is picking up in many of the locations and especially of course the southern Europe, it starts at the very low base is looking quite promising and in that sense if you look at the order intake in Europe and the revenue for Q1, that looks pretty encouraging at the moment.

Tom Skogman: Yeah I mean it's very hard to understand where we are in the replacement cycle in Europe in higher, I guess we have a great impact on the low fuel price for this independent truckers that buy your product and they are very eager to renew equipment that is old and now when we have a better construction outlook also, I mean it is very, to be optimistic but on the other hand you know we have already had some good time, it is very hard to understand but then...

Mika Vehviläinen: If I may that's a great question in the end the difficulty in that one also it's that the market is so spotty, I mean talking about Europe at the moment as a whole is quite difficult. Clearly if you look at the markets where the construction activity has been now very favourable like in UK, you have actually had a real kick in terms of replacement market. the track registrations increased significantly in UK last year and now the revenues actually in Europe have come up quite significantly as well, then you have other places like SARS where the market south in Europe which is still to be able to pick up so talking about Europe as a whole is somewhat demanding but I would say that we haven't seen the full impact of an opportunity the replacement cycle in Europe yet.

Tom Skogman: Okay and then in China, what's happening with your joint venture in China for Hiab and what are your plans there at the moment?

Mika Vehviläinen: We had a sort of a number of issues there that we need sorted out in terms of the actual operational mould and some of the products roadmaps that sit there. We have done those changes during the 2015 now that we changed the product ownership in the joint venture in terms of stiff boom from our own operations in Shanghai, we have the first products launched

actually as we speak at the moment and we are now starting to sort of track revenue from that. Obviously the revenue so far has been not very significant but we are now comfortable with the setup we have in China, we believe that we have the right sort of operational mould together with our joint venture partner as well as the right products coming out now.

Tom Skogman: Alright and then finally on Kalmar how big part of orders in Q1 are these mobile equipment?

Mika Vehviläinen: I am not sure Eeva if you are able to answer on that one?

Eeva Sipilä: Well we haven't really commented on a quarter by quarter but roughly you may remember that from the sort of 1.5/1.6 billion annual sales revenue in Kalmar mobile equipment is sort of half a billion plus level.

Mika Vehviläinen: Okay, but we didn't track any larger sort of crane orders in Q1 so proposal probably be very higher than that one in mobile equipment in Q1.

Tom Skogman: Alright and then finally on FX I understand what you have said that there is no impact but I cannot understand that given your, I mean you have hedges and the dollar rates that you're selling in Hiab must be much more favourable than one year ago with your hedges in place there, I don't understand your comment that there is no impact from FX there?

Eeva Sipilä: Well on the sales cycle in Hiab is around 4 – 6 months so actually if you look at the Euro/dollar rate in the first quarter and you go for 6 months back it is actually for the surprisingly well along the further 1.1 level, so that is a pure reflection of really the sort of currency rates.

Mika Vehviläinen: And it's good to remind ourselves again that roughly half of the revenue in Hiab in US is actually coming from the local content as well, the other half is the currency would have impacted if it would have.

Tom Skogman: Alright thank you.

Operator: Thank you, we now have a follow up question from Paul de Thierry from Kepler, please go ahead.

Paul de Thierry: Yeah, hello sorry, two more questions, number one on Kalmar. With the arrival of these super container ships, what's happening to the current stock of container ships, the large ones but the slightly smaller ones, are they increasingly now being moved onto the north/south routes. I gather most that super container ships are going to be on the Asia Europe route. What are we seeing now on the north south route and is there any need for further port investment to upgrade, say, in South America or Africa to these larger ships?

Mika Vehviläinen: That's an excellent point and I'm absolutely, I mean what did happen is that the primary routes that are now served by those ships are now taken over by the larger container ships and as I said that actually drives quite a bit of investments because the impact for the yard capacities actually needs to go up by 30%, it's the peak capacity that actually drives the investment requirements and the peak capacities are going to go significantly up. Now we will see the same phenomenon happening in the other ports now where the ships that you used to serve these ones are moving to the so-called secondary routes, north to south being one of them as well, so the investment requirements to handle the larger ship sizes is actually coming through the whole chain of ports. Obviously the situation is not particularly very healthy at the moment so if you look at the growth in container capacity which is as I said, is slightly above two at the moment, the capacity increase coming through with these larger container ships is a little over 4 – 5% range at the moment, so we clearly are starting to see the sort of overcapacity situation happening in the container ships as well.

