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_UBS - Analyst_

Lars Pentland  
_Sidillion Capital Management - Analyst_

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the second quarter 2006 Cargotec Corporation Earnings Conference Call. My name is Michelle and I will be your coordinator for today. At this time all participants are in a listen only mode. We will be facilitating a question and answer session towards the end of today's presentation. [OPERATOR INSTRUCTIONS]. As a reminder this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Miss Eeva Makela, Senior Vice President, Investor Relations and Communications. Please proceed ma'am.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

Ladies and gentlemen, welcome to Cargotec's conference call on our January/June 2006 results.

We will start with a presentation by our President and CEO, Mikael Makinen, which will last from 15 to 20 minutes. After that we will be ready to answer your questions. Mikael, please.

Mikael Makinen - Cargotec Corporation - CEO

Thank you, and very welcome to this conference call. We are of course extremely satisfied with the development of the Company. Can take page number two there. As you can see in page number two, we had a good order intake, we had a good net sales. Our operating income grows very well; order book is at a good level. So to sum it up, there's been a -- it has been a good quarter.

The order intake has been very, very good during the quarter and there we have to remember that there was a remarkable number of big orders received during that quarter. And we were -- Cargotec was very successful in clinching these orders.

On the other hand the sales grew by 8%, which is also a good figure. And as I have said in my notes that we were even a bit surprised by the operating income that rose to 9.2% in the second quarter. Leaving us with a new record order book of 1.54b.

During the quarter, we also managed to expand into a new area, which is the dry bulk handling. On page number three you can see something about our acquisition, the BMH Marine Company. As you know, MacGregor has been in general cargo
shipping in container ships, RoRos, special ships and two big areas that they are not been -- have not been in is tankers and bulk carriers. So, now we manage to find a company, BMH Marine, which very well expands our offering. Bulkers are of course cheaper to transport coal, ore, cement and so on. And it’s one of the big shipping segments in the world.

The transaction is subject to competition authority approval but we do not see any reason for it not going through. And as the bulk carriers, their cycle is a bit different from the other shipping types, so we know that this will level out or even out if there is a downturn in container shipping or in RoRos and so on. So, this was an interesting transaction and it supports our strategic goals.

Page number three. The market situation continued good. We can say that the global economy and world trade continues to grow, which we are seeing in most sectors. The globalization leads to the fact that container traffic volumes grew even further. People have been skeptic about how much can it grow but all the indications are that it’s growing -- actually it’s growing faster than the world’s GDP because more and more goods are transported between manufacturers and consumers.

The shipbuilding has been on a very high level. It’s come down a bit but it’s still on a very good level. So even there the development has been good. You also have to remember that the construction activity has been strong both in Europe and the U.S., which is very important for our Hiab business.

China is of course growing very fast at the moment, and it is an even more important market than before for us. New truck registration has been brisk; we have seen a lot of trucks being registered. I will come back to the outlook a bit later but for the time being it looks good. So one could say that many, many areas have developed well.

If we then go into the orders received by business area, the Hiab first of all, loader cranes, demountables and tail lifts grew strongly. The forestry crane is leveling out, the main reason for that being that we are mainly operating in North European market which has been leveling out. So all the construction -- contractors have also been leveling out, so to say.

In Kalmar it’s especially the container handling where we have seen a good development, new investments in both big and small harbors. The heavy industry, which is in our case mainly the paper industry, steel industry -- or let’s say pulp and paper industry and steel industry, a more stable market, not a bad market but it has been leveling out as well.

The biggest increases of course being in the MacGregor business area. We have seen a remarkable number of ships being ordered and now we have seen the ordering of all the equipment to those ships with hatch covers, ship cranes, cargo-securing equipment. So the market continues very, very lively. RoRo equipment, especially for car carriers, has also been strong. So one could say that, in MacGregor, all the businesses have been good in MacGregor, all the different product areas.

