

Business Performance of the Demag Cranes Group and its Segments in Financial Year 2008/2009

Overall Assessment of Business Performance and Target Attainment in the Financial Year

Financial year 2008/2009 was marked by the negative effects of the financial and economic crisis. This extremely difficult operating environment brought a slowdown in business for the Demag Cranes Group. In the tight economic situation, our customers became more and more reticent in awarding contracts and increasingly adopted a wait-and-see approach. Orders for products and services fell significantly. This was reflected in a 36.4 percent drop in order intake at Group level compared with the previous year. The well-filled order book from the record 2007/2008 financial year made up somewhat for the decrease in Group revenue. Revenue was down 14.5 percent year on year. Group operating EBIT fell from EUR 137.5 million in financial year 2007/2008 to EUR 67.6 million. This was mainly a consequence of our factories operating at lower capacity.

The Demag Cranes Group responded quickly to the crisis scenario and launched the necessary restructuring measures this May by unanimous resolution of the Supervisory Board. The main effect of these measures will be a lasting reduction in fixed costs and breakeven points to safeguard the Group's future.

Following target-driven, constructive negotiations with employee representatives on the Works Council, we reached an outcome for the Port Technology segment as early as July 2009 with a compensation agreement and a redundancy scheme. Negotiations in Germany for the other segments concluded successfully on 23 October 2009. Further information is provided in the Report on Post-Balance Sheet Date Events.

With revenue totalling EUR 1,047.6 million in financial year 2008/2009, we attained our target of EUR 1.0 billion to EUR 1.1 billion set at the end of the third quarter. Our Group operating EBIT of EUR 67.6 million is even slightly above target (end-Q3 forecast: EUR 55.0 million to EUR 65.0 million).

In the **Industrial Cranes segment**, we benefited during the past year from our solid order book for Process and Standard Cranes carried over from the record 2007/2008 financial year. The strong order book was a notable factor in allowing us to cushion some of the fall in revenue compared with the previous year. The intake of new orders, on the other hand, was weak in line with the general trend in the mechanical engineering sector. This will primarily be seen on the revenue side in the next financial year. The financial and economic crisis significantly reduced the propensity of our customers to invest. Consequences of our factories operating below capacity were among the major negative impacts on segment earnings. We minimised this effect in the past year by cutting the number of temporary employees, using up accumulated flexitime balances and adopting a short work-week.

We likewise felt the marked reticence of our customers in relation to capital spending decisions in the **Port Technology segment**. This necessitated major capacity adjustments in the second quarter of financial year 2008/2009, which we administered in the Port Technology segment as elsewhere by reducing numbers of temporary employees, making use of flexitime accounts and introducing a short work-week. Running the factory significantly below capacity nonetheless had a negative effect on segment EBIT.

In the **Services segment**, the high-margin spare parts business was particularly hard hit by the effects of the financial and economic crisis. Despite the difficult operating environment, we were able to generate a 20.2 percent margin on operating EBIT in the Services segment in financial year 2008/2009, albeit with a degree of variability during the course of the year. In the third quarter of 2008/2009, for example, we attained an operating EBIT margin of 17.1 percent in the Services segment. The operating EBIT margin then went on to improve substantially in the fourth quarter to 21.5 percent. This variability underscores how the spare parts business is dependent on crane utilisation.

In times of financial crisis and potential credit squeezes, a sound balance sheet and a stable financing structure are more important than ever. The Demag Cranes Group is strong on both counts: by rigorously focusing on cash and working capital management, we have achieved low net debt and positive cash flow. Above and beyond this, we are on sound footing with our long-term finances secured through to 2011.

Development of the Share Price

The Demag Cranes AG share price largely tracked the general trend on international equity markets. It dropped by 6.5 percent overall, from EUR 26.25 on 1 October 2008 to EUR 24.54 on 30 September 2009. During the course of the financial year, the share price initially underperformed its benchmark indices, the MDAX and the DAX, but then outperformed them between November 2008 and the end of the reporting period.

Business Performance of the Group and Segments

Order Intake/Order Book

The Demag Cranes Group generated order intake of EUR 841.9 million in financial year 2008/2009. This was 36.4 percent down on the previous year as a result of the general fall in demand. The order book stood at EUR 313.1 million as at 30 September 2009, compared with EUR 523.5 million a year earlier.

