

## Development of Non-Financial Success Factors

### Employees

#### Employee Structure and Employee-Related Key Figures

As at 30 September 2009, the Group had 5,934 employees\*, 159 fewer than on 30 September 2008.

Employee-Related Key Figures	1 October to 30 September		
	2008/2009	2007/2008	Δ
Operating personnel expenses in EUR million	322.6	351.9	-8.3 %
Operating personnel expenses/revenue	30.8 %	28.7 %	2.1 % pts
Operating personnel expenses/employee in EUR thousand**	53	59	-10.7 %
Revenue/employee in EUR thousand**	171	206	-16.7 %

#### Number of Employees by Regions\*

	30 Sept 2009	30 June 2009	31 March 2009	31 Dec 2008	30 Sept 2008
Germany	2,906	3,031	3,055	3,032	3,008
Rest of Europe	1,195	1,227	1,258	1,246	1,232
North America	572	583	612	608	651
<b>Mature markets</b>	<b>4,673</b>	<b>4,841</b>	<b>4,925</b>	<b>4,886</b>	<b>4,891</b>
BRIC countries	830	851	891	878	831
Asia/Pacific	203	196	201	199	192
Other	228	233	231	186	179
<b>Emerging markets</b>	<b>1,261</b>	<b>1,280</b>	<b>1,323</b>	<b>1,263</b>	<b>1,202</b>
<b>Demag Cranes Group total</b>	<b>5,934</b>	<b>6,121</b>	<b>6,248</b>	<b>6,149</b>	<b>6,093</b>

#### Number of Employees by Segments\*

	30 Sept 2009	30 June 2009	31 March 2009	31 Dec 2008	30 Sept 2008
Industrial Cranes	3,398	3,448	3,540	3,464	3,461
Port Technology	774	883	886	867	829
Services	1,719	1,747	1,782	1,781	1,771
Holding company***	43	43	40	37	32
<b>Demag Cranes Group total</b>	<b>5,934</b>	<b>6,121</b>	<b>6,248</b>	<b>6,149</b>	<b>6,093</b>

	30 Sept 2009	30 June 2009	31 March 2009	31 Dec 2008	30 Sept 2008
Temporary employees	112	117	132	305	453
Apprentices/trainees	285	242	274	315	325

\* Employees excluding temporary employees, apprentices and trainees.

\*\* Based on average number of employees.

\*\*\* Figures from the unallocated column.

Operating personnel expenses declined slightly year-on-year, from EUR 351.9 million to EUR 322.6 million. Operating personnel expenses are net of severance payments for workforce reductions made as part of the restructuring programme. As a proportion of revenue, operating personnel expenses rose slightly to 30.8 percent.

Due to the decline in revenue and the lower headcount, operating revenue per employee dropped from EUR 206,000 to EUR 171,000.

The 3.4 percent decline in the number of employees in Germany compared with financial year 2007/2008 is due mostly to workforce reductions in the Port Technology segment as part of the restructuring programme. Negotiations on the compensation agreement and redundancy scheme at Group subsidiary Gottwald Port Technology GmbH were concluded back in July 2009. In an initial step, 120 employees were transferred to an interim employment company. An additional 100 jobs will go in the near term due to the expiry of temporary contracts, early retirement plans and projected outsourcing measures.

At regional level, we recorded a 4.9 percent increase in our emerging markets workforce in the reporting period. A key element of our strategy is to expand our activities in these regions. We will therefore continue to increase the number of employees there in future.

The number of temporary employees as at 30 September 2009 showed a sharp fall year-on-year. Temporary employees were used in particular in the Industrial Cranes and Port Technology segments. The sharp reduction in the number of temporary employees is due to the change in workload.

The number of apprentices/trainees in the reporting period fell by 12.3 percent compared with 30 September 2008. The rise between 30 June 2009 and September 2009 is due to the fact that the new training years started on 1 August and 1 September 2009. This meant that, in the fourth quarter of 2009, there was some overlap between the newly recruited apprentices/trainees and those who had not yet completed their training.