Orders received. A very, very good increase for the first six months, 31% up from 1.2b to 1.59b. For the quarter was up 38% but actually it is more relevant to look at a bit longer period, so the six-month period in our case is more representative for where we are. This also shows that our products are competitive and we have a wide enough scope of products. So we have something to offer the market in all segments. Yes.

If you go to the order book, of course it follows the same trend. You can see that -- this is page number seven. You can see that this has been developing fairly good over the years. It’s a bit cyclic. It’s usually a bit lower towards the end of the year, then it grows. And we will see the same trend in the future as well.

Net sales. In the net sales the development has been not as fast as in the order intake but there has been a good development. For the first six months we had a 10% increase from 1.16 to 1.27b and an 8% increase for the second quarter. This also reflects the situation today that we have our factories running at a good capacity and we are able to increase the net sales to a certain degree but not following the pattern of the order intake.
Geographical distribution of our net sales. You can see that the biggest parties, of course, is of course Europe, where the development has been from 673m to 684m. So, a small growth in Europe. Are we on page number nine? If you go to page number -- sorry. While -- a very, very fast increase in the net sales in Americas, which has been booming during the quarter now and during the first half-year. At the same time, one can see that we have not been that successful in Asia. We would have liked the Asian sales to develop faster than it does at the moment. And we are looking at means and measures of correcting that.

We have already for a long time said that, for us, service development is very important. On page number 10, you can see that that has been continuing to grow. If we look at the different business areas, Hiab we have had a small growth in the service sales. And there we are -- that is very much a starting point, we are just developing the service there. It's mainly spare-part sales and now we're developing the service there. While at Kalmar, you can see a good development. There we have already taken the measures. We have a good service team taking care of the service of our Kalmar products.

The MacGregor situation is a bit different. The main reason for it being that we have -- in percentage wise you can see that it is going down. But the main reason for that is of course that we have had a very, very strong market in terms of new equipment sales. So I would say that the MacGregor development has also been good, but the new business distorts this a bit and shows it as a downturn in the service. But overall, a good development in service.

Operating income, as I said earlier, we are very, very proud of what we have achieved during the first six months. 112m is a very good figure, especially if you compare it to 2004 pro forma, where we had 124m for a full year, and now in six months we have managed to come to almost the same figure. So a very good situation again, showing that we have the right products, we have the right production capacity.

If you look at it by business area, the interesting thing is that the operating income has been developing in all business areas. We have an overall figure for the first six months of 8.8%. And I would like to remind you that if you look at the figure for 2004, 2005 and 2006, you can see that there is a continuous very good improvement, meaning that what has been done in the Company during the past two years has been exactly the right measures, so that now we have a Cargotec that is very well equipped for the future. If you look at the various businesses, same trend, good development in all businesses.

Earnings per share. Mainly mathematics but, again, the first six months 1.16 is very close to 2004 pro forma of 1.20 for the whole year.

Cash flow. Development has been good for the first six months, comparing to last year, maybe a bit unfair because we had a very bad second quarter last year. Meaning that it was very cyclical, the cash flow last year. This year is less cyclical, which is something we have stressed to the organization, and it shows results now.

Key figures. Okay, you can read it yourself but if I just take out the return on capital employed, we are now at 20.9%, which is a good figure. It’s a very, very good figure, I would say.

Last but not least, outlook. We are saying that the market situation is expected to continue good. But we are also saying that following the record first half of the year, the order intake during the second half is expected to be at last year’s healthy level. So, we are saying that we’ll be leveling out but still on a healthy level.

We are also guiding that the strong order book at the end of June, that the net sales for -- based on the strong order book, that the net sales for 2006 is estimated to exceed 2.6b. You’ll remember, in the last guidance we said that we would grow almost by 10%, which gives a figure of just below 2.6b.

The operating income margin for the operations is estimated to exceed 8%. Again, we are upgrading it a bit. We said earlier that we would like -- our target is 8% and now we are saying that it’s estimated to exceed 8%. 
So, to sum it up, my understanding that Cargotec has a lot of potential for future development and growth in the business. And I see in that sense a very good development for the Company for the coming years.

Thank you.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

Operator, please, we would now be ready to take any questions.

