Financial Review

Earnings

Earnings before interest and tax (EBIT) was EUR 13.2 million in the period under review compared with EUR 135.8 million in financial year 2007/2008. This clearly reflects the negative impacts of the financial and economic crisis on the earnings of the Demag Cranes Group.

Part of the decrease is due to our factories operating below capacity. In addition, EBIT is reduced by EUR 49.1 million in restructuring expenses and EUR 5.3 million in other operating adjustments. This includes EUR 3.7 million in severance expenses relating to the departure of CEO Harald J. Joos with effect from 31 March 2009.

The Management Board uses operating EBIT as a key indicator for management of the Group. Operating EBIT excludes purchase accounting depreciation and amortisation, comprising the impact on depreciation and amortisation of fair-value adjustments to assets acquired in business combinations. It also excludes any one-off effects, such as severance and restructuring expenses.

Operating EBIT came to EUR 67.6 million in the period under review, down from EUR 137.5 million in the previous year. A focus of attention in the normal course of business is on efficient utilisation of factory capacity. Faced with diminishing order intake and revenue, however, we are currently concentrating on optimising working capital and cash flow. We are therefore accepting any resultant temporary underutilisation of production capacity with negative implications for EBIT. In May, we announced a restructuring programme that targets precisely this aspect and lowers the break-even point in each segment. This is to be achieved by substantially reducing fixed and variable costs in the Industrial Cranes and Port Technology segments. The restructuring programme aims to save up to EUR 60 million with packages of measures to secure the long-term financial stability of the Group. We have also adopted the objective of more closely dovetailing the entire organisation, for example, by uniting management of shared services across the Group. This relates to services such as IT, human resources and purchasing. In this way, we are responding to the uncertain market situation and expectations that the crisis in our industry may continue for some time by adding further flexibility to our capacity.

With regard to the Port Technology segment, we concluded negotiations for a compensation agreement and redundancy scheme in connection with the restructuring process in early July.

Negotiations with employee representatives on the Works Council in the remaining parts of the Group were brought to a successful conclusion on 23 October 2009. Further information is provided in the Report on Post-Balance Sheet Date Events.

1 October to 30 September				
in EUR million	**2008/2009**	2007/2008	Δ	2006/2007
Group EBIT	**13.2**	**135.8**	**–90.3 %**	**82.0**
Operating adjustments	**54.4**	**1.7**		**12.6**
Of which				
Purchase accounting depreciation and amortisation	1.6	5.4		11.2
Severance expenses	3.7	–		1.6
Gains/losses on disposals	–0.1	–3.7		–0.5
Other	–	–		0.4
Restructuring costs	49.1	–		–
Of which				
Industrial Cranes	16.8	–		–
Port Technology	22.1	–		–
Services	5.5	–		–
Central holding company/ DCAG*	4.7	–		–
Group operating EBIT	**67.6**	**137.5**	**–50.8 %**	**94.6**
Of which				
Industrial Cranes	29.7	47.8	–37.8 %	25.0
Port Technology	–14.8	22.1	n/a	10.4
Services	60.2	75.4	–20.2 %	62.2
Central holding company/DCAG*	–7.5	–7.8	–3.5 %	–3.0

* Figures from the unallocated column.

Operating EBIT was distributed among the segments as follows:

In the **Industrial Cranes segment**, operating EBIT decreased by EUR 18.0 million or 37.8 percent to EUR 29.7 million in financial year 2008/2009. We generated an above-average intake of orders in the previous financial year for lower-margin Process Cranes delivered to customers after an average production time of approximately twelve months, producing a further shift in the segment's product mix. This and the underutilisation of our factories reduced the operating EBIT margin, which stood at 5.4 percent.

In the **Port Technology segment**, operating EBIT dropped sharply compared with financial year 2007/2008. The main causes of the EUR 36.9 million fall in earnings compared with the previous year are lower revenue and further decreases in production resulting in lower utilisation of factory capacity, both of which are consequences of the difficult business situation relating to ports.

In the **Services segment**, fewer spare parts were sold due to lower utilisation of customers' cranes. As the spare parts business generates disproportionately large EBIT margins, this led to a EUR 15.2 million or 20.2 percent decrease in operating EBIT compared with the previous year. Despite the negative business environment, the operating EBIT margin for financial year 2008/2009 was within our medium-term expectations at 20.2 percent.

