CORPORATE PARTICIPANTS

Eeva Makela  
Cargotec Corporation - SVP IR and Communications

Mikael Makinen  
Cargotec Corporation - President and CEO

Kari Heinisto  
Cargotec Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Johan Eliason  
Cheuvreux - Analyst

Lars Titland  
Langlade Capital - Analyst

Sebastian Ubert  
UBS - Analyst

Tom Skogman  
Handelsbanken - Analyst

Teera Reijonen  
Standard and Poor's - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cargotec Corporation Q2 review. My name is Wendy and I'll be your coordinator for this call. (OPERATOR INSTRUCTIONS). I will now hand you over to your host, Eeva Makela, Senior Vice President of Investor Relations. Thank you.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

Thank you, Operator. Ladies and gentlemen, welcome to Cargotec Corporation’s conference call. We will start with a presentation by our President and CEO, Mikael Makinen. The slides are available on our website. And the presentation will last some 15 to 20 minutes, and then after that we will be ready to answer your questions. Mikael.

Mikael Makinen - Cargotec Corporation - President and CEO

Thank you, and welcome everybody. Yes, let’s go to the presentation first and then if you have any questions, or I hope you have some questions, I will be glad to answer together with my colleagues here. I have Kari Heinisto, the CFO, my deputy here, and then, of course, Eeva Makela.

Let’s start with slide number two, key issues during January and June 2007. We had a very, very strong order intake. Order intake for the first six months were EUR1,864m and a record Q2, EUR949m, so meaning that the market is still very strong.

The sales grew by 13% and close to half of it was organic growth. We usually get the question that this is only because of acquisitions. But no, it was half organic, half through acquisitions. So we had a good Q2 sales of EUR743m and EUR1,437m for the first half year.
Third point, development of the service continued very strongly. We grew by 29% in our service business. So there is a very positive trend there as well.

If we look at the operating profit, EUR104m -- EUR104.1m for the first six months, 7.2%. And Q2, 6.2%, representing EUR46.2m. I'll come back -- I'll come back to the background of that a bit later.

So let's go to slide number three, market activity. I already said order intake was very good. We had a very, very -- had and have a very lively market. And the development has been good in all markets except the U.S. construction industry where we see a clearly lower level year on year.

Container traffic continues to be on a very high level, very good level there as well. And as you all know, ship building at the shipyards worldwide, they are continuing to have an order intake at a very, very high level. And we also see new shipyards being opened. So the market seems to be very good and it seems to continue for quite a time.

If we take products, then we could say that the load handling equipment demand in Europe was very, very strong. And as all the economic indicators indicate, industry is working very well worldwide, meaning that the demand for service is very robust at the moment.

On the following slide, our order intake continued strong. Yes because the market is good, so we should get our fair share of it. In Hiab, it's especially Eastern Europe, Central Europe and Russia. And then we have to remember on the other side of the coin is the weak demand in U.S. And that really reduced the order intake there.

Kalmar, healthy demand for all our products. Good market activity, lively, but we have to remember that there were no major, major orders during the Q2. We still have, I think, a number of major quotations out there, but the order intake for big projects wasn't there in Q2.

MacGREGOR, good on all ship types. If I start with offshore, offshore is a new area where we bought two companies, Hydramarine and Plimsoll, and formed an offshore group within MacGREGOR and they have had a very, very brisk order intake.

RoRo and bulk handling the same. Actually, you could say that all the ship types have been in a good market.

If we go then to slide number five, there you can see that the numbers of orders received increased by 17% for the first half year, by 25% for the second quarter. So a very, very good quarter.

The following page, that leads, of course, to a high order book, so we have now an order book of EUR2.244b which is, of course, a record high. It includes the offshore business which is approximately EUR250m. Why do we mention it separately? Because that's acquired business. So do we have also organic growth in the order book? Yes. So the offshore is about EUR250m of that. So we still have -- even if we take that out, then we have EUR2b, so that's clear growth.

On the following page, page number seven, you can see the good growth in sales. 13% for six months, 13% in this quarter. Good development and we see it continuing at a very good level for the rest of the year as well.

