KION GROUP AG

Q1 2014 Update

Conference Call

08.05.2014

16:30 CET

Speakers: Gordon Riske (CEO)

Thomas Toepfer (CFO)

Gordon Riske

Thank you very much, and welcome, ladies and gentlemen, to our Q1 2014 update call. We are very happy that you joined us on this telephone conference this afternoon in German time. And as usual, we will give you the highlights of the first quarter. Thomas Toepfer, our CFO, will then go onto the financial update, and at the end, a short outlook for the remainder of the year 2014. And after that we'll turn it back to you for possible questions which you may have. I hope you all have the presentation in front of you. I'm on the document starting now on page four, just a short summary of the financial highlights.

And we call it a solid start into 2014. What's especially favourable is of course the nice pickup in order intake to 1.196 billion, so 4.4%. Following the market momentum that's very good news after certainly the last year 2013, the first half of the year through mid-2013, as you know, was a very soft order intake year. And the market started picking up towards the end of 2013 and our order book started to increase, and now with a very solid order intake in the first quarter of 2014 we have an order book increase of over 10%. And we will see that of course in revenue in the second half of the year.

On the revenue side, stable at 1.89 billion. We'll of course go into the effects, whether it's FX effects. We also have a nice pickup in the services area. Our adjusted EBIT, which is an 8% margin, 87 million, was also some slight effect based on the currencies. And the net income, with 28 million, saw some benefits due to the post-IPO financing. In total, really for us a solid start into the New Year 2014.

Onto page five, the global market has maintained base, so what we saw started in the last quarter of 2013 continued to pick up. Also, Western European market was a good pick up, and sustained strong markets in China and the US, for us strong in emerging markets, big business with, you know, again a third of our volume going into these markets.

As you know, we are spending a fairly high amount. We have continued that R&D spending to maintain our technological leadership, especially in the area of electric trucks and our further expansion and the platform concept focused in China. Later in the presentation I have a couple of details for you regarding specifically our positioning in the electric trucks and an update on China.

The Weichai Power cooperation also has made some progress. Also there we'll give you a little bit of update on that. We are starting to use some more of their engines and leveraging some of the distribution.

As I said, on the services revenue, with the 7.9% year on year the service business has increased, reflecting, you know, some of the things we talked about and the road show and some of the analyst meetings. The integration of course of the recently acquired dealers in Germany and Turkey also had a large impact, as well as the new refurbishment centre in Poland. So all in all, some good highlight in the first quarter of this year.

Now, looking at the market as a whole on page six, current market development, global orders in our industry did grow by 10% in the first quarter. So that is a new quarterly high and the upward trend does continue. We are also seeing that in April and the beginning of May, so that trend has continued.

The big regions of the world, Western Europe, Asia, North America, all three of those are running well at the moment. As I said, the Western European, the undergoing recovery, we hope that of course continues that way because as we see in the Eastern European market, the fourth bullet point here, Russia, which accounts for about half of the market in Eastern Europe, is about 25% down, so the current crisis in Ukraine does have an effect. It has not had such a big effect on us yet in terms of exact units, but it's always a question of how confident are our customers and our markets. Central South America, we reported that started softening last year already. That has not picked up.

And if you want to look at that graphically, on page seven you see on a quarterly basis how that has developed. In North America, third quarter of last year 13 then 10 and now at 14%, so very continuous development. Western Europe, clearly the recovery in the fourth quarter, 10%, maintained that rate of expansion. Also in the first quarter of 2014, Eastern Europe, you see the effect of Russia there, minus 6.9%. As I said, Russia's a big part of that market, so that's why there’s that effect. And China also very strong, with 17.7% first quarter. So the world market at plus 9.7%, a very good development, with the only sore spot really South America.

Page eight, now in context in a longer-term perspective, 2007 and of course and the dramatic downturn, 2009 and 10, and then the upswing in 11 and 12. And as you see, the Western European market, Germany, UK, France, Italy and even Spain are recovering. Still, as the graphic clearly shows you, far below pre-crisis levels, but nonetheless, a dynamic that is starting to continue and we hope that does stay on track.

Now, regarding the KION performance, on page nine of our handout, 3% above previous year in Q1, so a very high level of 39,200 units. If you compare that with the first quarter 2012, which was an absolute record for us, at similar to peak levels that we've had in 2012. So the European recovery, with also very solid market growth in Germany, driving that all-time high for us in China, so it's our best first quarter ever in China. Also a solid growth in Eastern Europe except for the decline in Russia, and Brazil being below previous levels.