QUESTIONS AND ANSWERS

Patrick Charbeau - Cheuvreux - Analyst

Yes, good evening -- good afternoon, rather. This is [Patrick Charbeau] from Cheuvreux in Stockholm. Two questions, if I may. Firstly, you talked about Asia, and you were not really satisfied with the situation or the sales situation there. If you just could say what is not satisfactory, what is not working out?

Second question, a little bit on your very good order intake in the quarter. Could you just elaborate on, shall we say, the order quality or the margin quality? I just note here that the drop-through margin in the quarter was extremely good, you managed to increase sales by some 60m and you are getting in nearly a 25% margin on that. And what is the sort of quality of orders in your order book going forward? I also note that you do change your operating margin from equal to 8% to exceed 8%. So I guess I know the answer but I just want to hear you say it.

Mikael Makinen - Cargotec Corporation - CEO

Okay, it's Mikael Makinen here. If you take first the easier question, which is the Asia development, my remark was mainly based on the fact that it has been the fastest-growing area in the world. And from that point of view, I had hoped that our order intake and sales would follow that pattern as well. But that's my remark about Asia. I wouldn't say that anything has gone wrong but I would like it to go better, let's put it this way.

Patrick Charbeau - Cheuvreux - Analyst

Are there any specific areas where you feel that you could do much better? Or is it across the board and all your product areas are the same, in Asia?

Mikael Makinen - Cargotec Corporation - CEO

It's across them all, I'd say. It's Kalmar and Hiab. MacGregor is, of course, the main market for them is Asia.
Patrick Charbeau - Cheuvreux - Analyst
Yes.

Mikael Makinen - Cargotec Corporation - CEO
So it is those two. If we then take the order intake and the quality, there is a normal mix on quality in the order intake margin, so.

Patrick Charbeau - Cheuvreux - Analyst
So, when you see your order intake -- I don't have the number in front of me but it increased quite a lot. And you say now that you are going to exceed 8%. Clearly you must be pretty confident that what we saw, this type of earnings development seen in this quarter, is definitely reflected in the order book going forward.

Mikael Makinen - Cargotec Corporation - CEO
Of course the order book, but then you have to remember there are a few other things affecting it. If you look at it historically, our operating income percentage, you have to remember that the third quarter, for example, includes the whole North European holiday period. So, that's some -- it's not so that it's a straight line and that now we have reached a certain level. I think you have to take into consideration the holiday period in our factories.

Patrick Charbeau - Cheuvreux - Analyst
Yes, yes. Okay, thank you.

Operator
And our next question comes from the line of Olof Cederholm of UBS. Proceed.

Olof Cederholm - UBS - Analyst
Good afternoon. I just have two quick questions. First on the order book, how much of that good order book is orders for 2007 and maybe even 2008?

And also, what are your thoughts on raw materials and steel costs going forward here, when it seems like European steel prices are edging higher during the second half? Thank you.

Mikael Makinen - Cargotec Corporation - CEO
The order book timing, of course everybody knows that the longest lead time is in MacGregor, where we have sold quite a number of big orders, which means many ships. And then it stretches the order book for a few years -- two years. And then when you go to Hiab, for example, it's much, much shorter.

Olof Cederholm - UBS - Analyst
So there is no change in trend?
Mikael Makinen - Cargotec Corporation - CEO

Sorry?

Olof Cederholm - UBS - Analyst

There is no change in the trend of the order book? It's still a similar profile as it has been before?

Mikael Makinen - Cargotec Corporation - CEO

Similar profile, but for MacGregor it's getting longer and longer.

Olof Cederholm - UBS - Analyst

Okay.

Mikael Makinen - Cargotec Corporation - CEO

Second question was about the steel prices. There is a pressure for steel prices to go up, yes. But that's our job then to see to it that the price of it can be, so to say, included in the -- in possible price increases and part of it is efficiency improvement internally. So, yes, but there is -- it's a constant struggle, that's true.

Olof Cederholm - UBS - Analyst

But you're confident that you will be able to adjust for eventual price increases?