On slide number eight, there is the geographical distribution of the sales. And here we see clearly the impact of the U.S. market. The U.S. market, especially in Kalmar has been -- excuse me, especially in Hiab has been very low. So compared to last year we had a 6% drop in sales in the Americas.

While, at the same time, as I have said many times earlier, that we focus very much on the Asian market, Asian market has developed very well. And we had a 31% increase in the Asian market. At the same time, Europe is very strong, I said earlier, so there is also a 17% increase in the European and Middle East market.
Service, on slide number nine. We have been talking about service for a long time, how we develop the service and now you can see some of the fruits of that. The development has been very good in all business areas.

We have now a total service business which is already a sizable business, I would say, even if you compare it to -- although even if you compare it to our competitors' related industries. One could say that now the scale of our service business is fairly sizable. It grew by 29% and now it's 25% of our net sales. So also there a very, very good development.

Slide number 10, operating profit. There, of course, you have seen, you have read our explanations. And I suggest that we go to slide number 11 to give you some -- maybe opening up a bit what it consists of.

If we start with Hiab, it was 8.4% for the first six months. And one has to remember that for the closing of the Dutch factory, we reserved in Q2 EUR5m -- sorry, EUR4m. So that's cost reserve included in those figures of EUR4m.

You also have to remember that, as we said earlier, that the U.S. demand was clearly below last year. And even though the development in Europe and Asia has been very good, it could not fully compensate the downturn in demand in the U.S.

In MacGREGOR, excuse me, we have the purchase price allocation. EUR2.4m for the first part of the year and about half of that goes in the MacGREGOR figures, which means EUR1.2m that you could add to the MacGREGOR figures. Otherwise I would say that the MacGREGOR is doing fine at the moment, and looks to be doing fine in the future as well.

If we then jump to corporate administration, there we have the first six months last year, we spent EUR6.4m. Now EUR9.5m. So there's EUR3m increase in half a year. Where does it come from? We have said and guided already earlier that this year we will spend on developing the service business, strengthening the knowledge base, HR and so on. So there will be extra cost during this year. These are things that we have to put in place in order for us to achieve our financial targets for the coming year. So we have not changed the target of 10% in 2011, a more than 10% growth per year.

Kalmar -- or maybe before I go to Kalmar, I would also like to say that the purchase price allocation, we have indicated that the level is about EUR10m for the full year. Big part of it goes into MacGREGOR, but just to give you an idea of how big it is this year.

Kalmar, I said earlier, EUR1.2m comes from the purchase price allocation. Other changes, or not changes, but that affects the figures are, of course, that we have acquired quite a number of service companies. In the beginning when you integrate them, there is a number of costs involved, but they create turnover, but not profit. So in the beginning, when you buy new companies, you have to have this kind of initial integration costs. And they are affecting Kalmar in this quarter.

Second thing is that we have a higher cost from expanding the presence in big cranes and automated solutions. I don't know, can you see, if you go to the next page, if you turn so those who are on the web can see. On the next page you can see what we mean by the big cranes and automated solutions. So it's ship-to-shore cranes, automated stacking cranes and RTG cranes. This is what we call the big crane. There we have put in extra efforts into developing solutions, organization, products and so on.

So if you go back to the previous page, these clarifications should give you a guideline of where we are at the moment, why we are at this level, how the whole -- what the whole here will look like.

If we then go to the next slide, that's the operating profit, EUR46m for the quarter. EUR104m, as I said, for the first half year. But, again, one has to remember what I said earlier about these investments that we have done, and a big number of them now during Q2.

Following slide, earnings per share. EUR1.17, same level as last year. EUR0.55 for this quarter. So fairly good, good development there.
Cash flow low. EUR31m for this quarter, EUR83m. It’s partly due -- it different between the different quarters. It’s partly due to the fact that when the sales is growing, you increase the inventory and that has an effect on your cash flow.

Following slide, key figures. I don’t know if there’s that much, it's more mathematics. Maybe you can ask then if you have any specific questions. I think I will jump to the next slide.