Now, a little bit more detail on those markets on page ten. We've listed for you how the market has developed; Western Europe, 10; KION, 2.6; Eastern Europe, minus 6.9; KION, flat. So we did outperform the market. Central America also and China for the first time we're outperforming the market. That's a very good development. Looking at again the individual markets, Western Europe certainly somewhat driven by rental fleets. We do believe that this 10% market increase has some effect due to some competitors increasing dramatically the short-term rental fleets. We have not participated as aggressively as some others may have done in the first quarter.

Secondly, we have maintained our premium pricing. It's been a very aggressive fight in the first quarter. I think that's clear in this market and clear to everyone on the call, but nonetheless, we have maintained our premium pricing and also our premium products, specifically engine-driven trucks that really do have emissions-compliant engines in them. We are not using any legal loopholes that may exist to be able to deliver older technology engines. We are really delivering the most state-of-the-art products available in the market today.

So the 10%, as I said, part of that is certainly affected by some of the movement in increasing short-term rental fleets of some of the suppliers, which we did not that extensively. In the other markets, as I said, we have outperformed the markets, and we're especially pleased of what has happened in China.

On page 11, just a small, deep dive on China. We've introduced some new models also with our so-called economy brand, Baoli. You see it on the bottom left-hand side here, the market, 17.7%. We did grow by 66.6%. We have a number of new dealers. Also, some of that due to the cooperation with Weichai Power, some new dealers that we have been able to sign up, and using some of the technology from Weichai Power, so that's been very helpful.

On page 12, a little bit more flavour on that. We have our first joint purchasing teams of four companies, so the KION Group, Shandong Heavy Industry Group, Weichai Power. We have put together a smaller package of about 60 suppliers, so we're not talking about our entire purchasing scope, but certainly a number under 100 million in terms of the scope that we're looking at. And we will be able I think in the coming months to give you a little bit more specific data on that, but nonetheless, what we've analysed so far, we are getting between five and 10% on some savings, so I think that's a very promising development. And as I said, on the sales and surplus side, signing up 22 new dealers, increasing the franchising network and using some of the new engines, that's been very helpful.

On page 13, a deep dive on some of our R&D activities and how they have progressed and led to increase the market shares. As you know, we are the number one manufacturer of electric trucks worldwide. We do know that the world is starting to change. Even some of our own numbers confirm that some of our former customers with IC trucks are now customers with electric trucks, so there is a drive in Europe and in emissions-dependent countries to move to electric trucks. We do have control of the key technology, whether it's the axles, the electric motors, the power electronics. We have very deep development partners with lithium-ion batteries.

Some of the new products that we will introduce now with lithium-ion technology will be displayed in the coming week at the large CeMAT fare in Hannover beginning on May 19th and also at the World of Material Handling, Linde, which is going on right now. We have a number of new launches that we've introduced to these products. And as you'll see on the right side, since 2007 we've been able to dramatically increase our market share; Western

Europe, up 5.5%; Brazil, 8%; Eastern Europe, 3.7; and even China, which is traditionally a low-cost engine-driven market, 1.8%. So that is a very important technological step. We are the undisputed market leader and that trend is a mega trend that is continuing in our industry and we feel very comfortable with our position.

So that were the highlights of the first quarter of 2014. I'd like to turn it over to Thomas to go into the financial highlights.

Thomas Toepfer

Yes, thank you very much. And if please, on your deck, if you turn to page 15 you have the overview of our key performance indicators; on the very left side the order intake in terms of euros. You see a very nice uplift of 4.4%. Nevertheless, we did have a negative FX effect within that, so if you adjust for it the uplift would have been even higher, with 6.1% year on year.

In terms of revenue, the development is more or less flat, with 0.3% development. Also here we have negative FX effects of 18 million, and adjusting for that the uplift would have been 2%. Our adjusted EBIT or operating performance, operating EBIT is slightly down to 87 million. That's an 8% margin. The key driver here is that we also have negative transaction effects through currency movements which we were not completely able to hedge relative to last year. And that is mainly affecting us in Q1. While on the net income, we are more or less on previous-year level, and what is helping us here is obviously our reduced financial expenses, because we have improved our financing structure after the IPO.

