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## **DOOSAN BUYS MOXY**

Following the acquisition of Bobcat and mobile compressors from Ingersoll-Rand for \$4.9 billion in 2007, Doosan Infracore is further expanding its construction equipment interests with the purchase of Moxy Engineering from Norway for Nkr440 million (€55 million). At its factory in Molde on Norway's north-west coast, Moxy produces five models of articulated dump trucks with payloads from 24 to 46 tonnes that feature Scania diesel engines and ZF transmissions.

**Table 1. Moxy: Production of Articulated Dump Trucks, 1980-2007**

**(Units)**

<b>1980</b>	<b>1985</b>	<b>1989</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
100	225	780	480	430	310	150	200	200

Source: Off-Highway Research

The history of Moxy articulated dump trucks goes back to the late 1960s when Briger Hatlebakk, from the base of his company Glamax in Molde, developed the D-20A, a 20 tonne capacity 2-axle articulated dump truck. IN 1973 Glamax acquired the rights to the Viking free-axle articulated truck produced by another Norwegian company called Overaasen. This led to the production of the D15 and D16 models in Molde under the name of Moxy, and in 1976 the first units were exported. In the early 1980s the company suffered financial problems, and Gordon Brown and his brothers Ron and Freddy went on to acquire Moxy in 1983. For the next seven years the company witnessed a genuinely golden age and production peaked at nearly 800 units in 1989.

In November 1986 Moxy entered into a production agreement with Komatsu of Japan, which also acquired equity in the company. Although it seemed at the time that Komatsu would ultimately acquire the whole of Moxy, the association did not prosper and by the end of the 1990s Komatsu had pulled out of the venture and started developing its own rival line of articulated dump trucks in Japan. The first Komatsu articulated dump trucks were launched in Europe in 2003.

In 1990 Moxy plunged into receivership due to the high profile collapse of Brown Group International. Subsequently a new company called Moxy Trucks was formed in June 1991, owned by the Norwegian mining and quarry group Olivin AS. In December 2000 the Norwegian State took over Moxy Trucks, in the context of privatisation of the Olivin company, and a change

of government prompted the Norwegian Ministry of Industry and Commerce to sell off Moxy to the Spilke Group, an ambitious Norwegian industrial conglomerate which wanted to expand beyond production of window frames, textiles and composite materials. However, with the high value of the Norwegian crown and a weak dollar, Moxy's truck business, which depended almost entirely on exports, ran into financial difficulties and Spilke withdrew from the deal just before the expiry date. The Norwegian government, the majority shareholder in the company, once again stepped in to support the ailing business and put the company up for sale. In March 2003, the Thompson Group, a British investment company, took over Moxy and changed its name to Moxy Engineering.

Moxy had sales last year in the region of €54 million, 85 per cent of which was generated from sales overseas. The company employs 150 and has a relatively modern plant covering 20 hectares with 20,000 m<sup>2</sup> under roof. Assets at the time of the acquisition stood at €31.2 million, and earnings before interest and tax were €490,000.

The decision to buy the Moxy business is a clear indication that Doosan wishes to become a serious global player in the construction equipment business as well as developing a comprehensive range of equipment; the acquisition of the articulated dump truck product line will help to expand its heavy construction equipment range, which could in turn lead to other acquisitions of related products. It is known that Doosan is shortly to launch a 70 tonne excavator, and is developing a larger model of around 100 tonnes. To match these, it will be looking for a range of rigid dump trucks which could be sold as a package to the mining sector.

Equally important is the fact that the acquisition will provide the company with access to a new group of customers, particularly in mines and quarries, which in turn could help to promote other Doosan products such as hydraulic excavators and wheeled loaders.

This is an interesting acquisition, and one that underlines Doosan's determination to become a major global manufacturer across a broader range of equipment. Some might say that it has paid too much for the purchase, considering Moxy's recent modest financial performance, but given the potential that it offers, it might also be argued that it is a relatively small entry price to pay into what is a very exclusive club of manufacturers in a growing sector.

Doosan's plan is to lift production from its current level of around 200 units a year to at least 1,000 units a year by 2012, and by then revenues are forecast to be around €250 million. This is a very ambitious target indeed, but with the help of its 300 dealers worldwide, Doosan is confident that it can be met. Before that is achieved, however, much work and reorganisation

will be needed. The first issue that needs to be addressed is the one of branding: should the Moxy name be retained, or should the Doosan brand be developed over time? It is very evident that the success and reputation of Moxy in certain areas has been very mixed indeed, and it might well be argued that there would be merit in adopting a fresh start altogether. What is certain is that the Moxy legacy does not compare with that of Bobcat, and it is likely that Doosan's future branding strategy of both acquisitions will be very different from each other.

One of the greatest issues that Doosan will have to face is whether or not it should retain the Molde facility in the long term. Located in a remote part of north-west Norway, it is not the most attractive place in which to manufacture. The cost of labour and logistics is high, and its remote location has always been a deterrent to potential company buyers. Doosan has developed and acquired significant additional manufacturing capacity around the world in the last two years, and logic would dictate that Moxy production could well be transferred to a more cost effective location in the foreseeable future. A combination of a new owner, a new name and a new manufacturing location might well be what Moxy needs to reach its goal of 1,000 units a year.

