How it all begins.

PALFINGER

Integrated Annual Report 2018

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It all begins with a vision.
With an idea that is bigger than the moment. A vision that will shape a company for future decades. Now the time has come for this idea to become a reality. For the vision to develop into the new GLOBAL PALFINGER ORGANIZATION.

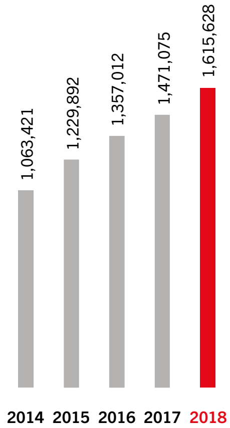
For the digital version of the Integrated Annual Report 2018, please visit
i-report.palfinger.ag

KEY FIGURES OF THE PALFINGER GROUP

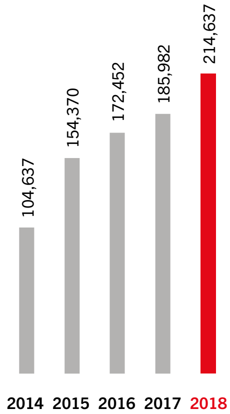
EUR thousand	2014	2015	2016	2017	2018
Income statement[1]					
Revenue	1,063,421	1,229,892	1,357,012	1,471,075	1,615,628
EBITDAn[2]	104,637	154,370	172,452	185,982	214,637
EBITDAn margin[2]	9.8%	12.6%	12.7%	12.6%	13.3%
EBITn[2]	66,079	113,415	123,747	129,684	158,222
EBITn margin[2]	6.2%	9.2%	9.1%	8.8%	9.8%
EBTn[2]	54,165	102,014	110,912	108,013	142,296
EBITDA	104,637	145,330	155,997	167,350	196,749
EBITDA margin	9.8%	11.8%	11.5%	11.4%	12.2%
EBIT	66,079	104,375	106,049	27,788	126,974
EBIT margin	6.2%	8.5%	7.8%	1.9%	7.9%
Result before income tax	54,165	92,974	93,213	6,117	111,048
Consolidated net result for the period	38,162	64,366	61,173	(11,423)	57,951
Balance sheet[1]					
Net working capital (average)	248,329	255,985	275,896	303,758	334,786
Capital employed (average)	705,316	834,911	975,784	1,059,029	1,048,266
Equity	454,650	510,659	579,920	511,780	555,726
Equity ratio	40.5%	42.1%	37.7%	34.6%	36.4%
Net debt	356,600	347,913	513,077	513,282	515,739
Gearing	78.4%	68.1%	88.5%	100.3%	92.8%
Cash flows and investments[1]					
Cash flows from operating activities	47,208	110,623	109,579	91,978	126,502
Free cash flows	(159,525)	54,704	(68,700)	43,058	46,775
Net investments	175,855	60,440	71,359	68,301	95,674
Depreciation, amortization and impairment	38,558	40,955	49,948	139,562	69,774
Value creation[1]					
ROCE	7.4%	9.6%	8.1%	1.7%	8.5%
ROE	10.5%	14.8%	12.7%	0.2%	14.4%
EVA	6,713	25,880	20,546	(45,187)	31,551
WACC	6.5%	6.5%	6.0%	5.9%	5.5%
Human resources					
Employees[3]	8,225	9,102	9,846	10,212	10,780
Percentage of women	12.5%	12.9%	13.3%	13.1%	12.9%
Employee turnover[4]	14.2%	15.1%	14.8%	19.3%	18.7%
Staff absences due to industrial accidents	0.09%	0.12%	0.20%[5]	0.16%[5]	0.17%
Training hours (per employee)	9.0	15.7	15.6	19.7	17.1
Environment					
Greenhouse gas emissions	57,907	71,228	78,194	72,533	73,086
Index: Energy consumption in relation to revenue[6]	95.5%	91.0%	94.8%	91.1%	79.7%
Index: Hazardous waste in relation to revenue[6]	103.2%	124.8%	157.7%	325.4%	263.3%
Share					
Market capitalization	789,082	994,342	1,075,167	1,280,050	834,570
Price as at year end (EUR)	20.99	26.45	28.60	34.05	22.20
Earnings per share in EUR	1.04	1.73	1.63	(0.30)[1]	1.54
Dividend per share (EUR)	0.34	0.57	0.57	0.47	0.51[7]

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
2) Figures since 2015 were normalized (n) by restructuring costs.
3) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding contract workers.
4) Transition to new calculation model pursuant to the relevant GRI Standard.
5) Figures changed with retrospective effect due to new consolidation procedures.
6) Volume 2013 = 100%.
7) Proposal to the Annual General Meeting.

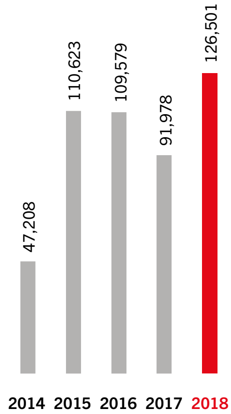
FINANCES



REVENUE
(EUR thousand)

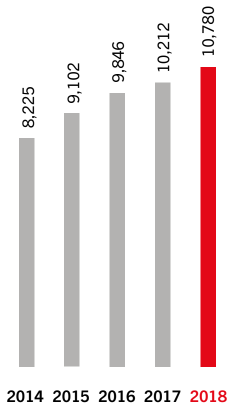


EBITDAn
(EUR thousand)

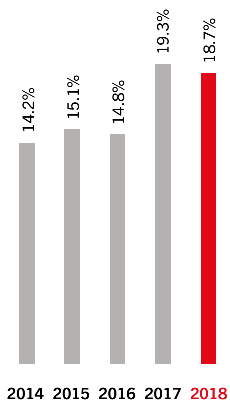


OPERATING CASH FLOWS
(EUR thousand)

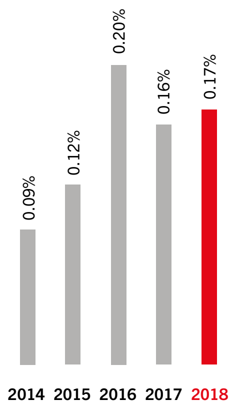
HUMAN RESOURCES



EMPLOYEES
(as at 31 Dec)

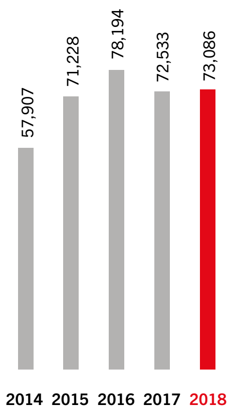


EMPLOYEE TURNOVER
(in per cent)

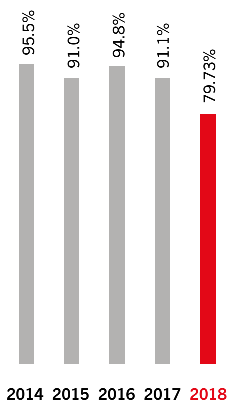


STAFF ABSENCES DUE TO INDUSTRIAL ACCIDENTS
(in per cent)

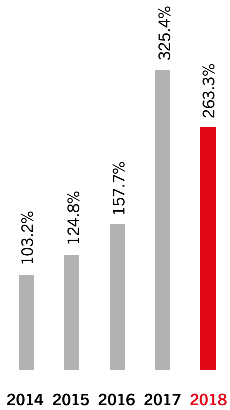
ENVIRONMENT



GREENHOUSE GAS EMISSIONS
(in tonnes of CO_2 equivalents)



INDEX: ENERGY CONSUMPTION IN RELATION TO REVENUE
(volume 2013 = 100%)



INDEX: HAZARDOUS WASTE IN RELATION TO REVENUE
(volume 2013 = 100%)

ABOUT THIS REPORT

- **Report on the 2018 financial year – a highly successful year for PALFINGER's operations**
- **Consolidation follows the acquisitions of previous years**
- **Integrated strategy refined under new GLOBAL PALFINGER ORGANIZATION**

The Integrated Annual Report 2018 published by the PALFINGER Group contains all reporting on the previous financial year. PALFINGER is convinced that not only financial aspects but also ecological and social aspects equally contribute to the Company's success. This relates to PALFINGER's own business model as well as to the upstream and downstream value creation chain, which is why sustainability is an integral part of PALFINGER's strategy and operations. Since 2013, sustainability reporting has been included in the Integrated Annual Report.

The Report complies with the International Financial Reporting Standards (IFRS). This report has been prepared in accordance with the GRI Standards: Core option. Moreover, PALFINGER is committed to the UN Global Compact, the United Nations' Sustainable Development Goals and the OECD Guidelines for Multinational Enterprises.

The integrated approach is reflected in the combined presentation of financial and non-financial information in the individual chapters. The consolidated management report contains information relating to PALFINGER as a responsible employer, sustainable products (research and development) and eco-efficiency in production. The principles of fair business as well as the diversity scheme are included in the corporate governance report. The detailed GRI and sustainability disclosures comprise additional data pertaining to the material sustainability-related aspects as well as the GRI content index, including the UNGC guidelines. The non-financial statement pursuant to the Austrian Sustainability and Diversity Improvement Act (NaDiVeG) is also presented in the consolidated management report and contains an overview as to where the individual topics can be found in this Report.

To help the reader, the Report contains the following references:

Information regarding a GRI disclosure and/or information of relevance pursuant to the Austrian Sustainability and Diversity Improvement Act

Reference to another passage in the Integrated Annual Report

Reference to detailed information disclosed on the Internet

The complete Report may be downloaded as a PDF file from the Company's website www.palfinger.ag. For reasons of efficiency, environmental protection and varied stakeholder interests, the printed copies do not contain the consolidated financial statements in accordance with IFRS and the detailed GRI and sustainability disclosures. An abbreviated version of the Report is also available as a web version.

GRI 102-12, 102-54

Detailed GRI and sustainability disclosures, page 214

www.palfinger.ag/en/news/publications; www.palfinger.ag/en/news/publications/sustainability-publications; i-report.palfinger.ag

FOREWORD BY THE EXECUTIVE BOARD

DEAR READERS,

The 2018 financial year was characterized by remarkable developments. On the one hand, demand for our products was higher than ever before, which translated into record revenue but also proved to be a challenge for the entire supply chain. On the other hand, we re-defined our structures and streamlined our organization to increase profitability and facilitate further growth in future. Our new organizational structure, the GLOBAL PALFINGER ORGANIZATION, was implemented as of January 2019.

The heavy demand for our products caused internal and external bottlenecks in the supply of necessary components, which, at times, made delivery times significantly longer. However, in the second half of 2018 we were able to meet most of our delivery deadlines again. This high level of demand was also clearly reflected in an increase in the Group's revenue to EUR 1,615.6 million. Only in the marine business did the environment remain difficult. Earnings were still impacted by the ongoing restructuring programme. In North America, major projects were completed in the first half of 2018, and this is expected to further move profitability towards 10 per cent. In the marine business, we are seeing significant operational progress; however, there is still need for action. For this reason, 2019 will still be affected by costs and one-time effects, although to a much smaller extent than in 2018.

With PALFINGER 21st we will continue to place a strong focus on the digital transformation: smart products and smart business models including professional lifting solutions for our customers will be the main priority. In the previous twelve months, we built up resources for this purpose and we can already report on the first specific results. The future is beginning to take shape.

The biggest change undertaken in 2018 was the development and introduction of the new organizational structure. The GLOBAL PALFINGER ORGANIZATION was elaborated together with the leadership team, and implementation started on 1 January 2019. It will reduce the complexity of the Group, which has evolved over the years, and promote synergies in all areas through stronger cooperation across the regions and segments.

In June 2018, Andreas Klauser became CEO, thus making our management team once again complete. Since then we have achieved a great deal together and initiated many new measures. We have set ourselves clear qualitative and quantitative goals for the future. Even though we are focussing on integration and consolidation in 2019, we will continue to develop and achieve further growth.

One of our major goals is to create added value on a daily basis: added value for the sake of the Company, for our employees, partners, customers and investors, in other words, for you. Thank you very much for joining us on our journey.

Andreas Klauser | Felix Strohbichler | Martin Zehnder

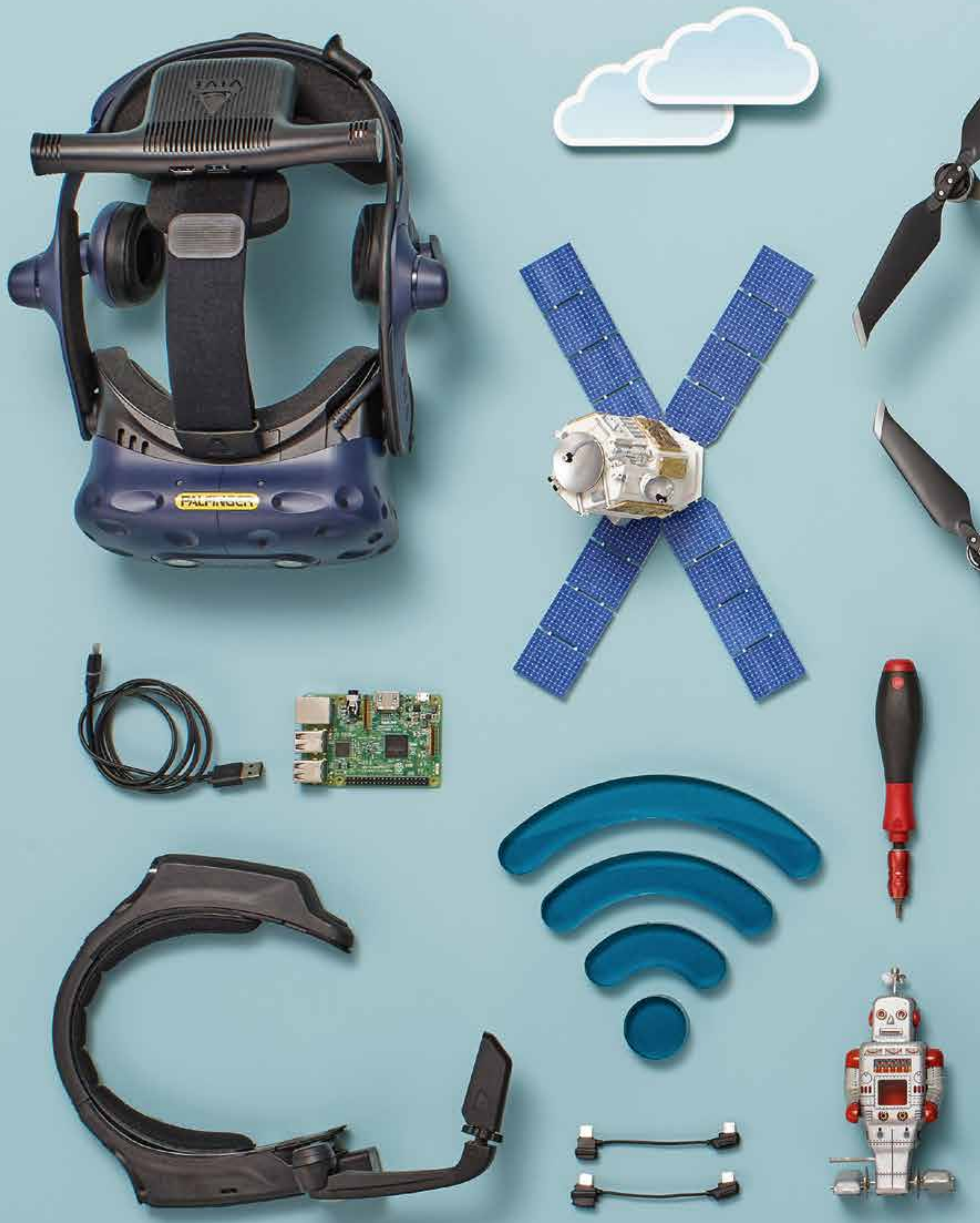
GRI 102-14

Ready for new vigour.

The implementation of our vision is making PALFINGER even faster and more dynamic, even more sustainable and more efficient. In future, our production sites around the globe will work together even more intensively. This will create synergies that have a positive impact at many levels. Through the transfer of know-how we will ensure that our high standard of quality is guaranteed at all our sites. In all our measures, our focus is on human beings and the environment.


PALFINGER
PALFINGER

Ready for the future.



Thanks to PALFINGER 21st, very little can take us by surprise. PALFINGER 21st stands for a new way of dealing with the possibilities and challenges of digitalization and networking. Instead of waiting for changes and then reacting to them, our internal incubator actively shapes these changes. We search for new technologies worldwide, filter them, promote the best of them and develop new products and services out of them. Not for someday, but for the here and now.

Ready for cooperation.

Boundaries are becoming connections. For only together can we achieve more. Networking with our suppliers, customers and partners will be even closer in future. Through better communication, synergies will be created and strengthened. Seamless cooperation in the supply chain, both upstream and downstream, forms the basis for fulfilling the commitment we have made to ourselves: to provide the best products and services in the field of lifting solutions worldwide.


Dictionary
English German
Advanced
English German
More than 480.000 entries
Wörterbuch
Deutsch Englisch
Fortgeschritten
Deutsch Englisch
Mehr als 480.000 Einträge
How it all begins.
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PALFINGER NEWS & STORIES
Since 1932

Ready for the next step.

A new organization opens up many possibilities. The GLOBAL PALFINGER ORGANIZATION is being implemented at all levels of the Company. This means that organizational structures will be adjusted and optimized in order to promote sustainable growth. This will be done by enhancing existing systems and synergies as well as by creating entirely new possibilities. Always with a focus on strengthening cooperation and thus achieving the optimum in everything we do.

ECONOMY
DME018
12 NOV 2018
24A
11:30
BOARDING PASS
ECONOMY
NAME OF PASSENGER
FROM: MOSCOW / DME
TO: SALZBURG / SZG
DME018
12 NOV 2018
47
11:30
24A
HAVE A NICE TRIP!
Max Mustermann
Salzburg
New York
12 DEC 18
15A
PALFINGER
EXECUTIVE BOARD
GLOBAL FUNCTIONS
REGIONS
PRODUCT LINES
LAND
SEA
CORPORATE FUNCTIONS
PALFINGER

Ready for a colourful mix.

All for one: Our goal is to create a corporate culture that offers opportunities for development. We place our employees at centre stage. For it is their experience, their passion and their innovative spirit that has made us the world market leader. We want to learn from one another, treat one another with respect and promote entrepreneurship within the Company. According to the motto ONE PALFINGER – ONE COMPANY, we utilize the potential that the internationality and diversity of our Company offers. We want to create value every day.


PALFINGER
PALFINGER
PEOPLE
RESPECT
ENTREPRENEURSHIP
LEARNING
EUROPA
NICE 2 C U!

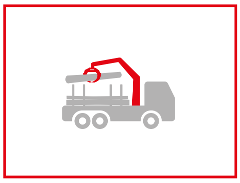
Ready for responsibility.

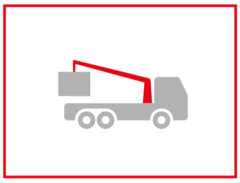
True sustainability has to be lived, not just promised. We have high standards when it comes to sustainability: be it as a responsible employer, in eco-efficient production, in the development of sustainable products or in sustainable business practices. We are still not satisfied with what we have achieved and are working actively to keep improving. Not to suit the spirit of the times, but because it has always been our conviction.

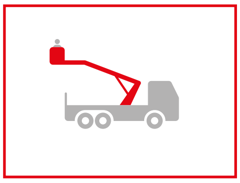

SUSTAINABLE DEVELOPMENT GOALS
PALFINGER

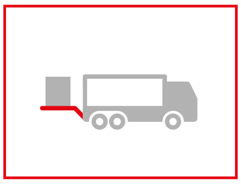
PALFINGER LAND

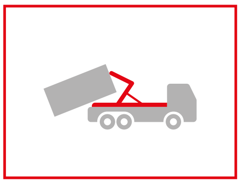

LOADER CRANES


FORESTRY & RECYCLING CRANES


STIFF BOOM CRANES

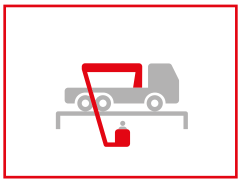

ACCESS PLATFORMS

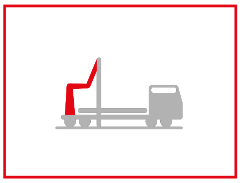

TAIL LIFTS


HOOKLIFTS & SKIPLOADERS

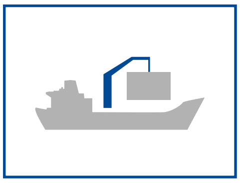

TRUCK MOUNTED FORKLIFTS

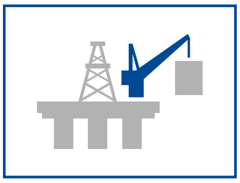

PASSENGER SYSTEMS

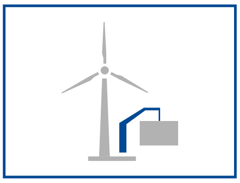

BRIDGE INSPECTION UNITS

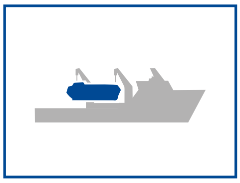

RAILWAY SYSTEMS

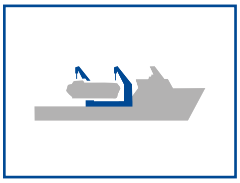
PALFINGER SEA


MARINE CRANES

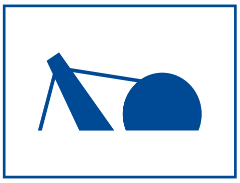

OFFSHORE CRANES

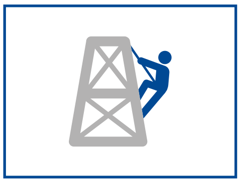

WIND CRANES


LIFE & RESCUE BOATS


DAVITS


SPECIAL BOATS


WINCHES & HANDLING EQUIPMENT


ROPE ACCESS

GRI 102-2
www.palfinger.com

PALFINGER AT A GLANCE

The PALFINGER Group, headquartered in Bergheim near Salzburg, Austria, comprises 86 companies in 34 countries and has a total workforce of 10,780. PALFINGER is regarded as the leader in technology and innovation in its sector.

PALFINGER is the global market leader for loader cranes, forestry and recycling cranes, hooklifts and skiploaders, wind cranes and railway systems. The Company is a leading specialist in tail lifts, marine cranes as well as maritime lifesaving equipment. PALFINGER is committed to providing its customers with optimum solutions and the best service structures worldwide.

Production takes place at 35 manufacturing and assembly sites in Europe, North and South America, CIS and Asia. In addition to its own sales and service locations, PALFINGER's global sales and service network comprises more than 200 independent general importers with approx. 5,000 outlets in more than 130 countries on all continents.

PALFINGER was established as a family-run business in 1932 and has since recorded enormous growth, achieved from its own resources and through numerous acquisitions. In the 2018 financial year, revenue reached EUR 1,615.6 million, EBITDAn (EBITDA normalized by restructuring costs) came to EUR 214.6 million and EBITn (EBIT normalized by restructuring costs) increased to EUR 158.2 million.

PALFINGER's sound financial basis, the quality of its products and services, and its integrated focus on sustainability are the foundations of the Company's success. PALFINGER measures its value enhancement by means of financial and non-financial indicators.

After adapting its vision and strategy in 2017 to meet new challenges and opportunities, also in connection with the growing digital transformation, PALFINGER also adjusted its organizational structures in the 2018 financial year to increase profitability and ensure further profitable growth.

GRI 102-1, 102-2, 102-3, 102-7
Sustainability and Diversity Improvement Act
www.palfinger.ag

SIGNIFICANT EVENTS

ANDREAS KLAUSER BECOMES NEW CEO

At the beginning of June, Andreas Klauser was appointed the new CEO of PALFINGER AG, thus completing the management team.

SUCCESSFUL RESTRUCTURING IN NORTH AMERICA

After a two-year period of restructuring, the major restructuring costs in North America were recorded. Profitability is expected to increase.

NEW ORGANIZATIONAL STRUCTURE

The Executive Board presented the new GLOBAL PALFINGER ORGANIZATION (GPO) in September. Starting in 2019, this new organizational structure is designed to promote internal synergies through stronger global cooperation, also across areas, and thus facilitate long-term, profitable growth.

FINANCIAL TARGETS 2022

In connection with its new organizational structure, PALFINGER defined financial targets to be met by 2022: revenue growth to EUR 2 billion as well as an EBIT margin of 10 per cent and ROCE of 10 per cent over the economic cycle.

ISSUE OF PROMISSORY NOTE LOAN

In October, PALFINGER issued new promissory note loans of EUR 80 million and USD 25 million to optimize its financing structure.

RETROSPECTIVE IMPAIRMENT OF GOODWILL AS OF 2017

The Austrian Financial Reporting Enforcement Panel (AFREP) found a need for a material impairment of goodwill in the Marine business area in October. PALFINGER has corrected the respective amounts for 2017 and 2018 with retrospective effect.

DEFINITION OF ADDITIONAL ENVIRONMENTAL TARGETS

PALFINGER adopted additional long-term environmental targets to be met by 2030: the improvement of energy efficiency and the reduction of hazardous waste (index) by 30 percentage points each. In addition, 75 per cent of the Group's electricity is to be generated from renewable energy sources by 2022.

RESTRUCTURING MARINE

Restructuring in the marine business caused an improvement in EBIT; however, restructuring costs as well as significant one-time and follow-on effects continued to have a negative impact. Performance in relevant customer industries was still very restrained. Restructuring will therefore be continued in 2019.

VISION

In 2017, PALFINGER adapted its vision and strategy in order to be able to meet the challenges and opportunities of the future.

Together we are shaping the future of our customers’ lifting solutions.

INNOVATION

INTERNATIONALIZATION

FLEXIBILITY

PALFINGER 21st

The three well-established strategic pillars – **innovation, internationalization and flexibility** – have been supplemented by a fourth pillar: **PALFINGER 21st** stands for new core competences, new approaches, new products, services and business models in the digital age.

PALFINGER’s **employees** and the shared values of entrepreneurship, respect and learning are central elements in the implementation of this vision. “We value people. People create value.”

PALFINGER will put its **customers** at the heart of all endeavours, even more so than in the past. Together with them, PALFINGER will continue to identify new requirements and develop efficient customized and turnkey solutions. The new **GLOBAL PALFINGER ORGANIZATION** (GPO) will support this vision by providing global, efficient structures.

Management report, Strategy and value management, page 33

How we move forward from here.

Interview with Andreas Klauser, CEO of PALFINGER AG since June 2018

You became PALFINGER's CEO in June 2018. What were your first impressions from an inside perspective?

PALFINGER operates in a highly complex environment. It was and still is impressive to see how broadly PALFINGER is positioned, which applies to products and regional customer requirements alike. But all of this has to be managed with precision. I am also enthusiastic about the team, the family spirit in the Company, and the skills and expertise of the employees. I was highly impressed by the growth of the past years: PALFINGER has really grown very quickly from an export-oriented company to a global player.

Which changes were your priorities?

After this growth spurt, we now need a phase of consolidation to leverage synergies in research and development as well as in production. From the close, coordinated networking of the individual areas of the PALFINGER Group, we will form a powerful Group that can react flexibly and efficiently and also with agility to market and customer requirements. I see the new organization as a basis for new growth, but also as a proactive preparation for the expected economic slowdown and volatile markets.

Therefore, the immediate development and implementation of the GLOBAL PALFINGER ORGANIZATION (GPO) was the dominant topic of the first months: After a successful kick-off in mid-September, the new organization came into effect at the beginning of 2019. This transformation was the biggest change at PALFINGER in the past twenty years. The new organizational structure was designed by our managers as a team, not by an external consultant.

Our focus is on the regions and product groups. All functions are mapped in the new global structure and the goals are defined in the form of specific key figures. We analyse the achievement of objectives on a monthly basis and can therefore react quickly and flexibly to fluctuations or new customer requirements.

How do you assess the market conditions for the coming years?

There is no doubt that economic growth will slow down again, but above all the volatility of individual markets will increase. The performance of the individual business areas within the regions will also be heterogeneous, a development we are already seeing in Europe.

The new organizational structure was designed by our managers as a team, not by an external consultant.

At present, however, there is no downturn on the horizon. We continue to record growth in the markets that are important to us, namely Germany, North America and CIS. In South America, we expect new growth after the long crisis, and the joint venture in China is growing steadily. The oil price is also showing an upward trend – despite the decline in autumn – so that we definitely see a positive future for our marine business. We expect further organic growth for PALFINGER in the coming years.

What changes do you see in the customer industries?

Our customers expect more and more one-stop-shop solutions, that is to say, not only products, which are the hardware if you will, but also software and automation technology, including services. This confirms the digitalization path we have embarked on, where we see various important topics: the first is communication with dealers and customers, or, in other words, customer relationship management; the second is service, that is, which tools are integrated into solutions, especially for predictive maintenance; and the third has to do with product innovations: how we can use data to become more efficient in research and development.

PALFINGER's greatest strength is clearly innovation coupled with reliability.

Are you planning to derive a profit from data in the future?

We will use data primarily for the benefit of our customers and will not make a business model out of the product data gained. We are striving for an open system that allows customers to access and use their data for their own purposes.

What changes do you see in connection with the digital transformation of the industry?

Our biggest challenge on the product side in the short term is to design the interface between truck manufacturers and our products in such a way that customers can work with a uniform data flow, with only one monitor. We will coordinate with truck manufacturers to ensure the greatest extent of uniformity in interfaces. Our marine business is mainly positioned in the deck equipment segment, where in my opinion there is still potential for growth.

What strengths of PALFINGER are you building on?

PALFINGER's greatest strength is clearly innovation coupled with reliability. We will improve our development speed; the time to market has to become shorter. And we will do a better job of marketing our USP, which is to say highlighting the benefits and advantages for our customers even more strongly than in the past. I would like us to communicate this more loudly and clearly. The new GLOBAL PALFINGER ORGANIZATION is also helping us to be even closer to the markets in order to create more benefits for our customers. And it will make us more efficient, especially in planning and controlling sales to make our products available to our customers in the fastest and best manner possible.

Other strengths are our excellent product portfolio in the field of lifting solutions and, of course, our global product and production footprint. Another thing that distinguishes us from our competitors is PALFINGER's extraordinary team spirit.

What potential do you see and how do you want to utilize it?

What first comes to my mind is the enhancement of the ability to deliver our products against the backdrop of volatile markets. Then there are apps and other applications we are developing. Through the use of software, we are becoming more of a service provider for lifting solutions. Automation, which makes the operation of our products easier, will play an important role because of the increasing lack of skilled workers. Assistance systems and similar solutions will therefore become more important.

On the market side, we also reckon with stable demand from the construction industry, as well as logistics and recycling in the future. I am sure that we will also generate revenue from additional digital business areas.

With our new structure, we can react more quickly to regional customer requirements and at the same time achieve internal savings through higher efficiency, in other words, we can improve our profitability. For many product groups, there is also potential to gain additional market shares. In the case of investments, the focus will be on servicing and renewing production facilities.

The SEA segment is currently still undergoing restructuring. After this process has been completed, we will also integrate this business into the new organizational structure. I also expect a significant improvement from this.

What role will PALFINGER 21st play in future growth?

We established PALFINGER 21st at the end of 2017. PALFINGER 21st is a separate unit, which allows us to come up with brand-new ideas and approaches independent from our structures. Cooperation and open innovation are important strategies in this context. The Vienna development hub at the start-up centre weXelerate and our participation in hackathons promote exchange with technology partners. PALFINGER 21st will not just generate additional revenue through the development of new business models but will also maintain and further expand our competitiveness.

Will PALFINGER continue to grow through acquisitions?

For the next twelve to 18 months we will focus on integration and the resulting potential to increase profitability and optimize organic growth. Our greatest priorities are cooperation and partnerships. Future growth will increasingly come from the use of new features and services, whose technology we do not necessarily have to own in order to be successful in the market.

What goals have you set for the Group in the medium term?

Our goal is to increase revenue to approximately 2 billion euros through organic growth by 2022. I expect the EBIT margin to have risen to 10 per cent on average over the economic cycle by then. Similarly, the return on capital employed over the economic cycle should be 10 per cent on average.

All of this is to be based on sustainable successful growth, which is why sustainability plays a central role in our business model. As a matter of principle, all employees must contribute towards daily value creation.

PALFINGER 21st is a separate unit, which allows us to come up with brand-new ideas and approaches independent from our structures.

Thank you very much, Mr Klauser, for the interview and your outlook.

How to work together well.

INVESTOR RELATIONS

INVESTOR RELATIONS

- **Investor relations means transparent communication with all investors**
- **Eight independent analyses and several sustainability ratings**
- **Continuous dividend policy: proposed 2018 dividend of EUR 0.51 per share**

PALFINGER maintains and promotes dialogue with its investors and the finance community

Since its IPO in 1999, PALFINGER has attached great importance to maintaining transparent communication and a continuous dialogue with its investors and the finance community. PALFINGER's Executive Board and Investor Relations team attend numerous road shows and investors' conferences in Austria and abroad and hold conference calls, thereby making themselves available for personal communication with the investment community. Visits to headquarters, tours of PALFINGER World and at the same time of the largest plant (in Lengau, Austria), or the opportunity to operate products in the Demo Center, give investors and analysts a real-life experience of PALFINGER. By participating regularly in investors' and product fairs, shareholders' events as well as stock exchange days and visiting investment clubs, PALFINGER has also fostered relations with its retail shareholders.

For some years, PALFINGER has paid particular attention to the need for information on the part of sustainability-oriented investors. In 2018, PALFINGER also attended various sustainability-related expert meetings in the German-speaking countries.

THE PALFINGER SHARES

At the end of November, the PALFINGER shares were included in the MSCI Global Small Cap Index

The shares of PALFINGER AG are listed in the prime market on the Vienna Stock Exchange. In Germany, they are traded over the counter in Frankfurt, Stuttgart, Berlin, Munich and Dusseldorf. Since March 2005, there has been an ADR Level 1 listing in New York. PALFINGER stock is included in the ATX Prime index and ATX Global Players index as well as the Austrian VÖNIX sustainability index. At the end of November 2018, the shares of PALFINGER AG were included in the MSCI Global Small Cap Index for the first time.

In 2018, a pronounced decrease was recorded in the price of PALFINGER shares, particularly in the second half of the year; the average trading volume hardly changed in comparison with the previous year, however. Starting from EUR 34.05 at the end of 2017, the share price reached a low of EUR 21.10 in December. At year end (28 December 2018), the shares closed at EUR 22.20, 34.8 per cent below the previous year's level.

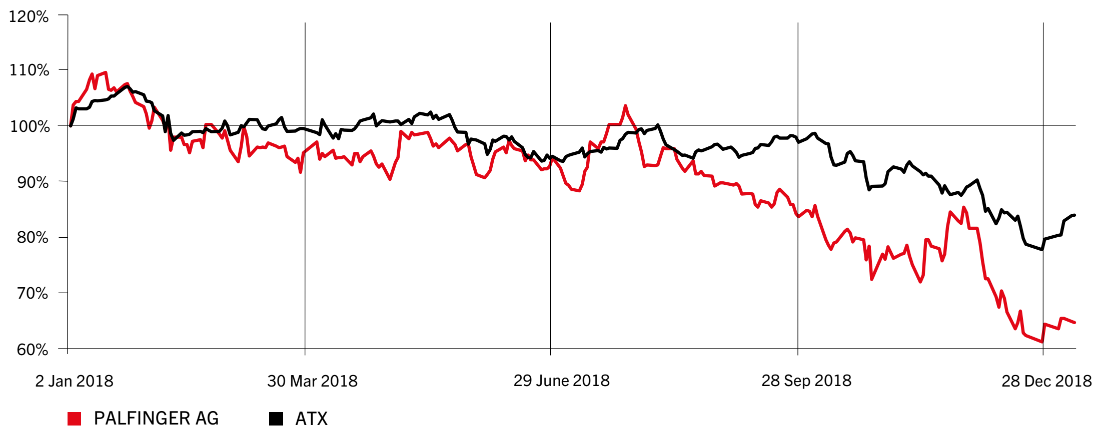
Shareholder information as at 31 December 2018

ISIN	AT0000758305
Number of shares issued	37,593,258
Own shares	0
Shares outstanding	37,593,258
Listing on the Vienna Stock Exchange	Prime market
OTC listing	New York, Frankfurt, Stuttgart, Berlin, Munich, Dusseldorf
Ticker symbols	Reuters: PALF.VIE; Bloomberg: PALF:AV; Vienna Stock Exchange: PAL

EUR	2016	2017	2018
Low	22.71	29.30	21.10
High	28.99	42.00	37.70
Average price	26.17	36.85	31.30
Price at year end	28.60	34.05	22.20
Earnings per share[1)]	1.63	(0.30)[2)]	1.54
Operating cash flow per share[1)]	2.93	2.45	3.36
Dividend per share	0.57	0.47	0.51[3)]
Dividend yield in relation to the average share price	2.2%	1.3%	1.6%
Market capitalization as at year end (EUR million)	1,075.17	1,280.05	834.57

1) Calculated using the weighted average number of shares outstanding.
2) Figure was adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
3) Proposal to the Annual General Meeting.

SHARE PRICE DEVELOPMENT IN 2018



RESEARCH REPORTS

- Berenberg Bank
- Deutsche Bank
- Erste Group
- Hauck & Aufhäuser
- HSBC
- Kepler Cheuvreux
- Raiffeisen Centrobank
- UBS

RATINGS

PALFINGER regularly participates in several sustainability ratings. The assessments show that investors embracing sustainability regard the Company as a best-in-class investment opportunity. PALFINGER is not subject to any ethical exclusion criteria, given that, for example, none of the manufactured products are weapons for the defence industry or products for the nuclear power industry. In the Marine business area, however, boats are produced for the coast guard or the military, and PALFINGER's loader cranes, hooklifts and skiploaders or truck mounted forklifts are used as transport vehicles.

In Oekom's corporate rating of 2018, PALFINGER was again rated B– (2016: B–), which corresponds to prime status. In this rating, the agency took positive note of the Company's measures in the fields of resource-friendly production and product safety, in particular.

Sustainability ratings and impact assessments regularly confirm PALFINGER's commitment

In the rating for the VÖNIX sustainability index, PALFINGER received a B+ rating (as in the previous year) as a sustainable business in 2018. The Company was specifically praised for its sustainability strategy and management, its stakeholder orientation and its corporate ethics. The marine business, which, from a sustainability perspective, contains sensitive aspects, runs counter to a better rating.

In 2018, PALFINGER participated in the environmental performance assessment of the Carbon Disclosure Project (CDP) and obtained a CDP climate scoring level C (previous year: C). This puts PALFINGER at the "Awareness" level.

In its re-evaluation of 2018, GREEN BRANDS confirmed PALFINGER's ranking and the right to bear the GREEN BRANDS Austria 2018/19 seal, honouring the Company's ecological and social commitment for the third time in a row.

GRI 102-12

DIVIDENDS

PALFINGER AG pursues a continuous dividend policy, which provides that approximately one third of the annual profit is to be distributed to shareholders. The net profit of PALFINGER AG for 2018 amounted to EUR 324.0 million: at the Annual General Meeting, the Executive Board and the Supervisory Board will propose that a dividend of EUR 0.51 (previous year: EUR 0.47) per share be distributed.

The Executive Board and the Supervisory Board will propose a dividend of EUR 0.51 per share

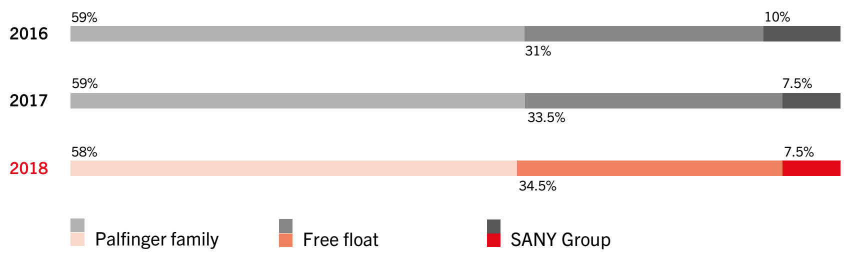
OWNERSHIP STRUCTURE

The Palfinger family, which either directly or indirectly owns approx. 58 per cent of the shares in PALFINGER AG, is PALFINGER's stable core shareholder with seats on the Supervisory Board. In addition, there is a cross shareholding between PALFINGER and the SANY Group, which holds 7.5 per cent in PALFINGER AG. The remaining shares (approx. 34.5 per cent) are in free float. According to the information available to PALFINGER AG, a significant portion of the free float is held by retail shareholders; the majority is held by institutional investors, primarily from Continental Europe.

As the Company's stable core shareholder, the Palfinger family holds approx. 58 per cent of the shares

GRI 102-5

SHAREHOLDER STRUCTURE



How the future looks.

CONSOLIDATED MANAGEMENT REPORT

CONSOLIDATED MANAGEMENT REPORT

STRATEGY AND VALUE MANAGEMENT

- **Long-term growth strategy is based on four pillars**
- **New GLOBAL PALFINGER ORGANIZATION will unlock unused potential**
- **Financial and non-financial targets for 2022 defined**

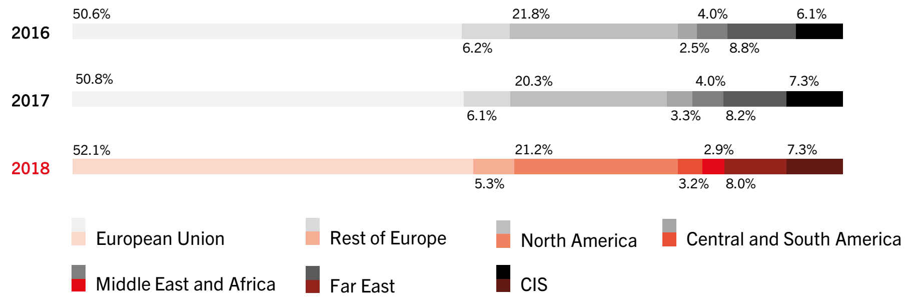
The PALFINGER Group is pursuing a long-term growth strategy based on four strategic pillars – innovation, internationalization, flexibility and PALFINGER 21st. This strategic development follows the vision of designing the future of lifting solutions together with the Company's customers.

PALFINGER has been pursuing sustainable, profitable growth. This means that the business model centres on a long-term increase in revenue and earnings in all industries and customer segments in which PALFINGER operates. Each and every decision is knowledge-based and is made by the Group taking long-term economic, environmental and social aspects into account. PALFINGER sees itself as a responsible employer with eco-efficient production and sustainable products, and is committed to the principles of fair business. Short-to-medium-term goals as well as projects and development programmes support this objective of long-term, profitable growth.

PALFINGER's goal is to become/remain one of the top three players in all product and customer segments in the global markets. In particular outside EMEA, PALFINGER has identified numerous growth opportunities that can create a stronger global balance of business operations.

PALFINGER aspires to be one of the top three market players in all product and customer segments

REVENUE BY REGION
(in per cent)



Sustainable growth is to be achieved above all organically, from PALFINGER's own resources. Acquisitions are not the focus in 2019, although smaller acquisitions or joint ventures cannot be ruled out. Each of these growth steps will be carefully examined.

Growth is to be achieved above all from PALFINGER's own resources; no acquisitions are planned in the near future

PALFINGER's immediate focus is on leveraging further potential within the Group. PALFINGER plans to act with greater efficiency and sustainability in the future, in particular through the consistent integration of all subsidiaries across regions and product segments. With this in mind, a new GLOBAL PALFINGER ORGANIZATION (GPO) was developed in 2018 to reduce the complexity of the Group through clear global structures. In the course of this organizational development, specific goals were also defined.

GRI 102-16

Sustainability and Diversity Improvement Act

Strategic objectives 2022, page 36; GLOBAL PALFINGER ORGANIZATION, page 38

STRATEGIC OBJECTIVE

SUSTAINABLE, PROFITABLE GROWTH

- **Responsible employer**
- **Eco-efficiency in production**
- **Sustainable products**
- **Fair business**

STRATEGY TO MEET THE OBJECTIVE

INNOVATION | **INTERNATIONALIZATION** | **FLEXIBILITY** | **PALFINGER 21st**

IMPACT

PRODUCT GROUPS

LAND
Loader cranes
Forestry & recycling cranes
Stiff boom cranes
Access platforms
Tail lifts
Hooklifts & skiploaders
Truck mounted forklifts
Passenger systems
Bridge inspection units
Railway systems

SEA
Marine cranes
Offshore cranes
Wind cranes
Life & rescue boats
Davits
Special boats
Winches & handling equipment
Rope access

INDUSTRIES

LAND
Construction
Forestry & agriculture
Industry
Infrastructure
Public sector
Railway
Transport & logistics
Waste management & recycling

SEA
Cruise
Marine
Navy & coast guard
Offshore
Wind

REGIONS

European Union
Far East
CIS
Central & South America
Middle East & Africa
North America
Rest of Europe

PRODUCTION SITES

Argentina
Brazil
Bulgaria (2)
China (2)
Germany (4)
France
India
Italy (2)
Canada
Croatia
Norway
Austria (3)
Poland (2)
Romania
Russia (5)
Slovenia
USA (5)
Vietnam

PROMISE

LIFETIME EXCELLENCE

EFFICIENCY | **RELIABILITY** | **INNOVATION**

STRATEGIC PILLARS AND SUSTAINABILITY ASPECTS

PALFINGER's strategy is built on four pillars and takes material sustainability aspects into account

In pursuing its objectives, PALFINGER has relied on the strategic pillars innovation, internationalization and flexibility for many years. In 2017, these were supplemented with PALFINGER 21st as an additional pillar.

Innovation is the basis for PALFINGER's leading global market position in lifting solutions. With this in mind, products and services as well as internal processes and the organization are continuously being reviewed and enhanced. The primary consideration here is always the end customers and their needs.

Internationalization enables PALFINGER to react flexibly to regional market fluctuations. Following numerous acquisitions in recent years, PALFINGER is now focusing on the integration and consolidation of existing structures, which is intended to lead to a global balance of its business operations.

In view of growing customer demands and volatile market developments, enhanced flexibility is a key factor of success. Group-wide development programmes, such as PALFINGER Process Excellence, contribute to making processes more flexible and enable PALFINGER to increase profitability.

PALFINGER 21st is an umbrella term describing the development of customer-oriented solutions and technologies, especially in connection with digitalization and Industry 4.0. PALFINGER 21st is also an independent unit, in which innovative ideas and approaches can be implemented. Within this framework, tomorrow's products and services are to be created through a profound understanding of the customer.

Strategic sustainability aspects

PALFINGER carries out a regular analysis to identify the material aspects of sustainability from both an internal and an external point of view. In 2018, the 13 most relevant topics were again reviewed as to their significance to the Company. According to this review, the most material topics for the success of PALFINGER and its stakeholders have remained the same as in 2017:

GRI 102-47
Sustainability and Diversity Improvement Act
Materiality analysis, page 45; Detailed GRI and sustainability disclosures, page 214

STRATEGIC OBJECTIVES 2022

Priority topics support the achievement of the strategic objectives up to 2022

PALFINGER consistently pursues its strategic objectives, which are linked to priority topics. In the period under review, these objectives were updated and stipulated for the period up to 2022. The Executive Board also defined the following specific goals in connection with the Group's new organizational structure in autumn 2018:

Global number one for lifting solutions

PALFINGER plans to further expand its leading position in the crane industry and enhance its market position in other product areas.

Financial targets 2022

ORGANIC GROWTH OF REVENUE TO APPROX. 2 BILLION EUROS

PALFINGER will strive to increase revenue to EUR 2 billion through organic growth by 2022. This goal is to be achieved through the growth markets of China, Russia, North and South America and by unlocking revenue potential through closer networking within the Group.

10 PER CENT EBIT MARGIN OVER THE ECONOMIC CYCLE

The goal is to achieve an average EBIT margin of 10 per cent over the economic cycle. This means that in years when the economy is slow, the margin may be lower than 10 per cent, whereas in an economic upturn it will have to be higher than 10 per cent.

10 PER CENT ROCE OVER THE ECONOMIC CYCLE

The efficient use of resources is to facilitate a return on capital employed (ROCE) of 10 per cent on the average. Also this goal should be seen as an average over the economic cycle, which is to be achieved through the efficient employment of non-current as well as current operating assets.

Creating added value on a daily basis

PALFINGER wants to provide added value to its customers every day, which means that every employee must add value to the organization as well. This objective is also the basis for reaching all financial and non-financial targets.

The following table presents an overview of the priority topics, the progress made in 2018 and the goals for the period up to 2022.

Detailed GRI and sustainability disclosures, Sustainability programme, page 224

	IMPLEMENTATION IN 2018	OBJECTIVES 2022
Further growth with focus on BRIC countries	• Intensification of cooperation with SANY agreed (Asia and Pacific) • Successful restructuring in Brazil (Central and South America) • Full utilization of production in CIS	• Organic growth of consolidated revenue to 2 billion euros • Making PALFINGER an integrated group • Optimization of the global production network • Participation in the recovery of the Brazilian market • Mitigation of political and currency risks in business area CIS
Development of China as largest single market	• Assumption of operational responsibility in the Sany Palfinger joint venture (SPV) • Adjustment of responsibilities in Asia	• Enhancement of sales structures in China and surrounding countries • Integration of SPV into global production strategy
Global balance regarding production and sales markets	• Development of the GLOBAL PALFINGER ORGANIZATION (GPO) • Deadline for the GPO implementation early January 2019	• Global balance regarding the product and production footprint • Further strengthening of customer proximity in all regions
Strengthening of position in marine business	• Optimization of the production set-up and cost structure • Reorganization of sales and service	• Optimization of the global production network (LAND and SEA) • Optimization of structural costs • Full participation in the recovery of the marine markets
Retention of innovation leadership in all markets	• Continued focus on digitalization • First projects involving PALFINGER 21st and start-ups	• Establishment of PALFINGER 21st as an innovation centre for innovators who think outside the box • Successful completion of PALFINGER 21st projects • Expansion of innovation leadership through PALFINGER 21st
Satisfaction of customer expectations	• Development of GPO • GPO implementation in January 2019 • Customer proximity defined as an organizational requirement	• Successful implementation of GPO • Organic growth of revenue to 2 billion euros • Turnkey solutions
Internal integration	• Introduction of GPO • Analysis of production capacities • Unlocking of additional optimization potential	• Process chain focussing on added value • Reduction of complexity • Successful implementation of GPO
Reinforcement of the employer brand	• Continued establishment of HR Strategy 2020, in particular continued implementation of the HR system, job architecture and competency models • Focus on organizational development and communication	• Achievement of diversity goals (women, nationalities) as well as enhancement and practical implementation of the diversity scheme • Continuous reduction of industrial accidents and employee turnover • Establishment of additional employee-related targets • Establishment of a global learning strategy up to 2022
Responsibility for society and the environment to ensure viability	• Market launch of electric access platforms, electric offshore cranes and davits • Implementation of a product lifecycle assessment of cranes, including costs and CO_2 impact • New long-term efficiency targets for energy and hazardous waste: reduction by 30 percentage points each by 2030 • New target for renewable energy: 75 per cent of the Group's electricity by 2022 • Evaluation and implementation of photovoltaic solutions within EMEA • Consolidation of an organizational structure for safety & quality at group level • Reinforcement of the employer brand	• Establishment of guidelines and guiding principles in the entire Group as well as reinforcement of leadership quality • Consistent observance of the PALFINGER Code of Conduct and introduction of the Code at new sites • Promotion of management systems regarding the environment and occupational health and safety • Gradual approach to the long-term environmental targets up to 2030 • 75 per cent of the Group's electricity to be generated from renewable energy sources • Innovation leadership also in the field of products for ecological and social purposes

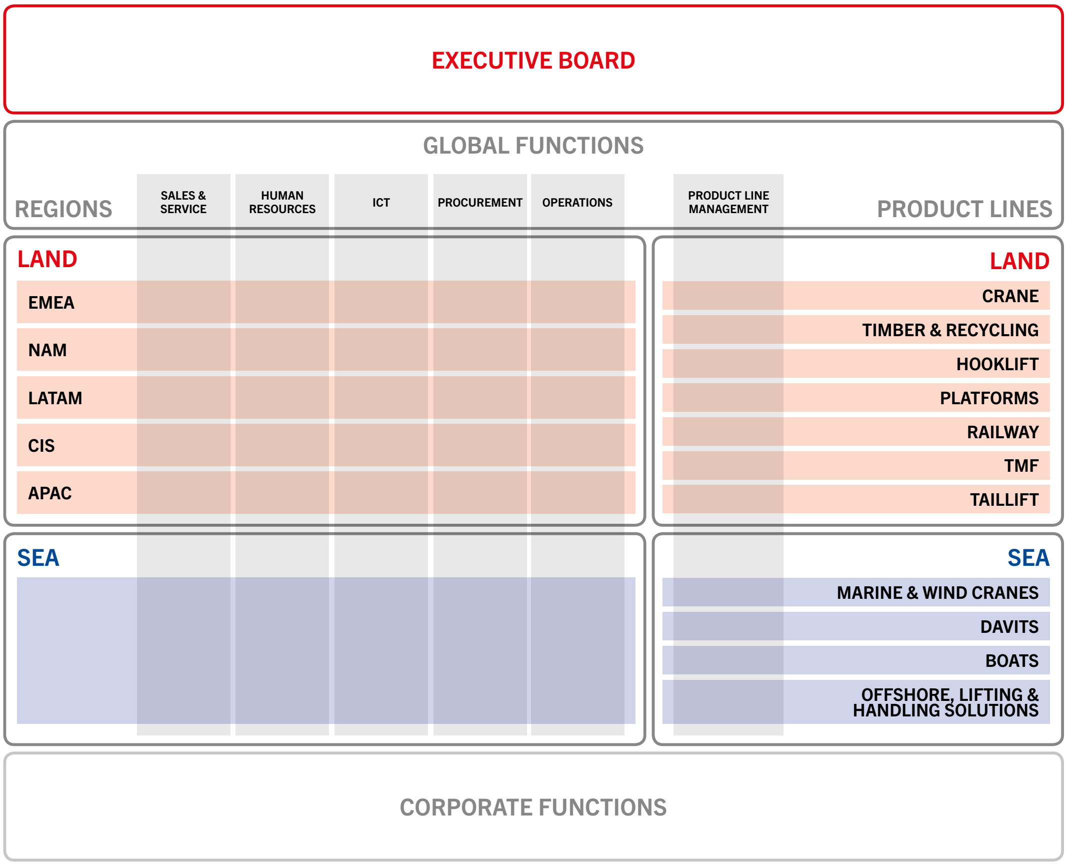
GLOBAL PALFINGER ORGANIZATION

The new organizational structure is built on global structures and cooperation across the areas

In 2018, the new management team carried out an analysis of the organizational structure, which had evolved along with the development of the Group. The results showed the need for change and led to the development of a new structure: The new GLOBAL PALFINGER ORGANIZATION (GPO) aims at enabling and promoting higher efficiency. Preparation was commenced in the summer of 2018, and at the beginning of 2019 the GPO was implemented. The GPO builds on flexible global team structures and stronger cooperation across areas, product segments and regions. With its global structures, it reduces the complexity of the global Group and makes processes simpler and more productive.

Six global functions provide for clear-cut guidance; they report directly to the Executive Board. Special executive projects have also been designated at group level. At an operational level, global responsibilities were created for the individual product lines. The new organizational structure will contribute towards unlocking unutilized potential within the whole Group. The GPO will thus provide valuable support to PALFINGER's further profitable growth. The ongoing group-wide development programmes as well as the restructuring programme in the marine business will be continued within this framework, to be followed by a full integration of the marine business into the GPO after completion of restructuring.
Significant changes within the PALFINGER Group, page 71

Valid from 1 January 2019



Subject to modifications.

In addition, the new corporate function Safety & Quality was established. In line with the significance of safe working conditions, top-quality and safe products as well as efficient quality processes, this function will improve PALFINGER-wide structures of quality and safety. In addition, product safety is closely linked with product planning and development, given that conformity with local and international standards as well as risk avoidance are of relevance to customers and PALFINGER alike. This reinforcement of responsibilities will most likely raise the confidence of customers, investors and insurance companies in PALFINGER's products and services.

Under the GPO, corporate management will, for now only in the LAND segment, follow the division into the functional segments Sales & Service and Operations. Accordingly, segment reporting for the LAND segment will be adjusted from 1 January 2019 onwards, whereas the SEA segment will remain unchanged in 2019. The HOLDING unit, which, as a cost centre, comprises the Group's administrative expenses and strategic projects for the future, will also remain unchanged.

Starting in 2019, segment reporting will be adjusted in line with the GLOBAL PALFINGER ORGANIZATION

Global functions

SALES AND SERVICE

Group-wide management of Sales & Service will lead to a reduction in redundant projects, investments and structural costs. Decentralized projects already initiated will be consolidated, and the partial future integration of the SEA segment into the Sales & Service organization holds additional potential. From a global perspective, the individual regions can thus be better compared and additional growth potential for the existing product portfolio can be identified across regions.

HUMAN RESOURCES

The global Human Resources (HR) function will contribute to the optimization, standardization and, above all, professionalization of HR. A global HR information system enables the reduction of redundant processes and activities and puts the focus on key HR processes. The global management of HR will lead to better planning, recruitment, development and more efficient use of human resources worldwide.

Six global functions facilitate the central management of significant areas

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

The global function Information & Communication Technology (ICT) is responsible for the standardization of ICT systems throughout the PALFINGER Group and the management of these systems on the basis of service level agreements, the development of product-enhancing and product-supporting software, as well as ICT security within the Group. Global management of ICT will lead to better planning, development and application of state-of-the-art methods and the standardization of ICT resources. Moreover, it provides for economies of scale and thus the cost-optimized utilization of resources.

PROCUREMENT

The central control of procurement makes it possible to respond to market fluctuations with greater flexibility and efficiency. It will unlock optimization potential in the global PALFINGER procurement network and at the same time further reduce the risk to the stability of quality, sustainability and delivery performance in the supply chain.

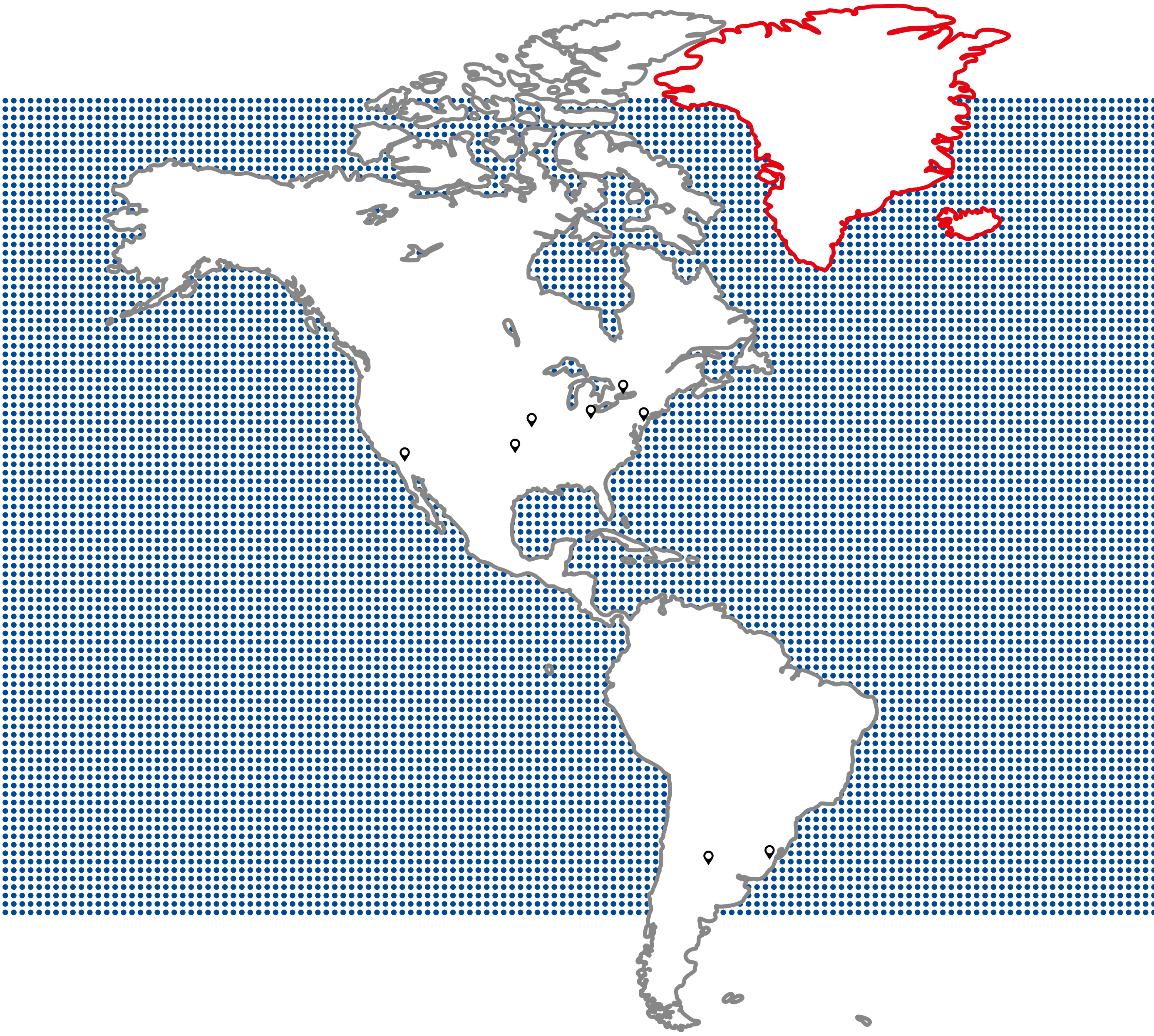
OPERATIONS

The global function Operations will improve the specialization, transparency and thus utilization of all PALFINGER production sites. While global process and production standards are key topics internally, production reliability and an even stronger focus on quality and delivery performance will be the market focus.

PRODUCT LINE MANAGEMENT (PLM)

The global function Product Line Management (PLM) bundles product management and product development in a global matrix organization. Central management supports effective market-oriented product developments across all regions in which the PALFINGER Group operates.

Product Line Management (PLM) is responsible for the management of the entire lifecycle of all products in the respective product line and for the competitive positioning of the various products in all local and global markets. Core areas of competence are bundled in global Centers of Excellence (CoE), which ensure that all product lines have global access to critical research and development expertise and corporate know-how. This will make product development more effective and more efficient, unlocking synergies across all product lines.

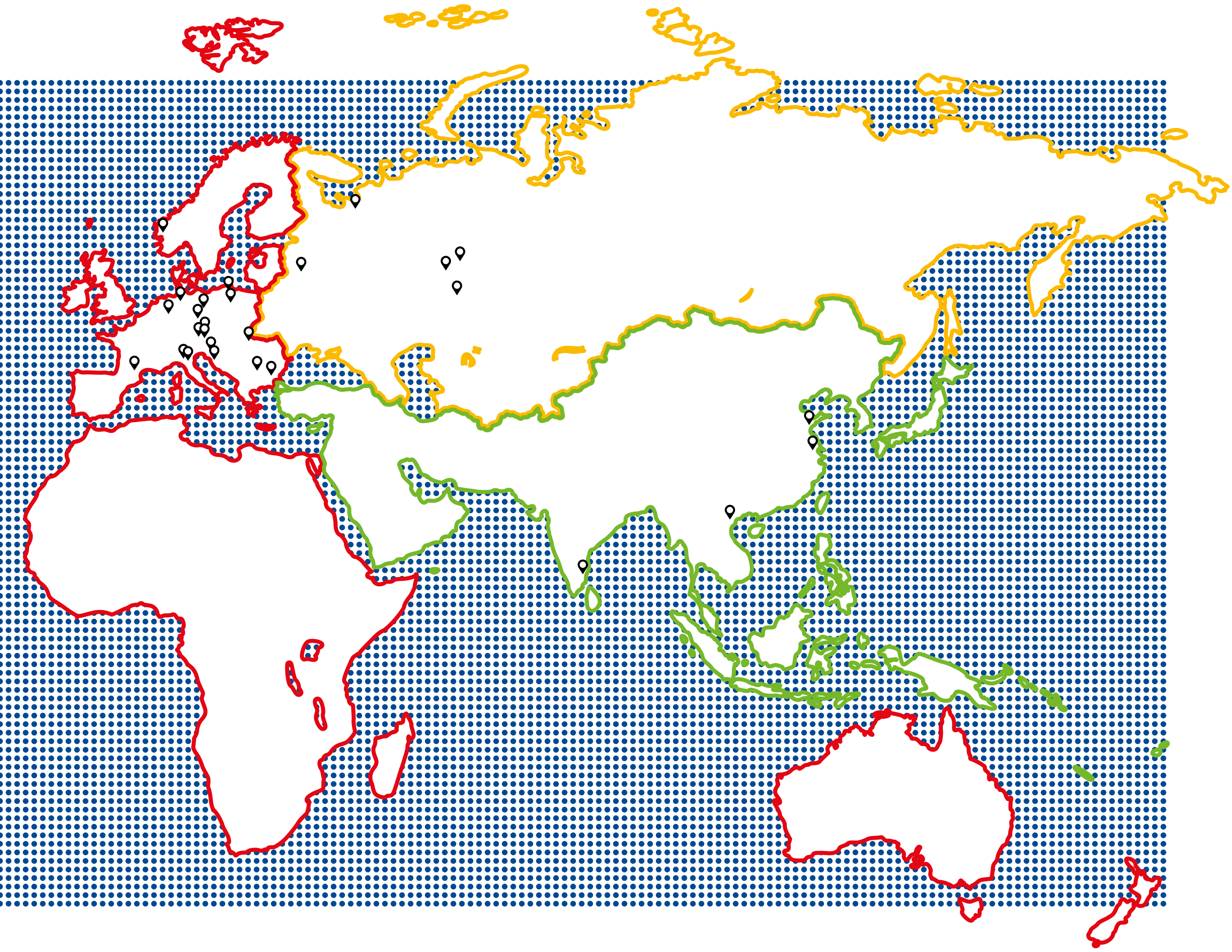


AMERICAS

REVENUE:	EUR 316.2 million
PRODUCTION SITES:	8
EMPLOYEES:	1,415

MARINE

REVENUE:	EUR 216.3 million
PRODUCTION SITES:	6
EMPLOYEES:	1,528



EMEA

REVENUE:	EUR 953.8 million
PRODUCTION SITES:	15
EMPLOYEES[1]:	6,040

CIS

REVENUE:	EUR 94.0 million
PRODUCTION SITES:	5
EMPLOYEES:	1,657

ASIA & PACIFIC

REVENUE:	EUR 35.6 million
PRODUCTION SITES:	2
EMPLOYEES:	140

1) Incl. headquarters.