### **Human Resources Management**

Human resources development is a key issue for the Demag Cranes Group. We consider qualified employees to be an important success factor. A fundamental component of human resources management is therefore to safeguard the high level of qualification attainment for the long term and to continuously build on that level. As a result, we attach considerable importance to both professional training and numerous planned collaborations with universities and other specialist institutes, through which undergraduates and PhD students are also supported. In the coming years, we will expand human resources development in all segments. One of the areas we will focus on will be training in additional and fit-for-future skills for middle and senior management. Another aim of human resources and organisational development is to constantly optimise operations and safeguard the high quality of our processes and products. The Group already offers its employees ongoing training and development opportunities that aim to equip them with the skills required to carry out current and future tasks more quickly and effectively. As part of an employer branding initiative, we are devising a human resources strategy that will encourage the Group's managers to take up careers in other segments and even on other continents.

Another key function of the Company's human resources management is to react to the shift in the age structure of the workforce and to develop suitable response strategies. Currently, more than 35 percent of the workforce in Germany is over 50 (excluding trainees and apprentices). As at 30 September 2009, the age structure of the Group's employees was as follows:

	<b>30 Sept 2009</b>
Age	
20–29	9.8 %
30–39	16.1 %
40–49	39.3 %
50–60	32.0 %
>60	2.8 %
<b>Total</b>	<b>100.0 %</b>

As at 30 September 2009, the age structure of the Group was as follows:

	<b>30 Sept 2009</b>
Years of Service with the Company	
0–9	33.1 %
10–19	25.8 %
20–29	23.5 %
30–39	15.4 %
40–49	2.3 %
<b>Total</b>	<b>100.0 %</b>

We are facing the challenge of demographic change head on and keeping our employees informed and trained to an optimum level through targeted knowledge management. In particular, knowledge and experience are to be passed on to colleagues, built on and applied efficiently.

Innovative training and development programmes appropriate for the employee's age are used to encourage and advance employees, from apprentices right through to the "aging workforce" of employees over 50.

In addition, strategic succession planning ensures that key positions are filled successfully and, as such, it is a business success factor. Within succession management, the Company attaches great importance to identifying talent internally, i.e. recognising the potential of its own employees. By providing selective training and development activities and varying the tasks and responsibilities assigned, we aim to groom in-house talent in Germany and other countries for new responsibilities so that these employees can move up into attractive (international) management positions.

## Procurement and Purchasing

During the past financial year, one key focus of strategic purchasing was to adjust working capital, particularly trade payables/receivables and inventories, in line with the year-on-year decline in order intake. This required prompt capacity adjustments with our suppliers. We also monitored our suppliers' financial position on an ongoing basis, as a reduction in the flow of materials to customers can cause some to experience sharp fluctuations in liquidity. Actively asking our suppliers and service providers for information through "supplier screening" helped us to identify such developments at an early stage. We are therefore able to take any countermeasures required in the short term as well.

The Demag Cranes Group's procurement strategies contribute substantially to safeguarding the Company's competitive edge in the market and in terms of technology. Strategic purchasing activities and criteria for the global selection of suppliers thus continue to be aligned accordingly. We consider our main suppliers to be value-adding partners who not only reliably provide the Group with high-quality products and services, but who also give significant impetus to our product development. By sharing development and product optimisation, our main suppliers assist us in reducing manufacturing costs. This is key to safeguarding market share, particularly in times such as these. By continuously analysing processes along the supply chain, we are able to closely monitor manufacturing costs throughout the product-creation period together with our main suppliers, from the raw materials stage through to the final product.

Thanks to the increasing level of product standardisation, our strategic purchasing is able to make greater use of economies of scale and enter into new types of relationships with our suppliers. In particular, flexible logistics agreements are becoming more important for ensuring timely delivery of material supplies and reducing tied-up capital. The Company's global purchasing presence enables it to react flexibly to constantly changing market conditions and to systematically exploit local procurement advantages. In this regard, the focus is on the procurement markets in emerging markets, where we have our own purchasing offices in key locations.

In the reporting period, strategic purchasing was converted from a segment-based purchasing structure into a central organisation. This new arrangement also brings the individual purchasing units together physically. All strategic purchasing units now report to the Group's head of purchasing, who in turn reports direct to the CFO. As a result of their centralisation, the main purchasing activities are geared to generating economies of scale across groups of materials, implementing uniform supplier strategies and improving efficiency through the creation of uniform structures. In addition, similar procurement processes are being further harmonised and internationalisation and global sourcing are being increased.

The international purchasing process was launched at an International Purchasing Meeting in Germany led by the CFO. At this meeting, important agreements were reached with the purchasing managers from the different regions regarding a uniform approach and structure. Thus, the different market trends in each region are to be identified more quickly so that changes in the procurement markets can be exploited better for the Company as a whole. Company-level specialisation in particular groups of materials is allowing us, firstly, to optimise technical cooperation with suppliers and, secondly, to further standardise and optimise our parts, components and systems. This is taking place through teamwork with other functions, particularly production as well as research and development.