### **CRAMO ACQUIRES MSE**

The Finnish based rental company Cramo has acquired the rental equipment company owned by construction company MSE A/S of Falster, Denmark and has signed a five-year supply deal for all of MSE's rental equipment.

Most of the equipment Cramo has acquired is earthmoving, largely made up of excavators, cabins and tools. The impact of the deal on Cramo's revenues will be around DK4.5 million (€600,000) in the first year.

The outsourcing deal is considered important to Cramo, as it gives it a strong foothold in the region with a leading position in Lolland/Falster. These two islands to the south of Zealand, the island that Copenhagen is located upon, may not be as important today as the other larger Danish islands, but an agreement has been signed by the Governments of Denmark and Germany to build a bridge and tunnel linking the two countries. The bridge will be built from 2012 onwards, and the plan is that Falster and Lolland will be at the heart of this project.

The deal gives Cramo an immediate access to larger volumes with a strong customer base that is well known to them. Furthermore, it also gives them a well-maintained rental fleet, consisting primarily of construction machinery and site cabins.

MSE has stated that by outsourcing equipment to Cramo it expects to be able to lower its prices for machinery and equipment, and at the same time gain access to Cramo's wider product range. Additionally through Cramo's depot network, it should also achieve better availability and efficiency in the supply of equipment to support the continued growth of its core construction business.

Mikael Sørensen originally founded MSE in 1934, but the company today comprises seven divisions under a holding company MSE Holding A/S. This company was formed in 1998. The company is still owned by the members of the original family, and still operates from its original location in Nonsan.

### **FENDT WILL BUILD 15,540 AGRICULTURAL TRACTORS IN 2008**

Such is the state of the market and of component supplies that Fendt, the German subsidiary of AGCO, has been able to announce in its usual autumn review of the business that it will build exactly 15,540 agricultural tractors this year (and 3,000 Vario transmissions for other brands).

Production in 2007 reached 13,312 units at the Marktoberdorf plant in southern Germany. 5,650 units went to Germany, where the company was in first place once again in the market for agricultural tractors above 50 horsepower; and 2,341 to France. 2007 was marked by long hours of overtime and an increase of 290 in the workforce, as well as €37 million of investment for modernisation. The company plans to reach 20,000 units of production by 2012 but there are rumours that AGCO wants to project it towards 25,000 tractors per year by adding a plant in Poland or Slovakia.

### **INNOV-AGRI: A POPULAR AND PRACTICAL FARM MACHINERY SHOW**

The biennial Innov-Agricultural tractors show is held in the countryside near Orleans, France at the beginning of September. A visit by Off-Highway Research was illuminating and, if the weather was hardly the clement type promised in the brochure, it was a good way for manufacturers and dealers to get back to work after the long French summer holidays.

There are two editions of this show and the northern one at Outarville, between Orleans and Etampes focuses on local needs, mostly big scale arable agriculture. No small products, no compact machinery (apart from a bizarrely inappropriate New Holland backhoe loader and mini excavator) and not much for livestock farming. The show was on its 160 hectare site for the

eighth time and was into its twelfth edition overall. The number of visitors was high, probably over 90,000. It is a practical show held on farmland that is cultivated all year round. In layout most exhibits were on a hollow square, with space to show machinery working laid alongside the edges of the square. Thus one could see grass cropping and harvesting of maize silage, grain maize, rapeseed and even sugar beet, all in the same day.

Although to be realistic one has to admit that by far the single most popular exhibit was the Village of Bio-Energy (make money out of big wind turbines, make electricity with small ones, make diesel fuel at home with an oil crusher or from Barbados nuts, power a boiler with miscanthus, heat a boiler with methane from cows), the point of the show was a full demonstration of the latest farm machinery from all the major and some fairly small players in the market. The whole industry supported it well and no famous name was absent. It was, if you like, a show for salesmen to meet farmers, not for VPs to meet other VPs and hold meetings. Thus there was plenty to see, even if some failed to live up to the idea of innovation.

- **JCB** showed its Korean-sourced small tractors and the new cab of the Fastrac.
- **Massey Ferguson** showed its newest largest tractor, the 8690 (370 horsepower Sisu engine, CVT) and three new combine harvesters Activa, Fortia and Centora.
- **Fendt** showed some new combine harvesters, the 8000P range, alongside its huge 936 agricultural tractor.
- **Claas** showed many tractors, combine harvesters and other machines. Unfortunately its newest tractor, which was naturally there, was the small Axos, a 'new' range with a Perkins engine and running from 75 to 102 horsepower. The power unit replaces a Deere engine. This was a tractor that would have little interest for the cereal and vegetable growers at the show; rather it is a unit for mixed farming and one that in six out of 10 cases will carry an old-fashioned front loader all the time.
- **Caterpillar** had no fewer than three telescopic handlers on the dealer's stand. Bergerat Monnoyeur now has 65 dealers selling them to farmers. All the other telescopic handler suppliers were there as well, although there were no novelties. The reason is that for the farming market in this particular country it is far more relevant to cultivate the big cereal growers stocking straw bales in order to sell handlers than to worry too hard about dairy farmers with 30 cows.

