

## Notes to the Financial Statements

### 1. General Information

Demag Cranes AG is a Germany-based listed company. Demag Cranes AG is registered under registration number HRB 54517 in the commercial registry at Düsseldorf local court. The address of its registered office is Forststrasse 16, 40597 Düsseldorf, Germany.

The Demag Cranes Group is divided into three segments: Industrial Cranes, Port Technology, and Services. The business ranges from the development and design of technically advanced cranes and hoists and of automated transport and logistics systems for ports to the provision of services relating to these products and the manufacture of high-quality components.

The Management Board of Demag Cranes AG has prepared the Financial Statements and submitted them to the Supervisory Board. The Financial Statements are to be released for publication in their present form at the Supervisory Board Meeting on 4 December 2009.

### 2. Basis for the Preparation of the Financial Statements

The Financial Statements of Demag Cranes AG for the financial year 1 October 2008 to 30 September 2009 are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable at the balance sheet date and as adopted by the European Union (EU). The supplementary requirements in Section 315a (1) of the German Commercial Code are also met.

Certain items in the Income Statement and the Balance Sheet are combined for the sake of clarity. These items are explained in the Notes. The Income Statement is prepared using the cost of sales method. Assets and liabilities are presented in the Balance Sheet using a current/non-current classification.

The Financial Statements are prepared on a historical cost basis with the exception that derivative financial instruments and available-for-sale financial assets are measured at fair value where this can be reliably determined.

Preparation of the Financial Statements has required the use of estimates and assumptions that affect the recognition and measurement of assets and liabilities, the amounts of expense and income items, and disclosures relating to contingent assets and contingent liabilities. Judgements that the Management Board has made in applying IFRS and that have a significant effect on the Financial Statements are described along with the main estimates whose review may result in material changes in the next year in Note 6, Estimates and Judgements.

The Financial Statements are prepared in euros, the functional currency of Demag Cranes AG. All figures are rounded to the nearest thousand euros unless otherwise stated. All percentages relate to figures stated to the nearest euro. The amount shown for each individual item and total is the figure with the smallest rounding difference. Reported totals may therefore differ slightly from the sum of the individual reported amounts.

### 3. New and Revised Standards and Interpretations

#### Standards and Interpretations Effective in Financial Year 2008/2009

Application of the following standards was required in financial year 2008/2009.

- *Amendments to IAS 39 and IFRS 7: Reclassification of Financial Assets*

Under IAS 39, in certain circumstances financial assets classified as at fair value through profit or loss may be reclassified to another category and financial assets classified as available-for-sale financial assets may be reclassified as loans and receivables. Reclassifications must be disclosed under IFRS 7 in the notes to the consolidated financial statements.

- *Amendments to IAS 39 and IFRS 7: Reclassification of Financial Assets: Effective Date and Transition*

These amendments provide clarification about the effective date and transitional provisions.

As there were no reclassifications in the past financial year, the amendments had no effect on the Financial Statements.

The EU additionally endorsed a number of standards and interpretations that Demag Cranes AG is not required to apply until the following financial year. Demag Cranes AG has not elected early application.

#### Standards and Interpretations Effective in Later Financial Years

A number of new International Financial Reporting Standards were issued during financial year 2008/2009 and endorsed by the EU. These are effective for future periods and Demag Cranes AG has not elected to adopt them early.

- *Amendments to IAS 39 Eligible Hedged Items*

The amendments clarify the circumstances in which a hedged risk or a portion of cash flows qualifies for hedge accounting. The amendments are effective for annual periods beginning on or after 1 July 2009. Demag Cranes AG does not expect the amendments to IAS 39 to have a material effect on the Company's financial position, financial performance or earnings per share.

- *IFRIC 15 Agreements for the Construction of Real Estate*

IFRIC 15 standardises accounting practice for sales of units before construction is complete. The Interpretation is not relevant to the Demag Cranes Group and has no effect on the Financial Statements.

- *Amendments to IFRS 3 and IAS 27: Business Combinations*

The revised standard introduces several changes in the presentation of business combinations. The main changes relate to the identification and measurement of consideration, the measurement of non-controlling interests (formerly "minority interests") and accounting for step acquisitions. Contingent consideration must be recognised at the acquisition date on purchase price allocation. Transaction costs directly attributable to the acquisition are not capitalised as acquisition-related costs but immediately recognised as expenses. The new standard introduces an option of recognising goodwill in connection with any non-controlling interests. Finally, for the first time, it lays down requirements on the accounting treatment of step acquisitions. The acquisition date in a step acquisition is deemed to be the date control is achieved. The changes may have an effect on the presentation of the Company's financial position and financial performance or on earnings per share depending on the nature and scope of future transactions (from financial year 2009/2010).

- *Amendments to IFRS 1 and IAS 27: Consolidated and Separate Financial Statements*

The revised standard lays down different rules on accounting for transactions between the parent and non-controlling interests (minority interests). Acquisitions and disposals of interests in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity as transactions with owners. When control is lost, the subsidiary is deconsolidated and any retained interest is recognised at its fair value at the date control is lost. In departure from the previous rules, non-controlling interest are attributed their share of any losses even if this results in them having a deficit balance. The changes may have an effect on the presentation of the Company's financial position and financial performance or on earnings per share depending on the nature and scope of future transactions (from financial year 2009/2010).

