



**Press release**  
8 November 2018

## **Interim report January–September 2018**

### **Weak demand and start-up costs affected the quarter negatively**

#### **Third quarter**

- Consolidated net sales decreased by 14.5 per cent to SEK 62.3 million (72.9).
- The operating loss (EBIT) increased by SEK 11.6 million to SEK 4.6 million (profit 7.0).
- Earnings per share after dilution were negative in the amount of SEK 0.21 (positive 0.18).

#### **First nine months of the year**

- Consolidated net sales decreased by 6.9 per cent to SEK 191.5 million (205.7).
- The operating loss (EBIT) increased by SEK 9.8 million to SEK 0.6 million (profit 9.2).
- Earnings per share after dilution were negative in the amount of SEK 0.08 (positive 0.19).

#### **Significant events during the period**

- In August, Railcare commenced the transport of iron for Kaunis Iron. The contract covers a five-year period and is estimated to be worth SEK 360 million.
- Railcare extended long-term lease contracts on two locomotives for Norwegian CargoNet AS. The new contract will apply from January 2019, extending over a three-year period. The contract can subsequently be renewed in a maximum of four years. The value of the contract is approximately SEK 40 million over the seven-year period.

### **CEO's comments**

For the third quarter of 2018, Railcare Group reported net sales of SEK 62.3 million, with an operating loss of SEK 4.6 million, resulting in a negative operating margin of 7.4 per cent.

The third quarter is usually the time of the year in which the Swedish operations are most busy. Unfortunately, that has not been the case in 2018. We experienced continued low utilisation in the UK and also in the regular operations in the Transport Scandinavia segment. The reason for the lower utilisation in regular transport is that the Swedish Transport Administration (Trafikverket) had only one track replacement project planned for the whole of 2018 and this plus the other transport operations were carried out earlier in the year. In general, order volumes from our railway construction customers were lower in the third quarter. Railcare's organisation and machines are designed and invested for our customers announced increases in both our home markets, Sweden and the UK. Trafikverket and Network Rail's new rail maintenance plans commence in 2019 and will continue for many years to come.

However, we are seeing an increase on the construction side and for our Railvac machines over the year, as we prepare for track replacements planned for 2019. Trafikverket's plans include five track replacements in 2019 and eight in 2020. Railcare's organisation is designed for a higher order volume than we have seen over the past 12-month period, and we intend to maintain a high degree of flexibility to meet the increasing demand for delivery capacity.



In our home market of Sweden, we have a good level of utilisation for all Railvac machines, which are currently engaged with preparatory work ahead of next year's track replacements. These preparations involve handling cables along the stretches of track to be replaced between Eskilstuna and Flen, Simonstorp and Strängsjö, Borås and Hillared, and between Mjölby and Gistad. In August, we had a period of fourteen days during which machines were relocated to new work sites. During the winter season, we will build two new Ballast Feeders for the Swedish market to manage the projects included in Trafikverket's plans. The machines will be ready by April 2019, when the ballast changing season begins. During the quarter, our lining operation performed a number of re-lining assignments for the railway in Sweden.

In the Construction Abroad segment, we are still encountering lower volumes in the UK where our customer, Network Rail, is nearing the end of its Control Period (CP5)<sup>1</sup>. Network Rail's current focus is on planning prior to the start of Control Period (CP6), on 1 April 2019<sup>2</sup>. We are attending customer planning meetings regarding our resources, enabling the customer's plans and requirements to become more detailed. I am pleased to confirm that our Ballast Feeder, which has been adapted for the UK market, is working on its first project in Aberdeen, Scotland. Elsewhere within the segment, an English adapted Railvac was on lease to Norway during the period May-October.

For the Transport Scandinavia segment, the third quarter was difficult with significantly lower volumes in regular transport to the construction projects. The sales for regular transport operations (excluding Kaunis Iron project) amounted to SEK 19 million (34), the decrease in volume subsequently weakened the result. The fundamental individual reason, as described above, is that there have been no major maintenance projects, such as track replacements or major ballast cleaning projects, in which we are usually involved in various ways. Effective from mid-November, five locomotives will be utilised in our snow contract with the Trafikverket.

More positively, we began, during the quarter, transporting iron between Pitkäjärvi, Sweden, and Narvik, Norway, for Kaunis Iron. The project started with one transport per day from 13 August and increased to two per day from 24 September. This business contract generates stability, profitability and growth for Railcare. We have initially incurred start-up costs for the project, including establishing operations, training, recruitment, production planning, adaptation of wagon couplings, etc. The majority of these costs were accounted for in the third quarter of the year and we are now in normal production in accordance with the five-year contract.

On 31 August 2018, we experienced a track switching accident at the Pitkäjärvi railway yard, which is the transshipment terminal for the iron from Kaunis Iron's mine outside Pajala, Sweden. The only damage was to the locomotives and the entire accident was managed very well by our organisation with no stoppage in production. The two damaged locomotives are in the workshop for repair, however the iron is still being transported according to schedule. The entire incident is being treated as an insurance case and we have reserved SEK 0.45 million this quarter for the insurance excess cost.

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<sup>1</sup> <https://www.networkrail.co.uk/who-we-are/publications-resources/our-plans-for-the-future/>

<sup>2</sup> <https://www.networkrail.co.uk/who-we-are/publications-resources/strategicbusinessplan/>



We are now entering the final quarter of the year and, from mid-November, both our construction and transport operations will be engaged with our snow contracts until mid-March 2019. We are now in full production with our transport of iron for Kaunis Iron. We see future increases in projects in Sweden, including the track replacements planned for 2019 and 2020, as noted in the preparatory work we are currently conducting with our Railvac and its cable handling projects. In Construction Abroad, we are prepared, with the necessary resources, for the announced major CP6 railway initiative starting in the UK on 1 April 2019. We also have the possibility for the export of machines, making an additional contribution should an order be received.

Although the third quarter of 2018 was difficult for certain parts of the company, we are keeping our sights set on the future, with a lot happening and a continued progression within Railcare.

Daniel Öholm  
CEO

*This information is information that Railcare Group AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out below, at 7:30 a.m. CET on 8 November 2018.*

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**About Railcare Group**

Railway Specialist Railcare Group AB offers products and services that enhance customers' reliability, punctuality and profitability, primarily in the Nordic region and the UK. The railway industry is in a period of positive development, with increasing traffic volumes and extensive investment programmes, as well as rapid development of cost-efficient freight and passenger transport and increasing environmental awareness. Railcare has unique opportunities to deliver effective solutions that help the railways increase their share of the total transport market. The shares of Railcare Group AB (publ) have been listed on the Small Cap list of the Nasdaq Stockholm exchange since April 2018. The Group has approximately 120 employees and annual sales of approximately SEK 300 million. The Company's registered office is domiciled in Skelleftehamn, Sweden.