In the Industrial Cranes, Port Technology and Services segments, procurement processes for operations have largely been delegated to the individual business units or foreign locations. This organisational structure allows us to pool and manage demand centrally while maintaining sufficient flexibility to meet individual supply and service requirements throughout the organisation. The new structure gives us the flexibility we need to meet the changing requirements of a cyclical market.

Overall, the Demag Cranes Group works actively with some 240 A-list suppliers. This is the result of continuous strategic efforts to reduce our supplier base. At the same time, we have successfully ensured that the Group does not become too dependent on individual suppliers.

In the financial year, expenses for supplies and services amounted to approximately EUR 499 million in total (previous year: approximately EUR 644 million), of which some EUR 366 million (previous year: EUR 483 million) was spent on materials. Despite difficult market conditions, we were able to negotiate competitive terms with suppliers and secure these purchasing effects for the long term. This enables us, firstly, to strengthen our competitive position and, secondly, to maintain long-term relationships with our strategic partners.

### Research and Development

Our research and development efforts focus on the basic idea of offering customers the greatest possible degree of benefits and production efficiency through our products and services. Our guiding principle is to strive to produce high-quality, effective and reliable products that are geared to meet market requirements.

As a technology leader, we therefore feel a permanent obligation to pursue groundbreaking solutions and exploit the potential to optimise successful product lines. By expanding our product range, we meet the needs of emerging markets. By critically examining our manufacturing and process costs and stringently managing complexity, we move towards our goal of cross-product modularisation of all our components and assemblies. Internationally networked teams of developers with broadly spread specialist and local market expertise now work closely together to develop products that can be used globally.

The Demag Cranes Group believes the large amount it spends on research and development strengthens its operating units and also sees it as an investment in the future aimed at safeguarding its technology leadership in the long term.

In financial year 2008/2009, research and development expenses, including capitalised development expenses, amounted to EUR 28.2 million on a consolidated basis (EUR 0.6 million of which capitalised) compared with EUR 20.4 million (EUR 0.7 million of which capitalised) in the previous financial year. Of these total expenses, EUR 12.2 million (2007/2008: EUR 10.3 million) related to the Industrial Cranes and Services segments and EUR 16.0 million (2007/2008: EUR 10.2 million) related to the Port Technology segment. As a proportion of revenue, research and development expenses amounted to 2.6 percent (2007/2008: 1.6 percent).

Research and development activities in the **Industrial Cranes segment** focused on further additions to the product portfolio as well as improvements in terms of product modularisation and complexity. Special attention was paid to the diverging needs of established and emerging markets. Besides product-specific development, we also pressed ahead on a sustained basis with the ongoing expansion and rollout of IT systems for process support. Development activities for established markets continued to focus on consistently advancing application-driven options in the DR rope hoist, DC chain hoist and Dedrive frequency inverter

ranges. Enhancement and implementation of these product options is now largely complete, ensuring product deployability in target application environments. Extension of the performance range also lay at the centre of R&D activity directed at Standard Cranes. Altered customer requirements with regard to load capacities and spans resulted in an increase in maximum performance across the board. We also implemented our new range of girder cranes and generally extended and standardised the choice of options. Emerging markets pose special requirements for the product portfolio. This has led to a number of product modification projects and the launch of various new developments on the cranes and components side. Our first international development teams were established with members from India, China and Germany to pool expertise and experience from very different markets and regions. Activities in connection with standards and directives focused on ensuring conformity with the new EU Machinery Directive, which comes into effect throughout the European Union from 29 December 2009. In the course of expanding our IT-based quotation and order-processing systems, new configurations were successfully implemented and integrated into our systems environment for compact hoist, rope hoist and drive products. This completes a further important step towards improved process reliability and enhanced efficiency.