- *IFRIC 16: Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 addresses specific issues in connection with hedges of a net investment in a foreign operation. The issues clarified include the risk to be hedged, the maximum amount to be hedged and which entity in a group can hold the hedging instrument. The Demag Cranes Group does not expect that first-time application in the next financial year will materially affect the presentation of its financial position or financial performance or its earnings per share.

- *IFRIC 12: Service Concession Agreements*

IFRIC 12 relates to service concessions granted to private-sector operators by government or government agencies in order to provide public services. The Interpretation addresses the accounting treatment of rights and obligations under such agreements for private sector operators. The Interpretation is not relevant to the Demag Cranes Group and has no effect on the Financial Statements.

- *Annual Improvements*

In May 2008, the IASB issued its first set of annual improvements to various standards with the primary aim of removing inconsistencies and clarifying wording. Transitional provisions apply for a number of the standards affected. The amendments are effective for annual periods beginning on or after 1 January 2009. Demag Cranes AG does not expect applying the amendments to have a material effect on the Company's financial position, financial performance or earnings per share.

- *Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amendments facilitate measurement of the cost of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements of the parent by allowing first-time adopters of IFRS to use either cost under IAS 27 or the carrying amount under national GAAP. The amendments also deal with initial measurement of cost in the separate financial statements of a parent formed as a result of reorganisation. The Interpretation is not relevant to the Demag Cranes Group and has no effect on the Financial Statements.

- *Amendments to IAS 32: Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements*

The revisions to IAS 32 and IAS 1, which apply from the coming financial year, lay down rules on the classification of certain items as equity and financial liabilities together with the corresponding disclosure requirements. Demag Cranes AG does not expect that the changes will have any effect on the presentation of its financial position or financial performance or on its earnings per share.

- *Amendments to IAS 1: Presentation of Financial Statements*

The main changes concern the statement of changes in equity, the presentation of comprehensive income and the titles of financial statements. The statement of changes in equity now relates solely to transactions with shareholders. All non-owner changes in equity must be presented either in a single statement of comprehensive income or in two statements comprising an income statement and a statement of comprehensive income. If retrospective changes affect the balance sheet, a restated balance sheet must additionally be presented as at the beginning of the earliest comparative period. The new titles for financial statements introduced in the revised IAS 1 are not mandatory. The changes apply from the coming financial year. Demag Cranes AG does not expect that they will have a material effect on the Financial Statements.

- *IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 explains the circumstances in which economic benefits from a pension plan are considered to be available to the entity. The Interpretation also addresses how the measurement of defined contribution pension plan assets or liabilities is affected by a statutory or contractual minimum funding requirement. It clarifies to what extent such a requirement restricts the availability of economic benefits and whether the requirement triggers recognition of a liability. The Demag Cranes Group does not expect that first-time application in financial year 2009/2010 will affect the presentation of its financial position or financial performance or its earnings per share.

- *IFRIC 13: Customer Loyalty Programmes*

IFRIC 13 addresses accounting for loyalty award credits granted to customers on buying goods or services. Specifically, it stipulates how the consideration paid by customers is allocated between the goods or services and the loyalty credits and when the portion allocated to the loyalty credits is recognised as revenue. The Interpretation is not relevant to the Demag Cranes Group and has no effect on the Financial Statements.

- *Amendments to IFRS 2: Share-Based Payment*

The revised IFRS 2 restricts the definition of vesting conditions to include only service conditions and performance conditions. Non-vesting conditions must be taken into account when estimating the fair value of granted equity instruments. The revised standard also clarifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The changes apply from financial year 2009/2010. Demag Cranes AG does not currently expect that they will affect the presentation of its financial position or financial performance or its earnings per share.

- *Amendments to IAS 23: Borrowing Costs*

Under the revised IAS 23, the capitalisation of borrowing costs as part of the cost of a qualifying asset ceases to be optional. These borrowing costs must now be capitalised. The Demag Cranes Group does not currently expect that first-time application in the next financial year will materially affect the presentation of its financial position or financial performance or its earnings per share.

- *IFRS 8: Operating Segments*

IFRS 8 Operating Segments replaces IAS 14 Segment Reporting. The new standard, which applies from the coming financial year, introduces the management approach to segment reporting, thus bringing IFRS into line with US-GAAP. Demag Cranes AG does not currently expect that the changes will have any material effect on the presentation of its financial position or financial performance or on its earnings per share.

#### 4. Presentation Changes in the Balance Sheet and Income Statement

To enhance clarity of presentation, Demag Cranes AG has applied a small number of classification changes in the balance sheet and the income statement. These result in a minor redistribution between the items referred to in the following. The presentation changes have no effect on net income after tax or earnings per share.

