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Hanna-Maria Heikkinen: Good morning ladies and gentlemen, welcome to Cargotec's Q3 2017 results briefing. My name is Hanna-Maria Heikkinen, and I'm in charge of investor relations. In Q3, our orders received increased in Hiab, MacGregor and services but our net sales were below our own expectations. Today our CEO Mika Vehviläinen will first go through group level development and then our CFO Mikko Puolakka will continue with business areas, financials and our outlook. Please Mika.

Mika Vehviläinen: Thank you Hanna-Maria, good morning from my behalf as well. As Hanna-Maria already said that the orders actually developed pretty much according to our expectations and I was quite pleased with the MacGregor further development in order intake. It's good to note that this was actually the first time we had a positive book to bill in MacGregor for a number of years. This was also our first time for quite a long time that we actually have seen growth year to year in MacGregor order intake and also this is the third quarter in sequence that we actually see orders developing favourably in MacGregor. In service, orders grew 6% and especially in Kalmar, the service development was very favourable and obviously as we expected the Kalmar orders decreased about 10% really almost solely driven by the weak project orders. This is actually the lowest order intake and delivery I have seen in our project business since I took over in the – about four years ago.

The disappointment for us obviously was in the revenue side where we were expecting higher sales. If I look at that quickly, and Mikko will go through this a bit more in detail, in MacGregor this was really a question of timing of the deliveries. We actually now expect that we have seen the lowest quarter revenues also in MacGregor. We see the bottom in order intake, at the end of last year we have been now growing in orders in three quarters consequently. We now actually

believe that looking at our estimates that we have now seen the bottom in revenues and expect they will sort of start to recover from here although the market demand still remains relatively low.

In Hiab, we suffered from some of the supply chain issues, very clearly the very good development especially in Europe around adjacent industries, truck industries, construction equipment etc. is causing bottle necks for some of our component key suppliers and our lead times are actually going up quite a bit in Hiab.

In Kalmar, the low revenue was really sort of a factor of three things: it was the timing of the project deliveries, as I said already, exceptionally low on quarter three; we suffered from same supply chain issues as we did in Hiab in terms of some of the component availability; and thirdly, with heading towards the conclusion of the factory closure in Sweden and moving of the production from Lidhult to Poland is also causing some of the issues in terms of our delivery capabilities and lead times at the moment.

Overall, still very pleased with the good development in Hiab and especially Europe is actually showing good strength at the moment. The service and software sales is now 33% of our revenue obviously partly driven by the fact that the equipment deliveries were not as good as we were expecting but we still see good development in services overall with the orders growing by 6%.

Sorry about that one. The market environment the – first of all if I start with the port and container terminal, it's an interesting situation, whilst we actually see customers delaying decisions especially in the larger projects, the actual macro picture remains very positive. The growth in container traffic is actually at the good level and we have seen the different analyst and bodies actually raising up their estimates in terms of the traffic overall. We still see actually positive development in terms of our pipeline at the moment. The numbers are growing, partly of course

driven by the fact that we don't see decisions happening but at the same time we don't see any cancellation of these projects either.

In our sort of smaller equipment side, we still see good development there, we see growth in orders as well as the revenues in that area, so very much this is an issue at the moment of the more bigger investment decisions being pushed continuously back. In construction output and in Hiab environment, the situation remains positive. First of all, we saw very strong growth in Europe and the market remains really strong there, nearly 40% growth in orders there. The only sort of soft spot we actually have seen developing in Europe at the moment is around the UK demand, I guess partly driven by the concerns around the Brexit situation as well.

The US market remains strong as well. I know that some people maybe are concerned about the housing starts development in September as well, it's good to point out that actually the exceptional weather situation in the Southern States, so if you exclude the States that are affected by the different hurricanes, the US housing starts they're still at a good level also in during September and even though we don't necessarily see a further strong growth in US, we see the market situation still remaining strong in there as well. In marine situation, we clearly see the sort of the situation especially merchant side stabilising, we are expecting growth, although we expect that growth to remain at a fairly low level in the coming quarters as well but clearly it sort of looks like the bottom has been bypassed and we are heading towards increasing order and revenue intake in there. In offshore the situation still remains quite difficult.

As I already said, I'm very pleased in terms of the development in MacGregor in terms of the order intake, good growth in there, growth also first time for quite a while in year on year development and also very good growth in Hiab especially driven by the strong demand in Europe. In Kalmar, the sort of the mobile equipment, smaller equipment demand equipment remained at a strong level but as I said larger projects decisions have been pushed back and that's very much visible in our order intake.

The order book has come down as you can see from the slide, however, at the same time the composition of that has changed so one needs to be a little bit cautious of drawing conclusions in terms of the revenue development from that one. The rest of MacGregor share of the order book has obviously declined with the lower orders and at the same time the longer lead time project orders have declined in Kalmar and the current order book is actually more on a short cycle side and thus it is not necessarily reflective of the revenue development in the coming quarters.

It's also good to note that in Kalmar, despite the decline in order intake, actually our order book is pretty much at the same level as it was one year ago.

Operating profit really was driven by the fact that we did not reach the revenue targets we had set for ourselves for the quarter three, our gross margin development continued favourably but then we missed on the top line that was clearly then visible in terms of our bottom line. I'm relatively pleased with the sort of proportional profitability, but obviously in terms of the absolute profitability the miss on the top line was reflected there as well. And as I said the gross margin development continued favourably driven by our R&D inputs and of course increase in proportion of software and services in our business as well.