And that’s acquisitions completed 2007. And there are four distinct categories. First of all, a number of companies are service related for us to increase the service sales, the service network. We have acquired a number of companies, as we did last year as well.

Second category is Hydramarine and Plimsoll, two companies that we bought. Hydramarine, technology leader in offshore load handling systems. Plimsoll, a very cost efficient manufacturer in Singapore with manufacturing in Indonesia and China. By combining these two, we think that we are very, very strong in the offshore market.

And then, of course, we bought also Vestnorsk Hydraulikkservice, a small service company, so that we really have the service skills also for servicing the offshore installations.

Third category, Indital. Manufacturing base in India. Very important for us for developing new developing market products and also to have a manufacturing base in India where we can source components, both for the Indian manufacturing and for our Asian and European manufacturing.

Fourth, or last but not least, is the acquisition of Balti. Balti, a steel and component manufacturer in Estonia. You might remember, as I’ve earlier said, that we are not -- that’s not our core business, the component business. But why have we acquired a company then? I think that outsourcing has -- you cannot outsource everything. So we have come to the end of outsourcing, so to say.

It’s important in this market situation also to have some kind of in-house component manufacturing so that you can take care of your costs, see that you have the right quality and right delivery times. So when scanning different companies, we thought that Balti was a very good fit.

They had a number of customers when they were owned by the previous company. But we were one of the biggest -- their biggest customers. So we knew the quality of that company. We knew the management of the company. We knew the previous owner, AP Moller, so we knew that it was a well run company. So a very interesting acquisition and we have high hopes of moving even more components into Balti and also to develop Balti, the efficiency in Balti and the output of it.

Last but not least, let’s go to the outlook. It looks healthy. We think that order intake will grow by close to 20% this year. And our estimate is that our sales will grow about 15% this year. So the market looks very good.

I want also to remind you that according to our plans, we have not changed our long term target. We have a long term target of growing more than 10% of achieving a profit level of 10%. And this is the target that we have said that we should reach, latest by 2011.

We are also guiding here that the operating profit margin for the remainder of the year is expected to stay below 8%. Staying below 8% means that actually the 6.2% quarter that we have seen is the lowest quarter. And you also have to remember, as I said earlier, that the year includes the PPA allocations of close to EUR10m for this year, for which we have seen EUR2.4m so far.

So, with that, I would like to end my presentation saying that yes, it was a low quarter, but we have remedies and most of the costs there are one-off costs. They are development costs. I would say that 50% of the costs are related to old sins, so to say, and that we are now taking the cost for it and 50% is developing new things.
Anything special on the different business areas? No. Of course, we have a new President for Kalmar. Kalmar development has not been as fast as I had hoped. But now, with the new President, Pekka Vauramo, who will start September 1, I think we will get some faster implementation of the development projects that we have seen in Kalmar.

Thank you.

Eeva Makela - Cargotec Corporation - SVP IR and Communications
Operator, we would now be ready for the Q&A session.

QUESTIONS AND ANSWERS

Operator
(OPERATOR INSTRUCTIONS). The first question is from the line of Joakim Ahlberg from Cheuvreux. Please go ahead.

Johan Eliason - Cheuvreux - Analyst
Yes. Hello. It’s actually Johan Eliason from Cheuvreux here. I happened to note that the tax rate looks pretty low, 15%. Why is that and what should we expect going forward? Hello? Hello?

Kari Heinisto - Cargotec Corporation - CFO
Yes, this is Kari Heinisto speaking.

Johan Eliason - Cheuvreux - Analyst
Now I can hear you.

Kari Heinisto - Cargotec Corporation - CFO
So if you look on the printed reports, so you see that there is a specification on the tax for the period and for preparing the order period, so that’s expected.

Johan Eliason - Cheuvreux - Analyst
Okay. I will have a look at it.

Kari Heinisto - Cargotec Corporation - CFO
There you see the running rate and there you see that the [annex] are not referring to this period.
Johan Eliason - Cheuvreux - Analyst

Okay. That’s good. I will find that. Then on the PPA, you have said it will be some EUR10m for the full year. And this is obviously despite [CVS Ferrari] not coming into the numbers. How quickly will these fall away, assuming only the current acquisitions, so to say?