## Balance Sheet

The reclassifications on the balance sheet relate to the delineation of financial and non-financial assets. The distinctions applied facilitate reconciliation with the disclosures for financial instruments (IFRS 7).

in EUR thousand	30 September		
	2008 as reported	Adjustment	2008 restated
Other current financial receivables	853	-853	-
Other financial assets (current)	-	1,977	1,977
Other current assets	23,349	-23,349	-
Other non-financial assets (current)	-	22,225	22,225
<b>Reclassification</b>	<b>24,202</b>	<b>-</b>	<b>24,202</b>
Non-current interest-bearing loans and borrowings	104,255	-104,255	-
<i>Non-current interest-bearing loans and borrowings</i>	105,593	-105,593	-
<i>Unamortised debt issuance cost</i>	-1,339	1,339	-
Loans and borrowings (non-current)	-	104,255	104,255
<b>Reclassification</b>	<b>104,255</b>	<b>-</b>	<b>104,255</b>
Current interest-bearing loans and current maturities of long-term debt	3,655	-3,655	-
Loans and borrowings (current)	-	3,655	3,655
<b>Reclassification</b>	<b>3,655</b>	<b>-</b>	<b>3,655</b>
Other current liabilities	121,452	-121,452	-
Other financial liabilities (current)	-	49,882	49,882
Other non-financial liabilities (current)	-	71,570	71,570
<b>Reclassification</b>	<b>121,452</b>	<b>-</b>	<b>121,452</b>

## Income Statement

The 'other operating income/expenses, net' and 'interest and similar income/expenses, net' items have been separated out into non-net items.

in EUR thousand	1 October to 30 September		
	2007/2008 as reported	Adjustment	2007/2008 restated
Other operating income/expenses, net	5,937	-5,937	-
Other operating income	-	26,584	26,584
Other operating expenses	-	-20,648	-20,648
<b>Reclassification</b>	<b>5,937</b>	<b>-</b>	<b>5,937</b>
Interest and similar income/expenses, net	-12,005	12,005	-
Interest and similar income	-	7,549	7,549
Interest and similar expenses	-	-19,554	-19,554
<b>Reclassification</b>	<b>-12,005</b>	<b>-</b>	<b>-12,005</b>

## 5. Accounting Policies

The accounting policies set out in the following correspond, with the exception of the change in presentation (Note 4 and 32), to the methods applied in the previous financial year.

### Subsidiaries

The Financial Statements for the year ended 30 September 2009 incorporate the Financial Statements of Demag Cranes AG and 37 (2007/2008: 36) domestic and foreign subsidiaries. The Financial Statements for financial year 2008/2009 additionally include Gottwald Port Technology Netherlands B.V., Delft, Netherlands, established in the first quarter.

Subsidiaries are companies that are controlled by Demag Cranes AG, meaning that Demag Cranes AG, by virtue of holding a majority of their voting rights or through other means, has the power to govern their financial and operating policies so as to obtain benefits from their activities. Investments in subsidiaries that are of minor overall significance to the presentation of the financial position and performance of the Group are measured at cost less any impairments and accounted for under other investments as investments in other affiliated companies.

Subsidiaries are included in the Financial Statements from the date Demag Cranes AG obtains control and cease to be included when control is lost. The results of subsidiaries acquired and disposed of during the year are included in profit or loss from the effective date of acquisition and up to the effective date of disposal.

The Financial Statements are prepared on the basis of uniform Group accounting policies. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity in the consolidated subsidiaries. Losses applicable to a minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All subsidiaries of Demag Cranes AG as at 30 September 2009 are listed after the Notes.

### Interests in Joint Ventures

Demag Cranes AG includes one joint venture (MHE-Demag (S) Pte. Ltd., Singapore) in its Financial Statements. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

The Group's share of the profits, losses, assets and liabilities of joint ventures are accounted for in the Financial Statements using the equity method.

Under the equity method, the interest in a joint venture is initially recognised in the Financial Statements at cost. The carrying amount is subsequently increased or decreased by changes in the Group's share of the net assets of the joint venture after the date of acquisition and by any impairment of its interest in the joint venture. Losses of the joint venture that exceed the Group's interest in the joint venture are provided for only to the extent that the Group has incurred legal or constructive obligations to cover them. The financial year of the Group's one joint venture is the calendar year. The figures included in the Demag Cranes AG Financial Statements are those from interim financial statements as at 31 August 2009.

The share of profit from equity-accounted investments reported in the Income Statement is Demag Cranes AG's share of profit from the joint venture.

The joint venture is shown in the list of subsidiaries, joint ventures and investments as at 30 September 2009, after the Notes.

### Currency Translation

The Financial Statements are prepared in euros, the functional currency of Demag Cranes AG. The financial statements of foreign companies included in the Financial Statements are prepared in local currency, which is the functional currency of the companies concerned. Transactions in currencies other than the applicable functional currency are translated at the spot exchange rate prevailing at the date of the transaction. Payables and receivables denominated in foreign currencies are translated into euros at the spot exchange rate prevailing on the balance sheet date. Exchange differences arising on the translation of balance sheet items into functional currency are recognised in the Income Statement under other operating income or under other operating expenses. Gains and losses on foreign currency transactions relating to financing activities are recognised in interest and similar income or in interest and similar expenses.

