



Alamo Group Inc. 2008 Annual Report

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## FINANCIAL HIGHLIGHTS

In thousands, except per share data	2008	2007	2006	2005	2004
Net Sales	\$557,135	\$504,386	\$456,494	\$368,110	\$342,171
Gross Margins	\$109,414	\$97,711	\$89,890	\$78,757	\$75,176
Operating Expenses	\$83,058	\$73,874	\$66,858	\$60,357	\$52,478
Goodwill Impairment	\$5,010	—	—	—	—
Income From Operations	\$21,345	\$23,837	\$23,032	\$18,400	\$22,698
Net Income	\$10,999	\$12,365	\$11,488	\$11,291	\$13,396
Earnings Per Share (Diluted)	\$1.11	\$1.24	\$1.16	\$1.14	\$1.36
Depreciation & Amortization	\$9,360	\$9,018	\$9,198	\$6,456	\$6,297
Capital Expenditures	\$6,553	\$10,765	\$12,065	\$8,705	\$6,067
Dividends Paid	\$2,361	\$2,346	\$2,342	\$2,339	\$2,336
Working Capital	\$180,341	\$169,391	\$160,968	\$125,151	\$113,183
Cash Flow From Operations <sup>(1)</sup>	\$25,514	\$22,605	\$21,765	\$17,896	\$22,519
Long Term Debt <sup>(2)</sup>	\$99,884	\$78,527	\$78,526	\$30,912	\$18,428
Shareholder Equity	\$184,312	\$198,698	\$181,734	\$163,476	\$160,832
Average Shares Outstanding	9,950	9,953	9,925	9,908	9,864
Book Value Per Share	\$18.52	\$19.96	\$18.31	\$16.50	\$16.30

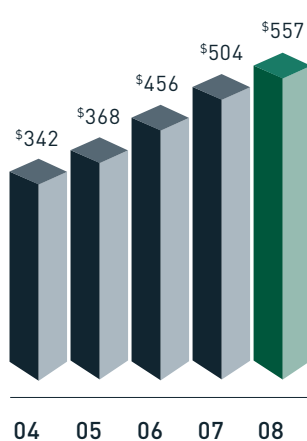
(1) Excludes Changes in Working Capital

(2) Excludes Current Portion

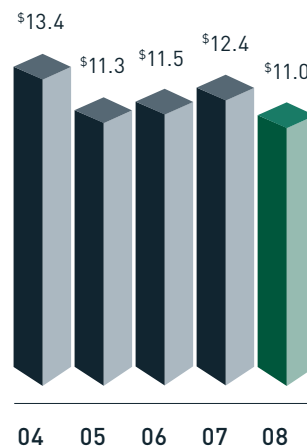
Certain statements included herein constitute forward looking statements. Such statements are subject to various risks and uncertainties which may cause results to differ materially from those anticipated by the forward looking statements. Among those factors which could cause actual results to differ materially are the following: market demand, competition, weather, currency-related issues and other risk factors listed and described in more detail from time to time in other reports of the Company filed with the Securities and Exchange Commission, including the Company's Form 10-K for 2008 attached hereto.

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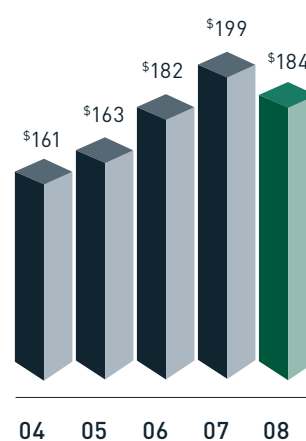
**NET SALES**  
In Millions



**NET INCOME**  
In Millions



**SHAREHOLDER EQUITY**  
In Millions



2008 - excluding non-cash goodwill impairment net income was \$15.5.

