

Foreword

The Financial Statements of Demag Cranes AG on which this report is based were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU.

Business and Environment

Group Structure and Business Activities

Demag Cranes AG has its registered office in Düsseldorf and is the parent company of the Demag Cranes Group. As at 30 September 2009, it directly held 100 percent of the shares in DCC HoldCo 4 (vier) GmbH and Gottwald HoldCo 3 (drei) GmbH and indirectly held interests in numerous other companies inside and outside Germany (for details, see the list of subsidiaries, joint ventures and investments as at 30 September 2009 on page 164 et seq. of this report).

The Group manufactures products in the industrial cranes, crane components, harbour cranes and terminal automation technology sectors. It produces in a total of 16 countries on five continents and, through subsidiaries, agencies and a joint venture, operates an extensive sales and service network linking locations in over 60 countries.

The business activities of the Demag Cranes Group are divided into three segments: Industrial Cranes, Port Technology and Services. This segmentation is also the basis for Group management and monitoring.

In its **Industrial Cranes segment**, the Demag Cranes Group develops and manufactures high-quality components, such as rope hoists, chain hoists, travel units and motors, as well as complete cranes. A distinction is made between Standard Cranes and Process Cranes. Standard Cranes are configured individually from standardised modules for industrial infrastructure applications. Process Cranes, although also made from largely standardised modules, are integrated individually into the customer's specific production processes. With its highly flexible KBK crane construction kit, which is used primarily in industries with changing production requirements (e. g. the automotive industry), Demag Cranes is the world market leader.

In the **Port Technology segment**, we focus on products and services for ports and terminals. These products are sold under the Gottwald brand. The range extends from conventional cargo handling equipment such as Mobile Harbour Cranes to automated solutions for container transport and storage. In this segment, we also offer planning and consultancy services for port operators, software solutions as well as assembly and maintenance services. Our primary focus here is on solutions that enable our customers to optimise their material flow and logistics processes. According to our own market research, we occupy the leading position in mobile harbour cranes. The Demag Cranes Group also ranks among the pioneers and leading international suppliers in the promising terminal automation sector. In our assessment, developing fully integrated, end-to-end solutions including our own software solution and being able to offer them as a complete integrated system gives us a unique competitive edge.

The **Services segment** offers a full range of services for the maintenance, use and refurbishment of cranes and lifting equipment. Apart from standard services such as spare parts supply, technical inspections, maintenance and repairs, the segment increasingly performs consultancy and training services to optimise the use of crane systems. In the area of refurbishment, the segment uses both standard products and sophisticated tailored solutions. The range of service contracts extends from simple recurring inspections through preventive maintenance to full-service arrangements. They cover not just our own Industrial Crane products but also third-party products and related equipment. The use of the latest technical developments such as remote servicing permits condition-based customised services.

Organisation and Locations

The in-house production of the Demag Cranes Group is focused on high value-added components. In less industrialised regions, we outsource the production of low value-added components to strategic partners, which increases our flexibility and capacity and allows us to reduce our own investment requirements.

In the **Industrial Cranes segment** we operate three component plants in Wetter an der Ruhr (Germany), São Paulo (Brazil) and Shanghai (China). Furthermore, crane girders are produced and cranes are assembled at 22 plants in highly industrialised regions around the world. The necessary components are supplied by our own component plants. Seven of the 22 crane plants are operated by MHE-Demag (S) Pte. Ltd., Singapore, a 50/50 joint venture between Demag Cranes & Components GmbH, Wetter, and Jepsen & Jessen (SEA) Pte. Ltd., Singapore. In less industrialised regions, we work together with crane manufacturing partners and supply them with our components. This gives us broad geographical coverage and operational flexibility. Crane girders produced by local partners are locally assembled with Demag Cranes components to create cranes in accordance with our quality requirements. This allows us to better plan our production capacities and use them more profitably. The product development efforts of the Industrial Cranes segment targeting emerging markets are increasingly shifting in this direction, creating in-depth product expertise tailored to these markets.

Production as well as the technical, commercial and administrative areas of the **Port Technology segment** are located at the Düsseldorf plant. Both our main market in Europe and our international customers are served centrally from here. Operations focus on the production of critical large components that determine product quality and final assembly. We additionally draw on a worldwide network of suppliers and production partners. Cranes produced by us are transported to customers by water, along the Rhine to the North Sea ports of Antwerp and Rotterdam and from there on to end customers. Many of our customers in our main market in Europe can be reached direct by ship. Worldwide sales and service for products from the Port Technology segment are carried out by centrally based key account managers for international customers, but also regionally by Demag Cranes AG's foreign subsidiaries, or by contractual partners.