The financial statements of foreign subsidiaries included in the Financial Statements with functional currencies other than the euro are translated from local currency into the Group presentation currency (euros). The assets and liabilities of foreign subsidiaries are translated using the exchange rates prevailing at the balance sheet date. Equity items are translated at historical exchange rates and income and expenses at the average exchange rates for the period. Net gains or losses arising on currency translation are reported in equity as a net amount under differences arising from currency translation. On disposal of a foreign operation, any accumulated net gains or losses are reclassified to profit or loss. The exchange differences as at 30 September 2009 mainly relate to the Group's companies in the USA, the UK, Brazil, India and Switzerland.

The exchange rates used in the Financial Statements are as follows (in foreign currency units per euro):

Country	ISO code	Exchange rate prevailing on the balance sheet date 30 September		Average exchange rate for the period 1 October to 30 September	
		2009	2008	2008/2009	2007/2008
USA	USD	1.45560	1.43520	1.35467	1.50321
UK	GBP	0.91180	0.79610	0.87550	0.76309
Switzerland	CHF	1.51180	1.58550	1.51392	1.62116
Brazil	BRL	2.61110	2.66360	2.88818	2.59093
India	INR	70.14999	67.74460	66.30760	61.89839
China	CNY	9.96420	9.96729	9.26020	10.67079
Czech Republic	CZK	25.13500	24.64499	26.26664	25.29283

Translation differences relative to the previous year's translated amounts are recognised in equity.

Exchange differences arising on translation of the net investment in a foreign operation and exchange differences on hedges of such a net investment are recognised directly in equity and are not reclassified to profit or loss until disposal of the net investment.

**Revenue and Income Recognition**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of goods subject to installation where installation is a significant part of the contract is not recognised until the goods have been delivered to the customer and installed. In multiple-element sales transactions, the Group applies separate recognition criteria to revenue from the sale of goods and revenue from rendering services. Revenue from rendering services is recognised, subject to the satisfaction of recognition criteria, by reference to the stage of completion of the transaction at the balance sheet date. Revenue from the sale of spare parts is recognised on delivery. In certain instances involving revenue from construction contracts, profit is recognised on a percentage of completion basis. The Group determines the percentage of completion for this purpose according to contract costs incurred to date as a percentage of total contract costs (the cost-to-cost method). Expected contract losses are recognised as an expense in the period in which estimated total contract costs exceed total contract revenues. Revenue is reported after deducting any trade discounts and rebates.

Rentals from investment properties are recognised in profit or loss on a straight-line basis over the duration of the tenancy. Any premium paid for a lease is allocated to accounting periods as part of total lease income.

The portion of the gain or loss on a hedging instrument that is determined to be an effective cash flow hedge is initially recognised directly in equity and is reclassified to revenue in profit or loss when the forecast transaction occurs.

Dividend revenue on investments is recognised when the right to receive payment is established. Interest revenue is recognised in the amount of the effective yield on invested capital. The effective yield is the rate of interest required to discount the stream of future cash receipts expected over the life of a financial asset to equate to the net carrying amount of the asset.

On disposal of an asset, any difference between the proceeds from the sale and the carrying amount is recognised in profit and loss.

**Cost of Sales**

The cost of sales reported in the Income Statement consists of all costs directly attributable to the production process. These include direct material, direct labour, indirect costs such as depreciation and impairments of production plant and production-related intangible assets, write-downs on inventories, and production-related administrative overheads as appropriate.

### Research and Development Expenses

Research expenses are recognised in the period they are incurred.

Expenditure is incurred for development activities when research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products or processes. An intangible asset arising from development is recognised if the outcome is technically and commercially feasible, it is considered probable that the product or process to be developed will generate future economic benefits, and the Group has adequate resources to complete the development. The development expenditure recognised as an intangible asset includes direct material, direct labour and allocated overheads. Other development expenses are recognised as expense in profit or loss when incurred.

Capitalised development expenses are presented in the Balance Sheet net of cumulative amortisation and impairments. Development expenses recognised as assets are amortised on a straight-line basis over the estimated period in which the products will be sold. The Group carries out annual impairment testing during the development phase.

### Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates that have been enacted by the end of the reporting period. Current tax relating to items recognised directly in equity is likewise recognised directly in equity.

Deferred tax is accounted for using the balance sheet liability method. It is measured by applying the applicable tax rate to temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the tax bases used in the computation of taxable profit for each company. The applicable tax rate is the rate prevailing at the balance sheet date or the rate expected to apply when the temporary differences reverse, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits. The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect any change in the probability that the benefits can be utilised. The carrying amount of each deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Any unrecognised deferred tax assets are reassessed at each balance sheet date and recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax liabilities are not recognised for taxable temporary differences resulting from the initial recognition of goodwill or the initial recognition of another asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither taxable profit nor net income. Deferred tax liabilities are not recognised for taxable temporary differences associated with investments in subsidiaries and associates or with interests in joint ventures if it is not probable that the temporary difference will reverse in the foreseeable future or that taxable profit will be available against which the loss arising on reversal of the temporary difference can be utilised.