Kari Heinisto - Cargotec Corporation - CFO

This is again Kari Heinisto speaking. When you look at where the PPAs come from, the biggest single party is order book, and actually the offshore is the only one which has a really longer order book. The rest will disappear right side.

Johan Eliason - Cheuvreux - Analyst

Okay. So, well, obviously you have most of the PPAs done in the Plimsoll and the Hydramarine acquisition. That implies that those ones will kind of linger for maybe two or three years or so. Is that correct?

Kari Heinisto - Cargotec Corporation - CFO

The importance of those we’ll know where we are with time. So I think that there might be some projects which go towards longer periods than two years, but not much.

Johan Eliason - Cheuvreux - Analyst

Okay. Excellent. Then I was just wondering, in general, it seems like the market was a bit surprised of the very low margins reported here. But listening to you and the explanations, the PPA development cost, etc., how much of that didn’t you know really? What was the surprise for you?

Mikael Makinen - Cargotec Corporation - President and CEO

Nothing, I was about -- it’s Mikael Makinen here. I was about to say nothing. But in -- the expenses in Kalmar, as I said earlier, the expenses in Kalmar, the development expenses that we now are incurring, they were bigger than we estimated.

Johan Eliason - Cheuvreux - Analyst

Okay. And those -- will those continue? Is it a one off in the quarter or is it a one off for a couple of quarters as you’re guiding for this below 8% margin now here?

Mikael Makinen - Cargotec Corporation - President and CEO

For a couple of quarters, yes.

Johan Eliason - Cheuvreux - Analyst

Okay. So if everything goes as you have planned with the current R&D, you will have products introduced next year which implies you will hopefully have new sales and then lower R&D cost and we should be able to extend -- expect the margin improvement coming through in Kalmar potentially already next year then?
Mikael Makinen - Cargotec Corporation - President and CEO

Maybe to clarify that, it's not only -- we are not talking about R&D, we are talking about new organizations in the big frame. We are talking about new developments, the resources, project development resources. We are talking about sales organizations. So it's not only -- it's not R&D, as such.

Johan Eliason - Cheuvreux - Analyst

Okay. But are they going up and staying at a high level and then we'll have to wait for the volumes to improve then. Is that the trigger, so to say, for new margin improvements again in Kalmar?

Mikael Makinen - Cargotec Corporation - President and CEO

Partly it's so the costs are going up and then you need the orders so that you can --.

Johan Eliason - Cheuvreux - Analyst

Justify those costs.

Mikael Makinen - Cargotec Corporation - President and CEO

Justify the costs.

Johan Eliason - Cheuvreux - Analyst

And talk of it, I understand, was still this automation of your bigger cranes, etc. Will there be a product introduction which could be visible in potentially in your order intake and sales, etc., this year or is it next year?

Mikael Makinen - Cargotec Corporation - President and CEO

It's more like an evolvement and development of projects. It's not like new -- brand new products, as such. It's a new generation of different products.

Johan Eliason - Cheuvreux - Analyst

Okay. And just looking at the generation with higher automation, eventually, when you have all in place, isn't it so that normally, when you have selling automation, you should be able to generate a higher margin scenario than with the non-automated products?

Mikael Makinen - Cargotec Corporation - President and CEO

Yes. All the investments, whether they are in organization, in products, in development, of course we are doing them just in order for us to increase our profitability. There is no other reason for doing it.
Johan Eliason - Cheuvreux - Analyst
And keeping market share?

Mikael Makinen - Cargotec Corporation - President and CEO
Yes, of course, keeping market share.

Johan Eliason - Cheuvreux - Analyst
But not gaining any?

Mikael Makinen - Cargotec Corporation - President and CEO
Yes, of course, gaining market share. That's right. As the market leader we want to gain market share, we want to increase our profitability and we want to introduce new type of products.

Johan Eliason - Cheuvreux - Analyst
Excellent. Thank you very much for that.

Operator
Thank you. The next question is from the line of Lars Titland from Langlade Capital. Please go ahead with your question.