In the **Services Segment** the Demag Cranes Group operates one of the largest crane and hoist service networks in the market numbering more than 220 service centres worldwide. With over 650,000 cranes and electric hoists, Demag Cranes has the largest installed base in the world. The current outsourcing trend among customers represents a solid platform for long-term demand growth. All services in this segment are provided by our own regionally structured service sales organisation and our field service organisation. The spare parts business is increasingly being conducted via the web-based Demag Shop system. This is a company-wide virtual sales and distribution platform directly linked to the central spare parts logistics system and the spare parts supply chain, which is largely separate from the new equipment supply system. Spare parts are manufactured on a decentralised basis in the Demag Cranes Group and then distributed via a central logistics system. Repair centres are available worldwide for general overhauls and repairs to crane components. Key strengths of our field service organisation notably include the extensive skills and motivation of our staff who, after completing high-quality professional training, receive continuous training organised by the Company. Processes in field-service organisation can be effectively managed using integrated IT planning and reporting modules to ensure fast response times. A centrally organised competence centre is available to provide development services for complex crane refurbishment projects.

Strategy

The Demag Cranes Group applies a strategy geared to sustained profitable growth. Under the framework of this strategy, we measure and appraise organic and external growth opportunities by reference to set earnings targets.

The cost position of the Demag Cranes Group is further strengthened as a result of restructuring activities unanimously approved by the Supervisory Board on 18 May 2009 and largely implemented since. Major efficiency gains have already been achieved in past years. The successful restructuring of our Mobile Harbour Crane production is a prime example.

In the course of restructuring, we also continue to enhance Group integration. This includes pooling key management functions within Demag Cranes AG – functions such as finance and accounting, human resources, IT, marketing and corporate development. We can consequently now act more swiftly, uniformly and flexibly as a Group. By deploying our sales and service forces across segmental divisions, we can make faster and fuller use of new market openings.

A key feature of our strategy comprises stepping up sales activities in emerging markets, primarily in Asia. We are forging ahead with the development of sales channels and product innovations to boost sales of premium products. These markets also offer great scope for extending the product range into the middle price bracket. This enables locally based development teams to offer products precisely matched to market needs. We already have a good standing in these markets through our subsidiaries in the BRIC countries (Brazil, Russia, India and China) and the United Arab Emirates. This strong market position is underscored by the substantial rise in the share of Group business transacted in those markets in recent years. The projected competitive consolidation in established markets opens up more opportunities for profitable growth in emerging economies.

Growth in service business continues to be driven by increasing coverage of our installed base, which in electric cranes and hoists is the largest in the world. Emerging markets again offer potential in this regard.

Following on from the rope and chain hoists developed in recent years in the Industrial Cranes segment, we also continue to sustain our strong innovation record in Port Technology. Examples include the current Generation 5 Mobile Harbour Cranes together with developments in terminal automation and green technology. These offer strategic potential for the Demag Cranes Group alongside that created as logistics needs in the hinterland of maritime ports track growth in quayside cargo handling, and as emerging markets progress along their current trend.

Management Structure

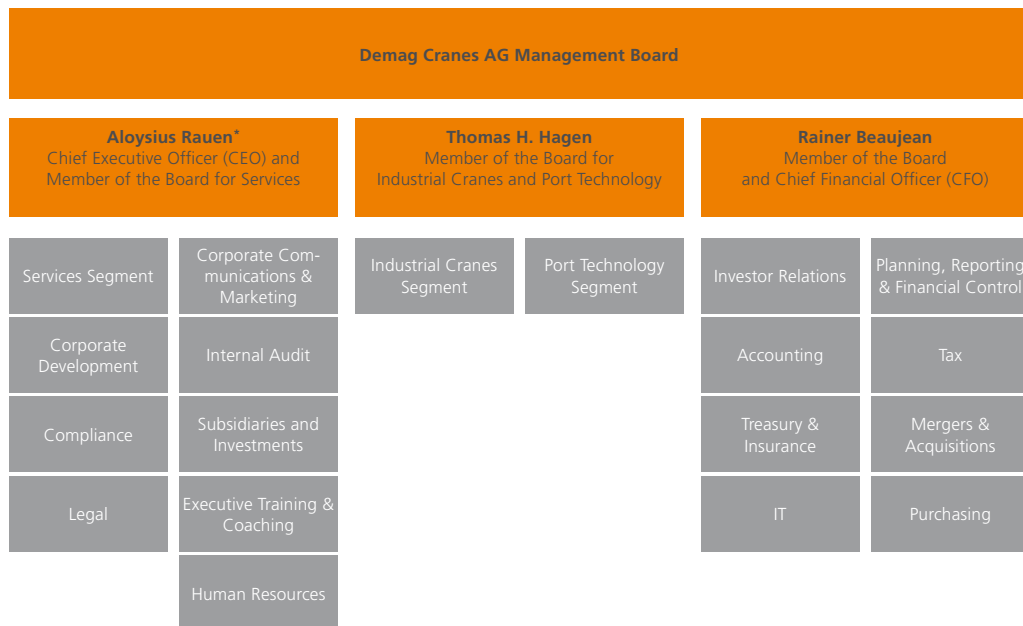
The global management structure of the Demag Cranes Group corresponds to a matrix structure. The Management Board holds responsibility for the segments with the support of regional and functional managers. Earnings and informational accountability is secured through segment analysis.