Software and services now are about 33% of the revenues and especially pleased with the development in Kalmar where the services grew 8% year on year and order intake overall in services developed favourably by six percentage points. The software sales declined in Q3, it's good to point out that this is still mostly a business driven by somewhat lumpy license revenues and there, as we had a good license revenue in quarter two, we were missing some larger licensing deals in Q3, more relevant number I think in the software sales to look at is of course year to date growth, which is still at 14% and we still view the development in software revenues very positively in the coming quarters as well. With that one I'd like to hand over to our CFO Mikko Puolakka who will cover the business areas, thank you.

Mikko Puolakka: Thank you Mika, let's start with Kalmar, in Kalmar our service orders and sales growth was actually excellent. Otherwise the quarter was disappointing compared to our expectations. Service orders grew in Kalmar double digits, mobile equipment orders developed also well, especially in Americas region. However, the automation project orders continue to be on low level as customers are postponing their decisions. Also, the software orders declined somewhat but I would say this is more due to the nature of the software license business. As Mika mentioned also earlier Kalmar's order book is pretty much on last year's level. Services grew in Kalmar by 8% so there very good development especially in the spare parts business. Kalmar overall sales fell down by 14%, some of the revenues from the project deliveries will be recognized in quarter four, so this is the nature of the project business. In addition, as Mika mentioned we have had some bottlenecks in our mobile equipment supply chain delaying some of our deliveries to quarter four. Operating profit for quarter three was 30.9 million EUR. That was 15% down from last year's level, and as mentioned by Mika this is coming from the lower sales in quarter three, especially in the project business.

Then moving to Hiab where we had again a solid quarter. Orders grew by 18% and there was growth in all business lines, so very good demand. Especially strong growth 37% we had in EMEA, very much supported by the solid construction activity. Sales and profitability were on last year's level in Hiab. We could have actually reached a bit higher sales in quarter three but as Mika also mentioned we had similar kind of supply chain bottlenecks in Hiab as we have had in Kalmar. Looking at the lead times in the supply chain we have been seeing in the past roughly seven weeks' lead times, now we are talking about 17 weeks, so these have been causing the delays and we have been already taking actions in the earlier part of the year to overcome these delays.

Then moving to MacGregor, where the orders continue to grow, the third quarter now in the row. Quarter three orders were up by 12%, especially the cargo handling orders were on a good level

in the last quarter. Sales were very low in quarter three both in merchant and offshore business and this is again coming from the timing of the project deliveries, so we expect that to also improve in quarter four. Service sales were -10% year on year and actually this decline is mostly coming from the offshore business while the merchant service is more stable.

Profitability stayed in absolute terms more or less on last year's level 2.2 million EUR for this quarter and this is more or less thanks to good progress in the cost savings programme as well as the growing share of the service business.

Then moving to our cost efficiency programmes, which are actually moving, in some parts moving forward even better than what we had anticipated. Firstly, in the 50 million EUR overall company-wide cost savings programme we have achieved so far 3 million EUR savings from the indirect procurement activities. We have also recently announced that we are outsourcing part of our IT activities as of 1<sup>st</sup> of November this year. MacGregor has achieved so far 20 million EUR cost savings from the 25 million EUR programme so by the end of the year we are targeting to get 25 million EUR cost savings. In Kalmar the product transfer from Sweden to Poland is progressing, light and medium forklift trucks have been already moved and the heavy trucks will be now moved by the end of this year, so by the end of the year more or less the whole Swedish production has been moved to Poland.

Let's have a look at some of our key figures, total orders grew by 2%, this is more or less thanks to Hiab and MacGregor. Our operating profit excluding restructuring costs was 57.4 million EUR and the restructuring charges were approximately 5 million EUR for quarter three. This 5 million EUR include restructuring costs from the MacGregor programme as well as from this 50 million EUR company-wide restructuring programme. EPS was 51 EUR cents more or less on last year's level and we have been able to offset part of the kind of lower operating profit with the lower interest costs thanks to the debt refinancing what we did this earlier this year.

Cash flow was our bright spot in quarter three, 88 million EUR cash flow made during the quarter, and this is coming especially from the reduction in the net working capital. We have been able to collect very nicely receivables and then also we got some advance payments especially in MacGregor business. Our financing position is solid, strong, cash was 233 million EUR at the end of September, on top of that we have 300 million EUR completely unutilised revolving credit facility plus we have a significant commercial paper programme also, not in use at the moment, or not utilised at the moment. Gearing is below our target, in September it was 37.6% and the average interest rate has been going down due to the debt portfolio refinancing what we did earlier this year.

Looking the long-term trends, our operating profit and the return on capital employed are developing to the right direction, our target here is to reach 10% operating profit and 15% return on capital employed in the next 3 to 5 years.

And then looking the outlook, we reiterate our 2017 outlook, our operating profit is expected to grow from last year's 250.2 million EUR, and with those words I would then hand over back to Hanna-Maria.

Hanna-Maria Heikkinen: Thank you Mikko, thank you Mika, then we will continue with the questions and we will start with the potential questions from Ruoholahti.

Erkki Vesola: Hi, it's Erkki from Inderes. A few questions mostly regarding Kalmar, first about the equipment business there. Was there growth in orders or sales, and how about your market share on the equipment side?

Mika Vehviläinen: On the equipment side when we talk about mobile equipment this is the lighter side of that one we had a growth both in terms of orders as well as revenues in Q3 as well so that business is doing pretty well.