Group operating EBITDA fell by 44.1 percent from EUR 160.0 million in the previous year to EUR 89.5 million in financial year 2008/2009.

	1 October to 30 September		
in EUR million	**2008/2009**	2007/2008	Δ
Group operating EBIT	**67.6**	**137.5**	**–50.8 %**
Adjusted depreciation and amortisation	21.9	22.5	–2.6 %
Group operating EBITDA	**89.5**	**160.0**	**–44.1 %**

Notes on Key Cost Items

	1 October to 30 September			
	2008/2009		2007/2008	
in EUR million	**Reported**	Operating	Reported	Operating
Costs of sales	–797.8	–774.0	–864.3	–859.3
Selling, general and administrative expenses	–213.5	–190.7	–214.4	–214.4
Of which				
Selling expenses	–139.3	–132.7	–138.2	–138.2
General and administrative expenses	–74.2	–57.9	–76.2	–76.2
Research and development expenses	–27.6	–20.2	–19.7	–19.3
Personnel expenses	–358.6	–322.6	–351.9	–351.9

Cost of sales decreased by EUR 66.4 million in financial year 2008/2009 compared with the previous year. This mainly reflected the year-on-year drop in revenue. Cost of sales includes EUR 22.6 million in restructuring expenses.

Selling expenses in financial year 2008/2009 were almost on a par with the previous year, at EUR 139.3 million. As a percentage of Group revenue, however, selling expenses increased from 11.3 percent to 13.3 percent. The main factor here was the lower revenue. Contained in the selling expenses are EUR 6.6 million in restructuring expenses.

General and administrative expenses at the Demag Cranes Group were down by a slight EUR 2.0 million from EUR 76.2 million in the previous year to EUR 74.2 million in financial year 2008/2009. General and administrative expenses included restructuring expenses of EUR 12.5 million.

Expressed as a percentage of revenue, research and development expenses rose to 2.6 percent (2007/2008: 1.6 percent). Research and development expenses increased by EUR 7.8 million or 39.5 percent, from EUR 19.7 million to EUR 27.6 million. This includes EUR 6.9 million in restructuring expenses, mainly relating to impairment charges on capitalised development costs in the Port Technology segment. Eliminating these amounts, research and development expenses grew slightly as a percentage of revenue, to 1.9 percent. Research and development expenses mainly relate to activities in the Industrial Cranes and Port Technology segments (for further information, see the Research and Development section under Development of Non-Financial Success Factors). An additional EUR 0.6 million in research and development expenses was capitalised in the Port Technology segment in financial year 2008/2009 (2007/2008: EUR 0.7 million).

Other operating income and expenses amounted to a net EUR 2.5 million in financial year 2008/2009, down from EUR 5.9 million in the previous year. The decrease was mainly a result of exchange rate effects and lower gains on asset disposals.

Interest and similar income/expenses, net, fell from EUR 12.0 million in the previous year to EUR 11.1 million in the period under review. The main factor here consisted of lower interest rates on the Company's master loan agreement.

Despite EUR 49.1 million in restructuring expenses, the Demag Cranes Group still generated earnings before tax (EBT) of EUR 2.1 million in financial year 2008/2009 (2007/2008: EUR 123.8 million).

Operating income after tax came to EUR 42.8 million in financial year 2008/2009, compared with EUR 85.2 million in the previous year.

As the adverse effects of the economic and financial crisis and the restructuring expenses already incurred have had a heavy impact on net income after tax in financial year 2008/2009, the Management Board and the Supervisory Board have jointly decided not to propose a dividend for financial year 2008/2009 at the Annual General Meeting.

The effective tax rate stood at 44.1 percent in financial year 2008/2009 compared with 34.7 percent in the previous year. In absolute figures, this corresponds to EUR 0.9 million as against EUR 42.9 million in the previous year. The lower base represented by the net income before tax of EUR 2.1 million compared with EUR 123.8 million in the previous year means that the Group's foreign companies and factors such as non-tax-deductible expenses account for a larger share of the total.