Regional accountability is organised through a global sales organisation with local sales and service companies and a partner network. Sales of products and services are managed Group-wide through the sales organisation.

The production network, comprising strategically sited component factories in Germany, Brazil and China, local crane factories and partners, ensures consistently high product quality at high levels of efficiency.

In the course of restructuring, key corporate management functions will be pooled within Demag Cranes AG as the operating holding company. This secures functional accountability for areas such as global production, research and development (R&D), product marketing and shared services. Essential decision-making processes gain further in speed, cost-efficiency and flexibility as a result.

DEMAG CRANES AG ORGANISATIONAL CHART



* Industrial Relations Director.

Changes on the Board

Aloysius Rauhen (52) became CEO of Demag Cranes AG on 1 May 2009. The Supervisory Board appointed Rauhen as a member of the Management Board with effect from 1 May 2009 and nominated him as CEO by resolution of 23 February 2009. Mr Rauhen was previously CEO of Eurofighter Jagdflugzeug GmbH. The previous CEO Harald J. Joos stepped down from the Management Board of Demag Cranes AG with the agreement of the Supervisory Board on 31 March 2009.

Group Management

At both the level of Demag Cranes AG and at operating segment level, the internal control system used by Demag Cranes AG is based on qualitative and quantitative information from a management information system (MIS). This is updated at frequent intervals and primarily uses financial performance metrics for Group management and as efficiency indicators. The central Group-level measurement and control variable is earnings before interest and tax (EBIT) adjusted to eliminate non-operating income and expenses (operating EBIT). Revenue, operating EBIT – each as related to accountability areas – and operating net income after tax are also used as the basis for analysing target attainment by all parts of the Group, for determining bonuses paid as part of variable compensation and in shared services units, as well as for segment and regional management.

Gross profit is used as an additional measure of the quality of billed orders. Further focuses of attention include active management of net working capital and the generation of cash and cash equivalents. The management of net working capital relates to inventories, trade receivables and payables, as well as advance payments received and made. Other indicators and control parameters used in the Group's active cash management are free cash flow before financing and net debt (defined in the Notes to the Financial Review). The dividend policy, financing structure and return on capital employed are also appraised and managed on a targeted basis with reference to these indicators. Active management of net working capital, management of cash and cash equivalents and strategic accountability for purchasing are fully centralised under dual control in the responsibility of the finance function. Demag Cranes AG revises its control system and adapts it to changes in global circumstances on an ongoing basis.

Remuneration Report

Overall Management Board compensation comprises a number of components. These include a fixed salary, a performance-based bonus, in two cases, a long-term incentive component, the normal fringe benefits and contributions towards pensions and surviving dependents' pensions. Members of the Supervisory Board receive fixed compensation and attendance fees as well as being reimbursed for their expenses. For more details, including the compensation received by each member of the Management and Supervisory Boards, please see the Remuneration Report in the Corporate Governance section of this report. The Remuneration Report on page 30 et seq. of this report forms an integral part of the Management Report.

Disclosures under Section 315 (4) of the German Commercial Code

Demag Cranes AG is an Aktiengesellschaft (a German public limited company), has its registered office in Düsseldorf and has issued voting shares that are listed on an organised market as defined in Section 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG), namely the Regulated Market (Prime Standard section) operated by Frankfurt Stock Exchange.

Subscribed Capital; Rights and Obligations Attaching to Shares

Demag Cranes AG has a subscribed capital (share capital) of EUR 21,172,993 as at 30 September 2009, divided into 21,172,993 no-par-value bearer shares. There are no different classes of shares. Each share has one vote at general meetings. In all other respects, the rights and obligations attaching to each share are as stipulated in the German Stock Corporations Act (AktG).

Restrictions on the Transfer of Securities and on Voting Rights

Shares in Demag Cranes AG are not subject to any restrictions on voting rights under the Articles of Association or by law at the balance sheet date. No restrictions on voting rights resulting from agreements between shareholders are known to the Management Board.

Holdings Relating to More than Ten Percent of Voting Rights

No direct or indirect holdings in the Company's share capital that relate to more than ten percent of voting rights are known to the Management Board.

Securities Carrying Special Rights

None of the shares issued by Demag Cranes AG carries special rights with regard to control of the Company.

How Rights Are Exercised on Shares under an Employee Share Scheme If Not Directly by Employees

No information is available on the exercise of voting rights on shares under an employee share scheme where the rights are not directly exercised by employees.