STAKEHOLDER MANAGEMENT

- **PALFINGER engages its stakeholders and takes their interests into account in a balanced manner**
- **The results of the 2017 materiality analysis were reviewed in the reporting year**
- **The sustainability dashboard shows the status of goal achievement**

Stakeholders

PALFINGER takes into account the consequences of its operations along the entire value creation chain and engages its stakeholders. The relevant aspects have been grouped into the following topics: responsible employer, eco-efficiency in production, sustainable products and fair business.

PALFINGER engages its stakeholders and takes their interests into account

PALFINGER defines its stakeholders as those legal entities and individuals who are in any way affected by its corporate activities and/or whose decisions have an impact on the Company. PALFINGER's approach to addressing individual interests and claims is as balanced as possible. For this purpose, PALFINGER regularly carries out comprehensive stakeholder surveys within the scope of the materiality analysis, most recently in 2017. The most relevant stakeholders, communication with them, and stakeholder engagement are described briefly in the following and in greater detail in the relevant chapters.

GRI 102-21, 102-40, 102-42, 102-43, 102-44
Sustainability and Diversity Improvement Act
Materiality analysis, page 45

LOCAL ENVIRONMENT

PALFINGER engages itself in the regions as a business partner, employer and at a social level

PALFINGER wants to be recognized as a reliable partner and an attractive employer in the regions in which it operates. This means that PALFINGER relies especially on regional suppliers and partners. Dialogue with these partners is transparent and takes place on an equal footing. Regional decision-makers appreciate direct contact; communication measures also include regional media relations as well as participation in and/or the hosting of events. Voluntary investments in public welfare are made centrally and at the local level; for this purpose, a certain budget is allocated to all managers of PALFINGER plants worldwide.

GRI 413-1
Sustainability and Diversity Improvement Act
Commitment, page 50

MONETARY FLOWS TO STAKEHOLDERS

The stakeholders participate in PALFINGER's economic success

All stakeholders make a valuable contribution to PALFINGER's success. Employees, suppliers, owners, banks and public authorities also participate in the Group's income. PALFINGER's income comprises, first and foremost, revenue, but also income from other services, from leases and from the sale of assets, as well as interest income. This directly generated economic value increased from EUR 1,476.3 million in 2017 to EUR 1,620.0 million in the 2018 financial year. The economic success generated the following monetary flows to stakeholders:

In 2018, suppliers received payments in the total amount of EUR 1,006.2 million (previous year: EUR 926.9 million) for various services and supplies such as raw materials, parts and components, plants, operating supplies and energy. This accounted for the largest monetary flow to a group of stakeholders.

EUR 422.7 million (previous year: EUR 400.2 million) was paid to employees as wages and salaries, an increase of 5.6 per cent compared to the previous year. This is the Company's second-largest monetary flow, which is primarily due to PALFINGER's expanded production in EMEA and Americas.

Payments to lenders such as banks, investors and the Palfinger family comprise interest and dividends. PALFINGER pursues a consistent dividend policy, which provides that approximately one third of the annual profit is to be distributed as a dividend. In the 2018 financial year, payments to equity and debt providers came to EUR 37.5 million (previous year: EUR 43.2 million).

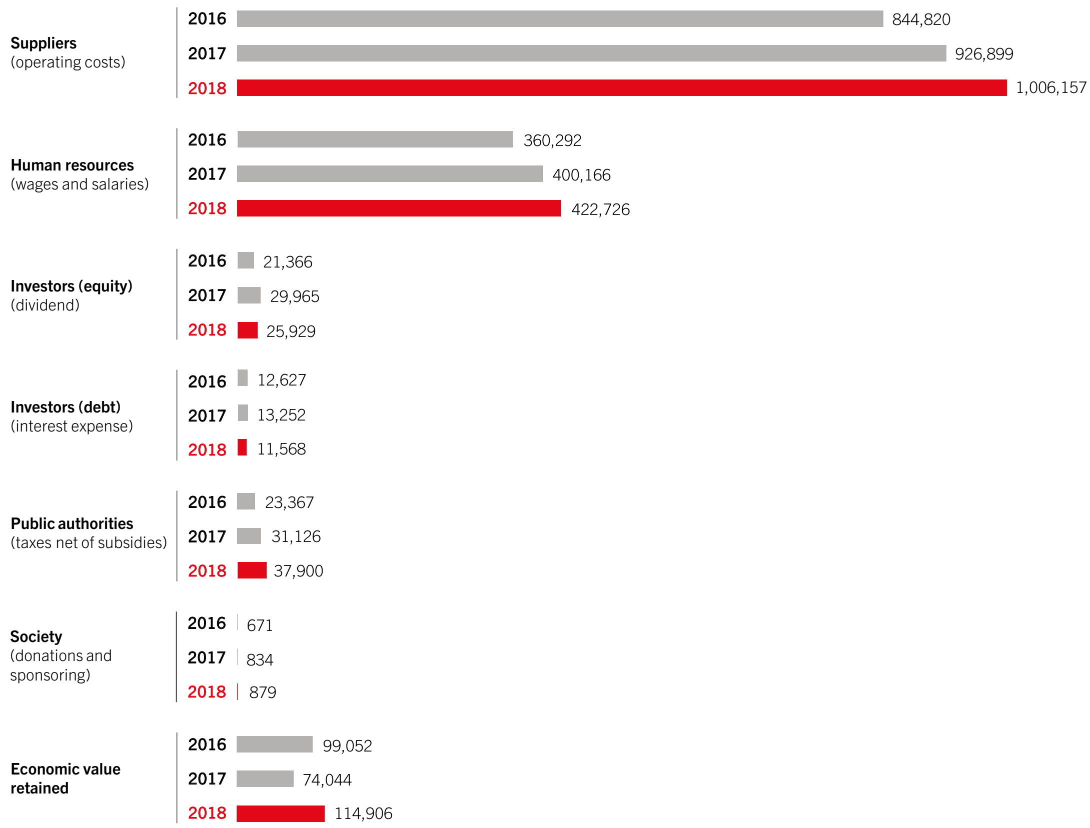
In 2018, payments to public authorities increased by approx. 16 per cent and comprised taxes other than those on income, for example property tax, and income-based taxes such as corporation tax, net of investment or research and development grants. In the period under review, the tax expense increased to EUR 40.1 million (previous year: EUR 33.8 million). Subsidies decreased to EUR 2.2 million (previous year: EUR 2.7 million). To PALFINGER, making fair tax payments is a matter of social responsibility; no profits are shifted to countries with lower income tax rates, e.g. through specific pricing policies for intra-company services and deliveries. The Group has a standardized transfer pricing model in line with the OECD Transfer Pricing Guidelines and hence also with market prices. PALFINGER does not use any special-purpose entities to avoid tax payments. A major portion of the Company's tax payments is made in Austria, where a large percentage of PALFINGER's value added is created. The value creation chain and the logistic processes are of overriding importance, meaning that even though subsidies are a welcome support, they hardly influence investment decisions or decisions in favour of a particular site.

Investments in the public good in society and in local environments increased by 5.4 per cent. In total, expenses for donations and sponsoring came to EUR 879 thousand in the 2018 financial year (previous year: EUR 834 thousand).

In total, these monetary flows account for a monetary value paid out in the amount of EUR 1,505.2 million (previous year: EUR 1,401.4 million). The difference between income and monetary flows to stakeholders results in the monetary value retained, which increased by approx. 36 per cent as compared with the previous year and is reported in the chart below. It should be noted that the economic value retained does not contain any amounts relating to companies recognized at equity, as these do not constitute monetary flows.

Detailed GRI and sustainability disclosures, page 214

MONETARY FLOWS TO STAKEHOLDERS[1] (EUR thousand)
Direct economic value generated and distributed



1) The above are exclusively actual monetary flows derived from the income statement that have occurred in the respective year. This explains any differences that may exist with regard to the income statement presented in the Integrated Annual Report.

GRI 201-1

Sustainability management

Sustainability management is implemented group-wide using a structured approach

Sustainability is integrated into the strategy of the PALFINGER Group, and the management is committed to its group-wide professional implementation. Sustainability management falls within the responsibility of the CEO. The head of sustainability management is part of the corporate marketing, communications & sustainability department and communicates directly with the Executive Board.

MATERIALITY ANALYSIS

In the materiality analysis carried out in 2017, the material economic, social, ecological and ethical aspects that are of strategic significance to the Company, both from an internal and an external perspective, were defined in a multi-stage process, including a stakeholder survey. These topics of material significance are reflected equitably in PALFINGER's sustainability areas: responsible employer, eco-efficiency in production, sustainable products and fair business. This evaluation is based on the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). In addition, the Austrian Sustainability and Diversity Improvement Act was taken into consideration.

In a multi-stage process, material topics were defined from an internal and external perspective

In the reporting period, the sustainability team organized casual meetings called "respressos" (responsibility and espresso). Almost 60 one-on-one talks over a cup of coffee were held with different persons to find out about their general expectations towards sustainability.

In 2018, the 13 most important sustainability topics from the materiality analysis 2017 were reviewed internally with regard to their significance. This resulted in a shift within the topics. Five topics were assigned a greater significance for stakeholders or a higher impact:

• Health & safety: (greater significance)
Under the new GLOBAL PALFINGER ORGANIZATION, the corporate function Safety & Quality was established, dealing specifically with occupational health and safety as well as quality matters.

• Product lifecycle: (greater significance, higher long-term impact)
The total costs over the lifecycle of a PALFINGER product are increasingly being considered. Also with regard to PALFINGER 21st, the product lifecycle will play a greater role and have an impact on the Company's business policy.

• Corporate culture and values: (greater significance)
The new GPO has the goal of creating an integrated group. This requires a corporate culture with uniform values.

• Compliance with legal and ethical standards: (greater significance, higher long-term impact)
Due to increasing regulations, various stakeholders are showing an increased interest in compliance topics. At the same time, compliance with additional regulations has a long-term effect on PALFINGER's strategic orientation.

• Industry 4.0 and digitalization: (higher long-term impact)
The digital transformation is already having an impact on everyday work and product use, and digital business models for PALFINGER are increasingly being analysed as part of the strategic pillar PALFINGER 21st. In the future, corporate digital responsibility will also become a topic for PALFINGER and its customers.

Despite the increased significance of the above topics, the total ranking of the material aspects did not result in any significant changes as compared to the previous year. Product safety as well as research and development continue to be the topics with the greatest significance and highest impact.

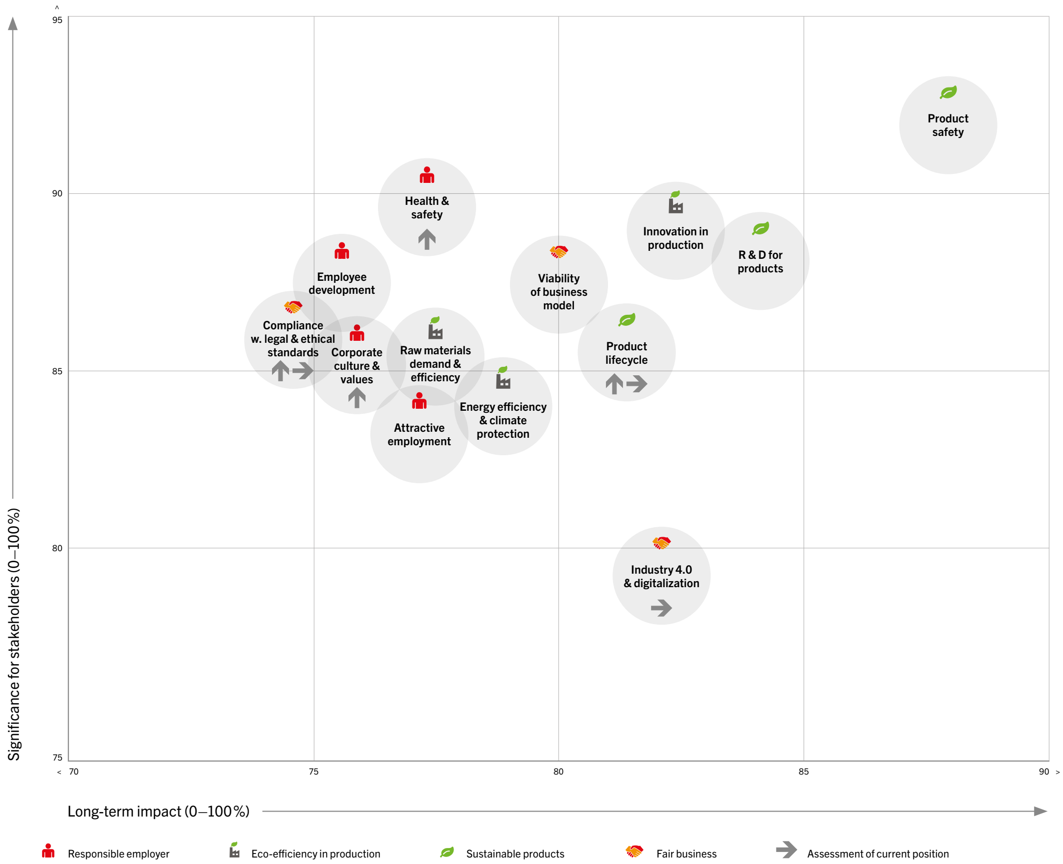
The review of the 13 sustainability topics brought no significant changes

The chart shows the 13 material sustainability topics classified by significance to stakeholders (Y-axis) and long-term impact (X-axis), as well as the changes in 2018 (arrows). Stakeholder communication and measures are based on this analysis.

GRI 102-46, 102-47, 102-48, 102-49, 103-1

Sustainability and Diversity Improvement Act

Value creation, page 54; Detailed GRI and sustainability disclosures, page 214



SUSTAINABILITY INDICATORS AND TARGETS

The non-financial indicators are in line with the results of the materiality analysis. Internal reporting structures and systems are integrated into financial reporting; data are collected on a monthly or quarterly basis. The top management is informed regarding the development of these key figures as well as any other relevant developments at least on a quarterly basis. PALFINGER's aim is to further raise the quality of information and decision-making tools for the Company.

All figures for the year 2018 have been compared to those for the previous year. Comparisons of key performance indicators (KPIs) are presented over a period of three years. The consolidated management report provides aggregated KPIs at group level; detailed reporting can be found in the detailed GRI and sustainability disclosures.

In human resources, PALFINGER pursues four quantitative goals relating to employee turnover, staff absences and diversity

In 2016, two long-term human resources targets were defined: at all times, to keep employee turnover below 10 per cent and to keep staff absences due to industrial accidents below 0.11 per cent. These two targets were not achieved in 2018. Two quantitative goals to be achieved by 2022 reinforce the diversity scheme: The first is to raise the percentage of non-Austrians working at headquarters to 20 per cent; here PALFINGER made great progress in 2018. The second is to increase the percentage of women in top management positions until it corresponds to the percentage of women in the overall headcount of the Group; PALFINGER came closer to achieving this latter objective in the reporting period as well.

In the environmental domain, PALFINGER added three long-term goals to its agenda in 2018

In the environmental domain, ever since 2014 PALFINGER has set itself the annual goal of improving energy efficiency and reducing hazardous waste by 1.8 percentage points each (as measured by the index). Energy efficiency was generally improved in 2018; hazardous waste was reduced in comparison with the previous year, however, the level is still quite high. In November 2018, PALFINGER defined two additional long-term goals for energy efficiency and hazardous waste, namely a reduction of 30 percentage points each to be reached by 2030 (base year 2015). PALFINGER will initiate further measures to reach these long-term goals. In 2017, a 25 per cent reduction of production-related CO_2 emissions compared to the base year 2015 was defined as a long-term target to be reached by 2030. Corresponding measures are having an effect, however further measures must be taken to reach this goal.

Another topic was added as a new long-term target in 2018: by 2022, 75 per cent of the Group's electricity is to be generated from renewable energy sources. In the reporting period, the figure was almost 30 per cent; additional conversions are scheduled to take place in the years to come.

The following charts present an overview of the targets as well as the current status. The detailed results and measures are described in the corresponding chapters.

1) Interim goal for 2018.

Responsible employer, page 86; Eco-efficiency in production, page 102;
Corporate governance report, Diversity scheme, page 120

SUSTAINABILITY PROGRAMME

The sustainability programme supports the targets and is adopted by the Executive Board annually

The Executive Board cooperates with other executives in defining the strategy, policies and values of the Company. The results of the materiality analysis as well as the sustainability programme and targets are adopted by the Executive Board. This forms the basis for sustainability workshops and reporting. The individual measures that form PALFINGER's sustainability programme are broken down according to the four sustainability areas. The purpose of these measures is to contribute to achieving the qualitative and quantitative goals set by PALFINGER and to support the most relevant Sustainable Development Goals (SDGs). The following table presents a condensed overview of the programme.

GRI 102-18, 102-19, 102-20, 102-32
Sustainability and Diversity Improvement Act
Investor relations, Ratings, page 30; Materiality analysis, page 45; Corporate governance report, page 116;
Detailed GRI and sustainability disclosures, page 214
www.palfinger.ag/en/sustainability

RESPONSIBLE EMPLOYER

Measures	SDG	Status	Goal
Health & safety	3		
Uniform global definition of accidents and uniform reporting		⊗	2018
Expansion of PALfit		⊘	2019
Global health initiative		○	2019
Employee development	4 8		
Coaching for executives		●	2018
Expansion of employee development		⊘	2020
Learning strategy		○	2022
Global leadership framework & programme		○	2020
Attractive employment	4 5 8		
Establishment of employer branding strategy		⊘	2019
Personnel marketing		◒	2019
On-boarding process		⊘	2019
HR strategy		◒	2020
HR system		◒	2020
Job architecture		◒	2019
Corporate culture & values	8		
Focus on corporate culture and vision		●	2018
Organizational structure		○	2019
Diversity & equal opportunity	5 10		
PALversity project "Recruiting"		⊗	2018
PALversity project "Working Conditions"		⊘	2020
PALversity project "Talent Management"		⊗	2018
Diversity scheme		◒	2022
Communication with employees	10		
New intranet		⊘	2019
Communication strategy and concept		○	2019

SUSTAINABLE PRODUCTS

Measures	SDG	Status	Goal
Product safety			
Product data tracking for safety		○	2020
Product research & development	9 13		
R&D process		○	2020
Training of R&D employees		○	2020
Product lifecycle	12		
Lifecycle approach		●	2018
Lifecycle app		○	2019
Business model innovation (TCO)		○	2020
Environmentally friendly products	12 13		
Low impact product definition		○	2020
CO_2 emissions in product use		○	2019
PALfluid		○	2020
Product information & fair marketing			
Review of dealer standards		●	2018
Operator's guides and training		●	2018
End customers in the system		◒	2020

ECO-EFFICIENCY IN PRODUCTION

Measures	SDG	Status	Goal
Innovation in production	9 13		
R&D process		○	2020
Energy efficiency & climate protection	13		
Paint shops and powder coating plants		●	2018
Modernization and expansion of plants		●	2018
Greenfield investments marine business		⊗	2018
Energy efficiency Russia		◒	2019
E-mobility		●	2018
Exchange on environmental topics		⊘	2019
Photovoltaic systems		◒	2020
Heating degree days		●	2018
Climate strategy		○	2019
Renewable energy		○	2022
Raw material demand & efficiency	12		
Steel supplier evaluation		○	2019
Waste cuttings rate		○	2019
Effluents & wastes	12		
Reduction of hazardous waste		◒	2019
Environmentally friendly transport			
CO_2 emissions in transport		○	2019

FAIR BUSINESS

Measures	SDG	Status	Goal
Viability of the business model	8 9		
Marine business as second mainstay		⊗	2018
GLOBAL PALFINGER ORGANIZATION		○	2022
Compliance with legal & ethical standards	5 8 10 16		
Training in corporate ethics for new employees		●	2018
Corporate audit		●	2018
Compliance training		○	2020
Compliance risk analysis		○	2020
Human rights assessment		○	2019
Code of Conduct review		○	2020
Data protection		○	2019
Industry 4.0 & digitalization	9		
PALFINGER 21st		◒	2019
Overall performance			
PALdrive platform		○	2020

SUSTAINABILITY MANAGEMENT

Measures	Status	Goal
Group conference for environmental and health officers	●	2018
Targeted stakeholder communication	⊘	2019
Sustainable Development Goals and Science Based Targets	●	2018
Sustainability vision	◒	2019
Facility management	●	2018
Concept for health, safety, quality and environment	○	2020
Merchandising fan shop	○	2020

○ New ◒ In preparation ● Completed ⊘ Deferred ⊗ Cancelled

Priorities:

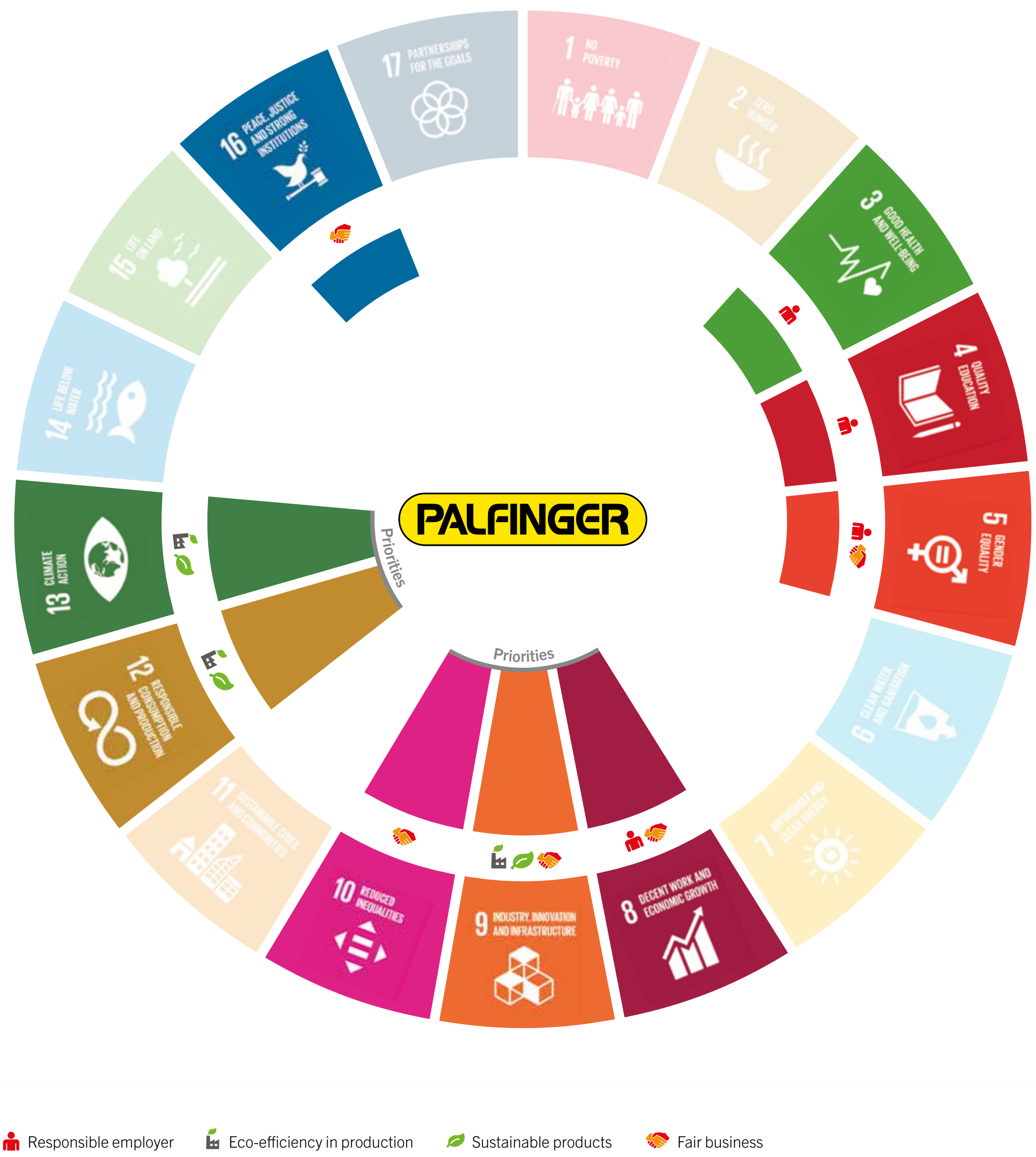
SUSTAINABLE DEVELOPMENT GOALS

The United Nations' 2030 Agenda for Sustainable Development contains 17 global Sustainable Development Goals (SDGs), which were adopted by the UN General Assembly in September 2015 and also signed by Austria. The purpose of the SDGs is to address the global challenges we face, promote prosperity and protect the environment. PALFINGER is committed to sustainable development and has incorporated the SDGs into its business operations.

PALFINGER's most significant impact relates to five Sustainable Development Goals

The direct and indirect impacts of the catalogue of topics relevant to PALFINGER on the 17 SDGs were discussed in a multi-stage process: In 2016, the effects of the material sustainability topics on the SDGs were analysed internally. The significance of the development goals for PALFINGER was one topic that was addressed in the stakeholder survey of 2017, which confirmed the SDGs from the initial analysis carried out in 2016. According to this survey, PALFINGER's top 13 sustainability topics have a direct impact on nine SDGs. The most significant impact of PALFINGER relates to five development goals, which will influence the strategic direction of the Company's sustainability management in future.

Detailed GRI and sustainability disclosures, Impact table, page 218



Commitment

PALFINGER's social commitment centres on continuity and takes a long-term perspective

PALFINGER assumes an active role in shaping standards and guidelines regarding products, becomes involved through its memberships in various associations, and cooperates with several educational organizations and institutes. As a Climate Alliance enterprise, PALFINGER is committed to protecting the environment. Through its Code of Conduct, the Group embraces and supports the UN Global Compact and thus undertakes to adhere to the UNGC's core values in the areas of human rights, labour conditions, the environment and anti-corruption. Within the scope of its global operations, PALFINGER has initiated training programmes, also in cooperation with local institutions.

For many years, PALFINGER has been a partner of AMREF and ICEP – the Institute of Cooperation for Development Projects – as well as the latter's corporAID initiative. Moreover, PALFINGER is a member of the Austrian sustainability network respACT and Cercle Investor Relations Austria (C.I.R.A.).

PALFINGER's commitment is, for example, reflected in its donations and sponsoring activities. These are mostly of a financial nature, and amounted to EUR 879,354 in 2018. When it comes to the sponsoring of sports, culture and charities, PALFINGER attaches great importance to continuity and long-term commitment.

GRI 102-12, 102-13

Sustainability and Diversity Improvement Act

SPONSORING

PALFINGER uses sponsoring to enhance brand awareness, staff motivation and customer relationship management. For many years, PALFINGER has maintained partnerships with the athletes Jochen Hahn (five-time European champion in truck racing), Heinz Ollesch (multiple winner of the competition "Germany's Strongest Man"), the ice hockey team EC Red Bull Salzburg (six-time Austrian champion) and Thomas Geierspichler (Paralympic gold medallist, multiple world champion and European champion in wheelchair marathon). In early 2019, PALFINGER sponsored the KAMAZ-Master truck racing team at the Dakar Rally in Peru for the first time.

DONATIONS

PALFINGER does not make any donations to political parties or political organizations

At PALFINGER, donations are defined as voluntary investments in the common good for which no compensation is received. As a matter of principle, PALFINGER does not make any donations to political parties or political organizations; this is laid down in an internal group guideline. Money is donated locally; PALFINGER's plant managers worldwide are given a certain budget for donations. Donations are direct aid given to the intended target groups, and administrative and organizational expenses should be low but efficient. To PALFINGER, commitment means that the successful deployment of funds is monitored. PALFINGER wants its employees to take pride in its social commitment.

PALFINGER has supported the non-profit organization AMREF (African Medical and Research Foundation) since 1992. AMREF has committed itself to the objective of improving medical care for the poorest and most disadvantaged people in Africa in the long term. AMREF develops health projects in close cooperation with African communities.

For 15 years, PALFINGER has been a partner of the Salzburg children's cancer charity "Kinderkrebshilfe Salzburg". This organization strives to improve the situation for children suffering from cancer and for their families. One particular highlight is the annual traditional sports car outing for and with young cancer patients, which took place for the 15th time in 2018. PALFINGER provides organizational and financial support for this event.

In addition, in 2018 PALFINGER gave donations to other charities, such as Caritas, Ein Funken Wärme and Ö3 Weihnachtswunder as well as to the hospital Barmherzige Brüder in Salzburg, to help children and young people, and thus supported projects to fill basic needs such as water, food or medical care.

PALFINGER also assumed a two-year sponsorship for a female cheetah at the Salzburg Zoo. Cheetahs are listed as vulnerable on the IUCN Red List. They are dynamic, fast animals, which makes them an appropriate choice for PALFINGER. PALFINGER's employees were involved in the sponsorship and in the name-finding process.

GRI 201-1, 413-1, 415-1

Monetary flows to stakeholders, page 43

Awards

PALFINGER's achievements to the benefit of its stakeholders have been recognized time and again in the form of Austrian and international awards.

PALFINGER received awards for its products, economic performance and communication

PRODUCTS

In 2018, PALFINGER won the ETM Award "Best Brand" in the loader crane category for the fourth time in succession. Almost 13,000 readers of the German journals lastauto omnibus, trans aktuell, FERNFAHRER and eurotransport.de voted on the best commercial vehicles and brands. The annual ETM Award is regarded as the benchmark in the commercial vehicle industry. The competition has been held since 1997 according to a uniform process, which allows for long-term comparisons between competitors.

BUSINESS AND COMMUNICATION

In 2018, the ALC (Austria's Leading Companies) Award once again recognized PALFINGER as one of the most successful Salzburg-based companies.

PALFINGER's Annual Reports have won numerous national and international awards for many years. Internationally, in the Annual Report Competition (ARC) in New York, the 2017 Integrated Annual Report won three gold, two silver, one bronze and two honors awards for written text and graphic design. The Report also won first place in the category "Integrated Reports" of the Austrian Sustainability Reporting Award (ASRA) for the fifth time in succession.

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VALUE MANAGEMENT

- **Indicators for 2018 confirm strategy of profitable growth**
- **Global production network facilitates efficiency and optimum customer solutions**
- **The PALFINGER brand promises LIFETIME EXCELLENCE**

PALFINGER measures its long-term group development progress by means of financial and non-financial indicators. The value enhancement achieved is first shown by operating profitability and revenue increase. The medium-to-long-term success is measured by other indicators such as capital employed, the health of employees and environmentally friendly business operations.

Since the beginning of 2018, capital employed and its influencing factors (first and foremost net working capital) have been increasingly used for corporate management purposes. For the purpose of managing current capital lockup, capital employed is replacing the previously used indicator, current capital ratio, which was difficult for investors and analysts to understand. Significant indicators are therefore:

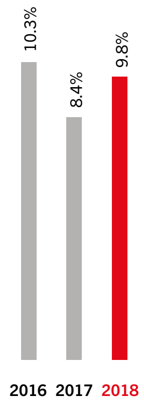
- Revenue increase
- EBITDAn margin
- EBITn margin and EBIT margin
- Net working capital
- Return on capital employed (ROCE)
- Staff absences due to industrial accidents
- Absentee rate due to sick leaves, occupational diseases and other causes
- Energy consumption in relation to revenue

PALFINGER's focus is on the long-term development of financial and non-financial indicators

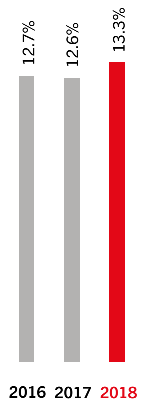
PALFINGER strives not for short-term success but rather for sustainable, profitable growth, which is why the focus is on the long-term development of these indicators. Since the difficult year 2009, the PALFINGER Group has shown a consistently positive record of the financial indicators – with the exception of 2017 in connection with the impairment of goodwill in the SEA segment. Following the high revenue increases of previous years, revenue rose again in 2018 by 9.8 per cent. The EBITDAn (EBITDA normalized by restructuring costs) margin rose to 13.3 per cent, the EBITn (n=normalized) margin went up to 9.8 per cent, and the EBIT margin came to 7.9 per cent. In the reporting period, average net working capital increased to EUR 334.8 million, primarily as a result of higher inventories and the reclassification of 2.5 per cent of the shares of Sany Lifting Solutions to current assets in the course of the repurchase of shares by Sany Automobile Manufacturing. Due to the retrospective need for impairment for 2017 (AFREP finding), ROCE for 2017 significantly decreased from 7.5 per cent to 1.7 per cent. In the reporting period, ROCE was at 8.5 per cent. The ongoing initiatives are designed to improve these indicators, in particular profitability and return on assets.

The economic significance of integrated sustainability management is also reflected in the following non-financial indicators: The absentee rate due to sick leaves, occupational diseases and other causes as well as staff absences due to industrial accidents slightly increased to 4.09 per cent of regular working time in the reporting year (previous year: 3.88 per cent). This rise in the absentee rate and staff absences of 0.21 percentage points translated into additional costs of approx. EUR 500,000 compared to 2017.

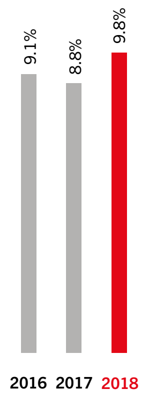
The index of energy consumption in relation to revenue improved again in 2018 (decrease of 11.4 percentage points), which corresponds to savings on electricity and gas in the amount of approx. EUR 1,190,000 (previous year: EUR 170,000).



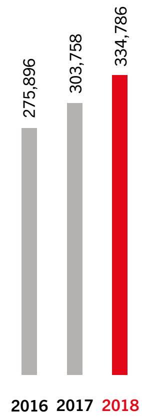
REVENUE INCREASE
(in per cent)



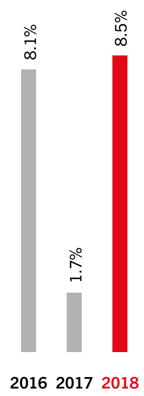
EBITDAn MARGIN
(in per cent)



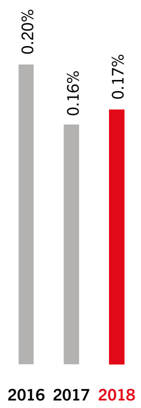
EBITn MARGIN
(in per cent)



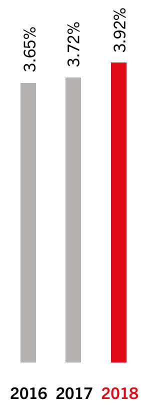
NET WORKING CAPITAL
(EUR thousand)



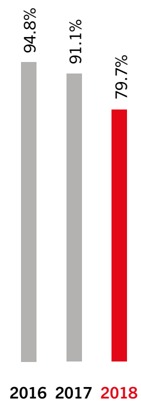
ROCE
(in per cent)



STAFF ABSENCES DUE TO INDUSTRIAL ACCIDENTS
(in per cent)



ABSENTEE RATE DUE TO SICK LEAVES, OCCUPATIONAL DISEASES AND OTHER CAUSES
(in per cent)



INDEX: ENERGY CONSUMPTION IN RELATION TO REVENUE
(volume 2013 = 100%)

Sustainability management, page 44

Value creation

PALFINGER takes a holistic approach towards value creation: from suppliers to end customers

Satisfying customer needs is the central element of the value creation chain at PALFINGER. This requires a holistic approach, ranging from suppliers to end-customer support. PALFINGER's strategy and operating areas are therefore geared towards sustainable business operations and solutions that satisfy customers. The new GLOBAL PALFINGER ORGANIZATION helps to create a global manufacturing network that supports this strategy.

REGIONAL AND GLOBAL ORIENTATION

PALFINGER's value-creation network currently comprises 35 production sites worldwide with regional procurement structures. The combination of local manufacturing and procurement in markets that vary from region to region and synergies from globally aligned product lines with homogeneous manufacturing capabilities is a key component of the value creation strategy.

Regional proximity to its customers allows PALFINGER to anticipate the relevant needs and requirements and incorporate them into the various phases of value creation. The effective global value-creation network ensures efficient implementation. On this basis, the flexibility of the global production structures was further enhanced in 2018 under the Global Product & Production Footprint Initiative: In the loader crane product line, some models can already be produced in several plants. This higher flexibility opens up major opportunities for balancing global capacities.

In 2018, the global value-creation network was expanded and its flexibility enhanced

To alleviate strained capacity situations that were occurring at times in internal value creation and on the part of suppliers, the basic capacity of some plants was adjusted and new suppliers were qualified. Similarly, additional investments were made in infrastructure and machinery in an effort to meet requirements of quality, supply and costs.

Another relevant topic was the continuation of process standardization by means of the initiative PALFINGER Process Excellence 2018. The processes being standardized constitute the foundation for a uniform system landscape and are also a key factor in reducing process costs and implementing digital smart-factory and smart-product solutions.

The PALFINGER Production System (PPS) is based on lean management. The term "lean" in this context refers not only to methods but also to corporate culture. In the period under review, PALFINGER launched a PPS expert training programme combining project-based technical and theoretical training with intensive coaching, in order to embed this system in the whole Group. The business culture of continuous improvement is thereby being better integrated into all corporate areas, which enables PALFINGER to fulfil its social and ecological responsibilities and pass these improvements on to its customers.

The PPS training programme also highlights the significance of PALFINGER's ability to innovate: Digital innovations have helped to identify waste in processes and to make it transparent and ultimately eliminate it. For this reason, "lean" and Industry 4.0 are complementary topics for PALFINGER, which is why they were comprised into the new concept PPS.connected. Humans, machines and data form a network system for continuous improvement. In cooperation with universities, start-up hubs and additional partners, numerous promising ideas were discussed and validated in prototype applications in 2018. Some of these applications are scheduled to be implemented on the shop floor in 2019.

LAND segment

EMEA

The lion's share of the production network is located in EMEA. The core element of value creation in EMEA constitutes the components factories supplying various product lines and assembly plants. The assembly plants of the individual product lines supply customers in EMEA, while at the same time being suppliers for sales organizations outside this region.

PALFINGER is pursuing its strategy to shift uncomplicated and repetitive operations as well as the manufacture of components to low-wage countries, where investments are being made in infrastructure, machinery and the training of employees. In Cherven Brjag (BG), existing value streams were adjusted and logistic processes optimized, following the expansion of production space in 2017. In addition, capacities and production volumes in Lazuri (RO) were increased in 2018 by adding a manufacturing hall and two more electroplating plants. Driven by strong demand, investments were made in machining centres at the plant in Maribor (SI), and a hall extension was built for the assembly of marine systems. The site in Tenevo (BG) was most severely affected by capacity utilization. In order to be able to switch from three-to-four shift models to two-to-three shift models in the long term, PALFINGER initiated investments in extra production space, processing machines and painting technology. This expansion will be completed by the end of 2019. At the site in Delnice (HR), the expansion of the plant for the manufacture of larger steel components was started; operations will start in 2019.

Production at Welwyn Garden City (UK) was moved to Ganderkesee (DE). The Seifhennersdorf (DE) plant will be increasingly utilized for the manufacture of aluminium and thin sheet metal components. To enhance efficiency, value streams were reviewed in consideration of lean aspects.

Capacity utilization at the plants in Austria was highly satisfactory as well. Due to bottlenecks occurring with external and internal suppliers, assembly plants only met delivery times to a limited degree, especially in the summer months. Late in 2018, the backlog was reduced and the observance of delivery times improved. In the manufacturing plant at the site in Lengau (AT), investments have been continued in the automation of welding processes. The Köstendorf (AT) site underwent the biggest changes: due to promising market potential, particularly in railway systems, investments were made in production and office space in 2018.

In order to sharpen its profile as a one-stop shop, PALFINGER has been investing in mounting capacities for complete vehicles. A Mounting Competence Center was recently set up at the site in Lengau (AT), and the mounting site in Elesa (ES) was modernized and received a new paint shop. In 2019, PALFINGER will further expand capacities by means of a new mounting centre in Poland.

In the EMEA business area, PALFINGER has been investing in mounting centres for one-stop-shop solutions

Americas

In North America, capacity utilization was satisfactory at most of the plants in 2018. At the site in Council Bluffs (US), PALFINGER also used the rising demand for efficiency enhancement projects. Local value added in tail lifts was realized at the sites in Council Bluffs and Cerritos (US). Changing market requirements for this product line necessitate further adjustments to the value-creation and supplier structure.

Despite the lingering difficult market environment, significant improvements were achieved in South America. At the plant in Caxias do Sul (BR), the launch of products was promoted with a view to the global footprint.

In the Americas, greater efficiency and synergies in the value creation chain were priorities

CIS

In 2018, demand in the CIS business area was somewhat more stable than in 2017. Demand for forestry and recycling cranes, in particular, ensured satisfactory capacity utilization in the respective plants. The consolidation of production processes and component supplies among the sites continued to be at the top of the agenda. All plants are in the process of ISO (re-)certification.

The global value-added footprint is also being implemented in the business areas Asia and Pacific, and CIS

In mid-October, the cylinder manufacturing plant of the joint venture with KAMAZ in Neftekamsk (RU) received the ISO 9001:2015 certification of TÜV Rheinland. All in all, the performance of the plant has been highly positive and the plant also supplies cylinders to the assembly sites in Europe. At the site in Archangelsk (RU), the production space was condensed to approximately one third of the company premises and primarily contains a foundry as well as a small welding area. In Velikiye Luki (RU), PALFINGER invested in machinery and infrastructure: A warehouse for raw materials was completed, communal rooms were renovated and laser cutting capacities were expanded. Investments were also made in mechanical processing technology.

In Ishimbay (RU), considerable work was done in connection with the implementation of the global footprint. As a result of the implementation of the paint shop strategies for Ishimbay and Velikiye Luki, the volumes at the two assembly plants can be bundled and the quality standards will be raised to global levels.

Asia and Pacific

In Asia, value was primarily added at the joint-venture site of Rudong (CN), where not only loader cranes but also hooklifts and skiploaders as well as scissor lift platforms are produced. The entire value creation process – steel construction, painting, assembly, mounting and testing – takes place under one roof. The development of new markets and the implementation of the Global Product & Production Footprint are also expected to invigorate the Rudong site in 2019.

In addition, PALFINGER operates an assembly plant in Chennai (IN) for truck mounted stiffboom cranes, hooklifts and skiploaders, as well as for the mounting of complete vehicles for turnkey solutions.

SEA segment

The SEA segment has six manufacturing and assembly sites. Due to the high number of orders for marine cranes, capacity utilization at the plant in Maribor (SI) was satisfactory, whereas capacity utilization for wind cranes was significantly lower than the previous year's high level. At times, the manufacturing plants for offshore cranes in Gdynia (PL) and for lifesaving equipment in Olve (NO), Hanoi (VN) and Qingdao (CN), recorded low utilization of their capacities.

Value creation in the SEA segment was affected by changes relating to restructuring

In the course of restructuring, the sites in Korea and Brazil were closed down. By the first quarter of 2019, production of davit cranes will have relocated from Solec Kujawski (PL) to Slovenia and Vietnam. Under the new GPO, production for the LAND and SEA segments in Maribor will be combined under one management to unlock additional synergies existing between the PALFINGER production plants. Moreover, additional restructuring measures regarding the production footprint will be analysed in 2019.

THE DIGITAL TRANSFORMATION OF PRODUCTION

At several levels of the value-creation process, PALFINGER initiated various activities in the field of Industry 4.0. To start with, a strategy is being developed in a three-stage process: In a first step, PALFINGER's own expectations relating to Industry 4.0 were evaluated. Based on this, the organizational structure and framework for Industry 4.0 projects will be created in close cooperation with PALFINGER 21st. The last stage in the process will be to define specific short, medium and long-term activities at the individual plants.

Industry 4.0 contains VR/AR applications, assistance systems and machine data logging

In several plants/areas, some Industry 4.0 applications are already being tested in pilot projects, ranging from VR/AR technologies through the specific logging and analysis of machine and process data to supporting production staff by means of production apps. The goal is to use new technologies to identify process inefficiencies more quickly and easily, to prevent deviations and to introduce improvements in a targeted manner.

A specific core topic is cognitive assistance systems. A welding assistance programme is currently being developed that provides the user with the necessary information while simplifying the process as the configuration of the process parameters is made by the system. This project was launched as an open innovation at the Pioneers Industry 4.0 Hackathon in Linz, Austria.

Two pilot projects deal with machine data logging. The goals are to achieve transparency throughout all value streams and, in particular, to use detailed sensor analysis in critical machines to prevent unwanted downtime.

🌐 **GRI 102-9**
🌐 **Sustainability and Diversity Improvement Act**

Brand and brand world

The promise of LIFETIME EXCELLENCE given to customers is presented at PALFINGER World

The PALFINGER brand stands for innovation, reliability and efficiency, and for the promise made to its customers: LIFETIME EXCELLENCE. In 2017, PALFINGER opened the exhibition "PALFINGER World" in Lengau, Upper Austria: a ground-breaking presentation of the brand promise.

The Lengau site was already home to PALFINGER's largest production plant worldwide; "PALFINGER World" has now become the starting point for tours of the facilities. It also contains the new delivery centre for PALFINGER's factory-assembled complete vehicles.

In 2018, PALFINGER hosted tours of PALFINGER World for approx. 1,000 groups. At the same time, "PALFINGER World" is ideally suited as an event location. The Annual General Meeting of PALFINGER AG, for example, took place there as a green meeting, and other events, including the career event "Lange Nacht der Arbeitgeber" and the Service Manager Meeting, were also held there.

PALFINGER

RAW MATERIALS & MATERIALS

RECY-CLING | ORES | CRUDE OIL

MATERIAL PRODUCTION, PRIMARILY STEEL, ALUMINIUM & GLASS FIBRE

- CO_2-intensity in production
- Light-weight materials (high-tension steel grades, share of aluminium, glass fibre, etc.)
- Recycling share
- R&D for alternative materials (e.g. carbon)

HYDRAULIC OILS & LUBRICANTS

- Biodegradability

PURCHASED PARTS

- Increase in safety of end products
- Lower weight of purchased parts
- Respect of human rights concerning employees in production
- Occupational health and safety of employees in production
- Free of conflict minerals

HYDRAULIC COMPONENTS, DIN & STANDARD PARTS, ELECTRONICS & CABLES

- No hazardous substances (REACh, RoHS, etc.)

MECHANICAL COMPONENTS (ROPE WINCHES, GEARBOXES, ETC.)

- Coating with water-soluble paints

ENGINES & PUMPS

- Engine efficiency, rotational speed control

ENERGY PROCUREMENT

ENERGY SOURCES (ELECTRICITY, HEAT, FUEL)

- Share of renewable energy sources
- Security of supply

TRANSPORT TO PLANTS

- Fuel consumption and regional approach (local sourcing)
- Transport mix (truck, rail, ship, air)

PLANTS

FOR PRODUCTION & ASSEMBLY

- Energy efficiency
- Substitution of hazardous substances as operating supplies
- Reduction of raw materials, operating supplies, water and effluents
- Avoidance of air and noise emissions for employees and local residents
- User safety

OPERATING SUPPLIES

PAINTS

- Solvent-based paints
- Water-soluble paints
- Heavy-metal-free, chromate-free paints
- Ecological substitution products

OTHER OPERATING SUPPLIES

- Tools, lubricants, cooling agents, welding gases and wires, chemicals for electroplating

SUPPORTING ACTIVITIES

EMPLOYEES

- Occupational health and safety
- Respect of human rights
- Employee development
- “PALversity” diversity and equal opportunity
- Occupational health management “PALfit”
- Fair remuneration and support in hardship cases
- Corporate culture (values, employee communication, etc.)
- Attractive employment (employee involvement, continuous improvement process, incentive system, modern work place, etc.)

BUILDINGS (WORKSHOPS, WAREHOUSES, OFFICES, ETC.)

- Energy efficiency of compressed air, ventilation, heating, cooling, lighting
- Photovoltaic systems
- Fire safety

TRANSPORT AT

- Fuel consumption and regional approach
- Transport mix (truck, rail, ship, air)
- Alternative engine systems

MANUFACTURING PLANTS

CUTTING (LASER, PLASMA)

BENDING | WELDING

CHIPPING (LATHING, MILLING, DRILLING)

CASTING | BONDING

COATING (PAINTING, ELECTROPLATING, CDP)

- Safety: accident prevention
- Health: eye protection, protection from air emissions and noise
- No chromium VI in electroplating
- Reduction of hazardous waste
- Reduction of waste cuttings and reject rates

WASTE, MATERIAL OUTPUT

- Safe storage at location

Responsible employer | Eco-efficiency in production | Sustainable products | Fair business

VALUE CREATION CHAIN

FLEET & BUSINESS TRIPS
- Mobility mix
- Alternative engines and fuel savings

RESEARCH & DEVELOPMENT
- Safety innovations
- Ecodesign
- Digitalization

GOVERNANCE
- Business ethics and prevention of corruption
- Data security
- Compliance with legal and ethical standards

& BETWEEN PLANTS
- Safety: accident prevention
- Capacity optimization

ASSEMBLY PLANTS

MOUNTING

FILLING, TESTING, FINISHING

MCC [1)]

COMPLETE MOUNTING FROM FACTORY

- Energy efficiency
- Efficiency of operating supplies and water
- Safe storage of hazardous waste and avoidance of emissions to water and soil

- Separate collection

TRANSPORT OF PRODUCTS & SPARE PARTS
- Fuel consumption
- Transport mix
- Capacity optimization

DEALERS

MOUNTING OF TRUCK BODIES
- Reduction of truck bodies' weight

INFORMATION & COMMUNICATION
- Training courses on safety and environmental protection for users
- Fair marketing

SERVICE

SECOND-HAND MARKET

PALDRIVE
- Platform for turnkey solutions and second-hand vehicles and equipment

REGION
- Regional development and employment
- Reduction of troublesome effects on local residents
- Fair taxation
- Donations and sponsoring
- Stakeholder involvement

WASTE MANAGEMENT COMPANIES
- Ecologically optimized disposal

RECYCLING OF WASTE MATERIALS

LANDFILL

END CUSTOMERS
- Safety of use
- Energy-efficiency during use and alternative engines (e.g. electricity, hybrid)
- Fuel savings in transport due to lower product weight
- Reduction of noise and emissions
- Avoidance of discharge of hydraulic oils
- Reduction of use of operating supplies (e.g. lubricants)
- Low maintenance and long service lives
- Product lifecycle

MARKETS
- Developing and emerging countries
- Ecological and social usages
- Civil defence and military applications (Respect of human rights)

END OF LIFE
- Separability
- Recyclability

1) MCC = Mounting Competence Center

MARKET REVIEW

- **Economic environment in 2018 still showed regional differences**
- **Investments made in the quality and expansion of the dealer network**
- **Changes in the competition landscape due to some major acquisitions**
- **Delivery bottlenecks caused by strong customer demand were alleviated in the course of 2018**

With its various product groups, the PALFINGER Group addresses a variety of customer industries in the individual regions worldwide. Developments in these regions and industries are as relevant to PALFINGER as good cooperation with its suppliers and its network of dealers and service providers.

REGIONS AND INDUSTRIES BY SEGMENT

LAND segment

The LAND segment comprises PALFINGER's lifting solutions for use on commercial vehicles such as trucks and railways.

EMEA

In the EMEA region, the most relevant customer industries for PALFINGER are construction, transport and logistics, rentals and leases, agriculture and forestry, waste management, railways as well as public institutions.

The European core markets continued to show tremendous construction activity in 2018, in both the private and the public sector. Northern and Central Europe are leading the field, but Southern Europe is showing a clear upward trend in construction as well.

Customers are becoming more international in the EMEA region, and one-stop-shop solutions are gaining in importance

For some years, a consolidation and, associated with this, an internationalization of customers has been observed. Procurement processes have been centralized, resulting in an increasing number of European-wide tenders. The trend towards one-stop-shop solutions remains unbroken; to satisfy this demand, PALFINGER, working with a network of truck manufacturers and truck body partners, is designing integrated concepts for complete vehicles. The desire for variable costs is also conducive to new business models such as pay-per-use.

2018, like 2017, was a challenging year in terms of delivery reliability and throughput times. This had to do with capacity and delivery bottlenecks caused by high demand, on the one hand, and the greater need for coordination relating to complete vehicles, on the other hand. The lack of skilled labour, including operators of PALFINGER's products, will increase the demand for assistance systems.

Regulations such as weight limits, access restrictions, exhaust emission standards, occupational health and safety regulations, and safety standards, as well as technological progress in the truck industry, are bringing new challenges for PALFINGER. Digitalization and related topics, for example connectivity with the respective carrier vehicle, are increasingly transforming product development and business models. One of the crucial topics for customers in the future will be the application of digitalization to increase efficiency in the use of systems.

PALFINGER capitalizes on the high quality of its products and its service network

Despite all of these changes, reliability is still crucial. PALFINGER's dense service network, satisfactory supply of spare parts and related low costs throughout the product lifecycle make up the foundation of the Company's success. Cost transparency through full-service or insurance products is also widely appreciated.

AMERICAS

Markets in North America performed well, while South America continued to be difficult

In North America, PALFINGER supplies customers in more than 20 different market segments, most importantly construction, infrastructure, agriculture and forestry, railway, industry, as well as rentals and leases. In addition, industries such as waste management as well as transport and logistics are of relevance for some product groups. For many years, the construction industry has recorded satisfactory growth, and with inflation being low, consumer confidence has been growing. PALFINGER managed to further expand its market position particularly in the construction supply industry.

In North America, the PALFINGER brand stands for quality and reliability. This was achieved through the success factors of customized product solutions, high technological standards and outstanding service.

In South America, PALFINGER's core industries are the construction sector as well as rentals and leases. In the still difficult current economic environment, energy suppliers have recently been gaining in importance. In 2018, demand from the construction industry was particularly strong in Chile. In Argentina the situation was difficult for all industries due to the economic and social crisis. After declines in the Brazilian market over previous years, the downturn appeared to have bottomed out in 2017, but in 2018 the market situation deteriorated further. Numerous decisions were postponed, also in connection with the presidential elections held in 2018.

PALFINGER's customers in South America appreciate the Company's high-tech solutions as well as the excellent cost-benefit ratio. In addition, the comprehensive distribution and service network has proven its worth in difficult times.

CIS

In CIS, the economic sanctions imposed against Russia depressed the economy

In Russia/CIS, PALFINGER's customers are mainly to be found in construction, agriculture and forestry, waste management, industry and infrastructure. The economic sanctions imposed by the USA and backed by Europe had a negative impact on economic stability and the business climate overall. In 2018, the expansion of the sanctions affected industry first and foremost. However, with its local production, PALFINGER managed to derive benefits from this environment and recorded growing demand from large-sized enterprises. Strong demand also came from agriculture and forestry as well as from the waste management sector. The construction industry showed great uncertainty as a result of its general dependence on economic performance and financing.

In CIS, PALFINGER stands for high quality at adequate prices and reliable delivery times. Its turnkey solutions as well as highly flexible solutions and its service network allow PALFINGER to benefit from local production.

ASIA AND PACIFIC

In Asia, awareness of safety, industrialization and urbanization supports the need for PALFINGER's solutions

PALFINGER's most important customer industries in Asia are construction, waste management, transport and logistics, railway, agriculture and forestry, infrastructure, and state institutions. The performance of the construction industry continued to be satisfactory in 2018; recently this industry has seen higher safety awareness. In connection with rapid industrialization and urbanization, waste management is gaining in importance; here new technologies, solutions and business models will be necessary. Numerous infrastructure and railway projects are underway in South East Asia.

Whereas the demand for high-end products has been on the rise in China, India has shown a preference for simple pick-and-carry cranes, which are not offered by PALFINGER. In Japan satisfactory demand can be expected until the 2020 Olympic Games, but will likely be followed by a decline. All in all, the markets are showing stiff competition from local, European and US providers. Moreover, customers in this region are extremely price-sensitive. The developments in connection with the New Silk Road and the consequences of the trade conflict between the USA and China remain to be seen.

Basically, PALFINGER has an excellent reputation in the Asia and Pacific region and stands for experience and quality. The sales and service network is a major success factor.

www.palfinger.com/en/segments

SEA segment

The various customer industries in the SEA segment are largely characterized by global structures

In the SEA segment, PALFINGER addresses highly diverse groups of customers, primarily in the following industries: offshore, fishing, merchant and transport, cruise, navy and coast guard, as well as wind. PALFINGER receives many requests for customer-specific product solutions for individual projects. The business is, to a very large extent, characterized by global structures. All in all, there has been a recent trend towards larger projects featuring higher order volumes and more equipment, which means longer decision-making processes on the part of customers and frequent delays. For PALFINGER, more complex projects also mean higher resource expenditures for design and development as well as higher capital employed.

Global developments such as Brexit and new potential trade restrictions are clearly reflected in this international business. The trade sanctions imposed by the USA and supported by Europe had an overall negative impact on economic stability and the business climate. The expansion of sanctions affected especially the oil and gas industry in 2018.

The offshore industry is heavily dependent on the oil price

Customers in the offshore industry (oil and gas) were cautious in 2018 despite the moderate increase in oil prices. New investments in ships and offshore facilities are likely to follow only once the upward trend of the oil price has stabilized. At first, the improved environment led to investments in existing fleets, which has already been reflected in a higher service demand. An upswing in ship building would only benefit PALFINGER with significant delay, as the fitting-out of ships only occurs after completion of the ship's construction, which takes approximately two years. 2018 saw a positive trend in winches and customized deck equipment for special offshore vessels such as cable-laying vessels for offshore wind farms.

In the fishing, merchant and transport industries, fishing continued to record a strong performance in 2018, and the transport sector was still price-intensive and hence not really profitable.

The trend towards cruises was sustained, which accounts for the ongoing sound performance of this industry (cruises, ferries). Investments made in new ships also entail a need for equipment for boats and davits. Particularly on expedition cruises, which are becoming more and more popular, ships require special deck and life-saving equipment that complies with high safety standards such as the Polar Code. A promising niche market is developing here.

The cruise industry and the coast guard recorded satisfactory growth in 2018

In 2018, the navy and coast guard sector (police, special forces, fire brigade, coast guard and harbour police, offshore patrol vessels) gained in importance regarding the entire marine product range.

Offshore wind energy (wind farms and supply boats, crew transfer boats) is a cyclical industry. In 2018, Brexit bore hardest on this industry, as the United Kingdom is regarded a growth market in which domestic providers will now be preferred. Taiwan has started establishing itself as a new market, a trend that is expected to continue. The US wind market also showed some potential for growth.

GRI 102-6
www.palfingermarine.com/en/segments

CUSTOMERS AND DEALER NETWORK

PALFINGER products are distributed in more than 130 countries all over the world, primarily through some 200 general importers and/or independent dealers as well as the Group's distribution and service companies. Together with more than 5,000 service centres, this forms a comprehensive network for the end customers. The dealer and service network is thus a vital link to PALFINGER's end customers.

PALFINGER includes dealers in developments and standards

Every year, international dealer conferences are held in order to ensure the dealers' engagement with PALFINGER's business. They are also involved in the continuous internal improvement process and group-wide standards. Every year, PALFINGER holds comprehensive dealer surveys in selected product areas and the results are incorporated into the measures taken. In 2018, 17 surveys were carried out with end customers, potential customers, dealers and subdealers in different countries.

In the EMEA business area, PALFINGER's dealer and partner standards support the process of raising and standardizing qualifications within the network of independent sales and service partners. The training programmes offered by the PALFINGER University further support the Company in its endeavour to offer customers optimum one-stop-shop solutions.

In 2018, the quality of the network was significantly improved, also in South America, by offering more training programmes. In North America, the sales and service network was expanded to enable PALFINGER to better tap into the market potential. In the CIS business area, the dealer network was consolidated as a result of stiff competition; here, only a few large dealers are now dominant. The close cooperation with truck manufacturers has opened up an additional sales channel for PALFINGER in CIS, which also promotes brand recognition.

In the Asia and Pacific business area, PALFINGER consistently expanded its sales network in 2018, both in China and in other countries such as Bangladesh, Nepal, Korea, Hong Kong and Thailand. In Japan, local sales partners have proven to be a better choice than country-wide dealers.

⊕ GRI 102-2, 102-6
⊕ Sustainability and Diversity Improvement Act

PALFINGER AND ITS COMPETITORS

PALFINGER's competition varies depending on the product group and the region

PALFINGER is represented in different product groups and regions, whose markets are characterized by diverse competitive environments. From a global point of view, there were no major changes in these environments in 2018. PALFINGER is the global market leader for loader cranes, forestry and recycling cranes, hooklifts and skiploaders, wind cranes and railway systems. The most important competitors in these product groups are HIAB, a company of the Finnish Cargotec Group, and, for loader cranes, also the Italian company Fassi. Fassi operates mainly in Europe and North America, HIAB also in the other market regions.

The EMEA region saw some movement in the reporting period: in loader cranes, the acquisition of Effer by HIAB and in access platforms, the acquisition of the French producer ATN by Fassi.

In the Americas, PALFINGER was able to reinforce its position and gain market shares throughout. In Argentina, all imported brands lost market shares in 2018 as a result of the economic crisis and/or the currency devaluation – to the benefit of the local provider Hidro-Grubert, in which PALFINGER holds a 30 per cent interest.

In CIS, PALFINGER has encountered increasing competition from Korean crane manufacturers and more and more local producers are entering the market with new brands. In Asia, PALFINGER's competitors are primarily local, but HIAB has a regional presence as well.

In the SEA segment, first and foremost the shipping and offshore industries have been marked by heavy consolidation, which significantly changed the configuration of the competition landscape in 2018: MacGregor, a part of the Cargotec Group, acquired TTS and Rapp Marine, and Kongsberg acquired Rolls Royce Marine, creating big and financially strong competitors for PALFINGER. At the same time, many new small and agile enterprises with aggressive pricing are popping up on the market. A consolidation was also carried out in lifesaving equipment, where Viking Lifesaving acquired Norsafe. In the cruise industry, the set-up of PALFINGER's competitors could significantly change in the future through the potential licencing of motorized liferafts.

SUPPLIERS

PALFINGER maintains long-term relations with its suppliers and involves them in internal matters

PALFINGER's success and its flexibility are based on close cooperation with suppliers. Therefore, the Company has defined around 200 main suppliers and has entered into delivery and quality assurance contracts with them regarding cost effectiveness, products, the environment and social matters. The main purchasing flows are in raw materials (steel, aluminium), building parts and components (hydraulics, electronics, plastics), facilities (buildings, machinery), operating supplies, energy and outsourced manufacturing.

⊕ **GRI 102-9, 102-10, 414-2**

⊕ **Sustainability and Diversity Improvement Act**

Procurement factors, markets and strategies

Raw materials form the lion's share of procurement costs, accounting for about 17 per cent. Given that the market for raw materials is subject to strong fluctuations in terms of availability and price, flexibility in procurement is of particular importance. As a rule, PALFINGER maintains long-term agreements with its strategic main suppliers; these agreements provide for variable annual purchase quantities, which enables PALFINGER to keep up with the expected demand and respond quickly to volatile market conditions.

In the past two years, strong demand caused a scarcity of resources and bottlenecks

However, 2017 and 2018 witnessed an extraordinary trend: The pronounced upswing of the entire industry resulted in a scarcity of resources and pushed up prices enormously in 2017. Despite overtime and weekend work, average delivery times rose enormously, most notably towards the end of 2017. In 2018, this development continued at first. Many suppliers had to face high employee turnover and machine failures as a result of this additional workload. It was only in the second half of 2018 that the situation returned to normal; most of the backlog has now been cleared.

