

Jungheinrich Group financial services

The range of financial service products offered by Jungheinrich is an integral component of the Jungheinrich business model. The Financial Services (FS) Division, in which Jungheinrich pools its in-house financial services expertise, encompasses pan-European sales financing and the transfer of usage rights to material handling and warehousing equipment.

The Financial Services Division is included in Jungheinrich Aktiengesellschaft's audited consolidated financial statements. The following information on the financial services business has been disclosed and commented in order to provide clearer insight into the Jungheinrich Group's asset, financial and earnings position. This disclosure supplements the separate statement of the financial services business, and the Group figures are reported in order to make a distinction to industrial operations. Neither of these disclosures is mandatory under IFRS for the period under review.

Structure of the Financial Services Division

The Jungheinrich Group's pan-European financial services activities are pooled in the Financial Services Division and are centrally coordinated via Jungheinrich Financial Services GmbH (Jungheinrich Financial Services AG & Co. KG until December 31, 2008) and Jungheinrich Finance AG & Co. KG, both of which are headquartered in Germany. Jungheinrich is present on markets of major relevance to the company with its own leasing companies. Besides Germany, this is the case in Italy, France, the UK and Spain. Plans envision the continuous establishment of further independent leasing firms in other core markets.

The Jungheinrich business model

An element of the Jungheinrich business model aiming to serve customers for the duration of their equipment's lifetime from a single source, the Financial Services Division operates as a provider of services to Jungheinrich's sales operations in order to promote sales of Jungheinrich trucks through its sales finance and rental offering. The financial services business entails forging strong ties to the customer. This paves the way for providing customers with flexible tailor-made solutions. In turn, these offerings are linked to full-service and maintenance contracts. Thanks to its Europe-wide direct sales structure and proprietary service organization, Jungheinrich can fully fulfil its customers' wish for cross-border truck support, including the provision of customized, flexible and competitive financial services.

The Financial Services Division is run within the Jungheinrich Group as an 'internal' leasing company with cost centre status. Therefore, the Financial Services Division does not aim to earn money and does not operate as a profit centre. With the exception of customer credit and refinancing risks, all income and risks resulting from financial service agreements entered into with customers are assigned to the operating sales units. These primarily include income from linked service agreements as well as opportunities and risks arising from residual value warranties and the marketing of equipment taken back from customers (so-called truck returns).

Business trend

€420 million in long-term lease and rental agreements were concluded in fiscal 2008 (prior year: €367 million). Jungheinrich sales from every third truck in Europe were thus generated through financial service transactions (leases, rentals, etc.). Nearly 70 per cent of the new contract volume was allocable to countries in which Jungheinrich has proprietary leasing companies. By the end of 2008, the volume of contracts on hand in Europe had risen by 11 per cent to approximately 93 thousand trucks (prior year: 84 thousand units). This corresponded to an original value of €1,451 million (prior year: €1,332 million).

Key figures for the financial services business

in million €	2008	2007	2006	2005	2004
Original value of contracts on hand	1,451	1,332	1,175	1,114	1,055
Original value of new contracts	420	367	290	292	266

Refinancing

Financial service contracts on hand were financed in accordance with the principle of matching maturities and interest rates for customer and refinancing contracts. The Financial Services Division's standard group-wide organizational structure and procedures ensure that the structure and provisions of finance agreements entered into with powerful domestic and foreign refinancing banks are highly uniform throughout Europe. Sufficient lines of credit are at the company's disposal for financing the growing new truck business.

Risk management

The Group has established a stringent risk management system in order to identify and constantly assess Jungheinrich's exposure to risks arising from the financial services business. A pan-European lease agreement database running on SAP ERP software enables the company to record and assess risks arising from financial services agreements, providing the foundation for a consistent risk management system. Besides the refinancing risk described above, the material risks to which the financial services business is exposed are the creditworthiness risk arising from customer receivables and the residual value risk.

Creditworthiness risk

The credit risk relating to customer receivables was kept very low in the last few years. One of the main reasons were the extensive credit checks carried out before concluding the agreements. Credit insurance is taken out in order to cover concentration risks. Furthermore, truck returns prematurely accepted by operating sales units are marketed in cooperation with the Financial Services Division under firm return conditions. The professional marketing of used equipment within the Jungheinrich organization via the Europe-wide direct sales system and its supplementary Supralift Internet platform give Jungheinrich an outstanding set of reselling tools.

