

General Economic Environment

World Economic Trends¹

The third quarter of the Demag Cranes AG financial year 2009/2010 (April to June 2010) saw the global economy continue to recover from the effects of the recession at an increasing pace. Goldman Sachs experts estimate that the world economy grew by 5.0 percent in the period under review compared with the same period of the previous year. This growth was once again driven by emerging markets, which grew by 7.8 percent compared with the same period a year earlier. Mature markets expanded by 3.0 percent in the same timeframe.

The most dynamic growth region in the period under review again proved to be Asia, though there were also signs of improvement in key industrialised economies such as the USA and Japan. Among emerging markets, the Chinese economy again displayed particularly strong growth. A jump in lending causes experts to see a risk of increasing numbers of distressed loans, however. The Chinese central bank has consequently begun to throttle back growth in lending. The resulting more restrictive bank lending policies are therefore likely to temper economic growth in the second half of the year. China should nonetheless continue to exert a stabilising influence on the world economy. For the USA, economists project 3.5 percent economic growth in April to June compared with the same period of the previous year. The American economy is thus growing steadily, but the current trend is less dynamic than the powerful upswings that followed past crises. The labour market situation in particular is improving only slowly. It is also hard for the Administration and the Federal Reserve to judge the risks posed by the debt crisis in various European countries.

Economic Trends in the Euro Zone

The euro zone economy likewise continued to improve in the third quarter of 2009/2010, but is recovering only very slowly from the deep recession. Economic experts from Goldman Sachs and Commerzbank estimate that the euro zone saw year-on-year economic growth in the 1.2 to 1.5 percent range through the third quarter of 2009/2010. They point out, however, that the increase is mostly accounted for by the construction industry, which spent the spring making up some of the output lost to the exceptionally hard winter. The experts also expect the euro economy to grow less strongly in summer than in the preceding spring quarter. An adverse factor continues to be the uncertainty resulting from the debt crisis in a number of European countries.

Economic recovery in Germany continued through the third quarter of 2009/2010. GDP grew an estimated 0.8 percent in the third quarter compared with the second quarter of 2009/2010. This was significantly more than the 0.2 percent GDP growth recorded in the second quarter compared with the first quarter of 2009/2010. The largest share of growth came from additions to inventories. Alongside a continuation of healthy foreign demand, domestic orders also picked up significantly.

Situation of the Mechanical Engineering Industry

German mechanical and plant engineering firms recorded a sharp recovery in their order intake from April to June 2010 compared with the same period of the previous year. Order intake was up by 36.0 percent year-on-year in April and over 60 percent in May and June. It is important to note, however, that the comparable period a year ago marked the low point for German mechanical and plant engineering orders. On the other hand, not all of the growth can be ascribed to this baseline effect; a certain amount reflected a continuation of growth momentum that was already underway. On a cumulative basis, order intake gained 32.0 percent growth in real terms from January to June 2010. Capacity utilisation in mechanical engineering also went up during the period under review, climbing from 69.2 percent in July 2009 to 82.9 percent in July 2010.

¹ Sources: Dresdner Kleinwort, Commerzbank Research, "Konjunktur und Finanzmärkte June/July 2010"; Goldman Sachs, "Global Economics Analyst, Third Quarter 2010"; VDMA, "Konjunkturbulletin August 2010"; German Federal Ministry of Economics and Technology, "Schlaglichter der Wirtschaftspolitik" monthly report, July 2010.

Situation of the Company

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

The **Industrial Cranes segment's** products are used in a diverse range of industries and serve a variety of customer groups. It remains difficult to make forecasts for the Industrial Cranes segment because it is heavily reliant on the economic cycle, although the order situation improved sharply in the period under review.

The **Port Technology segment** is dependent on worldwide cargo volumes and growth in container handling. A healthy sign is that there are now positive trends in contract awards. There is a renewed increase in replacement expenditure. In the case of expansion expenditure, we continue to see a reluctance to invest due to terminals still operating at relatively low capacity. The original implementation timetables of terminal automation projects are still being put back. Over the medium and long term, however, experts still anticipate renewed growth in global cargo traffic and, therefore, continuing demand for the relevant handling equipment.

Increasing utilisation of crane equipment by customers is invigorating spare parts business in the **Services segment**. This has a positive effect on the EBIT margin. The Services segment is less vulnerable to the economic crisis than the other two segments, given that equipment will have to be maintained as usual in the interests of safety, reliability and availability.

Business Performance of the Group and its Segments in the Third Quarter of Financial Year 2009/2010

Order Intake and Order Book

The upward trend in the order situation continued in the third quarter of 2009/2010. Order intake rose in value to EUR 242.9 million, up 39.6 percent on the comparative quarter of the previous year (Q3 2008/2009). Compared with the preceding quarter (second quarter 2009/2010), order intake increased by 12.6 percent. All segments contributed to this growth. In the first nine months of financial year 2009/2010, the Demag Cranes Group generated order intake to the value of EUR 643.1 million (Q1 to Q3 2008/2009: EUR 655.6 million). As a result of the strong order trend in the second and third quarter, the shortfall on the first nine months of the previous year was down to 1.9 percent.