In this environment, the multiple-sourcing strategy initiated by PALFINGER years ago proved its worth. This strategy, as well as rolling planning, largely succeeded in securing supplies and maintaining reliability in supplier delivery at least at the (low) market level. Due to long-standing partnerships and the Company's stockpiling strategy, PALFINGER was able to cushion price increases significantly. Price negotiations for 2019 are not expected to lead to further increases. In addition, PALFINGER started its cooperation with an Austrian bank in late 2017, in the scope of which the bank prefinances suppliers' invoices. Suppliers now receive payment within a few days only, whereas PALFINGER's payment terms vis-à-vis the bank are significantly longer.

The use of advanced technologies and innovation, primarily in the fields of hydraulics, electronics and high-tension steel, is vital for PALFINGER's market success. Procurement of the necessary parts and components focuses on the EU market, with suppliers in Slovenia, Bulgaria, Romania and Croatia gaining in importance as pricing pressure continues. Growing digitalization and the ensuing increase in the number of electronic components have made procurement more complex. In order to enhance its flexibility, PALFINGER increasingly uses electronic interfaces to connect with its suppliers.

All in all, PALFINGER is committed to procuring locally; this increases flexibility, shortens transport distances and helps to stimulate the local economies. Global Sourcing focuses on utilizing the potential of new procurement markets for PALFINGER. Recently, PALFINGER has expanded its portfolio of suppliers primarily in Asia. All new suppliers must observe standards of quality and sustainability, for instance human rights and the prevention of corruption. PALFINGER is not subject to Section 1502 of the Dodd-Frank Act on conflict minerals, nor is the supply chain examined for the availability of conflict minerals.

PALFINGER maintains long-term relationships with its suppliers so as to continuously enhance quality and thus also competitiveness. In order to improve the suppliers' involvement in the Company's activities, PALFINGER organizes an international supplier meeting every two years; the next one will be in 2019. Moreover, strategically important suppliers regularly undergo risk analyses and audits – in some cases annually – with the aim of identifying changes in economic stability at an early stage. If necessary, the suppliers are supported in their optimization efforts.

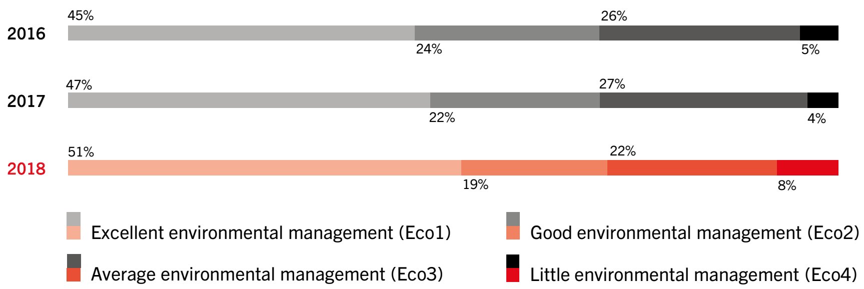
Sustainability among suppliers

Environmental management is a key element in supplier assessment

PALFINGER carries out surveys among all strategic partners and other environmentally relevant suppliers, such as paint shops, disposal contractors, cleaning and linen rental companies, regarding their environmental management systems, and analyses the results using an evaluation scale. The environmental management pursued by the suppliers also has an impact on their ranking in the quarterly supplier assessment, since PALFINGER believes that ecological and social awareness as well as corruption prevention augment the quality of supplier relations.

According to their own evaluations, the environmental management pursued by PALFINGER's suppliers has improved continuously in recent years. In 2018, 70 per cent (previous year: 69 per cent) of the suppliers had an excellent or good environmental system in place (Eco1 and Eco2), and the percentage of suppliers with an excellent environmental system increased to 51 per cent (previous year: 47 per cent). This positive trend confirms the success of the awareness-raising measures taken by PALFINGER along the value creation chain.

ENVIRONMENTAL MANAGEMENT OF STRATEGIC AND OTHER ENVIRONMENTALLY RELEVANT SUPPLIERS (in per cent)



Strategic suppliers are audited also for sustainability aspects

As a matter of principle, all of PALFINGER's new suppliers have to undergo an initial audit. In addition, just under half of the 200 strategic suppliers were audited by PALFINGER in 2018, as in previous years, with the main focus being placed on quality checks of the processes. The sustainability aspects covered by the audit checklist are based on the PALFINGER Code of Conduct for all strategic suppliers and included the following topics:

- Human rights: prohibition of child labour, free choice of employment, prohibition of discrimination, freedom of association, health and safety
- Environmental standards: environmental responsibility, green production, green products
- Business ethics: anti-corruption measures, gifts, hospitality services and invitations

In addition, the suppliers' own evaluations of their environmental management systems are verified in an audit.

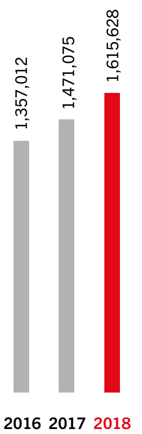
In recent years, PALFINGER auditors who perform supplier audits have received training on environmental aspects and human rights. No specific training courses were held in the reporting period. The sustainability audits did not lead to any ecological or social complaints requiring mandatory improvement measures. No severe infringements that would have resulted in a termination of the contract with the supplier were identified.

GRI 102-9, 102-10, 308-1, 308-2, 414-1, 414-2

Sustainability and Diversity Improvement Act

Eco-efficiency in production, page 102; Corporate governance report, Fair business, page 122

PERFORMANCE OF THE PALFINGER GROUP



DEVELOPMENT OF REVENUE
(EUR thousand)

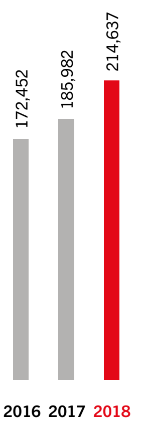
- **2018 was a highly successful financial year for PALFINGER's operations**
- **Revenue rose to EUR 1.6 billion; EBIT improved despite ongoing restructuring**
- **Consolidated net result for the period depressed by higher tax rate and earnings attributable to non-controlling shareholders**
- **Impairment of 2017 goodwill with retrospective effect**

BUSINESS PERFORMANCE IN 2018

The PALFINGER Group continued to grow in the 2018 financial year, raising revenue to a new record high of EUR 1,615.6 million. Compared with the previous year's figure of EUR 1,471.1 million, this corresponds to a revenue increase of 9.8 per cent, which was achieved without any new acquisitions or participations.

One of the main reasons for this expansion of business was the outstanding performance in Europe. PALFINGER also posted significant increases in North America, Russia and China. In 2018, incoming orders were at a very high level during the course of the year as well as at year end. As a consequence, delivery times for PALFINGER products were extended, but remained competitive. By the end of the year, PALFINGER had managed to alleviate most of the bottlenecks that had existed in this connection since the beginning of 2018. By contrast, global marine business continued to be overshadowed by the extremely difficult market environment in 2018.
Value creation, page 54; Performance by segment, page 108

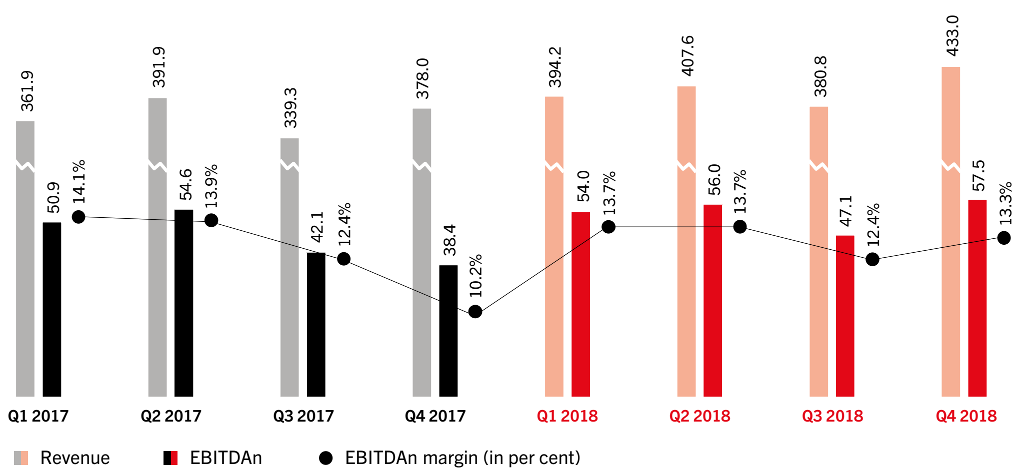
Although the global environment remained heterogeneous, PALFINGER improved the profitability of its operating business compared to the previous year. EBITDAn (EBITDA normalized by restructuring costs) rose by 15.4 per cent, from EUR 186.0 million to EUR 214.6 million. The EBITDAn margin thus amounted to 13.3 per cent, as compared to 12.6 per cent in the 2017 financial year.



DEVELOPMENT OF EBITDAn
(EUR thousand)

The performance over the individual quarters shows the continuous rise in revenue and EBIT in the past two years. The second half of the year is always influenced by the fact that there are fewer working days due to the company holidays at the European sites and the Christmas holidays. In 2018, the company holidays were shortened due to the large order backlog.
GRI 102-7

DEVELOPMENT OF REVENUE AND EBITDAn (EUR million)



FINANCIAL POSITION, CASH FLOWS AND RESULT OF OPERATIONS

In the reporting period, the Austrian Financial Reporting Enforcement Panel (AFREP) carried out a review of the consolidated financial statements for the year ended 31 December 2017 and of the interim consolidated financial information as at 30 June 2017 and 30 June 2018 of PALFINGER AG. In its review report, AFREP identified a necessary error correction regarding the goodwill, most of which resulted from the Harding acquisition. Taking these findings into account, PALFINGER AG corrected the impairment test as at 31 December 2017. The result was an impairment loss of EUR 82.4 million, which has been recorded with retrospective effect as at 31 December 2017.

A material need for impairment of goodwill necessitated the restatement of the previous year's relevant figures

Consolidated financial statements, Adjustments with retrospective effect, page 144

Earnings

In the 2018 financial year, revenue increased by 9.8 per cent to EUR 1,615.6 million (previous year: EUR 1,471.1 million). In terms of regions, the European Union remained PALFINGER's most important market, accounting for 52.1 per cent (previous year: 50.8 per cent) of the Group's revenue. North America contributed 21.2 per cent (previous year: 20.3 per cent) to the Group's revenue, while 8.0 per cent (previous year: 8.2 per cent) was generated in the Far East. The CIS region once again accounted for 7.3 per cent of consolidated revenue (previous year: 7.3 per cent). Despite difficult market conditions in Central and South America, this region's contribution to the Group's revenue decreased only slightly to 3.2 per cent (previous year: 3.3 per cent). The negative impact of changes in foreign exchange rates on revenue development totalled EUR – 44.1 million, the main causes being the depreciation of the US dollar against the euro and the drops in value of the Russian ruble and the Argentinian peso.

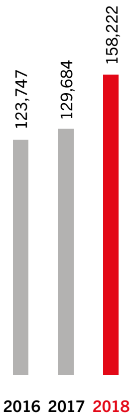
Revenue increased by 9.8 per cent to around EUR 1.6 billion in 2018

OVERVIEW OF EARNINGS

EUR million	Jan–Dec 2016	Jan–Dec 2017[2]	Jan–Dec 2018
Revenue	1,357.0	1,471.1	1,615.6
EBITDAn[1]	172.5	186.0	214.6
EBITDAn margin[1]	12.7%	12.6%	13.3%
EBITn[1]	123.7	129.7	158.2
EBITn margin[1]	9.1%	8.8%	9.8%
EBITDA	156.0	167.4	196.7
EBITDA margin	11.5%	11.4%	12.2%
EBIT	106.0	27.8	127.0
EBIT margin	7.8%	1.9%	7.9%
Consolidated net result for the period	61.2	(11.4)	58.0
Earnings per share (EUR)	1.63	(0.30)	1.54
Dividend per share (EUR)	0.57	0.47	0.51[3]

1) Figures were normalized (n) by restructuring costs.
2) Figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
3) Proposal to the Annual General Meeting.

Consolidated financial statements, Notes to the consolidated income statement, page 154



DEVELOPMENT OF EBITn
(EUR thousand)

As a consequence of the growth achieved, the cost of sales rose from EUR 1,112.1 million to EUR 1,211.5 million. The cost of materials in relation to revenue fell slightly short of the previous year's level. Personnel costs increased by 10 per cent to EUR 175.4 million, achieving more or less the same level in relation to revenue as in the previous year. PALFINGER's gross profit saw a year-on-year increase from EUR 359.0 million to EUR 404.1 million, and the gross profit margin was 25.0 per cent (previous year: 24.4 per cent).

Structural costs, engendered by the areas of research and development, sales, and administration, decreased from EUR 343.6 million to EUR 284.2 million. The need for impairment with retrospective effect in the SEA segment has raised the previous year's figure. In 2018, structural costs were incurred primarily in connection with the forward-looking group-wide initiatives PALFINGER Process Excellence and PALFINGER 21st. In relation to revenue, structural costs decreased by 5.8 percentage points year on year.

EBITDAn (EBITDA normalized by restructuring costs) went up by 15.4 per cent, from EUR 186.0 million in the previous year to EUR 214.6 million, resulting in an EBITDAn margin of 13.3 per cent after 12.6 per cent in the same period of 2017. This increase was facilitated by the significant improvement in earnings reported by the LAND segment. Normalized EBIT (EBITn) rose from EUR 129.7 million to EUR 158.2 million, raising the EBITn margin to 9.8 per cent compared to 8.8 per cent in 2017. Even though the EBITn margin is still slightly below the target of 10 per cent, good progress has been made in terms of improving profitability.

The restructuring costs in 2017 include EUR 82.4 million for the impairment with retrospective effect

In the reporting period, restructuring costs came to EUR 31.2 million and were incurred primarily in connection with initiatives taken in North America and in the marine business. The previous year's figure of EUR 101.9 million also includes EUR 82.4 million for the required impairment with retrospective effect. At PALFINGER, restructuring costs are defined as the costs of business model adjustments, site relocations and closures, significant capacity adjustments, M&A and integration costs including costs for process and system migration, costs for one-off payments for termination of dealer relationships, as well as impairments of intangible assets relating to reorganizations.
Significant changes within the PALFINGER Group, page 71; Performance by segment, page 108; Consolidated financial statements, Adjustments with retrospective effect, page 144

EBIT thus increased by 356.9 per cent, from EUR 27.8 million in 2017 to EUR 127.0 million in the reporting period, which means that despite comprehensive restructuring measures, PALFINGER achieved a new peak in its corporate history. The EBIT margin improved from 1.9 per cent in 2017 to 7.9 per cent in 2018.

The consolidated net result for the period failed to match operating performance, it increased to EUR 58.0 million

In 2017, the net financial result was affected by the necessary termination of hedge accounting for hedges in connection with a marine project; in 2018 it improved to EUR – 15.9 million. Income tax expense was substantially higher than the previous year's figure, coming to EUR 34.3 million in the reporting period, as compared to EUR 4.8 million in the previous year, which raised the tax rate to 30.9 per cent. The previous year's figure includes a positive tax effect of EUR 18.5 million resulting from the need for impairment of the Harding goodwill.

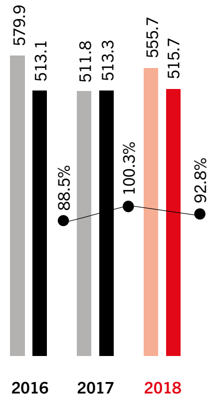
In connection with the impairment loss that had to be recorded with retrospective effect, the consolidated net result for the 2017 financial year was negative, coming to EUR – 11.4 million. In the 2018 financial year, the consolidated net result was EUR 58.0 million. Earnings per share came to EUR 1.54, as compared to EUR – 0.30 in 2017. In line with PALFINGER's dividend policy, the Executive Board and the Supervisory Board are going to propose to the Annual General Meeting that a dividend of EUR 0.51 (previous year: EUR 0.47) be distributed for the 2018 financial year.
Investor relations, Dividend, page 31

Assets

ABBREVIATED CONSOLIDATED BALANCE SHEET

EUR million	31 Dec 2016	31 Dec 2017[1]	31 Dec 2018
Assets			
Non-current assets	921.2	828.0	811.3
Current assets	614.7	650.4	716.8
	1,535.8	**1,478.4**	**1,528.1**
Equity and liabilities			
Equity	579.9	511.8	555.7
Non-current liabilities	525.3	576.1	557.0
Current liabilities	430.6	390.5	415.3
	1,535.8	**1,478.4**	**1,528.1**

1) Figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).



EQUITY AND NET DEBT
(EUR million)

Equity
Net debt
Gearing (in per cent)

Consolidated financial statements, Notes to the consolidated balance sheet, page 164

Total assets increased slightly by 3.4 per cent, from EUR 1,478.4 million as at 31 December 2017 to EUR 1,528.1 million as at 31 December 2018. Non-current assets decreased from EUR 828.0 million to EUR 811.3 million, while current assets rose from EUR 650.4 million to EUR 716.8 million due to the expansion of business. Average net working capital increased from EUR 303.8 million in 2017 to EUR 334.8 million in the reporting period, mainly due to higher inventories, trade receivables and investments held for sale in connection with the repurchase of shares by Sany Automobile Manufacturing. The continued measures to optimize inventories, accounts receivable and accounts payable thus could not fully compensate the increase caused by the significant expansion of business.

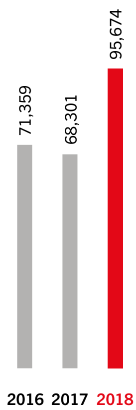
The equity ratio was 36.4 per cent; gearing decreased to 92.8 per cent

Equity increased by 8.6 per cent from EUR 511.8 million as at 31 December 2017 to EUR 555.7 million. This increase was primarily due to the higher consolidated net result in 2018, lowered by dividend payments and foreign currency translation effects. The equity ratio rose from 34.6 per cent in the previous year to 36.4 per cent, even though total assets increased at the same time.

In October, PALFINGER placed a promissory note loan in the amount of around EUR 100 million, which facilitated the optimization of the existing financing structure. Nevertheless, non-current liabilities decreased year on year from EUR 576.1 million to EUR 557.0 million, while current liabilities rose from EUR 390.5 million to EUR 415.3 million. 96.9 per cent of PALFINGER's total capital employed has been secured on a long-term basis.

Net debt rose slightly from EUR 513.3 million to EUR 515.7 million. As at 31 December 2018, the gearing ratio came to 92.8 per cent, as compared to 100.3 per cent as at 31 December 2017.

Net investment during the reporting period came to EUR 95.7 million (previous year: EUR 68.3 million) and comprised primarily the enlargement of production capacities and replacement investments in the business areas EMEA, North America and CIS.



NET INVESTMENT
(EUR thousand)

Financial position

EUR million	Jan–Dec 2016	Jan–Dec 2017	Jan–Dec 2018
Cash flows from operating activities	109.6	92.0	126.5
Cash flows from investing activities	(187.7)	(58.7)	(87.7)
	(78.1)	**33.3**	**38.8**
Adjusted interest on borrowings after tax	9.4	9.8	8.0
Free cash flows	**(68.7)**	**43.1**	**46.8**

At EUR 46.8 million, free cash flows were higher than in the previous year

Cash flows from operating activities rose from EUR 92.0 million in the 2017 financial year to EUR 126.5 million in the reporting period. Even though the improved EBIT situation and the increase in liabilities had a positive effect, the performance was depressed by higher inventories and trade receivables. Cash outflows from investing activities came to EUR –87.7 million in the 2018 financial year, as compared to EUR –58.7 million in the previous year. This increase was due to higher expenses for property, plant and equipment in the reporting period as well as to reduced cash flows in 2017 resulting, inter alia, from the sale of four sites of the North American company Palfinger USA, LLC (formerly PalFleet Truck Equipment Company, LLC). In consequence, free cash flows amounted to EUR 46.8 million, as compared to EUR 43.1 million in the previous year.

Despite one-time effects and intensified restructuring measures, the development of value creation indicators was positive in the 2018 financial year; due to the restatement of the 2017 goodwill, the comparison with the previous year is not representative. Return on equity rose from 0.2 per cent as at the end of 2017 to 14.4 per cent as at 31 December 2018, while return on capital employed came to 8.5 per cent, which is significantly higher than the previous year's figure of 1.7 per cent. Due to lower market capitalization and lower interest on borrowing, weighted average cost of capital (WACC) was lower than in the previous year, coming to 5.5 per cent (previous year: 5.9 per cent). These developments resulted in a strong increase in economic value added from EUR –45.2 million to EUR 31.6 million.

EUR million	**Jan–Dec 2016**	**Jan–Dec 2017[1)]**	**Jan–Dec 2018**
NOPLAT			
EBIT	106.0	27.8	127.0
Adjusted income tax expense	(27.3)	(10.2)	(37.8)
	78.7	**17.6**	**89.2**
Capital employed[2)]			
Inventories	272.6	285.9	308.2
Trade receivables	217.6	259.3	271.9
Trade payables	(112.3)	(129.6)	(154.7)
Advances received on orders	(21.4)	(25.2)	(25.8)
Current capital	**356.5**	**390.5**	**399.6**
Other current receivables and assets	33.0	40.4	55.0
Income tax receivables	3.5	3.0	4.3
Current provisions	(17.1)	(18.8)	(20.9)
Current liabilities	(91.3)	(101.7)	(92.7)
Income tax liabilities	(8.7)	(9.6)	(10.6)
Net working capital[2)]	**275.9**	**303.8**	**334.8**
Non-current operating assets	782.7	843.1	792.0
Non-current provisions	(46.3)	(47.9)	(47.6)
Deferred tax liabilities	(16.2)	(18.8)	(13.3)
Liabilities from puttable non-controlling interests	(5.9)	(2.8)	(1.3)
Other non-current liabilities	(14.4)	(18.4)	(16.3)
	975.8	**1,059.0**	**1,048.3**
ROCE	**8.1%**	**1.7%**	**8.5%**

1) Figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
2) Annual average.

SIGNIFICANT CHANGES WITHIN THE PALFINGER GROUP

New management team focussed on consolidation and profitable growth

The new management team is setting clear priorities

Since the appointment of Andreas Klauser as the CEO of PALFINGER AG effective 1 June 2018, the management team has been complete again. After several years of growth, which saw many acquisitions and the completion of the product portfolio, the Executive Board decided to focus on consolidation, the quality of results and organic growth for the time being. To this end, priority has been given to the full integration of the large number of acquired companies in order to be able to fully leverage synergies and unlock the available potential. In this context, a new organizational structure for the global PALFINGER Group was defined as well.

New GLOBAL PALFINGER ORGANIZATION (GPO)

The GLOBAL PALFINGER ORGANIZATION will make PALFINGER an integrated group of companies

As at 1 January 2019, the new GLOBAL PALFINGER ORGANIZATION (GPO) was implemented. Its aim is to help to make PALFINGER an integrated group of companies that allows for and is conducive to efficiency enhancements. Global structures and internal synergies at all stages along the value creation chain are to reduce the complexity of the Group, which has grown in size considerably. With the help of the new GPO, it will be possible to better utilize the strengths of the entire PALFINGER Group. This will increase profitability, on the one hand, and enhance service due to a deeper understanding of the customers' needs, on the other hand. The GPO is also linked with clear-cut goals.

GLOBAL PALFINGER ORGANIZATION, page 38

Restructuring

In 2016, PALFINGER launched a restructuring programme in North America and in the marine business, which was initially scheduled to run until 2017. The goal defined for this programme was to achieve double-digit operating profitability and to prepare for further growth and for the recovery of the relevant marine industries through a comprehensive set of measures. At the end of 2017, the restructuring measures in the marine business were revised and adjusted, given that market performance was significantly weaker than expected.

Part of the restructuring programme was completed in 2018

In North America, PALFINGER started to make structural changes and process adaptations at the beginning of 2016 when earnings fell short of expectations despite the strong growth achieved. Over the past two years, step by step, new members were added to the management team, the cost structure was streamlined, a productivity enhancement programme was implemented and the product portfolio was fundamentally revised. As part of this process, PALFINGER sold its US service bodies business in 2017 and completely renewed its truck mounted forklift product range. The limited launch began in 2018 and, as soon as the service-related structures have been secured, will be followed by the full launch of the new truck mounted forklifts in 2019. In 2018, the restructuring measures in North America were largely completed and the relevant one-time effects were recorded.

The restructuring measures in the marine business were instituted in response to the weak oil price and the resulting declines in some customer industries. Moreover, the massive growth of PALFINGER's marine business, primarily following the acquisition of the globally operating Harding Group in June 2016, called for reorganization in order to create synergies and appropriate structures. In this context, production activities in Korea and Brazil had already been discontinued in the previous year, and in the reporting period the sites were closed down completely. In addition, for the sake of a better global production footprint, the production of davit cranes will be relocated from Poland to the Slovenian site in Maribor and the Vietnam site in Hanoi by the end of the first quarter of 2019. The plant in Poland will be expanded by mid-2019 and will then serve as the Mounting Competence Center North for the LAND segment. In the second half of 2018, an improvement of the EBIT generated by the SEA segment was already evident, but significant one-time effects and follow-on effects, which were not reported as restructuring costs, continued to have a negative impact. In addition, performance was still noticeably subdued in most of the relevant customer industries. The restructuring measures in the marine business will be continued in 2019.

For the sake of comparability, in 2016 PALFINGER began reporting its earnings-related key figures also normalized by restructuring costs (n=normalized). From 2019, financial indicators will no longer be presented normalized by restructuring costs, as restructuring expenses in 2019 are expected to be considerably lower than in 2017 and 2018.

Performance by segment, page 108

PALFINGER Process Excellence

The PALFINGER Process Excellence initiative promotes uniform processes throughout the Group

In 2017, PALFINGER launched the PALFINGER Process Excellence initiative to provide the conditions necessary for the Group to continue meeting customer expectations in the future. The initiative is aimed at increasingly implementing business processes, tools and data structures, which are uniform but nevertheless cater to regional and industry-specific needs. Under the new GPO, PALFINGER Process Excellence classifies as an executive project.

PALFINGER 21st

The separate unit PALFINGER 21st prepares novel topics and business models

Since 2017, the PALFINGER 21st unit has been responsible for preparations in innovative thematic areas, including PALFINGER's digitalization efforts. PALFINGER 21st was set up as a separate unit to enable PALFINGER to utilize new ideas and approaches openly and flexibly. PALFINGER also avails itself of open innovation, using external sources for competencies that are not available within the Group. The concept of open innovation is supported by the exchange of ideas with regional technology companies and, first and foremost, by initiatives such as PALFINGER's cooperation with the Vienna-based start-up centre weXelerate or its participation in hackathons.

In 2018, an evaluation of the market and technologies in connection with the Internet of Things (IoT) and data science was performed. PALFINGER also took part in international conferences and trade fairs. In 2019, a separate team of experts will be set up to deal with these fields; the main focus will be on data-driven business models. By way of preparation, the analysis of machine data was aligned with the corporate data strategy, and PALFINGER held numerous talks with potential partners for production-related aspects as well as products.

Be it a matter of products or of services, PALFINGER's focus is always on added value for its customers and users: digital assistance systems and tools not only make work processes easier; they also improve service, support cost-effectiveness and make everyday work safer.

Value creation, page 54; Research and development, page 96

Promissory note loan

To optimize its existing financing structure, PALFINGER placed another promissory note issue in October. As at 24 October 2018, several promissory note loans were raised, featuring maturities between five and ten years and a volume of EUR 80 million and USD 25 million.

Cooperation with SANY reconfirmed

Cooperation with PALFINGER's Chinese partner SANY will be further intensified

In recent years, cooperation with PALFINGER's Chinese joint-venture partner SANY has proven a good basis for growth in Asia. In October, representatives of SANY came to Austria for an extensive meeting at the PALFINGER headquarters. During this meeting, the decision was made to further intensify the cooperation. Moreover, the parties agreed that SANY would repurchase 2.5 per cent of the shares in Sany Lifting Solutions now held by PALFINGER. The transaction, which is scheduled to take place at the beginning of 2019, will correspond to a funds inflow of EUR 28.6 million for PALFINGER. Under this cross-shareholding structure, PALFINGER will remain a 7.5 per cent shareholder of SANY and SANY will hold 7.5 per cent of PALFINGER's shares.

GRI 102-10

Further changes under company law

In January 2018, Harding Safety Brazil Ltda., Brazil, was merged into Palfinger Marine Do Brasil Ltda., Brazil. In February 2018, the Italian company Harding Safety Italy Srl was renamed Palfinger Marine Italy Srl.

In February, the name of the US company Palfinger USA, Inc. was changed to Palfinger US Holdings, Inc., and in the same month the US company PalFleet Truck Equipment Company, LLC, became Palfinger USA, LLC.

Changes under company law have been made also with a view to increasing the transparency of the Group's structure

In March 2018, all shares in Palfinger Korea Co. Ltd., Korea, were transferred from Palfinger Marine Safety AS, Norway, to Palfinger Asia Pacific Pte. Ltd., Singapore. In addition, Alu Norge 1 AS, Norway, was liquidated and has thus ceased to exist.

In April 2018, the Austrian company PalAir GmbH was merged into Palfinger Area Units GmbH, which is also an Austrian company, with effect as of the end of 31 December 2017. The merger of Palfinger Russland GmbH, Austria, into Palfinger CIS Gmbh, Austria, with effect as of the end of 31 December 2017, also took place in April.

On 4 April, Palfinger CIS GmbH, Austria, acquired an additional 15.03 per cent in Palfinger PM Holding GmbH, Austria, from the former shareholder P.M.H.G Holding Global Ltd. At the same time, the other co-shareholder, Steindl Forsttechnik GmbH, acquired 4.97 per cent from P.M.H.G Holding Global Ltd.

On 29 June 2018, Palfinger Marine RUS OOO was founded in Russia. Its sole shareholder is the Austrian company Palfinger Marine GmbH.

The representative office maintained by PALFINGER AG in Shanghai was liquidated effective July 2018.

Effective 31 October 2018, Palfinger EMEA GmbH, Austria, sold its 20 per cent share in Sky Steel Systems LLC (Dubai) to its co-shareholders.

The Austrian company Palfinger Americas GmbH now holds 99.85 per cent (previously 99.73 per cent) of the shares in the Brazilian company Madal Palfinger S.A.

Effective 1 November 2018, Palfinger EMEA GmbH, Austria, acquired all shares in Palfinger Marine LSE Poland sp.z.o.o, Poland, from the former sole shareholder Palfinger Marine Safety AS, Norway.

In December 2018, the Chinese company Palfinger Lifting Technology (Nantong) Co., Ltd. was merged into the Chinese company Palfinger Equipment (Nantong) Co., Ltd.

Effective December 2018, Palfinger Boats B.V., Netherlands, was merged into Palfinger Marine Netherlands B.V.

In January 2019, the liquidation of Dreggen (Hong Kong) Company Ltd. was completed.

In January 2019, PALFINGER AG acquired a 51 per cent interest in UAV Structural Inspection GmbH, Austria. The company was renamed Palfinger Structural Inspection GmbH.

The merger of Palfinger Boats Vietnam Co., Ltd. into Palfinger Marine Vietnam Co., Ltd. also took place in January 2019.

INFORMATION PURSUANT TO SEC. 243A OF THE BUSINESS CODE

As at 31 December 2018, the issued share capital of PALFINGER AG was EUR 37,593,258, divided into 37,593,258 no-par-value bearer shares. Each PALFINGER share entitles its holder to one vote.

As at 31 December 2018, PALFINGER AG did not hold any own shares.

PALFINGER AG is not aware of any restrictions regarding the voting rights of the PALFINGER shares and their transferability, including restrictions agreed upon between shareholders. There are no PALFINGER shares with special rights of control.

As at 31 December 2018, the Palfinger family directly or indirectly held approx. 58 per cent of the shares in PALFINGER AG. Around 7.5 per cent of the shares were held by the Chinese SANY Group via the German company SANY Germany GmbH. Around 34.5 per cent of the PALFINGER shares were in free float.

Within the PALFINGER Group there is no employee participation programme, and in particular no equity participation plan, under which the employees do not directly exercise their voting rights for their shares in PALFINGER AG.

The Articles of Association do not contain any provisions on the appointment of the members of the Executive Board and the Supervisory Board or on amendments to the Articles of Association that exceed the scope of the respective statutory provisions.

The agreements on the promissory note loans contain change of control clauses.

No agreements on compensation in the event of a public takeover bid have been entered into between PALFINGER AG and the members of the Executive Board and the Supervisory Board.

GRI 102-5

NON-FINANCIAL STATEMENT PURSUANT TO SEC. 267A OF THE BUSINESS CODE

For PALFINGER, as a long-standing family enterprise, sustainable business has always been a matter of course. For the past 14 years, PALFINGER has been taking an active approach in this connection, which also includes managing relevant sustainability aspects. Moreover, PALFINGER is committed to the UN Global Compact and the Sustainable Development Goals.

In a multi-stage process, which also involved stakeholders, PALFINGER defined the material aspects of sustainability, most recently in the 2017 financial year. They can be broken down into the following four sustainability areas.

- Responsible employer
- Eco-efficiency in production
- Sustainable products
- Fair business

The information required under the Austrian Sustainability and Diversity Improvement Act is disclosed in the respective chapters

Since 2013, PALFINGER has published an Integrated Annual Report, which contains financial and non-financial information presented by topic. Information on individual sustainability aspects and schemes, their outcomes and the relevant key figures – including disclosures required under the Austrian Sustainability and Diversity Improvement Act – is disclosed in the respective chapters of this 2018 Integrated Annual Report. A summary of risk topics can be found in the risk report.

This non-financial statement, in conjunction with the following table, provides an overview of the relevant aspects and topics, and references to the respective pages of this 2018 Integrated Annual Report of the PALFINGER Group.

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Sustainability and Diversity Improvement Act

CORPORATE GOVERNANCE

The corporate governance report prepared by PALFINGER AG for the 2018 financial year is also available on the Company's website.

Corporate governance report, page 116
www.palfinger.ag/en/investors/corporate-governance

TREASURY

PALFINGER's liquidity is centrally controlled for the whole Group

The treasury department coordinates and manages financial risks and their reporting. It is also in charge of centrally controlling liquidity for the whole Group. PALFINGER's paramount principle is to ensure sufficient liquidity at all times in order to meet payment obligations and ensure the Company's continued growth. Cash inflows from operating activities form the most important source of funding for PALFINGER.

Within the Group, the principle of internal funding applies. Under PALFINGER's in-house banking scheme, the financing needs of subsidiaries are – to the extent possible – covered by internal loans. Excess liquid funds of group companies are used to reduce the need for external financing and thus also the net interest expense. By balancing intra-group transactions via clearing accounts, bank transactions and banking charges are reduced. Through the central control of group financing, the Group's credit standing may be used to fund group companies and to guarantee the necessary liquidity in a cost-efficient way.

The responsibilities of the group treasury department also include the effective management of foreign exchange and interest rate risks, and central control of global insurance solutions, for instance property insurance, third-party liability insurance, transport insurance, etc.

The Group's financial management is based on uniform global group principles. At the level of the subsidiaries, the heads of finance are responsible for compliance with these treasury guidelines.

Cash and liquidity management

In day-to-day liquidity management, PALFINGER uses excess liquid funds of individual group companies to cover the funding needs of others by means of cash management systems (cash pooling). In 2018, the existing cash pools were expanded and a new cash pool was successfully introduced. In addition, PALFINGER has access to extensive approved credit lines that are provided by the core banks, which is an additional hedge to ensure continuous solvency.

In order to optimize the working capital, PALFINGER AG, or rather a number of selected Austrian and German subsidiaries, entered into a factoring agreement in 2014. Under this factoring agreement, trade receivables are sold monthly on a revolving basis up to a maximum volume of EUR 60 million. The receivables sold in connection with the existing factoring agreement amounted to EUR 47.3 million (previous year: EUR 43.0 million) and were fully derecognized in accordance with the rules of IAS 39 due to the transfer of control.

In 2018, the reverse factoring structure implemented by PALFINGER with an Austrian credit institution at the end of 2017 was expanded to include more suppliers. As at 31 December 2018, this concerned trade payables totalling EUR 18.0 million.

A promissory note loan helped to optimize the financing portfolio in 2018

In 2018, PALFINGER utilized the favourable situation in the interest markets in order to enhance its financing structure. In April 2018, a bilateral loan of EUR 30 million, which had fallen due, was extended by five years. In October 2018, PALFINGER issued a new promissory note loan with a total volume of EUR 80 million and USD 25 million featuring maturities of five, seven, eight and ten years. This loan was used to redeem bilateral loans and profit-participating loans when they became due, and to refinance a tranche of a promissory note loan that was issued in 2014, and would have become payable in 2019, ahead of time. These financing transactions extended the interest-rate and capital commitment periods, balanced out the redemption profile and thus optimized the financing portfolio as a whole.

RISK REPORT

PALFINGER's risk management deals with opportunities and risks

PALFINGER is aware of the fact that an integrated and functioning system for managing opportunities and risks plays an important role in maintaining and enhancing competitive advantages. The aim is to use a systematic approach to identify opportunities and risks at an early stage so as to be able to respond proactively to changing framework conditions.

The basic components of the risk management system set up by the PALFINGER Group are group-wide standardized planning and controlling processes and inter-company guidelines and reporting systems. The risk management process is described and set forth in a group guideline. The viability and effectiveness of the process are checked and scrutinized at regular intervals.

The direct responsibility for risk management lies with the management of each operating unit. Corporate Risk Management reports directly to the Executive Board, which bears overall responsibility.

Sustainability and Diversity Improvement Act

Risk management system

The management of the individual corporate areas and business units periodically identifies and evaluates the most important opportunities and risks along the value creation chain, also taking external factors into consideration. The evaluation of these circumstances is carried out in respect of their possible impacts on PALFINGER and the probability of their occurrence, following a clearly structured, group-wide, uniform method. On the basis of this analysis, existing measures are documented and further measures for active risk control are developed and implemented by the management in charge.

Corporate Risk Management monitors adherence to the relevant statutory parameters and the Group's internal guidelines. In addition, the risk management system supports the early identification of risks that might impair the continued existence of the Company. Short-term risk topics are covered by monthly reporting on the part of the controlling department and by periodic meetings of the steering committees of the business divisions.

Risk topics

The current risk exposure of the PALFINGER Group is strongly influenced by market performance. Europe's economic growth, political instability and the volatile environment in the oil and gas industry have an impact on PALFINGER's order books. The integration of the acquired companies is a demanding process and presents PALFINGER with the challenge of bringing together different business regions, cultures and IT systems. The establishment of new types of business models harbours the risk of increasing the complexity of processes. A key success factor for PALFINGER is the ability to make quick adjustments and decisions on the basis of solid data.

Under the group-wide risk management system of PALFINGER AG, the risk areas are divided into four main categories:

- External risks
- Strategic risks
- Internal risks related to value creation
- Internal risks related to supporting processes

EXTERNAL RISKS

Economic developments

Even though the economy in Europe, North America and in particular the Asian emerging countries continues to be positive, geopolitical tensions persist. Protectionist measures taken by core global economic players and international responses to those measures are burdening trade relations across the globe.

The sanctions against Iran and Russia make it difficult for PALFINGER to tap the market potential in these countries. The current US import restrictions and the envisaged import taxes primarily relate to steel and aluminium imports. Moreover, additional US sanctions, for instance against Russia, and potential counter-measures taken by affected countries may have a direct impact on PALFINGER's value creation chain and sales markets.

The situation in South America, especially in Brazil, is far more difficult. At the beginning of 2018, the downturn seemed to have bottomed out in the South American market and an economic upswing appeared to be taking shape. However, given the outcome of the Brazilian presidential election at the end of October 2018, a resurgence of social unrest must be feared. Furthermore, continuing tensions between the European Union and Russia as well as the precarious political situation in the Middle East and in Africa have been impacting PALFINGER's order situation. By and large, international sanctions against Russia have been cushioned through local value creation; however, the sanctions are detrimental to growth and the investment climate in the country. The market in China has grown, but there are, nevertheless, some restrictions to market development, which are preventing the full utilization of the available potential.

In the marine business, dependence on the oil and gas industry is one of the major risks. Moreover, declining market volumes have led to a surplus of finished products on the market. The growing demand for crude oil, combined with the persisting disagreement among the oil-producing countries regarding an increase in oil production, drove up demand in the maritime service business in 2018. This upturn is regarded as a long-term trend, particularly in the USA and Brazil, whereas there are no signs that the situation in Europe will stabilize anytime this year. In addition, the restructuring measures in the SEA segment have proven to be quite extensive and have lowered EBIT significantly.

In selected areas, PALFINGER has opted for strategic partnerships. In this connection, it is imperative that the partners share the same values. Such associations with other companies allow PALFINGER to access existing know-how and in some regions are indispensable for accessing local markets. The resulting dependence on the performance, integrity and loyalty of the partner constitutes a significant cooperation risk.

Risks due to energy supply and climate change

Energy costs make up only a relatively small percentage of PALFINGER's total cost. At many of PALFINGER's locations, the lion's share of energy is required for climate control, in particular heating, of the buildings. Due to more intense hot and cold phases associated with climate change, costs may fluctuate strongly. In order to minimize this risk and the impact on the environment, measures aimed at enhancing energy efficiency have been implemented in recent years. For 2019, audits in connection with the EU's Energy Efficiency Directive are on the agenda once again. In order to monitor efficiency gains, the influence of climatic conditions on the energy needs at PALFINGER's manufacturing and assembly sites was analysed in 2018 for the first time. This has made it possible to forecast the energy consumption dependent on climate and revenue and then compare it to the actual energy consumption measured in order to derive valid conclusions regarding the energy efficiency of the respective locations.

PALFINGER participates in the annual environmental performance assessment of the Carbon Disclosure Project (CDP). Moreover, the Group plans to reinforce its commitment to climate protection in 2019, for instance through Science Based Targets. By doing so, PALFINGER will minimize the risks harboured by changing business conditions resulting from climate change. Further climate protection measures are described in the sustainability programme.

Investor relations, Ratings, page 30; Sustainability programme, page 224

Steel and aluminium are essential materials used by PALFINGER in its products. As they have a high energy intensity, CO_2 taxes and higher fuel and energy taxes would push up procurement costs. In the reporting period, a tendency towards a supply squeeze regarding emission allowances was already noticed in the EU; this will result in a medium-term rise in costs for pollution rights in the steel and aluminium industry. At PALFINGER, optimization of waste cuttings in production as well as efforts to achieve weight optimization and use alternative materials for products counter this risk.

The growing importance of climate protection may result in higher taxes on fossil energy or CO_2 emissions. In some EU countries, preparations for CO_2 taxation are being made and in others such taxation is already being implemented. Moreover, in the medium term, CO_2 taxes or higher energy taxes may also be introduced in other countries, such as Brazil and China, or in individual US states, for instance California. In the group-wide monitoring system, PALFINGER has recorded a fictitious CO_2 price of EUR 30 per tonne of CO_2 equivalents for emissions in order to prepare for a future taxation of CO_2 emissions. In some countries, PALFINGER has changed its energy suppliers and now procures its electricity from 100 per cent renewable energy sources. In these countries, electricity costs are not expected to rise as a consequence of national taxes on CO_2.

Stricter regulation in the field of urban transport also has an impact on carrier vehicles and consequently also on the use of PALFINGER's products. Moreover, higher costs for fossil fuels are increasingly raising customers' awareness of the costs incurred during the use of PALFINGER products. PALFINGER counters this risk through innovative product solutions that clearly lower fuel consumption, and through communication of the cost advantages and climate benefits over the products' lifecycles.

PALFINGER's product portfolio also includes wind cranes, recycling cranes as well as hooklifts and skiploaders. Alternative energy production and recycling are subsidized industries. A change in climate protection and funding policies may lead to PALFINGER suffering losses in revenue. Due to the Group's broad product portfolio and internationalization, the risk of local subsidy fluctuations has been minimized. Stronger taxation on fossil energy and CO_2 would enhance the environment for these industries and, consequently, open up growth opportunities for PALFINGER.

GRI 201-2, 203-2
Sustainability and Diversity Improvement Act

Regional acceptance and fair business

PALFINGER acknowledges its responsibility for sustainable economic success, for social topics along the value creation chain and for the ecological effects of its business operations. This is reflected in the implementation of the PALFINGER Code of Conduct, in particular fair taxation of profits, regular dialogue with employees' representatives, the fight against and prevention of corruption, adequate pay, and social commitment in the regions. PALFINGER's social licence to operate is thus to be upheld and risks of recruiting and acceptance are to be minimized.

PALFINGER has used the Code of Conduct as a supporting basis for its business operations since 2010. A review of the Code of Conduct has been put on the agenda for 2019 to ensure that current topics are sufficiently dealt with. PALFINGER's Code of Conduct covers various topics, including the observance of human rights aspects and the prevention of child labour, forced labour and compulsory labour, also in the supply chain. However, no material risks of that kind in connection with PALFINGER's business practices are known. In order to uphold this situation, PALFINGER makes sure to continuously review national legal framework conditions. In addition, an explicit analysis and evaluation of risks regarding human rights at PALFINGER locations is being planned.

PALFINGER also operates in regions where, according to the Corruption Perceptions Index, there is an elevated risk of unethical practices. Since 2010, agreements with employees, dealers, suppliers and partners have contained binding references to the Code of Conduct. Furthermore, an internal guideline is in place, providing employees with rules of conduct for such situations. Plans for 2019 include anti-corruption training for PALFINGER employees to truly internalize such behavioural rules. Consequences of violations have been defined.

Sustainability and Diversity Improvement Act
Corporate governance report, Fair business, page 122

STRATEGIC RISKS

Strategy

The strategic principles of innovation, internationalization and flexibility have been further developed, and in 2017 PALFINGER 21st was introduced as an additional pillar. The change in the management team brought a new focus to PALFINGER's strategic alignment. After making numerous acquisitions over the previous years, PALFINGER is now concentrating on the integration of the acquired companies and on organic growth.

Strategy and value management, page 33

Product portfolio

The continuation of the current integration projects in the respective product divisions is of crucial importance for the successful development of the Group. Synergy potentials are being identified on a regular basis and unlocked step by step.

In the project business of the SEA segment and the Railway Systems business unit (LAND segment), the dependence on a small number of large customers (concentration risk), as well as volatility in orders, pose substantial risks for PALFINGER. In order to counter these risks, PALFINGER is striving for a diversification within the relevant business units and product divisions.

Organization and culture

PALFINGER continues to promote initiatives for its organizational realignment and for standardizing and optimizing its core processes. Apart from the revision of the internal control system and the establishment of a group-wide uniform system landscape, the long-term reduction of costs is one of the prime targets. Against this backdrop, the strategic priorities of individual business areas are being reviewed and changes in the corporate structure are being made. The complexity and far-reaching effects of these endeavours on PALFINGER's business operations, above all, constitute central risks. Any delays immediately lead to higher lead times of projects and negatively affect EBIT.

The expansion strategy pursued in recent years also involves cultural challenges for the organization. In this connection, open-mindedness and the willingness to recognize, understand and, above all, accept other work approaches and cultures are indispensable prerequisites. Language barriers pose an additional hurdle to be overcome.

Corporate culture, page 87

Compliance

As PALFINGER is an internationally operating company, its business activities are subject not only to Austrian legislation but also to numerous international standards as well as the laws and regulations of the individual countries in which the Group operates. The associated compliance risks lie, above all, in the identification of and compliance with all relevant provisions. Violations may result in penalties that can be quite substantial and lead to disadvantages on the money and capital markets. In addition, PALFINGER's reputation could be harmed.

INTERNAL RISKS RELATED TO VALUE CREATION

Development

Disruptive technologies prompt PALFINGER to confront numerous changes being introduced to mechanical engineering from other industries. The digitalization trend brings both opportunities and risks for PALFINGER. In this connection, it is a constant challenge to keep an overview of the state of the art and to select and develop solutions which are promising both for PALFINGER and its customers. To obtain a precise understanding of customer expectations of PALFINGER's products, direct communication with users and sales partners is of the essence. At the same time, PALFINGER has to introduce additional innovations on the market so as to consolidate its position as a market and innovation leader in the long term. Consequently, PALFINGER has a higher risk of launching development initiatives that prove to be unsuccessful in the future.

Procurement

The high level of incoming orders at the European manufacturing and assembly plants in conjunction with delivery problems concerning externally procured materials makes it a challenging endeavour for PALFINGER to ensure stability in the supply chain. Due to the high level of value creation, production downtimes at PALFINGER's internal supplier plants may impair delivery capacity.

When it comes to materials of strategic importance, PALFINGER is placing increasing emphasis on guaranteeing long-term security of supply. This is being done primarily by ensuring that multiple sourcing options are available.

Moreover, in the reporting period, quality and price were of crucial importance in procurement. Under a supplier development programme, suppliers are being actively supported to help them to perform even better, which primarily counters the risk of supply shortages. PALFINGER has implemented special supplier selection procedures as well as systems of risk management and supplier management in order to monitor its suppliers' performances.

Suppliers, page 64

Production

Given that for PALFINGER the manufacture and assembly of its products are crucial stages of value creation, an extended production downtime at one site would have a significant impact on the Company's financial results.

This risk has been constantly minimized by detailed analyses and the resulting measures taken, such as the renewal of machinery, the introduction of Total Productive Maintenance (TPM) processes and the optimization of PALFINGER's production system. PALFINGER's position as market leader is upheld by the continuous top-notch quality of the Group's products and services. PALFINGER has implemented an ISO 9001 certified quality management system. Notwithstanding this systematic approach within PALFINGER, it is not possible to fully exclude the risk of product liability. Defects in quality, if any, are remedied in a customer-friendly manner. Any losses that may arise from product liability are covered by insurance cover taken out by PALFINGER; however, any detriment to PALFINGER's image would represent a considerable risk for the Company.

There are risks relating to breakdowns such as interruptions of energy supply, technical failure, fire, explosions and other possible disruptions. The Group has taken out adequate insurance cover for losses caused by such interruptions of operations.

Detailed GRI and sustainability disclosures, page 214

Sales and service

In its markets, PALFINGER is being confronted at ever-shorter intervals with dramatic changes that require the Company to swiftly rethink its market-development approach. The combination of existing products with digital solutions creates new, promising sales potential, but at the same time there is always the risk that young, innovative companies will sell substitute products in existing markets and oust established players.

In cultivating the markets, PALFINGER relies on a sales and service network that is to a significant part made up of external dealers. Due to PALFINGER's dependence on the dealers, these dealers are classified as strategic partners and receive support if they run into any financial difficulties. Whenever the market environment changes in a way that affects distribution channels, market shares may be lost. More and more European dealers have no definite provisions for their business succession. In order to counter these risks and to continuously improve market cultivation, cooperation with dealers is being further intensified and optimized through the introduction of dealer standards.

Customers and dealer network, page 62

INTERNAL RISKS RELATED TO SUPPORTING PROCESSES

Finance and accounting

PALFINGER is utilizing the ongoing positive economic situation to improve its capital structure in order to be best prepared for a potential economic downturn. Any deterioration of the economic environment could make it harder to procure capital on the financial market. Therefore, the ability to finance material growth projects from the Group's own resources may prove to be a competitive advantage.

The review carried out by AFREP found that there was a material need for impairment of the goodwill of the Marine business area as at 31 December 2017, most of which resulted from the Harding acquisition. Taking into account these findings, the impairment test was corrected, resulting in an impairment loss of EUR 82.4 million. As a consequence, due to the tax effect, equity was reduced by EUR 63.9 million.
Consolidated financial statements, Adjustments with retrospective effect, page 144

Due to differences in the dynamics of economic developments in Europe, South America and Asia, the risk of bad-debt losses will have to be reckoned with in the future as well. The goal pursued by the accounts receivable management of PALFINGER is to reduce potential credit risks in advance. Terms of payment are agreed upon on the basis of economic information about the buyers. The risk of losses on doubtful receivables is further mitigated by means of bad-debt insurance cover for individual receivables.

As a consequence of PALFINGER's international business operations, there are complex liquidity risks, interest rate risks and foreign currency risks. These are managed by the treasury department, where all relevant information from the entire Group converges.

Liquidity risk

Group-wide, system-supported cash reporting guarantees the transparency required to be able to control the use of funds in an efficient manner. Thanks to medium-to-long-term planning, potential liquidity requirements can be coordinated with the financing partners at an early stage.

The treasury department provides working capital financing and long-term financing to the group companies via internal loans. The intra-group financial transfer is made through cash pooling and central clearing. Cash flows from operating activities are used to cover intra-group financing needs. Excess liquid funds are used to reduce financial liabilities. Approved credit lines make up PALFINGER's liquidity reserve. On an average, these unutilized financing reserves exceed 20 per cent of the Company's net debt. The long-term financing portfolio includes bilateral bank loans, promissory note loans and profit-participating loans. The credit limit and the amount of the refinancing costs depend on the banks' assessment of PALFINGER's future perspective. Therefore, PALFINGER maintains transparent, close business relations with its core banks.
Treasury, page 76

Exchange rate risk

PALFINGER is exposed to exchange rate risks through sales, purchases and financial liabilities in currencies other than the standard currency. The high degree of local value creation at PALFINGER sites limits this currency risk within the Group. In addition, the Group makes use of natural hedges, which means that a company offsets its expenses with the sales generated by its operations in the same currency, which further reduces exchange rate risk.

The supply of finished products and components, mainly from Europe to North America, South America, Asia and Russia, creates risk positions primarily in US dollars, Brazilian reals and Russian rubles that are not covered by natural hedges. These risk positions are analysed, monitored and limited by implementing an adequate hedging strategy. At regular meetings with the CFO, these hedging strategies are discussed, and adjusted if needed.

Project-related currency risks, especially in the marine and offshore areas, are transferred to the central treasury department and hedged against on the basis of a project-based hedging strategy, provided that invoicing in the local currency is not an option.

PALFINGER bases all of its hedging transactions on the hedged item, which ensures that financial operations are carried out to reduce rather than augment the Group's exposure. Only derivative financial instruments that may be measured and reported by PALFINGER itself are used. The primary hedging instruments used are forward foreign exchange contracts and currency swaps.

Interest rate risk

The group treasury department centrally controls the interest rate risk for the entire PALFINGER Group. In recent years, the need for more financing has increased the impact that fluctuations in interest rates have on the net financial result of the PALFINGER Group, which is why hedging against interest rate risks has become increasingly important. The exposure to floating rates is limited through the use of derivative financial instruments (interest rate swaps), which convert the floating rate into a fixed rate. In 2018, the central treasury department used the low interest level to extend the interest-rate and capital commitment periods of the financing portfolio. The promissory note loan issued in 2018 featured fixed-interest arrangements and long-term maturities.

Risks relating to balance sheet preparation

General risks

The necessary use of estimates and judgements in the fields of non-financial assets, deferred tax assets, measurements of inventories and receivables, provisions for pensions, severance payments and anniversary bonuses, as well as provisions for guarantees and warranties has a direct impact on the presentation of the Group's assets and earnings. The steadily increasing requirements imposed by regulators have increased the complexity of financial reporting.

Assessment risks may be created due to the inclusion of acquisitions in the balance sheet and the related evaluation of facts necessary for this purpose. The combination of various booking procedures entails a certain reporting risk.

A corporate manual defining the fundamental principles of accounting and valuation used by PALFINGER ensures a standardized process and thus minimizes the risk of using different processes within the Group.

An internal control system adapted to the Company has been integrated into the accounting process. The cornerstones of this system include the segregation of duties and the four-eyes principle. Audits carried out by the internal auditing department and the auditor ensure that processes are continuously improved and optimized.

Business-related risks

Purchase price allocations made in the course of acquisitions require assumptions as to the existence and measurement of the assets (primarily intangible assets), liabilities and contingent liabilities taken over. In addition, the main assumptions made when determining the fair values in the course of the purchase price allocation refer to the cash flows and the discount rate.

There is the risk that, should the market environment deteriorate drastically, individual intangible assets will have to be adjusted to the changed valuations (impairment) or that investments may not amortize as planned.

A routine review of the consolidated financial statements for the year ended 31 December 2017 and of the interim consolidated financial information as at 30 June 2017 and 30 June 2018 carried out by the Austrian Financial Reporting Enforcement Panel (AFREP) in accordance with the (Austrian) Accounting Control Act (Rechnungslegungs-Kontrollgesetz) resulted in a substantial need for impairment in the amount of EUR 82.4 million. There is also the risk that the remaining goodwill of the business area Marine CGU, in the amount of EUR 74.4 million, may have to be impaired as well. The development of this goodwill depends

primarily on the progress made in restructuring, the performance of the offshore market and the development of the oil price and exchange rates. A long-term deterioration could necessitate an impairment.
Financial position, cash flows and result of operations, page 67;
Consolidated financial statements, Adjustments with retrospective effect, page 144

As a consequence of the participations in connection with SANY (SANY Automobile Hoisting Machinery, Sany Palfinger SPV Equipment and Palfinger Sany International Mobile Cranes Sales), investments in companies reported at equity of EUR 121.4 million were reported as at the balance sheet date 31 December 2018. Goodwill of these investments was EUR 64.9 million. The fact that the value of such investments was maintained is reflected in the sales proceeds of EUR 28.6 million for the 2.5 per cent share repurchased by SANY. Whether these investments in SANY will have to be impaired in the future depends on the development of the Chinese economy and the degree of success of the internationalization strategy in this field of business. In China, the need for impairment of this investment will be influenced primarily by the performance of the construction industry. The progressing urbanization of the Chinese population and the necessary infrastructure projects resulting from it will play a vital role in this connection. In the international markets, there are various political and macroeconomic risks that may have an impact on whether or not the investment in SANY's lifting business will have to be impaired.
Consolidated financial statements, Investments in companies at equity, page 142

The advancing internationalization and the growing volatility on the currency markets have increased the foreign exchange risk to which the PALFINGER Group is exposed. PALFINGER pursues a consistent hedging strategy and attempts to protect itself against these currency risks to the greatest possible extent. When hedging transactions, future cash flows have to be assessed, which harbours uncertainties. For the purposes of hedge accounting, a high probability of the respective future cash flows actually occurring is assumed.

Human resources

PALFINGER regards its employees as the major factor in the successful achievement of its goals. Local and demographic developments may limit the availability of skilled labour. Through apprentice training programmes, continuous executive development and flexible working time models, PALFINGER is striving to increase its attractiveness as an employer, in particular in the growth regions. At the same time, ever shorter cycles of change in connection with disruptive technologies and innovations – cloud, social media, big data and analytics, mobility, robotics or artificial intelligence – are putting employees' adaptability to the test.
Responsible employer, page 86

Information and communication technology (ICT)

Most of the processes within the Company rely on ICT. In particular, operational and strategic management decisions depend on information generated by these systems. A failure of these systems and processes poses a risk for PALFINGER. Intensive training programmes may cause higher expenses in the short term. Internal and external experts maintain and further optimize the ICT infrastructure across the entire Group. Given PALFINGER's intensified operations in China, ICT security is an issue that is becoming even more important. PALFINGER has implemented a range of technological measures for security and protection to minimize the risks of data misuse and data loss. As a result of new EU regulations and national laws, further measures are required in the field of data protection, for instance regarding personal data.
Corporate governance report, European data protection rules, page 124

Recent incidents have clearly shown that global enterprises have increasingly been the targets of cybercrime. The resulting risks are manifold, ranging from phishing mails to data theft and even attempted extortion through the encryption of company data.

In the 2018 financial year, PALFINGER fell victim to such attacks, which, however, did not cause any material harm. PALFINGER has therefore created a central data security office to coordinate the global implementation of training courses, newsletters, forensic exams, etc. The internal control system and the supporting IT infrastructure are being enhanced on a regular basis.

Summary

In summary, the risks to which the PALFINGER Group is exposed are manageable and can be controlled by adequate measures. Therefore, from today's point of view, the continued existence of the Group is definitely ensured.

GRI 102-11, 102-15, 203-2

Important features of the internal control and risk management systems with a view to accounting

The internal control system constitutes an integral part of PALFINGER's group-wide risk management process. It contains all organizational principles, measures and controls in place within the Company in order to ensure the observance of guidelines and the prevention of errors and losses that may be caused by PALFINGER's own employees or by third parties.

CONTROL ENVIRONMENT

PALFINGER's internal control system is based on guidelines valid for the entire Group. These guidelines contain uniform standards for the relevant corporate processes and have to be implemented and observed by all units in the Group. Each guideline is allocated to one process manager. The Executive Board, local management, the process managers and the risk management department have collective responsibility for ensuring that the observance of the group guidelines by every relevant unit is verified at periodic intervals.

RISK EVALUATION

The risk report contains details on the risk management system and the identification and evaluation of the individual risks.

Risk report, page 77

CONTROLS

The main internal controls relating to accounting which, from a group perspective, need to be implemented through local processes, have been defined. The implementation of key controls is reported on a quarterly basis. The local management teams are in charge of laying down additional controls should the need arise. Thus it is ensured that, in addition to standardized processes, short-term risks are also taken into account.

INFORMATION AND COMMUNICATION

With regard to the accounting process, the major accounting and valuation methods are laid down in a corporate manual, which is regularly updated, and these methods have to be mandatorily implemented by the local units. A group-wide standardized monthly reporting system with an automated interface from the ERP system guarantees that the management team has an overview of the Group's performance. Once a year, a report on the control system is presented to the Audit Committee of the Supervisory Board.

AUDITS AND CONTROLS

The interim financial information for the individual quarters and for the half-year is consolidated and the interim information for the first half of the year is reviewed by the auditor. Close cooperation with the auditor of the consolidated financial statements, whose international network guarantees uniform auditing standards, ensures a comprehensive and efficient external audit of the financial statements. The information used for internal and external accounting is based on the same stock of data and is reconciled for reporting purposes on a monthly basis.

The adequacy of the internal control system of PALFINGER AG has been discussed with the Audit Committee of the Supervisory Board. Continuous efforts are being made to enhance the effectiveness, efficiency and precision of the entire system. Internal control is monitored through regular reports presented to the Audit Committee and through checks made by Corporate Risk Management, which closely cooperates with the responsible Executive Board members and managing directors.

RESPONSIBLE EMPLOYER

- **10,780 PALFINGER staff members on all continents**
- **HR Strategy 2020 supports development of employees and organization**
- **Corporate culture promotes diversity and communication**
- **Lower employee turnover confirms the strategy's success**

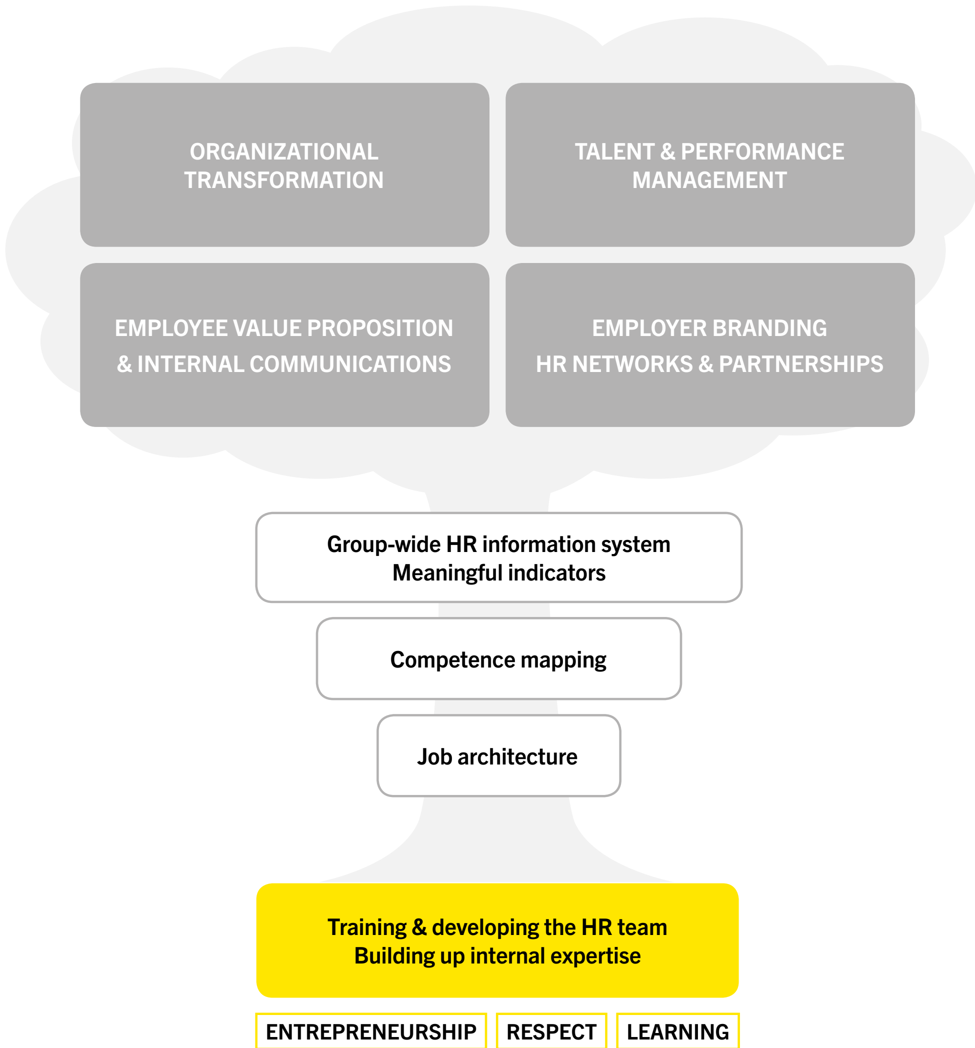
We value people. People create value.