Lars Titland - Langlade Capital - Analyst
Hi. Good afternoon everyone. If I try and reconcile your investments in big cranes and automation with the somewhat higher cost pressures that you're indicating, surely that has to mean that you're seeing some sort of acceleration in underlying demand for that business division. Is that right?

Mikael Makinen - Cargotec Corporation - President and CEO
Yes. We see, let's not say the clear sheet, but we see that there will be a number of new, big projects because the harbors have to increase their efficiency. And when you increase the efficiency, that you do by automating different types of new, bigger cranes and so on. So I think there is a clear development in that area.

Lars Titland - Langlade Capital - Analyst
And that underlying demand, if I understand you correctly, the answer is yes, there is some underlying structural acceleration. But if that is -- if I understand that correctly, then using price as a primary tool to gain market share should be less necessary then.
Mikael Makinen - Cargotec Corporation - President and CEO

Yes. Our plan is not to use price as gaining market share. We more see that, as I said, the new -- most of the harbors, they have one constraint, and that's space. And they have to get more containers through the harbor in a shorter period. And then you need automated cranes in a different type of real solutions for the whole harbor.

Lars Titland - Langlade Capital - Analyst

Yes. And if you -- I'm not expecting you to give a 2008 specification here, but if you observe your order book, how far out does the Kalmar order book stretch now at the very longest end, the long end tail, so to speak?

Mikael Makinen - Cargotec Corporation - President and CEO

Let me see if I could give you -- I mean we have projects that go to 2010.

Lars Titland - Langlade Capital - Analyst

So, based on that --

Mikael Makinen - Cargotec Corporation - President and CEO

That's, I mean, that's the far end of that. Mainly we have guided earlier that the projects are -- our order book is around seven months, six to 12 months, six to 12 months.

Lars Titland - Langlade Capital - Analyst

And it's obviously based on that that you're today maintaining your margin and revenue growth guidance then?

Mikael Makinen - Cargotec Corporation - President and CEO

Yes.

Lars Titland - Langlade Capital - Analyst

Okay. That's all for now. Thank you.

Operator

Thank you. The next question is from the line of Sebastian Ubert from UBS. Please go ahead.

Sebastian Ubert - UBS - Analyst

Yes. Good afternoon, ladies and gentlemen. A few questions, if I may. So I was wondering about the strong weakening in the Hiab business as I was supposing that at least we should see more offsetting impact from the European business and especially from the recovery in the German construction market as you have a big exposure to construction related industry. Maybe you can specify some more on that?
And I would like to have some more details on how much higher the R&D and other related costs at the Kalmar divisions were since if I look to your operating profit number of EUR46m and add up the one off effects, well, we are then at the beginning of the 50s and market were expecting somewhere of EUR64m. There are EUR10m still missing. Is that all these higher costs in the Kalmar division? And if you say some quarters ahead, how many quarters can we expect these higher costs to occur in that division?

And, well, maybe you can also specify on your long term targets for each of the three divisions in terms of EBIT margins? Thank you.

**Mikael Makinen** - Cargotec Corporation - President and CEO

Okay. If we start with the -- now, I have to see, the first question was the Hiab weakening, yes. Europe was very strong, especially Eastern Europe. U.S. is a very, very important market in Hiab. It's about one-third of the Hiab sales and there we saw a drastic drop in construction related products.

So here one could always say that although Europe was very, very much up, it could not offset the drop in the U.S. market. That's just a fact.

**Sebastian Ubert** - UBS - Analyst

Okay. And do you see, well, an improvement in that situation within the next year, or what are your expectations then for the Hiab business in the U.S., especially for 2008?

**Mikael Makinen** - Cargotec Corporation - President and CEO

Of course, we see -- otherwise we should close our U.S. operation if we don't see an upturn there. Looking at what the truck manufacturers say, they see an upturn towards the end of this year. So one would say -- I could say that maybe we see one more slow quarter and then there should be an upturn in the U.S. market. That’s how we have estimated it.

**Sebastian Ubert** - UBS - Analyst

Okay. Thank you.

