CORPORATE PARTICIPANTS

Eeva Makela  
Cargotec Corporation - SVP IR & Communications

Mikael Makinen  
Cargotec Corporation - CEO

Kari Heinisto  
Cargotec Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Johan Eliason  
Cheuvreux - Analyst

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third quarter 2006 Cargotec Corporation earnings conference call. My name is Danielle and I'll be your co-coordinator for today. At this time all participants are in a listen-only mode. We will conduct a question and answer session toward the end of this conference. [OPERATOR INSTRUCTIONS]. As a reminder this call is being recorded for replay purposes. I would like to now turn the presentation over to your host for today's call, Miss. Eeva Makela, Senior Vice President, Investor Relations and Communications. Please proceed now.

Eeva Makela  -  Cargotec Corporation - SVP IR & Communications

Thank you operator. Ladies and gentlemen, we'll start our conference call today with a presentation by our President and CEO Mikael Makinen. After his presentation, which will last some 15/20 minutes, we will be available for your questions. Mikael please.

Mikael Makinen  -  Cargotec Corporation - CEO

Thank you. Welcome everybody. I will give a brief introduction. We will go through the -- through about 20 slides here in the following 10 minutes. The key issues in July/September was, as I've highlighted here on slide number two, the orders received EUR603m, up from EUR578m last quarter. I will come back to all of these points a bit later. Net sales grew by 8%, up to EUR625m, and operating income amounted 52 -- to EUR52m, which represents 8.3% of net sales. We also had a capital gain from the property sales of EUR18m. Total operating income for the quarter was 69, about EUR70m.

Then, during this quarter we also strengthened our Executive Board, and I will come back to that as well later.

If you go to page number 3, a few words about the market. We have said -- we are saying that the market continues good. That goes for both the global economy and the world trade. We see a continuous growth on the container traffic, in the shipbuilding in general and the load handling equipment. The container traffic has been growing even faster than the global economy, and our estimate is that it will do so in the future as well. Shipbuilding every quarter now the last year has been on a high level and continues to be on a very high level. In U.S., that is the only area where we have seen some kind of signs of leveling off, and that is related to the building materials supply, which is a small part of our Hiab business. During this good economy, we have also seen the service demand being very, very good in all business areas. This, of course, reflects the orders received in Cargotec in general.
In Hiab, one could say that the orders for loader cranes was especially strong during this quarter, and also in other types of the Hiab business. Kalmar container handling very strong, the only area where we have seen some kind of leveling off is the straddle carriers, but that’s due to the fact that we had a record level in 2005. So, we will see -- we will see it leveling off at a very good level. Of course, as -- seeing as all industry, heavy industries are doing well, the market for industrial forklifts have been good during the quarter as well.

MacGREGOR, all types of ship high demand. That means, for us the hatch covers, ship cranes and lashing equipment. Especially I would like to mention the cargo handling solutions for dry cargo vessels. You might remember that, earlier this year, we acquired the BMH Marine, now called MacGREGOR Bulk, and incorporated it into MacGREGOR, and there we see a very, very interesting market development.

On page number five, the orders during the Q3 were, as I said, EUR603m up from EUR578m. Not that much increase, but on the other compared to last year, but if you look at the first nine months, then you see that it’s been a 2% increase. And that we have, as I said earlier, we’ll see that the market will continue on a good level the future as well.

The order book continued to grow, now at EUR1.59b. Where should the order book be? In my opinion, the order book doesn’t need to be very, very high, because that could indicate that we cannot deliver everything. You have to remember, that especially in Hiab, the cycle is very short. When the customer orders the equipment, almost immediately after that they would like it to be delivered.

Net sales for this quarter up 8% to 625, up 9% if you take the first nine months. A good level 1.9b for the first nine months. You have to remember that during this quarter we had a North European holiday season, which is July, partly August, which shuts down the factories for two to four weeks. The development of the net sales, I’m especially happy about the fact that we have now been able to increase the net sales in the -- especially Americas and Asia Pacific.

You might remember that I had earlier said that, for us, an area of development is the net sales in Asia Pacific, and now it’s on a -- for the first nine months it’s up 16% from last year, and I’m very happy about that. At the same time we have had a good development in The Americas, and a more flat development in Europe, which isn’t that bad because that’s -- the market has been mostly growing in The Americas and Asia Pacific during this period.