## LETTER TO OUR SHAREHOLDERS

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In many ways 2008 was a unique year, not only for Alamo Group but for the world as a whole. The first half of the year saw unprecedented inflation in steel, fuel and commodities, which challenged both businesses and consumers. And then, beginning in the third quarter, we witnessed equally unique declines in commodity pricing and the stock market, the collapse of the financial sector and soaring unemployment. Yet despite these incredible developments, it seems as if 2008 is already forgotten as everyone is focused on the uncertainty of what 2009 will bring.

For Alamo Group, 2008 was a good year as we made strong progress in growing our Company, improving our operations and creating greater flexibility to deal with the rapidly changing environment. Some of this progress is evident in the record level of sales and adjusted operating profit we achieved in the year. We also continued to implement our acquisition strategy, and in May 2008 we purchased Rivard Developpement SAS, a leading French manufacturer of vacuum trucks, high-pressure cleaning systems and trenchers. Rivard was accretive in 2008 and also broadened the range of infrastructure maintenance equipment we can offer to governmental entities and related contractors in Europe and complements similar products we offer in North America.

As the year moved on, much of the progress we made was obscured by deteriorating global economic conditions. Rapid inflation in the first half of the year detracted from our improvements in efficiencies, growth in our international earnings was diluted by changes in exchange rates, and declines in the stock market eroded our market value, necessitating a \$5 million non-cash goodwill impairment charge in the fourth quarter.

Excluding this charge, full year earnings increased 25% to \$1.56 on record sales of \$557.1 million. While many of our improvements have enabled us to hold our own in a difficult environment, the challenges in the marketplace have not allowed us to fully progress in the way we believe we are capable. Nevertheless, the progress we made during 2008 will help us better face the challenges of 2009.

For 2009, we are assuming overall economic conditions will remain difficult and we believe the markets for our products will be soft throughout the year. However, we feel Alamo's outlook will be better than many sectors of the economy. Our agricultural products, both in North America and Europe, should benefit from healthy levels of farm activity despite declines in commodity prices. Farm incomes, while down from record levels of the last few years, should still be reasonably strong and will further benefit from declines in input costs such as fuel and fertilizer. Additionally, the amount of acreage under cultivation, again while down, remains at a healthy level that will create demand for new equipment purchases. That said, there will certainly be other external factors that could impact ultimate demand such as credit availability and weather conditions, particularly the drought conditions that are still affecting many areas in the southern U.S.

We believe demand for our Industrial products will also continue at a reasonable level. These products are sold mainly to governmental entities and related contractors for maintenance along roads, right-of-ways, airports and other public infrastructures. Certainly, budgetary constraints and declining tax revenues will affect spending at both local and national levels. But, as we have seen during other economic downturns, the need for this kind of maintenance will continue—and this should create at least a basic level of demand for new purchases of our products, in both North America and Europe.

We also believe the progress made by the Company in the last several years in streamlining our operations and improving our efficiencies will assist us in meeting the unpredictable economic conditions going forward. The basic structure of our Company, including our geographic diversity, broad range of products, level of spare part sales, financial strength and leadership position in many of the niche markets in which we participate, should help us to deal with the challenges of our markets.

We are also being proactive in adjusting to changing market conditions. We are working diligently with our vendors to control costs, adjusting our staffing levels to mirror changes in production levels, varying our work schedules to ensure that we manage our inventory levels appropriately, constraining our capital spending, and focusing on debt reduction, among other actions. We have also implemented select salary freezes at many of our units and at the corporate level as well, until we see how this year develops.