- **John Deere** won a prize for the latest version of its Auto Guide system and showed it running over a field in a tractor that cultivated the land, stopped and turned without the driver touching any of the controls or the steering wheel. The field also had a new self-propelled sprayer at work and some foragers. The stand itself had an unusual tent next to the main centre – one inviting applications to work in sales or workshops for its dealers.
- The splendid **Case IH** stand had a full line of Austrian and American tractors on display, with Pumas and Magnums out cultivating on the maize field behind. A tracked QuadTrac 485 was also there, an alternative to the two Challengers on a nearby stand. Tracks for other products included a unit from Tidue, the Italian retrofitter, which if you happened to know (there was zero information on the exhibit) can be fitted to a combine harvester. A farm machinery rental company also had a tracked Case IH combine on display.
- Among the smaller tractor stands were **McCormick**, new XTX and TTX tractors and a message that the transfer of production to Italy was now complete; **Kubota** with three of its agricultural tractors and an ATV; and **Valtra** (see below).
- Two contrasting approaches to corporate marketing were evident at the show. All the AGCO brands were there but far away from each other and not a whisper of being in the same grouping. SAME Deutz-Fahr on the other hand had its **SAME** and **Deutz-Fahr** stands back-to-back but with different messages. Deutz-Fahr was strong on the possibility of using biodiesel and had a new CVT tractor on its stand, the TTV 630. SAME was focusing on ‘saving’, as were many others. CNH stationed its **New Holland** stand well away from Case IH but seemingly invited New Holland Construction Equipment and Iveco trucks to park some unused machines on its ground. The mixed bag of farm machinery was haphazardly dotted around its site, with little expression of any message or explanation of why it was there at all. A contrast with somebody like Valtra, for instance, which had a brand new tractor prototype in a shed. The message? We’ve sold 50 of these in Finland, what do you think of them? Dozens of farmers were in the darkened shed, happy to fill in the questionnaire.

In conclusion, an excellent day for the farm machinery specialist. A refreshing change from the static shows of the big international events, a form that is growing in support and deserves to do so.

**JAPANESE MARKET SLOWS IN 2008**

Figures from the trade association of the construction equipment industry, CEMA, show the effects of a sudden slowdown in domestic shipments in 2008.

**Table 2. Japan: Domestic Shipments of Construction Equipment by Type,  
First Seven Months of 2008 Versus 2007**  
**(% Change, Based on Value)**

<b>Tractors*</b>	(3.6)
<b>Hydraulic Excavators</b>	(13.8)
<b>Mini Excavators</b>	(22.5)
<b>Cranes</b>	6.6
<b>Road Machinery</b>	2.3
<b>Concrete Machinery</b>	(18.1)
<b>Tunnelling Machinery</b>	(50.3)
<b>Foundation Machinery</b>	6.6
<b>Breakers and Crushers</b>	(12.7)
<b>Other Construction Equipment</b>	2.3
<b>Parts</b>	(14.9)
<b>Total</b>	<b>(8.4)</b>

\* Crawler dozers and wheeled loaders combined

Source: CEMA

Following a scandal surrounding faked certificates, the rules for confirming buildings as proof against earthquakes have been severely tightened. Unfortunately both the inspectors and the contractors are unsure how the new rules should work and the pace of new building completions has slowed. Fewer finished buildings mean fewer bills paid and so on. A second problem is that a dispute in the political world led in the spring to a month of no taxes being collected, with the result that a number of new civil engineering projects had to be suspended. The effect on construction equipment sales varies by type but most products are 20 per cent down on 2007 and will stay at that level for the rest of this year and into 2009.

An exception is mobile cranes, which registered a 15 per cent increase in early 2008, and did not turn downwards until very recently. As a result, sales will be about the same as 2007 and assuming the certificates problem resolves itself, sales should steady by 2009. Road machinery shipments have been very unstable month-on-month since the beginning of the year and are so far broadly flat. Nevertheless the outlook for the Japanese economy is not especially bright in the medium term, so Off-Highway Research predicts sales still tending to be below the 2007 level for the period after 2008.

**Table 3. Japan: Sales of Construction Equipment by Type, 2006-2009**

(Units)

	2006	2007	2008 Forecast	2009 Forecast
Mobile Cranes	1,930	2,440	2,400	2,500
Mini Excavators	27,700	29,200	23,360	25,000
Wheeled Excavators	110	190	150	150
Crawler Excavators	30,590	33,070	26,500	26,000
Crawler Dozers	1,130	1,500	1,200	1,200
Crawler Loaders	80	80	70	50
Wheeled Loaders	11,700	10,300	8,300	8,500
Backhoe Loaders	-	4	5	5
Skid-Steer Loaders	1,250	1,130	900	900
Rough Terrain Lift Trucks	2	2	2	2
Motor Graders	220	230	170	180
Dump Trucks	233	180	190	200
Asphalt Finishers	245	240	250	250
<b>Total</b>	<b>75,190</b>	<b>78,566</b>	<b>63,497</b>	<b>64,937</b>

Source: Off-Highway Research

**KUBOTA WILL BUILD AGRICULTURAL TRACTORS IN THAILAND**

Kubota has announced that it will double the size of its presence in Thailand by installing the first ever production plant for agricultural tractors there. It already has a joint venture with Siam Cement there and the local financial support will continue, Siam Cement owning 40 per cent of the new company. It has a plant at Pathumtani, near Bangkok, making small diesel engines, power tillers and walk-behind rice reapers on a site covering 78,860 m<sup>2</sup>. The current output is around 70,000 engines per year. Kubota dominates the market for small engines in rural applications in Thailand, although there is also production of similar units by Yanmar and Mitsubishi in the country.