Demag Cranes AG sets off current tax assets and current tax liabilities if it has a legally enforceable right to do so relating to income taxes levied by the same taxation authority.

Value-added tax refundable by or payable to the taxation authority is accounted for by Demag Cranes AG as part of other non-financial assets and other non-financial liabilities respectively.

### **Goodwill and Negative Goodwill**

Goodwill arising on acquisition is the excess of the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, which is done at least annually, the Group allocates goodwill to the cash-generating units that are expected to reap synergies from the business combination. On disposal of part of a cash-generating unit to which goodwill has been allocated, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Goodwill recognised on acquisition of an equity-accounted investment is included in the carrying amount of the Group's investment and is assessed for impairment as part of that investment.

If after reassessment of all relevant amounts the Group's share in the acquired assets and liabilities of a subsidiary exceeds the cost of the business combination, Demag Cranes AG recognises the excess (negative goodwill) immediately in profit or loss.

### Other Intangible Assets

Other intangible assets of the Demag Cranes Group comprise patents, trademarks, software, service agreements, technology, customer relations, supplier relations and capitalised development projects.

Separately acquired intangible assets are recognised at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired by Demag Cranes AG in a business combination are recognised at fair value at the acquisition date. Expenditure on internally generated intangible assets is recognised in profit or loss as an expense when it is incurred except in the case of development expenses that must be capitalised. Subsequent expenditure on intangible assets is added to the carrying amount of the intangible asset if and only if it substantially increases the future economic benefits embodied in the asset and the cost can be reliably estimated. All other expenditure is immediately recognised in profit or loss. Borrowing costs are not capitalised and are recognised immediately in profit or loss.

Intangible assets with finite useful lives are amortised on a straight-line basis over the period of any contractual rights or the period over which the Group expects to use the asset, whichever is the shorter. The Group additionally reviews the carrying amount of intangible assets with finite useful lives at least annually for indications of impairment.

Intangible assets with indefinite useful lives are not amortised. Instead, the Group tests such assets at least annually for impairment. The Group's trademarks are not amortised as they are established trademarks and there is no foreseeable limit to their useful lives.

Estimated useful lives of intangible assets:

	<b>Useful Life</b>
Patents, licences and similar rights	5 years
Capitalised development projects	5 years
Trademarks	Indefinite
Software	3 years
Service agreements	6 years

Estimated useful lives are reviewed at each year-end and changed if necessary. Changes in accounting estimates are applied prospectively in profit and loss in accordance with IAS 8.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is recognised in profit or loss in the period of disposal.

### Property, Plant and Equipment

Property, plant and equipment consists of land, land rights and buildings, including buildings on third-party land, plant and machinery, prepayments and assets under construction, tools and equipment, and other assets.

Property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. Expenditure for major repairs and servicing work increases the carrying amount of an item of property, plant and equipment if it is probable that the additional economic benefits resulting from the work will flow to the Group and its cost can be reliably estimated. Demolition, removal, restoration and recultivation expenses for which the Group recognises provisions likewise form part of the cost of property, plant and equipment. All other expenses, for example for maintenance or modernisation, are recognised immediately in profit or loss. Borrowing costs are recognised in profit and loss when they arise.

Parts of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and a useful life significantly different to that of other parts are depreciated separately.

Depreciation is charged on a straight-line basis over the useful life of an item of property, plant and equipment. Estimated useful lives are shown in the table below.

	<b>Useful Life</b>
Factory and office buildings	25 to 33 years
Other buildings	8 to 50 years
Plant and machinery	5 to 12 years
Tools and equipment	3 to 10 years
Vehicles	5 to 8 years
IT equipment and hardware	3 to 5 years

Estimated useful lives and depreciation methods are reviewed at each year-end and changed as necessary. Changes in accounting estimates are applied prospectively in profit and loss in accordance with IAS 8.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is recognised in profit or loss in the period of disposal.

The accounting treatment of property, plant and equipment in finance leases is explained under Leasing.

**Investment Properties**

Investment property consists of land and buildings held by Demag Cranes AG to earn rentals or for capital appreciation or both.

Investment property is measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged as for property, plant and equipment and is recognised as expense in profit or loss.

An investment property is derecognised on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal.

**Impairment of Goodwill, Other Intangible Assets, Property, Plant and Equipment and Investment Properties**

The Group assesses at least at each balance sheet date whether there is any indication that goodwill, other intangible assets, property, plant and equipment and investment properties are impaired. If any such indication exists, the asset is tested for impairment.

Goodwill, other intangible assets with indefinite useful lives and intangible assets not yet available for use are also tested for impairment at each balance sheet date irrespective of whether there is any indication that they are impaired. If the recoverable amount of an asset or the cash-generating unit to which it belongs is less than its carrying amount, the difference is recognised in profit or loss as an impairment loss. An impairment loss recognised for an asset or a cash-generating unit is first allocated to reduce the amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. If an impairment ceases to exist, the impairment loss is reversed up to a maximum of cost less any accumulated depreciation or amortisation. Impairment losses recognised for goodwill are not reversed.