So going a little bit more into detail concerning the individual numbers, on page 16 you have the order intake and that gives you a little bit more the long-term development over the last quarters. You see it's a very strong quarter, with 1.196 billion, if you compare it to the development over the last two years. And I would especially like to stress our book-to-bill ratio. The order intake was 10% higher than our sales. I think that's a very good development and that obviously then also drove up our order backlog by 10% to 764 million, which is a very, very good development.

If you then go to page 17 that gives you the details on our revenue development, obviously a more or less flat development overall, but very positive is the services development, with plus 7.9%. And positive contribution and development in all segments. The new truck business is down by 5.5%. That is mainly driven by the FX effect that I was already referring to, but also obviously by the somewhat lower order intake or the lower order book level that we had at the end of 2013. And you have seen that mainly the order intake which we had this quarter was not yet transformed into revenues but helped us to increase our order book to the number of 760 million.

If then you turn to page 18 you have the EBIT development, as I said, 87 million. I think a very good development in our gross margin. We increased it from 27.8% to 28.7, so that's a very nice uplift. And against, as I said, we have a negative transaction effect of roughly 4 million which is affecting us. I think overall what you may have observed is that our fixed cost increase is very well under control. Our FTE numbers have essentially not moved since the end of last year, and that is so by intention, so we have a very tight cost control. Nevertheless, we have some wage inflation of course which is affecting us, so that overall we have a slight decrease in adjusted EBIT. However, the adjusted EBITDA is even slightly above the 2013 level.

Looking at page 19, you have the reconciliation from the adjusted EBIT to the reported EBIT. I think the only point that I would like to mention here is that, lastly, we had a positive impact of 8 million from the Linde Hydraulics carve-out, which obviously did not re-occur this year.

On the net financial expenses side, you see we have a very good development to 30 million in this quarter. I think in previous calls we said that we think the sustainable level will be somewhere between 30 and 33 million, and that's exactly what you can see what has materialised now in Q1. So it's a very sustainable reduction of the interest payment after our IPO.

If you look at the tax line, 19 million of taxes, with a tax rate of 39 million. It's obviously not what we expect for the entire year, so we do expect some normalisation. And our tax rate that we are targeting is still 30% for the year 2014, so we have some seasonal effects that do affect us here. But overall, we do think that our guidance is fully intact with respect to our 30% tax rate.

If then you go to page 20 of the deck you have the cash flow developments, starting with the EBITDA, excluding our financial services segment, of 148 million. I think it's worth mentioning the increase in trade working capital of 90 million is slightly higher than last year. However, this is completely a seasonal effect and the absolute working capital has not increased since 2013, so I think our very tight control of that figure does materialize here. Taxes paid are slightly higher than in 2013. Pension payments are stable, and also the leasing cash flow on prior-year level. That leads us to an operating cash flow of 41 million.

Capex is slightly higher than last year, and the rental capex of 37 million is higher than last year. However, this is mainly rental fleet replacements, so we have not increased our rental fleet relative to Q1 2013. And that leads to a free cash flow of minus 22 million, so slightly below previous-year level. However, as I said, the change in working capital is a seasonal effect and that will reverse over the course of the year.

If then you go to page 21 you have the net debt development. And let me start with the left-hand bar, so you see the net financial debt for the entire group is 1.027 billion. That's up by some 48 million of the number of 979 which we had at the end of 2013, so only a slight seasonal uplift. And then you have the reconciliation, so if you add the procurement leases of 18 and deduct 150 million, which is the net financial debt of our financial services segment, that gives you the 895 million, which is the net financial debt of the industrial segment of the group. And then if you want to derive from that the total industrial net debt number you obviously have to add the internal rental fleet funding by financial services, this is 450 million, and the net pension liabilities.

The internal rental fleet funding has not moved greatly since the end of 2013, and the 587 million, that has increased due to the fact that we have lower discount interest rates and therefore the net pension liabilities have increased relative to the end of last year.

With that, I would like to turn to page 22. That gives you our maturity profile. So in the bullet on the right-hand side you can see that on April 15th, so subsequent to the quarter we're just talking about, we called two pre-IPO bonds, the 327 million, which had a coupon of seven and seven-eighths, and a 200 million variable with a margin of 450 basis points. We refinanced that with long-term bank debt, on the one hand a drawing under our existing RCF3, but also a new credit line of 198 million at very attractive interest rates. So that in the full year we do expect interest savings of roughly 20 million. However, in Q2 we will have a negative one-off effect of 23 million, which is the prepayment fee that we had to pay and the financing costs, which will then be seen in our P&L.