Mikael Makinen - Cargotec Corporation - CEO

It depends how high they are. But of course -- I would say that we have a fairly professional organization looking into this.

Olof Cederholm - UBS - Analyst

Okay, thanks.

Operator


Lars Pentland - Sidlion Capital Management - Analyst

Good afternoon everyone and congratulations on very impressive results. Three questions, if I may. And I think the middle question should be probably difficult for you to answer precisely but the first one would be, in your outlook statement, you're talking about order books for the second half of this year leveling out at 2005's level. What kind of visibility do you have for the
second half? Are you basing that estimate on what you can identify of projects around your target universe, as we stand now? I am asking because you appear, in your statements today, to be a bit surprised by your own performance in Q2.

And then the second question would be, your gearing, your financial gearing currently stands still at 16%, which you have previously said has been way too low. But you have also said that you want some ammunition to grow non-organically. I take it that your sales guidance and your margin guidance going forward for the rest of the year does not include non-organic growth in any way.

And then thirdly, and this is, I know, an unfair question to ask, given the impressive level of return of capital employed that you had, but why did the ROCE level off at 20.9 in the first half of this year? And what would it take to improve that number a little bit further? Thanks.

Mikael Makinen - Cargotec Corporation - CEO
Okay. Thank you. If we take first the first question, outlook, we're say that it is leveling out; it is of course based on how we can see the market at the moment. I mean it is based on what's happening in the market, unidentified projects and so on. And talking about surprise, well, this first quarter, we were more -- it was more a question about the -- sorry, second quarter, it was more a question about the profitability that we have said that we were surprised about. It is a question of product mix and so on.

Lars Pentland - Sidlion Capital Management - Analyst
Yes. In other words, you are not ruling out being surprised by your negotiating power going forward?

Mikael Makinen - Cargotec Corporation - CEO
Of course we have a fairly good visibility. That's why we give the guidance that we give.

Lars Pentland - Sidlion Capital Management - Analyst
Okay.

Mikael Makinen - Cargotec Corporation - CEO
The second question was about the gearing? What was that - the other question there?

Lars Pentland - Sidlion Capital Management - Analyst
Your gearing is currently standing at 16%, which I think you have said before is way too low.

Mikael Makinen - Cargotec Corporation - CEO
Yes.
Lars Pentland - Sidlion Capital Management - Analyst

What are you going to do about it, if I can ask bluntly?

Mikael Makinen - Cargotec Corporation - CEO

Of course we have earlier said that our aim is to be the market leader, our aim is to grow. And growth includes both organic growth and acquisitions. But we are not going to just go for acquisitions to change the gearing. If we find good targets, then yes, we will use it for that. But on the other hand your question about the whole year, no, it doesn't include any -- there's no big surprises in that respect.

Lars Pentland - Sidlion Capital Management - Analyst

Sorry, classic theory would suggest that if you run a good business and you need money to acquire something, you should be able to go to the market and ask for that cash when needed, rather than sitting with too low a financial gearing on a more permanent basis.

Mikael Makinen - Cargotec Corporation - CEO

Your theory is correct, yes.

The third question, the return on capital employed leveling out on 20.9. In the 2005 figure, there was also the Consolis sale. So the real comparison isn't really correct, it was lower there, so it has been -- so you should disregard that.

Lars Pentland - Sidlion Capital Management - Analyst

How would you see that number improving even further? What would it take to achieve that?

Mikael Makinen - Cargotec Corporation - CEO

Yes, I wouldn't like to guess it here, I guess. No, no, no, thanks.

Lars Pentland - Sidlion Capital Management - Analyst

Thank you.

Operator

And at this time, sir, I am showing we have no further audio questions.

Eeva Makela - Cargotec Corporation - SVP IR and Communications

Okay. If there are no further questions, then I would like to thank all participants for their interest in Cargotec.
Operator

Ladies and gentlemen, thank you for your participation in today's conference call. This does conclude your presentation and you may now disconnect. Have a great day.