**Mikael Makinen** - Cargotec Corporation - President and CEO

Long term targets for the business areas, actually, we have not specified the various targets that we have set, that 2011 as latest. By 2011, we have to reach this 10%. Will it be 10% for all business areas, for all products? Most probably not, because you have to remember that our operational leverage is lower in MacGREGOR than in other businesses. So there is -- there will be a difference. But we have not specified the difference.

**Sebastian Ubert** - UBS - Analyst

Okay. When you say by 2011 the latest, what is in the blue sky scenario then, the earliest time you could achieve a Group EBIT margin of 10%? Is it 2009 already maybe?
Mikael Makinen - Cargotec Corporation - President and CEO

I don’t think we would like to comment on that today. We have said that our long term target is 10% growth, and that’s by 2011.

Sebastian Ubert - UBS - Analyst

And then maybe one just follow up question. Can you comment a bit on increasing steel prices? And maybe you have some indications for us what we can expect in terms of other raw material prices. And are there some bottlenecks which we have to take into account when we look at your gross profit margin as well as, well, maybe some components are missing, if there are any issues.

Mikael Makinen - Cargotec Corporation - President and CEO

Steel price is -- of course, then the hedge covers for MacGREGOR, they have a big steel volume, long order book. But there we have a steel clause. So we cannot really -- really, in that respect, suffering from either steel increase -- or say that we are not suffering from a steel increase or we don’t get the benefit if the steel price goes down.

If you then look at the other products, our sourcing organization today is very, very much focusing on getting components on time at right quality instead of focusing on reducing the costs. So I would say that that may be an indication that the sub-supplier component market is very tough at the moment.

Do we have any bottlenecks? No. But as I said, sub-supplier, if there is one batch with bad quality products that will affect us. So it’s a very tough market, I would say.

Have we been able to pass it on to our -- to the end customers? Yes, we have had a number of price increases. So it’s a tough market, but we can manage. So that’s why we have not lifted it up as one of the key areas for this quarter. But if you have a look at the last page, when we are guiding, we are guiding for the outlook, then we are talking about that it’s not that easy with -- let’s say, that we suffer with the sub-supplier and the components than before.

Then your last question was about this EUR46m. And we are coming up to 50. Let me see, if we look at the mathematics there. You were saying that you found EUR6.4m coming to 62, then 10 missing. It’s -- to a very big extent we are talking about -- actually there’s one thing that you forget, and that’s the increase in the corporate admin.

And why has that increased? Excuse me. We have said that we are developing the service business, strengthening our knowledge base. And we have already guided a few quarters back that that will increase the corporate cost during 2007. And here you can see a EUR3m increase. And the rest of it comes then from the Kalmar development costs.

Sebastian Ubert - UBS - Analyst

Okay. So I can assume roughly somewhere around EUR5m to EUR6m higher expected R&D and other costs in Kalmar than expected before. But did I get it right that this increased overhead cost will just be for 2007, but will not be effective then any more in 2008? So then we can see normalized, let me say, overhead cost structure as we have seen in the past for the upcoming years?

Mikael Makinen - Cargotec Corporation - President and CEO

Yes, it’s normalized, in that sense, that developing the service business is then creating business and then the costs normalize. They go into the cost of doing business and then you don’t see them there as admin costs. So they are developing the service business is one of the big areas.
Sebastian Ubert - UBS - Analyst
Okay. Thank you very much for that.

Operator
Thank you. There are currently no further questions. (OPERATOR INSTRUCTIONS). I do have a question from -- yes, from Tom Skogman from Handelsbanken. Please go ahead. Hello, Mr. Skogman, your line is open. Do you wish to ask a question?

Tom Skogman - Handelsbanken - Analyst
Yes. Hello, can you hear me?

Operator
Yes, we can now. Please go ahead.

Tom Skogman - Handelsbanken - Analyst
Yes. Looking at your order intake, it was very strong in the second quarter. And last year you had quite a weak order intake in the third quarter and somewhat a recovery in the fourth quarter. Do you see a strong order intake coming in the third quarter this year?

Mikael Makinen - Cargotec Corporation - President and CEO
Yes, Tom, it's Mikael Makinen here. Yes, we have here -- I think you have to follow our guidance that we -- the order intake is going to grow by close to 20% during 2007. And now you have the facts for the first half year, so based on that, I think you can make the maths.