It tried unsuccessfully to sell standard export specification tractors from Japan in the 45 and 80-90 horsepower sectors, but in 2002 it launched a basic specification 26 horsepower model sold for Bt300,000 (\$6,950), with an 8-speed constant mesh transmission and engine-driven PTO. Sales went well in 2003, so it launched a range of six basic specification models from 24 horsepower upwards with much lower selling prices in the last three years. 24, 28 and 34 horsepower types appeared between 2004 and 2006, followed by others up to 100 horsepower in 2006-2007. All come from Japan.

The progress of sales has been astounding and the recent rise in rice prices has quickened the pace. From a launch volume of 1,000 tractors in 2004 it went to 5,500 units by 2005; 14,000 in

2006, when it went into larger units; 20,000 were sold in 2007; and probably around 35,000 will be sold in 2008. Kubota has admitted that this number will actually be larger than its likely domestic market sales (Off-Highway Research would estimate the difference at 40 per cent). The planned capacity of the plant at Chonburi will now be 50,000 tractors, although in 2007 it was announced at 25,000 units and there is talk of its tractors being exported to Europe and North America. It will be built on a 32.4 hectare site on the Amatanakorn estate (home of Bangkok Komatsu) and have a covered area of 31,200 m<sup>2</sup>.

For Kubota this will be welcome news, in view of its problems with consumer-type tractors in North America, for which it invested in a manufacturing plant. There also the company is moving in favour of agricultural tractors and is hoping to see its new farm tractor range reach 27 per cent market share in the 40 to 100 horsepower 'yard tractor' segment in 2008.

### **MANITOU MAKES AGREED BID FOR GEHL**

**Manitou** of France, the world's largest producer of telescopic handlers, has made a bid for the American compact construction equipment manufacturer **Gehl**. Manitou already owns 14.4 per cent of the company, which has welcomed the bid, and is set to pay \$331 million to buy the rest.

Gehl makes and sells construction equipment and farm machinery and has two trademarks, Gehl and Mustang. Its revenues in 2007 were \$458 million. It has two plants in the USA and a distribution subsidiary in Germany. It employs about 900 people.

Manitou is considerably larger, at \$1,260 million of revenues last year, with 10 production facilities spread across Europe, USA and China and employs about 2,800 people.

The two have already been co-operating since 2004, when they began to exchange telescopic handler products for sale in the USA; and Gehl began manufacturing some Manitou telescopic handler designs in the USA. Manitou sees itself as building a better presence in the USA (moving up to Number 2) and adding skid-steer loaders to its product range. Gehl is the fourth largest producer of skid-steer loaders in North America and its two brands hold a combined market share of nine per cent in the region. It has advanced strongly in the telescopic handler market since the arrangement with Manitou extended its range and won 12 per cent of the market in 2007. Manitou, on the other hand, has not made much progress in that market in spite of long years of effort with masted and telescopic products.

The announcement also contains the usual claims about synergies that always accompany such moves. The attraction for Manitou shareholders, however, is surely that the company it is acquiring is profitable, with net profits having gone from \$2.6 million in 2003 to \$24.9 million in 2007. The profit ratio is a respectable 5.4 per cent of net sales. On the other hand, it is offering \$30 in cash for each Gehl share, a price that is far above the market price and it is also buying into a market that is hardly known at the moment as healthy.

The new company will have a distribution of its turnover by product as shown below:

**Table 4. Manitou: Projected Turnover by Product Group after Gehl Purchase**

(%)

<b>Rough Terrain Lift Trucks and Telescopic Handlers</b>	60
<b>Skid-Steer Loaders</b>	11
<b>Access Platforms</b>	5
<b>Industrial Equipment</b>	6
<b>Parts and Accessories</b>	11
<b>Others</b>	7

Source: Company Information

#### **MAHINDRA TRACTORS INCREASE PRESENCE IN CHINA**

The agricultural tractor market in Asia has just witnessed a major move of globalisation, as Mahindra & Mahindra, India's largest producer has set up a new joint venture in China, to be called **Mahindra Yueda Yancheng Tractor Co. Ltd.**

The capital will be shared between **Mahindra** (51 per cent) and Yancheng Tractor Manufacturing Co. Ltd (49 per cent). **Yancheng** is the third largest supplier of agricultural tractors in China and has been in the industry since 1969. Its existing 87,000 m<sup>2</sup> facility is located in Yancheng City in Jiangsu and has a production capacity of 30,000 units. Yancheng specialises in small tractors under 50 horsepower, with export making up about 40 per cent of the total output.

Seeing a market preference towards larger models, Yancheng moved into 75 horsepower tractors from 2004, and built up to its largest current model at 120 horsepower. The plant was, however, not suitable for adding the production of large tractors and was being overwhelmed by the growing output. In 2006 it therefore began building a new facility in the same city, for an annual capacity of 100,000 medium-to-large tractors and the production of engines.