PALFINGER's success depends on its employees: people who, day after day, use their passion, energy and enthusiasm to make PALFINGER what it is. PALFINGER boosts the satisfaction, motivation and loyalty of its staff through an open corporate culture and communication. The motto for PALFINGER's corporate culture is: "We value people. People create value."

HR Strategy 2020

In recent years, PALFINGER has set the course for the successful advancement of the Group. All adaptations made were based on global trends and changes experienced in the business world, but primarily also in the lives and jobs of each and every staff member. The organizational changes also gave an impulse to the corporate culture and core values of PALFINGER. The HR Strategy 2020, which was devised in 2017, reflects the new demands on the staff as well as on the organization and human resources management, and the course set covers the period up to 2020.

GRI 102-16



HR priorities in the reporting period

The HR strategy reflects requirements on staff as well as on the organization

In 2017, PALFINGER already started laying its global foundation: a uniform job architecture and a global HR information system. This basis facilitates the introduction of globally uniform processes and policies as well as informative key performance indicators. In the reporting period, the HR Strategy 2020 was reviewed with the GLOBAL PALFINGER ORGANIZATION in mind, and closely linked to the company-wide initiatives. It is a major cornerstone for any changes in the organization.

In 2018, the focus was on six key areas:
The HR information system's first module, "Employee and Organization Management", was prepared. Together with the second module, "Recruiting", it will go live in the first half of 2019. To further enhance the quality of HR master data, dashboards were set up for local companies, for areas and at group level. Using uniform indicators, HR reporting thus provides valid, management-relevant information. The global job architecture project was continued and, following adjustments to the GPO, will be completed in 2019. The three remaining key areas are, first and foremost, the global Learning Strategy 2022, the enhancement of leadership quality and employer identity, and branding and change, all of which are presented in detail on the following pages.

In addition, major regional and local projects, such as the General Data Protection Regulation (GDPR) within the EU, new company agreements in Austria or the harmonization of systems and processes in Russia, the Americas and Germany, were pursued further.

Corporate culture

Over its history of more than 85 years, PALFINGER has built up a solid corporate culture. Particularly in view of the rapid growth achieved in recent years, these values and standards of behaviour provide a sense of orientation and a joint framework for action. While this framework ensures the strong unity of the PALFINGER Group, there is equally a need for openness to new experiences, diversity, different approaches, cultures and ideas. The objective is to have a common corporate culture based on respect in dealing with diversity and differences.

GRI 102-16
Sustainability and Diversity Improvement Act
Diversity, page 88

The corporate culture is built on change management, communication and participation

The advancement of the PALFINGER culture gives more weight to active change management, intensified communication and participation. This already showed in the summer of 2018, when Andreas Klauser was introduced as the new CEO, and this opportunity was also used to present him personally, his values and his leadership principles: In addition to an official welcome event attended by representatives from the areas, all employees worldwide became acquainted with him through his video home story, and town hall meetings were organized at all plants.

Participation in the further development of PALFINGER and open communication were also welcome when it came to the new GPO: In September, the GPO was presented to the entire global management at an event in Salzburg, at which the GPO's basic principles were elaborated together. Until the end of the year, the framework created there was then filled with life, module by module, all over the world. This new form of cooperation is based on

- a clear policy defined by the Executive Board,
- the inclusion of as many staff members as possible,
- their participation in shaping projects and measures, as well as
- the corporate culture and values as a separate dimension within the change process.

VALUES

For many years, PALFINGER's core values have been entrepreneurship, respect and learning. In light of the GPO, these values are being reviewed and, where necessary, reinterpreted, which will strengthen awareness and understanding of the core values. The fact that the advanced corporate culture now includes more active participation will help as well.

GRI 102-16
Sustainability and Diversity Improvement Act

One of the main objectives of PALFINGER's corporate culture is to allow for a stable work-life balance. Since 2017, flexibility in terms of both time and place has been established as an organizational principle. This principle is implemented through local agreements to the extent possible depending on the respective employee's position and context.

PALFINGER is committed to communication across all levels, as well as to internal bodies for the representation of employees and works councils. PALFINGER firmly rejects any restrictions of this freedom of association. In accordance with its corporate values, PALFINGER enables active exchange at all times and treats the articulated needs of its staff members with respect. As a rule, freedom of association and the representation of employees are legally possible at all sites provided that this is permitted by the laws of the respective country.

Observance of human rights is also regulated in the PALFINGER Code of Conduct

PALFINGER is strongly committed to observing human rights. In its Code of Conduct, PALFINGER has defined the material principles that form the basis for the Group's internal and external actions. Measures to prevent human trafficking and child labour, respect of the freedom of association, and regular supplier audits are just a few examples highlighting PALFINGER's commitment to fairness and equality in the world. For many years, an anonymous Integrity Line for reporting violations has been available to the employees. Every reported incident is investigated.

GRI 407-1, 408-1, 409-1

Sustainability and Diversity Improvement Act

Suppliers, page 64; Corporate governance report, Fair business, page 122

WORKPLACE ACTIVITIES

Numerous PALFINGER sites worldwide offer activities to enhance the social environment for the staff at the workplace. This includes informal events, cross-location projects and training courses, as well as sports activities, barbecues or family days. Being a long-standing, third-generation family business, PALFINGER attaches great importance to combining work and family, jobs and social environments.

Many of these activities are also communicated worldwide via the public corporate blog and the staff magazine PIN.

GRI 102-43

Sustainability and Diversity Improvement Act

blog.palfinger.ag/en/

DIVERSITY

The diversity scheme provides for specific goals and initiatives

Currently, 10,780 staff members from 74 different nations work for the global PALFINGER Group. Embracing diversity not only harbours great potential but also entails huge challenges. In 2017, PALFINGER renewed its diversity strategy and defined targets and initiatives to further increase diversity within the Group by 2022. Details on the diversity scheme are presented in the corporate governance report.

PALFINGER is already well-positioned as regards many diversity aspects. Precise data on diversity in terms of gender and generations are provided in the section on employment trend. As is typical for the industry and for a company with a focus on engineering and production, the percentage of women within the PALFINGER Group is low, also in management positions. The diversity scheme explicitly deals with this aspect. Information on how employees with disabilities are integrated is available in the detailed GRI and sustainability disclosures.

In 2018, an internal HR reporting system was established, which regularly displays the status quo and the attainment of annual targets. Moreover, numerous measures to promote diversity and intercultural competence are in place, in particular regarding employee postings, partnerships and joint ventures. As PALFINGER is a group with a global footprint, diversity is an opportunity that is being utilized. In the 2018 financial year, no incidents of discrimination were reported at PALFINGER.

GRI 406-1

Corporate governance report, Diversity scheme, page 120; Detailed GRI and sustainability disclosures, page 214

COMMUNICATION
To PALFINGER, communication means more than just a mouthpiece. In the reporting period, internal and external communications were combined under the new corporate function Corporate Marketing, Communications and Sustainability to be able to better support the strategy through communication.

As the group language, English forms a common basis for discussions

A key topic is the common language within the PALFINGER Group. Having a common basis for discussions makes working on customer solutions, intercultural understanding and networking across different cultures and countries easier. Against this backdrop, in 2017 PALFINGER defined the organizational principle "English as the corporate language". Since 2018, all group reports and presentations have been prepared in English, and parts of the global recruiting of executives have been carried out in English. Moreover, the range of English courses available in the various countries is being expanded to include not only on-site training but also assisted e-learning courses. In addition, a training campaign in this field was launched in Russia in the reporting period.

The PALFINGER Internal Newsletter (PIN) is a staff magazine, which has been established for many years now and is published three times a year in fourteen languages. In addition, PALFINGER also uses the online communication tool Yammer. Another current project is a new global intranet site for all employees.

In 2017, PALFINGER created its new vision for the digital age: "Together we are shaping the future of our customers' lifting solutions." In 2018, the focus was on effectively communicating this vision to all stakeholders, first and foremost to approx. 11,000 employees all over the world. Core factors of this process were participation and active commitment. In December 2017, "vision days" for the extended management teams were launched in all business areas, followed by town hall meetings, PIN articles and a new company video. Communication routines are used to help to firmly incorporate the vision throughout the PALFINGER Group. The implementation of the vision is also being advanced and supported by the new GPO.

GRI 402-1

Sustainability and Diversity Improvement Act

Attractive employer

PALFINGER's values – entrepreneurship, respect and learning – make PALFINGER an attractive employer

PALFINGER endeavours to offer attractive jobs to its existing and potential workforce, based on its core values: entrepreneurship, respect and learning. In addition, factors such as the opportunity to shape one's own working environment, global career and development options, a stable environment and a promising future perspective, to name just a few factors, are good reasons to work for PALFINGER.

PALFINGER carries out employee surveys at regular intervals, the last one having taken place in 2016. Given the numerous internal changes in 2017 and 2018, the next employee survey was postponed until 2019. Instead, during the reporting period, emphasis was placed on communicating the change processes and ensuring participation in them. In addition, further improvement measures suggested in the 2016 employee survey and in the fit-to-work survey carried out in Austria in 2017 were implemented.

Feedback on how attractive PALFINGER is as an employer reaches PALFINGER not only in the form of employee satisfaction, but also through their loyalty to the Company. Moreover, satisfied employees are the best brand ambassadors and the most effective type of employer branding. At many sites, PALFINGER has a great number of long-standing staff members. In 2018, the first joint celebration in honour of all employees who had a special anniversary working with the Company was organized in Austria.

Under its employer branding strategy, PALFINGER also used new formats, trade and job fairs, at many sites in 2018. In the same year, several Austrian sites took part in the career event "Lange Nacht der Karriere" for the first time. Targeted measures to position PALFINGER as an attractive employer were also taken at various sites in Germany, Russia and the Americas.

Another priority was professionalizing and standardizing HR processes such as recruiting, on-boarding and salary increase processes. Training courses on labour law, leadership basics and other topics are helping to make management processes even more professional.

PALFINGER consistently enhances its HR strategies, processes and opportunities in order to find and keep the best staff. In addition to the feedback of long-standing employees, exit interviews with those employees who have decided to leave PALFINGER also represent a valuable source of information in this connection.

CAREER PATHS

PALFINGER supports internal development opportunities and career options

Internal development opportunities and career options are a major factor. PALFINGER is currently working on a global job architecture which, from 2019 onwards, will create more transparency regarding job families, roles and responsibilities. This common architecture will make it possible to offer more targeted training and development programmes and to link them with succession planning and career planning. For many years now, PALFINGER has been in a position to fill a large number of management positions through internal recruitment.

REMUNERATION

Attractive and fair remuneration also contributes substantially to employee satisfaction. In general, PALFINGER pays wages that are higher than the respective regional remuneration levels. 65.4 per cent of all PALFINGER employees are governed by collective bargaining agreements. Moreover, at many sites PALFINGER provides specific voluntary social benefits and initiatives, which vary according to local needs. In part, PALFINGER's remuneration system contains variable remuneration components, thus creating an attractive incentive for employees to earn more than the base salary. PALFINGER uses cross-comparisons and benchmarkings to ensure the adequacy of the remuneration paid.

Since the beginning of 2018, a new group-wide bonus model has been in place, defining a common standard. Under this model, the variable remuneration of all members of upper management is linked to a uniform measurement parameter. This step is a further contribution to the alignment across sites and regions and makes sure that the entire PALFINGER management is geared to the common strategy.

PALFINGER is under a statutory obligation to present income reports for its Austrian companies. On the basis of these reports, the classifications are checked and the remuneration of women and men analysed. No significant differences have appeared in recent years. When recruiting employees, no difference is made between men and women with regard to their classification under the terms of the collective bargaining agreement.

GRI 102-41

Sustainability and Diversity Improvement Act

WORKING TIME MODELS

Flexible working time schemes offer advantages to PALFINGER and its employees

PALFINGER attaches importance to flexible working time schemes in order to maintain a high level of entrepreneurial flexibility. If the job and local circumstances permit, remote working arrangements are an option as well. Moreover, flexitime and self-organization provide for high productivity despite fluctuations in demanded quantities. PALFINGER is thus in a position to offer its employees a comparatively high degree of job security, even when demand is low.

APPRAISAL INTERVIEWS

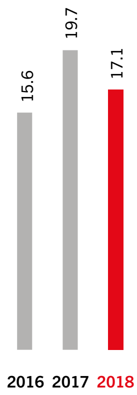
At many sites, appraisal interviews are used as a standard management tool

At many PALFINGER sites, appraisal interviews have become a standard management tool. In the reporting period, 34.0 per cent (previous year: 26.1 per cent) of the Group's employees were invited to such an interview at least once. Particularly in the indirectly productive sector, appraisal interviews with superiors take place at least once a year. Half-year reviews are also often performed in addition to the formal annual interviews. In the directly productive sector, appraisal interviews are organized less systematically but rather take place as circumstances require. This makes it difficult to document and consolidate them.

Sustainability and Diversity Improvement Act

Learning organization

The fact that PALFINGER has defined learning as one of its core values illustrates the importance that PALFINGER attaches to initial and further training worldwide. The objective is to enhance the qualifications of staff in all countries; to this end, training measures are expanded and enhanced on a regular basis.



TRAINING HOURS
(per employee)

In addition to the established regional programmes such as the PALFINGER College in Austria or the training centre in Tenevo, Bulgaria, PALFINGER has already implemented e-learning platforms as pilot projects, for instance in North America, Europe and Russia. These platforms make it easier to provide learning opportunities and grant the biggest possible number of employees access to training options. Both internally prepared training content and external training courses are available. The holistic HR information system includes a modern digital learning platform, which in the medium term will facilitate a global scheme for blended learning: classroom training combined with e-learning.

In 2018, hours of training per employee decreased.

GRI 404-1

Detailed GRI and sustainability disclosures, page 214

DEVELOPMENT PROGRAMMES

In addition to professional training, development programmes are a vital component of the PALFINGER learning strategy. For many years now, PALFINGER has therefore been in a position to successfully fill strategic management positions and lower management positions through internal recruitment.

Management

Under the corporate executive development programmes, participants are given the opportunity to reflect on and expand their potential in a practice-oriented environment. In all programmes, decision makers from PALFINGER's top management are available as mentors and for discussion.

Initial and further training is of great importance; relevant measures are being expanded

The Global Leadership Programme is central to the corporate executive development strategy. The twelve-month course prepares participants for their future top management positions. The current course has 15 participants from seven nations; two of the participants are women. New courses in the context of the area-specific Leadership Programme will start in the course of 2019.

Apart from these corporate programmes, PALFINGER also supports the individual development of executives. Available options include mentoring and coaching by selected trainers and targeted professional training, for instance in executive training courses.

At PALFINGER, feedback is a very important component of lifelong learning. Numerous employees in positions with responsibility participate in 360-degree feedback interviews to critically analyse their skills and competencies and, on the basis of the results, engage in measures to promote their personal development.

Apprentices

To PALFINGER, promoting young people's careers is just as important as training executives; when it comes to staff qualifications, the training of apprentices is of key significance at PALFINGER.

In the 2018 financial year, 64 apprentices were trained in Austria, primarily mechanical engineers, process engineers, mechatronic engineers, construction engineers and industrial business management assistants. 60 of them graduated with distinction or with merit from the part-time vocational school for apprentices, and several PALFINGER apprentices achieved top rankings in the "Lehrlingsaward Oberösterreich" (Apprentice Award of Upper Austria). The "Lehre mit Matura" (apprenticeship and upper secondary school leaving certificate) scheme had 20 participants. Thanks to PALFINGER's investment in the training of its staff, the Company's primary production sites in Austria find many of the skilled workers they need within their own ranks.

PALFINGER uses programmes similar to apprenticeships to train skilled labour outside of Austria as well

PALFINGER increasingly uses specific dual training schemes, also at locations outside Austria, to train skilled labour. In Bulgaria, Slovenia and Brazil, for example, government-certified training programmes are carried out in cooperation with local technical colleges where, as in the Austrian system of apprentice training, theoretical know-how is taught at school while, at the same time, practical training lasting several months is provided at a PALFINGER plant. In Germany and in Bulgaria, PALFINGER is further expanding the technical training of apprentices in order to prepare the skilled workers of tomorrow for various fields of operation within the Group. At the Sany Palfinger joint venture at the Rudong site, a government-approved apprenticeship training programme using Austrian standards has been in place since the end of 2016. In 2018, trainer capacities were expanded and investments in new machinery were made, making the programme even more professional. 30 apprentices are currently training to become metal engineers.

In 2018, 183 employees (previous year: 239 employees) worldwide participated in PALFINGER apprenticeships or similar programmes, 41 of them were women.

International assignments

International assignments are an opportunity for personal and job-related growth

International assignments are a special type of career development. Spending a defined time period meeting new challenges in another country is a good development opportunity for employees, both personally and professionally. As a global company, PALFINGER attaches great importance to these international assignments, since they contribute to building the organization, utilizing synergies and enhancing the corporate culture.

In 2018, a total of 39 employees were temporarily posted abroad. PALFINGER has created various types of assignment: long-term expatriates, flyers for projects and exchange programmes. All of these assignments ensure an intensified transfer of knowledge between headquarters and local companies, as well as among local companies. Moreover, they increase awareness of cultural differences and successful intercultural cooperation, mutual respect and an understanding of other countries and markets. For this reason, PALFINGER plans to further expand these mobility programmes.

A global expert training programme was added in 2018 as part of the PALFINGER Production System. The team of PPS experts supports and ensures the global transfer of know-how, a culture of continuous improvement, and the implementation of standards under the PPS programme.

Value creation, page 54

Health and safety

OCCUPATIONAL HEALTH MANAGEMENT

At PALFINGER, occupational health management is implemented through the PALfit health initiative, which comprises development programmes concerning the workplace and work-related content and also includes programmes to develop and strengthen personal skills. PALFINGER also attaches great importance to a sound work-life balance. Under the PALfit initiative, the motto "FIT im JOB – Gesund im LEBEN" (FIT on the JOB – healthy in LIFE) is being introduced at the PALFINGER sites, thereby expanding health and safety measures.

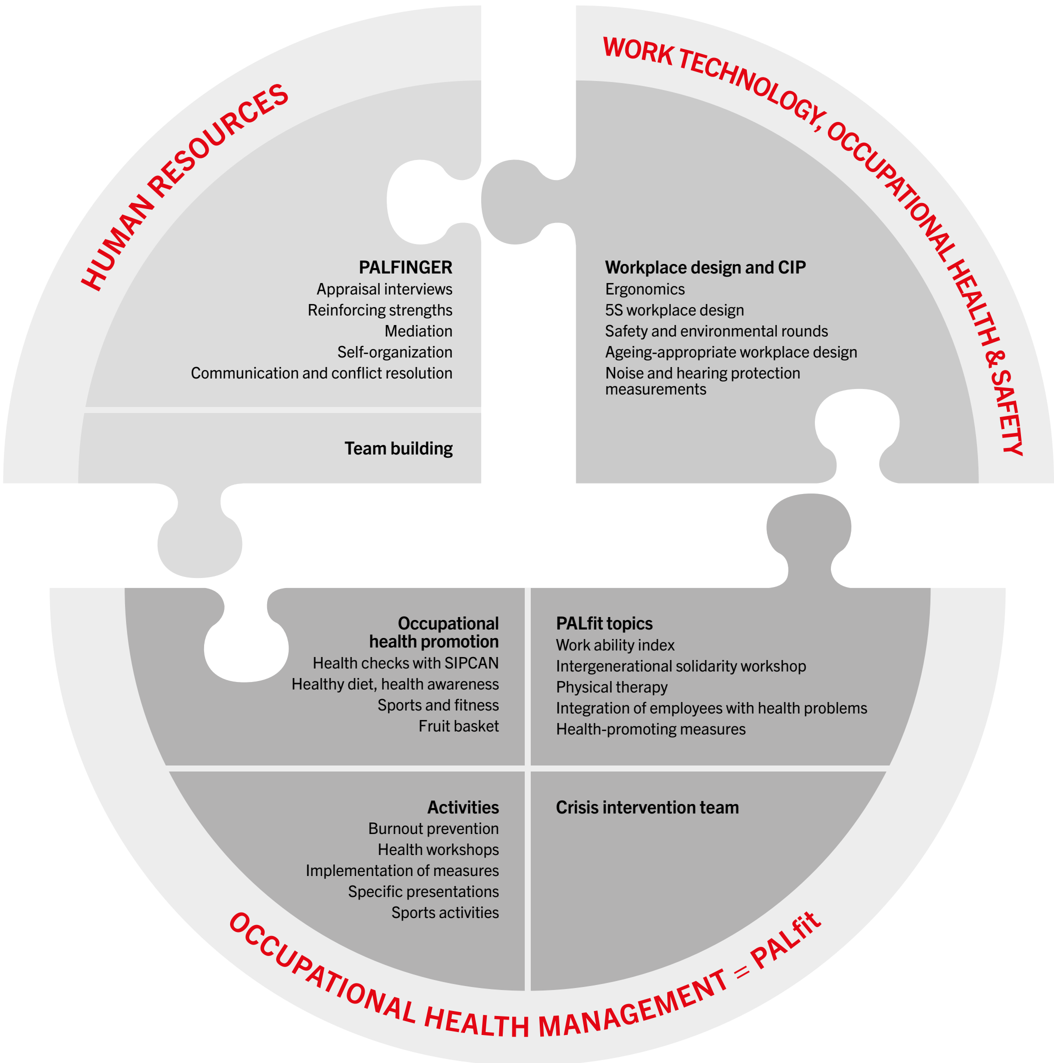
PALFINGER applies the Work Ability Index ABI Plus^{TM} as a measuring device at all Austrian sites every two years and, since 2017, has been conducting annual group-wide surveys on occupational health, safety, training and development. In the reporting period, the results of the group-wide survey were analysed and, on the basis of the outcome, the sites were provided with targeted support in deriving and implementing measures, for instance through knowledge transfer and best-practice examples.

The new corporate function Safety & Quality lends more importance to safety aspects

In order to better highlight the importance of safety aspects, the new corporate function Safety & Quality was established as part of the new organizational structure in 2018. The responsibilities of this new function include the creation of global standards and processes in the fields of occupational safety and quality and their implementation in close cooperation with the corporate functions Operations, Research & Development as well as Human Resources.

Detailed GRI and sustainability disclosures, page 214

www.fit2work.at (only availabe in German)



ABSENTEE RATE

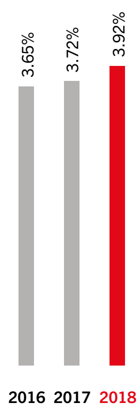
The absentee rate due to sick leaves, occupational diseasesand other causes rose to 3.92 per cent (previous year: 3.72 per cent) in the reporting period. Percentages and trends vary from region to region. Since 2017, occupational diseases, which form part of this indicator, have been reported separately as well.

As a general rule, absentee rates of between 3 and 4 per cent are not uncommon in the field of manufacturing and represent a comparatively good figure. PALFINGER ascribes the increase in staff absences primarily to several influenza epidemics that occurred in the reporting period. Healthy and well-balanced employees are very important to PALFINGER, and therefore increasing importance is being attached to health initiatives and workplace design.

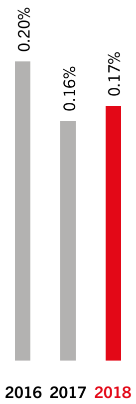
GRI 403-2

Sustainability and Diversity Improvement Act

Value management, page 52; Detailed GRI and sustainability disclosures, page 214



ABSENTEE RATE DUE TO SICK LEAVES, OCCUPATIONAL DISEASES AND OTHER CAUSES
(in per cent)



STAFF ABSENCES DUE TO INDUSTRIAL ACCIDENTS
(in per cent)

OCCUPATIONAL SAFETY AND ACCIDENT PREVENTION

PALFINGER's accident prevention efforts have proven effective and have resulted in low staff absences due to industrial accidents. In the 2018 financial year, 563 industrial accidents (previous year: 478) occurred, marginally increasing staff absences to 0.17 per cent of regular working time (previous year: 0.16 per cent). The goal of lowering the rate of staff absences due to industrial accidents to under 0.11 per cent was not met in the reporting period. No fatal industrial accidents occurred in 2018 (previous year: 1 fatality).

PALFINGER's various sites all over the world do their reporting on accidents in accordance with a variety of definitions as stipulated in the respective countries. This means that benchmarks cannot necessarily be compared. PALFINGER is striving to harmonize accident indicators in all countries and to categorize them according to the severity of the consequences in 2019. Experience has shown that consistent reporting further increases awareness concerning accident prevention and further reduces the risk of accidents.

At PALFINGER, one way of managing occupational health and safety aspects is OHSAS 18001 certification and, since 2018, also ISO 45001 certification. In 2018, 26 per cent of all staff members worked at locations with such certifications.

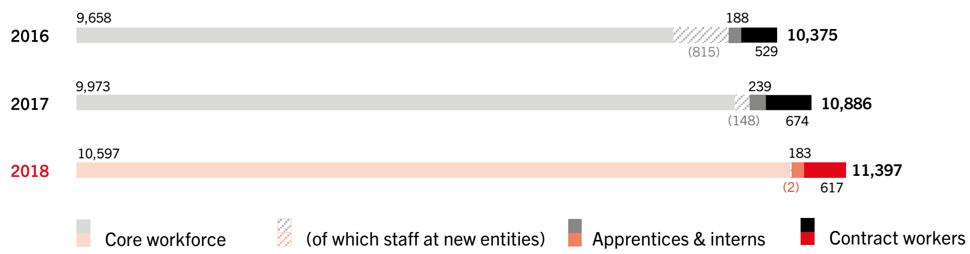
GRI 403-2
Sustainability and Diversity Improvement Act
Value management, page 52; Detailed GRI and sustainability disclosures, page 214

Employment trend

In the reporting period, the number of employees continued to rise

In the 2018 financial year, the number of people employed by the PALFINGER Group rose consistently. As at 31 December 2018, PALFINGER employed a total of 10,780 staff members in its fully consolidated companies, which corresponds to an increase of 5.6 per cent or 568 people compared to the previous year. These figures included 183 apprentices and interns. In addition, 617 contract workers were employed to cover capacity bottlenecks, primarily in Europe and in parts of the USA.

EMPLOYMENT TREND AS AT 31 DEC



While the headcount grew in the EMEA business area, primarily in Austria, Bulgaria and Slovenia, as well as in the business area Americas, due to higher incoming orders, the restructuring projects and the necessary savings in the global Marine business area led to a decrease in its staff numbers in the relevant units. Broken down by function, investments in sales, service and marketing led to an overall increase in staff of around 100 persons. In the course of the 2018 financial year, the number of employees working in production also increased, by more than 500. The administrative headcount was 1,012 at the end of the year, which corresponds to a slight decrease.

GRI 102-8
Sustainability and Diversity Improvement Act

TYPES OF EMPLOYMENT CONTRACTS

Since 2017, key figures pertaining to employment contracts have also been recorded. As a mechanical engineering company with a high level of value creation, PALFINGER employs a large percentage of full-time employees. Part-time contracts are not a common practice; in 2018 only 2.6 per cent (previous year: 5.0 per cent) of the total workforce worked part-time.

Most PALFINGER employees have employment contracts of indefinite duration, given that PALFINGER strives to retain its qualified and motivated staff on a long-term basis. Fixed-term employment contracts are only used in special situations, e.g. temporary replacements, special projects or to cover peaks in capacity utilization. In the reporting period, 4.2 per cent (previous year: 4.4 per cent) of the staff worked under fixed-term contracts.

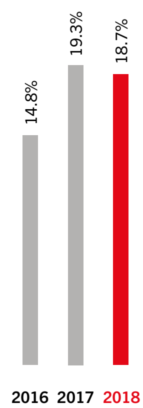
GRI 102-8
Sustainability and Diversity Improvement Act
Detailed GRI and sustainability disclosures, page 214

EMPLOYEE TURNOVER AND ENTRIES

Employee turnover decreased by 0.6 percentage points compared to the previous year, coming to 18.7 per cent in the 2018 reporting period (previous year: 19.3 per cent). In 2018, 1,866 staff members (previous year: 1,868) left PALFINGER during the year. This figure includes all staff leaving including staff retirements as compared to the total staff employed in the previous period, contract workers excluded. The turnover rate among women was lower than the overall rate within the PALFINGER Group, coming to 15.3 per cent, which corresponds to 201 staff members. At the same time, 2,304 staff members (previous year: 1,882 staff members) started employment with PALFINGER in the reporting period, 245 of whom were women.

PALFINGER has set the annual target for employee turnover at a maximum of 10 per cent, and thus in the reporting period came slightly closer to reaching this target.

GRI 401-1
Sustainability and Diversity Improvement Act
Value management, page 52; Detailed GRI and sustainability disclosures, page 214



EMPLOYEE TURNOVER
(in per cent)

GENDER

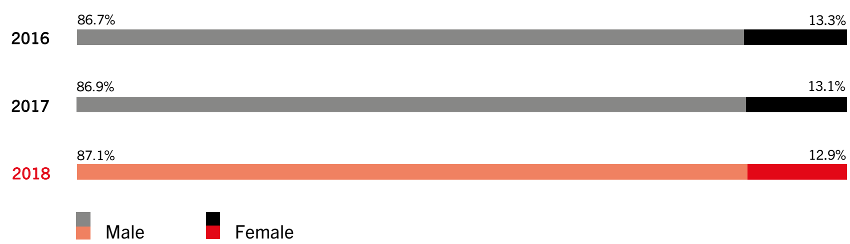
As is typical for the industry, the percentage of women within the PALFINGER Group is low. Overall, the percentage of women employed remained largely stable at 12.9 per cent (previous year: 13.1 per cent). However, percentages vary greatly from site to site: In many regions, the majority of employees in production-related jobs at manufacturing sites are men.

The percentage of women in management decreased slightly in 2018 and is now 16.8 per cent (previous year: 17.7 per cent). Employees in management positions include all members of the Executive Board, the heads of business areas, business units and corporate functions as well as all employees in disciplinary management positions. Six women held top management positions, accounting for 9.0 per cent.

Women account for 12.9 per cent of the total workforce and for 9.0 per cent of top managers

GRI 102-8, 405-1
Sustainability and Diversity Improvement Act
Corporate governance report, Diversity scheme, page 120; Detailed GRI and sustainability disclosures, page 214

GENDER DISTRIBUTION (in per cent)



GENERATIONS

In recent years, the average age structure within the PALFINGER Group has changed, primarily in connection with the new sites. Around 18.6 per cent of the staff members belong to the youngest age category of 29 or under. Approx. 59.5 per cent of the employees are between 30 and 50 years of age, and 21.9 per cent are over the age of 50. Details on regional developments are available in the detailed GRI and sustainability disclosures.

PALFINGER retains know-how within the Company through generation management

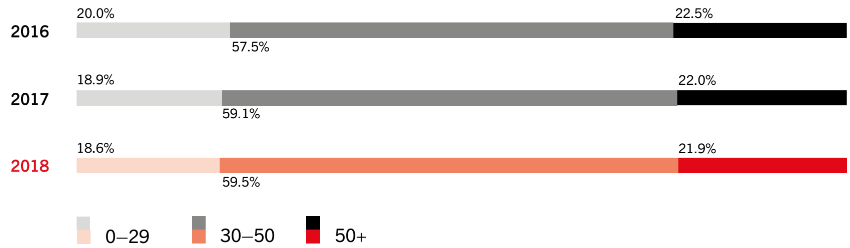
PALFINGER has a group-wide generation management system in place to ensure that upcoming retirements are taken into account and that know-how is retained within the Company. The regular Human Resource Review for management positions shows which positions will have to be filled in the near future and how to ensure that the transitions are as smooth as possible.

GRI 102-8, 405-1

Sustainability and Diversity Improvement Act

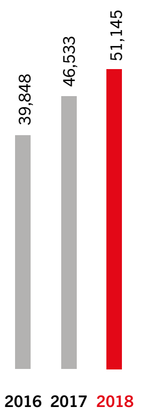
Detailed GRI and sustainability disclosures, page 214

GENERATIONS (in per cent)



RESEARCH AND DEVELOPMENT

- **Value added across the product lifecycle is what counts**
- **Innovations contain more and more digital components**
- **Cooperation and open innovation are gaining importance**



RESEARCH AND DEVELOPMENT
(EUR thousand)

The PALFINGER brand stands for innovative, reliable and efficient lifting solutions that create measurable monetary value added for customers throughout the product lifecycles. The promise of the PALFINGER brand puts this into words: LIFETIME EXCELLENCE. In order to maintain and expand its leadership in the fields of technology and service, PALFINGER is boosting research and development for products, systems and processes. All research and development (R&D) activities are performed in a targeted manner with long-term orientation. Under the new GLOBAL PALFINGER ORGANIZATION, the central R&D competencies are bundled in Centers of Excellence, with the aim of increasingly supporting product development synergies across the regions.

A group-wide research and development centre, which houses a number of R&D departments and several Centers of Excellence, is located at the Austrian site in Köstendorf. This facilitates a better use of synergies. Additional R&D departments have been established at various international sites. The Centers of Excellence, a global product management structure and the use of uniform production standards help PALFINGER to cater to customer requirements in the best possible manner, even in the case of development projects across several business units or market regions.

In 2018, PALFINGER invested EUR 51.1 million (previous year: EUR 46.5 million) in research and development, i.e. 3.2 per cent of its total revenue.

Mechatronics and digitalization

In 2017, PALFINGER made the decision to organize the mechatronics unit as a separate Center of Excellence that is directly integrated into the EMEA business area, with the objective of harmonizing the mechatronic control systems and the related development processes throughout the PALFINGER Group. In 2018, the development of new control architectures on a modular basis started. The focus was placed, on the one hand, on a make-or-buy analysis, and, on the other hand, on the possibility of multiple uses of the modules and components for various product lines, which would realize substantial synergies and standardization in after-sales services as well.

Mechatronics and digitalization are becoming increasingly integrated

In addition, PALFINGER started to define a component portfolio for mechatronic parts, hardware modules and sub-systems. The interfaces and protocols of the relevant software operating system architecture were adjusted to meet future requirements of digitalization.

Under the strategic pillar PALFINGER 21st, all digitalization efforts have been merged into a single unit. Since 2017, PALFINGER has also maintained a development site for IoT solutions at a start-up hub in Vienna. As part of this cooperation, industry-relevant start-up companies are given the opportunity to present themselves and their solutions for specific-use cases on a quarterly basis.

Digital solutions open up new possibilities in terms of the user friendliness, safety and efficiency of the PALFINGER products. In the reporting period, virtual reality applications, assistance systems and fleet management solutions were field-tested as enhancements of existing systems. Telematics solutions will raise maintenance and service to new levels of quality. In production, PALFINGER is already using the first Industry 4.0 applications. Whether in production or in the products themselves, the focus is on solutions that enhance existing products as well as on completely new approaches.

Value creation, page 54; Significant changes within the PALFINGER Group, page 71

Patents

Spread across all product groups, the PALFINGER Group currently holds 68 (previous year: 64) active patents, utility models and special registered designs for the protection of functional design elements.

Safe and efficient products

In addition to economic advantages for customers, ecological and social aspects are important factors

Research, development and innovation also increase the sustainability of PALFINGER's business model. Attention is paid not only to the economic advantages for customers and users; ecological and social aspects are important factors as well. As a result, PALFINGER develops top-quality, reliable solutions that also guarantee a high level of safety for the user.

Continuously lowering service costs while at the same time extending the longevity of its products is one of PALFINGER's highest priorities. Innovation is encouraged primarily in the areas of energy efficiency during product use, alternative drives, reduction of operating supplies, and product lifecycle assessment.

Lifecycle costs are an important topic

In 2018, a pilot project regarding the assessment of lifecycle costs was completed. The outcome of this project was an app that is able to determine a product's lifecycle costs while it is being used. At first, the app will be developed as a stand-alone solution; however, the objective is to integrate it into the product configurator that is used for sales purposes. In combination with features for cranes, such as alternative drive, low-maintenance extension booms or smaller oil tanks, this development has substantial cost-reduction potential for PALFINGER's customers.

Eco-efficiency in production, page 102; Detailed GRI and sustainability disclosures, page 214

PRODUCT SAFETY AND ACCIDENT PREVENTION

Numerous innovations focus on user safety in order to prevent accidents, including those that might be caused by improper use of the products. PALFINGER's products meet all mandatory safety standards, with PALFINGER being guided by European standards, also at its international locations. As a consequence, local minimum standards are not only met but in many cases exceeded, particularly in Asian, Arab and African countries. All of PALFINGER's products are assessed as to their health and safety impacts, and enhancements are made. An overview of the relevant safety standards can be found in the detailed GRI and sustainability disclosures.

GRI 416-1
Sustainability and Diversity Improvement Act
Detailed GRI and sustainability disclosures, page 214

PALFINGER analyses accident-relevant information to further increase product safety

In the reporting period, there were no convictions for non-compliance with safety regulations. Regardless of who is at fault, PALFINGER investigates all incidents with PALFINGER products causing personal injury that come to the attention of the Company. As this also includes damage resulting from faulty operation, i.e. cases in which no legal steps are taken, a good network and safety awareness in the respective countries are vital in order for PALFINGER to be able to find out about these incidents. All accident-relevant information is analysed internally, enabling PALFINGER to further increase product safety – even beyond statutory requirements.

GRI 416-2
Sustainability and Diversity Improvement Act

The number of reported accidents while using PALFINGER products was 18, including 14 accidents resulting in injuries of varying severity and, unfortunately, five fatal accidents. When an accident with a loader crane occurred in the reporting period, PALFINGER initiated a product recall to facilitate the exchange of individual parts as a preventative measure. At PALFINGER, product safety comes first.

Accidents with PALFINGER products	2016	2017	2018
Reported accidents	8	4	18
Fatalities[1)]	1	1	5
Injuries of varying severity[1)]	10	3	14
Penalties imposed by court on grounds of accidents	0	0	0
Pending complaints on grounds of accidents with products (as at 31 Dec)	4	4	3
Convictions	0	0	0

1) Irrespective of fault.

PALFINGER produces lifting solutions. Products such as loader cranes, hooklifts and skiploaders, truck mounted forklifts and boats are also in demand by the military and defence industries, primarily for logistical operations. Revenue from products used in the military field rose to EUR 59.4 million in 2018. This corresponds to 3.7 per cent of the Group's revenue. PALFINGER does not produce any weapons systems and observes all embargoes imposed by the EU or the international community.

Major innovations in 2018

A multitude of product innovations confirm the focus on research and development initiatives

In 2018, PALFINGER presented its first crawler crane. For the time being, the PALFINGER Crawler Crane PCC is available in three variants ranging from around 50 to 115 metre tonnes. With this product, PALFINGER offers a flexible high-performance solution for difficult terrains.

Two new crane models were added to the TEC series. The PK 37.002 TEC 7, which features a continuous slewing system, is the new flagship of this model series and offers all the advantages of a heavy-duty crane in a medium metre-tonne class. Just like all TEC cranes, these two models are also based on the P profile, which ensures an extremely powerful boom system despite its low deadweight.

In the heavy-duty crane segment, PALFINGER expanded its product portfolio to include the PK 135.002 TEC 7. This crane is specially designed to lift heavy loads and has a long reach, but still offers payload reserves on the truck. Its diverse range of applications includes everything from heavy-duty jobs to intricate installation work. Another highlight is the new electronic joystick control for the loader crane.

With the MFA jib, PALFINGER has increased the maximum reach of the TEC crane series by another 5.5 metres. The MFA jib can be used to lift loads in previously inaccessible positions.

Two innovative assistance systems, MEXT and WEIGH, integrate mechanical extensions into the overload protection system and weigh loads directly on the crane. Both functions can be easily activated by the crane operator via the radio remote control PALcom P7.

In the field of railway systems, PALFINGER presented the workman basket BB 049 with a new levelling mechanism, which makes hooking up and detaching the basket to and from the crane an extremely simple task.

The EPSILON Q17Z103TR is the first Triple-Z crane from the Next Epsolution series. Specially designed for container and recycling usage, it has a vastly increased reach of 10.3 metres and is an impressive 200 kg lighter overall. One particular innovation of the Triple-Z crane is the completely internal hose guide.

The new compact and manoeuvrable access platform P 200 AXE offers advanced hydraulic technology. Therefore, the platform can be controlled with impressive precision and can reach a maximum working height of 20 metres.

In the field of hookloaders and skiploaders, customers will be able to choose between the TEC and SLD equipment lines. The TEC models were revamped and fitted with new functions, which will boost product performance. The SLD equipment line offers exceptional value for the price.

In the field of truck mounted forklifts, the PX series received a technical upgrade and a facelift. Particular attention was paid to increasing corrosion resistance.

One completely new development in the field of tail lifts is the vertical lift V 500 LQ. With a lifting capacity of 500 kg, this model is the lightest version in a new series of vertical lifts. In the 750 kg payload range, the next generation of the four-cylinder standard platform – the MBB C 750 S – was developed. Specially developed for light-duty commercial vehicles with a box-type body, it offers a high level of modularity, which makes it extremely flexible and suitable for different vehicle types.

PALFINGER presented a concept for its new fully-electric davit crane at the leading international maritime trade fair SMM. The crane is made of glass fibre reinforced plastic, and features smaller, lighter and more cost-efficient components. The magnetic brakes suffer almost no wear and tear, and the electric motor is directly attached to the winch, which makes it easier to maintain.

In 2018, the first fully electric offshore cranes were delivered and installed. The innovative feature of the cranes is that they are electrically driven using a standard AC motor for use in areas subject to explosion hazards, designed according to the highest EN and NORSOK standards. They are the first cranes with such technology to be used in the North Sea.

For the first time, PALFINGER rescue boats were equipped with a navigation system and an automated escape route assistant. This special technology includes an autopilot system, which ensures that the rescue boat can be safely moved away from the oil platform in the case of an emergency.
Detailed GRI and sustainability disclosures, page 214

INNOVATION IN THE FIELDS OF DIGITALIZATION AND INDUSTRY 4.0

At PALFINGER, digital innovations are being used in products as well as in production

Smart Control, the new digital boom tip controller for forestry loader cranes, makes operating the crane even easier and more intuitive. Crane operators no longer have to control every cylinder individually, but can focus specifically on the boom tip.

Today, with the Virtual Drive control system, forestry cranes can already be operated from the truck's cabin, using a VR headset. So far, however, only a fully functioning concept prototype has been presented, as PALFINGER is of the opinion that with the currently available VR headset technology, the field of vision is still restricted in comparison with what operators have been accustomed to. Therefore, PALFINGER will wait until adequate display resolutions are available.

It is now possible for customers to familiarize themselves with the new PK 135.002 TEC 7 crane for heavy loads via two AR or VR applications. With the PALFINGER XR APP, they can experience the main features of the crane: A hyper-realistic, moving 3D model, videos, photos and texts are available. In the future, video markers will be integrated into all newly published brochures to enable access to this augmented reality app. The new VR Crane Simulator is not only a great way of getting to know the product, but may also be used for product training purposes. Users may simulate live operation of the crane and may even switch to different perspectives. PALFINGER provides a complete set consisting of VR goggles, remote control and laptop for rent or sale.

The Smart Eye "data goggles", a digital tool presented by PALFINGER in 2018, assists service technicians in analysing and remedying defects of PALFINGER products. This solution highlights PALFINGER's service competence in everyday work situations. In more complicated situations, the remote solution with real-time transmission and an augmented reality feature is a safe and efficient service tool. The technicians have their hands free to continue with their work while receiving audio and video support.

COOPERATION

Cooperation projects, close collaboration and open innovation are gaining importance

PALFINGER carries out cooperation projects with universities, universities of applied sciences, technical colleges, and institutes for development cooperation to promote the exchange of knowledge, research, and the development of existing and potential employees. In addition, the Group cooperates with non-university Centers of Excellence in the fields of mechatronics, mechanical engineering, material technology and materials science.

Development processes are continuously optimized through close cooperation with customers, suppliers and other industrial companies. Moreover, PALFINGER employees represent the Group in standardization bodies and interest groups, and also act as lecturers at educational facilities, sharing their knowledge and experience in the spirit of stakeholder engagement.
Commitment, page 50

In the autumn of 2017, PALFINGER opened an IoT development site at the weXelerate start-up hub in Vienna. PALFINGER regards the cooperation of start-ups, coaches, venture partners, investors and industrial partners as an outstanding opportunity to realize its plans.
Significant changes within the PALFINGER Group, page 71

In light of the increasing importance of open innovation, PALFINGER provided a use case for an Industry 4.0 hackathon in Linz, Austria, in 2018. The challenge was to develop an intelligent welding assistance system: a knowledge management system to guide the welders and welding supervisors through the process at the right time on the job. PALFINGER is discussing the possibility of a follow-up project with the winning team in order to implement the solution.

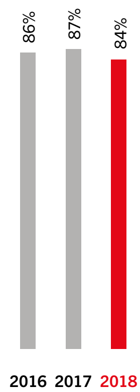
QUALITY MANAGEMENT

Product quality is one of PALFINGER's essential competitive advantages

The quality of PALFINGER's products is one of the Company's fundamental competitive advantages. A continuous improvement process as well as product and system audits help to regularly enhance product quality. In 2018, warranty costs for cranes and access platforms were once again reduced considerably. However, in two product areas, PALFINGER incurred higher costs. This was due to offshore cranes from the years 2011/2012, which needed an overhaul, and technical problems with the slewing mechanism of forestry and recycling cranes. In the meantime, both causes have been analysed and remedied; the findings have been used for the purposes of the development process.

In 2019, quality management will become part of the new corporate function Safety & Quality under the new GLOBAL PALFINGER ORGANIZATION. Increasing digitalization and more user friendliness of products and applications through user apps and other software applications will be among the topics to be dealt with. PALFINGER is thus positioning itself in line with the steadily growing quality demands in all regions and product areas.

In the meantime, all PALFINGER companies certified under ISO 9001:2008 have obtained the new ISO 9001:2015 certification. Under the new GLOBAL PALFINGER ORGANIZATION, auditing will be expanded and more efficiently organized. In addition, standardized processes and roles will enhance efficiency, strengthen the quality strategy and culture in all regions and thereby further improve product quality.
Detailed GRI and sustainability disclosures, page 214



QUALITY MANAGEMENT SYSTEM ISO 9001*
(in per cent of employees)
*as well as other similar quality management standards

MANUFACTURING FOR THIRD PARTIES

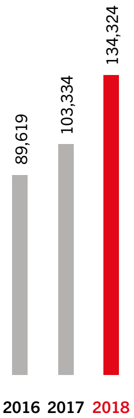
PALFINGER also provides its production capacities and production know-how to external customers. PALFINGER's strength lies in manufacturing complex parts with high quality standards, also making use of production sites in low-wage countries. Annual increases in incoming orders have been reflecting the huge interest coming from the markets.

In 2018, PALFINGER generated revenue of around EUR 98 million from manufacturing for third parties. Compared to the previous year's figure of EUR 69 million, this corresponds to another increase of around 42 per cent, which was made possible primarily by enhanced performance in terms of existing customers. In addition, a new strategic customer was gained.

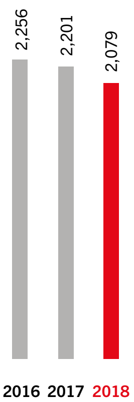
PALFINGER also provides its production know-how to external customers

In 2018, as in the previous year, capacity bottlenecks existed throughout, resulting in some delivery backlogs for PALFINGER products. In this context, close coordination with the customers proved successful, in optimally synchronizing the available resources with their installation plans. In this situation PALFINGER affirmed its commitment to the business model of manufacturing for third parties; when capacity bottlenecks occurred, internal customers were not given preferential treatment over external ones. The strong demand is most likely going to continue in 2019, making thorough planning of all products indispensable in order to further improve reliability in delivery.

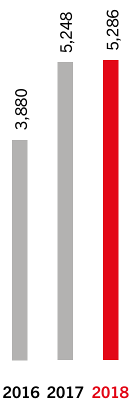
Once PALFINGER has gained new customers, their satisfaction and loyalty is reflected in higher revenue from them. For PALFINGER, manufacturing for third parties generates additional revenue and higher utilization on the one hand, while, on the other hand, the comparison with competitors on the free market contributes substantially to the internal enhancement of processes.



STEEL CONSUMPTION
(in tonnes)



ALUMINIUM CONSUMPTION
(in tonnes)



HAZARDOUS WASTE
(in tonnes)

ECO-EFFICIENCY IN PRODUCTION

- **Annual improvement targets for hazardous waste and energy met: minus 1.8 percentage points**
- **CO_2 emissions rose only slightly despite higher energy consumption and increase in production**
- **Environmental protection policy guarantees group-wide minimum standards**
- **Introduction of certified management systems at all sites is being promoted**

Efficient use of raw materials

The lion's share of PALFINGER's products is made of steel. In 2018, 134,324 tonnes of steel were used in manufacturing PALFINGER products, i.e. 30 per cent more than in 2017. Aluminium is used as well, primarily for tail lifts. In 2018, 2,079 tonnes of aluminium were used in manufacturing PALFINGER products, corresponding to a year-on-year decrease of 6 per cent. Renewable materials have no relevance for the manufacture of PALFINGER products.

GRI 301-1

For PALFINGER, the efficient use of raw materials is important from both the ecological and the economic perspective: On the one hand, raw materials account for approx. 9 per cent of PALFINGER's total costs. On the other hand, the upstream generation of raw materials and materials causes considerable environmental costs. The mining of mineral ores and the extraction of crude oil require large areas of land and consume considerable amounts of natural resources. Processing the raw materials into steel and aluminium also involves a high energy intensity and causes considerable climate-relevant emissions – even though the cost for emissions trading in these industries was still reasonable in the 2018 financial year. The energy consumed for producing steel and the emissions generated during the process exceed the energy used and emissions caused directly at PALFINGER by far.

Therefore, the efficient use of material is important from both points of view, the economic as well as the ecological. PALFINGER makes every effort to continuously reduce the amount of steel and aluminium scrap. Waste cuttings are produced exclusively at production plants, where the plant management is responsible for promoting further optimization. As a high level of waste cuttings optimization has already been achieved, the scope remaining for further improvement is very small. PALFINGER therefore plans to define this indicator more precisely in 2019 in order to be better able to address various processes.

In the reporting period, the individual sites showed differences in the development of waste cuttings rates; more information is provided in the detailed GRI and sustainability disclosures.

Sustainability and Diversity Improvement Act
Detailed GRI and sustainability disclosures, page 214

Hazardous waste

At PALFINGER manufacturing plants, primarily the following hazardous waste is produced: waste from paint shops, electroplating sludge, hydraulic oil, as well as lubricants and coolants. Responsibility for waste optimization measures, proper waste disposal and compliance with local laws lies with the individual plants. In its group guideline, PALFINGER has defined group-wide minimum standards; the development of hazardous waste is monitored and reviewed.

The production sites that generate the largest quantities of hazardous waste are, in descending order: Lazuri (RO), Maribor (SI), Lengau (AT), Tenevo (BG) and Velikiye Luki (RU). These plants produce a total of 84 per cent of the waste generated by the entire PALFINGER Group. Most of these sites operate paint shops, Lazuri and Tenevo are manufacturing sites with electroplating plants. In 2018, total hazardous waste recorded by PALFINGER amounted to 5,286 tonnes (previous year: 5,248 tonnes).

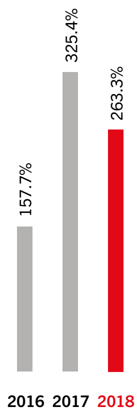
The main factor of relevance when evaluating these waste trends is the proportion of the waste incurred to the production volume and/or to revenue. In the 2018 financial year, improvements were clearly evident: At all of the above sites, the index of hazardous waste in relation to revenue improved. This was due to targeted optimization of existing plants and excellent production capacity utilization, primarily in Europe and Russia.

PROCESS ASSESSMENT

At the sites with paint shops, the absolute quantities of hazardous waste were lowered to 2,670 tonnes (previous year: 2,875 tonnes) in 2018, even though production output increased. One of the factors contributing to this was the improvements achieved at the Maribor (SI) site, where a more efficient plant is now in operation and synergies with the marine plant located on the same site are utilized. However, a major portion of the reduction resulted from the reclassification from hazardous to non-hazardous waste at the site in Archangelsk (RU).

At the two sites with electroplating processes, the trend started to reverse as well, with the intensity of hazardous waste in relation to the production quantities improving substantially at both sites. Even though absolute quantities are still at a high level, they increased only slightly from 2,209 tonnes to 2,413 tonnes despite the expansion of production.

In Lazuri (RO), coating processes have been carried out at the site's electroplating facilities since 2013, currently more than 90 per cent of them for external customers. At the same time, PALFINGER also increased the degree of value added: Parts that used to be coated by suppliers are now increasingly processed by PALFINGER. As a consequence, the hazardous waste quantities showed a disproportionally high increase compared to the Group's revenue. In terms of environmental impact, however, this development is at least neutral, as these processes now no longer take place at the suppliers' locations. In the reporting period, the capacities and the production quantity at the Lazuri site were stepped up by adding a new production floor and two more electroplating lines. Nevertheless, hardly any change in absolute quantities of hazardous waste was recorded, thanks to various measures, including the reduction of weight and volume through the use of a vacuum evaporator. This had a substantial positive impact on the index performance.



INDEX: HAZARDOUS WASTE IN RELATION TO REVENUE
(volume 2013 = 100%)

INDICATORS, TARGETS AND MEASURES

In 2018, the total volume of hazardous waste produced by the PALFINGER Group was reduced by 62 percentage points in relation to revenue (index). The target of annually reducing hazardous waste by 1.8 percentage points was thus achieved for the first time since 2013. In order to make sure that this positive trend continues, PALFINGER defined an additional target of reducing waste intensity by 30 percentage points by 2030 as compared to 2015. The absolute quantities of hazardous waste increased only slightly over the past two years. Due to the high level of value added, the processes at the Lazuri site and the expansion of the definition of hazardous waste in 2017, the index is still at a very high level.

One of the reasons for the heavy weight of the hazardous waste volumes produced at the Lazuri (RO) site is their high water content. In a first step, the water needs to be removed from the hazardous waste, thereby reducing both volume and weight. Initial measures, such as the implementation of a vacuum evaporator, have already shown an effect. Further reduction potential will be gradually realized in the years to come. In addition, the further optimization of material flows at this site and other sites with large quantities of hazardous waste is on the agenda for 2019 with the aim of further reducing waste intensities.

The index of hazardous waste was significantly lowered in 2018; the target is to reduce it even further: minus 30 percentage points by 2030

As an alternative to solvent-based paints, water-soluble paints may now be used for nearly all product applications, except for those in the marine business. Since 2014, the PALFINGER Group's calls for tenders relating to new paint shops have included the requirement of meeting ecological minimum standards. The paint shops are examined to determine whether they are designed for the use of solvent-free paints and, if necessary, adaptation measures are taken. All PALFINGER sites in Europe with large paint shops use only solvent-free paints. In the marine business, only solvent-based paints are used due to marine-specific requirements. In CIS, the use of water-soluble paints would involve a high quality risk given the low temperatures recorded in winter. In Caxias do Sul (BR), economic reasons make it impossible for the time being to buy water-soluble paints locally. The US plants use solvent-based paints as well.

For an overview of ecological standards for PALFINGER's electroplating plants and paint shops, please refer to the detailed GRI and sustainability disclosures, where additional information on hazardous waste broken down by region as well as on the use of water-soluble paints can be found as well.

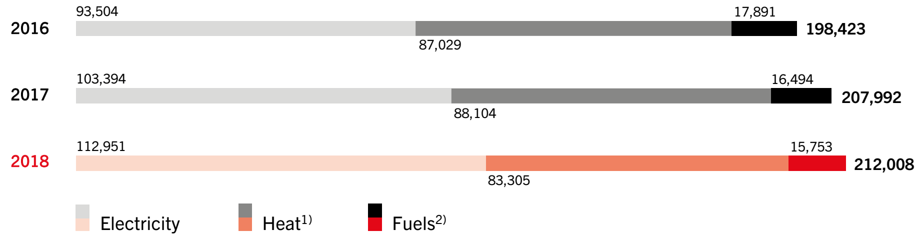
Sustainability and Diversity Improvement Act
Detailed GRI and sustainability disclosures, page 214

Energy efficiency

In 2018, the energy costs of the PALFINGER Group rose by 6.5 per cent to EUR 7.9 million (previous year: EUR 7.4 million). This rise was caused by higher energy prices, given that in the reporting period only a slight increase in total energy consumption to 212 million kWh (previous year: 208 million kWh) was reported, with consumption being highest in Europe. A detailed list of the figures for energy efficiency and consumption, broken down by energy source and region, is available in the detailed GRI and sustainability disclosures.

GRI 302-1
Sustainability and Diversity Improvement Act

ENERGY CONSUMPTION BY ENERGY SOURCE (in MWh)



1) Includes the consumption of heating oil, natural gas, butane, propane, LPG, coal and district heating.
2) Includes the consumption of diesel fuel, petrol and kerosene.

PROCESS ASSESSMENT

The paint shops and electroplating lines account for the largest share of energy consumed by PALFINGER. The largest paint shops can be found at the sites in Lengau (AT), Maribor (SI) and Council Bluffs (US). The second energy-intensive production process at PALFINGER is electroplating, which is performed at plants in Lazuri (RO) and Tenevo (BG).

The Lazuri site, which has been part of the PALFINGER Group since 2013, is the largest consumer of electricity within the PALFINGER Group by far. Operations at this site include the coating of parts which used to be processed by suppliers, but the focus is on coating for external customers. In recent years, several plant expansions have been carried out, and in the reporting period a new production floor was installed and commissioned. With a total production area of 32,000 square metres, the Lazuri site now accommodates three lines using chrome plating vats, ten continuous chrome plating lines and one nickel plating line. In addition, PALFINGER invested in increasing the degree of value added in order to optimize transport costs and machining processes. As a consequence, however, energy consumption will continue to rise at this site. In the 2018 reporting period, energy efficiency was once again improved considerably through optimized manufacturing processes and a more favourable price structure of the product portfolio.

Apart from paint shops and electroplating plants, PALFINGER does not use any energy-intensive processes. Compressed air plants, cutting processes (laser and plasma cutting machines), welding processes, and the testing of the products require comparatively moderate amounts of energy. Therefore, at the majority of PALFINGER's locations, the lion's share of energy is used for climate control at the plant floors, such as ventilation and heating.

At the site in Velikiye Luki (RU) a new heating system was installed at the end of 2017. Not only is this system more efficient, it also uses natural gas, which has a lower CO_2 intensity, instead of coal. This change in the heating system, together with some other measures taken, had a substantial impact on the energy consumption of the PALFINGER Group as a whole: For the first time, a year-on-year reduction of the absolute process and heat energy requirement was achieved.

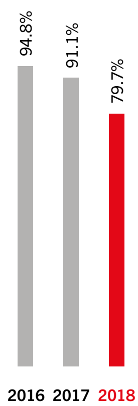
PALFINGER's energy efficiency has improved continuously; the target is a further reduction by 30 percentage points by 2030

There is a high level of awareness regarding energy efficiency at the PALFINGER Group, which is illustrated by the multitude of individual measures implemented at various sites during the reporting period. The use of LED lighting, optimization of compressed air and welding processes, utilization of waste heat, and improvements of the thermal quality of the building envelopes are just a few examples. The cumulative effect of this variety of measures was clearly positive. More details on the individual regions can be found in the detailed GRI and sustainability disclosures.

At PALFINGER, transport is outsourced to logistics companies. This includes the delivery of raw materials and components to PALFINGER, transport between the PALFINGER plants and transport of the products to the customers. The transport mix is dominated by trucks and ships. In 2018, PALFINGER continued with the conversion of its fleet to electrically-powered cars for employees travelling on business. The Austrian sites in Bergheim, Köstendorf and Lengau have installed the necessary charging stations and are using a number of electric vehicles. In Caussade (FR), several electric cars were purchased as well.

INDICATORS, TARGETS AND MEASURES

The energy efficiency index illustrates the changes in energy consumption in relation to revenue over the years. For many years, the index has been positive, with a single exception in 2016 when a one-time decrease in energy efficiency was recorded as a consequence of the developments in Russia. In the reporting period, energy consumption in relation to revenue was 11.4 percentage points lower than in 2017, so that the annual objective of enhancing energy efficiency by 1.8 percentage points was met in 2018. In order to make sure that this positive trend continues, PALFINGER defined the additional target of improving energy efficiency by 30 percentage points by 2030 as compared to 2015.



INDEX: ENERGY CONSUMPTION IN RELATION TO REVENUE
(volume 2013 = 100%)

This excellent development was facilitated by the expansion of production and the associated efficiency gains regarding energy consumption in the business areas EMEA and CIS as well as the optimization of heating energy consumption in the CIS business area.

In addition to production capacity utilization, weather conditions are a major factor influencing energy consumption. Primarily at the Russian sites, the low temperatures and long winters and the resulting energy requirement for heating the buildings have a strong impact on efficiency assessments. Therefore, changes in temperature caused by the weather were taken into account in the form of heating degree days in 2018 for the first time. This normalizes climate effects when calculating the index and shifts the indicator's emphasis to efficiency increases. In the future, further improvements are to be achieved through consistent energy management.

GRI 302-1, 302-3
Sustainability and Diversity Improvement Act

ENERGY REQUIREMENT IN THE UPSTREAM AND DOWNSTREAM STAGES OF THE VALUE CREATION CHAIN

The production of steel and aluminium, the two raw materials most frequently used at PALFINGER, requires high levels of energy and CO_2. The amount of energy needed to produce steel, and the greenhouse gases emitted in that process, are considerable. This makes initiatives for an efficient use of raw materials even more important for PALFINGER.

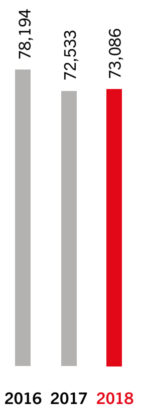
Energy is also consumed, and emissions are also caused, when PALFINGER products are used. Emissions caused in the upstream and downstream stages of the value creation chain are discussed in the chapter on climate protection. Information on the optimization of energy consumption during product use can be found in the detailed GRI and sustainability disclosures.

Efficient use of raw materials, page 102; Detailed GRI and sustainability disclosures, page 214

Climate protection

PALFINGER is under no obligation to participate in emissions trading. Nevertheless, the Company thoroughly analyses all climate-relevant emissions that are caused by its own energy consumption.

ENERGY EMISSIONS



GREENHOUSE GAS EMISSIONS
(in tonnes of CO_2 equivalents)

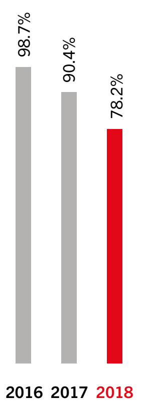
All emissions from natural gas, diesel, petrol, kerosene, LPG, butane, propane and coal (Scope 1) produced at PALFINGER plants are included in the calculations. Indirect emissions from the consumption of electricity and district heating (Scope 2 “market based”) as well as Scope 3 emissions from upstream operations of energy suppliers are also taken into account. All in all, PALFINGER produced approx. 73,086 tonnes of CO_2 equivalents in 2018 (previous year: 72,533 tonnes). CO_2 emissions thus increased in the reporting period, but at a lower rate than production-related energy consumption. PALFINGER is continuing its efforts to increasingly decouple climate-relevant emissions from energy consumption. For the most part, direct and indirect CO_2 equivalents were converted on the basis of the Ecoinvent database.

GRI 305-1, 305-2, 305-3, 305-4

Sustainability and Diversity Improvement Act

The reduction of climate-relevant emissions has been facilitated by several initiatives implemented at PALFINGER: For example, the changeover to electricity from renewable energy sources has been further accelerated. In the reporting period, almost 30 per cent of all electricity purchases came from renewable energy sources. In Lazuri (RO), which is the site with the highest electricity consumption within the Group, the feasibility of a changeover to electricity from 100 per cent renewable energy sources is currently being assessed. In Lengau (AT), roof areas were made available for photovoltaic systems. Under a lease model, PALFINGER is able to purchase this emission-neutral energy without having to invest in systems. The photovoltaic system in Lengau went into operation in 2018; an assessment is being made as to whether the same model can be used at other sites.

At the Velikiye Luki (RU) site, the heating system was replaced at the end of 2017, bringing about a changeover from coal to natural gas. When used for heating, natural gas causes considerably lower CO_2 emissions than coal. Moreover, the new heating system has an overall lower heat requirement due to efficiency gains.