Erkki Vesola: And you've inclined that your market share was stable or was it even up?

Mika Vehviläinen: It's hard to say of course this is not an industry that is – look, I think an overall demand at the moment, I think we were pretty stable. We have clearly a leading position in this equipment class at the moment and that remained as well.

Erkki Vesola: Could you provide us a ballpark figure, how large are the equipment sales of the total?

Mika Vehviläinen: We have said in the past as well that if you look at the equipment side it's about – pure equipment is in the ballpark of 600 million on the annual basis.

Erkki Vesola: Thank you and then about project side, can port operators postpone decisions indefinitely? I mean you previously said that you expect the market to start to take off in Q4 at the earliest or early 2018. Are you still of the same opinion?

Mika Vehviläinen: It's an interesting situation because from the macro picture, this is one of the most positive macro pictures I have seen during the four years but at the same time we also have seen a particularly difficult order environment in terms of the large orders. The drivers are still very much in there in terms of the larger ship sizes. We have seen further very large ship orders as well coming through, those larger ships will drive the demand for peak capacity, there are questions around the terminal or port capacity, but one needs to remember that investment decisions have to be done on the peak capacity requirements. The peak capacity requirements are clearly going up, the automation needs and the benefits that the automation are offering are still very much there and we have seen, as I said, our sort of a pipeline in terms of sort of prospects is increasing continuously. Part of the increase of course comes from the fact that the



decisions we are expecting are postponed further but we see new prospects coming into the pipeline all the time as well. I think this is more or less still a timing question.

Erkki Vesola: Okay, thank you.

Hanna-Maria Heikkinen: Thank you, then we will continue with international questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question please press star one on your telephone. Please ensure that the mute function on your telephone is switched off, to allow your signal to reach our equipment. Again, please signal by pressing star one on your telephone. We'll take our first question today from Antti Suttelin from Danske Bank, please go ahead.

Antti Suttelin: Yes, hi. I would also like to ask about Kalmar. So basically, three questions; why do you think the pipeline continues to improve? Then secondly, why, despite this, are ports not making a decision? And then thirdly, why is Konecranes closing deals? So, these are the questions please.

Mika Vehviläinen: Thank you, Antti. So, the pipeline is growing for the reasons we already discussed so the peak capacity requirements because of the ship sizes are increasing is driving requirement for the investments. The need for automation to drive the efficiency is very clearly there and obviously we see also underlying stronger growth in the traffic. So all the reasons why the pipeline is growing and why the ports need to invest are still very much in there. The reason why they have not made the decisions is still primarily around the uncertainty around the impact of alliances. We see a very strong consolidation happening in the shipping lines, it takes quite a while very clearly to sort of get clarity in terms of how the traffic will be distributed between the different ports, and regarding the automation I think that the people sort of – decision cycles,

understanding and relying on technology and going through the different requirements to reach the decision are delaying those decisions.

I can't obviously specifically comment on the Konecranes. My understanding is that we both actually are seeing pretty favourable development in the equipment side that was also confirmed in our own numbers. They obviously are in some of the categories that we are not, such as mobile harbour cranes and STSs, and I'm understanding from their release that those were doing pretty well. If I overall look at the port demand situation and the benefit we obviously have is that we have a very global reach, more than any other supplier and secondly, we also obviously are also operating in so called horizontal layers where we actually are also supplying equipment and software for third parties by Bromma and Navis, so we have pretty good visibility. We clearly actually have seen a slow down if I look at the ship-to-shore cranes statistics that are also available from the Port Manufacturer Association, my understanding was that the order intake in the heavy cranes side was down about 30% at the moment in the market, so the market has slowed down in terms of the larger investment decisions.

Antti Suttelin: Right, and do you think the automation offering is stable enough, I mean, could it be that there is some technical reason clients don't want to go into automation despite the benefits on paper, so to say?

Mika Vehviläinen: I think we have start to pass with of the technical decisions, we have such a number of ports now operating at a pretty good level, obviously the technology is still maturing and will be bypassing eventually the kind of manual port performance but at this stage when I look at the current ports in operating I would say that the performance is already at the level that it will give significant financial benefits for the customers. But then obviously it's a very large decision, it's a very heavy decision for us and very clearly the tendency right now, what we see is that more and more some of the customers are contemplating so called brown field investments that will actually then sort of automate the ports more gradually over a certain amount of time. And then also obviously we have now also launched during the Q3 an independent automation software, so

called Kalmar Key, that is able to actually then start to automate existing install base in the ports as well, so while we still see opportunities in some of the larger single orders, I think the tendency tends to be towards more sort of gradual automation of the ports at the moment.

Antti Suttelin: Yeah, okay. Thank you.

Mika Vehviläinen: Thank you.

Operator: Thank you, we now go to our next question from Leo Carrington from Credit Suisse, please go ahead.

Leo Carrington: Good morning. My question is around the supply chain issues and I'm wondering if you are able to quantify the value of sales that couldn't be delivered for both Hiab and Kalmar? And do you think this supply chain issue had a negative impact on customer ordering dynamics? And do you expect to see any order cancellation from customers as a result or do you expect a catch-up effect? Thank you.