On the left-hand side you have the maturity profile, so you can see very long-term financing of the group, with RCF line in 2018 of a little over a billion, the new credit line of 198 million and the 450 million of bonds, which we put into the market in 2013.

Rating agencies have upgraded KION by one notch each agency. So Standard & Poor's, we have a BB with a positive outlook now. Moody's has upgraded us to Ba2 with a stable outlook. And we do think that reflects the positive development after the IPO, but also then our improvements that we have made in terms of the structure of our financing.

And with that, I would like to hand it back to Gordon, who will give you some words on the outlook.

Gordon Riske

Okay, thank you. I'm on page 24 here. The most important statement is that we confirm our 2014 outlook, and that's based on what the market looks like right now, today, and the visibility that we have. We are assuming that the European recovery that has undoubtedly started and maintained its path through the first quarter, that that will further stabilise Europe. In other words, we are not assuming that any of the current crisis discussions has any major effect on our markets in Europe. We also expect that the current uptrend in North America stays and the Asian markets do continue a relatively good development, as has been the case in the past quarters, so that we are assuming an annual growth rate of about 4%.

And that means that with that backing of the market we will be able to continue to unlock the potential that we have in Western Europe and in the emerging markets. We did have a solid start into the first quarter, especially on the order intake, and we'll see those revenues coming in, in the second half of the year. So that means on total year we do see a slight increase in order intake and revenue compared to 2013, a significant increase in our adjusted EBIT. And just in case anyone asks the question in a few minutes, slight means the lower half of the single-digit spectrum and significant means the upper half of the single-digit spectrum, just so we're clear there. So that means a stronger net income growth from the higher EBIT and free cash flows to be higher based on the EBIT effects. Our capex will be about the level of 2013, so we should be able to continue to reduce some of our debt.

So all in all, as I said, based on the current market conditions and what we have seen in the first quarter, also what we've seen in April so far, we are fairly confident to be able to maintain our outlook.

And with that, we'd like to close the presentation part of our call today and turn it over to you and entertain any questions that you may have. Thank you very much.

Operator

Thank you. Ladies and gentleman, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. If you are using speaker equipment today please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. And one moment for the first question, please.

Our first question today comes from the line of Sebastien Gruter of Société Générale. Please go ahead.

Sebastien Gruter

Hi. Good afternoon. A few questions, if I may. First, could you help us with the bridge on Q1 margin? I mean, they are down 50 bps year on year. The FX explains 30 bps of that, but could you help us through the bridge, what is the impact of volume, the mix between OI and aftermarket, the cost savings, cost inflation? I mean, can you help us with the bridge and to understand if you will be able to see some margin improvement in the coming quarter in Q2.

And also, related to that question, what was the increase in depreciation in Q1?

And another question would be on Europe. I mean, you have been underperforming the European market for now almost the five last quarters. You mentioned the increase in the rental fleet in Q1 as a reason for that underperformance. Do you feel that the environment is more competitive today than it was 18 months ago? And which competitors specifically are more aggressive today than they were 18 months ago? Thank you.

Gordon Riske

Yes, let me start with the last question, and I hope we can get the numbers for the other ones. The Western European market underperforming, the 10% that happened in the first quarter, we don't know how much. We do of course track what statements are made into the markets about increasing rental fleets, and, you know, if you increase the rental fleets by a few thousand units in a quarter that certainly has a couple of points in terms of moving the markets. And as I said, we are extremely conservative with that. We already do have an existing fleet, so that does have some effect.

Clearly the competition in Europe has become tougher in the past 18 months, no question about it. And I think, you know, who are the players in the European markets? That's pretty easy to read. There are, you know, three major players or four major players, if you want, in the European markets that cover basically 75% of the market. And that is Linde as clearly number one, and you have STILL and you have Jungheinrich and you have Toyota. So those are the same players as we've had 18 months ago, but certainly the competition is tougher and that's why we've continued to increase our sales and service operation, especially on the service side. And we have seen nice growth there, but, as we've always said, profitability is the most important thing. And we've been able, really in a very tough market, to maintain a good price position.

So the other...