Appointment and Replacement of Members of the Management Board; Amendments to the Articles of Association

The statutory governing and representative body of Demag Cranes AG is the Management Board. Under Article 6 (1) of the Articles of Association, the Management Board consists of at least two members. The size of the Management Board is otherwise decided by the Supervisory Board. The Supervisory Board may appoint deputy members of the Management Board. If the Supervisory Board does not nominate a Management Board member as CEO, the Management Board elects a spokesperson from among its number.

The Management Board of the Company currently consists of CEO Aloysius Rauen and two other members, Rainer Beaujean and Thomas H. Hagen.

Appointment and replacement of Management Board members takes place on the basis of Sections 84 and 85 of the German Stock Corporations Act (AktG) and Section 31 of the German Co-determination Act (MitbestG). In accordance with Section 84, AktG, members of the Management Board are appointed by the Supervisory Board for terms not exceeding five years. Management Board members may also be reappointed or their terms extended in increments not exceeding five years. The contracts with current members of the Management Board expire as follows:

Aloysius Rauen: 30 April 2012
Rainer Beaujean: 30 September 2014
Thomas H. Hagen: 30 September 2014

Extension of terms and reappointment require a new resolution of the Supervisory Board, which can normally be adopted no earlier than one year before the end of the current term. The Supervisory Board may revoke the appointment of a member of the Management Board before the end of the member's term of office for cause, for example, in the event of gross breach of duty or of a vote of no confidence at a general meeting. The Company is represented by two Management Board members or by one Management Board member acting jointly with an authorised signatory (Prokurist). In accordance with Section 179, AktG, amendments to the Articles of Association normally require a resolution of the general meeting. In departure from this general rule, amendments that solely affect the wording of the Articles of Association may be adopted by the Supervisory Board. The Company's Articles of Association provide that, unless otherwise stipulated by law, general meeting resolutions require a simple majority of votes cast and, if the law stipulates a majority of represented capital, a simple majority of the share capital represented at the time of the vote.

Powers of the Management Board to Issue and Buy Back Shares

Under Article 4 (5) of the Articles of Association, the Management Board is authorised subject to Supervisory Board approval to increase the Company's share capital by issuing new no-par-value bearer shares for cash or non-cash consideration in one or more issues up to a total of EUR 10,586,496 by or before 18 May 2011 (Authorised Capital); this is equivalent to 50 percent of the current share capital. The new shares may be taken up by one or more financial institutions determined by the Management Board subject to an undertaking that the shares will be offered to existing shareholders (indirect rights issue).

In certain circumstances and subject to Supervisory Board approval, the Management Board is authorised to exclude existing shareholders' statutory right of pre-emption:

- *When issuing shares for non-cash consideration in order to provide shares for the purpose of acquiring a business, part of a business or ownership interests in a business or for the purpose of issuing shares to employees of the Company or to employees of its affiliates, in accordance with the law;*
- *To the extent needed to provide holders of warrants or convertible bonds issued by the Company or its subsidiaries with rights to new shares in the amount they would be entitled to on exercise of the right of purchase or conversion or on discharge of the conversion obligation or obligation to sell;*
- *To exclude any fractional amount arising in a rights issue;*
- *When issuing shares for cash consideration provided that, in accordance with Section 203 (1) and (2) and the fourth sentence of Section 186 (3) of the German Stock Corporations Act (AktG), the issue price of the new shares is not significantly lower than the stock market price, at the time the final issue price is set by the Management Board, of existing listed shares of the same class and carrying the same rights and provided that the new shares for which the right of pre-emption is excluded do not together comprise more than ten percent of the share capital at the time they are issued. The ten percent maximum is reduced by any sales governed by the fifth sentence of Section 71 (1) 8 and the fourth sentence of Section 186 (3), AktG comprising sales of shares to the exclusion of existing shareholders' right of pre-emption during the lifetime of the authorisation and by any issues governed by Section 221 (4) and the fourth sentence of Section 186 (3), AktG comprising issues of shares in respect of which a right of conversion or purchase or a conversion obligation or obligation to sell exists by virtue of a convertible or warrant-linked bond issued since the granting of the authorisation to the exclusion of existing shareholders' right of pre-emption.*

The Management Board is authorised subject to Supervisory Board approval to decide the remaining details of the increase in share capital and its conduct, including the nature of rights attached to shares and the conditions of share issue.

By resolution of the Annual General Meeting of 3 March 2009 in accordance with Section 71 (1) 8, AktG, Demag Cranes AG is authorised until 2 September 2010 to purchase its own shares of any class up to a maximum of ten percent of the share capital at the time of the resolution granting the authorisation or of the share capital at the time the authorisation is exercised, whichever is the lesser. The authorisation may be exercised either in whole or in part, and if in part, on one or more occasions. The shares may, at the choice of the Management Board, be purchased on the stock market, by way of an offer to buy made to all shareholders, or by way of an invitation to submit offers to sell extended to all shareholders. Alternatively, the purchase may be effected by a company controlled or majority-owned by Demag Cranes AG or by a third party for the account of Demag Cranes AG or of a company controlled or majority-owned by Demag Cranes AG. The purchase price must be in the range set in the resolution granting the authorisation.