Mika Vehviläinen: Thank you. First of all, I guess overall when you look at the demand and at least I've seen, for example, Volvo numbers in terms of the huge increases in terms of the construction equipment demand as well as the trucks and we deal very much with the same supplier base in terms of engines, hydraulics, some of the electronics and very clearly the supply chain is struggling to meet this demand. And obviously I guess we as a business are partly at fault because obviously the strong demand is exceeding our expectations from the sort of late last year when these demand plans were put into place. In terms of the impact I would say that it's a fairly significant – it's in some tens of millions of euros in terms of the slipping. Mikko in his presentation already mentioned that we actually during the Q3 last year we were able to get our lead times in Hiab to sort of 5-7 weeks range and we are now looking at the sort of 15-17 week range. And we have not lost orders as a result of that but I think overall the business is sort of

suffering from the longer lead times there, but obviously that's something we need to watch out, one needs to remember that these equipment orders tend to be quite specific for a specific demand and it's hard to replace them by another option in there. So, we have not seen any impact on that on cancellation, but we are working very hard on that one, we have put specific task forces in place and we expect to start the recovery of that one happening during the Q4.

Leo Carrington: Okay, thank you and that was across both Hiab and Kalmar?

Mika Vehviläinen: That's correct, yes.

Leo Carrington: Okay, and I have a second question, actually, if I may, this time on Kalmar. Looking at the software business performance in the quarter, am I right in assuming that the lower than anticipated sales and ordering is mostly from Navis, and is there any effects of the move from a revenue model from license fees to software as a service? And then if you've got anymore colour on the commercialization of XVELA, that'd be great.

Mika Vehviläinen: First of all, yes, you're absolutely right in assuming that the big part of the software revenues are in Navis side, obviously with the delay in automation decision, we have seen less automation software revenues. In terms of the revenue, the Navis model is still to a very, very large extent licence based revenue, and hence when the licence deals are sort of little bit lumpy we saw the impact of that one where we actually went down in Q3, also versus the Q2 where we had a larger licensing agreement. But overall, we still see a good demand, a good growth happening in Navis. The year to date number is about 14% growth and we expect that kind of growth to continue in the coming years.

We do not yet see a strong impact or any impact in practice in terms of the change into licence model. We offer now the Navis terminal operating system, port ERP, also as a cloud service, we still have to remember we still have some existing customers who have not even migrated to the

N4, which is the current license model, there are some still further software installations. This development will happen in the install base very slowly and very gradually. I don't see that impacting us considering that we have quite a number of new software products that we plan to introduce and are partly introducing already, so I'm not expecting that to move the needle even in the coming quarters or years that much.

In terms of XVELA, I'm actually very pleased with the progress. We have secured our first commercial deal on that one, and we expect sort of a further implementation of that one still within this year, so that looks to be progressing pretty well at the moment.

Leo Carrington: Right. Thank you.

Mika Vehviläinen: Thank you.

Operator: Thank you. We have a question now from Magnus Kruber from UBS. Please go ahead.

Magnus Kruber: Good morning, Mika, Mikko, Hanna. Magnus from UBS. Thanks for taking my questions. I have a couple, and I'll take them one at a time. What about pricing on new equipment given the extended delivery time? Is it still stable or have you been able to charge a bit more?

Mika Vehviläinen: Thank you, Magnus. Good question. I mean, we certainly are looking at the pricing for two reasons. One obviously is the overall demand in market, and second one, of course, is to partly compensate for the currency changes there as well. So, in the markets where, primarily in US and UK, where we are suffering from the currency impacts, we are also obviously looking at partly compensating that one through the pricing changes.

Magnus Kruber: Okay. Got it. And but nothing in particular because of the tight market situations this far?

Mika Vehviläinen: Nothing in particular.

Magnus Kruber: Okay. And can you say something about the sales growth of the product outside of the loader cranes in the US? Any colour on that will be useful. You mentioned that you expect a stable demand, but how does it split down?

Mika Vehviläinen: I think if I look at the US overall, on Q3 and demand, it's been pretty stable. And I think across the different product lines – I see Mikko checking the numbers next to me here – but the market clearly is sort of stabilising at the moment. Obviously, there is a little bit open question of the short and medium-term impact of this catastrophe of the two hurricanes and then also the fires in California where that might sort have slowed down things. But then again, I mean, those – recovering from those issues, of course, requires further infrastructure and building activities as well, so it could actually turn into an opportunity in the coming quarters as well.

Magnus Kruber: Got it. And also following up on the prior questions, just to be clear on these tens of millions that we saw in delays this year, will they come through in Q4 or will you see continued issues on this and another couple of ten millions pushed into Q1?

Mika Vehviläinen: Well, first of all, obviously, one thing is that we have all the stuff we were supposed to deliver in Q3 will go out now in Q4, whilst we also see then, obviously, we are gradually improving this. There is no silver bullet on that and we worked very hard with our suppliers and with our own supply chain issues there. But we see gradual improvement happening also in Q4. So, we don't then anticipate a similar sort of size of the issues during the Q4.

Magnus Kruber: Got it. And switching to MacGregor, how does the margins on the new orders compare to the margins you currently have in the backlog?

Mika Vehviläinen: The backlog is set pretty much at the same level as it has been in the past, as well also looking by product lines. So, while obviously the difficult market situation has sort of caused pricing pressures, as there are fewer deals available, we have quite successfully worked through our project execution model and designed the cost initiatives in MacGregor that have been able to compensate for that price pressure.

Magnus Kruber: Got it, got it. And also, finally, on the European market on truck side, when it comes to replacement demand on the construction trucks, where do you see we are in the cycle there?