Thomas Toepfer

Well, yes, Sebastien, the margin development, if you look at our P&L, I think the good news is really that our gross margin, we have increased that by almost one percentage point. So what is affecting us negatively here is, as I said, the FX effect of roughly 4 million. There's no, I would say no big shift in terms of mix effect. So that the second point that is affecting us is the slight cost inflation that we had in the SG&A line items. I think it's still moderate, but, we do have some personnel cost inflation of roughly 3%. And if you look at our total personnel costs of roughly 1.2 billion that does have some effect.

Therefore I would say these are the two major things against a flat top line. And I would expect in the course of the year that our top line will increase, especially in the second half, and with that we will then also see some margin expansion.

The second question was the increase in depreciation and that leads also to some, I would say, different development in our EBIT versus the EBITDA. That is partly driven by the fact that we took our dealer Willenbrock on board, who has also added some additional depreciation to our P&L, also a slight positive EBIT effect. But that mainly drives the different development between our adjusted EBIT and the adjusted EBITDA number for that particular quarter.

Sebastien Gruter

And at the EBIT level, what is the contribution of that acquisition?

Thomas Toepfer

It's roughly 1 million.

Sebastien Gruter

Oh, okay. Thank you, very clear. Thank you.

Operator

And our next question comes from the line of Sebastian Growe of Commerzbank. Please go ahead.

Sebastian Growe

Yes, good afternoon, gentlemen, Sebastian Growe from Commerzbank. Four questions in total from my side, the first one on Western Europe. You said that unit-wise you were up 2.6%, whereas the market was up more than 10%. Maybe you can just specify a little bit what are the key drivers behind that. I'm assuming that this is more or less relating to the warehouse truck sales segment, that that was particularly growing strongly and that is probably not really where you are the strongest in the marketplace. Maybe you can just, you know, give us a sense behind these thoughts.

Then on China, you were referring to an all-time high level in orders. Can you just give us a quantification here? So the unit number would be interesting to hear.

And then moving onto sales and to the very high services share that you generated in the first quarter of 2014, I've seen that the increase in rental trucks was pretty massive, so it was up 8% year on year, although lower than at peers, as you indicated here. My question is if this is really a structurally high level or should we expect this trend, kind of, to reverse, i.e. by, say, it shifting from the rental business to a higher new business in the coming quarters?

And then on the financial section, on the NRIs that you had in the first quarter, it was around 4.5 million I've seen in the notes. It's consultancy costs, some relocation costs, etc. And can you give us a better grip what we should expect for the full year?

And then lastly, on M&A, we've seen the North American market growing again very sharply in the first quarter, so volumes up 14% year on year 2013, where it's growth of around 11%. And you indicated I think in a former newspaper interview that you gave that you are thinking at least to add some dealers in the North American market. Can you just give us an update where you stand there and if there's something that we might expect over the course of 2014? Thank you.

Gordon Riske

I'm not sure I got all the questions down, but I'll start with the first one, the Western Europe, 2.6% units, slightly higher in euro. So that is exactly the point that you made. A lot of that growth was due to warehouse. And that is not our biggest segment. There have been a couple of very large orders placed in warehouse from a terms of units, but from a euro value fairly small. That's why our euro increase is higher, and that is also a part of the delta of the market growing 10% and we growing less than that because we have higher priced and bigger trucks.

China, first quarter, we were about 4,700 units. I believe that's plus 700…

Yes, so that's over 700 units up versus the year before. If we stay on that track, of course that would be an all-time high. So 4,700 units is a nice first quarter for us.

The fifth question, US market, yes, we have made some progress. We have now a team locally installed. We have not made any acquisitions at all in the US market at this point. Our main focus right now is in the product development area for new products that would be launched in that market, and not in the year 2014. That is 15 and 16. So at the moment we are in, let's say, a preparation phase, putting our people in place and the right products. We are of course always looking at increasing, as we have in other parts of the world, our service reach, so if there is an opportunity to acquire a dealer we would certainly look at that very intensively.

Thomas Toepfer

And then with respect to your question concerning the NRI, I would say the number that you’ve seen in Q1 is a, let’s say it’s a good prophecy for the further development in the course of the year so I would expect something between 16 and 20 million for the entire year and then it will go down significantly in 2015. And the third question that you had with respect to the service business, I’m not exactly sure whether I got that got that correctly; what I would say is the high share of services that will I would say somewhat slightly go down in the course of the year simply because the new truck business will pick up especially in the second half of the year according to our expectations, and therefore this shift which we have seen and this increase in Q1, that will not continue through the entire year but the new truck business will play a more important role in the second half then.