In the **Port Technology segment**, we continued updating our range of Mobile Harbour Cranes with regard to the Compact Class in the course of introducing the new Generation 5. We aim here to extend our technology leadership at the lower end of the range by employing frequency-controlled asynchronous motors for the main motions. Energy efficiency has also been improved on Mobile Harbour Cranes and energy recovery technologies have been developed in a test facility. This option will be ready for the market in the next financial year. On diesel engines, we have begun with application of the US Environment Protection Agency (EPA1) Tier 4i emission standards for off-highway diesels, due to take effect in 2011, which require major reductions in nitrogen oxides and particulates. In the semi and fully automated port technology product line, the priority lay on further development of our Automated Guided Vehicles (AGVs) and technical adjustments to our Automated Stacking Cranes (ASCs). Maritime ports the world over show a strong trend towards enhanced environmental responsibility. This goes hand in hand with an ongoing tightening of maximum permitted emission levels at sea terminals. To serve this trend, we have investigated the use of batteries as an energy source for AGVs and have now taken them as far as the test phase. A battery-driven vehicle is currently in live test operation at Container Terminal Altenwerder (CTA) run by our customer Hamburger Hafen und Logistik AG (HHLA). To enable deployment of a battery AGV fleet, we are presently developing an automated battery exchange and charging station (see the Environment section for detailed information).

All the above R&D activities are actively supported by our **Services segment** to maximise benefits – notably with regard to operation and maintenance – and ensure the provision of all resources and expertise needed by our service force. We also develop associated spare part and service packages to span the entire crane and component life cycle and application range.

## Environment

Strategies and plans to protect the environment are key target factors in product development and production. For this reason, the Group sets great store by developing environmentally friendly, energy-saving products.

This is also one of the objectives when selecting and designing electrical and mechanical assemblies in the **Industrial Cranes segment**. For the purposes of implementing Regulation (EU) No. 1907/2006 of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), a work plan was begun in the Industrial Cranes and Services segments together with TÜV Rheinland, which specialises in independent testing and assessment services. This enabled us to ensure that our products continue to be manufactured to our accustomed high quality standards. Similarly, preparations are currently underway for environmental certification in accordance with ISO 14001. Certification of the environmental management system is planned for September 2010. The Group also switched from solvent-based paint to the more environmentally friendly powder paint for chain hoist drives. This helps reduce the volume of harmful substances released, as does the introduction of water-based paint systems in girder fabrication. Through regular monitoring, a suitable reporting system will ensure compliance with the technical standards and regulations at all sites. The new generation of rope hoists, which have been very well received by the market, use frequency inverters to help improve customers' energy efficiency throughout the hoist service life. In this way, the Demag Cranes Group has pushed ahead with its strategy to design Standard and Process Cranes, rope hoists and chain hoists that are environmentally friendly and energy-saving over their entire life cycle at the same time as enhancing their functionality.

In the **Port Technology segment**, we continued with development work begun during the previous financial year on an Automated Guided Vehicle (AGV) propelled by battery power instead of a diesel engine. Initial tests in normal port terminal operation with a pilot customer have already been a resounding success. The battery AGV helps users substantially cut noise and exhaust emissions at terminals while enabling them to make use of electricity from renewable energy sources such as wind and hydropower. In the course of introducing a Group-wide environmental management system in accordance with ISO 14001, we commenced system implementation at our Port Technology segment factory at Benrath in Düsseldorf. The management system makes it possible to monitor and control all key environmental parameters. During the system adoption phase, which will probably last until 2010, strengths and weaknesses regarding compliance with prevailing environmental law are analysed and improvements identified and put into practice. Once the system has been successfully introduced, it will be certified by independent auditors. As part of ongoing maintenance, we also stepped up efforts in the past financial year to institute energy-saving measures in various parts of the Düsseldorf works.

### Our Guiding Principles and Values

As part of its Guiding Principles, the Demag Cranes Group has defined five values that describe the self-image of the Company and form the basis of our corporate action.

#### **Innovative Strength**

We always seek to improve ourselves and excel through quality, motivation and innovative strength.

#### **Motivation**

Our employees are our most valuable asset. We invest in their professional and personal development and motivate them to use their skill and creativity to achieve success together.

#### **Sustainability**

Our conduct is ethically responsible and conforms to the principles of sustainable corporate governance.

#### **Responsibility**

We handle all the resources at our disposal carefully, sparingly and responsibly.

#### **Openness**

We show respect toward the wide range of international cultures and beliefs and are open to the ideas, opinions and desires of others.

Specific guidance on corporate conduct is provided in the Code of Conduct, which the Company introduced throughout the Group in financial year 2007/2008 and which is binding for all employees. The Code of Conduct sets down standards for personal and professional conduct that apply to all countries and cultures in which the Company is represented by Group companies. Observance of and compliance with applicable law, fair competition, transparent communication and personal integrity are cornerstones of this conduct.