Mika Vehviläinen: Well, if I just look at the demand and the demand outlook at the same time, I think we are sort of at early stages of the overall construction cycle. And generally, the benefit of the construction cycle tends to be that once they start, then tend to be quite long. I mean, we are now, what, third year or fourth year of construction cycle – positive construction cycle in US – and we don't see a slowdown on that one at the moment then. Obviously, if people point out on the September, as I said that to really, an exceptional case caused by some of the State's housing starts and due to the hurricane situation.

Magnus Kruber: Got it. Thank you very much.

Mika Vehviläinen: Thank you.

Operator: Thank you. Manu Rimpelä from Nordea has our next question today.

Manu Rimpelä: Thank you. Could I just go back to the lost revenue in this quarter and if you could just walk it through by division? So, I mean, Hiab you have the supply chain issues, and how much

would you expect the impact would be on Hiab from not being able to deliver equipment, and do you think that will be recovered in Q4?

Mika Vehviläinen: The Hiab situation was a smaller part of that, some tens of millions probably. Of course, it's always difficult to put an exact number on that one because compared to what – so, what you would have used or delivered, but I would say that's in the ballpark of probably 10 million EUR and the rest comes from Kalmar. The order intake is very strong in there at the moment as we have seen. Obviously, we are not going to get those lead times down from the 17 weeks to the seven weeks very quickly. But obviously also, purely from kind of manufacturing capacity and days operational, less holidays, etc., all enable us to have a higher delivery in volumes in Q4.

Overall, if you look at the Q3, always it's seasonally low for us. And this year, it was exceptionally low due to the circumstances we have described.

Manu Rimpelä: And can you, from Kalmar, comment the situation, I mean, how much do you have excess inventory, for instance, when you were not able to ship the equipment?

Mika Vehviläinen: It's in tens of millions of euros at the moment that we are planning to mostly ship during Q4.

Manu Rimpelä: Okay. And then finally, on MacGregor, the same question. I mean, I understand that some projects' timing, or timing of projects and deliveries, or should we see a big swing back in Q4 when you know that you're going to deliver those projects and they would maybe just push a week or two into the long quarter?

Mika Vehviläinen: Yeah. When we look at the MacGregor, obviously, when the backlog has come down as much as it has, obviously, timing of the delivery starts to be more of the timing of the



approach of this study, would be more of an issue as you have less projects to deal with, and that was very visible in the Q3. When I look at the rolling forecast ahead now for the MacGregor, this is most likely the lowest quarter we see through this cycle in MacGregor now. It's, in a way, very logical as well because we reached the bottom of the order intake sort of end of last year. And going towards the end of this year, we now have seen the bottom of the delivery cycle as well.

Mikko Puolakka: And now in quarter four, we gradually start to recognize revenue from those orders now collected during the last three quarters.

Manu Rimpelä: Okay. And the following question, are you able to help us in terms of how much revenues do you expect to deliver from your backlog in Q4, because I would imagine that you pretty well know already what September is going to be?

Mika Vehviläinen: Well, I don't want to put a specific number on that but obviously, we still have a strong belief in our guidance. So, one would expect that our delivery volumes will be enough to be able to sort of also improve our profitability during the Q4.

Manu Rimpelä: Okay. And then moving on to profitability, so despite the big decline in sales, the margin actually improved compared to the previous year. Can you just help us to understand that is this all entirely down to cost savings or what's the kind of driver?

Mika Vehviläinen: I'm sorry, I'm not sure if I understood the question, can you please repeat it?  
Sorry.

Manu Rimpelä: So, you managed to improve your margin compared to last year, it was up ten basis points, I think, which is still a pretty good – amazing thing to do given that your sales fell 14%. So, was it just the cause help to contribute or did we see for instance the decline in Kalmar was in

the very low margin business and hence didn't really impact the margin? So, just if you can help us to understand better the dynamics how you were able to?

Mika Vehviläinen: Okay, got it. Sorry, thanks, yeah. No, I mean to be absolutely fair, of course the mix helped in Q3 as well because we had a higher proportion of services there, for example, so that certainly helped. When I look at the overall margin improvement, we are still working around design to cost and new product rollouts that we are doing. However, against that one, you do have a headwind in terms of the raw material and component cost. So, the steel prices, obviously, have gone up and the steel prices, of course, partly directly, but very much it's sort of due to our model coming through with the sort of pressures in component pricing.

So, in that sense, sort of, we expect still that we do not see increases in our product cost but the design to cost and the other saving initiatives are working as the stronger headwind that we saw. So, we don't necessarily expect to see magnitude or margin saving right now in there. But the mix certainly helped in the Q3 as well.

Mikko Puolakka: Also, Hiab's share of the total business being higher in quarter three compared to last year's quarter three.

Manu Rimpelä: Okay. And then the final question I've got to send you on the 2018, given that your backlog is down 5% at the end of Q3 and have you any thoughts or do you want to comment in anyway how do you see 2018 or is it still too early on that?

Mika Vehviläinen: I don't want to go too much into particulars in 2018 but it's good to remember than when you look at that backlog at the moment, the composition of the backlog is quite different. Obviously, the long cycle backlog is down because the MacGregor orders have been down although they now clearly start to recover. And then, obviously, as we have not reached any larger port project orders for a while, also the Kalmar part of that one is more in the sort of

short/medium-term delivery. So even though the overall backlog is down, one shouldn't read that directly into the sort of consequences in terms of revenues.

Manu Rimpelä: Thank you. No further questions.

Mika Vehviläinen: Thank you.

Operator: Thank you. We now have a question from Tom Skogman from Carnegie. Please go ahead.