Tom Skogman - Handelsbanken - Analyst
Okay. Thanks.

Operator
Thank you. There are no further questions from the telephone.

Eeva Makela - Cargotec Corporation - SVP IR and Communications
Thank you, operator. We have a question from the web, from [Mathieu Chedine]. The question is do you plan to utilize your share buyback mandate during the remainder of 2007?
There has been a share buyback program out since the Board announced that we have decided to utilize it, but then depending on the price development, so you see, from analysis, when shares are bought and when not. I can’t comment much more about that.

As you may know, the Finnish stock market requires daily announcements on any share buyback, so that is something that is quite easy to follow.

If there are no further questions, thanks. Operator, there seems to be--.

Yes, we've just had a question come in from the line of Lars Titland again from Langlade Capital. Please go ahead.

Yes. Hello again. Just to add some color, if I may ask you to do so, on the service part of your business. You opened up by saying that services showed strong growth and you called it also robust. What implications do you see in terms of pricing power of selling those services for the remainder of this year? And perhaps looking into your crystal ball for 2008, if you can, adjusting for -- at least mentally, adjusting for integration costs.

As I said, the service business has been very robust. And we have acquired a number of service companies in addition -- also. So that's why we had a 29% increase in service. But I also said that, in the beginning, when you buy companies like that, there are some costs. And this is part of the costs that we have seen in Kalmar now.

A lot of extra service, company acquisitions, you get the net sales, but we don’t get the full operating profit benefit of those. It has to do with the utilization of people. When you take over a service company, it continues, but it's not as efficient as it should be. Usually it takes about six to nine months after the acquisition, then you can say that it’s incorporated into your structure.

Right. Okay. And finally, if I may, is the right hand side of your balance sheet more right than wrong going forward? Or are you planning adjustments there?

Kari will answer this.

Liabilities side?
Lars Titland - Langlade Capital - Analyst
Yes.

Kari Heinisto - Cargotec Corporation - CFO
No, I really didn't get your question, what --.

Lars Titland - Langlade Capital - Analyst
I'm sorry. My mistake. If you look at the liabilities and the equities, the sourcing of capital as part of your business, are you planning to tweak, change anything on that side? Or do you think that the mix, the gearing level is roughly right as it is?

Kari Heinisto - Cargotec Corporation - CFO
When we announced our finance year targets, so I can say that is the guidance we have given on that and this is balance sheet structure what we have today, so corresponds to the guidance.

Lars Titland - Langlade Capital - Analyst
Okay. Thank you very much.

Operator
Thank you. We also have a further question from the line of Sebastian Ubert from UBS. Please go ahead.

Sebastian Ubert - UBS - Analyst
Yes. One follow up question. Can you give us the numbers of order growth or new order growth which would be in the organic number without the acquisitions you did during the first half of this year? And maybe you can also specify on your assumptions of what is organic growth and how much you expect to acquire if you say this some 10% annual sales growth is including the acquisitions? Thank you.

Kari Heinisto - Cargotec Corporation - CFO
This is Kari Heinisto speaking. First, one of the slides you see the biggest use of -- order growth, so when you look at the order backlog, so we have specified in one of the slides the offshore order backlog end of June. That number naturally includes that part of order backlog which came with the acquisition and then the slight growth which has happened during those three months. It has been compensated through our numbers.

Then looking at the sales growth specified, the organic growth has acquired growth, so to that question, we did answer that according to our definition, so a bit less than half was organic growth. But then we have defined the acquisition growth last 12 months, not half again, but also last half of last year, acquisitions, I think. So the acquisitions effect for this first half year was much more.
Sebastian Ubert - UBS - Analyst
Okay. Thank you very much.

Operator
Thank you. The next question comes from the line of Teea Reijonen from Standard & Poor's. Please go ahead.