If shares are purchased on the stock market, the consideration paid per share (net of transaction costs) must not be more than five percent above and not more than ten percent below the arithmetic mean closing price of the same class of shares in the Company in the Frankfurt Stock Exchange XETRA trading system (or functionally comparable successor system) over the last three trading days preceding the purchase.

If shares are purchased by way of an offer to buy extended to all shareholders, the offered price per share must not be more than ten percent above or below the arithmetic mean closing price of the same class of shares in the Company in the Frankfurt Stock Exchange XETRA trading system (or functionally comparable successor system) over the last three trading days preceding the date on which the Management Board of Demag Cranes AG finally decides on the formal offer (or in the event of a permissible modification to the offer, on the formal modification).

If shares are purchased by way of an invitation to submit offers to sell extended to all shareholders, the Management Board of Demag Cranes AG sets a range for the price per share for which offers may be submitted. The range can be modified if during the offer period the share price varies significantly from the share price at the time of publication of the invitation to submit offers. The price per share paid by the Company, as determined by the Company from the submitted offers to sell, must not be more than ten percent above or below the arithmetic mean closing price of the same class of shares in the Company in the Frankfurt Stock Exchange XETRA trading system (or functionally comparable successor system) over the last three trading days preceding the date on which the Management Board of the Company formally decides on acceptance of the offers to sell.

In the case of a purchase of shares by way of an offer to buy extended to all shareholders or by way of an invitation to submit offers to sell extended to all shareholders, a limit may be placed on the number of shares on offer or the number of offers that will be accepted. In the event of oversubscription, the shares may be purchased in proportion to the number of shares offered (pro-rated) instead of in proportion to the number of shares held in the Company. In such cases, fractional numbers of shares may be avoided by rounding to the nearest whole number and preference may be given to the acceptance of shares from shareholders who offer no more than 100 shares for sale. In the cases referred to in this paragraph, shareholders shall be precluded from offering additional shares for sale.

The shares in the Company purchased by virtue of this authorisation may be sold on the stock market or by way of an offer extended to all shareholders or may be used subject to Supervisory Board approval – which for the interim period between two Supervisory Board meetings may also be granted in the form of preliminary approval subject to a maximum amount – for the following purposes:

- *To list shares in the Company on a foreign stock exchange where they are not yet listed for trading. The price at which shares in the Company are initially listed on the foreign stock exchange must not be more than five percent below the arithmetic mean closing price of the same class of shares in the Company in the Frankfurt Stock Exchange XETRA trading system (or functionally comparable successor system) over the last five trading days preceding the initial listing. In such instances, the existing shareholders' right of pre-emption is excluded;*
- *To transfer shares in the Company to a third party in connection with a business combination or with the acquisition of a business, part of a business or ownership interests in a business, including the acquisition of additional shares to increase an existing shareholding; in such instances, the existing shareholders' right of pre-emption is excluded;*
- *To retire shares in the Company; the retirement and the performance of the retirement do not require an additional resolution of the general meeting. Any retirement of shares in the Company results in a reduction in share capital by the portion attributable to the retired shares. Subject to Supervisory Board approval, the Management Board may stipulate in departure from this provision that instead of a reduction in share capital, the retirement of shares will result in an increase in the proportion of share capital attributable to the remaining shares in accordance with Section 8 (3), AktG;*
- *To sell shares in the Company other than on the stock market and other than by way of an offer extended to all shareholders, provided that – applying the fourth sentence of Section 186 (3), AktG, mutatis mutandis – the sale is for cash consideration at a price not significantly below the stock market price of Company shares of the same class. This authorisation is restricted to the sale of shares representing in total not more than ten percent of the share capital at the time of the Annual General Meeting resolution granting the authorisation or of the share capital at the time the authorisation is exercised, whichever is the lesser. The ten percent maximum is reduced by the proportion of share capital represented by any shares sold during the lifetime of this authorisation in a stock issue to the exclusion of existing shareholders' rights of pre-emption in accordance with the fourth sentence of Section 186 (3), AktG and by the proportion of share capital represented by any shares to be issued to settle warrant-linked or convertible bonds carrying a right of purchase or right of conversion or to be issued to meet a conversion obligation or obligation to sell provided that the bonds have been issued during the lifetime of this authorisation to the exclusion of the existing shareholders' right of pre-emption in application, mutatis mutandis, of the fourth sentence of Section 186 (3), AktG. In such instances, the existing shareholders' right of pre-emption is excluded.*

The above options for the use of treasury shares may be used on one or more occasions, in whole or in multiple parts, separately or in combination. They also include the use of shares in the Company acquired on the basis of the fifth sentence of Section 71d, AktG, or by a company controlled or majority-owned by Demag Cranes AG, or by a third party for the account of Demag Cranes AG or of a company controlled or majority-owned by Demag Cranes AG.