Tom Skogman: Right. Thanks. I have three questions. So first on this supply chain issue, I mean it's very well – it's easy to understand that you are telling us, when you use the same suppliers as Volvo, but when I look at the numbers they report, it looks like, you know, it will be even more difficult in Q4 and Q1. And, of course, they will probably try to, you know, prioritize their key customers, large trucks manufacturers and construction equipment manufacturers that have much larger volumes than you. Shouldn't you be worried that this issue is much worse in the next two quarters than in this quarter?

Mika Vehviläinen: First of all, on that one, no, I'm not that worried. Obviously, as I said, the recovery is not happening over night on that one, but we've been working on this issue really almost at the early part of this year onwards. And I think we sort of feel that we have the situation now contained and we need to start to work to decrease that lead time but it's not going to happen. As such I'm not particularly worried about the Q4 because we don't see that situation deteriorating any further and obviously, the deliveries, we were expecting to be done in Q3, we will now deal in Q4.

Tom Skogman: Okay. And then on the balance sheet and acquisition power, you said at the Capital Market Day that you're very interested in doing further acquisitions. Now, you have a net debt to

EBITDA of two times. So, you're in your gearing target range or actually have a strong balance sheet from a gearing perspective above net debt EBITDA is still 2.0 times. I mean would you be in this stage of the side or would you be, you know, happy to take it up even three times if you find an appropriate target?

Mika Vehviläinen: Well, as we said in the Capital Market Day as well, we have quite a clearly and very much more active pipeline in terms of M&A at the moment. The thinking is not so much driven by the gearing at this stage, it's more a question of being able to conclude deals that make business sense for us. If we find deals that would be, you know, making sense for us, we are obviously willing to sort of sacrifice in short to medium-term the gearing targets there as well. This is a long-term target and depending on the cases and how the deal flow will go, we might be overall below that one.

Mikko Puolakka: Yeah, and our target is to grow the EBIT and through that also the EBITDA on a continuous basis. So that should support also the acquisition capabilities going forward. So, this was from the EBIT point of view, not the perfect quarter, and of course, it's visible on the net debt to EBITDA ratio, but looking long term, we see that it should improve.

Tom Skogman: It's kind of three times the maximum level you can go through, how do you think about it?

Mikko Puolakka: We have not stated any specific range but of course that's one kind of indicator for us, as Mika said, the gearing is the kind of what we have been using externally as a target. Temporarily, we can go beyond the 50% and we have to remember that we plan to do also acquisitions, which are contributing to the 10% EBIT target in the long term. So those should be generating EBITDA also going forward.

Tom Skogman: Right. And then management typically say they don't analyse the business, you know, on a quarterly basis. So now, I'll take a really long term, you know, view. So, Kalmar had sales

in 2006 of 1.2 billion and now will be kind of around 1.6. The margin is actually a bit down compared to 2006. Hiab, however, you know, have 20% larger sales this year than 2006, while Kalmar is up 30%, but their EBIT margin is up about 14% compared to 9%, so what – what is really, you know, the big difference? Kalmar used even had a better margin than Hiab had, and now it's really, you know, the opposite. I mean I look at the competitive field, you should have a massive advantage when it comes to manufacturing footprint in Kalmar to your competitors. So, what is kind of explaining this kind of long-term trend that the Kalmar profitability is simply not taking off in the same way as Hiab's is.

Mika Vehviläinen: Very good point. There is a very simple explanation for that one, and that's the investments we have done compared to 2006 in terms of the automation and software. If you actually look like-for-like, would take 2006 and 2017 numbers for Kalmar, and 2006, this was primarily a mobile equipment business. We have clearly seen margin improvement in Kalmar mobile equipment, if you look at the Kalmar mobile equipment, the equipment about 600 million plus the services – it's about actually same size as Hiab and the margin of that business is actually pretty close to Hiab – it's a clear double-digit operating margin business for us. The difference why the overall Kalmar margin has not happened is that – is the investments we are doing into the software development and building up that business as well as in the automation.

Both of these are actually very close to breakeven businesses at the moment and they are the ones that dilute the margin. So, I think I'm pretty pleased overall what we have been able to do to actually improve the Kalmar business. We are using parts of those improvement profitability in the investments and the areas we believe that are ensuring our long-term growth and profitability improvement in those businesses.

Tom Skogman: Okay. Thank you.

Operator: Thank you. We have a question now from Tomi Railo from SEB. Please go ahead.

Tomi Railo : Hello. Tomi Railo from SEB. Can you give any indication on the sort of numeric impact – cost impact from the supply chain issues and lost sort of – or missed revenues in the third quarter?

Mika Vehviläinen: The cost impact is not really – I mean we have – we put more people into this one, and more efforts in to that, one, but it's not – nowhere near as significant as of this missed revenue. So, I would put that probably in the sort of – I don't know 1 to 2 million at max. I mean it's just people thrown into the issue, really.

Tomi Railo: And is there any additional efforts coming through in the fourth quarter?

Mika Vehviläinen: No, I think we have spent – in terms of the amount of effort, it's been on this – it has been on now for really sort of I would say Q2 onwards, where we have seen the issues coming through. We do see those efforts start to pay back for us during the Q4. I don't expect any further investments needed to be done in there.

Tomi Railo: And then on MacGregor, there was actually growth in the order intake. And I – my memory is correct, there was one bigger order included in the third quarter number. But is this sort of the market or your business activity level, and what do you see into the fourth quarter? What generally do you start to see in the marine market especially for the important bulk segment for you?