**Table 5. Yancheng Tractor: Production of Agricultural Tractors by Category, 2003-2007**

**(Units)**

<b>Horsepower</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>25-49</b>	7,500	14,200	16,460	18,710	19,300
<b>49-125</b>	-	1,540	3,050	6,060	5,560
<b>Total</b>	<b>7,500</b>	<b>15,740</b>	<b>19,510</b>	<b>24,770</b>	<b>24,860</b>

Source: Off-Highway Research

The joint venture will take over this brand new facility and the existing factory will change to steel castings and component supply for the joint venture. The joint venture will acquire part of the assets of the old factory of Yancheng Tractor and employ some of its staff. For the international industry this is a highly significant move, a new high capacity factory coming under the control of an ambitious and well funded owner. The limitation is that Mahindra has never made agricultural tractors over 60 horsepower and Yancheng has been in that business for only four years. Announcements about Yancheng's exports do not mention the extremely low unit value of the products sold under the Jinma name in various markets around the world. A problem of Yancheng in the past has been that it has never been profitable, in spite of growing production volumes. In 2007 production stagnated and the company made a loss. It will be fascinating to see how Mahindra handles this opportunity.

### **NEW HOLLAND HAS NEW IMPORTER IN DENMARK**

From the start of 2009, New Holland will have a new importer for its construction equipment in Denmark. For as long as Off-Highway Research has been analysing this market, New Holland has utilised the offices of its company-owned agricultural operations to act as the official importer. This has been a very satisfactory operation for the company but as it has grown in size, the logistics have suggested that a new alternative was needed.

The system up to now has seen a small team of three people based in the offices of New Holland Denmark, in a suburb of Copenhagen, act as the official importer for the company's construction equipment. This was relatively simple when New Holland was largely only supplying backhoe loaders. However, with the amalgamation of O&K, Case, Kobelco, the company now has an extensive product portfolio, and changes had to be made.

New Holland had two dealers, one based in Aalborg on Jutland, Kjaersgaard, and Carl Bay Christiansen based in Ronnedede in Southern Zealand, an hour south of Copenhagen. The two

dealers then utilised the New Holland agricultural network of 20 dealers as sub dealers for its compact line.

The new importer will be a new company set up by the two existing dealers. The company is to be called Bay and Kjaersgaard A/S, will be based in Kolding on Jutland and will be run by Pelle Kjaersgaard. The new location is important as it is considered central by Danes, as everywhere in the country is less than a two hour drive from this rapidly expanding town, next to the bridge linking Jutland to Funen. At least six dealers have their head office or major depot within a 15 mile radius and even the new dealer organisation has moved its offices from Copenhagen to Kolding.

The new operation will put added stress on the two dealers as it is completely new territory for both companies. However, it will give both dealerships the security and kudos they perhaps have not had for a long time given the many changes in the CNH organisation in recent years.

Denmark is important for New Holland, for here it has been a leading supplier for a number of years, particularly in the important backhoe loader market.

At a time of declining demand and financial turmoil it is a strong commitment by the two dealers to set up this new company. Logistically it will make it easier for machine distribution, as well as for the conduct of pre-delivery inspections on stock, but it is also an added cost for both dealers at a time of financial difficulties. The new importer organisation will retain the rest of the dealer network as before, and so few customers will notice any significant change.

**Table 6. New Holland: Sales in Denmark by Product Type and Market Share, 2003-2007**

	2003		2004		2005		2006		2007	
	Units	%	Units	%	Units	%	Units	%	Units	%
<b>Backhoe Loaders</b>	109	31	124	28	160	36	260	40	262	42
<b>Crawler Dozers</b>	-	-	-	-	3	6	1	2	4	7
<b>Crawler Excavators</b>	-	-	-	-	35	8	48	8	39	7
<b>Motor Graders</b>	-	-	-	-	3	75	-	-	-	-
<b>Mini Excavators</b>	-	-	60	5	142	8	215	9	195	7
<b>RTLs – Telescopic</b>	16	5	11	2	28	5	16	3	26	4
<b>Skid-Steer Loaders</b>	16	13	14	10	19	12	25	17	18	12
<b>Wheeled Excavators</b>	-	-	-	-	2	5	-	-	-	-
<b>Wheeled Loaders &lt;80 Hp</b>	-	-	-	-	-	-	1	-	28	4
<b>Wheeled Loaders &gt;80 Hp</b>	-	-	-	-	15	5	5	1	34	8
<b>Total</b>	<b>141</b>	<b>5</b>	<b>209</b>	<b>7</b>	<b>407</b>	<b>10</b>	<b>571</b>	<b>10</b>	<b>606</b>	<b>10</b>

Source: Off-Highway Research

**NOT FOR THE NERVOUS: A LOOK AT SPAIN IN 2008**

As noted in the Off-Highway Research mid-year review, Spain's construction equipment market began to fall in the latter half of 2007. The table below details the bad news of the first half of 2008. The declines by product are spectacular and led by the favourites of the speculative investors in rental, namely mini excavators and telescopic handlers. Although the crisis is in housing, there are few contractors who have not been involved in developing housing sites, putting up houses or at least digging for the roads that now lead to so many empty apartments. Few building companies in the country can claim to be untouched.