It is standard practice in German listed companies for an authorisation to purchase the company's own shares to be renewed at a general meeting before the authorisation expires. The Management Board and Supervisory Board will submit a proposal for renewal of the authorisation at the Annual General Meeting on 2 March 2010 for the five-year period now allowed by law. The Company made no use of the authorisation for the purchase of its own shares or for the use of treasury shares in financial year 2008/2009.

Significant Agreements Conditional upon a Change of Control Following a Takeover Bid

Demag Cranes AG has a revolving credit facility in the amount of EUR 325.0 million (including a EUR 105.0 million ancillary facility) under which it is stipulated that all amounts under the loan agreements can be called due with immediate effect in the event of a change of control of Demag Cranes AG or in the event of the acquisition, by a third party or by multiple parties acting in concert, of more than 50 percent in issued voting shares in Demag Cranes AG.

Demag Cranes AG is not party to any other significant agreement that takes effect, alters or terminates upon a change of control of the Company following a takeover bid.

Agreements with Members of the Management Board or Employees for the Event of a Takeover Bid

The employment contracts of the Management Board members provide for a special termination right on the part of the Management Board members in the event of a change of control which can be exercised within six months of the change of control. On exercising this right, the Management Board members continue to receive their fixed salary until the end of the contract term. In addition, they receive a target bonus pro rata temporis from the date the termination takes effect to the end of the contract term, assuming 100 percent target attainment. The compensation payments to be made in this respect may not exceed two times the total annual compensation. Further information on the employment contracts of Management Board members is provided in the Remuneration Report (page 30 et seq.).

Explanatory Report of the Management Board of Demag Cranes AG on the Disclosures under Section 289 (5) and Section 315 (2) 5 of the German Commercial Code

Legal Background The German Accounting Law Modernisation Act (BilMoG), which entered into force on 29 May 2009, amended various provisions of German law including Sections 289 and 315 of the German Commercial Code (HGB) and Sections 120 and 175 of the German Stock Corporations Act (AktG). BilMoG required the Management Board to present at the general meeting a written report containing, among other things, newly introduced compulsory disclosures in the company management report under Section 289 (5), HGB or Group management report under Section 315 (2) 5, HGB on the internal control and risk management system in relation to the company or Group financial reporting process.

In a subsequent Shareholder Rights Directive Implementation Act (ARUG), the German legislature brought together the requirements to submit explanatory disclosures in one place in the first sentence of Section 176 (1), AktG while removing the requirements previously contained in the second sentence of Section 120 (3) and the first sentence of Section 175 (2), AktG. The reference to Section 289 (5), HGB added by BilMoG and relating to the management report disclosures on the internal control and risk management system in relation to the financial reporting process was not included in these changes, however. It is not yet certain whether this was a mere editorial omission, in which case an explanatory report on the disclosures under Section 289 (5), HGB (and also under Section 315 (2) 5, HGB) is still required following the enactment of ARUG. If such a reporting duty does exist, it is also not yet clear whether a report must be presented to the first ordinary general meeting following entry into force of BilMoG and ARUG, or if under transitional provisions of the Commercial Code relating to the disclosures under Sections 289 (5) and 315 (2) 5, HGB, the requirement only relates to company and Group management reports for financial years beginning after 31 December 2008. The Management Board of Demag Cranes AG has decided to take the precaution of presenting the disclosures in question for financial year 2008/2009 by providing the relevant disclosures on the internal control and risk management system in relation to the company or Group financial reporting process.

Subject Matter of the Report

According to the explanatory memorandum to BilMoG, the internal control system encompasses the policies, processes and tasks that help ensure effective and efficient financial reporting, the quality of financial reporting and compliance with applicable law. This also includes the internal audit system to the extent that it relates to financial reporting.

The risk management system in relation to the financial reporting process encompasses, as part of and hence in the same way as the internal control system, financial reporting control and monitoring processes in particular with regard to items on the balance sheet associated with the management of risk.

Main Features of the Internal Control System and of the Risk Management System in Relation to the Financial Reporting Process

The main features of the internal control system and risk management system at Demag Cranes AG in relation to the (Group) financial reporting process may be described as follows:

- *The Demag Cranes Group has a clear organisational, corporate, control and monitoring structure;*
- *Coordinated Group-wide planning, reporting, financial control as well as early warning systems and processes ensure integrated analysis and control of earnings-relevant factors and going-concern risks;*
- *Functional responsibilities (e.g. accounting, financial control and internal audit) are clearly assigned for all parts of the financial reporting process;*
- *Accounting IT systems are secured against unauthorised access;*
- *Most finance systems in deployment are standard software;*
- *A suitable system of internal guidelines (including Group-wide risk management guidelines) is in place and subject to ongoing refinement in line with developing needs;*
- *Departments involved in the financial reporting process meet quantitative and qualitative requirements;*
- *The completeness and accuracy of accounting data are regularly verified by sampling and plausibility checks performed both manually and by the software used. A risk controller for each segment supports the risk management process at segment level and checks the data for plausibility;*
- *Key processes related to financial reporting are subject to regular analysis. The Group-wide risk management system is continuously fine-tuned in line with emerging developments and regularly tested for effectiveness. The system was assessed by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, in the course of auditing the Financial Statements;*
- *The dual control system is applied throughout in all processes related to financial reporting;*
- *Processes related to financial reporting are subject to scrutiny by the internal audit function;*
- *The Supervisory Board supervises matters including key aspects of financial reporting, risk management, and the audit mandate together with its main points of focus.*

Explanatory Notes on the Main Features of the Internal Control System and of the Risk Management System in Relation to the Financial Reporting Process

The internal control and risk management system in relation to the financial reporting process as set out above ensures that matters pertaining to the business are accurately recognised, presented and measured in the accounts and so are included in external financial reporting.

The clear organisational, corporate, control and monitoring structure combined with the deployment of sufficient human and material resources for accounting tasks lay the basis for efficient operation of the functions involved in financial reporting. Clear statutory and company requirements and guidelines ensure proper and uniform financial reporting. Clearly defined verification mechanisms within the functions involved in financial reporting itself together with checks by the internal audit department and the early warning provision in the risk management system ensure that financial reporting is coherent and free of errors.

The internal control and risk management system at Demag Cranes AG makes sure that financial reporting at Demag Cranes AG and all companies included in the Financial Statements is uniform and in compliance with legal and statutory requirements as well as internal guidelines. In particular, the uniform Group risk management system, which fully meets the statutory requirements, has the purpose of detecting risks on a timely basis, assessing them and properly communicating them. Report users are thus provided with accurate, relevant, reliable and timely information.

General Economic Environment

World Economic Trends¹

Global economic growth slowed sharply in 2008 and 2009. The crisis on the international financial markets began with the collapse of the US subprime mortgage market already in 2007. In 2008, the financial crisis went from bad to worse and became a global economic crisis. For a long time, the turmoil was limited to a liquidity crunch on the interbank markets, but the situation deteriorated following the insolvency of several large financial institutions. In order to prevent the global financial system from collapsing, governments in almost all industrialised nations and emerging countries intervened heavily in the economy by launching massive rescue packages. Nevertheless, the financial market turmoil had a major impact worldwide.

While credit conditions for both businesses and private households deteriorated significantly, asset losses and gloomy earnings prospects added to the strains on the economy. Already in the first quarter of financial year 2008/2009 (October to December 2008), the World Economic Climate Index produced by the Ifo World Economic Survey fell to its lowest level for more than 20 years. In the following quarter from January to March 2009, it sank to a record low as a result of increasingly gloomy economic prospects. The downturn in the global economic climate affected not only the large economic regions of North America, Western Europe and Asia, but also Central and Eastern Europe as well as Latin America. Countries such as the USA and the UK mainly suffered from the real estate and financial crisis, while the export-driven economies of Japan, China and Germany were primarily hit by the slump in foreign demand.

It was not until the end of the Demag Cranes Group's financial year – the summer months of 2009 – that the global economic decline began to slow and signs of stabilisation increased. In the USA, the running down of stock by companies abated and the domestic automotive industry saw a revival. The OECD composite leading indicator, which reflects the assessment of economic activity in industrialised countries, rose to 95.7 in June 2009, its fourth increase in a row. This was due not least to the extensive economic policies pursued to support and reinvigorate the economy. Despite initial signs of stabilisation, the economic downturn is not over yet: for a forecast of economic trends, please see the Forecast Report section of this report on page 77 et seq..

¹ Sources: Commerzbank, Economic Research, "Konjunktur und Finanzmärkte, September/Oktober 2009"; Goldman Sachs, "Global Economics Analyst, September/October 2009"; German Federal Ministry of Economics and Technology, "Schlaglichter der Wirtschaftspolitik", monthly report September 2009.

Economic Trends in the Euro Zone

The euro zone economy also suffered substantially from the crisis: almost all businesses felt the effects of the downturn keenly, especially after the collapse of investment bank Lehman Brothers in September 2008. As a result, there was a sharp decline in capital expenditure in the euro zone and exports slumped. The banks significantly tightened their lending criteria and a number of European countries, such as Spain and the UK, saw sharp drops in property prices. On top of all this, global demand declined, weakening the euro zone economy still further.