Paul de Thierry: Okay, thank you and I saw a Bloomberg article on Monday which talked about the US and a lot of laws being passed now regarding emissions and strict emission standards and they want to go to zero emission, say, in California. Is that an area that you're involved in?

Mika Vehviläinen: Absolutely, I mean that's part of the key competitive advantages we have at the moment is that in terms of the electrification and hydrolisation of our products we clearly lead the market at the moment so we have introduced sort of hybrid technology to our mobile equipment that gives you 30-40% savings in emissions and then for many of our products except

for our shuttles we have introduced a sort of fast charge concept that enables us to charge the equipment and run our electricity during the operation, so I mean these kind of development I see very favourably is playing to our hands at the moment and again, we are in a lucky situation that whereas we have financially been able to outperform our competition in inter port equipment market, that has also enabled us to drive further investment. I was already talking about a further 17% increase in our R&D at the moment, so again in terms of technology enhancements both in automation, digitalisation, electrification etcetera it is enabling us to have a strong technology leadership here as well.

Paul de Thierry: Okay and sorry, just very briefly two more, on MacGregor what's your market share in the fit out of these new super container ships, do you do quite a lot of them or not?

Mika Vehviläinen: We do but the scope change varies quite a lot. In some cases, we are responsible for a wide sort of scope of the product I think that includes the actual planning of the storage systems and then delivery of the total equipment and then our value can be sort of close to 10 million per ship. In some cases, the ship owners are taking more sort of, larger role in terms of actually planning and then we can sort of end up being almost a component or a supplier with new inter lashing systems etcetera, in that case the value drops to a few million euros on ship but we have a strong, overall our market sharing in container lashing systems globally is in the neighbourhood of above 40%.

Paul de Thierry: And in terms of your flexibility at MacGregor, in terms of you know in the face of weakness, can you just remind us what percentage of your engineering is outsourced?

Mika Vehviläinen: Our engineering what we said in connection of the capital market day is about one third of our engineering was outsourced. Obviously now that we are driving for savings and activities declining that part of the engineering is obviously declining and we are also in some cases have done cuts to our own engineering capabilities as well, especially in the offshore area.

Paul de Thierry: Okay and just so I understand my Hiab question, is there a need for any consolidation do you think within the sector players in Hiab forklift truck, you know, sort of cranes or do you think the market's pretty stable.

Mika Vehviläinen: From our point the market is pretty stable and our market share in many of the segments we operate are so high if I take track mounted forklifts, I think our market share is 66%, our market share in mobile equipment is over 40% and consolidated with that market share, that kind of market shares I think from the competitive authority point of view is going to be problematic and also I'm not entirely sure that that will give us the synergies that will be beneficial enough for us. I think the markets obviously are getting tighter in some places there is also a sort of element of natural consolidation with the weakening of the competition.

Paul de Thierry: Okay thanks and then finally for the CSO, your net debt EBIDA, what's it at the moment and what's the target?

Eeva Sipilä: Well we've had the target to be around 2 and this is the target already discussed a few years ago when we were doing the bond emission and following the acquisitions we obviously have reached our target and are quite comfortable now. Obviously we continue to work on the cash flow and hence in that sense and EBIDA improvement so there is some room for it to come further down then at the same time we hopefully find good acquisition candidates such as Interschalt also as usage of the cash.

Paul de Thierry: No, no increased pay outs to shareholders?

Mika Vehviläinen: Well the Board hasn't made any decision in terms of recommendation for the dividend for next year, we have to come back to that one.

Eeva Sipilä: The dividend policy has been the same throughout the sort of Cargotec time.

Paul de Thierry: Okay thank you very much.

Paula Liimatta: Thank you everyone for very good questions today. If there are no further ones I would like to thank you for your attention today and wish everyone a good weekend. Thank you.