	1 October to 30 September			
in EUR million	**2008/2009**	2007/2008	Δ	2006/2007
Net income after tax	**1.2**	**80.8**	**–98.6 %**	**32.8**
Operating adjustments	**54.4**	**1.7**		**12.6**
Of which				
Purchase accounting depreciation and amortisation	1.6	5.4		11.2
Severance expenses	3.7	–		1.6
Gains/losses on disposals	–0.1	–3.7		–0.5
Other	–	–		0.4
Restructuring costs	49.1	–		–
Tax effects on operating adjustments 30.7 %	**–16.7**	**–0.5**		**–4.9***
Effects of German tax audit/ corporate tax reform	**4.0**	**3.2**		**8.6**
Other domestic and foreign effects	**–**	**–**		**2.3**
Operating net income after tax	**42.8**	**85.2**	**–49.8 %**	**51.4**

* Tax rate 39.0 percent.

Operating earnings per share (EPS) consequently amount to EUR 2.01, down from EUR 4.00 in the previous financial year.

Cash Flows

Free cash flow before financing – cash flow from operating activities minus cash flow from investing activities – came to EUR 43.4 million in the period under review (2007/2008: EUR 125.9 million). The year-on-year picture is as follows:

	1 October to 30 September			Q4	Q3	Q2	Q1
in EUR million	**2008/ 2009**	2007/ 2008	Δ	2008/ 2009	2008/ 2009	2008/ 2009	2008/ 2009
Cash flow from operating activities	61.8	147.1	–58.0 %	7.1	28.7	29.7	–3.7
Cash flow investing activities	–18.3	–21.3	–13.8 %	–7.5	–4.3	–3.4	–3.1
Free cash flow before financing	**43.4**	**125.9**	**–65.5 %**	**–0.4**	**24.4**	**26.3**	**–6.9**
Restructuring payments	7.5	–	n/a	6.2	1.3	–	–
Free cash flow before financing and restructuring payments	**50.9**	**125.9**	**–59.5 %**	**5.9**	**25.7**	**26.3**	**–6.9**

Cash flow from operating activities decreased compared with the previous year by EUR 85.4 million to EUR 61.8 million in the period under review. This mainly reflected lower net income after tax, one-off payments relating to the replacement of the collective restructuring agreement and the first payments connected with restructuring expenditure. These factors were partly offset by an improvement in net working capital. Group interest received net of interest paid dropped from EUR –4.7 million in the previous year to EUR –1.8 million. This was mainly due to lower interest payments reflecting the reduced interest rates on Demag Cranes AG's master loan agreement.

Cash flow from investing activities changed compared with the prior year from an outflow of EUR –21.3 million to an outflow of EUR –18.3 million. Two main factors are involved here: purchases of intangible assets and property, plant and equipment decreased by EUR 6.6 million from EUR 25.4 million to EUR 18.8 million in the period under review. In the opposite direction, proceeds from asset disposals were EUR 3.7 million down in the period under review compared with the previous period.

The decrease in purchases of intangible assets and property, plant and equipment was primarily an outcome of reduced investing activity due to the financial and economic crisis. Capital expenditure of EUR 18.8 million also includes EUR 5.0 million paid out in financial year 2008/2009 as a result of delays on the delivery of certain machinery ordered in financial year 2007/2008.

	1 October to 30 September		
in EUR million	**2008/2009**	2007/2008	Δ
Industrial Cranes	12.8	15.0	–14.6 %
Port Technology	2.6	6.3	–58.3 %
Services	3.0	3.2	–7.6 %
Central holding company/DCAG*	0.4	0.9	–51.8 %
Capital expenditure	**18.8**	**25.4**	**–25.9 %**

* Figures from the unallocated column.

Major capital expenditure projects in the **Industrial Cranes segment** in financial year 2008/2009 include spending to upgrade the Company's existing SAP enterprise resource planning (ERP) software plus expenditure to expand and streamline production. The latter comprises an improvement project in mechanical production started in the previous year, refurbishment work in KBK crane construction kit manufacturing, and investment expenditure in the field of motor manufacturing. Further capital spending related to building refurbishment.

Capital expenditure in the **Port Technology segment** was significantly down on the previous year as a result of the economic trend. Work on stripping out and refurbishment of an office building begun in previous years therefore continued to a reduced extent. Infrastructure at the Düsseldorf location was improved in line with production needs and statutory requirements pertaining to fire prevention. Additional investment spending in IT was effected to reduce the risk of data loss. EUR 0.6 million in development costs were capitalised for a new model range in financial year 2008/2009.

The **Services segment** is primarily apportioned a share of cross-segmental capital expenditure, for example, on IT (notably SAP).