Mikko Puolakka: Yeah. We saw actually a very strong growth in terms of percentages in Q3 in the merchant marine bulk – especially bulk and general cargo ship order intake. But that started from the very low level. Obviously, Q3 was held by one large RORO order as well.

But as said, we expect that we have now gone past the sort of the bottom of the cycle in orders, this is the third consecutive quarter that we see order intake going up. We also see first time now, actually year-on-year growth in orders. Having said that, this is still a lumpy business, the recovery will be slow, so there could still be surprises.

But I would say, the overall trend clearly now in orders is to up. It's not going to sort of explode very time – quickly there. Everybody expects the recovery to be somewhat slowed. And also, our expectation at the moment is that we have now bypassed the revenue sort of bottom as well during the Q3, so when I look at our rolling forecasts moving forward we expect the revenues start to recover slowly. However, I do not expect that the MacGregor revenue next year is going to be sort of be higher than it has been this year as well. We still saw declining revenue going into the sort of – from the early parts of last year, towards the end of this year, and then we start now the trend reversing, but gradually.

Mikko Puolakka: And as mentioned earlier, we had a good quarter in the cargo handling orders for a while, for several quarters, it has been quite stable and now in quarter three, it improved very nicely.

Tomi Railo: And in terms of pipeline and quoting project activity, do you see that there are other sort of projects available?

Mika Vehviläinen: Yeah, we see actually a fairly good pipeline at the moment, including Q4 as well.

Tomi Railo: Perhaps if you could shed a little bit light on the outlook on the services for different businesses?

Mika Vehviläinen: Certainly. So, if I start with the MacGregor, Mikko was already saying that in his speech, we actually have seen the merchant marine services market to stabilise now. And I think

that's a sign of the market sort of bottoming out as well. However, the decline in services in MacGregor came solely now from the further decline in offshore services demands. So that was actually quite drastically down still in terms of percentages and the whole decline effectively in the MacGregor services came from there. And that obviously still expects or waits for the offshore situation to recover. I'm more optimistic about the merchant marine services now with the market situation starting to recover.

Kalmar, we're very pleased with the progress we are making there at the moment, sort 8% increase in services coming from spare parts, maintenance businesses and our core services. The negative impact we saw on the project type services in the previous quarters was not visible in the Q3. So, you could start to see the core services impact coming through.

In Hiab, we actually, out of the top 15 countries, we grew services in 12 of them but we had some setbacks in a limited number of countries where we need to do some operational changes to recover that one. I'm satisfied for the fact that the Hiab services are growing. One needs to remember that we are still growing against the decreasing install base as we are suffering from the previous revenue declines coming from the sort of financial crisis on that one. And I think, as Roland said, if I remember correctly, in the Capital Market Day, that we see actually that installed base bottoming out on Q3 2018. And after that one, we obviously will have further help from the increasing install base as well.

Tomi Railo: Thank you very much.

Mika Vehviläinen: Thank you.

Operator: Thank you. We have a follow-up question now from Antti Suttelin from Danske Bank.



Antti Suttelin: Yes, still on the supply chain issues. Just so that I understand the scope and impact. If I look into what people expected in terms of sales for Kalmar and Hiab, i.e. the units which we're affected, and comparing this with the actual outcome, the difference is €70 million, so 70 million less sales than what people expected. How much of this do you think was due to the supply issues?

Mika Vehviläinen It's the majority of that one was supply chain issues.

Antti Suttelin: And the rest?

Mika Vehviläinen: The rest was just I guess the timing of the deliveries. As I said, I think in terms of mobile equipment and Hiab, that clearly the shortfall of what we sort of predicted was all due to the supply chain issues. Perhaps the other thing that was sort of the remaining part of that 70 million was actually just the timing of the deliveries in the projects that Kalmar has taken.

We have quite a strong backlog still of RTGs and the shuttles which are part of the APD division. The timing of those deliveries was actually fairly low in the Q3. We expect that to recover in the Q4 and the early quarters of next year as well. And that was not unexpected, we knew all along that we will have lower revenues in those businesses.

Antti Suttelin: Okay. Got it. Thank you.

Mika Vehviläinen: Thank you.

Operator: Thank you. We now have a question from Magnus Kruber from UBS. I mean that's a question from Johan Eliason from Kepler Cheuvreux.

Johan Eliason: Yeah. Hello. Just a short question around Kalmar and the outlook for major orders there. I think you have alluded to that you have an active pipeline. Do you still think you will be able to sign? Is there any probability you will be signing any bigger order there before the year end or is this now 2018 and forward? Thank you.

Mika Vehviläinen: Well, Johan, let's put it that way, that there is some probability, but the odds are not in our favour. I wouldn't bet money on the Q4 orders, I'll be positively surprised if we land them, but it isn't – there is some probability, but I wouldn't put it – rate it very high.

Mikko Puolakka: And I would say that it's not at least dependent on us.

Mika Vehviläinen: Yeah.

Mikko Puolakka: So, I think we are not there the bottlenecks, so it's customers' decision-making.

Johan Eliason: Good. And then on these Chinese port automations that we saw this summer, one starting and I think there was one new order as well. Are you seeing any progression on those players involved in those outside of China for port automation?