Other non-current assets are tested for impairment if there is any indication that the assets are impaired or that an impairment loss recognised in prior periods may no longer exist. An impairment loss recognised in prior periods is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount attributable to a reversal of an impairment loss may not exceed the recoverable amount or the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss.

**Leasing**

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. At the commencement of the lease term, finance leases are recognised as assets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The future lease payments are recognised in the balance sheet under loans and borrowings.

Lease payments are apportioned in accordance with the effective interest method between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Interest expenses are recognised immediately in profit and loss.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit from the use of the leased asset. Contingent payments under an operating lease are recognised as an expense in the period they are incurred. Incentives to enter into an operating lease are recognised as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is more representative of the time pattern of the Group's benefit from the use of the leased asset.

### **Inventories**

Inventories are measured at the lower of cost and net realisable value, using average cost. Cost includes direct material, direct labour and allocated production overheads including depreciation on factory buildings and equipment. Inventories are written down as appropriate if they have become wholly or partly obsolete or can no longer be readily sold. Borrowing costs are not recognised as part of the cost of inventories.

### **Construction Contracts**

Construction contracts that meet the criteria in IAS 11 are accounted for using the percentage-of-completion method. The percentage of completion is normally determined for this purpose according to contract costs incurred to date as a percentage of total contract cost (the cost-to-cost method). Where the outcome of a construction contract cannot be measured reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable (the zero-profit method). The gross amount due from or to customers for contract work is presented under trade receivables or trade payables as appropriate. The gross amount due is equal to cost incurred plus recognised profits, less any recognised losses and progress billings up to a maximum of work performed. Additional amounts paid by customers are reported in liabilities as advance payments received. Any anticipated losses are recognised immediately in full in profit or loss. Further information is provided in Note 20.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group recognises a financial instrument on its balance sheet when it becomes a party to the contractual provisions of the instrument. Financial instruments are recognised and derecognised on the trade date or settlement date.

As in the previous year, there were no reclassifications of financial instruments in the Group during the year under review.

**Primary Financial Instruments**

Financial assets and financial liabilities are initially recognised at fair value plus transaction costs, except financial instruments at fair value through profit or loss, which are recognised at fair value without transaction costs. Financial assets not at fair value through profit or loss are tested at each balance sheet date for impairment. The fair value of financial instruments traded on organised markets is determined using the quoted price on the balance sheet date. If the Group has financial instruments for which there is not an active market, their fair value is determined by using a valuation technique. For the purpose of subsequent measurement, financial instruments are classified into categories as follows:

- *Held to Maturity*

This category consists of financial assets quoted in an active market with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Financial assets held to maturity are measured at amortised cost using the effective interest method, less any impairment losses. The Group does not have any financial instruments held to maturity.

- *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In the Demag Cranes Group, this category mainly consists of trade receivables and cash and cash equivalents. These are measured at amortised cost using the effective interest method less accumulated impairment losses. Receivables that carry no interest or that bear an off-market interest rate are measured at the discounted present value of future cash receipts. Loans and receivables are derecognised on settlement.

- *At Fair Value Through Profit or Loss*

This category contains two subcategories: held for trading, and designated as at fair value through profit or loss. These assets are measured at fair value. Changes in their fair value are recognised in profit or loss. The Group has no financial instruments in the "designated as at fair value through profit or loss" category.

- *Financial Assets Available For Sale*

This category encompasses all financial assets which, based on objective criteria, are not classified in any other IAS 39 category or which the Group has designated as available for sale. Available-for-sale financial assets at Demag Cranes AG mainly comprise investments. These assets are measured at fair value. Gains and losses arising from changes in their fair value are recognised directly in equity in the investments revaluation reserve, except for impairment losses and foreign exchange gains and losses on monetary assets, which are recognised directly as income or expense in profit or loss. When the assets are derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Available-for-sale financial assets whose fair value cannot be reliably determined are measured at cost less any accumulated impairment losses.

- *Financial Liabilities Measured at Amortised Cost*

Financial liabilities in this category are measured using the effective interest method, recognising the interest expense in accordance with the effective interest rate.

#### ***Derivative Financial Instruments***

The Group uses hedging to manage interest and exchange rate risk. The hedging instruments used by the Group mainly consist of foreign exchange contracts and interest rate swaps.

All derivative financial instruments are recognised as financial assets or financial liabilities and measured at fair value at the balance sheet date. Changes in the fair value of derivative financial instruments are normally recognised as income or expense in profit or loss, with the exception that the portion of the gain or loss on a derivative that is determined to be an effective cash flow hedge is recognised directly in equity. The ineffective portion is recognised immediately in profit or loss. The gains or losses recognised in equity are reclassified to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. If the hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses recognised in equity comprise the cost of the asset or liability on initial recognition. If the hedging instrument expires or is otherwise terminated without replacement or rollover into another hedging instrument, or if the hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss recognised in equity remains separately in equity until the forecast transaction or firm commitment occurs. If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Where the Group uses a derivative financial instrument as a fair value hedge, gains and losses on the hedging instrument and the hedged item are recognised in profit or loss. When the hedging instrument terminates or no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item attributable to the hedged risk is reversed to profit or loss from that date. Derivatives to which hedge accounting is not applied are given the same accounting treatment as the "at fair value through profit or loss" category.