Principles and Objectives of Financial Management

Corporate liquidity management is principally the responsibility of the Demag Cranes Group treasury. The goal is to secure Group liquidity through central funds procurement and active management of currency and interest rate risks.

in EUR million	**30 Sept 2009**	30 June 2009	31 March 2009	31 Dec 2008	30 Sept 2008
Non-current loans and borrowings	105.9	105.6	105.6	105.6	105.6
Other financial liabilities	0.1	0.3	0.2	–	–
Current loans and borrowings	4.4	4.7	4.9	4.7	3.7
Cash and cash equivalents	–103.7	–104.1	–79.7	–80.6	–90.0
Other current financial assets	–0.4	–0.5	–0.5	–0.6	–0.9
Net debt	**6.3**	**5.9**	**30.5**	**29.1**	**18.4**

Further information is provided in the Notes to the Financial Statements under Note 34, Capital Management.

Net debt decreased relative to 30 September 2008 by EUR 12.1 million to EUR 6.3 million at 30 September 2009. The main factor here was a EUR 13.7 million increase in cash and cash equivalents to EUR 103.7 million.

Demag Cranes AG meets its funding needs from operating cash flow and a revolving syndicated credit facility for a total of EUR 325.0 million (including an ancillary facility of EUR 105.0 million). The facility runs to 27 June 2011. To partially limit interest rate risks, the Group took out an interest rate hedge on 27 September 2006.

The revolving credit facility was drawn upon as follows as at 30 September 2009:

– EUR 105.0 million on the revolving credit facility itself (due December 2009), the same amount as was drawn on the facility as at the 30 September 2008 reporting date.

– EUR 63.6 million on the ancillary credit line for guarantees (30 September 2008: EUR 67.9 million).

The credit facility is subject to certain covenants with regard to additional borrowing, purchases and disposals of assets as well as the provision of collateral. There are also financial covenants to be observed during the lifetime of the credit facility. These include stipulated ratios for consolidated net debt[2] to consolidated operating EBITDA[3] (less than 2.75) and consolidated operating EBITDA[3] to consolidated net interest payable (greater than 4.0).

The covenants were met in all respects as at 30 September 2009.

	30 Sept 2009	30 June 2009	31 March 2009	31 Dec 2008	30 Sept 2008
Net debt[2]/operating EBITDA[3]	0.22x	0.29x	0.38x	0.30x	0.14x
Operating EBITDA[3]/ consolidated net interest payable	41.76x	59.85x	56.88x	38.33x	30.85x

If the financial covenants are not met and their breach is not remedied within a certain period or the lenders do not waive the covenants, there may be grounds for termination under the conditions of the credit facility. Among other things, the lenders would then be entitled to call due all amounts owed with immediate effect. There are also certain other contractually agreed circumstances whose occurrence can lead to termination with all outstanding amounts becoming due for repayment with immediate effect. A further right of termination exists in certain instances where a third party acquires a controlling or majority shareholding.

Besides loans and borrowings, Demag Cranes AG requires guarantee facilities allowing bid, downpayment, performance and warranty bonds/guarantees to be issued on its behalf. Bank guarantees can be drawn both under ancillary lines within the syndicated credit facility and under bilateral guarantee facilities. The central aim of this financing portfolio is to secure suitable lines of credit for us to field the liquidity needed for industry-specific seasonal fluctuations and the ongoing development of our business.

Our financing is supplemented with off-balance-sheet operating leases, for example, for IT hardware and for the vehicle fleet in the services segment at German Group companies.

The Demag Cranes Group normally borrows centrally. Local borrowing is only taken out in individual instances if Group borrowing is unfavourable due to the legal environment. Credit facilities may also be made directly available to subsidiaries as needed under the master loan agreement. Demag Cranes AG must expressly approve such facilities. A central cash pooling arrangement allows cash surpluses at subsidiaries to be deployed cost-effectively in the Group.

Financial risks are explained in the Risk Report on page 71 et seq. and in the Notes to the Financial Statements on page 151 et seq..

[2] Group net debt adjusted for downpayment guarantees exceeding EUR 35 million.
[3] Group operating EBITDA adjusted for non-cash charges under the MSP programme.