INDEX: GREENHOUSE GAS EMISSIONS IN RELATION TO REVENUE
(volume 2013 = 100%)

Details on the specific greenhouse gas emissions broken down by region can be found in the detailed GRI and sustainability disclosures.

The relatively low increase in absolute greenhouse gas emissions facilitated a clear improvement of CO_2 intensity. In relation to revenue, the CO_2 index improved by 12.2percentage points, as compared to the previous year.

GRI 305-4

Sustainability and Diversity Improvement Act

Detailed GRI and sustainability disclosures, page 214

EMISSIONS IN THE UPSTREAM AND DOWNSTREAM STAGES OF THE VALUE CREATION CHAIN

The greenhouse gas emissions caused by the energy consumption at the PALFINGER sites only account for a small part of total emissions with an impact on climate. As in the comprehensive energy balance, emissions in the upstream supply chain have a much stronger impact, in particular when it comes to steel. PALFINGER buys primarily steel and aluminium from Europe, and the resulting Scope 3 emissions may be estimated to be approx. 645,000 tonnes of CO_2 equivalents. They are thus more than ten times as high as the climate-relevant emissions caused by the energy consumption at PALFINGER’s sites.

In 2018, for the first time, the emissions caused throughout product use, primarily due to operation using diesel, were analysed as well. The operation of a medium-range crane was taken as a basis, and the result was then extrapolated to all product areas of the Group. It appears that emissions during product use are more than one hundred times as high as the climate-relevant emissions caused by the energy consumed at the PALFINGER sites. This calculation had to be made on the basis of assumptions, but nevertheless clearly shows the leverage of energy-saving measures during product use.

CLIMATE TARGETS

PALFINGER is striving for a 25 per cent reduction of production-related CO_2 emissions by 2030

In addition, PALFINGER discloses its greenhouse emissions and climate protection initiatives in the framework of the CDP environmental performance assessment. PALFINGER's climate protection activities are guided by the Science Based Targets, an initiative for companies intending to cut their CO_2 emissions in line with the global "1.5 degrees Celsius target". At PALFINGER, decisions on the implementation of climate protection measures are made at plant level. Moreover, PALFINGER has recorded a fictitious CO_2 price of EUR 30 per tonne of CO_2 equivalents in the group-wide monitoring to prepare for the upcoming CO_2 taxation, which has become an increasingly urgent item on the political agendas of several countries.

The portion of renewable electricity is to be raised to 75 per cent by 2022

At group-level, the long-term target of achieving production-related CO_2 emissions savings of 25 per cent by 2030 as compared to 2015 was agreed upon at the end of 2017. Even though absolute CO_2 emissions rose only slightly in the reporting period, additional efforts will be required in order to reach this goal. In this connection, the group-wide portion of renewable electricity is to be increased from currently 29 per cent to 75 per cent by the year 2022.

Sustainability and Diversity Improvement Act
Investor relations, Ratings, page 30; Risk report, page 77

Environmental and energy management

The PALFINGER environmental protection guideline defines group-wide uniform standards for comprehensive environmental management systems at all manufacturing, assembly and distribution sites. The guideline governs the following areas: energy, waste, water, environmental law, emergency preparedness and response, and training and communication relating to environmental protection. Basically, it lays down minimum standards on the basis of ISO 14001. The guideline stipulates that every site must have a staff member who is primarily responsible for environmental management and the continuous process of improving environmental performance. This process includes the regular recording of environmental key figures, the assessment of the environmental performance, the preparation of a local environmental programme and the monitoring of compliance with the measures defined in that programme. Responsibility for the processes lies with the corporate sustainability team, while responsibility for compliance with the group guideline lies with the risk management department. In addition, group-wide compliance with the guideline is ensured by several control loops, as well as internal and external audits. The PALFINGER production sites defined environmental measures on the basis of the guideline and reported them to the corporate sustainability team. This helps control the implementation of the group-wide environmental targets – for instance, the annual improvement of energy efficiency and the reduction of hazardous waste.

According to the materiality analysis, topics such as water consumption, transport and biodiversity are not of primary importance and therefore they are not treated as central topics in the environmental guideline. In accordance with the group guideline, the water risk filter was applied for all sites. Accordingly, only PALFINGER locations in areas where either the availability or quality of water is critical are called upon to take measures ensuring the efficient use of water. In the field of transport, energy consumption is centrally monitored, broken down by fuel type. In case of strong fluctuations in consumption, the respective sites are contacted and measures are discussed. In 2017, PALFINGER organized a series of webinars on environmental topics. In the reporting period, the focus was on one-on-one talks, in which specific topics were discussed.

When it comes to acquiring new plants or buildings, PALFINGER includes binding minimum standards for environmentally relevant aspects in the tender documents. This concerns, in particular, paint shops and electroplating plants, welding equipment, engines, compressed air systems, offices and production floors, as well as ventilation systems.

Sites with certified environmental management systems according to ISO 14001 and energy management systems according to ISO 50001 go beyond meeting the minimum standards provided by the PALFINGER environmental protection guideline. The percentage of sites working with certified environmental and energy management systems increased slightly in 2018. As at the end of 2018, a total of 35 per cent (previous year: 33 per cent) of PALFINGER's employees were working at sites with certified environmental management systems in place and 43 per cent (previous year: 40 per cent) at sites with certified energy management systems.

Sustainability and Diversity Improvement Act
Detailed GRI and sustainability disclosures, page 214

PERFORMANCE BY SEGMENT

- **The LAND segment continued to grow, also outside Europe**
- **Consistently difficult market environment in the SEA segment caused further declines**
- **Forward-looking group-wide initiatives reported in the HOLDING unit**

PALFINGER divides its business into the segments LAND and SEA as well as the HOLDING unit. The LAND segment comprises business with lifting solutions for use on commercial vehicles (trucks and railways). The SEA segment encompasses all operations in connection with ships, offshore facilities or wind energy plants. The HOLDING unit, as a cost centre, comprises the Group's administrative expenses and strategic projects for the future. As of 1 January 2019, the Group's segment reporting will be adjusted in line with the new GLOBAL PALFINGER ORGANIZATION.

GRI 102-6

GLOBAL PALFINGER ORGANIZATION, page 38

EUR million	LAND	SEA	HOLDING	Consolidation	PALFINGER Group
Revenue	1,399.4	216.3	-	-	1,615.6
Revenue share	86.6%	13.4%	-	-	-
EBITDAn[1]	232.8	3.1	(21.2)	-	214.6
EBITDAn margin[1]	16.6%	1.4%	-	-	13.3%
EBITn[1]	191.4	(8.7)	(24.5)	0.0	158.2
EBITn margin[1]	13.7%	(4.0)%	-	-	9.8%
EBITDA	227.3	(8.8)	(21.8)	-	196.7
EBITDA margin	16.2%	(4.1)%	-	-	12.2%
EBIT	180.4	(28.4)	(25.1)	0.0	127.0
EBIT margin	12.9%	(13.1)%	-	-	7.9%

1) Figures were normalized (n) by restructuring costs.

LAND SEGMENT

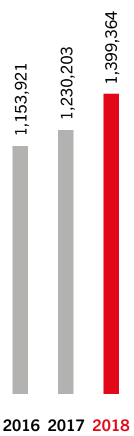
The LAND segment recorded increases in revenue and earnings; restructuring measures in North America have been largely completed

The LAND segment comprises the business areas EMEA, Americas, CIS, as well as Asia and Pacific. This includes all land-based business units of PALFINGER in these markets: Loader Cranes, Forestry and Recycling Cranes, Stiff Boom Cranes, Access Platforms, Tail Lifts, Hooklifts and Skiploaders, Truck Mounted Forklifts, Passenger Systems, Bridge Inspection Units and Railway Systems.

Business performance in 2018

In the 2018 financial year, revenue generated in the LAND segment grew from EUR 1,230.2 million to EUR 1,399.4 million, corresponding to an increase of 13.8 per cent. This organic growth was achieved primarily in Europe and North America, but business performance was also satisfactory in CIS and Asia. In the reporting period, the LAND segment accounted for 86.6 per cent (previous year: 83.6 per cent) of the Group's revenue.

The segment EBITDAn (EBITDA normalized by restructuring costs) saw a significant increase of 15.6 per cent, from EUR 201.4 million to EUR 232.8 million. The EBITDAn margin rose from 16.4 per cent to 16.6 per cent in 2018. The main factor contributing to this increase in earnings was the product mix in Europe, involving larger quantities. The segment's EBITn rose from EUR 160.8 million to EUR 191.4 million, resulting in an EBITn margin of 13.7 per cent after 13.1 per cent in the previous year. Restructuring costs accrued primarily in North America and in 2018 also in Europe because a production site was shut down in the United Kingdom. In the reporting period, they amounted to EUR 11.0 million compared to EUR 13.3 million in the previous year. The segment also recorded an extraordinarily high increase in EBIT from EUR 147.5 million to EUR 180.4 million.

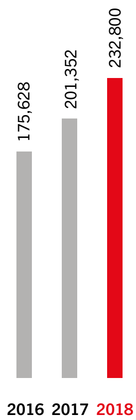


DEVELOPMENT OF REVENUE LAND SEGMENT
(EUR thousand)

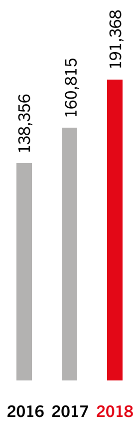
The increase in incoming orders continued throughout 2018, and the high order backlog at year end suggests that this segment will record further growth in 2019.

EUR thousand	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Revenue	297,249	327,339	284,214	321,401	337,795	349,160	330,358	382,051
EBITDAn[1)]	51,694	54,792	47,320	47,546	58,427	59,285	50,910	64,179
EBITn[1)]	41,599	44,501	37,389	37,326	48,154	50,586	40,464	52,164
EBITDA	48,045	50,957	45,941	43,925	57,336	57,672	50,761	61,541
EBIT	37,951	40,666	36,010	32,842	45,610	47,287	40,315	47,191

1) Figures were normalized (n) by restructuring costs.



DEVELOPMENT OF EBITDAn LAND SEGMENT
(EUR thousand)



DEVELOPMENT OF EBITn LAND SEGMENT
(EUR thousand)

Operational highlights

In the EMEA business area, the economic environment continued to be positive in 2018, primarily in Europe. Particularly in construction and infrastructure, PALFINGER continued to benefit from the increase in necessary replacement investments, which had been suspended in recent years. Performance was positive in the core markets and in Southern Europe, where the markets had been weak in recent years, and, in terms of products, once again in the crane business, which also had a substantial positive impact on earnings. For the most part, the other product divisions in Europe showed good development as well.

In North America, following a two-year restructuring phase, the larger projects were completed to a major extent in 2018: In addition to making adaptations to its internal organization, PALFINGER had already sold its service body business in 2017. The existing product portfolio was fundamentally reviewed; non-profitable products and business divisions were phased out. The first newly developed products were well received by the market. The aim is to raise operating profitability towards 10 per cent in the course of 2019, provided that demand remains strong. In South America, PALFINGER continued to operate in a highly difficult market environment. Even though the downturn appeared to have bottomed out at the end of 2017, demand continued to decline in 2018. PALFINGER has now managed to adjust capacities to the lower level of demand.
Significant changes within the PALFINGER Group, page 71

In Russia/CIS, the economic environment remained difficult due to the extension of the sanctions. Local value creation continued to prove highly advantageous, facilitating additional growth. In Asia, primarily in China, the Sany Palfinger joint venture recorded a significant increase in revenue during the reporting period.

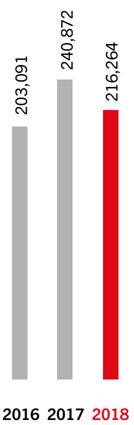
The challenging topics in 2018 also impacted human resources. In many regions, PALFINGER was faced with the difficult task of recruiting new and/or retaining existing skilled labour in order to meet the strong demand. However, in Europe and in the USA, in particular, PALFINGER managed to recruit the necessary staff.

Two sites, Chennai (IN) and Rio Tercero (AR), were included in the environmental reporting for this segment for the first time. At the production sites in the LAND segment, substantial improvements were recorded in terms of both energy efficiency and waste intensity. This was primarily due to the good order situation and numerous individual measures. Despite the increase in production, CO_2 emission levels remained constant.

	2016	2017	2018	in % of Group
Results (EUR thousand)				
External revenue	1,153,921	1,230,203	1,399,364	86.6%
EBITDAn[1]	175,628	201,352	232,800	108.5%
EBITDA	166,135	188,867	227,309	115.5%
Depreciation, amortization and impairment	37,267	41,398	46,906	67.2%
EBITn[1]	138,356	160,815	191,368	120.9%
EBIT	128,868	147,469	180,403	142.1%
Segment assets	1,034,433	1,009,285	1,112,996	72.8%
Segment liabilities	402,564	257,906	286,924	29.5%
Investments in intangible assets and property, plant and equipment	61,495	69,899	83,427	83.0%
EBITn margin[1]	12.0%	13.1%	13.7%	-
EBIT margin	11.2%	12.0%	12.9%	-
Human resources				
Employees[2]	7,757	8,224	8,899	-
Percentage of women	12.1%	11.8%	11.7%	-
Employee turnover[3]	15.0%	19.7%	17.6%	-
Staff absences due to industrial accidents	0.23%[4]	0.15%[4]	0.19%	-
Training hours (per employee)	15.7	19.0	16.8	-
Environment				
Greenhouse gas emissions	74,843	69,514	69,674	-
Index: Energy consumption in relation to revenue[5]	95.2%	91.4%	79.9%	-
Index: Hazardous waste in relation to revenue[5]	152.1%	328.0%	266.4%	-

1) Figures were normalized (n=normalized) by restructuring costs.
2) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding contract workers.
3) Transition to new calculation model pursuant to the relevant GRI Standard.
4) Figures changed with retrospective effect due to new consolidation procedures.
5) Volume 2013 = 100%.

SEA SEGMENT



DEVELOPMENT OF REVENUE SEA SEGMENT
(EUR thousand)

The SEA segment comprises PALFINGER's global maritime product groups: Marine Cranes, Offshore Cranes, Wind Cranes, Lifeboats and Rescue Boats, Davits, Special Boats, Winches and Handling Equipment, as well as Rope Access. The service business in the Marine business area, with 25 PALFINGER service centres in the most important ports all over the world, is a central component of the SEA segment. In the future, the Rope Access product division will be increasingly integrated into the service business of the Marine business area of the PALFINGER Group.

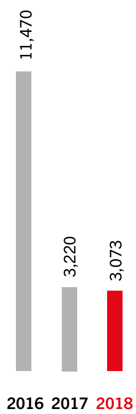
Business performance in 2018

Revenue generated by the SEA segment decreased to EUR 216.3 million in the 2018 financial year. To a large extent, this decline of – 10.2 per cent compared to the previous year's revenue of EUR 240.9 million was caused by the persistently difficult market conditions. The contribution of the SEA segment to PALFINGER's consolidated revenue thus shrank to 13.4 per cent (previous year: 16.4 per cent).

The necessary impairment of goodwill in this segment as at 31 December 2017 resulted in a subsequent restatement of the previous year's results and equity.

Financial position, cash flows and result of operations, page 67; Consolidated financial statements, page 129

The segment's EBITDAn (EBITDA normalized by restructuring costs) declined slightly from EUR 3.2 million in the previous year to EUR 3.1 million in 2018. The EBITDAn margin recorded in this segment thus came to 1.4 per cent, as compared to 1.3 per cent in the previous year. This low level reflects the complex environment, but also the challenging integration of the Harding Group. At EUR – 8.7 million, the segment's EBITn remained negative in the reporting period, after EUR – 9.4 million in the 2017 financial year. The EBITn margin was – 4.0 per cent after – 3.9 per cent in the previous year. EBITn for 2018 was also affected by substantial one-time effects not reported as restructuring costs. The restructuring costs incurred in this segment included primarily production site optimizations, the write-down of the Megarme brand, integration costs incurred in connection with Harding, staff adjustment costs and current adjustments of the business model, and amounted to EUR 19.7 million, as compared to EUR 87.9 million in 2017. Due to the retrospective impairment of goodwill made in the previous year, the segment's EBIT rose from EUR – 97.2 million to EUR – 28.4 million in the reporting period.



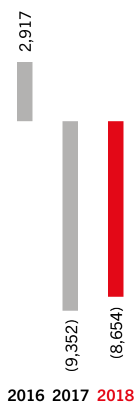
DEVELOPMENT OF EBITDAn SEA SEGMENT
(EUR thousand)

EUR thousand	Q1 2017	Q2 2017	Q3 2017	Q4 2017[1]	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Revenue	64,628	64,535	55,141	56,568	56,434	58,472	50,405	50,953
EBITDAn[2]	2,121	3,812	(157)	(2,556)	914	1,903	1,158	(902)
EBITn[2]	(1,254)	756	(3,256)	(5,598)	(2,053)	(1,088)	(1,721)	(3,789)
EBITDA	933	2,494	(1,733)	(3,944)	(831)	(724)	(884)	(6,329)
EBIT	(2,482)	(520)	(4,834)	(89,388)	(5,772)	(3,694)	(3,871)	(15,040)

1) Figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
2) Figures were normalized (n) by restructuring costs.

Operational highlights

Core customers in most of the product groups in the SEA segment depend on the oil price. Therefore, the low oil price has curbed the investment propensity of many customers considerably in recent years. The fact that the oil price is slowly rising, even though it is still volatile, is already being reflected in an expansion of the service business, but only partly in the sale of new products. Incoming orders for marine cranes hit a record level in the reporting period, with cranes for fish farms being particularly in demand. Apart from fisheries, fish farming, cruises and coast guard, all of which are growth sectors, the oil and gas dominated industries are not likely to experience any long-term upswing from today's point of view.



DEVELOPMENT OF EBITn SEA SEGMENT
(EUR thousand)

The integration of the Norwegian Harding Group, the largest acquisition in the Company's history, remained a significant challenge, also in terms of earnings, in the reporting period. PALFINGER intends to position itself favourably for future upturns through restructuring of the entire SEA segment. The consolidation of business operations and locations also enables PALFINGER to utilize synergies between PALFINGER and the Harding Group, which was acquired in 2016. The restructuring is expected to continue throughout 2019; it will receive substantial support from the new GPO.

Significant changes within the PALFINGER Group, page 71

The ongoing restructuring in the SEA segment was also reflected in the field of human resources in 2018 and resulted in a consistent reduction of the number of employees and in regional shifts in connection with the combination of companies or the relocation of value-creation facilities. The relocation of the production facilities for davit cranes, for instance, led to an increase in staff numbers in Slovenia, and the exclusive use of the plant in Poland by the LAND segment resulted in a shift of staff members between the segments.

In the SEA segment, the difficult environment caused further declines in earnings

The environmental indicators show a mixed picture. While both energy efficiency and waste intensity improved substantially due to numerous measures taken, absolute CO_2 emissions rose. By putting a stronger emphasis on environmental protection, PALFINGER intends to achieve a reduction of absolute CO_2 emissions in the SEA segment as well.

	2016	2017	2018	in % of Group
Results[1] (EUR thousand)				
External revenue	203,091	240,872	216,264	13.4%
EBITDAn[2]	11,470	3,220	3,073	1.4%
EBITDA	6,592	(2,250)	(8,768)	(4.5)%
Depreciation, amortization and impairment	9,802	94,974	19,609	28.1%
EBITn[2]	2,917	(9,352)	(8,651)	(5.5)%
EBIT	(3,210)	(97,224)	(28,377)	(22.3)%
Segment assets	463,398	327,736	279,370	18.3%
Segment liabilities	205,715	80,658	72,867	7.5%
Investments in intangible assets and property, plant and equipment	10,853	10,921	5,618	5.6%
EBITn margin[2]	1.4%	(3.9)%	(4.0)%	-
EBIT margin	(1.6)%	(40.4)%	(13.1)%	-
Human resources				
Employees[3]	1,827	1,681	1,528	-
Percentage of women	14.9%	16.4%	15.7%	-
Employee turnover[4]	14.0%	19.0%	26.1%	-
Staff absences due to industrial accidents	0.23%[5]	0.22%[5]	0.09%	-
Training hours (per employee)	15.4	29.2	19.8	-
Environment				
Greenhouse gas emissions	2,355	2,243	2,907	-
Index: Energy consumption in relation to revenue[6]	90.9%	97.7%	88.5%	-
Index: Hazardous waste in relation to revenue[6]	329.6%	217.5%	60.1%	-

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
2) Figures were normalized (n=normalized) by restructuring costs.
3) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding contract workers.
4) Transition to new calculation model pursuant to the relevant GRI Standard.
5) Figures changed with retrospective effect due to new consolidation procedures.
6) Volume 2013 = 100%.

HOLDING UNIT

Reporting on the HOLDING unit presents the set of group functions that are bundled at headquarters, as well as strategic project costs incurred by this unit.

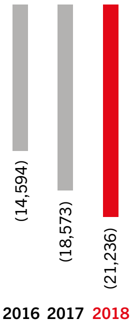
Business performance in 2018

The HOLDING unit includes the costs of the forward-looking strategic projects

In the 2018 financial year, the unit recorded EBITDAn (EBITDA normalized by restructuring costs) of EUR – 21.2 million, as compared to EUR – 18.6 million in the previous year. The higher costs were primarily caused in connection with the forward-looking group-wide initiatives PALFINGER Process Excellence and PALFINGER 21st. Extraordinary employee benefits expenses and negative exchange rate effects also added to the expenses. At EUR – 24.5 million, the unit’s EBITn was lower than the previous year’s figure of EUR – 21.8 million. The restructuring costs allocated to this unit included primarily integration costs and came to EUR 0.6 million as compared to EUR 0.7 million in 2017. The unit’s EBIT declined from EUR – 22.4 million in the previous year to EUR – 25.1 million in the reporting period.

EUR thousand	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
EBITDAn[1)]	(2,957)	(3,975)	(5,062)	(6,579)	(5,342)	(5,150)	(4,995)	(5,749)
EBITn[1)]	(3,720)	(4,785)	(5,898)	(7,359)	(6,154)	(5,964)	(5,812)	(6,565)
EBITDA	(3,111)	(4,084)	(5,305)	(6,750)	(5,469)	(5,294)	(4,990)	(6,040)
EBIT	(3,875)	(4,893)	(6,141)	(7,531)	(6,281)	(6,107)	(5,807)	(6,857)

1) Figures were normalized (n) by restructuring costs.



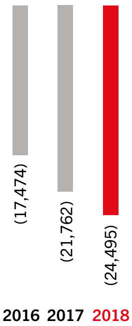
DEVELOPMENT OF EBITDAn HOLDING
(EUR thousand)

In addition to the current group-wide initiatives with a focus on customer orientation, digitalization and the optimization of processes, the new GLOBAL PALFINGER ORGANIZATION was implemented in the last months of 2018. The aim of this organizational structure is to be able to utilize existing synergies and potential, and thus to increase profitability and ensure profitable growth in the future.

Significant changes within the PALFINGER Group, page 71

Due to the establishment of the new GPO and the other initiatives at group level, PALFINGER incurred substantial recruiting expenses in 2018, not only in the fields of digitalization and information and communication technology, but also in management. The focus was on developing and consolidating the corporate culture as well as on change management and communication in the HOLDING unit.

The HOLDING unit does not include any production sites, only the headquarters. In 2018, the need for district heating purchases decreased strongly following the installation of a heat pump. This, as well as the sale of the company jet in 2017, resulted in much lower absolute CO_2 emissions than in the previous year.



DEVELOPMENT OF EBITn HOLDING
(EUR thousand)

	2016	2017	2018	in % of Group
Results (EUR thousand)				
EBITDAn[1)]	(14,594)	(18,573)	(21,236)	(9.9)%
EBITDA	(16,679)	(19,250)	(21,793)	(11.1)%
EBITn[1)]	(17,474)	(21,762)	(24,495)	(15.5)%
EBIT	(19,558)	(22,440)	(25,052)	(19.7)%
Human resources				
Employees[2)]	262	307	353	-
Percentage of women	32.1%	31.2%	30.7%	-
Employee turnover[3)]	12.4%	10.0%	7.6%	-
Staff absences due to industrial accidents	0.01%[4)]	0.00%	0.01%	-
Training hours (per employee)	13.6	16.1	13.8	-
Environment				
Greenhouse gas emissions	996	777	506	-
Index: Energy consumption in relation to revenue[5)]	79.8%	59.6%	39.6%	-
Index: Hazardous waste in relation to revenue[5)]	0.0%	0.0%	0.0%	-

1) Figures were normalized (n=normalized) by restructuring costs.
2) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding contract workers.
3) Transition to new calculation model pursuant to the relevant GRI Standard.
4) Figures changed with retrospective effect due to new consolidation procedures.
5) Volume 2013 = 100%.

OUTLOOK

- **GLOBAL PALFINGER ORGANIZATION will raise the Group's efficiency**
- **Restructuring scheduled to be completed by the end of 2019**
- **Profitable growth expected to continue in the years to come**

The GLOBAL PALFINGER ORGANIZATION will facilitate higher profitability and more service for customers

In 2017, PALFINGER developed its strategy for the digital age, which, through PALFINGER 21st, places special emphasis on digitalization topics. At the end of 2018, PALFINGER defined its new organizational structure in line with its vision and strategy: the GLOBAL PALFINGER ORGANIZATION. The goal of the GPO is to increasingly facilitate the utilization of existing synergies, to raise the efficiency of the PALFINGER Group and thus to enable higher profitability and more service for customers. As of 2019, segment reporting will also be adjusted to the Group's changed internal structures.

The group-wide initiatives with a focus on customer orientation and the optimization of processes will be further expanded in support of the PALFINGER Group's endeavour to position itself for the challenges of the years to come. Another priority in this connection is the full integration of the numerous acquisitions made in previous years. For this reason, no major acquisitions have been scheduled for 2019.

The restructuring measures in North America were largely implemented, which is expected to show in a further increase in profitability. The restructuring measures in the marine business will be continued. The goal is to complete all measures by the end of 2019 so that success will be noticeable from 2020 onwards.
From 2019, financial indicators will no longer be presented normalized by restructuring costs, even though additional restructuring expenses will accrue, at least in the first half of 2019.

In the course of 2018, the PALFINGER Group again recorded an increase in incoming orders, which indicates that for the first quarters of the 2019 financial year business performance will continue to be satisfactory overall. The management thus foresees a further increase in revenue and profitability.

For the years to come, PALFINGER sees its growth potential in the further expansion of its markets and in new products. In addition, becoming a truly integrated group also means that the process chain needs to be more closely aligned to value creation, that sites need to be consolidated – also across segments – and that synergies between business units need to be tapped and uniform systems, methods and indicators for the whole Group need to be developed. The aim is to consolidate the balance-sheet structure through the reduction of capital employed and net debt as well as higher profitability to be prepared for phases of weaker economic performance and further growth steps.

PALFINGER has defined clear economic targets to be met by 2022

Under its new organizational structure, PALFINGER has defined clear economic targets to be met by 2022, which include an organic increase in revenue to around EUR 2 billion, an average EBIT margin of 10 per cent and an average ROCE of 10 per cent over the economic cycle. PALFINGER also remains committed to its short-term to long-term sustainability targets for eco-efficiency and regarding human resources. The consistent enhancement of this strategy and of the organization will be conducive to profitable, long-term growth.

How it should be done.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

INFORMATION PURSUANT TO SECS. 243c AND 267b OF THE BUSINESS CODE

The commitment to compliance with the Austrian Code of Corporate Governance is externally evaluated once a year

PALFINGER is committed to the standards of the Austrian Code of Corporate Governance (www.corporate-governance.at), satisfies the requirements of the mandatory L-rules (legal requirements) and adheres to almost all C-rules (comply or explain) of the Code. In accordance with legal provisions, this commitment is annually evaluated by an external auditor. The evaluation result confirms that corporate governance is genuinely put into practice at PALFINGER. The report on the evaluation of compliance with the Austrian Code of Corporate Governance is made available to all interested parties on PALFINGER's corporate website (www.palfinger.ag).

www.palfinger.ag/en/investors/corporate-governance; www.corporate-governance.at/code/

GOVERNING BODIES OF THE COMPANY AND METHOD OF OPERATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD PURSUANT TO SECS. 243c PARA. 2 AND 267b OF THE BUSINESS CODE

According to the Austrian Companies Act (AktG), the Executive Board of PALFINGER AG manages the Company under its own responsibility in such a manner as is in the best interest of the Company, taking into consideration the interests of all stakeholders. Loyalty towards one's colleagues, an open mind, a regular exchange of information and fast decision-making processes are among the Company's supreme principles. The Executive Board directs the management teams responsible for operations in the individual segments and/or business areas. In addition, the Executive Board is represented in the management of individual Austrian holding companies of PALFINGER. In 2018 (1–8 January and 31 August–31 December 2018), Martin Zehnder also was a member of the Supervisory Board of Palfinger Europe GmbH.

The Supervisory Board supervises the management and assists the Executive Board in significant decisions. Open communication between the Executive Board and the Supervisory Board and also within the respective Boards has a long-standing tradition at PALFINGER. At its meetings held in 2018, the Supervisory Board primarily discussed the ongoing business operations, the effects of the challenging economic environment, measures to cut costs and capital employed, projects for integration, restructuring and expansion, risk management and the internal control system, key sustainability topics and the diversity scheme, the changes in the Executive Board, in particular the appointment of a new CEO, and the strategic orientation of the PALFINGER Group for the years to come.

At present, no special sustainability criteria are used when selecting members of the Supervisory Board and the Executive Board. The Palfinger family, as the principal owner, as well as the Supervisory Board members delegated by the Works Council ensure that sustainability aspects are taken into account by the Supervisory Board. Currently no independent assessment of sustainability governance and no remuneration system based on such criteria are in place.

GRI 102-18, 102-19, 102-20, 102-22, 102-24

Management report, Sustainability management, page 44

EXECUTIVE BOARD

In the 2018 financial year, the Executive Board of PALFINGER AG was at first composed of two members; later there were three. Felix Strohbichler and Martin Zehnder were members of the Board throughout the year. The third Board member, Andreas Klauser, was appointed at the Supervisory Board meeting of 16 April 2018 and became CEO on 1 June 2018. For reasons of remuneration, Felix Strohbichler's term was renewed by mutual agreement for three months. Martin Zehnder agreed to a five-year extension of his term of office.

Name	First appointment	End of term	Diversity factors[1]
Andreas Klauser (CEO)	1 June 2018	31 May 2023	Male; born in 1965; AT
Felix Strohbichler (CFO)	1 October 2017	31 December 2022	Male; born in 1974; AT
Martin Zehnder (COO/CTO)	1 January 2008	31 December 2023	Male; born in 1967; CH

1) Diversity factors include gender, year of birth, nationality.

GRI 405-1

Andreas Klauser

CEO – CHIEF EXECUTIVE OFFICER (SINCE 1 JUNE 2018)

Born in 1965, Andreas Klauser started his career at STEYR Landmaschinentechnik in Upper Austria. As the COO of CNH Industrial for the EMEA region until 2015, he was responsible for the integration of 12 brands and nine units in Turin (IT). Most recently, Klauser was a member of the Group Executive Council of CNH Industrial as well as Global Brand President of Case IH and STEYR and was based in the USA. Since June 2018, in his capacity as CEO of PALFINGER AG, he has been responsible for business development, PALFINGER 21st, sales & service, human resources, marketing, communications, investor relations, sustainability management and the executive project GPO Implementation.

Felix Strohbichler

CFO – CHIEF FINANCIAL OFFICER (SINCE 1 OCTOBER 2017)

Born in 1974, Strohbichler became head of the legal department of PALFINGER AG in 2000. He went on to hold numerous executive positions in several areas of the PALFINGER Group, most recently that of EMEA Area Manager in charge of marketing, sales and service, finances and controlling. In May 2015, he became the Managing Director of B&C Industrieholding GmbH, a position he held until September 2017. Since October 2017, in his capacity as CFO of PALFINGER AG, he has been in charge of controlling, accounting, treasury, legal affairs, risk management, internal audit and compliance, as well as information and communication technology. In addition, he is in charge of the SEA segment.

Felix Strohbichler was a member of the Supervisory Board of Lenzing AG until 12 April 2018 and a member of the Supervisory Board of Semperit AG Holding until 25 April 2018.

Martin Zehnder

COO/CTO – CHIEF OPERATING AND CHIEF TECHNOLOGY OFFICER (SINCE 1 JANUARY 2008)

Born in 1967, Martin Zehnder started his career at Alstom Schienenfahrzeuge AG in 1984. From 2000 to 2005 he was the Managing Director of Development and Production for Keystone Europe in France. In 2005, Martin Zehnder became Global Manufacturing Manager in charge of all manufacturing facilities of the PALFINGER Group. Since January 2008, he has been the Company's Chief Operating Officer, responsible for the worldwide manufacturing and assembly area. Since September 2017, he has also been in charge of product line management, R&D, procurement, safety and quality, and the executive projects PALFINGER Process Excellence and Turnkey Solutions.

Since 18 May 2018, Martin Zehnder has been a member of the Supervisory Board of Rosenbauer International AG.

SUPERVISORY BOARD

In 2018, the Supervisory Board of PALFINGER AG consisted first of five and later of six members elected at the Annual General Meeting, and three members delegated by the Works Council. Hubert Palfinger jun. is Chairman of the Supervisory Board; Gerhard Rauch and Hannes Palfinger are Deputy Chairmen.

Report of the Supervisory Board, page 266

Name	First appointment	End of term	Diversity factors[2]
Hubert Palfinger jun. (Chairman since 10 December 2013)	13 April 2005	AGM 2020	Male; born in 1969; AT
Gerhard Rauch (1st Deputy Chairman since 6 June 2016)	9 March 2016	AGM 2021	Male; born in 1963; AT
Hannes Palfinger (2nd Deputy Chairman since 10 December 2013)	30 March 2011	AGM 2021	Male; born in 1973; AT
Hannes Bogner	8 March 2017	AGM 2022	Male; born in 1959; AT
Ellyn Shenglin Cai	7 March 2018	AGM 2023	Female; born in 1986; CN
Heinrich Dieter Kiener	30 March 2011	AGM 2021	Male; born in 1956; AT
Dawei Duan	9 March 2016	21 January 2018	Male; born in 1972; CN
Johannes Kücher[1]	6 February 2015	1)	Male; born in 1963; AT
Alois Weiss[1]	13 February 2006	1)	Male; born in 1962; AT
Erwin Asen[1]	20 December 2017	1)	Male; born in 1971; AT

1) Delegated by the Works Council.
2) Diversity factors include gender, year of birth, nationality.

GRI 405-1

At the beginning of 2018, Dawei Duan resigned from the Supervisory Board. At the Annual General Meeting held on 7 March 2018, Ellyn Shenglin Cai was elected as a new Supervisory Board member. The appointment of Ms Cai is a first step towards increasing diversity on the Supervisory Board.

Hubert Palfinger jun.

CHAIRMAN OF THE SUPERVISORY BOARD

After spending 15 years with various companies of the PALFINGER Group, Hubert Palfinger jun. took over the management of Industrieholding GmbH in 2004. He has held a seat on the Supervisory Board of PALFINGER AG since 2005 and served as Deputy Chairman of the Supervisory Board from September 2008 until his appointment as Chairman in 2013. In addition, Hubert Palfinger jun. is a member of the Supervisory Board of Salzburger Flughafen GmbH and Managing Director of IC International Consulting GmbH.

Gerhard Rauch

FIRST DEPUTY CHAIRMAN

As Managing Partner of Walser GmbH, Gerhard Rauch has long-standing experience in truck body manufacturing and vehicle construction and has cooperated with the PALFINGER Group in this field for decades. In addition, Gerhard Rauch is co-owner of Rauch Fruchtsäfte GmbH & Co. OG. Since 2016, he has held a seat on the Supervisory Board of PALFINGER AG and has acted as First Deputy Chairman.

Hannes Palfinger

SECOND DEPUTY CHAIRMAN

After taking his degree in business economics and pursuing a career as an athlete, Hannes Palfinger spent three years working for PricewaterhouseCoopers in Vienna as an assistant auditor. From 2007 to 2010, Hannes Palfinger held an executive position at Palfinger systems GmbH. Hannes Palfinger is Managing Director of Clear Holding GmbH and of Audiodata Lautsprecher GmbH. He has held a seat on the Supervisory Board of PALFINGER AG since 2011 and became Deputy Chairman in 2013.

Further positions held by members of the Supervisory Board

DAWEI DUAN
Director, Senior Vice President of the SANY Group

HANNES BOGNER
Member of the Supervisory Board of Niederösterreichische Versicherung AG

ELLYN SHENGLIN CAI
Group Accounting Manager of Sany Heavy Industries Co., Ltd.
Deputy Chairperson of Putzmeister Holding GmbH

HEINRICH DIETER KIENER
Managing Director of Stieglbrauerei
Member of the Supervisory Board of Schoellerbank AG
Member of the Federation of Salzburg Industries (IV) as well as the Salzburg regional group
Member of the Board of Austrian Breweries (Verband der Brauereien Österreichs)
Member of the Board of the "Industry" sector of the Salzburg Economic Chamber

Other than Hubert Palfinger jun. and Hannes Palfinger, no member of the Supervisory Board holds or represents a shareholding in the Company of more than 10 per cent.

In accordance with Rule No. 58 of the Austrian Code of Corporate Governance, it is noted that due to scheduling conflicts, Heinrich Dieter Kiener was unable to participate in three (out of five) meetings of the Supervisory Board.
www.palfinger.ag/en/company/management

COMMITTEES OF THE SUPERVISORY BOARD

Audit Committee

The powers of decision vested in the Audit Committee are in compliance with the provisions of the Companies Act. In 2018, the Audit Committee held three meetings dealing with the 2017 financial statements, the internal control system, risk management, IFRS/accounting topics, internal audits as well as with PALFINGER's cooperation with the auditor.
Members: Hannes Bogner (financial expert; Chairman), Hubert Palfinger jun., Gerhard Rauch, Hannes Palfinger, Johannes Kücher

Nomination Committee

The Nomination Committee met regularly in 2018 and discussed, in particular, the cooperation within and working methods of the Executive Board. The main topics included the appointment of the new CEO and the allocation of responsibilities among the Executive Board members.
Members: Hubert Palfinger jun. (Chairman), Gerhard Rauch, Hannes Palfinger

Remuneration Committee

At its regular meetings held in 2018, the Remuneration Committee dealt with the remuneration of Executive Board members and conducted feedback interviews with the members of the Executive Board.
Members: Hubert Palfinger jun. (Chairman), Gerhard Rauch, Hannes Palfinger

AUDITOR

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg, was proposed as the auditor of the 2018 financial statements and consolidated financial statements of PALFINGER AG and appointed by the Annual General Meeting on 7 March 2018.

DIVERSITY SCHEME

In 2017, PALFINGER revised its diversity strategy for the entire Group. Diversity is defined as including not only primary dimensions such as origin, cultural background, gender or generations, but also secondary dimensions such as the working style, values, know-how and skills of individuals. PALFINGER is convinced that diversity, as part of its corporate culture, benefits all stakeholders, not least its employees.

PALFINGER sees diversity as an opportunity; specific goals and initiatives are to provide greater diversity within the Group

In this connection, specific objectives and initiatives were defined in order to further increase intra-group diversity up to 2022. These include the use of English as the common group language, internationalization and intercultural understanding of the employees at headquarters, family-friendly framework conditions and the global transfer of know-how through higher mobility. Furthermore, two quantitative targets were set to reinforce the diversity scheme.

In order to enable PALFINGER to draw stronger benefits from the numerous advantages of a diverse environment, the percentage of representatives of nationalities other than Austrian is to be increased significantly at headquarters. PALFINGER intends to achieve a 20 per cent share of non-Austrians by 2022, while still remaining committed to its Austrian roots.

Currently there are no women on the Executive Board of PALFINGER; one woman was elected to the Supervisory Board in 2018, and one woman holds a top management position. At the levels below that, the percentage of women in executive positions is low and for the most part limited to administrative positions. PALFINGER intends to change this situation in the medium term. To this end, PALFINGER has continued the Company's presence at job fairs and has specifically addressed prospective women applicants with high potential. Whenever new executive positions are created or existing ones become vacant, PALFINGER encourages women to apply for them. To this purpose, the proportion of women executives in PALFINGER's training programmes is to be further increased. The goal is to raise the percentage of women in top management positions to at least the same level as the percentage of women in the Group as a whole by 2022 (in 2018 it was 12.9 per cent, as compared with 9.0 per cent in top management). HR reporting was revised in the reporting period: It now gives a better overview of the status and achievement of annual targets. It is also meant to put a greater focus on diversity factors.

GRI 405-1
Sustainability and Diversity Improvement Act
Management report, Responsible employer, page 86; Detailed GRI and sustainability information, page 214

REMUNERATION REPORT

Performance-related remuneration is also tied to long-term corporate targets

The remuneration system in place for Executive Board members includes fixed elements and performance-related payments and is adequate given the size and complexity of the Company. In 2018, performance-related remuneration was based, on the one hand, on a personal assessment on the part of the Supervisory Board and, on the other hand, on EBTn, as well as, in the long term, an increase in ROCE and a reduction in structural costs. In 2018, the variable pay of Executive Board members amounted, on average, to approx. 44 per cent of their annual remuneration. For detailed information on remuneration, please refer to the notes to the consolidated financial statements of this Report.

Consolidated financial statements, Disclosures concerning governing bodies and employees, page 203

In accordance with the resolution taken at the Annual General Meeting on 9 March 2016, the members of the Supervisory Board are now entitled to the following remuneration:

The members of the Supervisory Board (shareholder representatives) elected at the Annual General Meeting receive an attendance fee of EUR 2,500 for each Supervisory Board meeting attended in person. In addition, they receive an annual fee for the 2016 financial year and the following years (unless decided otherwise at a future Annual General Meeting) as follows:

For the Chairman of the Supervisory Board	EUR 45,000
For the Deputy Chairman of the Supervisory Board	EUR 20,000
For each member of the Supervisory Board	EUR 7,000
For each member of a Supervisory Board committee	EUR 2,000

To the extent that members of the Supervisory Board and/or a committee have not held their seat during an entire financial year, their remuneration will be pro-rated (on a monthly basis).

Starting with the 2017 financial year (base: January 2016), the specified amounts of the attendance fee and the fixed remuneration will be adjusted in line with the Consumer Price Index 2010 published by Statistics Austria.

At the Annual General Meeting held on 7 March 2018, it was also decided that the Chairman of the Audit Committee was to receive an annual remuneration of EUR 15,000, which, starting with the 2018 financial year (base: January 2018), is to be adjusted in line with the Consumer Price Index 2010 published by Statistics Austria. If a Chairman has not held his seat on the Committee during an entire financial year, his remuneration is to be pro-rated (on a monthly basis).

A D&O insurance policy, the premiums of which are paid by PALFINGER AG, has been taken out for Supervisory and Executive Board members as well as for other high-ranking executives of the PALFINGER Group.

FAIR BUSINESS

- **PALFINGER's group guidelines define material business processes and governance**
- **The Code of Conduct is binding for employees, dealers, suppliers and partners**
- **Any violations may be reported anonymously via the Integrity Line**

CORPORATE ETHICS AND CORRUPTION PREVENTION

To PALFINGER, human rights violations and corruption are intolerable from a moral point of view. They are in contradiction to the corporate values and harmful to the economy, and consequently also to PALFINGER. Whenever any irregularities are suspected, action is taken immediately. PALFINGER has implemented a multi-layered process to prevent or, if necessary, reveal any violations.

Sustainability and Diversity Improvement Act

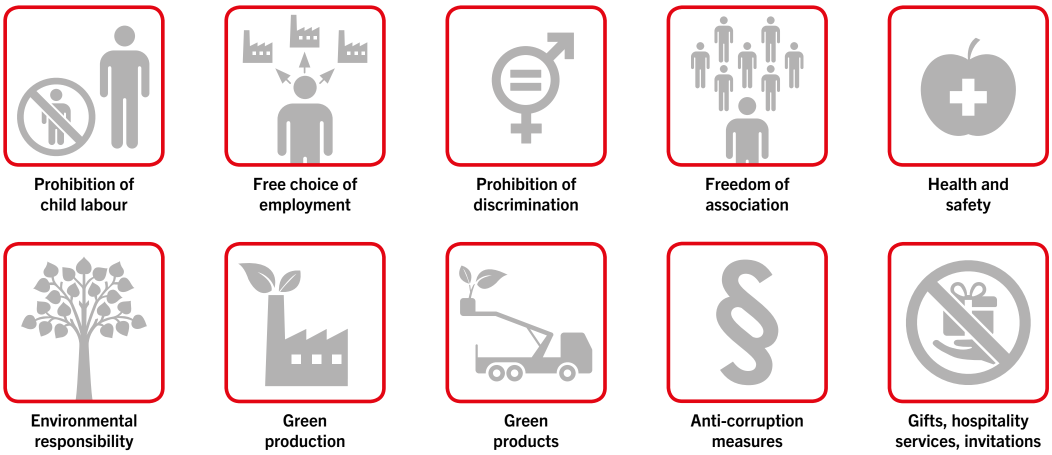
Group guidelines and Code of Conduct

PALFINGER's Code of Conduct supplements the group guidelines, which define the essential business processes along the value creation chain. This Code covers various topics, including the observance and monitoring of human rights aspects and the prevention of child labour, forced labour and compulsory labour, also in the supply chain. A review has been scheduled for 2019, and will include current topics. Furthermore, an internal guideline on "Rules of Conduct for the Prevention of Corruption and Anti-Competitive Behaviour" is in place.

PALFINGER's Code of Conduct has been a part of agreements since 2010

Since 2010, agreements with employees, dealers, suppliers and cooperation partners have contained binding references to the PALFINGER Code of Conduct. The Code can be found on the Company's website, which, to support communication, also presents an explanatory video with subtitles in 20 languages. Based on the current findings, no child labour, forced labour or compulsory labour was used at any PALFINGER sites in 2018 and no young employees were exposed to any dangerous labour.

CODE OF CONDUCT



In the event of any severe violations of the Code of Conduct, the rules of behaviour or other group guidelines, the corporate risk management, internal audit & compliance department consults with the Executive Board on the procedure for analysing these violations. If necessary, external experts are consulted. Depending on the result of this analysis, a decision is made on the further steps to be taken.

GRI 102-16, 102-17, 205-2, 408-1, 409-1
Management report, Risk report, Control environment, page 85
www.palfinger.ag/en/code-of-conduct

Four-eyes principle and separation of functions

The four-eyes principle and the separation of functions mitigate corruption risks and protect employees

The four-eyes principle applies with respect to authorized signatures within the scope of business activities with third parties and for internal approvals, whenever such signatures have the effect of constituting rights and/or obligations. This means that pursuant to the applicable group guideline, two signatures of competent authorized persons of the respective local unit are required. Detailed signing regulations, taking into account local processes and reasonable value limits, are regularly reviewed, adjusted and, whenever necessary, continuously specified and updated.

PALFINGER attaches great importance to the separation of functions, even in smaller units, meaning that one person may not hold several critical functions at the same time. This principle is designed to reduce errors as well as the probability of corruption, but first and foremost to protect employees. It is not possible, for example, for one and the same employee to be authorized to create an order and also be able to post an invoice.

Information on guidelines and corporate ethics

In an on-boarding seminar, new employees become acquainted with compliance at PALFINGER

The Group's corporate risk management, internal audit & compliance department regularly publishes a risk management newsletter, reporting to PALFINGER's management any relevant news, in particular recommendations on how to avoid or reveal corruption by third parties. The group guidelines are communicated to the entire management team and then to the local management concerned via standardized processes.

New employees receive a welcome package and attend an on-boarding seminar, both of which emphasize PALFINGER's values and its anti-corruption policy. The legal department provides information material regarding issuer compliance at PALFINGER to all employees in the finance and HR departments as well as to all management teams. In 2018, mandatory online training on anti-trust compliance, including a test to be passed, was prepared for the sales units.

GRI 205-2, 412-2

Internal audits and risk management

The department of corporate risk management, internal audit & compliance regularly carries out audits of the companies of the PALFINGER Group. In 2018, five audits were performed in the USA, Norway and Austria, which corresponds to 6 per cent of the Group's companies. The results were presented to the Executive Board of the PALFINGER Group and those managers with local responsibilities. In addition, regular interviews are carried out with the management and experts to identify the PALFINGER Group's risk situation, in order to be able to actively counter any current potential risks. This risk evaluation and compliance training creates higher awareness in the management and the employees.

The Integrity Line can be reached via the Company's website

Via the Company's Integrity Line, possible violations of laws and guidelines that concern companies of the PALFINGER Group may be reported anonymously. The Integrity Line may be reached via the Company's website; reports are received by the department of corporate risk management, internal audit & compliance. In the period under review, ten allegations were reported, which were investigated by PALFINGER. Appropriate measures were defined and taken.

GRI 205-1, 412-1

No major cases of corruption have been reported at PALFINGER in the past several years

COMPLIANCE VIOLATIONS

Any reports of compliance violations are forwarded to Corporate Risk Management, Internal Audit & Compliance. In 2018, as in previous years, no major cases of corruption were reported at PALFINGER. There was one insignificant incident involving a business partner. No public corruption charges were filed against the Company or its employees in the reporting period. Similarly, no major penalties were imposed for any violations of legal provisions. No lawsuits are pending on grounds of anti-competitive conduct. Environmental laws and regulations as well as social and economic laws and regulations were complied with. In addition, there were no violations in connection with any health and safety implications of products or services, with product and service information, labelling, or with marketing and communication.

GRI 102-17, 205-1, 205-3, 206-1, 307-1, 412-1, 412-2, 416-2, 417-2, 417-3, 419-1

Sustainability and Diversity Improvement Act

European data protection rules

PALFINGER dealt with the stricter requirements of the European General Data Protection Regulation (GDPR), which entered into effect on 25 May 2018, at an early stage. PALFINGER appointed a group data protection officer, who took all measures necessary for GDPR compliance. In this connection, processes were evaluated and entered in the records of processing activities, employees were trained and their knowledge was tested. The exchange of personal data between companies has been regulated in contracts.

CODE OF CORPORATE GOVERNANCE

PALFINGER satisfies the requirements of the mandatory L-rules (legal requirements) and adheres to almost all C-rules (comply or explain) of the Austrian Code of Corporate Governance as amended in January 2018. The following C-rules are not observed:

Rules No. 39 and No. 53 (Independence of the supervisory board and independence of committee members)

PALFINGER AG does not fully comply with Rule No. 53. No criteria for independence have been established. Rather, PALFINGER AG publishes personal profiles and qualification profiles of the members of the Supervisory Board and circumstances that might limit their independence. On the basis of this information, any shareholder as well as the public at large can gain insight into the qualifications of the members of the Supervisory Board and assess their suitability for this Board.

The performance of the Supervisory Board members has contributed to the success of PALFINGER AG in recent years. The well-balanced composition of the Supervisory Board and the prudent selection of the individual members according to their professional and personal characteristics as well as their knowledge of the Company and of the entire sector have been of importance in this respect. For all of these reasons, it is not considered necessary to establish criteria for the independence of Supervisory Board members.

This also applies to the committee members (Rule No. 39).

Bergheim, 6 February 2019

Andreas Klauser m.p. Felix Strohbichler m.p. Martin Zehnder m.p.

Consolidated financial statements, Disclosures concerning business transactions with related parties, page 202
www.palfinger.ag/en/investors/corporate-governance

DEFINITION OF PERFORMANCE INDICATORS

FINANCES

Capital employed	reflects capital investment and is calculated as: • intangible assets • plus property, plant and equipment, shareholdings and net working capital
Current capital	Current capital is composed of inventories and trade receivables on the assets side and trade payables and advances received on the liabilities side.
Earnings per share	is the ratio of the consolidated net result for the period to the weighted average number of shares outstanding.
EBIT **EBITn**	(Earnings before interest and taxes) PALFINGER makes a distinction between EBIT according to IFRS and EBITn – EBIT normalized by restructuring costs.
EBITDA **EBITDAn**	(Earnings before interest, taxes, depreciation and amortization) PALFINGER calculates EBITDAn – EBITDA normalized by restructuring costs.
EVA	(Economic value added) indicates the Company's economic profit: • ROCE minus WACC • multiplied by average capital employed
Free cash flows	is the net amount of cash available to service internal or external borrowing: • cash flows generated from operating and investing activities • plus interest on borrowings • minus tax shield on interest on borrowings
Gearing ratio	is a measure relating to the Company's debt: • ratio of net debt and equity in per cent
Net debt	is calculated as • non-current and current financial liabilities minus • long-term and short-term securities • long-term loans • cash and cash equivalents
Net investments	are investments in intangible assets, property, plant and equipment, investment property and shareholdings, minus disposals
Net working capital	is the net surplus of current assets over current liabilities
NOPLAT	(Net operating profit less adjusted taxes) is composed of • EBIT • minus taxes on EBIT
Restructuring costs	PALFINGER defines restructuring costs as the costs of business model adjustments, site relocations/closures, significant capacity adjustments, M&A and integration costs, costs for one-off payments for termination of dealer relationships, as well as the impairment of intangible assets relating to reorganizations.
ROCE	(Return on capital employed) shows the rate of return generated on capital invested in the Company: • ratio of NOPLAT to • average capital employed (from reporting date of previous year to reporting date of current year) in per cent

ROE	(Return on equity) is a measure of the Company's profitability that presents earnings in relation to equity employed: • ratio of after-tax earnings and • average equity (from reporting date of previous year to reporting date of current year) in per cent
WACC	(Weighted average cost of capital) is a measure of the average cost of capital employed (debt and equity)

HUMAN RESOURCES

Full-time equivalent	A full-time equivalent is an employee's total hours worked as stipulated in the employment contract divided by the number of hours worked in a regular full-time schedule.
Employee turnover	Employee turnover is defined as the number of employees that have left the Company or retired during a certain year. It is expressed as a percentage of the total headcount at the end of the previous year. This ratio does not take into consideration any new employees joining the Company.
Staff absences due to industrial accidents	Staff absences due to industrial accidents are directly measured in hours and include any degree of severity. Staff absences are put in relation to the regular working time and full-time equivalents of the Company's employees. This rule is deemed to be the uniform mode of calculation, regardless of the respective national calculation rules.
Absentee rate	Three types of absentee rates are measured: due to sick leaves, due to occupational diseases, and due to other causes (doctors' appointments, voluntary service, etc.). The absentee rate is measured in hours and put in relation to the regular working time and full-time equivalents of the Company's employees. Sick leaves that are no longer covered by the Company itself but by government benefits are not included in this count. This rule is deemed to be the uniform mode of calculation, regardless of the respective national calculation rules.
Hours of training	This refers to any kind of initial or further vocational training and education that is not directly provided at the employee's workplace but is carried out internally or externally. The hours of training are expressed as a percentage of full-time equivalents of the Company's employees.
Percentage of women in management	This is defined as the number of women employees with disciplinary management responsibilities divided by the total number of managers.

ENVIRONMENT

Index: Energy consumption in relation to revenue	This index shows the efficiency of the internal energy input in relation to the local revenue of the individual site (volume in 2013 = 100 per cent). It takes into account electricity, fuel, heat energy and process energy. In calculating group-wide indices, the various production sites are weighted by the volume of energy consumed in the year under review. Starting with the reporting year 2018, this index will be adjusted for temperature effects on the basis of the respective previous year. The index is not adjusted for inflation.
Index: Hazardous waste in relation to revenue	This index shows the intensity of hazardous waste produced in relation to the local revenue of the individual site (volume in 2013 = 100 per cent). In calculating group-wide indices, the various production sites are weighted by the volume of waste produced in the year under review. The index is not adjusted for inflation.

GRI 302-3, 403-2

How it turned out.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

EUR thousand	Note	Jan–Dec 2017[1)]	Jan–Dec 2018
Revenue	15	1,471,075	1,615,628
Cost of sales	17, 23, 24, 25	(1,112,105)	(1,211,502)
Gross profit		**358,970**	**404,126**
Other operating income	16	23,183	19,939
Research and development costs	18, 24, 25	(29,369)	(34,138)
Distribution costs	19, 24, 25	(108,653)	(122,793)
Administrative costs	20, 24, 25	(205,593)	(127,294)
Other operating expenses	21	(22,353)	(21,491)
Income from companies reported at equity	22	11,603	8,625
Earnings before interest and taxes – EBIT		**27,788**	**126,974**
Interest income	26	1,267	1,519
Interest expenses for financial liabilities	26	(12,618)	(11,019)
Other interest expenses	26	(1,997)	(1,829)
Exchange rate differences	26	(8,049)	(2,908)
Other financial result	26	(274)	(1,689)
Net financial result		**(21,671)**	**(15,926)**
Result before income tax		**6,117**	**111,048**
Income tax expense	27, 68	(4,838)	(34,286)
Result after income tax		**1,279**	**76,762**
attributable to shareholders of PALFINGER AG (consolidated net result for the period)		**(11,423)**	**57,951**
attributable to non-controlling interests		**12,702**	**18,811**
EUR			
Earnings per share (undiluted and diluted)	43	(0.30)	1.54

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	Jan–Dec 2017[1)]	Jan–Dec 2018
Result after income tax		**1,279**	**76,762**
Amounts that will not be reclassified to the income statement in future periods			
Re-measurements acc. to IAS 19	50	(2,021)	1,150
Deferred taxes thereon		394	(219)
		(1,627)	**931**
Amounts that may be reclassified to the income statement in future periods			
Unrealized profits (+)/losses (–) from foreign currency translation of foreign subsidiaries		(35,008)	(12,085)
Unrealized profits (+)/losses (–) from foreign currency translation of companies reported at equity/investments held for sale	31	(9,972)	(2,040)
Unrealized profits (+)/losses (–) from foreign currency translation of long-term loans to foreign subsidiaries (acc. to IAS 21.15)		(14,149)	1,907
Deferred taxes thereon		2,091	881
Effective taxes thereon		1,847	(764)
Profits (+)/losses (–) from cash flow hedge	45		
Changes in unrealized profits (+)/losses (–)		2,653	(3,789)
Deferred taxes thereon		(1,027)	144
Effective taxes thereon		295	749
Realized profits (–)/losses (+)		10,980	5,319
Deferred taxes thereon		(1,644)	(450)
Effective taxes thereon		(955)	(833)
		(44,889)	**(10,961)**
Other comprehensive income after income tax		**(46,516)**	**(10,030)**
Total comprehensive income		**(45,237)**	**66,732**
attributable to shareholders of PALFINGER AG		**(56,104)**	**51,078**
attributable to non-controlling interests		**10,867**	**15,654**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

CONSOLIDATED BALANCE SHEET

EUR thousand	Note	31 Dec 2017[1]	31 Dec 2018
Non-current assets			
Intangible assets	1, 2, 3, 28, 59	285,771	277,304
Property, plant and equipment	2, 29, 60	312,106	339,398
Investment property	30, 61	308	288
Investments in companies reported at equity	4, 22, 31	167,266	140,689
Other non-current assets	34	1,724	1,385
Deferred tax assets	8, 32, 68	30,636	27,045
Non-current financial assets	13, 33, 55, 65	30,166	25,199
		827,977	**811,308**
Current assets			
Inventories	7, 35, 62	289,034	327,440
Trade receivables	5, 36, 55, 63, 65	266,890	227,602
Contract assets from customer contracts	36, 63	0	49,238
Other current receivables and assets	38	43,777	37,715
Income tax receivables	27, 68	1,852	6,736
Current financial assets	13, 37, 55, 65	9,098	4,837
Cash and cash equivalents	39, 55, 65	39,756	34,684
		650,407	**688,252**
Non-current assets held for sale	31	0	28,524
		650,407	**716,776**
Assets		**1,478,384**	**1,528,084**
Equity			
Share capital	40	37,593	37,593
Additional paid-in capital	41	86,844	86,844
Retained earnings	43, 44, 45	396,103	440,135
Foreign currency translation reserve	42	(41,556)	(52,264)
Foreign currency translation reserve from assets held for sale	42	0	1,725
Total equity of the shareholders of PALFINGER AG		**478,984**	**514,033**
Non-controlling interests	46	32,796	41,693
		511,780	**555,726**
Non-current liabilities			
Liabilities from puttable non-controlling interests	11, 44, 47, 55, 64, 65	2,580	0
Non-current financial liabilities	48, 55, 65	492,957	482,544
Non-current purchase price liabilities from acquisitions	12, 49, 55, 65	15,478	9,731
Non-current provisions	9, 50, 66, 67	46,235	48,967
Deferred tax liabilities	32, 68	14,798	11,842
Non-current contract liabilities from customer contracts	54	0	3,841
Other non-current liabilities	51	4,025	95
		576,073	**557,020**
Current liabilities			
Current financial liabilities	55, 65	99,268	97,840
Current purchase price liabilities from acquisitions	12, 49, 55, 65	0	1,355
Current provisions	10, 52, 67	18,829	21,609
Income tax liabilities	27, 68	11,213	9,939
Trade payables and other current liabilities	53, 55, 65	261,221	260,036
Current contract liabilities from customer contracts	54	0	24,559
		390,531	**415,338**
Equity and liabilities		**1,478,384**	**1,528,084**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to the shareholders of PALFINGER AG	
EUR thousand	Note	Share capital	Additional paid-in capital
As at 1 Jan 2017		**37,593**	**86,844**
Total comprehensive income			
Result after income tax[1)]		0	0
Other comprehensive income after income tax			
Unrealized profits (+)/losses (–) from foreign currency translation	42	0	0
Re-measurements acc. to IAS 19	50	0	0
Profits (+)/losses (–) from cash flow hedge	45	0	0
		0	**0**
		0	**0**
Transactions with shareholders			
Dividends	44	0	0
Reclassification non-controlling interests	44, 47, 64	0	0
Addition non-controlling interests		0	0
Other changes	41	0	0
		0	**0**
As at 31 Dec 2017[1)]		**37,593**	**86,844**
Adjustment IFRS 9		0	0
Adjustment IFRS 15		0	0
As at 1 Jan 2018		**37,593**	**86,844**
Total comprehensive income			
Result after income tax		0	0
Other comprehensive income after income tax			
Unrealized profits (+)/losses (–) from foreign currency translation	42	0	0
Re-measurements acc. to IAS 19	50	0	0
Profits (+)/losses (–) from cash flow hedge	45	0	0
		0	**0**
		0	**0**
Transactions with shareholders			
Dividends	44	0	0
Reclassification non-controlling interests	44, 47, 64	0	0
Addition non-controlling interests	47	0	0
Other changes		0	0
		0	**0**
As at 31 Dec 2018		**37,593**	**86,844**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

Equity attributable to the shareholders of PALFINGER AG						
Retained earnings						
Other retained earnings	Re-measurements acc. to IAS 19	Valuation reserve acc. to IFRS 9	Foreign currency translation reserve	Total	Non-controlling interests	Equity
443,708	**(10,161)**	**(15,367)**	**11,851**	**554,468**	**25,452**	**579,920**
(11,423)	0	0	0	(11,423)	12,702	1,279
0	0	0	(53,405)	(53,405)	(1,784)	(55,189)
0	(1,576)	0	0	(1,576)	(51)	(1,627)
0	0	10,302	0	10,302	0	10,302
0	**(1,576)**	**10,302**	**(53,405)**	**(44,679)**	**(1,835)**	**(46,514)**
(11,423)	**(1,576)**	**10,302**	**(53,405)**	**(56,102)**	**10,867**	**(45,235)**
(21,428)	0	0	0	(21,428)	(8,818)	(30,246)
294	0	0	0	294	(12)	282
0	0	0	0	0	5,223	5,223
1,752	0	0	0	1,752	84	1,836
(19,382)	**0**	**0**	**0**	**(19,382)**	**(3,523)**	**(22,905)**
412,903	**(11,737)**	**(5,065)**	**(41,555)**	**478,984**	**32,796**	**511,780**
33	0	0	0	33	(31)	2
(1,232)	0	0	0	(1,232)	0	(1,232)
411,704	**(11,737)**	**(5,065)**	**(41,555)**	**477,784**	**32,765**	**510,549**
57,951	0	0	0	57,951	18,811	76,762
0	0	0	(8,984)	(8,984)	(3,117)	(12,101)
0	971	0	0	971	(40)	931
0	0	1,140	0	1,140	0	1,140
0	**971**	**1,140**	**(8,984)**	**(6,873)**	**(3,157)**	**(10,030)**
57,951	**971**	**1,140**	**(8,984)**	**51,078**	**15,654**	**66,732**
(17,669)	0	0	0	(17,669)	(8,204)	(25,873)
2,129	0	0	0	2,129	450	2,579
713	0	0	0	713	1,028	1,741
(2)	0	0	0	(2)	0	(2)
(14,829)	**0**	**0**	**0**	**(14,829)**	**(6,726)**	**(21,555)**
454,826	**(10,766)**	**(3,925)**	**(50,539)**	**514,033**	**41,693**	**555,726**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	Jan–Dec 2017[1]	Jan–Dec 2018
Cash flows from operating activities			
Result before income tax		6,117	111,048
Write-downs and impairments (+)/write-ups (–) of non-current assets		139,562	69,793
Gains (–)/losses (+) on the disposal of non-current assets	16, 21	3,713	(469)
Interest income (–)/interest expenses (+)	26	13,348	11,329
Income from companies reported at equity	31	(11,603)	(8,625)
Non-cash change in purchase price liabilities	49	(151)	2,891
Other non-cash income (–)/expenses (+)		15,836	9,299
Increase (–)/decrease (+) of assets		(68,138)	(51,591)
Increase (+)/decrease (–) of provisions		(5,888)	2,076
Increase (+)/decrease (–) of liabilities		23,862	25,250
Cash flows generated from operations		**116,658**	**171,001**
Interest received		912	1,250
Interest paid		(10,765)	(11,014)
Dividends received from companies reported at equity	31	5,153	4,638
Income tax paid		(19,980)	(39,373)
		91,978	**126,502**
Cash flows from investing activities			
Cash receipts from the sale of intangible assets and property, plant and equipment		10,512	4,075
Cash payments for the acquisition of intangible assets and property, plant and equipment		(82,187)	(99,304)
Cash payments for the acquisition of subsidiaries net of cash acquired[2]		(2,958)	0
Cash payments for the acquisition of companies reported at equity	31	(1,626)	0
Cash receipts from the disposal of other business units	16	12,337	0
Cash receipts from the disposal of other business units in the previous year	16	0	1,257
Cash receipts from the sale of securities		15	215
Cash payments for the acquisition of securities		(889)	0
Cash receipts from other assets		6,475	6,034
Cash payments for other assets		(363)	0
		(58,684)	**(87,723)**
Cash flows from financing activities			
Dividends to shareholders of PALFINGER AG	44	(21,428)	(17,669)
Dividends to non-controlling shareholders	46	(9,105)	(8,205)
Cash payments for the acquisition of non-controlling interests[2]	46, 47	(9,845)	0
Repayment of purchase price liabilities	49	0	(6,447)
Issue of promissory note loans	48	200,000	101,596
Loans for the acquisition of interests		60,000	0
Repayment of loans for the acquisition of interests		(2,000)	(24,167)
Long-term refinancing of redemptions and maturing short-term loans		0	30,000
Repayment of maturing/terminated loans		(105,000)	(90,000)
Repayment of bridge financing loans for the acquisition of interests		(90,000)	0
Repayment of maturing/terminated lease liabilities		(10,012)	0
Repayment of maturing/terminated promissory note loans		(13,000)	(50,000)
Current financing		0	45,000
Repayment of current financing		(12,507)	(47,678)
Cash payments for/cash receipts from other financial liabilities	48	(11,935)	24,489
		(24,832)	**(43,081)**
Total cash flows		**8,462**	**(4,302)**
Free cash flows[3]		**43,058**	**46,775**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).
2) See Scope of consolidation.
3) Sum total of operating cash flows and investing cash flows plus interest on borrowings minus tax shield on interest on borrowings.