**Table 7. Spain: Sales of Construction Equipment by Type, 2008**

	First 6 Months 2008 (Units)	Change Versus 2007 (%)
<b><u>Large Earthmoving</u></b>		
Wheeled Excavators	588	(49)
Crawler Excavators	804	(46)
Wheeled Loaders over 80 Hp	736	(37)
Crawler Dozers	89	(9)
Crawler Loaders	8	(50)
Articulated Dump Trucks	108	(37)
Rigid Dump Trucks	87	3
Motor Graders	49	45
<b><u>Compact Earthmoving</u></b>		
Backhoe Loaders	813	(62)
Wheeled Loaders under 80 Hp	69	25
Mini Excavators	535	(59)
Skid-Steer Loaders	649	(65)
Compact Tracked Loaders	18	(22)
Midi Wheeled Excavators	11	(80)
Midi Crawler Excavators	126	(70)
<b><u>Other</u></b>		
Telescopic Handlers	453	(72)
<b><u>Compaction Equipment</u></b>		
Self-Propelled Rollers	199	(54)
Small Tandem Rollers	51	(7)
Large Tandem Rollers	186	(61)
PTRs	32	28

Source: Industry Exchanges

The results are undoubtedly disastrous and it is difficult to know where to start. On the other hand, there are some trends to note and some conclusions to draw. Machines that might be classified as production machines (the two hydraulic excavator types are both machines over

12 tonnes' service weight) fell by 49 per cent. This group is dominated by the larger hydraulic excavators but it is interesting to note that the trends were not so negative in crawler dozers, motor graders and rigid dump trucks. At present civil engineering output is still growing, by perhaps 3.5 per cent in 2008, compared to 7.0 per cent in recent years; hence the possibility of less severe falls in equipment sales.

The news is worse in compact machinery, because the buyers are a mix of small sub-contractors and rental companies. New entrants to the latter business are said to be learning the hard way the Number One rule of rental – Get Paid. Sales of new machinery are down more than 60 per cent and into this group one should really add the telescopic handlers, sold to the same type of customer. Telescopic handlers have tumbled by 72 per cent this year. The decrease of 1,173 units versus 2007 is beaten only by the backhoe loaders in unit terms. Everybody knows why it is happening. By the end of the first half of 2007 there were far too many new houses for sale and ever since that situation has worsened. Now of course the contractors with unsold houses are joined by the speculators who bought in 2003 to 2006 and intended to sell after a couple of years. Little hope of that now.

Finally, to a sector that is, perhaps, not readily linked to housing, namely compaction equipment. Here the falls have been between 50 and 70 per cent since 2007, with the biggest percentage of all being 76 per cent in reversible plates, a product not shown in the table above.

The massive fall in the construction equipment market has been going on now for less than 12 months. Nobody in the industry feels that it is over yet. Unfortunately there is such a huge excess of nearly new construction equipment in Spain that it will be at least two years before conditions stabilise.

## **FINANCIAL RESULTS**

### **FIRST QUARTER**

#### **HITACHI CONSTRUCTION MACHINERY – JAPAN**

Sales were up 13 per cent at Hitachi in the first quarter and net income rose by 40 per cent.

**Table 8. Hitachi Construction Machinery Co. Ltd.: Financial Highlights, 2007-2008**

(¥ Billions)

	3 Months Ended March		% Change
	2007	2008	
<b>Net Sales</b>			
– The Americas	25.4	26.9	6
– Europe, Russia-CIS, Africa, Middle East	59.4	71.9	21
– Oceania and Asia	36.5	45.9	26
– China	34.3	40.0	17
– Japan	51.1	49.1	(4)
<b>Consolidated Total</b>	<b>206.7</b>	<b>233.9</b>	<b>13</b>
<b>Total Operating Income</b>	<b>23.1</b>	<b>24.4</b>	<b>6</b>
<b>Net Income</b>	<b>8.9</b>	<b>12.5</b>	<b>40</b>

Source: Company Information

Demand for hydraulic excavators in North America declined approximately 20 per cent but the news was better in Europe. In Western Europe, demand for construction machinery fell in the United Kingdom, Spain and Ireland due to such factors as falling housing investment, but remained strong in Germany and France due in part to infrastructure development. New orders for mining products such as AC electric-drive dump trucks from customers in Northern Europe contributed to sales growth. As a result, net sales remained at the same level as the first quarter of the previous fiscal year at ¥38,361 million.

In Russia-CIS, demand for construction machinery remained firm on the back of brisk natural resource development demand and infrastructure investment. In Africa, sales of mining products jumped dramatically owing to the continued brisk pace of mine development. Demand for hydraulic excavators increased by 23 per cent. In the Middle East, overall market demand for hydraulic excavators was up by a quarter, in turn contributing to an increase of the Group's market share.

Total net sales from Russia-CIS, Africa, and the Middle East rose 59 per cent year-on-year to ¥33,556 million.

Domestic demand for hydraulic excavators on the other hand, fell approximately 30 per cent, compared with the first quarter of the previous fiscal year due to the curbing of public construction projects in Japan, a reduction in the number of ongoing roadwork projects due to problems with funds earmarked for road improvement and sluggish economic conditions.

**KOMATSU – JAPAN**

**Table 9. Komatsu Ltd: Financial Highlights, 2007-2008**

**(¥ Billions)**

	3 Months Ended June	
	2007	2008
Net Sales	540.8	606.8
Operating Income	79.6	83.2
Net Income	56.4	57.7

Source: Company Information

Both sales and profits for the first quarter period at Komatsu increased from the corresponding period a year ago. Net sales hit record high for first quarters and net income, a new record high for all quarters.