Teea Reijonen - Standard and Poor's - Analyst
Yes. Hi. About the tax rate. I've been looking through the financial statement and could you just clarify that? Although you did point to it, in the first half of 2007 I can see that you had a tax expense for previous years of EUR8.2m. That reduced your overall tax expense for the first half of -- sorry, for the first half of 2007, you had a tax expense from previous years. And for 2006 it was minus 1.3. So I'm assuming that this is non-recurring in nature and you're going to go back to a tax rate of about 30% effective in the long term.

Kari Heinisto - Cargotec Corporation - CFO
That was what that chart said.

Teea Reijonen - Standard and Poor's - Analyst
That's from the press release.

Kari Heinisto - Cargotec Corporation - CFO
Yes, that is the case that we have specified now the non-recurring item there which was the EUR8.1m.

Teea Reijonen - Standard and Poor's - Analyst
Okay. That's fine.

Kari Heinisto - Cargotec Corporation - CFO
Or EUR8.2m which was from previous ratings. And sometimes cases clear out and that type of specific may occur or not.

Teea Reijonen - Standard and Poor's - Analyst
On a one off basis. Thank you, that's fine.

Operator
Thank you. And we have a further follow up question from the line of Lars Titland from Langlade Capital. Please go ahead.
Lars Titland - Langlade Capital - Analyst
Yes. Hello again. Sorry to ask questions in batches. Your slightly off-key question -- I beg your pardon, comment on Kalmar not having received any big orders in Q2. Can you give some color on the magnitude of target contracts that you see in the next few quarters? Are we looking at -- are you planning to tender for, let's say, a handful of larger projects? How does your horizon look for you on that?

Mikael Makinen - Cargotec Corporation - President and CEO
The comment is more based on the fact that we sometimes get the questions such as why have you announced so many orders in MacGREGOR, but nothing substantial in Kalmar. What we are trying to say is that there are big projects out there. But none of them there that are coming through during Q2. But this does not mean that the market for big projects is not there. That's what it means.

Lars Titland - Langlade Capital - Analyst
Okay. And that market, does that consist of 10 large projects, as you see it, or is it more like five or 20?

Mikael Makinen - Cargotec Corporation - President and CEO
(inaudible).

Lars Titland - Langlade Capital - Analyst
I'm sorry, I didn't get that.

Mikael Makinen - Cargotec Corporation - President and CEO
I don't know the number of projects. But it's -- because we have quite a number of quotations out there.

Lars Titland - Langlade Capital - Analyst
Okay. So more in the double digit kind of --?

Mikael Makinen - Cargotec Corporation - President and CEO
Yes.

Lars Titland - Langlade Capital - Analyst
Very helpful. Thanks.

Operator
Thank you. There are no more questions from the telephone.
Eeva Makela - Cargotec Corporation - SVP IR and Communications

We have another question from online. The question is from Mr. Ehrlich and says please comment on working capital outlook and free cash generation for the year. Also what should we assume for CapEx in 2007?

Kari Heinisto - Cargotec Corporation - CFO

This is Kari Heinisto speaking. Looking at the second part of the question, we have no new guidance on CapEx, meaning that CapEx has been over the time in line with depreciation.

And when you look at the CapEx, so you also need to remember that there is a flow of customer finance which comes in as CapEx and goes out as a sold assets when the contracts are sold to financing institutions. So that explains the difference between 25 and 36 in the first half-year numbers.

Then your question about the working capital outlook. Even though the component issue has not been merely explaining the results, so the fact is that when everybody has stretched resources, so there is too much stuff in the pipeline, and that is our attempt to get it down instead of up.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

Okay. Operator, are there any more questions?

Operator

Yes. We have just had a last further question come through from the line of Teea Reijonen from Standard & Poor's. Please go ahead.

Teea Reijonen - Standard and Poor's - Analyst

Hi. Would you be able to tell us what the effective interest rate that you're paying on your debt is?

Kari Heinisto - Cargotec Corporation - CFO

We have not disclosed that.

Teea Reijonen - Standard and Poor's - Analyst

Okay.

Operator

Thank you. There are no further questions from the telephone.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

In that case, thank you on Cargotec's behalf for your interest. Bye-bye.
Operator

Ladies and gentlemen, thank you for joining today's call. You may now replace your handsets.