Service. Service showed an 18% growth year-on-year, and that’s a very, very good figure, and you can see from the graph on page number nine, that on -- if you take first the red one, Hiab, it now represents 15% of the Hiab sales and it is about EUR100m for the first nine months. In Kalmar it represents 26% of the sales and up now at EUR228m. In MacGREGOR it's leveling off and the percentage of the total net sales in MacGREGOR, it has gone down to 27%. The reason for this being, of course, that we have had very, very big deliveries of new equipment at MacGREGOR.

Why is it leveling off -- why is the Service leveling off? One of the main reasons is that many, many ship owners now render trade as being very good. The rates have been very good. They don’t stop the ship for servicing. So this should indicate that we will see a good growth in the MacGREGOR Service in the future.

Finally, one word about the Service. One has to remember that it is now 22% of our net sales, which means that compared to some of our competitors, compared to the other industries, we already have a very reasonable size of our Service, so we are not starting now with the new Senior Vice President appointed for Services. He doesn’t start from scratch. We already have a very good base and a very good knowledge base as well.

Operating income 40m last year, now 52, plus, of course the 18, and on year-on-year [or] for the first nine months, up from 126 to 164. A very good development here, maybe especially happy that we managed to keep a good operating income during the third quarter which usually is a bit slow due to the holiday period.
If you look at the operating income from the operations by business area, again, I must say that a very good development. If we start with MacGREGOR going up from 7.3% to 7.9% for the nine months, then up now at 7.7%. I think this has been a great success story, bringing up the MacGREGOR to this level. The operational leverage on MacGREGOR is not that high, so the movements are slower, and we could never see huge increases in one quarter but we are, of course, working all the time to make the machine more and more efficient.

If you look at Kalmar, again, a good development now at 9.4%. For the first nine months, 9.4% as well. It's been a very good development. And the same goes for Hiab, now at 8.4. There you can see the effect of the holidays but on the first nine months it's up to 9.4%. Also a very good development. So if you look at the Cargotec in total, we are up 8.3% for this quarter and 8.6% for the first nine months. Also, good development.

Earnings per share, mainly mathematics based on the figures I've explained earlier. Not much about that, but now for the nine months it's 1.96, which is close to the pro forma for the whole 2005, a very good figure. And, of course the EUR0.80 for the quarter includes the sales of the assets in [Dumps].

Cash flow for the first nine months, good figure, 179 compared to 111 last year. For this quarter, 66 compared to last year's 95. Where is the difference coming from? Yes, we had a really, one would say -- could say, slow or even lousy year in the beginning of 2005, and then it was picking up towards the end of the year. The quarter is a bit too short to say anything but we had a very strong second quarter in 2006 and now, let's call it, the medium reasonable [2003] [inaudible - technical difficulty]. So the combination shows that it's improving. So I don't see any dramatic in it going down for one quarter. I think it's more important to look at the first nine month.

Key figures, you can all seem the here on slide number 14. I often get the question of low gearings and so on about why is this -- why are you -- shouldn't you do something about this? My answer is that we are working in a very, very fragmented market that I believe will be consolidated within the next three to five years. And to be part of that consolidation you have to be very strong if you want to be in the driver's seat and that's where we are today.

So I'm very happy that we are in this situation. Once the market is consolidated then you should have another type of gearing but, today, I think it's one of our main strengths going into the -- into this very interesting growing and consolidating market.

A few words about the strategy implementation. We base our strategy on the profitable growth in a market, as I said, which is consolidating, which is developing and growing. That's the base for our strategy. And our aim is to grow significantly. And when you say significantly it means both organically and through acquisitions.

We are also stating now, clearly, that within Service the target is a leading position, so we are really aiming to be the main provider of services in areas where we operate, meaning in harbors, all kind of connection points for global traffic, and for cargo flow, excuse me.

We will also change the way of working so that we can utilize our common know-how and up until now I don't think that we have used the benefits of scale in technology and in our global network, and that's something that we will work on very much. This -- all these targets, require a very big investment in personnel.

And, then I would like to jump to the next page, where I have the Cargotec's Executive Board, consisting of myself plus nine members. And this is now the Board that will take this Company into really a new level based on the strategy that I just explained. Out of these 10 members here in the Executive Board, half of them are new. I, myself, have been here a bit more than five and a half months and then the new ones are, Olli Isotalo, President of MacGREGOR, Harald de Graaf for Services, and Kirsi Nuotto, Human Resources and Matti Sommarberg, for Operations Development. So about half of the team is new, half of the team consists of, let's call them, old Cargotec Vice Presidents. So I believe that with this team we will be able to achieve the targets set for us.
Acquisitions. I don’t go through all these acquisitions here but, just to show you that although we haven’t done any very, very big major acquisitions, we have done six of them this year. Meaning almost once a month we have acquired a company. These companies that you see on page 17 represent about, for net sales about 100 -- totally about EUR150m on a yearly basis, and they bring us about 440 employees. So, in total, it’s a considerable measure of both human capital and net sales.