In the construction, mining and utility equipment business, Komatsu continued to expand sales to ¥534.0 billion, up 6.4 per cent from the corresponding period a year ago. Sales into the burgeoning resource development around the world and infrastructure development, particularly in emerging economies helped to offset negative factors including sluggish demand in Japan and the United States and slowing demand in Europe as well the Japanese yen's appreciation.

Operating income registered an improvement of 4.5 per cent from the corresponding period a year ago, despite profit-eroding factors, such as increased prices of raw materials.

**SECOND QUARTER**

**AGCO – USA**

**Table 10. AGCO Corp.: Financial Highlights, Second Quarter, 2007-2008**

**(\$ Millions)**

	3 Months Ended June		6 Months Ended June	
	2007	2008	2007	2008
Net Sales	1,711.4	2,395.4	3,044.0	4,182.0
Net Income	63.8	133.1	88.3	195.4

Source: Company Information

Net sales at AGCO for the second quarter of 2008 increased approximately 27 per cent, compared to the same period in 2007, excluding the favourable impact of currency translation. Net sales for the first six months of 2008 increased approximately 24 per cent. AGCO achieved double digit sales growth in all four geographic segments compared to the second quarter of 2007.

Sales in the second quarter of 2008 in Europe/Africa/Middle East increased approximately 23 per cent when compared to the second quarter of 2007, excluding favourable currency translation impacts of \$160.9 million. The reasons were growth in Germany, France, Scandinavia and the United Kingdom. Continued strong market conditions in Brazil during the second quarter of 2008 generated sales growth of approximately 27 per cent in South America, excluding favourable currency translation impacts of \$53.6 million, compared to the same period in 2007. Strong farm economics produced sales growth in the second quarter of 2008 in North America of approximately 34 per cent compared to the second quarter of 2007, excluding favourable currency translation impacts of \$8.8 million. The improved harvest in Australia resulted in second quarter net sales growth in 2008 of two thirds in the Asia/Pacific region compared to the same period in 2007.

In Europe industry unit retail sales of tractors for the first six months of 2008 were up by eight per cent. Retail demand improved in Central and Eastern Europe, the United Kingdom, Germany and France.

Prospects in 2008 for farm equipment as a whole are very good, with demand expected to increase from strong 2007 levels. In Europe, growth in industry retail sales in Western Europe and continued market expansion in Eastern Europe is expected to result in sales above last year's strong levels. Weakness in the general economic conditions in North America is expected to produce lower industry retail sales of low and medium horsepower tractors, but strong demand from the professional farming segment is projected to result in increased industry retail sales of high horsepower tractors and combines compared to 2007. In South America, favourable farm fundamentals in Brazil and expanding acreage are expected to produce increased industry retail sales.

### **DEUTZ – GERMANY**

The DEUTZ Group significantly increased its revenue and unit sales in the first half of 2008 compared with the corresponding period last year. Revenue rose by 15 per cent to €25.5 million (H1 2007: €17.7 million), driven by strong performance in Europe and

continued growth in Asia. Unit sales increased by 10.5 per cent to 148,687 (H1 2007: 134,619) engines. Net income climbed to €30, 3 million (H1 2007: €26.4 million), a rise of 14.3 per cent.

**Table 11. DEUTZ Group: Financial Highlights, 2007-2008**

(€Millions)

	6 Months Ended June	
	2007	2008
<b>Sales (Units)</b>		
- Compact Engines	119,525	132,123
- DEUTZ Customised Solutions	15,094	16,564
<b>Sales (€Mns)</b>		
- Compact Engines	568.2	652.5
- DEUTZ Customised Solutions	149.5	173.0
<b>Total</b>	<b>717.7</b>	<b>825.5</b>
<b>Operating Profit (EBIT)</b>	40.4	43.6
<b>Net Income</b>	26.4	30.3
<b>Employees</b>	4,835	4,930

Source: Company Information

In the **Compact Engines** segment, the number of engines sold rose by 10.5 per cent to 132,123 units (119,525). DEUTZ was therefore able to increase revenue by 14.8 per cent to €652.5 million specifically on the basis of an increase in the demand for engines with capacities of four to eight litres.

The **DEUTZ Customised Solutions** segment, which mainly comprises the air-cooled and eight litre-plus engines business, also contributed to the improved performance. Unit sales of engines in the first half of 2008 rose by 9.7 per cent to 16,564 units. Most of this growth was attributable to the Mobile Machinery and Stationary Equipment segments.

For the current financial year, DEUTZ is predicting around 5 per cent revenue growth and unit sales of engines to remain in line with the 2007 level.

### MANITOU – FRANCE

In the first half of 2008, Manitou's net sales increased by 8.1 per cent on a reported basis and by 10 per cent at constant exchange rates thanks to the strong growth in the Group's activities in France and most of the countries of the European Union. The operating profit declined by

7.6 per cent in the first half of 2008, but the operating margin held near its level of 2007 and substantially exceeded the 5.3 per cent achieved in the second half of 2007.