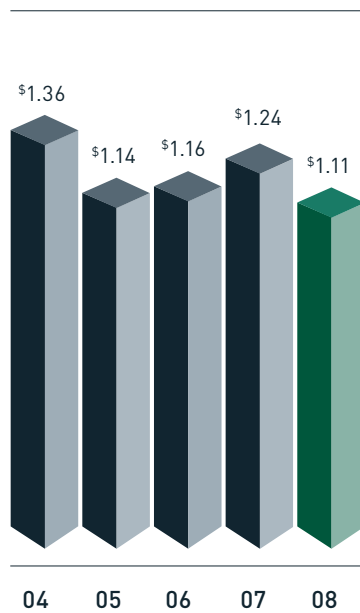
We feel these actions and many others we are taking will not only help us get through these difficult times, but will also make us a leaner, stronger company that will be poised to benefit greatly when our markets begin to improve. Regardless of when the turnaround occurs, we believe our customers can count on us to be there throughout as a reliable supplier of quality products and aftermarket support both today and tomorrow.

Lastly, we would like to take this opportunity to thank our employees, our customers and shareholders for their continued support during these challenging times.

  
**Donald J. Douglass**  
 Chairman of the Board

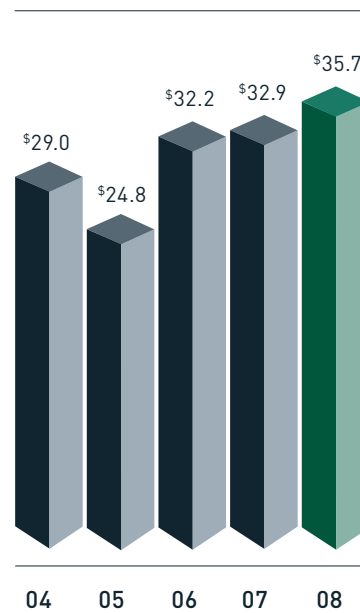
  
**R. A. Robinson**  
 President & CEO

**EARNINGS PER SHARE**  
 Diluted



2008 - excluding non-cash goodwill impairment, earnings per share were \$1.56.

**EBITDA\***  
 In Millions



\* EBITDA is a non-GAAP financial measure. Defined for this purpose as income from operations plus depreciation, amortization and goodwill impairment.

# ALAMO GROUP

Alamo Group is a leader in the design, manufacture, distribution and service of high quality equipment for right-of-way maintenance and agriculture. The Company, founded in 1969, has over 2,460 employees and operates seventeen plants in North America, Europe and Australia as of December 31, 2008. The Corporate offices of Alamo Group are located in Seguin, Texas. The Company's business is divided into three operating divisions, North American Industrial, North American Agricultural and European.

## North American Industrial Division

The North American Industrial Division produces a wide range of equipment focused on maintenance along highways, airports and other right-of-ways and public areas. The main products include mowing equipment, street sweepers, grading/excavating equipment, vacuum trucks, snow removal equipment and related aftermarket parts and services. Brands in this sector include Alamo Industrial, Tiger, Schwarze, Nite-Hawk, Gradall, VacAll, Henke and Schulte. Sales are primarily through independent dealers who sell to governmental entities and related contractors.

## North American Agricultural Division

Alamo's North American Agricultural Division manufactures a variety of implements for use by farms and ranches and to a lesser extent, contractors, landscapers and various other end users. Our products include mowing equipment, front-end loaders, backhoes, tillage equipment, box blades, augers, rock removal equipment, snow throwers and hay cutting and processing equipment, as well as an extensive range of agricultural aftermarket parts. Sales are through a large network of independent agricultural dealers and distributors. Brands in this division include Rhino, SMC, Schulte, Herschel, Valu-Bilt and M&W.