**Impairment of Financial Assets**

The Group assesses financial assets classified as loans and receivables or available for sale for impairment at each balance sheet date. A financial asset is impaired if there are indications that the Group may not recover part of its initial investment and the present value of the future cash flows or the fair value of the financial asset is less than its carrying amount. On an available-for-sale equity instrument, a significant or prolonged decline in the fair value of the financial instrument below its cost is to be considered objective evidence of impairment. Financial assets are assessed for impairment individually or on a portfolio basis. The Group makes appropriate provision for all identifiable credit risks. The remaining credit risk from financial instruments corresponds to their carrying amounts. The impairment loss on a financial instrument measured at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted at its original effective interest rate. An impairment loss directly reduces the carrying amount of all affected financial instruments except for trade receivables, where impairment losses are recognised through an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are accounted for by reversing the allowance account to profit or loss.

If in a subsequent period the fair value of an available-for-sale financial instrument other than an equity instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss and any amount in excess of amortised cost is recognised directly in equity. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed. Any increase in fair value after recognition of an impairment loss is recognised directly in equity.

**Derecognition of Financial Instruments**

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or it is transferred to another party with all the risks and rewards of ownership. If the Demag Cranes Group neither transfers nor retains substantially all the risks and rewards of ownership and retains control of a transferred asset, it continues to recognise the financial asset to the extent of its continuing involvement and recognises as a liability any obligations created in the transfer. If the Demag Cranes Group retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognise the asset and recognises a secured loan for the consideration received.

The Demag Cranes Group derecognises a financial liability when the Group's obligation is discharged or cancelled or expires.

**Financial Instruments: Other Investments**

The other investments balance sheet item consists of two sub-items – associates and long-term securities – and is classified as available for sale. Long-term securities are measured at fair value. This is determined by prices quoted in an active market. Gains and losses arising from changes in fair value are recognised directly in equity, taking account of any deferred tax. On disposal, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. The appropriate classification of securities is determined on purchase and reviewed at each balance sheet date. There were no reclassifications in the year under review.

The Group measures investments in associates at cost less accumulated impairment losses, as their fair value cannot be reliably determined. No impairment losses were recognised in the year under review.

**Financial Instruments: Trade Receivables**

Trade receivables are classified in the loans and receivables category. They are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less accumulated impairment losses. Non-current receivables are measured at the present value of the estimated future cash flows discounted at the effective interest rate.

**Financial Instruments: Other Financial Assets**

Other financial assets other than derivative financial instruments are measured at amortised cost less accumulated impairment losses. These assets are classified in the loans and receivables category. The measurement of derivative financial instruments is explained in a separate section (Derivative Financial Instruments).

**Financial Instruments: Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and in banks, bank deposits on up to one-day notice and securities with a residual maturity of up to three months at the acquisition date. These holdings are classified in the loans and receivables category. The Group measures cash and cash equivalents at amortised cost.

**Share-Based Payment**

The Group has an equity-settled share-based payment scheme (Matching Stock Program) for executives and managerial employees. The amount of the equity-settled payment obligation is the fair value of the options at the grant date. This is independently assessed using Monte Carlo simulation and is recognised as an expense in personnel expenses on a straight-line basis over the vesting period with a corresponding increase in additional paid-in capital.

**Provisions for Pensions and Similar Obligations**

The Group has both defined contribution and defined benefit plans. Contributions to defined contribution plans are recognised as an expense in profit or loss in the year employees have rendered service entitling them to the contributions.

The present value of the Group's obligation under defined benefit plans is measured separately for each plan using the projected unit credit method, based on the estimated amount of benefit employees have earned up to the balance sheet date. The Group obtains an actuarial valuation to determine the amount of its obligation each year. The Group's net obligation is determined by subtracting the fair value of plan assets from the present value of the defined benefit obligation. The discount rate used is the yield at the balance sheet date on senior corporate bonds with maturities approximating to the duration of the benefit. Experience adjustments and changes in actuarial assumptions over time can result in differences between the actual and expected benefit obligation and the actual and expected return on plan assets. The resulting actuarial gains and losses are recognised directly in equity and are presented in the Statement of Recognised Income and Expense. If plan benefits are subsequently increased, the share of the present value of the increased benefits that relates to employees' past service (the past service cost) is recognised as expense in profit and loss on a straight-line basis over the period until the benefits become vested. To the extent that the benefits are vested immediately, the past service cost is recognised immediately.