EUR thousand		2017	2018
Funds as at 1 Jan	39	33,922	39,756
Effects of foreign exchange differences		(2,627)	(770)
Total cash flows		8,461	(4,302)
Funds as at 31 Dec	39	**39,756**	**34,684**

OPERATING SEGMENTS

The Executive Board of PALFINGER AG manages the Group in two application-related segments, LAND and SEA. This structure of the operating segments follows the strategy pursued by the Executive Board, as well as the organizational and management structures in place, and separates the different customer industries, business models and industry-specific risks.

LAND SEGMENT

The LAND segment comprises business with lifting, loading and handling solutions for use on commercial vehicles (trucks and railways). In 2018, the LAND segment included the following business areas:

- Business area EMEA
- Business area Americas
- Business area Asia and Pacific
- Business area CIS

The LAND segment comprises the product groups Loader Cranes, Forestry and Recycling Cranes, Stiff Boom Cranes, Tail Lifts, Access Platforms, Hooklifts and Skiploaders, Truck Mounted Forklifts, Passenger Systems, Bridge Inspection Units, Railway Systems, Production and the distribution companies.

The LAND segment already encompasses a diversified product portfolio. The strategy pursued in this segment is to maintain market and technology leadership and, in areas which are still being built up and are therefore less developed, to introduce customers to PALFINGER's products, to further consolidate the Group's distribution and service structures and to increase market shares.

SEA SEGMENT

The SEA segment encompasses all operations in connection with ships, offshore facilities or wind energy plants. This segment comprises the business area Marine, which is composed of PALFINGER's maritime product groups: Marine Cranes, Offshore Cranes, Wind Cranes, Lifeboats and Rescue Boats, Davits, Special Boats, Winches and Handling Equipment, Service as well as Rope Access. The marine business is to a very large extent characterized by global structures. The service business in the Marine business area, with 25 PALFINGER service centres in the most important ports all over the world, is a central component of the SEA segment.

In the future, the Rope Access product division will be increasingly integrated into the service business of the Marine business area of the PALFINGER Group. Services have gained in importance since the acquisition of the Harding Group.

HOLDING UNIT

The HOLDING unit maps the Group's expenses for group-wide functions for the Group's administration and costs for strategic future projects incurred through the holding company. No revenue is reported in the HOLDING unit.

Amounts stated

EBIT and EBITn (EBIT normalized by restructuring costs) are reported as segment results. Given the restructuring measures launched in 2016 in North America and in the marine business, EBIT has been normalized by restructuring costs (EBITn) to transparently reflect operating profitability. In 2018 the Executive Board managed the segments on the basis of both financial indicators, EBIT and EBITn.

In previous years, PALFINGER used the financial indicators current capital and/or current capital ratio to manage current capital commitment. Since the beginning of 2018, capital employed and its influencing factors and/or return on capital employed (ROCE) have been increasingly used for corporate management purposes instead. Capital employed (reporting date) is composed of intangible assets, property, plant and equipment, investments in companies reported at equity, non-current operating assets and net working capital (see also the consolidated management report on page 70).

As a rule, the amounts stated for the purposes of segment reporting are in line with the accounting and valuation methods applied to the IFRS consolidated financial statements. The only exemption is EBITn, which has been normalized by restructuring costs in line with PALFINGER's internal reporting. The reconciliation statement can be found on page 138.

Transfer pricing

Transfer prices are determined in accordance with the OECD Guidelines. The application of the arm's length principle and the principle of transparency is the first priority when determining transfer prices. In order to guarantee arm's length conditions, written contracts are required for intra-group deliveries and services.

Transfer pricing for deliveries between subsidiaries is carried out at production cost based on standard capacity utilization plus a mark-up derived from a standardized functional and risk analysis.

Services are divided into different groups and then either charged on a cost basis (final account, cost contribution arrangement, agreement on lump-sum payment) or using the mark-up method. Whether a profit mark-up may be charged depends on how exactly the service may be allocated and on whether the service is a recurring routine function.

Unallocated amounts

Group financing and investment (financial receivables and liabilities, cash and cash equivalents as well as financial expenditure and income) are managed uniformly for the entire Group rather than being allocated to the individual operating segments.

Jan–Dec 2017[1)]

EUR thousand	LAND	SEA	HOLDING	Consolidation	Unallocated amounts	Total
External revenue	1,230,203	240,872	0	0	0	1,471,075
Intra-group revenue	14,131	6,914	0	(21,045)	0	0
Total revenue	**1,244,334**	**247,786**	**0**	**(21,045)**	**0**	**1,471,075**
Depreciation, amortization and impairment	(41,398)	(94,974)	(3,190)	0	0	(139,562)
thereof impairment	(499)	(82,432)	0	0	0	(82,931)
Income from companies reported at equity	11,603	0	0	0	0	11,603
EBIT	147,469	(97,224)	(22,440)	(17)	0	27,788
Restructuring costs	13,346	87,872	678	0	0	101,896
EBITn	160,815	(9,352)	(21,762)	(17)	0	129,684
Segment assets	1,009,285	327,736	31,873	(1,941)	111,431	1,478,384
thereof investments in companies reported at equity	167,266	0	0	0	0	167,266
thereof capital employed assets	833,278	270,757	0	0	(78,974)	1,025,061
Segment liabilities	257,906	80,658	11,746	(1,941)	618,235	966,604
Investments in intangible assets and property, plant and equipment	69,899	10,921	6,496	0	0	87,316

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

Jan–Dec 2018

EUR thousand	LAND	SEA	HOLDING	Consolidation	Unallocated amounts	Total
External revenue	1,399,364	216,264	0	0	0	1,615,628
Intra-group revenue	14,753	9,212	0	(23,965)	0	0
Total revenue	**1,414,117**	**225,476**	**0**	**(23,965)**	**0**	**1,615,628**
Depreciation, amortization and impairment	(46,906)	(19,609)	(3,259)	0	0	(69,774)
thereof impairment	(4,603)	(5,749)	0	0	0	(10,352)
Income from companies reported at equity	8,625	0	0	0	0	8,625
EBIT	180,403	(28,377)	(25,052)	0	0	126,974
Restructuring costs	10,965	19,726	557	0	0	31,248
EBITn	191,368	(8,651)	(24,495)	0	0	158,222
Segment assets	1,112,996	279,370	40,236	(2,942)	98,424	1,528,084
thereof investments in companies reported at equity	140,689	0	0	0	0	140,689
thereof capital employed assets	894,210	240,812	0	0	(63,546)	1,071,476
Segment liabilities	286,924	72,867	11,990	(2,942)	603,519	972,358
Investments in intangible assets and property, plant and equipment	83,427	5,618	11,421	0	0	100,466

The reconciliation of EBIT to EBITn was as follows:

Jan–Dec 2017

EUR thousand	LAND	SEA	HOLDING
EBIT	**147,469**	**(97,224)**	**(22,440)**
Restructuring costs			
Business model adjustments	7,130	0	0
Relocation/closure of sites, significant capacity adjustments	3,402	0	0
M&A and integration costs (and related projects)	2,814	5,470	678
Impairment of intangible assets relating to reorganizations[1)]	0	82,402	0
	13,346	**87,872**	**678**
EBITn	**160,815**	**(9,352)**	**(21,762)**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

Jan–Dec 2018

EUR thousand	LAND	SEA	HOLDING
EBIT	**180,403**	**(28,377)**	**(25,052)**
Restructuring costs			
Business model adjustments	7,376	4,048	0
Relocation/closure of sites, significant capacity adjustments	878	1,090	0
M&A and integration costs (and related projects)	2,711	14,588	557
	10,965	**19,726**	**557**
EBITn	**191,368**	**(8,651)**	**(24,495)**

The following table shows revenue broken down by product group:

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Loader cranes	878,403	920,954
Hydraulic systems	592,672	694,674
Revenue	**1,471,075**	**1,615,628**

The product group loader cranes is primarily composed of the products loader cranes, forestry and recycling cranes, marine and wind cranes, and the related service business. The hydraulic systems product group comprises, among other things, the products tail lifts, access platforms, hooklifts and skiploaders, truck mounted forklifts and railway systems as well as marine products such as davits, boats, offshore equipment and winches, and the related service business.

No single external customer contributes more than 10 per cent to external revenue.

Revenue broken down by geographical area is presented in Note (15).

INFORMATION ON GEOGRAPHICAL AREAS

Non-current assets can be broken down as follows:

EUR thousand	31 Dec 2017	31 Dec 2018
Intangible assets[1)]		
Germany	37,224	37,291
France	16,600	16,458
Austria	63,959	73,213
Netherlands	4,056	3,863
Norway	74,627	70,309
Other foreign countries	13,020	11,697
Romania	6,517	6,392
Russia	23,830	20,274
Spain	6,529	5,998
USA	17,434	15,109
United Arab Emirates	21,975	16,700
	285,771	**277,304**
Property, plant and equipment		
Brazil	9,711	6,605
Bulgaria	36,169	40,446
Germany	23,719	27,106
France	4,581	4,427
Austria	73,908	91,443
Canada	4,872	4,732
Korea	5,939	5,604
Norway	6,002	4,448
Other foreign countries	31,542	29,707
Romania	20,463	28,494
Russia	27,754	27,678
Slovenia	26,917	27,779
USA	40,529	40,929
	312,106	**339,398**
Investment property		
Germany	308	288
	308	**288**
Other non-current assets		
Argentina	118	5
Brazil	313	176
Denmark	76	22
Germany	76	74
France	72	72
India	58	55
Austria	493	497
Other foreign countries	203	342
Russia	80	68
USA	235	74
	1,724	**1,385**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL REMARKS

PALFINGER AG, headquartered at 5101 Bergheim near Salzburg, Austria, Lamprechtshausener Bundestrasse 8, is the publicly listed parent of a group of companies. The main business activity is the production and sale of innovative lifting solutions for use on commercial vehicles and in the maritime field.

The consolidated financial statements of PALFINGER AG for the year ended 31 December 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU). As these consolidated financial statements meet the criteria laid down in sec. 245a of the (Austrian) Business Code (UGB), the Company is not obliged to prepare financial statements in accordance with the provisions of the Code. All additional requirements according to sec. 245a para. 1 of the Business Code were complied with.

These consolidated financial statements were prepared as at the reporting date of the parent company PALFINGER AG. The financial year corresponds to the calendar year. The financial statements of the individual Austrian and foreign companies included in the consolidated financial statements were prepared as at the reporting date of the consolidated financial statements. The only exception was the associated company SANY Automobile Hoisting Machinery Co., Ltd. Given that the relevant information regarding this company will always become available only after PALFINGER has published the respective consolidated financial statements, it was decided that the results of the respective previous quarter would always be used when preparing the consolidated financial statements. Any key events that might take place between the date of the quarterly financial information included in these consolidated financial statements and the reporting date would be adequately disclosed.

Uniform accounting and valuation criteria were applied within the Group. The consolidated financial statements were prepared on the assumption that the Company would continue as a going concern. For the sake of a clearer presentation, items were aggregated for the purposes of the consolidated balance sheet, the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows. The same items were then listed and explained separately in the notes, following the principle of materiality.

The consolidated balance sheet was structured in accordance with IAS 1, separating current from non-current assets and liabilities. Assets and liabilities were classified as current if they were likely to be realized or balanced within twelve months of the balance sheet date. The consolidated income statement was prepared according to the cost of sales method.

For the sake of clarity and comparability, all figures in the consolidated financial statements are, in principle, expressed in thousands of euros. Minimal arithmetic differences may arise from the application of commercial rounding to individual items and percentages.

The consolidated financial statements and the separate financial statements of the companies included were published in accordance with statutory requirements. The consolidated financial statements of PALFINGER AG for the year ended 31 December 2018 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg, Austria. The consolidated financial statements for the year ended 31 December 2018 were released for submission to the Supervisory Board on 6 February 2019 by the Executive Board of PALFINGER AG. It is the Supervisory Board's task to review the consolidated financial statements and state whether it approves the consolidated financial statements for the year ended 31 December 2018.

CONSOLIDATION PRINCIPLES

Scope of consolidation

PALFINGER AG prepares the consolidated financial statements for the PALFINGER Group. The consolidated financial statements comprise the financial statements of PALFINGER AG and the financial statements of the companies controlled by PALFINGER AG as at 31 December of each year. A company controls another company when it has the power to decide on relevant activities, has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Associated companies and joint ventures are included according to the equity method. An associated company is a company on which PALFINGER AG may exercise significant influence by participating in its financial and operating policy decisions but over which it has no control or joint control. There is a rebuttable presumption that the investor holds 20 to 50 per cent of the voting power. A joint venture is a joint arrangement between PALFINGER and one or more other partners under which the parties having joint control of the joint venture company hold rights to the net assets of such company.

The 7.5 per cent interest in SANY Automobile Hoisting Machinery Co., Ltd. is included in the consolidated financial statements at equity as an associated company. The significant influence results from rights granted to PALFINGER by way of contract such as, for instance, the right to participate in material decision-making processes, including the determination of the dividend amount, veto rights on individual major decisions, the provision of technical know-how, and representation in the supervisory body. These rights were not affected by the sale of the 2.5 per cent interest (see page 142).

The scope of consolidation, including PALFINGER AG as the parent company, is disclosed in the statement of investments on pages 210 to 212.

REORGANIZATIONS

These reorganizations did not have any impact on the scope of consolidation:
In January 2018, Harding Safety Brazil Ltda., Brazil, was merged into Palfinger Marine Do Brasil Ltda., Brazil.

In March 2018, all shares in Palfinger Korea Co. Ltd., Korea, were transferred from Palfinger Marine Safety AS, Norway, to Palfinger Asia Pacific Pte. Ltd., Singapore. In addition, Alu Norge 1 AS, Norway, was liquidated and has thus ceased to exist.

In April, the Austrian company PalAir GmbH was merged into Palfinger Area Units GmbH, which is also an Austrian company, with effect as of the end of 31 December 2017. The merger of Palfinger Russland GmbH, Austria, into Palfinger CIS Gmbh, Austria, with effect as of the end of 31 December 2017 also took place in April.

On 29 June 2018, Palfinger Marine RUS OOO was founded in Russia. Its sole shareholder is the Austrian company Palfinger Marine GmbH.

Effective 1 November 2018, Palfinger EMEA GmbH, Austria, acquired all shares in Palfinger Marine LSE Poland sp.z.o.o, Poland, from the former sole shareholder Palfinger Marine Safety AS, Norway.

In December 2018, the Chinese company Palfinger Lifting Technology (Nantong) Co., Ltd. was merged into the Chinese company Palfinger Equipment (Nantong) Co., Ltd.

Effective December 2018, Palfinger Boats B.V., Netherlands, was merged into Palfinger Marine Netherlands B.V.

ACQUISITIONS IN 2018/19

On 19 December 2018, the contracts for the acquisition of a 51 per cent interest in UAV Structural Inspection GmbH, Austria, were signed. The company's name was then changed to Palfinger Structural Inspection GmbH. The transaction closed on 8 January 2019 at a purchase price of EUR 3 million, EUR 0.8 million of which have already been paid. The remaining EUR 2.2 million is a contingent purchase price based on technical and commercial criteria, which is expected to be paid in full by the beginning of 2020. The purchase price reflects primarily the fair value of the company's assets, which are largely composed of technology and patents.

NON-CONTROLLING INTERESTS

In April 2018, the purchase price liability for 20 per cent in the PM-Group and the disproportional dividend for the years up to 2017 were redeemed prematurely. At the same time, the non-controlling shareholder acquired 4.97 per cent of the shares in the PM-Group. As a result, PALFINGER now holds 75.03 per cent of the shares (see Note [49]).

INVESTMENTS IN COMPANIES AT EQUITY

On 25 October 2018, PALFINGER and SANY signed an agreement for the repurchase of shares held by PALFINGER in Sany Lifting Solutions (SANY Automobile Hoisting Machinery Co., Ltd.). In the course of a cross-shareholding, PALFINGER acquired 10 per cent in Sany Lifting Solutions in 2014, of which 2.5 per cent will now be repurchased by SANY at a purchase price of EUR 28.6 million, which roughly corresponds to the carrying amount stated. Following this transaction, PALFINGER will have a 7.5 per cent shareholding in Sany Lifting Solutions, and SANY will continue to hold 7.5 per cent of the shares in PALFINGER. This will not result in any changes to PALFINGER's contractual rights, so that PALFINGER will continue to have significant influence. The closing of the transaction is scheduled for the first quarter of 2019. As at 31 December 2018, the 2.5 per cent investment was reported as "held for sale" (see Note [31]).

Effective 31 October 2018, the 30 per cent investment in Sky Steel Systems LLC was sold back to the previous owners for EUR 15. Previously, an impairment loss had been reported in the first half of 2018 (see Note [31]).

Consolidation method

Business combinations are accounted for using the acquisition method. The cost of a business acquisition is calculated as the aggregate of the consideration transferred, measured at its acquisition-date fair value, and the non-controlling interests in the acquiree. For each business combination, PALFINGER AG measures the non-controlling interests in the acquiree either at their fair value or at the proportionate share of the identifiable net assets of the acquiree. Costs incurred in connection with the business combination are expensed.

When the PALFINGER Group acquires a business entity, it determines the proper classification and designation of the financial assets and assumed liabilities in accordance with the provisions of the contract, the economic conditions and the general conditions prevailing at the time of the transaction.

For business combinations achieved in stages, the equity interest in the entity previously held by PALFINGER AG is re-measured at its fair value at the time of the transaction and the resulting gain or loss is recognized in the income statement.

The agreed contingent consideration is recognized at its fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration representing an asset or liability are recognized through the income statement in accordance with IFRS 3.58.

Goodwill is initially measured at cost, this being the excess of the consideration transferred plus the fair value of the previously held non-controlling interests over the Group's identifiable assets and liabilities acquired. If this consideration is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized through the income statement.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

Where goodwill is allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill arising from the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of under these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Earnings, assets and liabilities of associated companies and joint ventures are included in the consolidated financial statements applying the equity method. Investments in associated companies or joint ventures are reported in the balance sheet at cost after adjustment for changes in the Group's share of net assets after the acquisition and for impairment losses. Losses exceeding the Group's investments in associated companies or joint ventures are not recognized unless the Group bears the economic risk. The goodwill relating to the associated company or joint venture is included in the carrying amount of this share and is neither amortized nor subjected to a separate impairment test.

Any change in the amount of the interest held in a subsidiary not resulting in loss of control is reported as an equity transaction.

Intra-group accounts receivable and payable, income and expenses as well as inter-company profits and losses are fully eliminated.

Currency translation within the Group

The consolidated financial statements are prepared in euros, the functional currency of PALFINGER AG.

Monetary assets and liabilities in foreign currencies are converted into the functional currency at every reporting period end date using the respective closing rates. All currency differences are recognized in the income statement. Non-monetary items that are measured at historical cost in a foreign currency are converted using the exchange rate of the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are converted using the exchange rate applicable at the time of determination of the fair value.

In line with IAS 21, financial statements of group companies reporting in foreign currencies are translated in accordance with the functional currency concept. The assets and liabilities are converted from the functional currency into euros using the respective middle rate at the balance sheet date. Goodwill arising from the acquisition of foreign subsidiaries is allocated to the acquired company and translated at the respective middle rate at the balance sheet date. The income statement items of the consolidated foreign companies are converted using average rates for the period.

Differences arising from the currency conversion of the pro-rata equity are recognized directly in other comprehensive income. In the event of the deconsolidation of a foreign company, these exchange rate differences are recognized in the income statement. Exchange rate differences attributable to non-controlling interests are offset against non-controlling interests.

Non-current financial receivables from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future are treated as a part of the net investment in the respective foreign subsidiary. Differences arising from foreign currency translations of such items are recognized directly in other comprehensive income. Upon disposal of the net investment, such exchange rate differences are reclassified from equity to profit or loss.

The following exchange rates are of particular importance for the consolidated financial statements:

		Exchange rate		Average exchange rate
1 euro equals	31 Dec 2017	31 Dec 2018	Jan–Dec 2017	Jan–Dec 2018
BRL	3.9729	4.4440	3.6271	4.3294
CAD	1.5039	1.5605	1.4684	1.5329
GBP	0.8872	0.8945	0.8742	0.8860
NOK	9.8403	9.9483	9.3497	9.6268
RMB	7.8044	7.8751	7.6299	7.8156
RUB	69.3920	79.7153	66.0349	74.1711
USD	1.1993	1.1450	1.1307	1.1793

ADJUSTMENTS WITH RETROSPECTIVE EFFECT, CORRECTION OF ACCOUNTING-RELATED ESTIMATES AND ERRORS

In recent months, the Austrian Financial Reporting Enforcement Panel (AFREP) carried out a review pursuant to sec. 2 para. 1(2) of the (Austrian) Accounting Control Act (Rechnungslegungs-Kontrollgesetz) (review not occasioned by particular events) of PALFINGER AG's consolidated financial statements for the year ended 31 December 2017 and PALFINGER AG's interim consolidated financial information as at 30 June 2017 and as at 30 June 2018. AFREP found that a material error had occurred in the impairment test performed as at 31 December 2017 regarding the goodwill of the business area Marine cash-generating unit (CGU), most of which resulted from the Harding acquisition. AFREP found that the error originated in the cash flow planning made for the purposes of the impairment test, which did not meet the requirements of IAS 36.33 (a) in conjunction with IAS 36.34 and IAS 36.38. The primary finding was that future cost savings assumed for the purposes of cash flow planning were not sufficiently substantiated as at 31 December 2017 pursuant to the requirements of IAS 36. The carrying amount stated for the total goodwill of the business area Marine CGU was EUR 156.5 million as at 31 December 2017. PALFINGER AG has corrected the test for impairment as at 31 December 2017, taking into consideration the findings of AFREP. Using the corrected cash flow planning, the adjusted impairment test revealed that an impairment loss of EUR 82.4 million had to be recorded as at 31 December 2017 for the goodwill of the Marine business area CGU. In line with IAS 8.24, the error was corrected with retrospective effect by adjusting the relevant figures in the previous year's financial statements. This also resulted in PALFINGER having to make corrections in the interim consolidated financial information published during the 2018 financial year.

The impact on the consolidated balance sheet as at 31 December 2017 and the consolidated income statement as at 31 December 2017 was as follows:

EUR thousand	31 Dec 2017 as reported	Impairment of goodwill	31 Dec 2017 adjusted
Intangible assets	368,171	(82,400)	285,771
Deferred tax assets	14,890	15,746	30,636
Total assets	1,545,038	(66,654)	1,478,384
Equity	575,714	(63,934)	511,780
Income tax liabilities	13,933	(2,720)	11,213
Administrative costs	(123,191)	(82,402)	(205,593)
EBIT	110,190	(82,402)	27,788
Result before income tax	88,519	(82,402)	6,117
Income tax expense	(23,304)	18,466	(4,838)
Result after income tax	65,215	(63,936)	1,279
Consolidated net result for the period	52,513	(63,936)	(11,423)
Earnings per share (EUR)	1.40	(1.70)	(0.30)

STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME AND/OR IN THE FUTURE

The application of the following new, revised and/or supplemented IASB standards and IFRS IC interpretations was mandatory for the first time in the 2018 financial year.

Standards/interpretations	Mandatory application in the EU	Endorsement status
IAS 40 Transfers of Investment Property (published in December 2016)	1 January 2018	endorsed in March 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions (published in June 2016)	1 January 2018	endorsed in February 2018
IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (published in September 2016)	1 January 2018	endorsed in November 2017
IFRS 9 Financial Instruments (published in July 2014)	1 January 2018	endorsed in November 2016
IFRS 15 Revenue from Contracts with Customers (published in May 2014)	1 January 2018	endorsed in September 2016
IFRIC 22 Foreign Currency Transactions and Advance Consideration (published in December 2016)	1 January 2018	endorsed in March 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers (published in April 2016)	1 January 2018	endorsed in October 2017
Improvements to IFRS (2014-2016) IFRS 1 First-time Adoption of IFRS (published in December 2016)	1 January 2018	endorsed in February 2018
Improvements to IFRS (2014-2016) IFRS 28 Investments in Associates and Joint Ventures (published in December 2016)	1 January 2018	endorsed in February 2018

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 governs the generation of revenue, thus replacing IAS 11 Construction Contracts, IAS 18 Revenue and the related IFRIC interpretations such as, in particular, IFRIC 13 Customer Loyalty Programmes. IFRS 15 provides a comprehensive framework for determining whether to recognize revenue, in which amount and at what date. The application of IFRS 15 is mandatory for financial years beginning on or after 1 January 2018.

PALFINGER adopted the new standard for the first time as of 1 January 2018, using the modified retrospective method, thus applying IFRS 15 retrospectively only to the 2018 financial year. The accumulated effect of the first-time application was recognized, effective 1 January 2018, as an adjustment to the amount recognized for the retained earnings in the opening balance. Under this approach, IFRS 15 was applied to contracts that were not yet complete on 1 January 2018.

Sale of products

Revenue from the sale of serially produced goods used to be recognized when the related risks and rewards of ownership were transferred in accordance with the terms and conditions of delivery. The revenue was recognized at that point in time provided that both revenue and cost could be reliably determined, it was probable that the consideration would be received, and the performance obligation was satisfied.

According to IFRS 15, revenue is recognized when control of the goods is transferred to the customer. No major changes in revenue recognition have resulted for the selling of serially produced goods.

Some contracts have multiple components, meaning that in addition to governing the sale of serially produced products, they also include additional performance obligations such as warranty extension, service and maintenance or commissioning. According to IFRS 15, an entity will allocate the consideration to the components by reference to their relative standalone selling prices. At PALFINGER, revenue from distinct transactions such as services and maintenance have already been recognized separately from the proceeds from the sale of goods. Therefore, the detailed provisions of IFRS 15 regarding contracts with multiple performance obligations did not result in any major changes in the consolidated financial statements.

Therefore, the first-time application of IFRS 15 did not result in any changes regarding the sale of serially produced goods as of 1 January 2018.

Contract manufacturing and rendering of services

In the project business, revenue from customized manufacturing orders used to be recognized in accordance with the percentage of completion method. IFRS 15 defines new criteria for recognizing revenue over a certain time period. Almost all project-business contracts meet the criteria for satisfying a performance obligation over a certain time period, as the assets produced have no alternative use and PALFINGER has a right to payment for the performance completed at any time throughout the duration of the respective contract. PALFINGER's project business comprises projects in the field of railway systems in the EMEA business area and projects in the fields of offshore cranes, winches, boats, and marine and wind cranes in the Marine business area.

Certain contracts do not meet the "right to payment" criterion. In these cases, revenue is now recognized at a specific point in time, namely only upon the transfer of control to the customer. Therefore, the first-time application of IFRS 15 resulted in a reduction of retained earnings as at 1 January 2018 in the amount of EUR 1,232 thousand. The costs incurred for these projects were recognized as work in progress in inventories.

The current wind crane projects in the Marine business area do not meet the "no alternative use" criterion. However, given that there were no such contracts outstanding as at the end of 2017, the first-time application of IFRS 15 as at 1 January 2018 did not have any effect.

According to IFRS 15 in conjunction with IAS 37, expected losses resulting from a contract must be recognized immediately as a provision for onerous contracts in accordance with IAS 37.66. Previously, imminent losses were recorded as a bad-debt allowance under accounts receivable. Therefore, the first-time application of IFRS 15 resulted in an increase of EUR 3,729 thousand in trade receivables and other provisions. Retained earnings did not change.

Contracts for the provision of long-term services used to be recognized in accordance with the stage of completion method. According to IFRS 15, this revenue will continue to be recognized over a certain time period, as the customer receives the benefits from the services while they are being performed. The first-time application of IFRS 15 did not result in any adjustments in this respect.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 provides for changes regarding the classification and measurement of financial instruments and the impairment of financial assets, and introduces new provisions regulating hedge accounting. IFRS 9 is effective for financial years beginning on or after 1 January 2018 and is applied prospectively. Therefore, no adjustments of previous years' figures were made.

Classification

IFRS 9 provides for a new approach to classification and measurement of financial assets, which reflects the business model under which the assets are administered as well as the cash flow characteristics of the financial assets. IFRS 9 lists three main categories of financial assets: at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). This new classification currently has no material effect on the accounting of trade receivables, loans and other financial assets. The classification of financial liabilities is not changed by IFRS 9. As at 31 December 2017, the PALFINGER Group held equity and debt instruments classified as available-for-sale and held for the long term. Under IFRS 9, these instruments are classified as FVTPL. Therefore, all material fair value gains and losses are recognized in the income statement. In addition, PALFINGER has set up a factoring programme for selected German and Austrian companies. Unsold receivables from the factoring portfolio have so far been reported as loans and receivables, but under IFRS 9 must be classified as FVOCI.

The reconciliation of the categories was as follows:

EUR thousand	Category IAS 39	Category IFRS 9	Carrying amount IAS 39 31 Dec 2017	Valuation adjustment	Carrying amount IFRS 9 1 Jan 2018
Assets					
Trade receivables	LaR	AC	143,454	707	144,161
Trade receivables (factoring)	LaR	FVOCI	46,592	204	46,796
Trade receivables/Contract assets from customer contracts	-	-	76,844	(1,008)	75,836
Securities	AfS	FVTPL	2,026	0	2,026
Hedging derivatives	Hedge	Hedge	1,112	0	1,112
Other derivatives	HfT	FVTPL	4,201	0	4,201
Loans and other interest-bearing receivables[1)]	LaR	AC	31,848	0	31,848
Cash and cash equivalents	LaR	AC	39,756	0	39,756
Other current receivables and assets	LaR	AC	18,407	0	18,407
Other shareholdings	AC	FVTPL	77	0	77
Liabilities					
Bonds & loans from banks and non-banks	AC	AC	586,769	0	586,769
Trade payables and other liabilities	AC	AC	172,283	0	172,283
Hedging derivatives	Hedge	Hedge	4,422	0	4,422
Other derivatives	HfT	FVTPL	1,034	0	1,034
Purchase price liability from acquisitions	AC	AC	6,982	0	6,982
Purchase price liability from acquisitions	HfT	FVTPL	8,496	0	8,496

1) Loans, financial receivables from related parties and from companies reported at equity, cash at banks and other financing receivables.

Impairment of financial assets

IFRS 9 replaces the incurred loss model introduced by IAS 39 with the future-oriented expected loss model. The new model is to be applied to financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI) except for equity instruments regarding which the FVOCI option (excluding recycling) is elected. According to IFRS 9, either the twelve-month expected credit losses, i.e. the expected credit losses that result from default events that are possible within the next twelve months, or the full lifetime expected credit losses, i.e. expected credit losses that result from all possible default events over the life of the financial instrument, are to be taken into account when calculating the impairment loss. The full lifetime model is to be applied in any case if the credit risk of a financial instrument has increased significantly since initial recognition and, irrespective of a deterioration of the credit risk, to all trade receivables without a significant financing component as well as to contract assets from customer contracts.

The following changes have resulted from the new measurement rules of IFRS 9. PALFINGER applies the simplified impairment model for trade receivables and contract assets from customer contracts, according to which expected losses are taken into consideration during their full lifetime. In the course of the analysis regarding IFRS 9, the provision matrix previously used for trade receivables was adjusted on the basis of the results of an analysis of historical data and the assessment of future developments. Following an even more detailed analysis, bad-debt allowances in the amount of EUR 628 thousand were reclassified from standardized to specific bad-debt allowances. The standardized bad-debt allowances decreased by EUR 531 thousand in comparison to 31 December 2017. All in all, this led to an increase in bad-debt allowances in the amount of EUR 97 thousand.

Other non-current and current financial assets measured at amortized costs are, to a substantial extent, covered by collateral, or the credit risk has not changed considerably since the initial recognition. The expected credit loss as at 1 January 2018 was considered to be negligible. Therefore, the first-time application of IFRS 9 did not result in any changes as at 1 January 2018 in this respect.

Hedge accounting

IFRS 9 also comprises new requirements regarding hedge accounting, which now more closely reflect risk management in practice. The provisions on hedge accounting introduced by IFRS 9 are to be applied prospectively to all new hedges. PALFINGER uses hedge accounting (cash flow hedges) to hedge foreign currency and interest rate risks. As the hedge accounting relationships meet the requirements of IFRS 9, there were no transition effects as at 1 January 2018 and no material effects of the first-time application of IFRS 9 are expected to occur in the future either.

The adjustment effect from IFRS 9 and IFRS 15 as at 1 January 2018 was as follows:

EUR thousand	31 Dec 2017	Adjustment IFRS 9	Adjustment IFRS 15	1 Jan 2018
Current assets				
Inventories	289,034	0	1,342	290,376
Trade receivables	266,890	911	(76,844)	190,957
Contract assets from customer contracts	0	(1,008)	78,774	77,766
	650,407	**(97)**	**3,273**	**653,583**
Equity				
Retained earnings	396,103	33	(1,232)	394,904
Non-controlling interests	32,796	(31)	0	32,765
	511,780	**2**	**(1,232)**	**510,550**
Non-current liabilities				
Deferred tax liabilities	14,798	(99)	(368)	14,331
	576,073	**(99)**	**(368)**	**575,606**
Current liabilities				
Current provisions	18,829	0	3,729	22,558
Current contract liabilities from customer contracts	0	0	32,064	32,064
Trade payables and other current liabilities	261,221	0	(30,920)	230,301
	390,531	**0**	**4,873**	**395,404**
Equity and liabilities	**1,478,384**	**(97)**	**3,273**	**1,481,560**

The balance sheet item “Contract assets from customer contracts” contains receivables from manufacturing orders and the rendering of services, which according to IFRS 15 are subject to recognition of revenue over time. They used to be reported under trade receivables. “Liabilities from customer contracts” include advances received on orders and deferred revenue, which were previously reported under trade payables and other current liabilities.

The effects of the application of IFRS 15 as at 31 December 2018 were as follows:

Consolidated balance sheet

EUR thousand	31 Dec 2018 as reported	Adjustment IFRS 15	31 Dec 2018 without IFRS 15 adjustment
Current assets			
Inventories	327,440	1,052	326,388
Contract assets from customer contracts	49,238	(442)	49,680
	716,776	**610**	**716,166**
Equity			
Retained earnings	440,135	(836)	440,971
Foreign currency translation reserve	(50,539)	(13)	(50,526)
	555,726	**(849)**	**556,575**
Non-current liabilities			
Deferred tax liabilities	11,842	(250)	12,092
	557,020	**(250)**	**557,270**
Current liabilities			
Current provisions	21,609	917	20,692
Current contract liabilities from customer contracts	24,559	1,359	23,200
Trade payables and other current liabilities	260,036	(567)	260,603
	415,338	**1,709**	**413,629**
Equity and liabilities	**1,528,084**	**610**	**1,527,474**

Consolidated income statement

EUR thousand	Jan–Dec 2018 as reported	Adjustment IFRS 15	Jan–Dec 2018 without IFRS 15 adjustment
Revenue	1,615,628	1,492	1,614,136
Cost of sales	(1,211,502)	(975)	(1,210,527)
Earnings before interest and taxes – EBIT	**126,974**	**518**	**126,456**
Income tax expense	(34,286)	(122)	(34,164)
Consolidated net result for the period	**57,951**	**395**	**57,556**

In 2018, IFRS 15 led to higher revenue due to the fact that deliveries were made under projects that are now subject to recognition of revenue at a specific point in time.

The following new, revised and/or supplemented IASB standards and IFRS IC interpretations that might be of relevance for PALFINGER have been issued but their application is not yet mandatory and/or they have not yet been endorsed by the European Commission. It is currently not planned to apply these standards ahead of time.
For this reason, they are not relevant for these consolidated financial statements:

Standards/interpretations	Mandatory application
IAS 19 Plan Amendment, Curtailment or Settlement (published in February 2018)	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures (published in October 2017)	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation (published in October 2017)	1 January 2019
IFRS 16 Leases (published in January 2016)	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments (published in June 2017)	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle (published in December 2017)	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards (published in March 2018)	1 January 2020
Amendment to IFRS 3 Business Combinations (published in October 2018)	1 January 2020
IAS 1 and IAS 8: Definition of Material (published in October 2018)	1 January 2020
IFRS 17 Insurance Contracts (published in May 2017)	1 January 2021

IFRS 16 LEASES

IFRS 16, which supersedes IAS 17, contains new rules on lease accounting. In the future, lessees will have to recognize assets (rights to use the leased assets) and liabilities for most leases in the balance sheet, irrespective of whether these classify as operating leases or finance leases according to the criteria of the former IAS 17. In addition, the standard provides for a changed definition of leases. For lessors, there will only be minor accounting changes compared to IAS 17. The application of IFRS 16 will be mandatory for financial years beginning on or after 1 January 2019.

PALFINGER has analysed the impact on the consolidated financial statements. The actual effect from the initial application of this standard may, however, still change and will be reported on in the interim financial information as at 31 March 2019.

The most significant effect on the consolidated financial statements will be the new recognition of assets and liabilities for operating leases and rentals of office, production and warehouse facilities as well as machines and vehicles in the amount of EUR 66,609, which will result in a significant increase in non-current assets and total assets and an increase in net debt at the time of initial application. Leases of low-value assets (such as printers, laptops, mobile phones and other office equipment) and short-term leases with a lease term of less than twelve months will not be recognized, given that the relevant option provided for in the standard was selected. The type of expenses incurred in connection with these leases and rentals will change as well, as IFRS 16 replaces recognition of lease and rental payments on a straight-line basis with depreciation of the rights of use and interest expense for the lease liability. In 2019, amortization of the rights of use is expected to amount to EUR 10,345 thousand, and the interest expense will be EUR 1,362 thousand, while lease and rental payments will decrease by EUR 11,181 thousand. This shift in expenses will result in an improvement of the EBITDA and EBIT indicators. At the same time, cash flows from operating activities will improve as payments for rentals and leases will be divided into repayments of capital and interest payments and the first category will be reported as cash flows from financing activities.

PALFINGER will apply IFRS 16 from 1 January 2019 onwards. The modified retrospective method will be selected for the first-time application of that standard. As a consequence, the accumulated effect from the change will be presented as a correction of the opening balance in the reporting period without any adjustment of the same period of the previous year. The lease liabilities will be stated at the present value of the outstanding lease payments and the rights of use will be stated at the amount of the recognized lease liability. If this method is selected, the lessee will be obliged to make additional disclosures in the notes. PALFINGER has adopted the practical expedient according to which IFRS 16 will be applied to all contracts entered into before 1 January 2019, which were defined as leases in accordance with IAS 17 and IFRIC 4. In addition, PALFINGER has selected the option of not including any initial direct costs when measuring the right of use.

The PALFINGER Group does not expect the first-time application of IFRS 16 to have any impact on compliance with the covenants contained in the currently existing contracts on promissory note loans and loan agreements.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of estimates and assumptions, which may influence the reported values of assets, liabilities and financial obligations at the balance sheet date, as well as the income and expenses of the financial year. Actual results may differ from these estimates. The true and fair view principle is fully applied in the use of all estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in the following.

(1) Purchase price allocations

Purchase price allocations made in the course of corporate acquisitions require assumptions as to the existence and measurement of the assets (primarily intangible assets), liabilities and contingent liabilities taken over. The main assumptions made when determining the fair values in the course of the purchase price allocation refer to the cash flows and the discount rate.

(2) Impairment of non-financial assets

The impairment tests performed by PALFINGER regarding goodwill, intangible assets with indefinite useful lives and uncompleted capitalized development projects are based on calculations of the value in use, for the purpose of which a discounted cash flow model was applied. The recoverable amount strongly depends on the discount rates used under the discounted cash flow model and the expected future cash inflows. Impairment losses on non-financial assets are reported under depreciation, amortization and impairment expenses. Further details on the impairment of non-financial assets are presented in Note (28) Intangible assets and Note (29) Property, plant and equipment.

(3) Development expenditure

Development expenditure is capitalized in accordance with the accounting and valuation method presented. The initial capitalization of these costs is based on the management's assessment that the development's feasibility from a technical and economic point of view is proven. This is usually the case when a product development project has reached a specific milestone of an existing project management model. For the purpose of determining the amount to be capitalized, the management makes assumptions on the amount of the expected future cash flows from the project, the discount rates to be applied and the time period in which the expected future benefits are to be received. The capitalized development expenditure refers primarily to developments in the fields of cranes, access platforms, tail lifts, services, railway systems, offshore cranes, davits and boats. The impairment test is geared to the benefit of the individual assets, irrespective of the profit expectations of the entire unit. Further details on capitalized development expenditure are presented in Note (28) Intangible assets.

(4) Investments in companies at equity

In the case of investments in companies reported at equity, assumptions and estimates are made for the purposes of the assessment of impairment. Whether the investments in companies at equity held in connection with SANY (SANY Automobile Hoisting Machinery, Sany Palfinger SPV Equipment and Palfinger Sany International Mobile Cranes Sales) will have to be impaired depends on the development of the Chinese economy, the success of the internationalization strategy and the economic development of the sales markets of Palfinger Sany International Mobile Cranes Sales. The need for impairment of the investments will be influenced primarily by the performance of the construction industry in China. Progressing urbanization, the necessary infrastructure projects resulting therefrom, the increase in wage costs and the increased economic effectiveness of the automation of lifting, loading and unloading operations will play a vital role in this connection. In the international markets, there are various political and macroeconomic risks that might have an impact on whether or not the shares held in connection with the partnership with SANY will have to be impaired. The carrying amounts and further details on investments in companies reported at equity are described in Note (31) Investments in companies reported at equity.

(5) Measurement of receivables

Besides standardized measurement of receivables on the basis of an analysis of historical data and the assessment of future developments, including days overdue and country risk, the probability of receiving payment is taken into consideration by means of specific bad-debt allowances. In doing so, primarily previous experience with the respective customers, their creditworthiness and available collateral, if any, are taken into account. Impairment losses on receivables and contract assets are presented in Note (36) Trade receivables and contract assets from customer contracts. Bad debts are derecognized.

(6) Revenue recognition from contract manufacturing and rendering of services

Revenue from contract manufacturing and the rendering of services is recognized in accordance with the percentage of completion method. When applying this method, PALFINGER estimates the share of services already performed by the balance sheet date in proportion to the overall scope of orders and the order costs yet to be incurred. Imminent losses are immediately recognized as expenses if total contract costs are likely to exceed the contract revenue. Especially in the case of technically complex and demanding projects, there is the risk that the actual costs incurred may deviate from this estimate of total costs. Further details on revenue generated from contract manufacturing and the rendering of services are available in Note (15) Revenue and Note (36) Trade receivables and contract assets from customer contracts.

(7) Measurement of inventories

A standardized obsolescence measurement method was implemented in order to allow for the risk of obsolescence. This method considers not only actual and planned consumption, minimum inventories and determinations of days stock on hand, but also alternative uses of materials. In addition, the commercial benefit of the existing inventories is reviewed on a case-by-case basis and, if necessary, additional impairment losses are recorded on the basis of long-term storage, limited sales channels or defects in quality. In addition, a systematic review of finished goods is carried out with a view to achieving a loss-free measurement, which is basically characterized by the expected sales prices, currency developments, the time of selling and the costs yet to be expected. Further details on impairment losses recognized for inventories are presented in Note (35) Inventories.

(8) Deferred tax assets

Deferred tax assets are reported for all unused tax-loss carry forwards in the amount of taxable income probably available so that the loss carry forwards may actually be used. In the case of loss carry forwards not subject to expiry, their usability during the next five years is taken as the decisive factor. For the purpose of determining the amount of the deferred tax asset that may be recognized, material judgements by the management on the anticipated time of occurrence and the amount of the future taxable income as well as on the future tax planning strategies are required. Further details on deferred taxes are disclosed in Note (32) Deferred tax assets and liabilities.

(9) Pensions, severance payments and anniversary bonuses

The expenses for defined benefit plans and statutory obligations upon termination of employment as well as entitlements to anniversary bonuses are determined on the basis of actuarial calculations. The actuarial assessment is based on assumptions on discount rates, future increases in wages and salaries, mortality and future increases in pension payments. Each reporting date, these assumptions are reviewed. For the purpose of determining the adequate discount rate, the management uses long-term market interest rates. The mortality rate is based on publicly available mortality tables for the respective countries. The future increases in wages and salaries as well as pension payments are based on the anticipated future inflation rates for the respective countries. Further details on the assumptions used are presented in Note (50) Non-current provisions.

(10) Provisions for guarantee and warranty expenses

When forming provisions for guarantee and warranty expenses, guarantee and warranty obligations are taken into consideration using a standardized method. This method is influenced considerably by the time of occurrence of the warranty claim, specific product replacement campaigns, refund quotas of suppliers, the development of the revenue subject to warranty and assumptions of gross profit margins on the basis of the implemented warranty process. Provisions for guarantee and warranty expenses are presented in Note (52) Current provisions.

(11) Liabilities from puttable non-controlling interests

This item comprises puttable and fixed-term equity interests with put options that are reported at fair value. As their fair value depends on the development of earnings of the entities concerned, a change in fair value may become necessary should the development of earnings be different than expected. These estimates are based on the medium-term corporate strategic planning of the PALFINGER Group. For details, please refer to Note (47) and the disclosures regarding financial instruments (55).

(12) Purchase price liabilities from acquisitions

The item purchase price liabilities from acquisitions comprises purchase price portions not yet fallen due that depend on the future development of the earnings of the acquired entities. Therefore, a change in the expected underlying values may result in an adjustment of the reported values through the income statement. These estimates are based on the medium-term corporate strategic planning of the PALFINGER Group. For details, please refer to Note (49) and the disclosures regarding financial instruments (55).

(13) Cash flow hedges

For the purposes of cash flow hedge accounting, a high probability of the respective future cash flows actually occurring is assumed. Hedge accounting is discontinued if the hedged transaction is no longer expected to occur. Details are disclosed in Note (55) Financial instruments.

(14) Changes in estimates

No major changes in estimates were made in the 2018 financial year.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(15) Revenue

Jan–Dec 2017

EUR thousand	LAND	SEA	PALFINGER Group
European Union	669,280	77,578	746,858
Far East	82,795	38,202	120,997
CIS	92,129	14,893	107,022
Central and South America	43,802	5,016	48,818
Middle East and Africa	28,402	30,540	58,942
North America	268,742	26,525	295,267
Rest of Europe	41,336	48,118	89,454
Revenue IAS 18/11	**1,226,486**	**240,872**	**1,467,358**
Revenue other	3,717	0	3,717
Revenue total	**1,230,203**	**240,872**	**1,471,075**

Jan–Dec 2018

EUR thousand	LAND	SEA	PALFINGER Group
European Union	774,856	66,507	841,363
Far East	92,066	37,647	129,713
CIS	100,256	17,632	117,888
Central and South America	46,525	4,441	50,966
Middle East and Africa	19,287	27,127	46,414
North America	313,536	24,421	337,957
Rest of Europe	48,164	38,489	86,653
Revenue from contracts with customers (IFRS 15)	**1,394,690**	**216,264**	**1,610,954**
Revenue other	4,674	0	4,674
Revenue total	**1,399,364**	**216,264**	**1,615,628**

The classification by geographical area is made in accordance with the customers' registered offices. Other revenue contains primarily revenue from rental business. In Austria, PALFINGER's country of origin, revenue of EUR 85,812 thousand (previous year: EUR 67,608 thousand) was achieved.

Revenue recorded in the European Union increased primarily in Austria, Germany, France and Italy. In North America, the increase was achieved primarily in the USA.

Expected future revenue from performance obligations under existing contracts, which have not (or not fully) been satisfied as at the reporting date, came to EUR 668,400 thousand. A major portion of these performance obligations will be satisfied within the next twelve months.

	LAND		SEA	
EUR thousand	Jan–Dec 2017	Jan–Dec 2018	Jan–Dec 2017	Jan–Dec 2018
Revenue invoiced	1,194,970	1,356,686	139,117	114,448
Revenue from contract manufacturing and rendering of services	35,233	42,678	101,755	101,816
Revenue	**1,230,203**	**1,399,364**	**240,872**	**216,264**

Revenue from contract manufacturing decreased, primarily in the SEA segment. Revenue arising from the rendering of services came from Megarme and from the service companies in the Marine business area and related to services recognized under the percentage of completion method.

(16) Other operating income

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Income from the disposal of intangible assets and property, plant and equipment	845	989
Income from charges for services	3,011	2,117
Exchange rate differences	7,370	8,378
Insurance income	947	1,460
Rental income	348	327
Income from other grants	1,248	1,083
Income from the disposal of business units	2,630	0
Miscellaneous other operating income	6,784	5,584
Other operating income	**23,183**	**19,939**

In the course of the restructuring in North America, PALFINGER transferred the business of mounting and selling service bodies – special truck bodies for small trucks and pick-ups – from four PalFleet sites to the Reading Truck Group in 2017. The contract for the transaction was closed at the end of March 2017, resulting in other operating income of EUR 2.6 million. The remaining purchase price of EUR 1,257 thousand was paid in 2018.

For details on exchange rate differences, see Note (55) Financial instruments, item 3 Foreign exchange risk.

(17) Cost of sales

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Changes in inventories and own work capitalized	2,952	10,954
Materials and external services	(733,448)	(807,802)
Employee benefits expenses	(250,726)	(266,904)
Depreciation, amortization and impairment	(39,710)	(45,371)
Outgoing freight costs	(19,710)	(23,105)
Guarantees and warranties	(12,404)	(12,228)
Repairs and maintenance	(12,514)	(15,062)
Rentals and leases	(8,219)	(7,730)
Commissions	(3,911)	(6,259)
Contract workers and other third-party services	(9,920)	(10,682)
Energy infrastructure	(6,660)	(7,158)
Travel expenses	(5,525)	(5,813)
Vehicle fleet	(3,201)	(3,493)
Consultancy services	(1,825)	(2,045)
Miscellaneous other expenses	(7,284)	(8,804)
Cost of sales	**(1,112,105)**	**(1,211,502)**

Cost of sales increased slightly less than revenue, which is why the gross profit margin went up from 24.4 per cent to 25.0 per cent.

(18) Research and development costs

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Changes in inventories and own work capitalized	15,182	16,505
Materials and external services	(3,905)	(3,010)
Employee benefits expenses	(33,574)	(37,106)
Depreciation, amortization and impairment	(1,445)	(1,683)
Income from research grants	2,263	1,950
Consultancy services	(2,465)	(4,969)
Contract workers and other third-party services	(2,259)	(2,284)
Travel expenses	(1,048)	(1,210)
Miscellaneous other expenses	(2,118)	(2,331)
Research and development costs	**(29,369)**	**(34,138)**

This item includes research costs, development costs that cannot be capitalized, and product management costs.

Amortization and impairment of development costs in the amount of EUR 8,883 thousand (previous year: EUR 8,555 thousand) is reported under cost of sales. Therefore, total research and development expenses came to EUR 43,021 thousand (previous year: EUR 37,924 thousand).

(19) Distribution costs

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Changes in inventories and own work capitalized	(26)	(18)
Materials and external services	(741)	(1,714)
Employee benefits expenses	(66,120)	(69,961)
Depreciation, amortization and impairment	(9,503)	(16,098)
Advertising, representation and market costs	(9,862)	(11,591)
Travel expenses	(7,587)	(7,881)
Contract workers and other third-party services	(1,027)	(1,955)
Vehicle fleet	(3,258)	(3,150)
Transport costs	(2,088)	(2,240)
Consultancy services	(1,767)	(2,011)
Office and IT expenses	(1,782)	(1,655)
Miscellaneous other expenses	(4,892)	(4,519)
Distribution costs	**(108,653)**	**(122,793)**

(20) Administrative costs

EUR thousand	Jan–Dec 2017[1)]	Jan–Dec 2018
Changes in inventories and own work capitalized	973	196
Materials and external services	(57)	(250)
Employee benefits expenses	(69,694)	(69,247)
Depreciation, amortization and impairment	(88,905)	(6,623)
Consultancy services	(11,262)	(12,245)
Contract workers and other third-party services	(6,897)	(7,099)
Office and IT expenses	(7,082)	(7,586)
Travel expenses	(4,178)	(4,139)
Vehicle fleet	(2,772)	(1,834)
Advertising, representation and market costs	(2,609)	(2,344)
Rentals and leases	(3,970)	(4,606)
Taxes other than those on income	(2,592)	(3,035)
Insurance	(3,001)	(3,328)
Repair and maintenance	(1,765)	(1,703)
Bank charges	(1,177)	(1,143)
Miscellaneous other expenses	(605)	(2,308)
Administrative costs	**(205,593)**	**(127,294)**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

FEES CHARGED BY THE AUDITOR

For services provided in the 2018 financial year by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. – the auditor of the consolidated financial statements – as well as by the businesses of the global Ernst & Young network, the following fees were recognized as expenses:

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Audit of the consolidated financial statements and related certification services (including reviews)	(1,109)	(1,027)
of which Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.	(257)	(275)
Tax advice	(267)	(180)
Other services	(14)	(29)
Fees charged by the auditor	**(1,390)**	**(1,236)**

(21) Other operating expenses

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Losses on the disposal of intangible assets and property, plant and equipment	(4,535)	(555)
Losses on bad debt and impairment losses	(2,552)	(3,291)
Exchange rate differences	(9,048)	(9,533)
Damage costs	(444)	(498)
Expenses in connection with other income	(995)	(784)
Allocation provision purchase price liabilities	0	(1,560)
Allocation provision for legal disputes	(229)	(671)
Contractual and other penalties	(97)	(1,050)
Miscellaneous other operating expenses	(4,453)	(3,549)
Other operating expenses	**(22,353)**	**(21,491)**

In the fourth quarter of 2017, the company aircraft was sold. The loss on this sale was EUR 1,751 thousand (see also Note (55) on page 200).

(22) Income from companies reported at equity

Income from associated companies and joint ventures included according to the equity method is comprised of the following:

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Share in net result for the period	10,385	9,536
Income from revaluation of shares due to the full consolidation	1,218	0
Impairment/disposal of shares	0	(911)
Income from companies reported at equity	**11,603**	**8,625**

The impairment loss recorded in 2018 refers to the write-off of the 20 per cent interest in Sky Steel Systems LLC.

The fair value measurement of the 30 per cent interest held in Hidro-Grubert so far, carried out in the course of the initial consolidation in 2017, resulted in proceeds of EUR 1,218 thousand stated under income from companies reported at equity.

(23) Materials and external services

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Cost of materials	(683,240)	(750,875)
Cost of external services	(54,911)	(61,901)
Materials and external services	**(738,151)**	**(812,776)**

For details on the impairment losses on inventories reported under cost of materials, see Note (35) Inventories. Cost of materials primarily relates to metal components such as sheets, pipes and profiles, as well as purchased parts, and electrical and hydraulic components.

(24) Employee benefits expenses

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Wages and salaries	(325,662)	(345,433)
Expenses for severance payments	(4,206)	(3,373)
Pension expenses	(4,536)	(3,945)
Expenses for statutory social security contributions and other pay-related contributions	(65,762)	(69,974)
Other employee benefits	(19,948)	(20,492)
Employee benefits expenses	**(420,114)**	**(443,217)**

Expenses for severance payments include payments made under defined contribution plans in the amount of EUR 1,214 thousand (previous year: EUR 994 thousand) which, in turn, include payments made to external severance pay funds for employees, totalling EUR 1,182 thousand (previous year: EUR 994 thousand).

Pension expenses include expenses under defined contribution plans amounting to EUR 2,974 thousand (previous year: EUR 3,830 thousand).

(25) Depreciation, amortization and impairment expenses

EUR thousand	Jan–Dec 2017[1)]	Jan–Dec 2018
Depreciation and amortization	(56,631)	(59,422)
Impairment	(82,931)	(10,352)
Depreciation, amortization and impairment expenses	**(139,562)**	**(69,774)**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

The changes in depreciation, amortization and impairment are discussed in detail in Note (28) Intangible assets, Note (29) Property, plant and equipment and Note (30) Investment property.

The impairment loss recorded in 2018 refers primarily to the Megarme brand, which is no longer being used following its integration into the marine service business, and to the OMAHA STANDARD brand (see Note [28]).

The impairment losses recorded in 2017 refer mainly to the goodwill of the business area Marine cash-generating unit (CGU), which primarily resulted from the Harding acquisition, as at 31 December 2017 (see the explanations on adjustments with retrospective effect on page 144).

(26) Interest result and other financial result

The following table shows the item interest result and other financial result:

Jan–Dec 2017		Financial instruments acc. to IAS 39	
EUR thousand	Total	Loans and receivables	Financial liabilities at amortized cost
Interest income	1,268	1,268	0
Interest expenses from financial liabilities	(12,619)	0	(12,507)
Other interest expenses	(1,997)	0	0
Interest result	**(13,348)**	**1,268**	**(12,507)**
Valuation of financial liabilities	151	0	0
Income from the disposal of financial assets	37	0	0
Loss from the disposal of financial assets	(56)	0	0
Write-up of financial assets	4	0	0
Impairment of financial assets	(409)	(403)	0
Exchange rate differences	(8,050)	(5,242)	0
Net result	**(8,323)**	**(5,645)**	**0**
Net financial result	**(21,671)**	**(4,377)**	**(12,507)**

Jan–Dec 2018		Financial instruments acc. to IFRS 9	
EUR thousand	Total	Financial asset at amortized cost	Financial liabilities at amortized cost
Interest income	1,519	1,519	0
Interest expenses from financial liabilities	(11,019)	0	(11,019)
Other interest expenses	(1,829)	0	0
Interest result	**(11,329)**	**1,519**	**(11,019)**
Valuation of financial liabilities	(1,591)	0	0
Income from the disposal of financial assets	35	0	0
Loss from the disposal of financial assets	0	0	0
Write-up of financial assets	0	0	0
Impairment of financial assets	(133)	(114)	0
Exchange rate differences	(2,908)	(433)	(238)
Net result	**(4,597)**	**(547)**	**(238)**
Net financial result	**(15,926)**	**972**	**(11,257)**

For details on exchange rate differences of the net financial result, please see page 195.

Financial instruments acc. to IAS 39				
Available for sale	Held for trading / other derivatives	Other non-current provisions and purchase price liabilities	Non-current provisions acc. to IAS 19	Finance lease
0	0	0	0	0
0	0	0	0	(112)
0	0	(1,284)	(713)	0
0	**0**	**(1,284)**	**(713)**	**(112)**
0	0	151	0	0
37	0	0	0	0
(56)	0	0	0	0
4	0	0	0	0
(6)	0	0	0	0
0	(3,116)	309	0	0
(21)	**(3,116)**	**460**	**0**	**0**
(21)	**(3,116)**	**(824)**	**(713)**	**(112)**

Financial instruments acc. to IFRS 9				
Fair value through OCI	Fair value through P&L /other derivatives	Other non-current provisions and purchase price liabilities	Non-current provisions acc. to IAS 19	Finance lease
0	0	0	0	0
0	0	0	0	0
0	0	(1,075)	(754)	0
0	**0**	**(1,075)**	**(754)**	**0**
0	0	(1,591)	0	0
35	0	0	0	0
0	0	0	0	0
0	0	0	0	0
(19)	0	0	0	0
0	(2,460)	223	0	0
16	**(2,460)**	**(1,368)**	**0**	**0**
16	**(2,460)**	**(2,443)**	**(754)**	**0**

(27) Income tax expense

The rate of corporation tax applicable to the parent company, PALFINGER AG, remained at 25 per cent, which is the same rate as in the previous year.