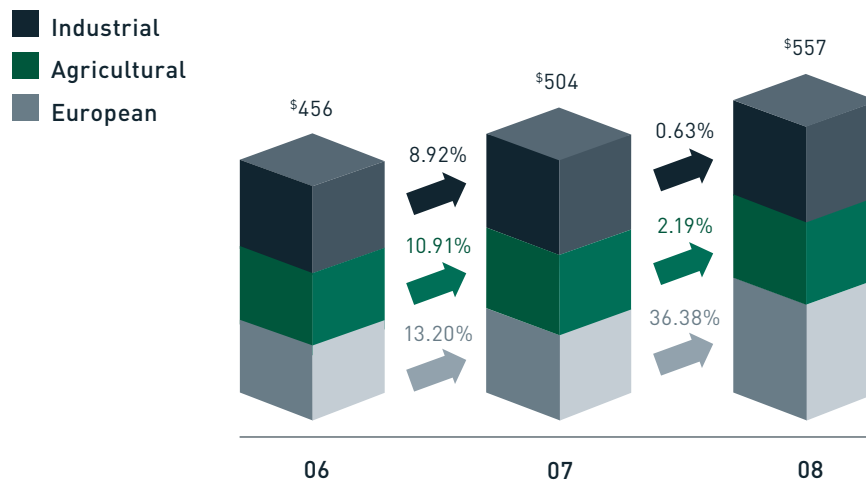
## European Division

Alamo's European Division services both the agricultural and right-of-way maintenance markets. This Division makes and sells a broad range of boom arm mounted flail and rotary cutters for verge and hedge maintenance, rotary mowers, front-end loaders, backhoes, other agricultural implements, vacuum trucks, high pressure cleaning systems, trenchers and related spare parts. Sales are primarily through a network of independent dealers and distributors to farms, governmental entities, contractors and various other end users. Our brands in this segment include Bomford, McConnel, Spearhead, Twose, Rousseau, Fauchaux, SMA, Rivard and Forges Gorce.

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## SALES BY DIVISION

In Millions



# ALAMO GROUP INC.

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## BOARD OF DIRECTORS

### Donald J. Douglass

Chairman of the Board — Director since 1969

### Jerry E. Goldress<sup>(1) (2) (3)</sup>

Chairman of the Board and Chief Executive Officer:  
Grisanti, Galef and Goldress — Director since 2000

### David W. Grzelak<sup>(1) (2) (3)</sup>

Chairman and Chief Executive Officer: Komatsu  
America Corp. — Director since 2006

### Gary L. Martin<sup>(1) (3)</sup>

Chairman of the Board, President and Chief Executive  
Officer: Capital Southwest Corporation —  
Director since 2007

### David H. Morris<sup>(2) (3)</sup>

Retired — Director since 1996

### Ronald A. Robinson

Chief Executive Officer and President —  
Director since 1999

### James B. Skaggs<sup>(1) (2)</sup>

Retired — Director since 1996

<sup>(1)</sup> Member of Compensation Committee

<sup>(2)</sup> Member of Audit Committee

<sup>(3)</sup> Member of Nominating/Corporate Governance Committee

## OFFICERS

### Ronald A. Robinson

Chief Executive Officer and President

### Dan E. Malone

Executive Vice President and Chief Financial Officer

### Robert H. George

Vice President, Secretary and Treasurer

### Richard J. Wehrle

Vice President, Corporate Controller

### Donald C. Duncan

Vice President, General Counsel

### Geoff Davies

Vice President, Alamo Group Inc.,  
Managing Director, Alamo Group Europe Limited

## Corporate Office

Alamo Group Inc.  
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(830) 379-1480 • (830) 372-9683 (Fax)  
www.alamo-group.com

STOCK SYMBOL: ALG  
Stock traded on NYSE  
CUSIP Number: 011311107

## Investor Relations Contacts

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bgeorge@alamo-group.com

## Transfer Agent and Registrar

American Stock Transfer & Trust Co.  
59 Maiden Lane  
New York, NY 10038  
(800) 937-5449  
www.amstock.com

## Annual Shareholders' Meeting

Date: May 7, 2009, 9:00 am local time  
Doubletree Hotel  
37 NE Loop 410 (at McCullough)  
San Antonio, Texas 78216

## Independent Auditors

Ernst & Young LLP  
P.O. Box 2938  
1900 Frost Bank Tower  
100 West Houston Street  
San Antonio, Texas 78205

## Counsel

Oppenheimer, Blend, Harrison & Tate  
711 Navarro, Suite 600  
San Antonio, Texas 78205