Residual value risk

The internal residual value guarantee offered by Sales to the Financial Services Division gives rise to opportunities and risks from the resale of truck returns by the operating sales units. These residual value guarantees are calculated by the Used Equipment Division, which is assigned to Sales, on the basis of a conservative groupwide standard for maximum allowable residual values. Financial service agreements on hand are subjected to quarterly risk assessments using the lease agreement database from the perspective of the Jungheinrich Group and of the Financial Services Division. This procedure involves establishing the going market price of the residual value of each individual contract. In cases where the going fair value is lower than the residual value of a contract, a suitable provision for this risk is recognized on the balance sheet.

Accounting treatment of the Financial Services Division

The Financial Services Division is included in the audited consolidated financial statements. It includes the legally independent leasing companies as well as the sets of books presented separately for financial service operations in countries where Jungheinrich does not have legally independent leasing companies.

The balance sheet reflects the continuous expansion of the Financial Services Division. The increase in trucks for lease from financial services 'operating leases' capitalized as fixed assets and the strong growth in receivables from financial services 'finance leases' are due to the rise in customer contracts with Jungheinrich-owned leasing companies. Customer contracts with a third-party company acting as intermediary were down.

The increase in liabilities from financial services stems from the matched-maturity refinancing of the much higher number of operating and finance lease customer contracts.

Asset structure of the Financial Services (FS) Division in million €	Jungheinrich Group		FS Division ¹	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
	Tangible and intangible assets	314	287	–
Trucks for short-term hire	200	200	–	–
Trucks for lease from financial services	187	166	239	211
Receivables from financial services	460	403	460	403
Trade accounts receivable	395	423	45	26
Inventories	247	243	23	25
Liquid assets and securities	262	251	55 ²	46 ²
Prepaid expenses	6	6	–	–
Other assets	108	94	4	5
Balance sheet total	2,179	2,073	826	716

¹ Before consolidation, i.e. adjustment to Group manufacturing costs.
² Including other receivables from affiliated companies (intercompany loans).

Capital structure of the Financial Services (FS) Division

in million €

	Jungheinrich Group		FS Division	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Shareholders' equity	625	554	13	12
Provisions for pensions and similar obligations	140	164	–	–
Other provisions	150	156	2	1
Financial liabilities	285	290	2	–
Liabilities from financial services	643	541	643	541
Trade accounts payable	117	140	72	63
Deferred income	105	117	77	88
Other liabilities	114	111	17	11
Balance sheet total	2,179	2,073	826	716

Earnings position

The Financial Services Division is a service provider that provides support to Jungheinrich's sales operations and is run as a cost centre without aiming to achieve a profit on its own account. The objective established in line with this business policy is reflected in the business area's slightly positive earnings before taxes (EBT) and the rise in financial income.

Income statement of the Financial Services (FS) Division

in million €

	Jungheinrich Group		FS Division	
	2008	2007	2008	2007
Net sales	2,145	2,001	362	323
Cost of sales	1,552	1,421	363	318
Other income/expenses	471	440	4	5
Earnings before interest and taxes (EBIT)	122	140	– 5	0
Financial income (loss)	–	– 1	8	7
Earnings before taxes (EBT)	122	139	3	7
Income taxes	45	57		
Net income	77	82		

Key financials

Given its assets and associated liabilities, the financial services business exerts significant influence on the Jungheinrich Group's balance sheet structure.

To improve the informational value and comparability of key Group financials to other companies, the key performance indicators determined by creditworthiness and ratings of the Group's financial operations are managed according to the principles and objectives of the 'captive finance' approach. Specifically, the Financial Services Division is excluded from Group figures relating to the capital structure, indebtedness ratio and interest coverage.

Key financials of the Jungheinrich Group

	Jungheinrich Group incl. FS Division		Jungheinrich Group excl. FS Division	
	2008	2007	2008	2007
Equity ratio	29	27	44	39
Net financial liabilities ¹	656	566	71	85
Indebtedness ratio ²	2.3	2.1	0.3	0.4
Net interest	0	- 1	- 8	- 8
Interest coverage ³	942	271	30	29

¹ Financial liabilities + liabilities from financial services +/- other liabilities/receivables vis-à-vis affiliated companies and companies accounted for using the equity method – liquid assets and securities.

² Net financial liabilities : EBITDA.

³ EBITDA : net interest.