Balance Sheet

The consolidated balance sheet of the Demag Cranes Group developed as follows in the period under review:

in EUR million	**30 Sept 2009**	30 June 2009	31 March 2009	31 Dec 2008	30 Sept 2008
Inventories	207.1	246.9	266.8	274.2	261.6
Advance payments made	2.8	3.8	4.9	5.1	3.7
Trade receivables	152.6	144.5	169.5	203.7	201.8
Trade payables	–62.9	–54.0	–70.5	–92.7	–97.0
Advance payments received	–89.0	–111.3	–116.6	–117.1	–116.0
Net working capital	**210.5**	**229.8**	**254.1**	**273.2**	**254.0**

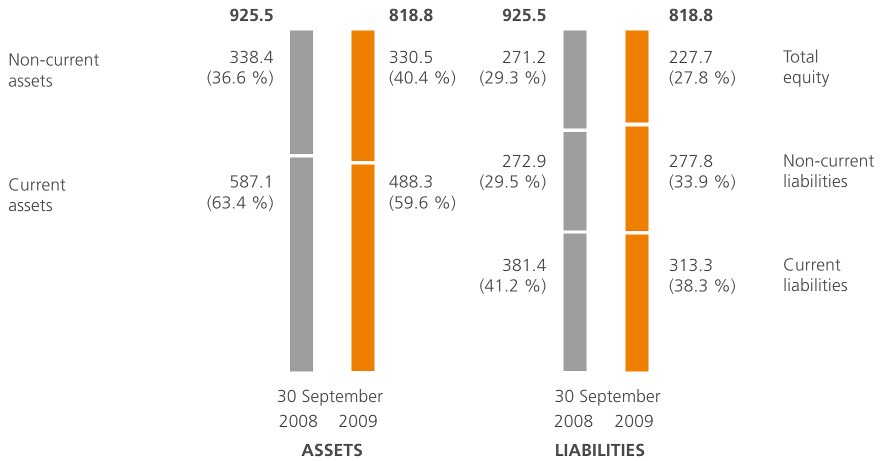
Net working capital – inventories, advance payments made and trade receivables less trade payables and advance payments received – decreased from EUR 254.0 million at 30 September 2008 to EUR 210.5 million at 30 September 2009. The decrease is the outcome of active management of net working capital. A key challenge in strategic purchasing during the past financial year therefore consisted of trimming working capital – primarily supplies and inventories – to match reduced order intake.

	30 September	
in EUR million	**2009**	2008
Total assets	818.8	925.5
Shareholders' equity	227.7	271.2
Gearing in %	2.7 %	6.8 %

The Demag Cranes Group's total assets came to EUR 818.8 million at 30 September 2009, down EUR 106.7 million down compared with 30 September 2008. The main assets-side factor in this change consisted of a EUR 49.2 million reduction in trade receivables and a EUR 54.4 million decrease in inventories. Cash and cash equivalents also rose by EUR 13.7 million. On the shareholders' equity and liabilities side, shareholders' equity was reduced by EUR 43.5 million to EUR 227.7 million. Most of the change in shareholders' equity is accounted for by the EUR 29.6 million dividend distribution and a charge of EUR 19.7 million recognised directly in equity for actuarial gains and losses on pensions. There was also a EUR 34.1 million decrease in trade payables. Advance payments received were down by EUR 27.0 million. In the opposite direction, pension obligations increased by EUR 19.9 million, from EUR 112.7 million in the previous year to EUR 132.5 million at the end of the period under review. The increase mostly related to German pension plans.

It resulted from a decrease in the annual discount factor from 6.50 percent to 5.35 percent and is recognised directly in equity without affecting profit or loss. The Demag Cranes Group sets the discount rate with reference to the interest rate yield curve computed by Watson Wyatt Heissmann and the Iboxx € Indices for corporate bonds with an AA rating and a ten-year or longer (10+) time to maturity. Other current provisions additionally increased by EUR 32.8 million, from EUR 18.5 million to EUR 51.4 million. The additional amount consists primarily of restructuring provisions in connection with 750 layoffs across the Group.

BALANCE SHEET in EUR million
(in % of total assets)



In addition to the liabilities shown on the balance sheet, there are significant guarantees for third-party liabilities in the form of contingent liabilities relating to buy-back arrangements entered into in the Port Technology segment in connection with sales of certain Company plant and machinery products (see the Notes to the Financial Statements under Note 36, Contingencies and Other Obligations). The maximum potential obligation amounted to EUR 48.5 million at 30 September 2009, compared with EUR 60.4 million at 30 September 2008.

Gearing – the ratio of net debt to shareholders' equity – improved in the period under review due to the reduction in net debt, from 6.8 percent to 2.7 percent at 30 September 2009.