#### **Other Provisions**

A provision is recognised if at the balance sheet date the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are recognised at the discounted present value of the expected amount of the obligation. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability if applicable. Provisions for the estimated cost of product warranties are recognised when products are sold. The Group recognises restructuring provisions when a detailed formal restructuring plan has been drawn up and announced to the parties affected. All changes in estimates are recognised in profit or loss. No provision is recognised for costs that need to be incurred to operate in the future. Provisions for onerous contracts are recognised as soon as it is apparent that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### **Financial Instruments: Loans and Borrowings**

Interest-bearing loans and borrowings are initially recognised at fair value less transaction costs incurred on inception. Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost, with the difference between the initial amount and the repayment amount being recognised in profit and loss over the loan term using the effective interest method. The gain or loss arising from extinguishment and derecognition of a financial liability is recognised in profit or loss.

Financial guarantee contracts are initially measured at fair value less any transaction costs directly attributable to their issue. They are subsequently measured at the higher of the amount needed to settle the current obligation at the balance sheet date and the amount initially recognised less cumulative amortisation.

**Financial Instruments: Trade Payables**

Trade payables are financial liabilities that the Group measures at amortised cost using the effective interest method.

**Financial Instruments: Other Financial Liabilities**

Other financial liabilities mainly consist of derivative financial instruments, both in designated hedging relationships and otherwise. Their measurement is explained in a separate Derivative Financial Instruments section.

**Contingent Liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or a present obligation where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

## 6. Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosures on contingent assets and liabilities at the balance sheet date and the reported amount of income and expenses during the reporting period. Actual amounts may differ from these estimates. The estimates and assumptions are based on experience and other factors considered relevant in measuring the carrying amounts of assets and liabilities where these are not readily apparent from other sources. Demag Cranes AG reviews the estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which an estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of the Financial Statements, the Management Board of Demag Cranes AG used estimates and assumptions relating to material items as follows:

- *Assessment of the Need to Recognise Impairments and Measurement of the Amount of Any Impairment Loss*

The Group assesses at each reporting date whether there is any indication that assets are impaired. In estimating fair value less costs to sell, the Management Board makes assumptions regarding expected future cash flows from each asset or cash-generating unit, using appropriate discount rates and appropriate growth rates. The fair value less costs to sell of trademarks in other intangible assets is determined using the relief from royalty method. Impairment testing has confirmed the carrying amounts of goodwill and trademarks.

- *Estimated Useful Lives*

At each year-end, the Group reviews the estimated useful lives of intangible assets, property, plant and equipment and investment property. As in the previous year, the review has not identified any need to alter the estimated useful life of any asset.

- *Recognition and Measurement of Development Expenses*

Development expenses are capitalised if the recognition criteria in IAS 38 are satisfied. Initial recognition is based on management estimates. For this purpose, management makes assumptions concerning the size of expected future cash flows, the applicable discount rates and the period over which expected future benefits will be generated. EUR 643,000 in development expenses were capitalised in financial year 2008/2009 (2007/2008: EUR 696,000). Impairment testing of capitalised development expenses resulted in recognition of an impairment loss in financial year 2008/2009 of EUR 5,967,000. Further information on the impairment of capitalised development expenses is provided in Note 15.

- *Accounting for Pensions and Similar Obligations*

The Group uses actuarial valuations in the measurement of pensions. These valuations are made on the basis of expected returns on plan assets, future salary increases, mortality, future pension increases and expected discount rates. Due to their long-term focus, these estimates are subject to material uncertainty. The provision for pensions and similar obligations amounted to EUR 132,530,000 (2008: EUR 112,669,000) at the balance sheet date. The increase in the pension provision mainly reflects a change in the discount factor. Further information is provided in Note 25.

- *Accounting for Restructuring Provisions*

The size of the restructuring provision is based on management's best estimate. Changes in estimates may become necessary as the restructuring plan takes on substance and is implemented. The restructuring provision came to EUR 33,471,000 at 30 September 2009 (2008: EUR 614,000). Further information is provided in Note 26.

- *Other Personnel-Related Obligations*

Recognition and measurement of other personnel-related obligations – such as partial-retirement obligations – likewise involve estimates and assumptions regarding the expected timing and amount. Actuarial computations are also based on estimates and assumptions. Other personnel-related obligations totalled EUR 35,844,000 at the balance sheet date (2008: EUR 56,461,000) plus EUR 15,495,000 (2008: EUR 20,497,000) relating to partial retirement. Further information is provided in Note 29.

- *Share-Based Payment*

In determining the fair value of equity instruments, the Group applies a suitable valuation technique (Monte Carlo simulation) that reflects the conditions of its share-based payment scheme. The variables incorporated in the valuation model and the fair values are presented in Note 24.

- *Deferred Tax Assets*

Deferred tax assets are recognised for tax loss carryforwards to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits. Judgements are made regarding expected timing, the amount of taxable income and future tax planning opportunities. At 30 September 2009, the net carrying amount of deferred tax assets recognised for tax loss carryforwards amounted to EUR 15,248,000 (2008: EUR 9,642,000). Further information is provided in Note 30.

All remaining estimates and assumptions are based on the best available information and the objective of achieving a fair presentation of the financial position, financial performance and cash flows of the Group. Due to the uncertainty associated with estimates and assumptions, actual results may differ from the reported amounts.