

CEO Letter to our Shareholders

Dear shareholders,

The past financial year was marked by the adverse impacts of the economic and financial crisis. The ensuing global economic cool-down held back capital spending by customers the world over. Our manufacturing segments – Industrial Cranes and Port Technology – were especially hard hit. The result was an almost 40 percent drop in our Group order intake. Well-filled order books from the record 2007/2008 financial year allowed us to make up some of the decrease when it came to Group revenue, which was 15 percent down year on year. As our production facilities ran at substantially reduced capacity in the past financial year while fixed costs continued to be incurred, operating earnings before interest and tax (EBIT) fell sharply compared with the year before.

The Management Board responded quickly and resolutely to the crisis scenario. When the downturn first made itself felt in late 2008 – notably in the Port Technology segment order intake – we moved without delay by cutting the numbers of temporary employees and making use of accrued overtime and holiday entitlements. Enforcement of a short work-week followed in March 2009. As the orders situation continued to worsen and signs of medium-term recovery failed to materialise, the Management Board acted to secure the Company's future by presenting a restructuring programme which the Demag Cranes AG Supervisory Board unanimously approved this May. This included reducing our Group workforce by up to 750. By implementing the programme, we aim to secure savings of up to EUR 60 million. Above all, it allows us to lower fixed costs and breakeven points with lasting effect and hence boost Group competitiveness. Following a constructive, target-driven negotiation process with employee representatives, we reached consensus on a compensation agreement and redundancy scheme for the Port Technology segment as early as July 2009. Negotiations in Germany for the other two segments were successfully concluded on 23 October 2009.

As part of implementing the restructuring programme, we are now taking the necessary steps to raise efficiency in the Industrial Cranes and Services segments. The Management Board is also pressing ahead with our announced plans to tighten organisational integration across the Group. Apart from centralising shared services such as IT, accounting and purchasing, this also includes bringing functions like re-

search and development/design, production, services, sales and product management under unified management. In the process, we aim to establish clear management structures and lines of responsibility within the organisation that not only promote fast and targeted team decision making but also provide transparency on the resulting decisions for the workforce. Over and above this, our first priority remains focus on customer needs and requirements at all times.

As a result of rigorous long-term financial management, the Demag Cranes Group is very well equipped and has a robust financing structure, even against the backdrop of the financial crisis and any credit squeeze in the economy at large. We can reap the benefits here from having placed the emphasis on cash and working capital management for the last several years. We were thus able to generate a positive free cash flow and almost completely draw down net debt in financial year 2008/2009 despite it being a year of crisis.

My special thanks go at this juncture to every one of our employees for their commitment in these exceptionally difficult circumstances. We are well aware that a crisis of historic proportions and the restructuring made necessary as a result demand a great deal from the workforce. Making the Group's business and finances resistant to crises is only one side of the coin. The Group's long-term viability and competitiveness depend to a major degree on the motivation and skills of our workforce and on the successful outcome of the integration process. We plan to invest in these sound foundations by further stepping up employee development, promoting team spirit and positioning Demag Cranes as an attractive employer – and this on a global basis.

The negative effects of the economic and financial crisis and the restructuring expenditure already incurred have had a severe impact on net income after tax for financial year 2008/2009. The Management Board and Supervisory Board have therefore jointly decided not to propose a dividend for financial year 2008/2009 at the Annual General Meeting. This decision was taken specifically in light of the ongoing difficult and uncertain economic climate. The basic policy of distributing attractive dividends to reflect the operational success of the business remains in place for future years.



Aloysius Rauen
Chief Executive Officer (CEO) and Member of the Board for Services

While we consider the Demag Cranes Group to be well placed both strategically and financially, poor forward visibility as to the remaining course and effects of the economic and financial crisis still make it almost impossible to give reliable predictions. To summarise our guidance, we currently expect revenue performance in financial year 2009/2010

to be down year on year. At the same time, we expect to achieve a consolidated operating EBIT margin in the middle single-digit percentage range. For further details, please see the Forecast Report starting on page 77.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Rauen'.

Aloysius Rauen
CEO