**Table 12. Groupe Manitou: Financial Highlights, 2007-2008**

	<b>6 Months Ended June</b>		<b>% Change</b>
	<b>2007 (€Mns)</b>	<b>2008 (€Mns)</b>	
<b>Net Sales</b>	670.9	725.2	8
<b>Operating Profit</b>	82.0	75.8	(8)
<b>Net Profit</b>	54.8	48.5	(12)

Source: Company Information

In the second half of 2008, the environment will be marked by a more pronounced decline in equipment sales to the construction sector, strong pressure on raw material prices and sterling's continuing depreciation. Consequently, over 2008 as a whole the Group expects sales growth to be near the level achieved in the first half of the year and for net profit to decline by between 10 per cent and 15 per cent. Given that current market conditions could carry over into 2009, the Group has initiated a cost-cutting plan to preserve its profitability and financial situation.

### **THIRD QUARTER**

#### **DEERE & COMPANY – USA**

Deere reported very good results in the third quarter of the year; net equipment sales for the year to date were up 19 per cent at \$19.0 billion and net income was up 22 per cent at \$1.7 billion.

**Agricultural Equipment:** Sales were up by 35 per cent in the third quarter, and 34 per cent in the year to date at \$12 billion as a result of higher shipment volumes and better prices.

**Construction Equipment:** Sales were down seven per cent for both the quarter and year to date mainly as a result of unfavourable market conditions in the USA market. Operating profit was lower largely due to lower shipment volumes for both periods and higher raw material costs for the quarter.

**Table 13. John Deere: Financial Highlights, Third Quarter, 2007-2008**

(\$ Millions)

	3 Months Ended July		9 Months Ended July	
	2007	2008	2007	2008
<b>Net Sales and Revenues</b>				
– Agricultural Equipment	3,355	4,544	8,934	12,002
– Construction Equipment	1,284	1,194	3,827	3,570
– Commercial and Consumer Equipment	1,346	1,332	3,305	3,498
<b>Total Net Sales</b>	<b>5,985</b>	<b>7,070</b>	<b>16,066</b>	<b>19,070</b>
– Credit Revenues	533	550	1,527	1,632
– Others	116	119	348	334
<b>Total Sales and Revenues</b>	<b>6,634</b>	<b>7,739</b>	<b>17,941</b>	<b>21,036</b>
<b>Operating Profit (Loss)</b>				
– Agricultural Equipment	431	634	1,055	1,748
– Construction Equipment	150	93	437	376
– Commercial and Consumer Equipment	127	91	315	253
– Credit	141	111	404	376
<b>Total Operating Profit</b>	<b>850</b>	<b>934</b>	<b>2,213</b>	<b>2,765</b>
<b>Net Income</b>	<b>537</b>	<b>575</b>	<b>1,400</b>	<b>1,708</b>

Source: Company Information

**ANNUAL**

**LIEBHERR – SWITZERLAND**

**Table 14. Liebherr Group: Turnover by Product Group, 2006-2007**

(€Millions)

	2006		2007	
	€Mns	%	€Mns	%
Earthmoving and Mining Equipment	2,140.1	33.0	2,456.2	32.8
Mobile Cranes	1,373.4	21.2	1,626.0	21.7
Construction Cranes, Mixing Technology	709.2	11.0	910.8	12.1
<b>Total Construction Machinery</b>	<b>4,222.7</b>	<b>65.2</b>	<b>4,993.0</b>	<b>66.6</b>
Marine and Dock Cranes	422.6	6.5	538.6	7.2
Refrigerators And Freezers	741.7	11.5	817.5	10.9
Machine Tools	198.8	3.1	208.3	2.8
Aerospace	686.2	10.6	723.9	9.7
Other Products and Services	201.0	3.1	209.7	2.8
<b>Total Other Product Areas</b>	<b>2,250.3</b>	<b>34.8</b>	<b>2,498.0</b>	<b>33.4</b>
<b>Liebherr Group</b>	<b>6,473.0</b>	<b>100.0</b>	<b>7,491.0</b>	<b>100.0</b>

Source: Company Information

In the business year 2007, the turnover of the Liebherr Group of companies rose by 15.7 per cent or €1,018 million to €7,491, with increases recorded in all product divisions and in almost all sales regions.

In the earthmoving and mining division, an increase of 14.8 per cent, or €16.1 million, to €2,456.2 million was achieved. In the mobile cranes division, turnover rose by 18.4 per cent, or €52.6 million, to a total of €1,626.0 million. The most dynamic growth was recorded by the construction cranes and mixing technology division. Its products achieved a total increase in turnover of 28.4 per cent, or €201.6 million, to €910.8 million.

There was especially strong growth in the maritime cranes division, with turnover rising by 27.4 per cent, or €16.0 million, to €38.6 million. Turnover from refrigerators and freezers increased by 10.2 per cent, or €75.8 million, to €17.5 million. The machine tools and material flow technology division also grew again in 2007, by 4.8 per cent, or €9.5 million, to €208.3 million. Turnover from aviation and rail vehicle equipment went up by 5.5 per cent, or €7.7 million, to a new total of €723.9 million.

Other products and services contributed €209.7 million to the Liebherr Group's total turnover, an increase of €8.7 million or 4.3 per cent.

In 2007 the Liebherr Group invested a total of €45.9 million, significantly higher than the previous year's figure of €409.6 million. Factory premises were extended or renewed at numerous locations, and high priority was given to further development of the international sales and service network.

The number of people employed by Liebherr Group companies at the end of 2007 rose to 29,660 people worldwide, an increase of 3,323 compared with the end of 2006.