EUR thousand	Jan–Dec 2017[1)]	Jan–Dec 2018
Effective tax expense (–)/income (+)	(26,764)	(33,619)
thereof from previous years	30	(914)
thereof from the use of tax-loss carry forwards so far not used	483	565
Deferred tax expense (–)/income (+)	21,926	(667)
thereof from the recognition of tax-loss carry forwards from previous years	483	0
thereof due to tax rate changes	921	(121)
thereof from the adjustment of tax-loss carry forwards	(209)	(532)
Income tax expense	**(4,838)**	**(34,286)**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

The difference between the book income tax expense and the effective income tax expense in the financial year, as shown in the consolidated income statement, is calculated as follows:

EUR thousand	Jan–Dec 2017[1)]	Jan–Dec 2018
Result before income tax	6,117	111,048
Tax rate of the Group	25.0%	25.0%
Calculated tax expense	**1,529**	**27,762**
Adjustment to foreign tax rates	**345**	**(115)**
Tax-reducing factors		
Research and education allowances	(572)	(514)
Investment grants and other government aid	(581)	(422)
Tax rate changes	(976)	(321)
Tax-free income from investments measured at equity	(2,901)	(2,574)
Reversal of non-taxable provisions	(109)	0
Other tax-reducing factors	(2,041)	(3,692)
Recognition and use of loss carry forwards from previous years	(896)	(565)
Income tax from previous years	(1,818)	(2,030)
Reversal of impairment of deferred taxes	0	(239)
Valuation of investments and intra-group valuation of receivables	(23,094)	(12,532)
	(32,988)	**(22,889)**
Tax-increasing factors		
Tax rate changes	1,723	1,041
Non-capitalized loss carry forwards	5,060	13,289
Impairment of loss carry forwards	209	532
Non-tax-deductible expenses	5,220	8,907
Allocation non-taxable provisions	0	859
Minimum taxes	85	111
Income tax from previous years	1,625	2,542
Non-deductible withholding taxes	577	259
Valuation of investments and intra-group valuation of receivables	0	1,749
Different tax rate	0	211
Consolidation effects	225	0
Tax-neutral amortization of goodwill	20,601	0
Other tax-increasing factors	606	28
Impairment of deferred taxes	21	0
	35,952	**29,528**
Income tax expense	**4,838**	**34,286**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

NOTES TO THE CONSOLIDATED BALANCE SHEET

(28) Intangible assets

The following table shows the movement in intangible assets:

EUR thousand	**Goodwill[1)]**
Acquisition cost	
As at 1 Jan 2017	240,782
Corporate acquisitions	3,330
Additions	0
Disposals	0
Reclassifications	0
Foreign currency translation	(14,121)
As at 31 Dec 2017	**229,991**
As at 1 Jan 2018	229,991
Additions	0
Disposals	0
Reclassifications	0
Foreign currency translation	(3,443)
As at 31 Dec 2018	**226,548**
Accumulated depreciation and impairment	
As at 1 Jan 2017	2
Corporate acquisitions	0
Amortization	0
Impairment	82,402
Disposals	0
Foreign currency translation	(6)
As at 31 Dec 2017	**82,398**
As at 1 Jan 2018	82,398
Amortization	0
Impairment	0
Disposals	0
Foreign currency translation	(894)
As at 31 Dec 2018	**81,504**
Carrying amounts	
As at 31 Dec 2017	**147,593**
As at 31 Dec 2018	**145,044**

1) These figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

	Intangible assets with indefinite useful lives	Development expenditure	Brands, customer base and order backlog	Other intangible assets	Prepayments	Total
	29,544	86,266	86,338	26,288	46	469,264
	662	0	3,688	46	0	7,726
	0	17,164	0	2,792	42	19,998
	0	(642)	0	(502)	(15)	(1,159)
	0	0	0	77	(51)	26
	(2,327)	(2,933)	(5,760)	(877)	0	(26,018)
	27,879	**99,855**	**84,266**	**27,824**	**22**	**469,837**
	27,879	99,855	84,266	27,824	22	469,837
	0	17,007	0	1,829	11	18,847
	0	(44)	0	(86)	0	(130)
	0	195	0	1,209	(20)	1,384
	(192)	(344)	(1,291)	(208)	(2)	(5,480)
	27,687	**116,669**	**82,975**	**30,568**	**11**	**484,458**
	0	27,377	43,782	17,988	0	89,152
	0	0	0	40	0	40
	0	8,555	6,972	2,228	0	17,755
	0	0	0	0	0	82,402
	0	(613)	0	(460)	0	(1,073)
	0	(1,075)	(2,618)	(511)	0	(4,210)
	0	**34,244**	**48,136**	**19,285**	**0**	**184,066**
	0	34,244	48,136	19,285	0	184,066
	0	8,883	5,790	2,707	0	17,380
	7,490	0	0	0	0	7,490
	0	(7)	0	(77)	0	(84)
	181	(186)	(632)	(167)	0	(1,698)
	7,671	**42,934**	**53,294**	**21,748**	**0**	**207,154**
	27,879	**65,611**	**36,130**	**8,539**	**22**	**285,771**
	20,016	**73,735**	**29,681**	**8,820**	**11**	**277,304**

GOODWILL

Reported goodwill resulting from business combinations pertains to the following cash-generating units:

EUR thousand	31 Dec 2017[1)]	31 Dec 2018
Business area EMEA cash-generating unit	48,881	48,741
Business area Marine cash-generating unit	74,123	74,379
Business area CIS cash-generating unit	15,778	13,735
Business area Americas cash-generating unit	8,811	8,189
Goodwill	**147,593**	**145,044**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Intangible assets with indefinite useful lives result from business combinations and are as follows:

EUR thousand	31 Dec 2017	31 Dec 2018
Business area EMEA		
MBB brand	5,840	5,840
Nimet brand	4,823	4,818
	10,663	**10,658**
Business area Marine		
Megarme brand	5,496	0
	5,496	**0**
Business area Americas		
OMAHA STANDARD brand	1,848	0
American Roll-off brand	575	602
ETI brand	4,748	4,974
Hidro-Grubert brand	498	257
	7,669	**5,833**
Business area CIS		
INMAN brand	1,640	1,427
Velmash brand	2,411	2,098
	4,051	**3,525**
Intangible assets with indefinite useful lives	**27,879**	**20,016**

As the management intends to continue to use the brands resulting from business combinations for an indefinite time, thus rendering it impossible to determine the useful lives of these intangible assets, such assets were assigned indefinite useful lives.

The Megarme brand was written off at the end of 2018, because the rope access business field is being integrated into the marine service area under the PALFINGER brand and the Megarme brand will no longer be used. In the course of the implementation of the new organizational structure (GLOBAL PALFINGER ORGANIZATION), the brand strategy was reviewed as well and it was decided to replace the product brand OMAHA STANDARD in the business area Americas by the uniform PALFINGER brand and, therefore, to write it off as at the end of 2018.

The impairment tests performed for the remaining intangible assets with indefinite useful lives revealed no need for impairment.

The recoverable amount of the cash-generating units is determined by calculating a value in use on the basis of an estimate of the future cash flows for a period of four years. Subsequently, the cash flows are extrapolated using a growth rate. The growth rates used in 2018 were 0.9 per cent (previous year: 0.9 per cent) for the business area EMEA CGU, 0.9 per cent (previous year: 0.9 per cent) for the business area Marine CGU, 2 per cent (previous year: 2 percent) for the business area CIS CGU, and 1.3 per cent (previous year: 1.5 per cent) for the business area Americas CGU.

Given that strategic corporate planning is only prepared every second year, a deviation analysis was carried out in 2018 on the basis of the actual values for 2018 and rolling wave planning for 2019. Where significant deviations from the plan occurred, new plans were prepared.

The discount rates applied are in accordance with customary, weighted cost of capital adjusted to specific risks on the basis of external capital market data and are shown in the following table in comparison with the corresponding discount rates of the previous year:

	Pre-tax discount rate	
in per cent	**2017**	**2018**
Business area EMEA cash-generating unit	10.4	10.1
Business area Marine cash-generating unit	10.5	10.2
Business area Americas cash-generating unit	14.1	11.8
Business area CIS cash-generating unit	17.1	16.4

A sensitivity analysis has found that even if the discount factor increases by 1 percentage point, the carrying amounts in all CGUs will still be covered, and that there will be no need for impairment.

The sensitivity analysis also determined that if the EBITs for the years 2019 to 2022 decrease by 10 per cent, provided that all other parameters remain unchanged, the carrying amounts in all CGUs will still be covered and there will be no need for impairment.

For details on the impairment losses recorded in 2017, please see page 144 “Adjustments with retrospective effect”.

For cash-generating units containing no goodwill or intangible assets with indefinite useful lives, no impairment tests were carried out, as there was no indication of potential impairment.

The assumptions underlying the calculation of the values in use of the cash-generating units contain estimation uncertainties. Gross profit margins are determined by using those amounts that are integrated into rolling planning based on the experience of the current year. Thus, corporate planning is based on previous results as well as on current forecasts of future market developments.

DEVELOPMENT EXPENDITURE

In the 2018 financial year, PALFINGER capitalized development expenditure of EUR 17,007 thousand (previous year: EUR 15,132 thousand) as internally generated intangible assets.

In the course of the acquisition of Heron Davits AS in 2017, development services in the amount of EUR 2,032 thousand were purchased.

BRANDS, CUSTOMER BASE AND ORDER BACKLOG

In the 2018 financial year, EUR 4,678 thousand (previous year: EUR 5,766 thousand) was recorded for the amortization of customer bases and order backlogs.

(29) Property, plant and equipment

The movements in property, plant and equipment are shown in the following:

EUR thousand	Land and buildings
Acquisition cost	
As at 1 Jan 2017	223,820
Corporate acquisitions	(2,207)
Additions	10,179
Additional capitalization	0
Disposals	(838)
Reclassifications	4,629
Foreign currency translation	(8,504)
As at 31 Dec 2017	**227,079**
As at 1 Jan 2018	227,079
Additions	7,919
Additional capitalization	291
Disposals	(345)
Reclassifications	17,091
Foreign currency translation	(1,927)
As at 31 Dec 2018	**250,108**
Accumulated depreciation and impairment	
As at 1 Jan 2017	68,670
Corporate acquisitions	(419)
Depreciation	7,845
Impairment	30
Reversal of impairment losses	0
Additional capitalization	1,085
Disposals	(570)
Reclassifications	130
Foreign currency translation	(2,589)
As at 31 Dec 2017	**74,182**
As at 1 Jan 2018	74,182
Depreciation	8,103
Impairment	0
Additional capitalization	0
Disposals	(175)
Reclassifications	(207)
Foreign currency translation	61
As at 31 Dec 2018	**81,964**
Carrying amounts	
As at 31 Dec 2017	**152,897**
As at 31 Dec 2018	**168,144**

Undeveloped land	Plant and machinery	Other plant, fixtures, fittings and equipment	Prepayments and assets under construction	Total
2,032	225,224	115,488	24,166	590,730
0	(4,044)	5,323	0	(928)
4	15,678	17,041	24,416	67,318
0	127	0	0	127
(1)	(7,791)	(23,664)	(1,319)	(33,613)
0	6,979	2,313	(13,947)	(26)
(68)	(8,243)	(6,319)	(604)	(23,738)
1,967	**227,930**	**110,182**	**32,712**	**599,870**
1,967	227,930	110,182	32,712	599,870
857	14,831	18,202	39,810	81,619
339	(10)	(7)	1	614
(428)	(6,997)	(8,016)	(254)	(16,040)
(930)	20,057	2,976	(40,580)	(1,386)
24	(2,847)	429	(902)	(5,223)
1,829	**252,964**	**123,766**	**30,787**	**659,454**
(285)	141,279	67,496	1,256	278,416
0	(617)	1,338	0	302
20	17,926	13,066	0	38,857
0	27	470	0	527
0	0	(2)	0	(2)
0	84	81	0	1,250
0	(6,182)	(12,502)	(1,256)	(20,510)
0	158	(289)	0	(1)
34	(5,173)	(3,347)	0	(11,075)
(231)	**147,502**	**66,311**	**0**	**287,764**
(231)	147,502	66,311	0	287,764
19	18,499	14,185	1,411	42,217
0	2,290	377	0	2,667
355	(3)	(3)	0	349
(47)	(5,205)	(6,067)	0	(11,494)
0	78	129	0	0
(12)	(1,522)	122	(96)	(1,447)
84	**161,639**	**75,054**	**1,315**	**320,056**
2,198	**80,428**	**43,871**	**32,712**	**312,106**
1,745	**91,325**	**48,712**	**29,472**	**339,398**

Additions relate primarily to the expansion of production capacities in Austria, Bulgaria, Romania and Slovenia, as well as to replacement investments.

Land and buildings include the real property values of developed properties amounting to EUR 33,519 thousand (previous year: EUR 29,454 thousand). Prepayments and assets under construction are reported at cost and represent assets which were under construction as at the balance sheet date, totalling EUR 27,623 thousand (previous year: EUR 29,783 thousand).

A purchase option agreement was concluded in 2012, obligating and/or authorizing PALFINGER to acquire additional plots of land next to the plot of land where the new group headquarters is located, with a total area of approx. 19,000 square metres, after five or ten years following the planned rezoning of the plots of land (i.e. for the first time in October 2018). The exercise price of the option to acquire these additional properties amounts to EUR 4,353 thousand plus an adjustment for inflation up to the date of exercise of the purchase option. The option was not exercised in October 2018.

As was the case in the previous year, no borrowing costs on qualifying assets were capitalized in the reporting period.

In the 2018 financial year, no government grants (previous year: none) were recognized as reductions of acquisition and/or manufacturing costs in accordance with IAS 20.

As at 31 December 2018, no property, plant and equipment (previous year: none) was pledged as collateral for liabilities.

(30) Investment property

As at 31 December 2018, investment property included acquisition costs totalling EUR 832 thousand (previous year: EUR 832 thousand) and had a carrying amount of EUR 288 thousand (previous year: EUR 308 thousand). Depreciation and impairment amounted to EUR 20 thousand (previous year: EUR 20 thousand) in the reporting period. As at 31 December 2018, the fair value of investment property came to EUR 570 thousand (previous year: EUR 507 thousand).

Rental income from the lease of investment property amounted to EUR 77 thousand (previous year: EUR 72 thousand) and directly attributable operating expenses were EUR 27 thousand (previous year: EUR 20 thousand).

(31) Investments in companies reported at equity

The names of the companies included in the consolidated financial statements using the equity method are listed in the statement of investments.

EUR thousand	**2017**	**2018**
As at 1 Jan	171,871	167,266
Additions	1,626	0
Write-ups	313	0
Share in net result for the period	10,385	9,536
Impairment	0	(911)
Dividends	(3,963)	(4,638)
Foreign currency translation	(9,972)	(2,040)
Change in consolidation method	(2,994)	0
Reclassification	0	(28,524)
As at 31 Dec	**167,266**	**140,689**

The impairment loss recorded in 2018 refers to the write-off of the 20 per cent interest in Sky Steel Systems LLC in the first half of 2018.

The reclassification recognized in 2018 refers to a 2.5 per cent interest in Sany Automobile Hoisting Machinery in the LAND segment, which was classified as held for sale in accordance with IFRS 5. See also the explanations on page 142. The reclassified investments were measured at a carrying amount of EUR 28,524 thousand and no profit or loss was recorded.

The tables below contain a summarized schedule of the financials for the associated companies and joint venture companies which are material to the Group and have been included according to the equity method. In each case, the information given refers to 100 per cent and not the share held by PALFINGER in these companies.

	Palfinger France S.A.S.		SANY Automobile Hoisting Machinery Co., Ltd.		Sany Palfinger SPV Equipment Co., Ltd.[1]	
EUR thousand	Jan–Dec 2017	Jan–Dec 2018	Oct 2016–Sept 2017	Oct 2017–Sept 2018	Jan–Dec 2017	Jan–Dec 2018
Revenue	129,563	128,870	583,810	1,058,658	35,935	51,113
Total comprehensive income						
Result after income tax	7,634	10,746	(46,214)	2,664	(241)	2,134
Other comprehensive income after income tax	0	0	(82,363)	(11,713)	(2,743)	(387)
	7,634	**10,746**	**(128,577)**	**(9,049)**	**(2,984)**	**1,747**

	Palfinger France S.A.S.		SANY Automobile Hoisting Machinery Co., Ltd.		Sany Palfinger SPV Equipment Co., Ltd.[1]	
EUR thousand	31 Dec 2017	31 Dec 2018	30 Sept 2017	30 Sept 2018	31 Dec 2017	31 Dec 2018
Non-current assets	3,627	1,324	300,801	288,575	10,070	7,567
Current assets	55,262	52,184	376,009	614,686	56,464	68,090
Non-current liabilities	2,521	1,622	5,538	15,885	143	(34)
Current liabilities	25,454	15,164	367,809	580,697	25,022	32,648
Net assets	**30,914**	**36,722**	**303,463**	**306,679**	**41,369**	**43,043**

	Palfinger France S.A.S.		SANY Automobile Hoisting Machinery Co., Ltd.		Sany Palfinger SPV Equipment Co., Ltd.[1]	
EUR thousand	2017	2018	2017	2018	2017	2018
Shares/voting rights	49%	49%	10%	7.5%	50%	50%
Carrying amounts as at 1 Jan	**12,529**	**13,869**	**130,249**	**128,964**	**22,101**	**20,608**
Additions	0	0	0	0	0	0
Reclassification	0	0	0	(28,524)	0	0
Share in net result for the period	3,740	5,266	6,951	1,426	(121)	1,067
Foreign currency translation	0	0	(8,236)	(1,499)	(1,372)	(192)
Dividends	(2,400)	(2,695)	0	0	0	0
Carrying amounts as at 31 Dec	**13,869**	**16,440**	**128,964**	**100,367**	**20,608**	**21,483**
of which goodwill	0	0	87,295	64,883	0	0
of which downstream sales	(1,279)	(1,553)	0	0	(77)	(39)
of which pro-rata net assets	15,148	17,994	30,354	22,760	20,685	21,522
of which receivables	0	0	11,315	12,724	0	0

1) At the balance sheet date, the company's cash and cash equivalents were EUR 5,832 thousand (previous year: EUR 3,660 thousand). The company did not have any financial liabilities. In the reporting period depreciation and amortization came to EUR 516 thousand (previous year: EUR 545 thousand), interest income amounted to EUR 1,709 thousand (previous year: EUR 595 thousand) and tax expenses to EUR 67 thousand (previous year EUR –397 thousand).

The at-equity carrying amount of SANY Automobile Hoisting Machinery Co., Ltd. includes a receivable of EUR 12,724 thousand (previous year: EUR 11,315 thousand) from a claim in connection with the purchase agreement for 10 per cent in 2014.

Palfinger France S.A.S. is a dealer for PALFINGER's products in France. SANY Automobile Hoisting Machinery Co., Ltd. is a strategic partner. Sany Palfinger SPV Equipment Co. Ltd. is the Group's production and distribution company in China.

The tables below contain summarized schedules of the financials for the associated companies and joint ventures which are not material to the Group and have been included according to the equity method. In each case, the information given refers to the share held by PALFINGER in these companies.

	Associated companies		Joint ventures	
EUR thousand	2017	2018	2017	2018
Carrying amounts of shares	4,372	2,838	(547)	(439)
Total comprehensive income				
Result after income tax	680	1,598	(865)	181
Other comprehensive income after income tax	(348)	(277)	(15)	(72)
	332	**1,321**	**(880)**	**109**

(32) Deferred tax assets and liabilities

EUR thousand	31 Dec 2017[1)]	31 Dec 2018
Non-current assets		
Intangible assets – different useful lives	855	941
Intangible assets – tax deductible goodwill	471	241
Property, plant and equipment – different useful lives	1,679	1,261
Non-current financial assets – financial asset write-downs not yet taxed	21,174	25,319
Other non-current assets	105	29
	24,284	**27,791**
Current assets		
Inventories – elimination of intercompany profits, differences in tax measurement of manufacturing costs	6,887	7,253
Trade receivables – differences in tax measurement of impairment losses	1,206	1,254
Other current assets – severance payments not yet taxed	467	474
	8,560	**8,981**
Non-current liabilities		
Non-current provisions – different recognition of employee benefits provisions IAS 19	8,634	8,567
of which deferred taxes directly recognized in other comprehensive income	3,936	3,608
Other non-current liabilities	1,257	765
of which deferred taxes directly recognized in other comprehensive income	956	659
	9,891	**9,332**
Current liabilities		
Current financial liabilities – lease financing	0	218
Current provisions – different recognition of provisions for guarantee expenses	2,762	2,663
Trade payables and other current liabilities	772	1,340
	3,534	**4,221**
Deferred tax assets	**46,269**	**50,325**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

EUR thousand	31 Dec 2017	31 Dec 2018
Non-current assets		
Intangible assets – acquisitions, development expenditure	(27,633)	(27,512)
Property, plant and equipment – different useful lives	(6,879)	(6,270)
Non-current financial assets	(2,038)	(2,822)
of which deferred taxes directly recognized in other comprehensive income	(363)	(1,164)
	(36,550)	**(36,604)**
Current assets		
Inventories – differences in tax measurement of manufacturing costs	(495)	(296)
Trade receivables – contract manufacturing (POC)	(9,499)	(5,970)
Other current assets – differences in tax measurement	(1,472)	(1,850)
	(11,466)	**(8,116)**
Non-current liabilities		
Non-current financial liabilities — differences in tax measurement	0	0
Non-current provisions	(139)	(130)
of which deferred taxes directly recognized in other comprehensive income	(2)	(11)
	(139)	**(130)**
Current liabilities		
Current financial liabilities	0	(1)
Current provisions – different recognition of provisions for guarantee expenses	(350)	(355)
Trade payables and other current liabilities	(874)	(1,216)
	(1,224)	**(1,572)**
Deferred tax liabilities	**(49,379)**	**(46,422)**

EUR thousand	31 Dec 2017[1)]	31 Dec 2018
Deferred tax assets	46,269	50,325
Deferred tax liabilities	(49,379)	(46,422)
Deferred tax assets on loss carry forwards	18,948	11,300
Deferred taxes	**15,838**	**15,203**
Reconciliation balance sheet disclosure		
thereof deferred tax assets	30,636	27,045
thereof deferred tax liabilities	(14,798)	(11,842)

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

Deferred taxes contain deferred taxes directly recognized in other comprehensive income of EUR 3,091 thousand (previous year: EUR 4,527 thousand).

Tax-loss carry forwards are comprised of the following:

	Non-capitalized loss carry forwards		Capitalized loss carry forwards	
EUR thousand	31 Dec 2017[1)]	31 Dec 2018	31 Dec 2017[1)]	31 Dec 2018
One year	0	623	858	0
Two years	519	1,234	0	823
Three years	206	2,993	1,359	9
Four years	1,599	3,123	0	209
Five years	2,064	2,926	471	738
More than five years	32,756	53,505	30,619	27,279
Loss carry forwards subject to expiry	**37,144**	**64,404**	**33,307**	**29,058**
Loss carry forwards not subject to expiry	**43,974**	**68,906**	**47,629**	**18,879**
	81,118	**133,310**	**80,936**	**47,937**

1) The 2017 figures were adjusted with retrospective effect (see the explanations on adjustments with retrospective effect on page 144).

For tax-loss carry forwards of EUR 133,310 thousand (previous year: EUR 81,118 thousand), no deferred tax assets were recognized by the Group, since their effectiveness as definite tax relief within the scope of medium-term planning is not yet sufficiently secured.

For temporary differences in the amount of EUR 356,801 thousand (previous year: EUR 316,878 thousand) from investments in subsidiaries and joint ventures, deferred tax liabilities in the amount of EUR 60,979 thousand (previous year: EUR 57,289 thousand) existed as at 31 December 2018. For these differences, no deferred tax liabilities were recognized in accordance with IAS 12.39, as PALFINGER is able to control the timing of the reversal of the temporary differences and these temporary differences will not be reversed in the foreseeable future.

(33) Non-current financial assets

Non-current financial assets are comprised of the following:

EUR thousand	31 Dec 2017	31 Dec 2018
Loans	5,152	4,702
Financial receivables from related parties	22,161	18,600
Securities	1,608	1,389
Cash at banks	471	431
Other shareholdings	77	77
Derivative financial instruments	697	0
Non-current financial assets	**30,166**	**25,199**

Securities comprise units in investment funds and bonds for safeguarding employee benefits provisions as required by law.

Receivables from related parties refer to accounts receivable from Hubert Palfinger Technologies GmbH in the amount of EUR 21,257 thousand (previous year: EUR 25,520 thousand) (of which EUR 18,600 thousand are non-current receivables and EUR 2,657 thousand are current receivables); an instalment plan for repayment over the next six years has been agreed. Observance of this instalment plan has been secured by various forms of collateral provided by related parties other than Hubert Palfinger Technologies GmbH so that no impairment loss for the overall accounts receivable of EUR 21,257 thousand has to be recorded. Interest payable on the receivables is in observance of the arm's length principle. Repayment is made according to the instalment plan.

(34) Other non-current assets

Other non-current assets are the following:

EUR thousand	31 Dec 2017	31 Dec 2018
Employer's pension liability reinsurance and other receivables	1,549	1,364
Deferred expenses	43	4
Miscellaneous other non-current assets	132	17
Other non-current assets	**1,724**	**1,385**

Employer's pension liability reinsurance pertains, among others, to repurchase rights for life insurance policies which do not meet the criteria for being offset against pension provisions in accordance with IAS 19.

(35) Inventories

Inventories are shown below:

EUR thousand	31 Dec 2017	31 Dec 2018
Materials and production supplies	114,155	137,662
Work in progress	87,629	96,615
Finished goods and goods for resale	84,855	92,004
Prepayments	2,395	1,159
Inventories	**289,034**	**327,440**

EUR 2,252 thousand (previous year: EUR 4,162 thousand) in inventories was valued at net realizable value.

In the 2018 financial year, impairments of inventories of EUR 6,625 thousand (previous year: EUR 5,264 thousand) and reversals of impairments of inventories from obsolescence measurements of EUR 967 thousand (previous year: EUR 2,792 thousand) were made and recognized as cost of sales.

(36) Trade receivables and contract assets from customer contracts

In 2014, PALFINGER AG, or rather a number of selected Austrian and German subsidiaries of the PALFINGER Group, entered into a factoring agreement with an Austrian bank. Under this factoring agreement, trade receivables are sold monthly on a revolving basis up to a maximum volume of EUR 60,000 thousand. As at the balance sheet date (31 December 2018), the receivables sold in connection with the existing factoring agreement amounted to EUR 47,250 thousand (previous year: EUR 42,978 thousand) and were fully derecognized in accordance with the rules of IFRS 9 due to the transfer of control. Up to a contractually defined amount, PALFINGER continues to bear the risk in connection with credit-risk-related defaults. As at 31 December 2018, the maximum risk of loss resulting therefrom amounted to EUR 857 thousand (previous year: EUR 816 thousand) and corresponded to the maximum deductible. The total risk from the portfolio of receivables was covered in the balance sheet through impairment and the provision for the default reserve. The recognition of the expected loss as an expense primarily reflects the impact on the income statement during the reporting period.

Trade receivables comprise receivables in accordance with IFRS 15 in the amount of EUR 226,718 thousand.

Trade receivables are typically due within periods of up to 120 days; as a rule, contract assets from customer contracts are subject to payment plans with milestone payments. Receivables from contract manufacturing and rendering of services, which qualify for revenue recognition over time in accordance with IFRS 15, are now recognized separately in the balance sheet under "Contract assets from customer contracts" in compliance with IFRS 15.

The contract assets from customer contracts according to the percentage-of-completion method are shown below:

EUR thousand	31 Dec 2017	31 Dec 2018
Costs incurred	242,685	213,296
Plus profits recognized	75,366	52,999
Recognized losses/Impairment	(3,729)	(631)
Progress billings	(237,478)	(214,496)
Transition effect IFRS 15	0	(1,930)
Receivables from contract manufacturing and rendering of services/Contract assets from customer contracts	**76,844**	**49,238**

The contract assets from customer contracts primarily decreased in the SEA segment, first and foremost in offshore cranes and lifesaving equipment.

The contract assets from customer contracts are shown in the following table:

EUR thousand	2018
Reclassification IFRS 15	76,844
Transition effect IFRS 15	(1,930)
As at 1 Jan	**74,914**
Addition due to PoC progress	122,627
Progress billings	(147,215)
Impairment loss	(631)
Accumulated adjustment	235
Foreign currency translation	(692)
As at 31 Dec	**49,238**

Allowances of EUR 11,046 thousand (previous year: EUR 10,057 thousand) were made to take into account expected losses. These allowances primarily relate to trade receivables as well as contract assets from customer contracts, and are shown below:

	Specific bad-debt allowances		Standardized bad-debt allowances	
EUR thousand	2017	2018	2017	2018
As at 1 Jan	4,001	4,813	6,458	5,244
Adjustment IFRS 9	0	15	0	82
Change in scope of consolidation	23	0	153	0
Allocation	1,537	2,571	2,910	3,448
Use	(586)	(223)	(966)	(343)
Reversal	(559)	(870)	(2,239)	(3,394)
Reclassification	650	595	(650)	(595)
Foreign currency translation	(253)	(212)	(422)	(85)
As at 31 Dec	**4,813**	**6,689**	**5,244**	**4,357**

(37) Current financial assets

Current financial assets are shown below:

EUR thousand	31 Dec 2017	31 Dec 2018
Financing receivables from companies reported at equity	438	0
Derivative financial instruments	4,616	1,732
Receivables from related parties	3,359	2,657
Other financing receivables	267	10
Securities	418	438
Current financial assets	**9,098**	**4,837**

For details on receivables from related parties, see Note (33).

(38) Other current receivables and assets

Other current receivables and assets are shown in the following table:

EUR thousand	31 Dec 2017	31 Dec 2018
Receivables relating to social security and other taxes	15,171	11,273
Other receivables	18,858	16,419
Deferred expenses and indemnification	9,674	9,998
Receivables from companies reported at equity	74	25
Other current receivables and assets	**43,777**	**37,715**

Other receivables include receivables from the factor under the sale of trade receivables (also see Note [36]).

(39) Cash and cash equivalents

The funds reported in the statement of cash flows correspond to cash and cash equivalents. Cash and cash equivalents comprise the following:

EUR thousand	31 Dec 2017	31 Dec 2018
Cash in hand	1,518	1,757
Cash at banks	38,238	32,927
Cash and cash equivalents	**39,756**	**34,684**

As at 31 December 2018, there were restraints on the disposal of funds in the amount of EUR 3.2 million (previous year: EUR 1.3 million).

(40) Share capital

The Company's share capital is divided into 37,593,258 no-par-value shares (previous year: 37,593,258). All shares issued have been paid up in full. As in the previous year, PALFINGER did not hold any treasury stock as at 31 December 2018.

(41) Additional paid-in capital

Additional paid-in capital comprises appropriated and non-appropriated additional paid-in capital.

(42) Foreign currency translation reserve

The change in the foreign currency translation reserve, broken down by currency, is shown in the following table:

EUR thousand	2017	2018
AED	(3,156)	712
BRL	(2,954)	(11)
GBP	(223)	(8)
NOK	(14,149)	(387)
RMB	(10,041)	(1,744)
RUB	(5,065)	(8,753)
USD	(15,042)	4,484
Other	(2,777)	(3,278)
Foreign currency translation reserve	**(53,407)**	**(8,985)**

(43) Earnings per share

According to IAS 33, earnings per share are calculated by dividing the consolidated net result for the period by the weighted average number of shares outstanding. In the 2018 financial year, the weighted average number of shares outstanding amounted to 37,593,258 shares (previous year: 37,593,258 shares).

On the basis of the consolidated net result for the period, amounting to EUR 57,951 thousand (previous year: EUR –11,423 thousand), undiluted earnings per share were EUR 1.54 (previous year: EUR –0.30). Diluted earnings per share were identical with undiluted earnings per share.

(44) Retained earnings

Retained earnings increased by EUR 2,129 thousand (previous year: increase of EUR 294 thousand) owing to the reclassification of the puttable non-controlling interests from the current earnings of the Company. For details on liabilities from puttable non-controlling interests, see Notes (11) and (47).

DIVIDEND PER SHARE

The following dividends were resolved upon and paid to the shareholders of PALFINGER AG:

	Total EUR thousand	Number of shares	Dividend per share
Dividend resolved for the 2017 financial year (Annual General Meeting of 7 March 2018)	17,669	37,593,258	0.47
Dividend resolved for the 2016 financial year (Annual General Meeting of 8 March 2017)	21,428	37,593,258	0.57

The distribution of the net profit for 2018 reported in the financial statements of PALFINGER AG in accordance with the Business Code is as follows:

EUR thousand	
Net profit for 2018 of PALFINGER AG	34,927
Profit carry forward from 2017	289,081
Total net profit	**324,008**
Proposed dividend (EUR 0.51 per share)	19,173
Remaining net profit	**304,835**

The Executive Board will propose to the Annual General Meeting of 20 March 2019 to distribute a dividend of EUR 0.51 per share.

(45) Valuation reserves according to IFRS 9

As in the previous year, the valuation reserves according to IFRS 9 only contain cash flow hedging reserves and comprise gains and losses from the effective portion of cash flow hedges. The cumulative gain or loss on the hedging instrument taken to the reserve will need to be reclassified to the income statement once the hedged item has affected profit or loss. Changes in the cash flow hedging reserves are presented in the following table (after taxes):

EUR thousand	2017	2018
As at 1 Jan	**(15,367)**	**(5,065)**
Changes in unrealized profits (+)/losses (–)		
Interest rate swaps	(144)	(938)
Forward foreign exchange contracts	2,066	(1,958)
	1,922	**(2,896)**
Changes in realized profits (+)/losses (–)		
Interest rate swaps	1,868	1,455
Forward foreign exchange contracts	6,512	2,581
	8,380	**4,036**
Change	**10,302**	**1,140**
As at 31 Dec	**(5,065)**	**(3,925)**

(46) Non-controlling interests

The table below contains a summarized schedule of the financials before intra-group eliminations regarding each subsidiary in which significant non-controlling interests are held:

31 Dec 2017

EUR thousand	Andrés N. Bertotto (Hidro-Grubert)	EPSILON Kran GmbH	Palfinger Iberica Group	Nimet Srl	Guima Palfinger S.A.S.
Net assets					
Non-current assets	6,202	2,092	10,255	26,982	6,198
Current assets	9,547	42,094	27,761	17,069	18,515
Non-current liabilities	1,650	878	1,014	1,130	1,575
Current liabilities	5,872	24,061	19,164	20,442	11,844
	8,227	**19,247**	**17,838**	**22,479**	**11,294**
Non-controlling interests					
Shares/voting rights	70%	35%	25%	40%	35%
Carrying amount	4,593	6,925	4,581	8,550	3,898

31 Dec 2018

EUR thousand	Andrés N. Bertotto (Hidro-Grubert)	EPSILON Kran GmbH	Palfinger Iberica Group	Nimet Srl	Guima Palfinger S.A.S.
Net assets					
Non-current assets	3,734	2,137	9,635	34,887	5,298
Current assets	6,777	39,355	33,830	25,054	27,631
Non-current liabilities	870	964	927	973	1,757
Current liabilities	4,217	14,335	21,286	27,946	15,789
	5,424	**26,193**	**21,252**	**31,022**	**15,383**
Non-controlling interests					
Shares/voting rights	70%	35%	25%	40%	35%
Carrying amount	3,194	9,356	5,626	11,968	5,329

Jan–Dec 2017

EUR thousand	Andrés N. Bertotto (Hidro-Grubert)	EPSILON Kran GmbH	Palfinger Iberica Group	Nimet Srl	Guima Palfinger S.A.S.
Cash flow					
Cash flows from operating activities	514	20,129	(5,057)	9,795	4,860
Cash flows from investing activities	(529)	(1,879)	(1,696)	(6,692)	(2,936)
Cash flows from financing activities	320	(18,250)	9,347	(2,647)	(2,079)
Non-controlling interests					
Profit/loss attributable	932	5,995	837	3,295	1,322
Other comprehensive income attributable	(1,365)	(7)	0	(210)	(44)
Dividends	281	6,388	103	1,160	759

Jan–Dec 2018

EUR thousand	Andrés N. Bertotto (Hidro-Grubert)	EPSILON Kran GmbH	Palfinger Iberica Group	Nimet Srl	Guima Palfinger S.A.S.
Cash flow					
Cash flows from operating activities	195	4,990	(4,820)	13,023	10,488
Cash flows from investing activities	(944)	9,011	(2)	(10,434)	(8,345)
Cash flows from financing activities	831	(14,000)	2,544	(2,957)	(1,961)
Non-controlling interests					
Profit/loss attributable	1,078	7,333	1,054	5,647	2,132
Other comprehensive income attributable	(2,055)	(3)	0	(47)	(37)
Dividends	391	4,900	87	2,178	661

The net assets of EPSILON Kran GmbH are restricted insofar as share transfers are subject to the approval of the non-controlling shareholder and any deviation from the existing agreement regarding a linear distribution of a maximum amount in relation to the equity ratio may only be made by mutual consent.

The net assets of Guima Palfinger S.A.S. are restricted insofar as any deviation from the existing agreement regarding the distribution of a minimum percentage of the annual profit may only be made by mutual consent.

The remaining, insignificant non-controlling interests are also governed by profit distribution agreements or subject to the restriction that distributions must be approved by the non-controlling shareholders.

(47) Liabilities from puttable non-controlling interests

The following table shows the movement in liabilities from puttable non-controlling interests:

EUR thousand	2017	2018
As at 1 Jan	3,004	2,580
Increase directly in equity	270	174
Reversal directly in equity	(694)	(2,754)
As at 31 Dec	**2,580**	**0**

The liabilities from puttable non-controlling interests were reversed because the criteria regarding the scope of results which had to be fulfilled for the exercise of the put options in 2018 and 2019 will most likely not be met, which means that the put option will lapse. Non-controlling interests were again taken to equity. The difference between liabilities and pro-rata equity of EUR 2,129 thousand was recognized in retained earnings.

The valuation as at 31 December 2017 was made using the the discounted cash flow method and by applying the risk-adjusted interest rate and the results of corporate planning in EUR.

(48) Non-current financial liabilities

In October 2018, PALFINGER placed another promissory note issue to improve its existing financing structure. As at 24 October 2018, in addition to the fixed and variable EUR tranches (5, 7, 8 and 10 years) of EUR 80 million, a five-year variable USD tranche in the amount of USD 25 million was issued.

Deferred interest expenses are contained in current financial liabilities.

The average interest rate is the interest burden as at 31 December 2018 in per cent relating to the carrying amount of the financial liabilities as at 31 December 2018, after interest hedging has been taken into account, and amounts to 1.69 per cent (previous year: 1.78 per cent).

(49) Purchase price liabilities from acquisitions

The following table shows the movements in purchase price liabilities from acquisitions:

EUR thousand	2017	2018
As at 1 Jan	15,364	15,478
Allocation	0	3,125
Interest cost	1,156	905
Use	(414)	(6,447)
Reversal	(319)	(37)
Disposal	0	(1,715)
Foreign currency translation	(309)	(223)
As at 31 Dec	**15,478**	**11,086**

In 2018, purchase price liabilities from acquisitions were used, among other things, for the premature exercise of the put/call option of 20 per cent in the PM-Group, Russia, as well as a disproportional dividend until 2017. A liability of EUR 1,355 thousand, to be paid out in 2019, has still been recorded for the 2018 disproportional dividend.

Moreover, a contingent consideration has been recognized since 2016 for the acquisition of the MYCSA Group (Palfinger Iberica), which will become due and payable in 2021 and depends on the units' future earnings before interest and taxes. The maximum amount of the payment for this contingent consideration is unlimited. The contingent consideration from the acquisition of the remaining 20 per cent in Palfinger Boats B.V. is also included.

For the Level 3 carrying amounts, the following valuation methods and inputs were used when determining fair values:

Purchase price liabilities	Valuation method	Inputs
PM-Group	Discounted cash flow method	Risk-adjusted interest rate, results of corporate planning in RUB
MYCSA Group	Discounted cash flow method	Risk-adjusted interest rate, results of corporate planning in EUR

Sensitivity analysis for significant inputs when determining the fair values as at 31 December 2018 and 2017:

Change in fair value

		Increase		Decrease	
EUR thousand	Change in assumption	2017	2018	2017	2018
Interest rate	+/(1) BP	(235)	(181)	245	186
Projected profit measure	+/(10) %	790	664	(789)	(664)
EUR/RUB	+/(10) %	(162)	(165)	198	201

(50) Non-current provisions

The following table shows non-current provisions:

EUR thousand	31 Dec 2017	31 Dec 2018
Pension provisions	11,385	11,785
Provisions for severance payments	27,209	26,339
Anniversary bonus provisions	6,422	7,354
Other non-current provisions	1,219	3,489
Non-current provisions	**46,235**	**48,967**

PENSION PROVISIONS

PALFINGER is committed by the terms of individual contracts with certain employees to provide supplementary retirement pensions payable after their retirement. The amounts of these pensions are calculated on the basis of length of service and remuneration at the time of retirement.

Valuation was based on the following parameters:

	Age of retirement		Interest rate (p.a.)		Pension increase (p.a.)	
	2017	2018	2017	2018	2017	2018
Germany	63 years	63 years	1.00%–2.00%	1.25%–2.00%	1.5%	1.5%
France	62–63 years	62–63 years	1.50%	1.50%	2.7%	3.0%
Norway	67 years	67 years	2.30%	2.60%	0.4%	0.8%
Austria	65 years	65 years	1.50%–2.00%	1.75%–2.00%	1.7%	1.7%

The change in the interest rate is based on the re-measurement necessitated by the change in market conditions.

As at 31 December 2018, the average duration of defined benefit pension obligations from pension commitments was 13.17 years (previous year: 13.40 years).

The calculation of pension provisions was performed as at 31 December 2018 using actuarial principles and taking into account the calculation rules under IAS 19. The obligations are measured using the projected unit credit method.

The calculations in Austria are based on the earliest possible pensionable age in accordance with the 2004 Pension Reform ([Austrian] Budget Accompanying Act of 2003 [Budgetbegleitgesetz 2003]), taking into consideration transitional regulations. In the case of women entitled to such benefits, the computed pensionable age has been raised in steps corresponding to the (Austrian) Federal Constitutional Act Concerning Different Age Limits for Male and Female Citizens Covered by Social Security (Bundesverfassungsgesetz über unterschiedliche Altersgrenzen von männlichen und weiblichen Sozialversicherten). These bases for calculation were established using Austrian pension tables AVÖ-2018-P (version for salaried employees).

The calculations in Germany are based on the earliest possible pensionable age in accordance with the German statutory social security pension insurance, using the mortality tables "Richttafeln 2018 G".

Given that pension obligations are adjusted in line with the consumer price index, pension plans are exposed to the risk of inflation. In addition, there are interest rate risks and risks caused by changes in the life expectancy of retirees. Pension obligations are, in part, hedged by reinsurance contracts, giving rise to a low counterparty risk vis-à-vis insurance companies.

PROVISIONS FOR SEVERANCE PAYMENTS

Severance payments are one-time settlements required under labour law, payable to employees on termination of employment by the employer or by mutual agreement or on retirement. They are calculated on the basis of the length of service and the amount of remuneration. The amount of the provisions for severance payments was calculated in accordance with actuarial principles.

Valuation was based on the following parameters:

	Interest rate (p.a.)		Salary increases (p.a.)		Employee turnover discount (p.a.)	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Bulgaria	1.25%	1.50%	5.0%	5.0%	age-related 5.0% to 20.0%	age-related 5.0% to 20.0%
Austria	1.50% –2.00%	1.50%–2.00%	3.0%	3.0%	service-related 0.2% to 0.45%	service-related 0.15% to 0.32%
Slovenia	1.75% –2.00%	2.00%	3.0%	3.0%	2.0%	2.0%
UAE and Qatar	3.75%	3.75%	4.0%	3%	service-related 5.0% to 10.0%	service-related 5.0% to 10.0%

The change in the interest rate is based on the re-measurement necessitated by the change in market conditions.

As at 31 December 2018, the average duration of defined benefit obligations from severance payments was 13.30 years (previous year: 12.76 years).

Employees whose employment contract is governed by Austrian law and whose employment status started before 1 January 2003 are entitled to a severance payment if their contract is terminated by the employer or if they leave the company early for good cause, provided that their employment lasted for three years without interruptions. In addition, if their employment lasted for at least ten years without interruptions, they are entitled to a severance payment upon any kind of termination of employment when they have reached the statutory pensionable age. The amount of the severance payment depends on the amount of the remuneration paid at the time of termination and the length of service.

In the case of employees in Austria whose employment commenced after 1 January 2003, this obligation has been transferred to a contribution-based system. These payments, which are made to an external severance pay fund, are reported as expenses and amount to 1.53 per cent of the remuneration paid.

Pension provisions and provisions for severance payments can be seen in the following table:

		Pensions		Severance payments
EUR thousand	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
Net present value of defined benefit	12,121	12,499	27,209	26,339
Fair value of plan assets	(736)	(714)	0	0
Provision	**11,385**	**11,785**	**27,209**	**26,339**

		Pensions		Severance payments
EUR thousand	2017	2018	2017	2018
Net present value of defined benefit obligation as at 1 Jan	11,983	12,121	26,483	27,209
Addition through corporate acquisition	0	0	0	0
Reclassification to liabilities to employees	0	0	(843)	0
Current service cost	185	218	1,750	1,704
Interest expenses	189	186	449	484
Gains (–)/losses (+) from re-measurements	536	523	1,471	(1,586)
Benefits paid	(456)	(544)	(1,814)	(1,583)
Settlement	(283)	(7)	0	0
Foreign currency translation	(33)	2	(287)	111
Net present value of defined benefit obligation as at 31 Dec	**12,121**	**12,499**	**27,209**	**26,339**

Plan assets consist of a pension fund with a renowned insurance company.

EUR thousand	2017	2018
Fair value of plan assets as at 1 Jan	1,072	736
Addition through corporate acquisition	0	0
Settlement	(183)	(41)
Expected return on plan assets	19	9
Gains (+)/losses (–) from re-measurements	(11)	84
Employer contributions	4	0
Actual benefits paid by fund	(134)	(72)
Foreign currency translation	(31)	(2)
Fair value of plan assets as at 31 Dec	**736**	**714**

The actual return amounted to EUR 93 thousand (previous year: EUR 8 thousand).

Net costs for pensions and severance payments, resulting from defined benefit plans, are comprised as follows:

		Pensions		Severance payments
EUR thousand	Jan–Dec 2017	Jan–Dec 2018	Jan–Dec 2017	Jan–Dec 2018
Employee benefits expenses				
Current service cost	(185)	(218)	(1,750)	(1,704)
Interest expenses				
Interest expenses	(170)	(177)	(449)	(484)
Net cost	**(355)**	**(395)**	**(2,199)**	**(2,188)**

Re-measurements are composed as follows:

		Pensions		Severance payments
EUR thousand	Jan–Dec 2017	Jan–Dec 2018	Jan–Dec 2017	Jan–Dec 2018
Experience adjustments	253	167	1,180	(468)
Changes in demographic assumptions	0	361	318	(224)
Changes in financial assumptions	283	(5)	(27)	(894)
Return on plan assets	11	(84)	0	0
Gains (–)/losses (+) from re-measurements	**547**	**439**	**1,471**	**(1,586)**

Realistic changes in the following actuarial parameters, which are deemed to be essential for calculating pension costs and the expected defined benefit claims as at the reporting date, with all other parameters remaining constant, would give rise to the following change in the net present value of an obligation:

Change in the net present value of defined benefit obligation

				Pensions				Severance payments
		+1 %		–1 %		+1 %		–1 %
EUR thousand	2017	2018	2017	2018	2017	2018	2017	2018
Interest rate	(1,459)	(1,488)	1,792	1,791	(3,087)	(3,097)	3,692	3,753
Pension increase/salary increase	1,641	1,702	(1,380)	(1,449)	3,472	3,561	(2,977)	(3,010)

ANNIVERSARY BONUS PROVISIONS

Provisions for anniversary bonuses derived from collective bargaining and/or company agreements were calculated using the same parameters as for the provision for severance payments.

The following table shows the movements in anniversary bonus provisions:

EUR thousand	2017	2018
As at 1 Jan	5,974	6,422
Allocation	609	932
Interest cost	85	93
Use	(246)	(93)
As at 31 Dec	**6,422**	**7,354**

OTHER NON-CURRENT PROVISIONS

The changes in other non-current provisions are shown in the following table:

EUR thousand	2017	2018
As at 1 Jan	6,207	1,219
Change in scope of consolidation	0	0
Allocation	13	3,272
Interest cost	0	170
Use	(4,713)	(1,155)
Reversal	(245)	0
Reclassification	0	(36)
Foreign currency translation	(43)	19
As at 31 Dec	**1,219**	**3,489**

Other non-current provisions contain other non-current employee benefits provisions of EUR 3,175 thousand (previous year: EUR 1,153 thousand). From the 2018 financial year onwards, a new long-term bonus agreement for executives and Executive Board members is in place, which is expected to be paid out in 2023 upon achievement of the targets. In 2017, other non-current provisions were used, among other things, for the payment of long-term bonus agreements for executives and Executive Board members (see Note [57]).

(51) Other non-current liabilities

Other non-current liabilities primarily relate to liabilities to employees as well as deferred income.

(52) Current provisions

The movements in current provisions are shown in the following:

	Provision for guarantee and warranty expenses		Other current provisions	
EUR thousand	2017	2018	2017	2018
As at 1 Jan	13,731	13,507	5,242	5,322
Adjustment IFRS 15	0	0	0	3,729
Change in scope of consolidation	163	0	258	0
Allocation	2,820	2,505	1,444	5,476
Use	(2,221)	(1,382)	(1,152)	(6,841)
Reversal	(600)	(495)	(56)	0
Reclassification	0	0	0	(61)
Foreign currency translation	(386)	(133)	(414)	(18)
As at 31 Dec	**13,507**	**14,002**	**5,322**	**7,607**

Since 2018, other current provisions include provisions for onerous customer contracts which have to be recorded as provisions as a result of the first-time application of IFRS 15. As at 31 December 2018, they amounted to EUR 1,000 thousand.

(53) Trade payables and other current liabilities

Trade payables and other current liabilities are broken down as follows:

EUR thousand	31 Dec 2017	31 Dec 2018
Trade payables	136,529	168,314
Liabilities to companies reported at equity	2,626	2,271
Advances received on orders	28,135	0
Liabilities to employees	38,982	39,705
Liabilities relating to social security and other taxes	20,318	23,423
Other liabilities	33,066	26,323
Deferred income	1,565	0
Trade payables and other current liabilities	**261,221**	**260,036**

Liabilities to employees, amounting to EUR 39,705 thousand (previous year: EUR 38,982 thousand), include deferrals for unused vacation time, incentive bonuses and compensatory time off, as well as wage and salary expenditures payable.

Other liabilities, totalling EUR 26,323 thousand (previous year: EUR 33,066 thousand), relate to debtors with credit balances, accounts payable to the factor arising from incoming payments for trade receivables sold (see Note [36] for details) and miscellaneous other liabilities.

At the end of 2017, PALFINGER started a reverse factoring programme to help individual suppliers to finance their receivables vis-à-vis PALFINGER. Under this programme, which was expanded in 2018, suppliers are authorized to instruct contract banks to pay their receivables prematurely. In such agreements, PALFINGER is not released from its initial obligation, and no significant changes are made in the terms of contract due to quantitative and qualitative reviews. Therefore, recognition in the consolidated balance sheet has not been changed. The liability continues to be reported under trade payables as well as in cash flows from operating activities. As at 31 December 2018, the programme was utilized for trade payables in the total amount of EUR 17,947 thousand (previous year: EUR 261 thousand).

(54) Contract liabilities from customer contracts

Contract liabilities from customer contracts comprise advances received on orders and deferred revenue, which were previously reported under trade payables and other current liabilities. Contract liabilities from customer contracts are broken down as follows:

EUR thousand	2018
Reclassification IFRS 15	33,428
Transition effect IFRS 15	(2,364)
As at 1 Jan	**31,064**
Addition	41,133
Recognized as revenue	(42,290)
Foreign currency translation	(1,507)
As at 31 Dec	**28,400**

(55) Financial instruments

The reconciliation of the carrying amounts for each category under IAS 39/IFRS 9 is shown in the following table:

			Measured acc. to IAS 17
EUR thousand	Carrying amounts 31 Dec 2017	No financial instrument/ recognition acc. to IFRS 10	At amortized cost
Non-current assets			
Non-current financial assets	30,166	0	0
thereof Level 1 fair value			
thereof Level 2 fair value			
Current assets			
Trade receivables	266,890	76,844	0
Current financial assets	9,098	0	0
thereof Level 2 fair value			
Other current receivables and assets	43,777	25,370	0
Cash and cash equivalents	39,756	0	0
Assets	**389,687**	**102,214**	**0**
Non-current liabilities			
Liabilities from puttable non-controlling interests	2,580	2,580	0
Non-current financial liabilities	492,957	0	0
thereof Level 2 fair value			
Non-current purchase price liabilities from acquisitions	15,478		0
thereof Level 3 fair value			
Other non-current liabilities	4,025	3,963	0
Current liabilities			
Current financial liabilities	99,268	0	0
thereof Level 2 fair value			
Trade payables and other current liabilities	261,221	89,000	0
Liabilities	**875,529**	**95,543**	**0**

Measured acc. to IAS 39					
At amortized cost		At fair value			
		Recognized in other comprehensive income		Recognized in the income statement	
Loans and receivables	**At amortized cost**	**Available for sale**	**Hedging derivatives**	**Held for trading/ other derivatives**	**Carrying amount of financial instruments 31 Dec 2017**
27,784	77	1,608	697	0	30,166
		1,608			
			697		
190,046	0	0	0	0	190,046
4,064	0	418	415	4,201	9,098
		418	415	4,201	
18,407	0	0	0	0	18,407
39,756	0	0	0	0	39,756
280,057	**77**	**2,026**	**1,112**	**4,201**	**287,473**
0	0	0	0	0	0
0	491,256	0	1,701	0	492,957
			1,701		
0	6,982	0	0	8,496	15,478
				8,496	
0	62	0	0	0	62
0	95,513	0	2,721	1,034	99,268
		0	2,721	1,034	
0	172,221	0	0	0	172,221
0	**766,034**	**0**	**4,422**	**9,530**	**779,986**

			Measured acc. to IAS 17
EUR thousand	Carrying amounts 31 Dec 2018	No financial instrument/ recognition acc. to IFRS 10	At amortized cost
Non-current assets			
Non-current financial assets	25,199	0	0
thereof Level 1 fair value			
thereof Level 2 fair value			
Current assets			
Trade receivables	227,602	0	0
thereof Level 3 fair value			
Contract assets from customer contracts	49,238	49,238	0
Current financial assets	4,837	0	0
thereof Level 2 fair value			
Other current receivables and assets	37,715	21,617	0
Cash and cash equivalents	34,684	0	0
Assets	**379,275**	**70,855**	**0**
Non-current liabilities			
Non-current financial liabilities	482,544	0	0
thereof Level 2 fair value			
Non-current purchase price liabilities from acquisitions	9,731	0	0
thereof Level 3 fair value			
Other non-current liabilities	95	95	0
Non-current contract liabilities from customer contracts	3,841	3,841	0
Current liabilities			
Current financial liabilities	97,840	0	0
thereof Level 2 fair value			
Current purchase price liabilities from acquisitions	1,355	0	0
thereof Level 3 fair value			
Trade payables and other current liabilities	260,036	63,128	0
Current contract liabilities from customer contracts	24,559	24,559	0
Liabilities	**880,001**	**91,623**	**0**

The fair value of forward foreign exchange contracts is determined by calculating the present value of cash flows on the basis of the current interest yield curves of the respective currencies from observable market data as well as the current exchange rates at the valuation date. In the case of interest rate swaps, the fair value is determined by calculating the present value of cash flows on the basis of the current interest yield curves of the respective currencies from observable market data. Securities are measured at the current rate at the valuation date.

Measured acc. to IFRS 9				
At amortized cost		At fair value		
		Recognized in other comprehensive income	Recognized in the income statement	
Financial asset at amortized cost	**Financial liabilities at amortized cost**	**Hedging derivatives/ fair value OCI**	**At fair value through profit or loss / other derivatives**	**Carrying amount of financial instruments 31 Dec 2018**
23,733		0	1,466	25,199
			1,389	
		0	77	
161,990	0	65,612	0	227,602
		65,612		
0	0	0	0	0
2,667	0	0	2,170	4,837
		0	2,170	
16,098	0	0	0	16,098
34,684	0	0	0	34,684
239,172	**0**	**65,612**	**3,636**	**308,420**
0	481,645	899	0	482,544
		899	0	
0	646	0	9,085	9,731
			9,085	
0	0	0	0	0
0	0	0	0	0
0	94,134	3,018	688	97,840
		3,018	688	
0	0	0	1,355	1,355
			1,355	
0	196,908	0	0	196,908
0	0	0	0	0
0	**773,333**	**3,917**	**11,128**	**788,378**

Material risks of non-performance relating to financial assets and liabilities are accounted for on the basis of ratings as a deduction from the calculated value.

The carrying amounts of current assets and current liabilities correspond to the market values, as they either have short-term maturities or have floating interest rates. Default risks are accounted for by adequate impairment losses. The carrying amounts of non-current financial liabilities in the amount of EUR 482,544 thousand (previous year: EUR 492,957 thousand) more or less correspond to the market values (Level 2) of EUR 487,084 thousand (previous year: EUR 495,678 thousand). The market values were calculated on the basis of observable current interest rate curves of the respective currencies using the discounted cash flow method. Interest rate swaps held to hedge against interest rate exposure are reported at market value.

In the 2018 financial year, income from the disposal of securities amounted to EUR 35 thousand (previous year: EUR 37 thousand) and was reported in other financial result (cf. Note (26) Interest result and other financial result).

The following table shows the movement in Level 3 fair values:

EUR thousand	2017	2018
As at 1 Jan	8,475	8,496
Interest cost	1,063	882
Redemption	(414)	(125)
Reversal through profit and loss	(319)	0
Increase through profit and loss	0	3,125
Exchange rate differences through profit and loss	(309)	(223)
Disposal	0	(1,715)
As at 31 Dec	**8,496**	**10,440**

Result in the income statement

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Other interest expenses	(1,063)	(882)
Other financial result	151	(1,565)
Other operating expenses/income	168	(1,560)
Exchange rate differences of the net financial result	309	223
Unrealized gain/loss for financial instruments held on the balance sheet date	**(435)**	**(3,784)**

As at 31 December 2018, Level 3 fair values were made up of the liability in connection with the disproportional dividend of Palfinger PM Holding and the contingent purchase price liability from the acquisition of the MYCSA Group.

Capital management

The primary objective of PALFINGER's capital management is to secure financial flexibility via a credit rating.

A strong equity structure retains the trust of investors, lenders and the market and guarantees a solid basis for its future business development.

Net debt of PALFINGER is managed centrally in consultation with the corporate treasury department, whose main responsibilities include liquidity management and securing long-term liquidity in support of business operations, an efficient use of banking and financial services and limiting financial risks while optimizing revenue and costs.

PALFINGER manages its capital structure taking into consideration the change in economic framework conditions, the strategic projects agreed upon and the internal equity ratio and gearing ratio targets. In the long term, an equity ratio of more than 40 per cent and a gearing ratio, which corresponds to the ratio of net debt and equity, of under 70 per cent (without taking IFRS 16 into consideration) are desirable. At present, the equity ratio is 36.4 per cent (previous year: 34.6 per cent) and the gearing ratio 92.8 per cent (previous year: 100.3 per cent). Net debt of EUR 515,739 thousand (previous year: EUR 513,282 thousand) includes non-current and current financial assets and cash holdings as well as non-current and current financial liabilities. Equity of EUR 555,726 thousand (previous year: EUR 511,780 thousand) corresponds to the equity reported according to IFRS.

In order to maintain this capital structure, PALFINGER pursues a consistent dividend policy based on the consolidated net result for the previous year. In accordance with PALFINGER's long-term dividend policy of distributing approx. one third of the net profit to its shareholders, a dividend of EUR 0.47 (previous year: EUR 0.57) per share was paid in 2018 for the 2017 financial year.

Financial risks

PALFINGER, in accordance with its own treasury guidelines, places a strong focus on reducing financial risks. As a result of the increased internationalization of PALFINGER, the Group's risk concentration has been reduced. All relevant indicators in this connection are regularly monitored and actively controlled. The Group's operations entail financing risks as well as interest-rate and foreign-exchange risks. In order to contain and control these risks, operational measures are taken and derivative financial instruments such as forward foreign exchange contracts, as well as interest rate swaps and currency swaps are used. No derivative financial instruments are contracted for speculation purposes. The risks are presented in detail in the following.

1. LIQUIDITY RISK

Liquidity risk describes the necessity of having sufficient funds available at any time in order to meet payment obligations and to ensure further corporate growth. The tasks of liquidity risk management therefore are the analysis of the exposure and the consistent safeguarding of liquidity through liquidity planning, maintenance of sufficient credit lines and sufficient diversification of lenders.

Managing the liquidity risk is the core task of Corporate Treasury, which uses efficient cash management systems for this purpose. Group-wide cash reporting ensures the transparency necessary to control funds in a targeted manner. Medium-to-long-term planning allows PALFINGER to identify any financial need that may arise and coordinate this need with its banking partners at an early stage. Due to the intra-group financing structure and the use of cash pooling solutions in Europe and America, an efficient management and group-wide distribution of the required liquidity is guaranteed.

In October 2018, PALFINGER placed another promissory note issue to improve its existing financing structure. As at 24 October 2018, several promissory note loans of EUR 80 million and USD 25 million were raised with maturities between five and ten years and fixed-interest arrangements.

The existing promissory note loan agreements and credit agreements contain financial covenants providing for a minimum group equity ratio of 25 per cent in accordance with IFRS. Non-achievement of this financial indicator allows the lender to terminate the financing agreement in question. At year end, the equity ratio came to 36.4 per cent and was thus far above the externally determined threshold value.

Another measure to ensure liquidity is the maintenance of long-term, unutilized credit lines with PALFINGER's banking partners. The existing financing agreements are distributed among several core banking partners and currently have durations of up to two years. These unutilized financing reserves, which amounted to more than EUR 120 million as at 31 December 2018, accounted for approx. 20 per cent of net debt on the average.

The contractual remaining time to maturity of undiscounted cash flows is broken down as follows:

2017

EUR thousand	< 1 year	1–5 years	> 5 years	31 Dec 2017
Trade payables and other liabilities				
Trade payables	138,969	62	0	139,031
Other liabilities for financial instruments	33,252	0	0	33,252
	172,221	**62**	**0**	**172,283**
Financial liabilities	136,951	300,141	184,139	621,231
Liabilities from cash flow hedges	2,373	3,421	787	6,581
Liabilities from derivatives held for trading	983	0	0	983
Non-current purchase price liabilities from acquisitions	267	18,077	0	18,344
Undiscounted cash flows	**312,795**	**321,701**	**184,926**	**819,422**

2018

EUR thousand	< 1 year	1–5 years	> 5 years	31 Dec 2018
Trade payables and other liabilities				
Trade payables	170,359	0	0	170,359
Other liabilities for financial instruments	33,252	0	0	33,252
	203,611	**0**	**0**	**203,611**
Financial liabilities	104,304	285,035	225,500	614,839
Liabilities from cash flow hedges	2,512	2,094	579	5,185
Liabilities from derivatives held for trading	828	0	0	828
Non-current purchase price liabilities from acquisitions	1,355	11,607	0	12,962
Undiscounted cash flows	**312,610**	**298,736**	**226,079**	**837,425**

2. CREDIT RISK

Credit risk is the risk of loss due to a contracting party's default in payment or non-payment. The Group counters this risk by establishing internal limits for contracting parties – determined through solvency analyses – and taking out adequate insurance. Credit risk is limited to the amounts of the uninsured receivables reported in the balance sheet.

A standardized bad-debt allowance is recognized for all receivables overdue.

Under a factoring agreement, trade receivables are sold monthly on a revolving basis up to a maximum volume of EUR 60,000 thousand (for details see note [36]).

The following is a breakdown of trade receivables:

	31 Dec 2017				31 Dec 2018
EUR thousand	Carrying amount	Carrying amount	Gross carrying amount	Impairment	Expected loss rate
Receivables not yet due	**209,385**	**195,313**	**197,455**	**2,142**	**1%**
Receivables due					
Overdue for less than 30 days	33,715	47,876	48,359	483	1%
Overdue for more than 30 days but less than 60 days	10,331	16,708	17,305	597	3%
Overdue for more than 60 days but less than 90 days	4,800	5,560	5,662	102	2%
Overdue for more than 90 days but less than 120 days	2,289	3,649	3,914	265	7%
Overdue for more than 120 days	6,370	7,734	15,191	7,457	49%
	57,505	**81,527**	**90,431**	**8,904**	
Trade receivables and contract assets	**266,890**	**276,840**	**287,886**	**11,046**	

When investing funds, only banks with good credit ratings are chosen. Credit risk is limited to the amounts reported in the balance sheet.

3. FOREIGN EXCHANGE RISK

Foreign exchange risk is a form of risk that arises from exchange rate fluctuations. The value of a financial instrument may be affected by changes in the currency exchange rate.

The Group's international activities account for payment transactions in different currencies. Through local value creation, excessive amounts of foreign exchange items are minimized by way of natural hedges. Any material foreign exchange exposure is hedged using adequate hedging instruments. Some foreign exchange cash flows from operations are hedged by means of forward foreign exchange contracts (cash flow hedges).

The intra-group supply of finished products and components to foreign-currency countries creates a risk position that is not covered by natural hedges. The ongoing analyses of this position are the basis for establishing a hedging strategy that is evaluated in regular meetings.

Financial transactions may only be concluded on the basis of a relevant hedged item. Speculative transactions (i.e. transactions without an underlying operating item) are prohibited.

Foreign exchange differences in the individual financial statements are reported in EBIT and/or the net financial result, depending on their origin.

Foreign exchange differences had the following effects on the income statement:

EUR thousand	Jan–Dec 2017	Jan–Dec 2018
Exchange rate differences income	7,370	8,378
Exchange rate differences expenses	(9,048)	(9,533)
Exchange rate differences in at equity result	241	(79)
Earnings before interest and taxes – EBIT	**(1,437)**	**(1,234)**
Exchange rate differences of the net financial result	(8,049)	(2,908)
Result from exchange rate differences	**(9,486)**	**(4,142)**

Hedge accounting was terminated where cash flows were no longer highly probable. This resulted in exchange rate losses of EUR 5.7 million, which were transferred from other comprehensive income to the net financial result in 2017.

Foreign-currency risk sensitivity analysis:
Transactions that are carried out in a currency other than the respective functional currency may have an impact on foreign exchange risks. In the case of fair-value and cash-flow hedges, the changes in the values of the hedged item and the hedging transaction caused by changes in the exchange rate are almost completely offset in the same period in the income statement. Accordingly, these financial instruments are not linked to currency risks with an impact on profit or loss, or equity.