Sebastian Growe

Okay fair enough. If I may follow up on that one, so it is clear I think that the Q1 mix always is dominated by a higher relative share of services compared to other quarters, however I was a bit surprised by seeing really the service business growing that strongly. So if you look at the rental business, it was 117 million compared to 108 million, so up 8% year on year.

If you look at the used trucks business, that’s up even 21%, 64 million over 53 million last year. And I was just curious if there might be some element in there, and Mr Riske you referred to it before in your introduction speech, that you have probably some kind of uncertainty in the market or so and I was just assuming that people are just not going for the new truck business right now, so that was the reason probably that we have seen kind of a step up in this part of the service business, i.e. rental and used trucks, which might then reverse over the rest of the year so that that might effectively even decline, but then you have probably higher new trucks sales, is that probably a correct assumption?

Thomas Toepfer

Well I think, I mean there's one effect in that which you should keep in mind; one is the acquisition of the dealer Willenbrock which we had, and the second one is the sale of our Linde heavy truck division. So the Linde heavy truck division, that was mainly a new truck sales which were missing now in 2014 relative to 2013 and the effect is in the low teens. And the Willenbrock acquisition is additional services business which we are having in 2014 which we did not have in 2013 and the effect I would say is in the higher teen numbers and therefore both almost equal out but the one is supporting the services business and the other one we are missing sales in the new truck business.

Gordon Riske

Exactly correct.

Sebastian Growe

Okay, that's very helpful. If I may come back with really the last one question now then with the NRIs, so you said you would expect 16 to 20 million in the full year, can you just give us an idea for really what exact measures this money will flow out? And essentially what really the cash impact is at the end?

Thomas Toepfer

Well the cash impact will be in the same order of magnitude so 16 to 20, it will be mainly some last restructuring payments that we make also with respect to the closure of the Merthyr Tydfil factory in Wales and some, I would say, one-off consulting costs which we have also with respect to some efficiency measures that we're implementing in the group. But with that, these NRIs should then be largely finished and we will see a significant decrease in 2015.

Sebastian Growe	Decrease, but still you would see some NRIs or how should I interpret this?
Thomas Toepfer	Sorry, one more effect is the PPA of the Linde Hydraulics business, this is one that will also continue in 2015 and therefore it will not completely go away but these PPA effects we will continue to have them also in 2015.
Sebastian Growe	Sorry for clarification, but the total number is six million that you are referring to in the first quarter, do I get that right, so that we get to about 25 million for the full year, so it's not effectively just NRIs but kind of PPAs that's really what we talk about then?
Thomas Toepfer	No I think we're getting confused here. So in our NRI number we have the PPA on the Linde Hydraulics business which 1.6 million in this quarter and that will also continue, but we can send you the details maybe offline in an Excel spreadsheet and then you have all the numbers.
Sebastian Growe	Okay, that's great. Thank you.
Operator	And our next question comes from the line of Markus Almerud of Morgan Stanley, please go ahead.
Markus Almerud	Hi, Markus Almerud here. Can I start out with on the different European markets, and especially Germany, do you expect it to go back to previous peaks or did we see, was it something extraordinary there, that's my first question. The second question is, in the cash flow, how much rental Capex should I expect for 2014? Those are my first two questions.

Gordon Riske	Yes, good. First question, I mean we are already now close to the peak as you can see on page eight of our presentation, yes exactly page eight you see Germany there on the way back, I don't know that 2014, we don't think that will be at the peak levels so that's not in our forecast but certainly over the next two to three years should that trend continue, then we'll be very close to that.
Markus Almerud	Okay.
Gordon Riske	The second question was on rental?
Markus Almerud	Yes, what rental Capex should I expect?
Thomas Toepfer	Yes, I would say the 37 million that you see you cannot multiple that by four over the entire year and in addition you have to see that when we have rental Capex we will also have a positive counter-effect in the operating cash flow and therefore if your question is how much burden will we have through the rental Capex in the cash flow, this will largely equal out over the year.
Markus Almerud	Okay. Then can I ask you what is the average length of your order book at the moment?
Gordon Riske	About four months.
Markus Almerud	Four months, so no real change, okay. Then can I just ask also on how big is Baoli compared to whole China – so how many units is Baoli, if the total units is 4,700?