On the last page, the outlook. As I said earlier, the market situation is expected to continue good. We don’t see any big signs. As I was talking about the slow down in some areas in the United States, on the other hand, the cargo handling equipment in the United States doesn’t have that high penetration so there’s much work to do there. Central Europe, formerly Eastern Europe, are growing very fast at the moment. So, overall, we see the market situation to be good. And for these reasons, we indicated order intake for the fourth quarter is expected to improve from the third quarter level.

On the guidance, we stick to our previous guidance that the net sales exceed EUR2.6b and operating margin from operations is expected to exceed 8%.

That’s the very brief presentation. Now I’ll leave the floor to you. Thank you.

Eeva Makela - Cargotec Corporation - SVP IR & Communications
Operator, we’re now ready for the Q&A please. Operator? Operator, please, we’re ready for the questions and answers, please.

QUESTIONS AND ANSWERS
Operator
[OPERATOR INSTRUCTIONS]. Your first question is coming from the line of Eliason. Johan Eliason, please proceed.

Johan Eliason - Cheuvreux - Analyst
Yes, hello. This is Johan Eliason, Cheuvreux, Stockholm. A question on the top line and the seasonality. As I see the top line was a little bit short of the market’s expectations. Was there any normality in the seasonality here or was it just a bit of a misunderstanding from the market side do you think?

Mikael Makinen - Cargotec Corporation - CEO
On the top line, I think you have to remember that the third quarter there includes the seasonality which means the holiday period, which means that the factories are closed two to four weeks.

Johan Eliason - Cheuvreux - Analyst
Okay. If we look at Cargotec -- sorry the Kalmar business, the revenues were kind of flattish over last year, the order intake was down year-on-year. Was Q3 last year a very strong quarter or can we see a trend in this?

Mikael Makinen - Cargotec Corporation - CEO
You’re asking about Kalmar?
Johan Eliason - Cheuvreux - Analyst
Yes, Kalmar.

Mikael Makinen - Cargotec Corporation - CEO
Could you please repeat the question because I --

Johan Eliason - Cheuvreux - Analyst
The revenues reported was flat year-on-year, as I see it, and the order intake was in fact down somewhat. Is this a trend for Kalmar or was it difficult comparison numbers for Q3 last year?

Mikael Makinen - Cargotec Corporation - CEO
I think it's, you have to remember, as we said that the market, the market has been good but, as we indicated last time, we did not see, and it didn't happen that during the quarter three that there would have been any big projects, neither order intake nor deliveries. And we have said that now we see the fourth quarter to be a bit higher because they see that there are these big projects coming.

Johan Eliason - Cheuvreux - Analyst
Okay. So you see some big projects both in terms of orders as well as revenue recognition for Kalmar already in Q4 now?

Mikael Makinen - Cargotec Corporation - CEO
Yes.

Johan Eliason - Cheuvreux - Analyst
Okay. Excellent.

Mikael Makinen - Cargotec Corporation - CEO
One quarter is a bit too short for [business].

Johan Eliason - Cheuvreux - Analyst
No, that's fine. Then just a final reminder question. I think the tax rate was a bit low in the quarter. What's the tax rate we should expect on the full year?

Mikael Makinen - Cargotec Corporation - CEO
Kari, would you like to? Kari Heinisto, our CFO.
Kari Heinisto - Cargotec Corporation - CFO
This is Kari Heinisto speaking. The tax rate we estimate now is the annual tax rate of 28% which is given in the report. Taxes will be different after the whole year because the tax [session] is based -- yearly based, therefore, this is the best estimate we have today.

Johan Eliason - Cheuvreux - Analyst
Yes, but 28% for the full year then? Thank you very much.

Operator
We have no more questions in the queue.

Eeva Makela - Cargotec Corporation - SVP IR & Communications
Okay, if there are no more questions then, ladies and gentlemen, thank you on our behalf.

Operator
Ladies and gentlemen this concludes your presentation. Thank you for your participation. You may now disconnect and have a great day.