Mika Vehviläinen: ZPMC obviously is involved – we obviously are having a good visibility on those port automation projects as they are leveraging our technology as well. Navis is involved in all of those projects. There really are a combination of several technology suppliers actually in there. They are quite specific integration cases and not being provided by a single technologic provider. As such, we have not seen activities outside China today, but I would still stay that it's – we should expect that in the future we would have three sort of system level competitors in the port automation which will be ourselves, Konecranes and ZPMC in the future as well. Although I have not seen that activity yet, and looking at those specific cases in China, we know the projects and

technologies provided yet – and as I said, there really are a combination of many different technology providers.

Johan Eliason: Yeah. And then just a final – maybe you don't have a good answer to this, but obviously we knew that the Mobile Harbour business seems to be doing well at your competitor and that's a product you don't have. How come this product type is doing well right now? Are they exposed to other different segments that might be moving faster than sort of the overall container port? Could you share any light on this?

Mika Vehviläinen: I don't really have a good insight on that one. So, I think you need to call our neighbours on that one.

Johan Eliason: Okay. I will do that. Thank you very much.

Mika Vehviläinen: Thanks, Johan.

Operator: Thank you. This time, we'll take a question from Magnus Kruber from UBS.

Magnus Kruber: Hi, this is Magnus again. Do you have a number how large the US market is for truck-mountable forklifts?

Mika Vehviläinen: No, I don't.

Magnus Kruber: The market size? Okay. Or about – nothing you can share or any sources I can find it?

Mika Vehviläinen: No. I think the problem is we struggle with the same thing a little bit, but I guess the segments we operate in, especially in Hiab, are quite small. So, it's very difficult to get market numbers and it's very difficult to find indicators that would help us as well. We looked at, as you

know, a number of different things and the best correlation we still find overall is in the construction industry activity that correlates even better than the truck registrations. But even that is not particularly good because, obviously, there are a number of different applications that are used, especially the truck-mounted forklifts is a good example because only part of that one will be used in the construction activity. It's fairly heavy on the retail applications, agriculture, etc. as well. But not really – I haven't found a source of good information on that one.

Magnus Kruber: Okay. Is there any way you can split sort of what your sales is between the different segments?

Mika Vehviläinen: No, I wouldn't go into that. I wouldn't even know the number actually.

Magnus Kruber: Okay, okay. But would you say that you have – the installed base is large enough to cope with the current construction demand or are you seeing continued growth?

Mika Vehviläinen: We, still the construction demand actually remained at the high level in US in terms of the specific product, the truck-mounted forklift. As I said, that's not really driven as much by the construction demand as for loader cranes, for loader cranes the correlation is stronger.

Magnus Kruber: Okay, got it. And also, you just mentioned on another question, you expect the install base of cranes and truck cranes in Europe to bottom in Q3 2018, could you just walk me through how you got to that quarter? That would be very useful.

Mika Vehviläinen: Well, first of all, it's not Europe, it's a global number. It's just coming from the projected sales we have at the moment. And as you know, our revenues in Hiab declined for a number of years from 2009 to – I guess we really bottomed out in sort of 2014, if I remember correctly. And then we started to increase from 2015 onwards. So obviously, that's when the life cycle of these product is somewhere in the nine to ten years ballpark. That math shows you that

if you look at now the increase, and we are seeing the revenues, we expect to have the turning point roughly in the Q3 2018.

Magnus Kruber: Okay, got it. So, do you expect sort of the trucks that mount these cranes, would the lifecycle of those cranes be corresponding to the crane lifetime and then the truck is scrapped or...?

Mika Vehviläinen: Exactly. I mean, generally, you don't take an old crane and put it in the new truck or vice versa. So, the lifecycle of the cranes is pretty much equivalent to the truck lifecycle.

Magnus Kruber: Excellent. Perfect. Thank you so much.

Mika Vehviläinen: Thank you.

Operator: Thank you. We will now take a final question from Manu Rimpelä from Nordea.

Manu Rimpelä: Thank you. Just one follow-up. Can you comment about the backlog you have in Kalmar for these automation and projects? Because I guess that that's the only part which is actually declining in sales if you exclude these Q3 supply chain issues. So where do you see that backlog going? And, I mean, if we have no bigger automation orders in the next, say, further 12 to 18 months, so could you actually see that that sales goes, I think it was something like more than 300 million in 2016. So how low can that go?

Mika Vehviläinen: We have, I would say, the backlog in that business is around 300 million at the moment. So, we are pretty well secured now on the sort of Q4 and the first half of 2018. But it's obviously also clear that during – by summer of 2018, we do need further orders and those we expect also to get.

Manu Rimpelä: So how does the cost absorption in that business work, because we know from what you have been saying is that the margins are quite low. So, from that point of view, the impact on profitability from lower sales signals that it's a really big issue. But is there a big fixed cost base in that or is that shared with the other businesses completely?

Mika Vehviläinen: There is some with fixed cost base. But if I look at the current backlog, it's a pretty good, healthy backlog for us. So, I don't expect that to give us profitability issues now on the sort of next couple of quarters. But we do need then further top line revenue from new orders sort of by summer of 2018. Otherwise, we would need to kind of review the situation.

Manu Rimpelä: Okay, thank you.

Mika Vehviläinen: Thank you.

Hanna-Maria Heikkinen: Thank you for a very active Q&A session. I'd like to remind you about our upcoming IR events. We will host the Investor Hiab Investor Day here in Helsinki on 1<sup>st</sup> December, then our financial statements bulletin will be published on 8<sup>th</sup> February, and then we will also host the site visit to Poland, our facilities there, on 28<sup>th</sup> March.

Thank you very much everybody.