Gordon Riske — Sorry, could you repeat that question?

Markus Almerud — Baoli - is how much, so how many units is Baoli?

Gordon Riske — Yes, Baoli this year will make about, if everything runs well, over 6,000 units, so that would be a doubling of the Baoli units in the last three years. Just a correction on the order book, it's three and a half months, not four.

Markus Almerud — Okay yes. And then just one final question, in LatAm, is it general softness you're seeing or is there any specific sector, outside of mining I guess, which is driving?

Gordon Riske — In what… we didn't…?

Markus Almerud — In Latin America, is it general softness?

Gordon Riske — Yes, the entire industry, it's not just for us, other industries as well, as you know interest rates have increased and there are some other programmes for subsidising some of the locally made things, those programmes have slowed down somewhat, so it's not just a particular industry – in general the industry is down.

Markus Almerud — All right, thank you.

Operator

Our next question comes from the line of Felicitas Bismarck of Deutsche Bank, please go ahead.

Felicitas von Bismarck

Yes, thank you very much. I was wondering your competitor Jungheinrich has just mentioned that their order intake in terms of units has accelerated quite significantly in April and also beginning of May and that they're also ordering quite a lot of counter-balance so that the product mix is actually getting better in the last couple of weeks; could you comment on how this is developing in your case and if they are taking market share from you? The second point would be if you were to look at your guidance, how much of that at this point of time, how much FX do you have on your sales line and then your EBIT line factored in? And the last point would be your order intake looks stronger in terms of value than units so your product mix is improving, can you elaborate a little bit on that, and is that actually a true observation? Thanks.

Gordon Riske

Yes, maybe we can combine one and three. May is only eight days old, so it's a tough call right now. I can say I don't know exactly what the other competitors are saying about April, but April will be a very good month, also in terms of product mix it seems to be a general trend that warehouse, especially warehouse customers, warehouse customers in France make their orders in the first quarter and so April/May is more of the general industry and in April we are seeing the same thing, so a good order pick-up. In terms of the order intake value per unit increasing, that is certainly our product mix in general. As I said a Linde industrial truck with a compliant engine does have a higher price than maybe a competitor truck using a carry-over engine from a previous emissions level which is still legal in 2014 but not really a premium so that is certainly at least a 10% price or a costs increase which also reflects the price, that's one thing guiding it. The second thing is we have made quite extensive efforts in our so-called customer options offering, trying to tailor-make the customers, and that's a request that is coming, tailor-made solutions for customers asking for attachments and configurations that are very specific to an application, that part of the business has increased. We've also invested in some manpower in the two main factories, Hamburg and Aschaffenburg to be able to accomplish that, France has always had that capability, so I think, you know, the Europa truck is actually favourable, those are the factors driving that. Now on the FX…

Thomas Toepfer

In terms of our guidance, so in our sales line we have factored in roughly 80 million of negative translation effect and I think on the EBIT line, as we already said in the last call we do see negative transaction effect in the low teens, so I would expect anything between 10 and 15 million of a negative transaction effect in 2014. So, and with that, I think one can say the Q1 is a good proxy for the further development that we do expect in the course of 2014.

Felicitas von Bismarck

Okay, thank you very much.

Operator

Ladies and gentlemen, are there any further questions from the phone line? To use your opportunity to ask questions, please press the star followed by one. And our next question comes from the line of Stefan Augustin of Kepler Chevreux, please go ahead.

Stefan Augustin

Yes, hello gentlemen, thank you very much. One is coming back to the market. If I recall that correctly, Toyota has last year made the statement that they want to drive the leasing business because as Felicitas has already said, in the prior conference calls like everybody more or less seems to point to the other in the hoping that they increase the rental fleet, that you said you didn’t so much, which then will bring me to my next question. You see nice sales increases, some of that is explained by your acquisition, but still do you have the feeling that the utilisation rate of your rental fleet has increased and wouldn’t that be, let’s say then, a necessity to make some further investments there? And so can you bring me a little bit more to the effect that, let’s say more or less both and you Jungheinrich have seen unit sales growth lower than the market growth in Western Europe, so do you have an explanation of what is going on here?