1 October to 30 September				
in EUR million	2008/2009	2007/2008	Δ	2006/2007
Industrial Cranes	397.9	671.9	-40.8 %	575.4
Port Technology	151.8	316.8	-52.1 %	323.3
Services	292.1	334.6	-12.7 %	306.4
Group order intake	841.9	1,323.4	-36.4 %	1,205.1

30 September				
in EUR million	2009	2008	Δ	2007
Industrial Cranes	197.7	350.4	-43.6 %	251.5
Port Technology	69.4	121.7	-43.0 %	128.9
Services	46.0	51.4	-10.4 %	47.3
Group order book	313.1	523.5	-40.2 %	427.6

Order intake in the **Industrial Cranes segment** fell in financial year 2008/2009 as our customers continued to show little or no readiness to invest or otherwise postponed capital spending plans. Comparing financial year 2008/2009 with the previous year, order intake dropped by EUR 274.0 million or 40.8 percent. This weak performance relative to the previous year is to some extent put into perspective by the fact that an above-average number of orders for Process Cranes was generated in the second and third quarters of financial year 2007/2008. The Industrial Cranes segment order book came to EUR 197.7 million at 30 September 2009 (30 September 2008: EUR 350.4 million).

The sharp downturn in international cargo business also made its mark on order intake in the **Port Technology segment**. This decreased by 52.1 percent compared with financial year 2007/2008, falling from EUR 316.8 million to EUR 151.8 million. All product lines were affected by the negative trend. Delayed contract awards for large port projects and the observed general tendency to put off capital spending brought business virtually to a standstill with regard to our Automated Guided Vehicles (AGVs) and Automated Stacking Cranes (ASCs). Delivery of the last consignment to our customer Euromax was an exception here. We also saw a substantial drop in demand for Mobile Harbour Cranes. While business here fell away almost completely in the first and second quarters, the order intake stabilised at a low level towards the end of the year. The order book amounted to EUR 69.4 million at 30 September 2009 (30 September 2008: EUR 121.7 million).

We also suffered a fall in demand for our products and services in the **Services segment**. Order intake was down by EUR 42.5 million or 12.7 percent. The impact on spare parts business was especially severe. The Services segment order book totalled EUR 46.0 million at 30 September 2009 (30 September 2008: EUR 51.4 million).

Revenue

Revenue decreased compared with financial year 2007/2008 as a result of the weak order volume. At Group level, revenue fell by EUR 178.2 million or 14.5 percent.

in EUR million	1 October to 30 September			
	2008/2009	2007/2008	Δ	2006/2007
Industrial Cranes	545.8	571.2	-4.4 %	485.4
Port Technology	204.0	325.5	-37.3 %	298.9
Services	297.7	329.1	-9.5 %	296.1
Group revenue	1,047.6	1,225.8	-14.5 %	1,080.4

The segments were affected by the revenue decrease in different ways:

With a 4.4 percent reduction, revenue fell by far less an amount in the **Industrial Cranes segment** than in the other two segments due to a well-filled order book, as mentioned earlier. The main revenue drivers were Standard and Process Cranes. While the orders for some of these cranes were received in financial year 2007/2008, the cranes were delivered to customers and the revenue realised in financial year 2008/2009 after an average manufacturing time of six to twelve months.

Port Technology segment revenue dropped compared with financial year 2007/2008 by EUR 121.5 million or 37.3 percent. As this segment accounts for substantially more project business than the other two segments, we were hit especially hard here by the financial and economic crisis. While the volume of orders stabilised at a low level towards the end of the financial year, it was not possible to make up for the severe decrease in revenue experienced in the second and third quarters.

Revenue in the **Services segment** similarly fell from EUR 329.1 million in the previous year to EUR 297.7 million in financial year 2008/2009. Reduced crane utilisation by our customers brought a drop in demand for our high-revenue, high-margin spare parts. This trend made itself felt particularly severely in the third quarter of 2008/2009. The demand situation became steady again towards the end of the financial year.

Revenue is distributed among regions as follows:

in EUR million	1 October to 30 September						
	2008/ 2009	2007/ 2008	Δ	2008/ 2009	2007/ 2008	2006/ 2007	2006/ 2007
Germany	232.9	253.7	-8.2 %	22.2 %	20.7 %	205.3	19.0 %
Rest of Europe	344.2	459.7	-25.1 %	32.9 %	37.5 %	425.4	39.4 %
North America	120.3	125.7	-4.3 %	11.5 %	10.3 %	133.8	12.4 %
Mature markets	697.4	839.1	-16.9 %	66.6 %	68.5 %	764.6	70.8 %
BRIC countries	133.4	135.7	-1.7 %	12.7 %	11.1 %	106.2	9.8 %
Central and South America	24.5	43.9	-44.1 %	2.3 %	3.6 %	34.7	3.2 %
Asia/Pacific	138.1	128.5	7.4 %	13.2 %	10.5 %	126.6	11.7 %
Other	54.2	78.6	-31.1 %	5.2 %	6.4 %	48.4	4.5 %
Emerging markets	350.2	386.7	-9.4 %	33.4 %	31.5 %	315.8	29.2 %
Group revenue	1,047.6	1,225.8	-14.5 %	100.0 %	100.0 %	1,080.4	100.0 %

Looking at the regional picture, we suffered decreases in revenue in almost all regions. However, at 9.4 percent, the fall in revenue in emerging markets was significantly lower than in mature markets, where we recorded a reduction of 16.9 percent.