The German economy likewise suffered increasingly under the crisis: the low Ifo Business Climate Index at the end of 2008 and throughout the first quarter of 2009 reflected developments such as plummeting new orders and the introduction of shorter working hours. Industry was affected first and foremost by persistently feeble capital spending. The fall in global demand particularly weakened German export business. The economic situation of the already struggling German mechanical engineering companies deteriorated further, particularly over the course of the year. According to the industry association VDMA, order intake in the period from January to September 2009 fell by 44 percent in real terms compared with the same period in the previous year. Towards the summer, the first signs of improvement appeared in the euro zone: business sentiment indicators such as the purchasing managers' index for manufacturing and the service sector or the Economic Sentiment Indicator published by the EU Commission rose again. The figures for the manufacturing industry suggest a slight recovery. The main impetus for stabilisation came from industry, notably the automotive sector, which benefited in Germany and abroad from economic support packages.

Trends on the Foreign Exchange Markets

On the foreign exchange markets, the US dollar gained considerable ground against the euro at the end of 2008, achieving its peak for the year of USD 1.23 to the euro at the end of October 2008. The US dollar benefited from hugely heightened risk aversion on the international markets. Ever increasing uncertainty drove more and more investors into low-risk investments, including in particular US treasury bonds. Since early 2009, there has been pronounced downward pressure on the value of the dollar against the euro again. The dollar recorded its low for the year so far at USD 1.48 to the euro on 22 September 2009. The average exchange rate for the reporting period from 1 October 2008 to 30 September 2009 was USD 1.35 to the euro.

Trends on the Raw Materials Markets

After rising rapidly until July 2008, the price of crude oil per barrel fell sharply in the period to March 2009, dipping as low as USD 45 per barrel. This decrease was primarily driven by the financial crisis and the associated fall in global demand for crude oil. At the end of the financial year, the oil price began to rise again. According to the Oxford Economics metal price index, metal prices fell sharply by 25 to 30 percentage points per quarter in the last financial year. This trend was primarily driven by declining iron ore, aluminium and zinc prices.

Industry Conditions

With its products and services in the Industrial Cranes, Port Technology and Services segments, the Demag Cranes Group operates on the global market for cargo handling equipment and material logistics. This market includes all products which perform, control and monitor cargo handling and logistics processes, including the corresponding software solutions and services.

The market for industrial cranes shrank in the 2008/2009 financial year. Generally, the global economic crisis hit pure component suppliers harder than international suppliers of system solutions like Demag Cranes. Changes in industry conditions were largely in line with the market development in the mechanical engineering industry. According to an assessment by the industry association VDMA, order intake in the mechanical

engineering sector was down by 44 percent in real terms in the period from January to September 2009 compared with the previous year. The materials handling systems sector declined at a similar rate. The market share of emerging markets continued to grow steadily, despite the slowdown. Competition on emerging markets tends to be highly fragmented. Global market consolidation also continued its advance in the industrial cranes market.

In the market for the Port Technology segment, cargo volumes declined steeply and container transport rates fell dramatically in financial year 2008/2009. The decline in cargo volumes on the principal routes between Asia and North America, which was already apparent in summer 2008, deepened as a result of the economic crisis and caused a worldwide slump in the shipping industry to an extent which could not have been predicted. Customers of the Port Technology segment reacted to these developments by stopping or drastically reducing investment activities. Many customers have also deferred planned investments. In addition to expansion investments, replacement investments also failed to materialise since the low capacity utilisation of terminals meant there was hardly any need for them. This low capacity utilisation also severely reduced demand for services. Overland container shipping showed a similar picture. Investments declined sharply here, too, due to fallen economic output. The resources for expanding the transport infrastructure provided by the German government's economic stimulus packages did not have a positive impact on the Port Technology segment in the financial year. Although there is still customer demand for cost-cutting and environmentally friendly solutions, the economic situation has greatly intensified price competition.

The effects of the financial and economic crisis are also taking their toll in the market of the Services segment. Overall, global demand for services fell in financial year 2008/2009. Lower utilisation of crane systems by customers meant that demand was down in all markets, especially for spare parts. However, the basic trend towards increased requirements for safety, reliability and availability with the corresponding business potential for services remains unbroken.

Overall Operating Environment

The Demag Cranes Group was also unable to escape the effects of the financial and economic crisis in the financial year.

The **Industrial Cranes segment** benefited from our solid order book for Process and Standard Cranes from record financial year 2007/2008. The late cyclical nature of this segment meant there was a six-month delay before we felt the full impact of the crisis. Accordingly, we did not record a significant drop in order intake until the second quarter of financial year 2008/2009. When it came, however, its extent was in line with the general trend in the mechanical engineering industry. All product lines were affected.

In the **Port Technology segment**, customer restraint also made itself felt in capital investment decisions. This had a notable impact on automated products. Product orders from major projects, such as Antwerp Gateway, were postponed for the time being. Operators of new terminals also put off commissioning decisions. By contrast, we did receive orders for our versatile Mobile Harbour Cranes, albeit at much lower level.

In the **Services segment**, the high-margin spare parts business was particularly hard hit by the effects of the financial and economic crisis. Overall, however, this segment was not nearly as badly affected as the other two segments, as expected.