Gordon Riske

As I said part of it is certainly investment in rental fleet and you mentioned Toyota, we know that in England, in UK have a big campaign to do that. You obviously have to compare where the market shares are, we're normally in all of these markets with our two brands combined, between 35% and 45%, so we are talking about quite a different, when somebody has 10% or 15%, certainly a different base level and installed base. So we don't need to make that much adjustment in the rental fleet because we do like to keep the utilisation at at least 70% - 70% is kind of the point where you can make attractive enough returns but still give the customer enough flexibility to get the type of unit that he needs. If the utilisation goes above 75%/78% then you do need to invest – if it goes to 65%, that's already a warning point to see, you know, is the fleet too big or do you have to make some adjustments there, so the utilisation rate for our average right now is around 70%, 75% in some markets, we have seen that stable, that has not increased dramatically, it does really depend on the region – the UK is certainly somewhat more robust than other markets, it's also traditionally a higher market where customers are leasing or contracting products and not buying them outright.

Thomas Toepfer

But I think, I mean what you can say, yes, we did slightly increase the utilisation rate, so you have the numbers for our short-term rental fleet in the balance sheet, so it's 463 million, and at the end of last year it was 461 million, so really a slight increase of 2 million. And if you then see we have generated more revenue, so yes we did slightly increase the utilisation rate of our short-term rental fleet in the last quarter, that is true.

Stefan Augustin

Is it that with Willenbrock you acquired, let's say, a certain amount of rental trucks?

Thomas Toepfer

Yes, that's true but that was already reflected in our balance sheet at the end of 2013 and therefore Willenbrock did not have an effect on the rental fleet development in the last three months.

Stefan Augustin — So but the rental fleet of Willenbrock isn't the main reason why the depreciation goes up in Q1?

Thomas Toepfer — That's true.

Stefan Augustin — Okay, thank you very much.

Operator — Our next question comes from the line of Felix Wienen, please go ahead.

Felix Wienen — Hi gentlemen, that's Felix Wienen from Berenberg. I would have two quick questions on your Linde Material Handling segment. The first one would be whether you've already really seen any kind of benefits from the closure of Merthyr Tydfil in Q1 and if you could give us an idea of the magnitude here? And second, if you could again, on the Willenbrock acquisition, split out the impact on orders and sales in Q1 for LMH? Thank you.

Thomas Toepfer — Well, in terms of Merthyr Tydfil, as I said we have first of all seen a negative effect in terms of our new truck sales of roughly 10-11 million. The EBIT effect is in the first quarter rather minor of the heavy truck division, so it is between one and two million that we see a positive effect from the closure of Merthyr Tydfil this quarter.

The second question Willenbrock…

Gordon Riske — Willenbrock effect in terms of orders and sales.

Thomas Toepfer — Sorry can you repeat that question on Willenbrock again?

Felix Wienen	Yes the question was simply the consolidation effect of Willenbrock on Q1 order intake and sales in Linde Material Handling where we had this very strong order growth of I think about 9%, was there any material effect from the consolidation? So the difference between that and the organic order growth would be interesting.
Thomas Toepfer	Yes, I think what you have to distinguish is the order intake was always in the Linde segment especially in terms of units because Willenbrock did order their units then through Linde so it does not have an effect. The major effect, and I would say the only effect, is that one I was referring to which is the services businesses which we have now internalised and the effect on the after sales business is, as I said, roughly 10 million which we had from Willenbrock but the effect on the order intake is almost negligible.
Felix Wienen	Okay, thank you.
Operator	And our last question for today is a follow-up question from Sebastien Gruter of Société Générale, please go ahead.
Sebastien Gruter	Hi, just a very quick follow-up on China, I mean the January/February did show us plus 34% growth, in Q1 it was 18%, so I guess quite a sharp deceleration in March; could you tell us what you've seen in April? Have you seen again a deceleration further from the March table? Thank you.
Gordon Riske	There is quite an effect in 2013 versus '14 that is this year's difference, that's based on I think Chinese New Year is one effect, but that is not an indicator at all, the 17.7% in Q1 of 2014 that the market is declining in any way, it's still going very strong.
Sebastien Gruter	So it's still going double digit in April?

Gordon Riske	Yes.
Sebastien Gruter	Yes, okay, thank you.
Operator	Mr Riske there are no further questions from the phone lines.
Gordon Riske	Okay. Then thank you all for participating and we look very much forward for our next call for the first half of 2014 numbers.