The impact of a hypothetical foreign exchange movement on profit or loss and equity is identified within the scope of a sensitivity analysis. This analysis assumes that the major exchange rates against the euro either strengthen or decrease by 10 per cent as at the balance sheet date, while all other variables remain constant. The following table shows the impact of a 10 per cent appreciation or depreciation of the major exchange rates against the euro:

31 Dec 2017	+10%			–10%		
EUR thousand	**Impact on profit or loss**	**Impact on equity**	**Total impact**	**Impact on profit or loss**	**Impact on equity**	**Total impact**
AED	(32)	0	(32)	40	0	40
BRL	(7)	(2,229)	(2,236)	8	2,724	2,732
CAD	167	156	323	(204)	(191)	(395)
CNY	(105)	0	(105)	128	0	128
CZK	466	0	466	(569)	0	(569)
DKK	1	0	1	(1)	0	(1)
GBP	(175)	(28)	(203)	214	34	248
HKD	10	0	10	(12)	0	(12)
HRK	99	0	99	(121)	0	(121)
INR	(303)	0	(303)	370	0	370
JPY	(57)	0	(57)	69	0	69
KRW	(70)	(512)	(582)	86	625	711
NOK	275	(2,574)	(2,299)	(336)	3,146	2,810
PLN	316	0	316	(386)	0	(386)
RON	(627)	0	(627)	766	0	766
RUB	(696)	(786)	(1,482)	850	961	1,811
SEK	4	0	4	(5)	0	(5)
SGD	79	0	79	(97)	0	(97)
USD	(298)	(4,149)	(4,447)	365	5,071	5,436
Foreign currency sensitivities	**(953)**	**(10,122)**	**(11,075)**	**1,165**	**12,370**	**13,536**

31 Dec 2018	+10%			–10%		
EUR thousand	**Impact on profit or loss**	**Impact on equity**	**Total impact**	**Impact on profit or loss**	**Impact on equity**	**Total impact**
AED	(62)	0	(62)	75	0	75
AUD	(1)	0	(1)	1	0	1
BRL	(37)	(1,317)	(1,354)	45	1,610	1,655
CAD	6	150	156	(7)	(184)	(191)
CNY	(3)	0	(3)	4	0	4
CZK	82	0	82	(100)	0	(100)
DKK	(120)	0	(120)	146	0	146
GBP	(41)	(176)	(216)	50	215	264
HKD	(8)	0	(8)	10	0	10
HRK	118	0	118	(145)	0	(145)
INR	(301)	0	(301)	368	0	368
JPY	(27)	0	(27)	33	0	33
KRW	(413)	(334)	(747)	505	409	913
VND	340	0	340	(415)	0	(415)
NOK	671	(5,312)	(4,641)	(821)	6,493	5,672
PLN	(21)	0	(21)	25	0	25
RON	(626)	0	(626)	765	0	765
RUB	(406)	(684)	(1,090)	496	836	1,332
SEK	(1)	0	(1)	1	0	1
SGD	(234)	0	(234)	286	0	286
USD	(2,143)	(3,632)	(5,775)	2,619	4,439	7,058
Foreign currency sensitivities	**(3,227)**	**(11,305)**	**(14,531)**	**3,941**	**13,818**	**17,757**

The calculation is made on the basis of the original and derivative foreign-currency financial instruments in non-functional currency as at the balance sheet date before taxes. Foreign currency translation effects from intra-group accounts receivable and accounts payable were reported in profit or loss; any effects from non-current intra-group receivables that are a part of the net investment in foreign operations (IAS 21.15) as well as any changes in the cash flow hedging reserve were recognized in equity. Foreign currency translation effects caused by the conversion of the financial statements of foreign subsidiaries into the group currency, the euro, are not taken into account.

4. INTEREST RATE RISK

Changing interest rates have an impact on the value of financial instruments (in particular when interest rates are fixed for a long term) and on the net interest income or expense resulting from these financial instruments. This impact constitutes the interest rate risk in its two forms – risk of change in value and net interest income risk.

The risk of change in value results in a depreciation of financial assets or an appreciation of financial liabilities. Changing values have a more pronounced impact if interest rates are fixed for long periods than in the case of floating-interest arrangements.

The net interest income risk is manifested in higher interest expenses for financial liabilities or lower interest income on financial assets. This risk mainly concerns financial instruments for which floating (short-term) interest rates have been agreed.

Monitoring and managing interest rate risks is part of the regular treasury reporting in the Group. In 2018, the central treasury department used the low interest level to extend the interest-rate and capital commitment periods of the financing portfolio. In part, the promissory note loan of 2018 featured fixed-interest arrangements and long-term maturities.

The floating-rate exposure of the Group's financing is hedged by interest rate swaps of EUR 110.0 million (previous year: EUR 140.0 million).

The sensitivity analysis is made on the basis of PALFINGER's floating-interest financial liabilities. A hypothetic change in floating interest rates by 100 base points or one percentage point per year would change PALFINGER's interest expenses by EUR 772 thousand (previous year: EUR 738 thousand). A hypothetic increase in interest rates by 100 base points would raise other comprehensive income by EUR 3,093 thousand (previous year: EUR 4,323 thousand); a decrease of 100 base points would reduce other comprehensive income by EUR 3,356 thousand (previous year: EUR 4,687 thousand).

Hedging

HEDGING FOR FUTURE CASH FLOWS (CASH FLOW HEDGE)

The foreign exchange risks of PALFINGER AG primarily result from accounts receivable from, and accounts payable to, group companies in a foreign currency and from international project business. This exposure is primarily reduced through intragroup foreign currency netting or hedged through forward foreign exchange contracts or currency swaps. PALFINGER bases all of its hedging transactions on the hedged item. The credit risk of PALFINGER as well as that of the counterparties have no impact on the fair value of forward foreign exchange contracts and currency swaps and hence also do not constitute a source of hedge ineffectiveness.

The supply of finished products and components, mainly from Europe to North America, South America, Asia and Russia, creates risk positions primarily in US dollars, Brazilian reals and Russian rubles that are not covered by natural hedges. These risk positions are analysed, monitored and limited by implementing an adequate hedging strategy. At regular meetings with the CFO, these hedging strategies are discussed, and adjusted if needed.

Project-related currency risks, especially in the marine and offshore areas, are transferred to the central treasury department and hedged against on the basis of a project-based hedging strategy, provided that invoicing in the local currency is not an option.

The sale of foreign currencies in forward foreign exchange contracts constitutes a hedge against the income from operations in foreign currencies. The result of the hedged item runs in the opposite direction of the result of the forward transaction. Assessment and risk analysis of the outstanding hedges are carried out regularly (mark to market). Hedges pertain to those cash flows that are expected within the next twelve months at the latest or correspond to the duration of a project.

The existing interest rate swaps hedge against the risk of interest rate changes in the case of floating-interest arrangements. This hedge limits the negative effect of unforeseeable interest-rate fluctuations on the net financial result.

The group treasury department centrally controls the interest rate risk for the entire PALFINGER Group. In recent years, the need for more financing has increased the impact that fluctuations in interest rates have on the net financial result of the PALFINGER Group, which is why hedging against interest rate risks has become increasingly important. The exposure to floating rates is limited through the use of derivative financial instruments (interest rate swaps), which convert the floating rate into a fixed rate.

Changes in the fair value of interest rate swaps classified as a cash flow hedge are directly recognized in equity (valuation reserve). When interest rate payments are made on the hedged item, the revaluation reserve in equity is reclassified to the income statement (interest result).

	Nominal amount in contract currency		Mark-to-market valuation (EUR)		Maximum duration/maturity
Thousand	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	2018
Forward foreign exchange contracts					
sell CAD/buy NOK	CAD 2,580	CAD 2,580	(36)	(15)	14 June 2019
sell EUR/buy NOK	EUR 18,155	EUR 48,383	(834)	(1,163)	16 Apr 2021
sell GBP/buy NOK	GBP 1,729	GBP 270	88	(6)	25 Jan 2019
sell USD/buy EUR	USD 4,500	USD 24,000	(35)	(183)	20 June 2019
sell USD/buy NOK	USD 20,765	USD 10,256	347	(402)	17 Oct 2019
			(470)	**(1,769)**	
Interest rate swaps	EUR 140,000	EUR 110,000	(2,838)	(2,148)	31 Dec 2026
Cash flow hedge			**(3,308)**	**(3,917)**	

The market value of hedges is reported as a cash flow hedge according to IAS 39. Valuation gains or losses as at the balance sheet date are to be directly recognized in equity. As soon as the underlying transactions have been realized, the accumulated gains/losses are reversed from other comprehensive income and recognized in the income statement.

Any amounts relating to cash flow hedges that were recorded in other comprehensive income and those realized are illustrated in the statement of comprehensive income.

HEDGING OF FUNDS (HELD FOR TRADING)

Derivative financial instruments which the Group uses for the hedging of funds and foreign exchange risks which do not meet the criteria of hedge accounting under IFRS 9 with regard to documentation and effectiveness are classified as held for trading. Changes in the fair values of these financial instruments are recognized in the income statement.

	Nominal amount in contract currency		Mark-to-market valuation (EUR)		Maximum duration/maturity
Thousand	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	2018
sell AED/buy EUR	AED 31,000	AED 42,000	71	21	12 June 2019
sell CNY/buy EUR	CNY 0	CNY 6,900	0	3	12 June 2019
sell DKK/buy EUR	DKK 34,000	DKK 30,800	4	9	12 June 2019
sell GBP/buy EUR	GBP 1,250	GBP 1,400	(59)	(5)	14 Mar 2019
sell JPY/buy EUR	JPY 325,000	JPY 325,000	66	(56)	14 Mar 2019
sell NOK/buy EUR	NOK 505,000	NOK 526,000	2,677	1,218	14 Mar 2019
sell PLN/buy EUR	PLN 34,400	PLN 37,600	(222)	(83)	14 Mar 2019
sell SGD/buy EUR	SGD 5,000	SGD 0	(16)	0	-
sell USD/buy EUR	USD 59,400	USD 0	468	(63)	12 June 2019
sell USD/buy NOK	USD 6,932	USD 0	178	0	-
Currency swaps			**3,167**	**1,044**	

Valuation gains/losses from currency swaps amount to EUR –2,123 thousand (previous year: EUR 2,945 thousand) and are reported in the financial result under exchange rate difference amounting to EUR –2,123 thousand (previous year: EUR 2,945 thousand).

Other liabilities and risks

OPERATING LEASES AND RENTALS

Liabilities for the use of assets not recognized in the balance sheet (buildings, production facilities, fixtures, fittings and equipment) will presumably amount to EUR 13,349 thousand (previous year: EUR 14,735 thousand) for the 2019 financial year and EUR 24,911 thousand (previous year: EUR 27,880 thousand) for the following four years and EUR 22,502 thousand (previous year: EUR 25,505 thousand) in more than five years. They also include business transactions with related parties.

In the reporting period, minimum lease payments from operating leases and rentals in the amount of EUR 16,841 thousand (previous year: EUR 13,254 thousand) were reported as expenses.

FINANCE LEASES

At the end of May 2017, the finance lease was redeemed, the lease liability was extinguished and title to the company aircraft acquired (carrying amount in previous year: EUR 7,517 thousand). The company aircraft was sold in the fourth quarter of 2017; the loss on this sale was EUR 1,751 thousand.

Other financial obligations

As at 31 December 2018 and 31 December 2017, there were no contingent claims or contingent liabilities.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The presentation of cash flows from operating activities in the consolidated statement of cash flows is based on the indirect method. The item funds corresponds to cash and cash equivalents.

Cash flows from operating activities increased primarily as a result of satisfactory results and the smaller build-up of working capital in comparison with 2017.

Other non-cash income and expenses included exchange rate differences and measurement effects.

Cash flows from investing activities deteriorated mainly because of the increase in investments for expansion and replacement investments.

Additions of intangible assets and property, plant and equipment include non-cash investments of EUR 4,961 thousand (previous year: EUR 3,864 thousand).

The following table shows the reconciliation of the changes in cash flows from financing activities:

EUR thousand	Promissory note loans	Loans for acquisitions	Finance lease liability	Other loans	Total
As at 1 Jan 2017	**120,000**	**259,517**	**10,626**	**183,049**	**573,192**
Changes in cash flows from financing activities					
Issue of promissory note loans	200,000	0	0	0	200,000
Loans for the acquisition of interests	0	60,000	0	0	60,000
Repayment of loans for the acquisition of interests	0	(2,000)	0	0	(2,000)
Long-term refinancing of redemptions and maturing short-term loans	0	0	0	0	0
Repayment of maturing/terminated loans	0	(100,000)	0	(5,000)	(105,000)
Repayment of current bridge financing loans for the acquisition of interests	0	(90,000)	0	0	(90,000)
Repayment of maturing/terminated promissory note loans	(13,000)	0	0	0	(13,000)
Repayment of maturing/terminated lease liabilities	0	0	(10,012)	0	(10,012)
Repayment of current financing	0	0	0	(12,507)	(12,507)
Cash payments for/cash receipts from other financial liabilities	0	0	0	(11,935)	(11,935)
	187,000	**(132,000)**	**(10,012)**	**(29,442)**	**15,546**
Corporate acquisition/change in scope of consolidation	**0**	**0**	**0**	**215**	**215**
Foreign currency translation	**0**	**0**	**(614)**	**(3,490)**	**(4,104)**
Accrued interests	**1,916**	**0**	**0**	**0**	**1,916**
As at 31 Dec 2017	**308,916**	**127,517**	**0**	**150,332**	**586,765**

EUR thousand	Promissory note loans	Loans for acquisitions	Finance lease liability	Other loans	Total
As at 1 Jan 2018	**308,916**	**127,517**	**0**	**150,332**	**586,765**
Changes in cash flows from financing activities					
Issue of promissory note loans	101,596	0	0	0	101,596
Loans for the acquisition of interests	0	0	0	0	0
Repayment of loans for the acquisition of interests	0	(24,167)	0	0	(24,167)
Long-term refinancing of redemptions and maturing short-term loans	0	0	0	30,000	30,000
Repayment of maturing/terminated loans	0	0	0	(90,000)	(90,000)
Repayment of current bridge financing loans for the acquisition of interests	0	0	0	0	0
Repayment of maturing/terminated promissory note loans	(50,000)	0	0	0	(50,000)
Repayment of maturing/terminated lease liabilities	0	0	0	0	0
Current financing	0	0	0	45,000	45,000
Repayment of current financing	0	0	0	(47,678)	(47,678)
Cash payments for/cash receipts from other financial liabilities	0	0	0	24,488	24,488
	51,596	**(24,167)**	**0**	**(38,190)**	**(10,761)**
Corporate acquisition/change in scope of consolidation	**0**	**0**	**0**	**0**	**0**
Foreign currency translation	**238**	**0**	**0**	**(648)**	**(410)**
Accrued interests	**185**	**0**	**0**	**0**	**185**
As at 31 Dec 2018	**360,935**	**103,350**	**0**	**111,494**	**575,779**

The Total column of the above table equals the total of current and non-current financial liabilities excluding derivative financial instruments.

OTHER DISCLOSURES

(56) Disclosures of business transactions with related parties

At PALFINGER, related parties are broken down into associated companies and joint ventures, key management and other related parties. The associated companies and joint ventures are listed in the statement of investments. The term key management comprises the Supervisory and Executive Boards of PALFINGER AG. Other related parties primarily include businesses controlled by the key management.

All transactions with associated companies and joint ventures are carried out for the ordinary exchange of goods and services. Transactions carried out with the Supervisory Board result from the provision of consultancy services and since 2016 from their remuneration as members of the Supervisory Board in accordance with the resolution taken at the Annual General Meeting on 9 March 2016. Transactions carried out with other related parties primarily relate to the delivery of goods, rentals and the provision of consultancy services.

Transactions with related parties are carried out in observance of the arm's length principle.

The following table contains transactions with associated companies and joint ventures; the information given refers to 100 per cent. Transactions with Executive Board members are not contained in the following table; for details, please see "Disclosures concerning governing bodies and employees", pages 203 to 204.

	Associated companies		Joint ventures		Supervisory Board		Other	
EUR thousand	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
Receivables	7,334	8,211	1,889	945	0	0	26,775	22,954
Liabilities	53	196	2,573	2,400	139	191	243	554
Revenue	90,056	104,807	3,478	1,455	0	0	6,128	6,442
Other operating income	112	129	306	360	0	0	515	785
External services	0	0	(819)	(759)	(180)	(191)	(2,624)	(2,682)
Cost of materials	(7)	(10)	(3,923)	(2,459)	0	0	(8)	(1)
Interest income	0	0	13	6	0	0	356	269

Receivables from associated companies and joint ventures include trade receivables of EUR 8,673 thousand (previous year: EUR 8,211 thousand).

Of the liabilities to associated companies and joint ventures of EUR 2,596 thousand (previous year: EUR 2,626 thousand), EUR 2,045 thousand (previous year: EUR 2,440 thousand) resulted from the provision of goods and services.

Receivables from related parties of EUR 21,257 thousand (previous year: EUR 25,520 thousand) refer to Hubert Palfinger-Technologies GmbH; an instalment plan for repayment over the next six years has been agreed. Sufficient collateral has been provided by related parties (see Note [33]). Interest payable on the receivables will be in observance of the arm's length principle. Repayment will be made according to the instalment plan.

PALFINGER AG rents the group headquarters in Bergheim near Salzburg, Austria, from a company belonging to the private foundation Palfinger Privatstiftung. The lease agreement was concluded for a period of 20 years and, after this 20-year period, may be terminated by PALFINGER AG at the end of each year upon twelve months' notice. Rent was determined on the basis of an independent expert opinion identifying the current market value. PALFINGER AG has a pre-emptive right to this property.

(57) Disclosures concerning governing bodies and employees

EMPLOYEES

The average number of employees (FTEs) of the PALFINGER Group (including the Executive Board) during the financial year was 10,605 (previous year: 9,713). At the balance sheet date there were 10,780 group employees (previous year: 10,212).

SUPERVISORY BOARD

In the 2018 financial year, the following individuals were either appointed, or delegated by the Works Council, to serve on the Supervisory Board:

- Hubert Palfinger jun., Chairman[1)]
- Gerhard Rauch, 1st Deputy Chairman[1)]
- Hannes Palfinger, 2nd Deputy Chairman[1)]
- Heinrich Dieter Kiener
- Hannes Bogner[2)]
- Ellyn Shenglin Cai (since 7 March 2018)
- Dawei Duan (up to 25 January 2018)
- Johannes Kücher (Works Council)[2)]
- Alois Weiss (Works Council)
- Erwin Asen (Works Council)

1) Member of the Audit, Nomination and Remuneration Committees.
2) Member of the Audit Committee.

EXECUTIVE BOARD

- Andreas Klauser, CEO (since 1 June 2018)
- Felix Strohbichler, CFO
- Martin Zehnder, COO/CTO

Andreas Klauser has been the new CEO of PALFINGER AG since the beginning of June.

The recurring short-term remuneration of the Executive Board consists of several components and is broken down as follows:

	Non-performance-related		Performance-related	
EUR thousand	Jan–Dec 2017	Jan–Dec 2018	Jan–Dec 2017	Jan–Dec 2018
Andreas Klauser	0	357	0	263
Felix Strohbichler	104	418	83	331
Martin Zehnder	390	473	407	396
Herbert Ortner	550	0	450	0
Christoph Kaml	285	0	149	0
Current salary	**1,329**	**1,248**	**1,089**	**990**

For the short-term performance-related remuneration of Executive Board members, liabilities totalling EUR 994 thousand (previous year: EUR 482 thousand) were recognized.

In addition, the following long-term, performance-related remuneration is paid:

In the second quarter of 2018, a new bonus agreement was concluded with the Executive Board for the achievement of a long-term increase in corporate value. The new agreement will last until 2022 and the bonus will be presumably paid out in 2023. For this purpose, provisions in the amount of EUR 1,236 thousand were reported in the income statement in the 2018 financial year.

The previous agreement referred to the increase in corporate value from 2016 to 2018. For this purpose, provisions in the amount of EUR 679 thousand were reported in the income statement in the 2017 financial year. In September 2017 and in January 2018, bonuses for the increase in corporate value were paid to Herbert Ortner (in the total amount of EUR 1,220 thousand) and Martin Zehnder (in the total amount of EUR 1,620 thousand) as compensation under the previous agreement. The pro-rata bonus for the increase in corporate value, in the amount of EUR 450 thousand, was paid to Christoph Kaml upon his resignation in 2017.

For benefits payable after termination of employment, EUR 10 thousand (previous year: EUR 44 thousand) were reported as current service cost in the 2018 financial year. This concerns individual contracts regarding pension commitments concluded with Wolfgang Pilz.

At PALFINGER AG, expenses for severance and pension payments for members of the Executive Board and other executives amounted to EUR 31 thousand (previous year: EUR 113 thousand), for the remaining employees to EUR 169 thousand (previous year: EUR 941 thousand).

The expenses for severance payments contain payments made to contribution-based severance pay funds for members of the Executive Board in the amount of EUR 35 thousand (previous year: EUR 47 thousand).

(58) Key events after the balance sheet date

After the end of the 2018 financial year, there have been no material post-reporting events that would have led to a different presentation of the Group’s financial position, cash flows or result of operations.

ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods used when preparing the consolidated financial statements of the PALFINGER Group are explained in the following:

Note Balance sheet item	Accounting and valuation principles	Standard
(59) Intangible assets		
Intangible assets with definite useful lives	At amortized cost Straight-line amortization over useful lives In general: 2–15 years Capitalized customer relationships: 5–10 years An impairment test is carried out whenever there is any indication of impairment. If the reasons for the impairment cease to exist, corresponding reversals of the impairment loss are performed up to the level of amortized costs.	IAS 38 IAS 36
Intangible assets with indefinite useful lives and intangible assets under development	Impairment-only approach: No amortization on a systematic basis. An impairment test is carried out once a year and whenever there is any indication of impairment. If the reasons for the impairment cease to exist, corresponding reversals of the impairment loss are performed up to the level of amortized costs.	IAS 38 IAS 36
Goodwill	Impairment-only approach (see above) In order to perform impairment tests, goodwill is allocated to cash-generating units. The essential standard applied for determining whether a production unit qualifies as a cash-generating unit is the assessment of its technical and commercial independence in the generation of income. The impairment test of the cash-generating unit is carried out by comparing the amortized carrying amount (including the allocated goodwill) to the higher of either the fair value less costs to sell or the value in use. When determining the recoverable amount, assumptions regarding future development and estimates are made that might not occur as predicted. The value in use is calculated as the present value of relevant estimated future cash flows before tax for the next four to five years on the basis of the data obtained from medium-term corporate planning. Medium-term corporate planning is prepared every second to third year. In the years in which no medium-term corporate planning is done, the estimated cash flows are adjusted on the basis of a deviation analysis. The most recent strategic corporate planning was carried out at the end of 2017. After the detailed planning period, calculations are made using a perpetual annuity on the basis of the previous year's assumptions. The discount rate is derived from the weighted average cost of capital customary in the market, adjusted to the specific risks, on the basis of externally available capital market data. When determining the weighted average cost of capital, externally available capital market data are used. If the calculated amount is less than the carrying amount, the impairment loss in the amount of the difference is allocated first to reduce the goodwill. Any additional impairment loss is then to be allocated to the remaining assets of the cash-generating units in proportion to their carrying amounts. The impairment test is applied to the entire goodwill capitalized. When, in the course of an acquisition, non-controlling interests are reported at their fair values, the impairment is spread over the individual groups of shareholders. The allocation is made on the basis of the same key that is also applied when distributing the earnings of the subsidiary at hand among the shareholders, provided that the subsidiary under review is a cash-generating unit to which goodwill is allocated. According to IAS 36, once goodwill has been written down for impairment, no recovery of the goodwill may be recognized in later periods.	IFRS 3 IAS 36
Research and development	Research expenses are reported in the income statement when incurred. Development expenses made with a view to a significant further development of a product or a process are capitalized if the product or process is feasible both from a technological and commercial point of view, the development is marketable, the expenses can be measured reliably and PALFINGER has sufficient resources to complete the development project. All other development expenses are recognized in the income statement when incurred. Capitalized development expenses of closed projects are reported at cost less accumulated amortization. As long as a development project is not yet completed, an impairment test of the capitalized amounts accrued is carried out annually or more frequently if circumstances indicate that an impairment loss might have occurred.	IAS 38 IAS 36

Note	Balance sheet item	Accounting and valuation principles	Standard
(60) Property, plant and equipment			
		At amortized cost Besides direct costs, production costs also contain appropriate proportions of materials and manufacturing overhead costs and, in the case of qualifying assets, also borrowing costs. General administrative expenses are not capitalized. Straight-line depreciation over useful lives: Own buildings and investments in third-party buildings 20–50 years Plants and machinery 3–15 years Fixtures, fittings and equipment 3–10 years In the case of asset disposals, the difference between the carrying amounts and the net realizable value is recognized in the income statement as either other operating income or other operating expenses. An impairment test is carried out whenever there is any indication of impairment. If the reasons for the impairment cease to exist, corresponding reversals of the impairment loss are performed up to the level of amortized cost.	IAS 16 IAS 36
Government grants		Investment grants are presented as reductions of acquisition and/or manufacturing costs. Grants for research are recognized as income in research and development costs. A government grant is not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to it and that the grant will be received.	IAS 20
Leases as lessees		The allocation of a leased asset to the lessor or lessee is based on the transfer of all material risks and rewards incidental to ownership of the asset. Finance lease: The leased objects are recognized at the fair value or lower present value of the minimum lease payments at the time of acquisition; straight-line depreciation over useful lives Operating lease: Lease payments are recognized as an expense in EBIT in equal instalments over the term of the lease	IAS 17
Borrowing costs		Capitalized upon acquisition or production of a qualifying asset	IAS 23
(61) Investment property			
		Land or buildings held to earn rentals or for capital appreciation are measured at amortized cost. Depreciation on the building is performed on a straight-line basis over a period of 25 years.	IAS 40 IAS 36 IFRS 13
(62) Inventories			
		Valued at cost (see (60) Property, plant and equipment) or the lower net realizable value at the balance sheet date Materials and production supplies, and merchandise: moving average cost method Work in progress and finished goods: standard production costs; costs are reviewed regularly and adjusted if necessary	IAS 2
(63) Contract assets from customer contracts			
		Revenue is realized in accordance with the percentage of completion which is determined by means of the cost-to-cost method or the milestone method. When applying the cost-to cost method, sales and contract revenue are recognized in proportion of the manufacturing costs actually incurred to the expected total costs. Reliable estimates of the total costs of the contracts, the selling prices and the actual costs incurred are available on a monthly basis. When applying the milestone method, the percentage of completion is determined on the basis of certain milestone events. For technological and financial risks that might occur during the remaining term of the project, an individual estimate is made for each contract and the corresponding amounts are reported in estimated total costs. Imminent losses are immediately expensed if total contract costs are likely to exceed the contract revenue.	IFRS 15
(64) Liabilities from puttable non-controlling interests			
		Puttable or fixed-term equity interests in subsidiaries with a put option held by non-controlling shareholders constitute financial liabilities. Initially, the liabilities are recognized at fair value, which, as a rule, corresponds to the fair value of the interest held by the non-controlling shareholder in the subsidiary at the time the obligation was entered into. The fair value is calculated internally using acknowledged calculation models applying market interest rates matching the respective maturities. Specifically, the amount payable is derived from strategic corporate planning and discounted to the balance sheet date.	IFRS 10 IFRS 13 IAS 32 IFRS 9

Note	Balance sheet item	Accounting and valuation principles	Standard
		Provided that the non-controlling shareholders are currently the beneficial owners of the interests, the results and payments are still attributed to the non-controlling interests and recognized acc. to IFRS 10. This is above all the case if PALFINGER and the non-controlling shareholder intend that the latter remain a non-controlling shareholder in the long term and profit from the increases in value recorded by the unit. At the balance sheet date, they are reclassified to liabilities, and differences, if any, between the non-controlling interest and the obligation are presented under retained earnings. If, however, the non-controlling shareholders are not the beneficial owners, they are presented as an accelerated acquisition and recognized acc. to IFRS 9/IAS 32. This is primarily the case if the non-controlling shareholder and/or PALFINGER intend to exercise the put option. Measurement subsequent to initial recognition is made through the income statement. As at 31 December 2017 and 2016, these liabilities include exclusively puttable interests for which the non-controlling shareholders are the beneficial owners of the shares.	
(65) Financial instruments			
		When they are recognized initially, financial assets are measured at fair value. In the case of financial investments that are not recognized at fair value through the income statement, transaction costs are recognized as well. These costs are directly allocable to the acquisition of the assets. The fair value is determined on the basis of market information available at the balance sheet date. The values listed may diverge from values realized later due to varying determinants. The fair value of financial assets and liabilities reflects the effects of the risk of non-performance by the counterparty. When determining the fair value of a financial asset, the banks' credit risks are taken into account on the basis of their ratings. The fair values of financial liabilities are determined taking into account the Company's own credit risk on the basis of the ratings made by the banks. Market values are available for all derivative financial instruments and securities. The fair values for all other financial instruments are determined on the basis of the discounted anticipated cash flows. Acquisitions or sales of financial assets are recognized at the trade date. Impairment losses for all financial instruments are recorded in the income statement. If there is no more need for impairment, the impairment losses recorded are reversed in the income statement.	IAS 32 IFRS 9 IFRS 7 IFRS 13
	Securities and other shareholdings	Fair value through profit or loss: Measurement subsequent to initial recognition at fair value; recognized in other comprehensive income.	
	Loans	At amortized cost: Measurement subsequent to initial recognition reported at amortized cost applying the effective interest method, if necessary less impairment losses	
	Receivables	At amortized cost: Measurement subsequent to initial recognition reported at amortized cost, if necessary less impairment losses that are recorded in allowance accounts PALFINGER applies the simplified impairment model for trade receivables and contract assets from customer contracts, according to which expected losses are taken into consideration during their full lifetime. Standardized bad-debt allowances are made on the basis of a provision matrix, which is based on the results of an analysis of the losses occurring in the past five years and the assessment of future developments and takes into account days overdue and country risk. The probability of receiving payment is taken into consideration by means of specific bad-debt allowances. In doing so, primarily previous experience with the respective customers, their creditworthiness and available collateral, if any, are taken into account. Bad debts are derecognized.	
	Cash and cash equivalents	Mark to market	
	Liabilities	At amortized cost: Subsequent to initial recognition, liabilities are measured at amortized cost applying the effective interest method.	
	Purchase price liabilities from acquisitions	Purchase price liabilities from acquisitions are measured at fair value. The fair value is calculated internally using acknowledged calculation models applying market interest rates matching the respective maturities. Specifically, the amount payable is derived from strategic corporate planning and discounted to the balance sheet date.	
	Derivative financial instruments	Derivative financial instruments that do not satisfy the criteria for hedge accounting laid down in IFRS 9 are classified as fair value through P&L according to IFRS 9 and recognized at their fair values through the income statement.	
	Cash flow hedges	In order to minimize the risk of fluctuations with respect to payments received in the future, expected foreign currency income and interest risks are hedged in the PALFINGER Group by means of forward foreign exchange contracts and interest swaps. The special hedge accounting principles as stipulated by IFRS 9 are applied to ensure compensation on an accrual basis for the effects of hedged transactions and the hedging instruments in the income statement. The market values resulting at the balance sheet date, after taking into account deferred taxes, are reported in other comprehensive income and recognized as a reserve according to IFRS 9. The reserve is reversed to income in line with future proceeds generated in the relevant financial year.	

Note Balance sheet item	Accounting and valuation principles	Standard
(66) Long-term employment benefits		IAS 19
Defined benefit plans	Defined benefit plans apply to pension commitments in Austria, France, Norway and Germany as well as severance pay obligations in Austria, Slovenia, Bulgaria, South Korea, Qatar and the United Arab Emirates. Provisions for pensions and other post-employment benefits as well as for severance payments and anniversary bonuses are valued on the basis of an actuarial opinion prepared by an actuary as at the balance sheet date using the projected unit credit method. The discount rate with matching maturity is determined on the basis of the yield of first-class, fixed-interest industrial bonds, i.e. a rating of AA or higher. According to IAS 19, re-measurements are recognized as other comprehensive income if they relate to provisions for pensions and other post-employment benefits or for severance payments.	
Defined contribution plans	Defined contribution plans have been introduced at various group companies on the basis of statutory obligations. In addition, individual pension agreements have been entered into. Contributions are recognized as expenses in the period for which they are paid.	
Other long-term employment benefits provisions	Other long-term employment benefits refer primarily to collective bargaining commitments for payment of anniversary bonuses depending on years of service for the employees of Austrian and Slovenian companies and to bonus agreements concluded with the members of the Executive Board and other executives. In accordance with IAS 19, re-measurements are recognized as employee benefits expenses in the income statement if they relate to provisions for anniversary bonuses.	
(67) Other provisions		
	Provisions are reported at the anticipated settlement amount; non-current provisions are reported at their present value.	IAS 37
(68) Income tax		
	Tax receivables and tax liabilities are offset when they relate to the same tax authority and the Company has a right to offset the items. Deferred taxes are reported according to the liability method and calculated using the respective country's applicable tax rate. Deferred tax assets are only recognized if it is probable that the relevant tax benefits will actually be realized. Deferred tax is calculated using the tax rate expected to apply at the balance sheet date when the temporary differences reverse. As a rule, all changes in taxes result in tax expenses and/or income. Taxes on items reported in other comprehensive income are reported in other comprehensive income. Taxes on items directly reported in equity are directly recognized in equity.	IAS 12
(69) Revenue recognition		
	Sale of products Revenue from the sale of serially produced goods is recognized when control of the goods is transferred to the customer in accordance with the terms and conditions of delivery. Revenue is recognized at that point in time provided that both revenue and cost can be reliably determined, it is probable that the consideration will be received, and the performance obligation is satisfied. The performance obligation is customarily satisfied upon transfer of ownership in accordance with INCOTERMS. Some contracts have multiple components, meaning that in addition to governing the sale of serially produced products, they also include additional performance obligations such as warranty extension and service type warranties, service and maintenance or commissioning. According to IFRS 15, an entity will allocate the consideration to the components by reference to their relative standalone selling prices. Contract manufacturing and rendering of services In the project business, revenue from customized manufacturing orders used to be recognized in accordance with the percentage of completion method. IFRS 15 defines criteria for recognizing revenue over a certain time period. Almost all project-business contracts meet the criteria for satisfying a performance obligation over a certain time period, as the assets produced have no alternative use and PALFINGER has a right to payment for the performance completed at any time throughout the duration of the respective contract. PALFINGER's project business comprises projects in the field of railway systems in the EMEA business area and projects in the fields of offshore cranes, winches, davits and boats in the Marine business area. In the case of contracts for the provision of long-term services, revenue is recognized over a certain time period, as the customer receives the benefits from the services while they are being performed. Significant financing components of a duration of more than 12 months are presented separately from revenue. In most cases, instalment plans are set up for this purpose. Significant costs of obtaining a contract are only capitalized for contracts of a duration of more than 12 months. At present, there are no significant costs of obtaining a contract. Variable consideration and the right of return only exist in rare cases.	IFRS 15

FAIR VALUE MEASUREMENT

PALFINGER measures financial instruments such as derivatives, contingent purchase price obligations and liabilities from puttable non-controlling interests at fair value on a recurring basis. The fair values of financial instruments recognized at amortized cost are stated in these notes under “Financial instruments”.

The fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value, it is assumed that the transaction in the course of which the asset is sold or the liability transferred takes place either on the principal market for the asset or liability or, if there is no principal market, on the most advantageous market. PALFINGER measures fair values by taking into account all assumptions that the market participants would use as a basis for pricing and proceeding on the assumption that the market participants would act in their own best economic interest.

A fair value measurement of a non-financial asset takes into account the market participant’s ability to generate economic benefit through such asset’s highest and best use.

When determining a fair value, PALFINGER applies valuation techniques appropriate in the circumstances and for which sufficient data are available to measure the fair value, using, wherever possible, observable inputs.

The fair values recognized or reported are categorized on the basis of the lowest level of input applied, as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

STATEMENT OF INVESTMENTS

Company, registered office	Controlling company[1]	Direct investment[2] (in per cent) 2017	Direct investment[2] (in per cent) 2018	Indirect investment[3] (in per cent) 2017	Indirect investment[3] (in per cent) 2018	Curr.[4]
Fully consolidated companies						
PALFINGER AG, Bergheim (AT)						EUR
Andrés N. Bertotto S.A.I.C., Río Tercero (AR)	PAM	30.00	30.00	30.00	30.00	ARS[5]
Elesa centro de montaje y sercivios S.A, Madrid (ES)	PIB	100.00	100.00	75.00	75.00	EUR
EPSILON Kran GmbH, Salzburg (AT)	EMEA	65.00	65.00	65.00	65.00	EUR
Equipment Technology, LLC, Oklahoma City (US)	PUSH	100.00	100.00	100.00	100.00	USD
FairWind Renewable Energy Services, LLC, Lawton (US)	PUSH	51.00	51.00	51.00	51.00	USD
Guima Palfinger S.A.S., Caussade (FR)	EMEA	65.00	65.00	65.00	65.00	EUR
Harding Safety Brazil Ltda., Niteroi (BR)	PALM AS/PALM US	100.00	-	100.00	-	BRL
Harding Safety Spain SL, Cádiz (ES)	PALM AS	100.00	100.00	100.00	100.00	EUR
Heron Davits AS, Seimsfoss (NO)	PALM AS	100.00	100.00	100.00	100.00	EUR
Holding Company Podyomnie Maschini AO, Archangelsk (RU)	VMS/PMH	100.00	100.00	60.00	75.03	RUB
INMAN AO, Ishimbay (RU)	PCIS	100.00	100.00	100.00	100.00	RUB
Madal Palfinger S.A., Caxias do Sul (BR)	PAM	99.73	99.85	99.73	99.85	BRL
MBB Interlift N.V., Erembodegem (BE)	PTL DE	100.00	100.00	100.00	100.00	EUR
Mega Repairing Machinery Equipment LLC, Dubai (AE)	PSYSU	100.00	100.00	100.00	100.00	AED
Megarme General Contracting Company LLC, Abu Dhabi (AE)	PSYSU	100.00	100.00	100.00	100.00	AED
Megarme Inspection & Engineering Services LLC, Dubai (AE)	PSYSU	100.00	100.00	100.00	100.00	AED[6]
Megarme Qatar WLL, Doha (QA)	PSYSU	100.00	100.00	100.00	100.00	QAR
Nimet Srl, Lazuri (RO)	PPT	60.00	60.00	60.00	60.00	RON
Noreq BV, Houten (NL)	PALM AS	100.00	100.00	100.00	100.00	EUR
Noreq LLC, Houston (US)	PALM AS	100.00	100.00	100.00	100.00	USD
Omaha Standard, LLC, Council Bluffs (US)	PUSH	100.00	100.00	100.00	100.00	USD
PalAir GmbH, Salzburg, (AT)	PAG	100.00	-	100.00	-	USD
Palfinger Americas GmbH, Salzburg (AT)	PAUG	100.00	100.00	100.00	100.00	EUR
Palfinger Area Units GmbH, Salzburg (AT)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger Asia Pacific Pte. Ltd., Singapore (SG)	PAUG	100.00	100.00	100.00	100.00	EUR
Palfinger Boats B.V., Harderwijk (NL)	PM NL	100.00	-	100.00	-	EUR
Palfinger Boats Vietnam Co., Ltd., Hung Yen (VN)	PM NL	100.00	100.00	100.00	100.00	USD
Palfinger Canarias Maquinaria S.L., Las Palmas de Gran Canaria (ES)	PIB	100.00	100.00	75.00	75.00	EUR
Palfinger CIS GmbH, Salzburg (AT)	PAUG	100.00	100.00	100.00	100.00	EUR
Palfinger comércio e aluguer de máquinas S.A., Samora Correira (PT)	PIB	60.00	60.00	45.00	45.00	EUR
Palfinger Crane Rus OOO, St. Petersburg (RU)	PCIS	100.00	100.00	100.00	100.00	RUB
Palfinger Cranes India Pvt. Ltd., Chennai (IN)	PAUG/PAP	100.00	100.00	100.00	100.00	INR
Palfinger Danmark AS, Middelfart (DK)	EMEA	100.00	100.00	100.00	100.00	DKK
Palfinger EMEA GmbH, Bergheim (AT)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger Equipment (Nantong) Co., Ltd., Nantong (CN)	PAP	100.00	100.00	100.00	100.00	CNY
Palfinger Europe GmbH, Salzburg (AT)	EMEA	100.00	100.00	100.00	100.00	EUR
Palfinger GmbH, Ainring (DE)	PP/PEU	100.00	100.00	100.00	100.00	EUR
Palfinger Gru Idrauliche S.r.l, Bolzano (IT)	PEU	100.00	100.00	100.00	100.00	EUR
Palfinger Hayons S.A.S., Silly en Gouffern (FR)	EMEA	100.00	100.00	100.00	100.00	EUR
Palfinger Ibérica Maquinaria S.L., Madrid (ES)	EMEA	75.00	75.00	75.00	75.00	EUR
Palfinger Japan K.K., Yokohama (JP)	PAP	100.00	100.00	100.00	100.00	JPY
Palfinger Kama Cylinders OOO, Neftekamsk (RU)	PCIS	51.00	51.00	51.00	51.00	RUB
Palfinger Korea Co., Ltd., Seongnam-si (KO)	PAP	100.00	100.00	100.00	100.00	KRW
Palfinger Liftgates, LLC, Cerritos (US)	PUSH	100.00	100.00	100.00	100.00	USD

Company, registered office	Controlling company[1]	Direct investment[2] (in per cent) 2017	2018	Indirect investment[3] (in per cent) 2017	2018	Curr.[4]
Fully consolidated companies						
Palfinger Lifting Technology (Nantong) Co., Ltd., Nantong (CN)	PAP	100.00	-	100.00	-	CNY
Palfinger Marine Canada Inc., Langley (CA)	PALM AS	100.00	100.00	100.00	100.00	CAD
Palfinger Marine Czech s.r.o., Slaný (CZ)	PALM EU	100.00	100.00	100.00	100.00	CZK
Palfinger Marine d.o.o., Maribor, Maribor (SI)	PALMA	100.00	100.00	100.00	100.00	EUR
Palfinger Marine DK AS, Munkebo (DK)	PALM AS	100.00	100.00	100.00	100.00	DKK
Palfinger Marine Do Brasil Ltda., Rio de Janeiro (BR)	PALMA	100.00	100.00	100.00	100.00	BRL
Palfinger Marine Europe B.V., Schiedam (NL)	PALM AS	100.00	100.00	100.00	100.00	EUR
Palfinger Marine Germany GmbH, Dägeling (DE)	PALM AS	100.00	100.00	100.00	100.00	EUR
Palfinger Marine GmbH, Salzburg (AT)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger Marine Hong Kong Limited, Hong Kong (CN)	PALM AS	100.00	100.00	100.00	100.00	HKD
Palfinger marine Italy Srl, Livorno (IT) (formerly: Harding Safety Italy Srl)	PALM AS	100.00	100.00	100.00	100.00	EUR
Palfinger Marine Korea Ltd., Sacheon-si (KR)	PALMA	100.00	100.00	100.00	100.00	KRW
Palfinger Marine LSE (Qingdao) Co., Ltd., Qingdao (CN)	PALM AS	100.00	100.00	100.00	100.00	CNY
Palfinger Marine LSE Poland sp.z.o.o., Solec Kujawski (PL)	EMEA	100.00	100.00	100.00	100.00	PLN
Palfinger Marine Montagens Industriais do Brasil Ltda., Porto Alegre (BR)	PALM BR	99.00	99.00	99.00	99.00	BRL
Palfinger Marine Netherlands B.V., Haderwijk (NL)	PALMA	100.00	100.00	100.00	100.00	EUR
Palfinger Marine Norway AS, Bergen (NO)	PALMA	100.00	100.00	100.00	100.00	NOK
Palfinger Marine Panama Inc., Ciudad de Panama (PA)	PALM US	100.00	100.00	100.00	100.00	PAB
Palfinger Marine Poland sp. z.o.o., Gdynia (PL)	PALMA	100.00	100.00	100.00	100.00	PLN
Palfinger Marine Rus OOO, St. Petersburg (RU) (Initial consolidation: 1 September 2018)	PALMA	-	100.00	-	100.00	RUB
Palfinger Marine Safety AS, Seimsfoss (NO)	PALMA	100.00	100.00	100.00	100.00	NOK
Palfinger Marine Shanghai Co., Ltd., Shanghai (CN)	PALM AS	100.00	100.00	100.00	100.00	CNY
Palfinger Marine UK Limited, Gosport Hampshire (UK)	PALM AS	100.00	100.00	100.00	100.00	GBP
Palfinger Marine USA Inc., New Iberia (US)	PALM AS	100.00	100.00	100.00	100.00	USD
Palfinger Marine Vietnam Co., Ltd., Hung Yen (VN)	PM NL	100.00	100.00	100.00	100.00	USD
Palfinger Platforms GmbH, Krefeld (DE)	PTL DE/PEU	100.00	100.00	100.00	100.00	EUR
Palfinger Platforms Italy s.r.l., Bolzano (IT)	PSUG	77.00	77.00	77.00	77.00	EUR
Palfinger PM Holding GmbH, Salzburg (AT)	PCIS	60.00	75.03	60.00	75.03	EUR
Palfinger Produktionstechnik Bulgaria EOOD, Cherven Brjag (BG)	EMEA	100.00	100.00	100.00	100.00	EUR
Palfinger proizvodna tehnologija Hrvatska d.o.o., Delnice (HR)	EMEA	100.00	100.00	100.00	100.00	HRK
PALFINGER proizvodnja d.o.o., Maribor (SI)	EMEA	100.00	100.00	100.00	100.00	EUR
Palfinger Projects B.V., Elst (NL)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger Russland GmbH, Salzburg (AT)	PCIS	100.00	-	100.00	-	EUR
Palfinger S. Units GmbH, Salzburg (AT)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger systems units GmbH, Salzburg (AT)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger Tail Lifts GmbH, Ganderkesee-Hoykenkamp (DE)	EMEA	100.00	100.00	100.00	100.00	EUR
Palfinger Tail Lifts Limited, Welwyn Garden City (UK)	EMEA	100.00	100.00	100.00	100.00	GBP
Palfinger Tail Lifts s.r.o., Bratislava (SK)	PTL DE	100.00	100.00	100.00	100.00	EUR
Palfinger Trading (Shanghai) Co., Ltd., Shanghai (CN)	PAP	100.00	100.00	100.00	100.00	CNY
Palfinger US Holdings, Inc., Council Bluffs (US) (formerly: Palfinger USA, Inc.)	PAM	100.00	100.00	100.00	100.00	USD
Palfinger, Inc., Niagara Falls (CA)	PAM	100.00	100.00	100.00	100.00	USD
Palfinger Tercek Indústria de Elevadores Veiculares Ltda, Caxias do Sul (BR)	MP	100.00	100.00	99.73	99.85	BRL
Palfinger USA, LLC, Tiffin (US) (formerly: PalFleet Truck Equipment Company, LLC)	OSP	100.00	100.00	100.00	100.00	USD
Podyomnie Maschini AO, Velikiye Luki (RU)	PMH	100.00	100.00	60.00	75.03	RUB
SMZ OOO, Archangelsk (RU)	PM/HKPM	100.00	100.00	60.00	75.03	RUB
Velmash-S OOO, Velikiye Luki (RU)	PM/HKPM	100.00	100.00	60.00	75.03	RUB

Company, registered office	Controlling company[1]	Direct investment[2] (in per cent) 2017	Direct investment[2] (in per cent) 2018	Indirect investment[3] (in per cent) 2017	Indirect investment[3] (in per cent) 2018	Curr.[4]
Companies reported at equity						
Associated companies						
Alu1 Norge AS, Husnes (NO)	PALM AS	34.00	-	34.00	-	NOK[6]
Crane Center Kamaz OOO, Nabereschnye Tschelny (RU)	PCIS	49.00	49.00	49.00	49.00	RUB
Dreggen (Hong Kong) Company Limited, Hong Kong (CN)	PM NO	33.00	33.00	33.00	33.00	HKD[6]
Palfinger France S.A.S., Étoile sur Rhône (FR)	EMEA	48.94	48.94	48.49	48.94	EUR
SANY Automobile Hoisting Machinery Co., Ltd., Changsha (CN)	PAP	10.00	10.00	10.00	10.00	CNY
STEPA Farmkran Gesellschaft m.b.H., Elsbethen (AT)	EMEA	45.00	45.00	45.00	45.00	EUR
Sky Steel Systems LLC, Dubai (AE)	EMEA	20.00	-	20.00	-	AED
Joint ventures						
Palfinger Sany International Mobile Cranes Sales GmbH, Salzburg (AT)	PSUG	50.00	50.00	50.00	50.00	EUR
PALFINGER SANY Cranes OOO, Moscow (RU)	PSV	100.00	100.00	50.00	50.00	RUB
Sany Palfinger SPV Equipment Co., Ltd., Nantong (CN)	PAP	50.00	50.00	50.00	50.00	CNY
Other shareholdings						
Rosendal Hamn Eigedom AS, Rosendal (NO)	PALM AS	3.00	3.00	3.00	3.00	NOK
Rosendal Utvikling AS, Rosendal (NO)	PALM AS	8.50	8.50	8.50	8.50	NOK
Sunnhordlandsdiagonalen AS, Valen (NO)	PALM AS	4.54	4.54	4.54	4.54	NOK
Atheno AS, Stord (NO)	PALM AS	6.20	6.20	6.20	6.20	NOK

1) Controlling company:
EMEA = Palfinger EMEA GmbH, Bergheim (AT)
HKPM = Holding Company Podyomnie Maschini AO, Archangelsk (RU)
MP = Madal Palfinger S.A., Caxias do Sul (BR)
OSP = Omaha Standard, LLC, Council Bluffs (US)
PAG = PALFINGER AG, Bergheim (AT)
PALM AS = Palfinger Marine Safety AS, Seimsfoss (NO)
PALM BR = Palfinger Marine Do Brasil Ltda., Rio de Janeiro (BR)
PALM EU = Palfinger Marine Europe B.V., Schiedam (NL)
PALM US = Palfinger Marine USA Inc., New Iberia (US)
PALMA = Palfinger Marine GmbH, Salzburg (AT)
PAM = Palfinger Americas GmbH, Salzburg (AT)
PAP = Palfinger Asia Pacific Pte. Ltd., Singapore (SG)
PARUS = Palfinger Russland GmbH, Salzburg (AT)
PAUG = Palfinger Area Units GmbH, Salzburg (AT)
PCIS = Palfinger CIS GmbH, Salzburg (AT)
PEU = Palfinger Europe GmbH, Salzburg (AT)
PM = Podyomnie Maschini AO, Velikiye Luki (RU)
PM NL = Palfinger Marine Netherlands B.V., Barneveld (NL)
PM NO = Palfinger Marine Norway AS, Bergen (NO)
PMH = Palfinger PM Holding GmbH, Salzburg (AT)
PP = Palfinger Platforms GmbH, Krefeld (DE)
PPT = Palfinger Produktionstechnik Bulgaria EOOD, Cherven Brjag (BG)
PSUG = Palfinger S. Units GmbH, Salzburg (AT)
PSV = Palfinger Sany International Mobile Cranes Sales GmbH, Salzburg (AT)
PSYSU = Palfinger systems units GmbH, Salzburg (AT)
PTL DE = Palfinger Tail Lifts GmbH, Ganderkesee (DE)
PUSH = Palfinger US Holdings, Inc., Council Bluffs (US)
VMS = Velmash-S OOO, Velikiye Luki (RU)

2) From the point of view of the controlling company.
3) From the point of view of PALFINGER AG.
4) Curr. = functional currency.
5) Control due to option to buy another 40%, therefore fully consolidated.
6) Company not consolidated due to negligible importance.

Bergheim, 6 February 2019

The Executive Board of PALFINGER AG

Andreas Klauser m.p.
Chief Executive Officer

Felix Strohbichler m.p.
Chief Financial Officer

Martin Zehnder m.p.
Chief Operating and Chief Technology Officer

How we think about tomorrow.

DETAILED GRI AND SUSTAINABILITY DISCLOSURES

DETAILED GRI AND SUSTAINABILITY DISCLOSURES

SUSTAINABILITY REPORT PROFILE AND BOUNDARIES

Every year since 2013, PALFINGER has published an Integrated Annual Report containing reporting on sustainability aspects. The 2018 Integrated Annual Report also presents a comprehensive overview of all aspects of corporate governance: economic aspects as well as social and ecological ones. The topics reported on were selected on the basis of the results of the materiality analysis conducted in 2017 and take into account PALFINGER's four sustainability areas. The GRI content index provides an overview of the sustainability topics, also in accordance with the UN Global Compact, and references to the respective pages in the Report. To help the reader, those pages also contain references to the relevant GRI disclosures as well as references to other additional information.
Management report, Materiality analysis, page 45; GRI content index, page 247

As a matter of principle, all fully consolidated companies of the PALFINGER Group, as listed in the statement of investments, have been included in the sustainability reporting. Sites with fewer than 80 staff members may opt for an exception regarding staff KPIs other than the employment trend. In such a case, they are free to decide whether or not to disclose specific staff KPIs such as staff absences due to industrial accidents, absentee rate, or hours of training. Currently, only two sites have chosen this exception regarding specific staff KPIs: Palfinger Tail Lifts s.r.o. and Palfinger Hayons S.A.S. Minor changes of individual figures from the previous year had to be made in connection with the adjustment of reporting boundaries, the introduction of GRI Standards and the improvement of the internal control loops.
Consolidated financial statements, Statement of investments, page 210

Given the importance of environmental indicators, reporting on these is mandatory for manufacturing and assembly sites. The sites in Bergheim (AT) and Ainring (DE), being corporate headquarters and a truck body mounting site, respectively, were included in the reporting due to their size. A complete list of all sites reporting environmental data in 2018 is found on the following pages in the chapter "Management systems in use". The site in Porto Alegre (BR) was closed down and is therefore no longer included. In turn, two new sites were added: Rio Tercero (AR), Chennai (IN).

Differentiation by scope of direct and indirect CO_2 equivalents was implemented in 2014. The conversion starting from 1 January 2014 is based on the Ecoinvent Version 3.01 database and includes all greenhouse gas emissions taken into account when using the CML 2001 method: These comprise seven greenhouse gases defined in the Kyoto Protocol and a number of others. Data on direct emissions (Scope 1) of petrol and diesel were provided by the Environmental Agency Austria ("Umweltbundesamt"). The conversion for the energy source coal was based on the specific carbon content of coal (Scope 1) and the Ecoinvent 3.2 database (Scope 3). The conversion factors for district heating are country-specific and were also provided by the Ecoinvent database or directly by the provider. 2013 was selected as the base year for index presentation because of the better data quality in that year, and this was maintained in the reporting period, thereby providing for a better comparability of data over a longer period of time.

Companies or sites that were acquired or founded in the current reporting period will be required to report environmental indicators as well as extended employee KPIs starting from the beginning of next year. The only KPI included in reporting immediately is the headcount of such sites; any basic data relating to master data are taken into account as at year end.

Due to the large number of sites, it is not possible to present data for each site individually in this Report. Rather, data are presented for the geographical regions European Union, Rest of Europe, CIS, Central and South America, North America, Middle East and Africa as well as Far East, and for the entire PALFINGER Group. Eco-efficiency in production does not apply to any sites in the region Middle East and Africa, which is why no figures are indicated for this region. Due to the addition of the Norwegian site in Olve, the region Rest of Europe has been of relevance since 2017.
GRI 102-46, 102-48, 102-50, 102-51, 102-52, 305-1, 305-2, 305-3, 305-4

MANAGEMENT SYSTEMS IN USE

PALFINGER attaches great importance to continuously improving the management of quality assurance, environmental standards, product safety and occupational safety at the production sites. External certifications may be obtained by the respective units or companies on their own authority and in line with local requirements, but they are not mandatory. The local management systems use the same generally applicable process throughout the Group; quality assurance and central quality management are controlled group-wide from headquarters in Bergheim (AT).

PALFINGER's total number of certifications expressed as a percentage of the number of employees was increased in the reporting period.

As at 31 December 2018, approx. 84 per cent (previous year: 87 per cent) of all employees were working at sites with an ISO 9001 quality management system in place. In the CIS region, the site in Neftekamsk (RU) received ISO 9001 certification in the reporting period. The certificate for the site in Ishimbay (RU) expired at the end of the year, but will be renewed in the spring.

PALFINGER's quality standards for welding processes are equally high. Following an adjustment of the indicator, exclusively locations where welding processes actually take place are now included in the statistical population. As a consequence, the percentage of employees who, on the reporting date, were working at sites that had obtained country-specific welding certificates rose to 73 per cent (previous year: 43 per cent). New certifications were introduced at the two Russian sites Ishimbay and Velikiye Luki. Moreover, the procedure for the settlement of warranty payments, company-wide minimum standards for quality, and definitions of warranty cases and warranty expenses are set out in group-wide quality management guidelines.

Many quality management aspects are also relevant for environmental protection. In contrast to quality management systems, relatively few employees, namely 35 per cent (previous year: 33 per cent), work at plants that have been certified under ISO 14001. The number of sites with certifications remained constant. The percentage of staff employed at sites with energy management systems according to ISO 50001 was raised slightly to 43 per cent (previous year: 40 per cent). All PALFINGER sites meet the minimum criteria required for an environmental management system as defined in the Group's environmental protection guideline. In addition, this guideline provides for the implementation of local improvement measures.
Management report, Environmental and energy management, page 107

At PALFINGER, one way of managing occupational health and safety aspects is OHSAS 18001 certification. In the reporting period, the new ISO 45001 certification, which will gradually replace OHSAS 18001, was introduced at the site in Lengau (AT). The percentage of employees who work at sites with certifications was marginally increased to 26 per cent (previous year: 24 per cent) as well.

Certifications			**Quality**	**Environment**	**Energy**	**Safety**	**Technology**
Site or registered office	**Company**	**Headcount**	**ISO 9001**	**ISO 14001**	**ISO 50001**	**OHSAS 18001 / ISO 45001**	**Welding certification**[1)]
Ainring (DE)	Palfinger GmbH	160	X		X		X
Archangelsk (RU)	SMZ OOO	173	X				
Bergheim (AT)	PALFINGER AG	283					1)
Cadelbosco Sopra (RE) (IT)	Palfinger Gru Idrauliche S.r.l.	90	X				1)
Caussade (FR)	Guima Palfinger S.A.S.	239	X	X		X	X
Caxias do Sul - Madal (BR)	Madal Palfinger S.A.	230	X				
Cherven Brjag (BG)	PPT-Bulgarien Cherven Briag	629	X				X
Chennai (IN)	Palfinger Cranes India Pvt. Ltd.	62	X				
Council Bluffs (US)	Omaha Standard, LLC	195					
Delnice (HR)	Palfinger proizvodna tehnologija Hrvatska d.o.o.	108	X				X
Elsbethen (AT)	EPSILON Kran GmbH	158	X	X			1)
Ganderkesee (DE)	Palfinger Tail Lifts GmbH	259	X		X		X
Gdynia (PL)	Palfinger Marine Poland sp. z.o.o.	33	X				1)
Hanoi (VN)	Palfinger Marine Vietnam Co.,Ltd.	59					
Harderwijk - Boats (NL)	Palfinger Boats B.V.	19					1)
Hung Yen (VN)	Palfinger Boats Vietnam Co. Ltd.	54	X				
Ishimbay (RU)	INMAN AO	477	Plan 2019				X
Köstendorf (AT)	Palfinger Europe GmbH	509	X	X	X	X	1)
Krefeld (DE)	Palfinger Platforms GmbH	108	X		X		1)
Lazuri (RO)	Nimet Srl	609	X	X		X	1)
Lengau (AT)	Palfinger Europe GmbH	1,080	X	X	X	X	X
Löbau (DE)	Palfinger Platforms GmbH	243	X		X		1)
Maribor - Palfinger Marine (SI)	Palfinger Marine d.o.o., Maribor	121	X		X		1)
Maribor (SI)	Palfinger proizvodnja d.o.o.	774	X		X		X
Modena (IT)	Palfinger Platforms Italy s.r.l.	39	X				1)
Neftekamsk (RU)	Palfinger Kama Cylinders OOO	223	X				
Niagara Falls (CA)	Palfinger, Inc.	87					
Oklahoma (US)	Equipment Technology, LLC	338					
Olve (NO)	Palfinger Marine Safety AS	89	X				
Qingdao (CN)	Palfinger Marine LSE (Qingdao) Co., Ltd.	51	X				
Seifhennersdorf (DE)	Palfinger Platforms GmbH	59	X		X		X
Solec Kujawski (PL)	Palfinger Marine LSE Poland sp. z.o.o.	77	X				1)
Tenevo (BG)	PPT-Bulgarien Tenevo	710	X	X	X		X
Rio Tercero (AR)	Andrés N. Bertotto S.A.I.C.	211	X				
Trenton / New Jersey (US)	Omaha Standard, LLC	76					
Velikiye Luki (RU)	Velmash-S OOO	682	X				X
Welwyn Garden City (GB)	Palfinger Tail Lifts Limited	42	X				
Total headcount[2)]		**9,356**	**7,822**	**3,305**	**4,023**	**2,437**	**5,177**
Percentage of headcount using certificate			**84%**	**35%**	**43%**	**26%**	**73%**

1) This includes ISO 3834, DNV/GL, BV Marine, ISO 15085 and GOST, but excludes certificates issued to individuals; sites without welding processes have been excluded from the statistical population used to calculate the indicator.
2) Number of staff members pursuant to EEM reporting boundaries.

REPORTING STANDARDS

GRI STANDARDS

The allocation of PALFINGER's sustainability topics to the respective GRI disclosures is marked by references. Moreover, the impacts of a topic, in particular PALFINGER's contribution to the respective impact, are shown by means of the value creation chain and the four sustainability areas. The following impact table presents an overview of where in the value creation chain – supply chain, within the Company or during product use – a direct or indirect impact occurs and under which of PALFINGER's four sustainability areas it is subsumed. The impacts, their measurements and any improvement measures instituted are described in the relevant chapters of this Report.

SUSTAINABILITY AND DIVERSITY IMPROVEMENT ACT (NADIVEG)

The impact table further below also shows which of PALFINGER's sustainability topics are associated with which provisions of the Austrian Sustainability and Diversity Improvement Act, the application of which became mandatory in 2018. This illustrates PALFINGER's implementation of the requirements under this Act in connection with the value creation chain and other guidelines such as GRI, UNGC and the SDGs.

SUSTAINABLE DEVELOPMENT GOALS (SDG)

In 2017, PALFINGER deepened its analysis of the Sustainable Development Goals (SDG) and specified the direct or indirect impact of its own actions on individual SDGs. The following impact table presents in detail the direct impact of individual sustainability topics on a Sustainable Development Goal.

The top 13 sustainability topics of PALFINGER directly impact nine SDGs. The major impact is shown to be exerted on the five following goals in descending order. These five, which often interact and support each other, have been included in the reporting.

SDG 12: Responsible consumption and production

PALFINGER assumes responsibility by using raw materials efficiently. The reduction of energy input as well as of hazardous waste is promoted along the entire value creation chain. With its safe, efficient, low-noise products that have a low consumption of operating materials, PALFINGER provides lifting solutions that correspond to the state of the art in research and the demand in the market. Product lifecycle approaches take into account application and production patterns ranging from the supplier to the end customer.

SDG 13: Climate action

PALFINGER is committed to climate protection and strives to continuously optimize energy consumption and intra-company transports caused by production operations and during product use, thereby reducing costs and emissions. Examples are hybrid or electric solutions, the switch to renewable energy sources in procurement, and photovoltaic solutions for production floors. Specific objectives and measures regarding energy consumption and CO_2 emissions have been defined in order to contribute to this goal. In addition, to the extent that regional conditions allow, PALFINGER strives to achieve the greatest possible efficiency in buildings as well as in production processes.

SDG 8: Decent work and economic growth

The viability of the business model is of great importance to PALFINGER and contributes to economic growth. Relevant trends, such as digitalization, are actively monitored. It is equally important to guarantee attractive employment on the basis of an internalized corporate culture and internalized corporate values. This includes legal and ethical standards as well as diversity aspects, training opportunities and voluntary social benefits for PALFINGER employees. Moreover, control by means of management systems like OHSAS 18001/ISO 45001 promotes safe working conditions and is taken into consideration in the selection and regular assessment of suppliers.

SDG 9: Industry, innovation and infrastructure

PALFINGER is committed to keeping its business model up to date with current trends at all times and hence invests in research and development to maintain the Company's viable position in the future. With the help of innovations, PALFINGER enhances its production processes as well as the safety of its products, for example by means of virtual reality applications. Another focus is on the efficient use of raw materials such as steel or aluminium.

SDG 10: Reduced inequalities

PALFINGER views compliance with legal and ethical standards as its social responsibility. Exceeding regional standards also makes PALFINGER an attractive employer. PALFINGER acts in an ethically correct manner: Laws are obeyed, taxes are transparent and are paid correctly, and corruption is counteracted. Relevant topics here are the promotion of diversity and equal opportunity, for example in connection with talent management, as well as fair working conditions, modern workplaces and fair remuneration.

UN GLOBAL COMPACT (UNGC)

Since 2013, PALFINGER has been committed to compliance with the ten principles of the UN Global Compact. Instead of disclosing a Communication on Progress report, PALFINGER once again combined the sustainability topics with the UN principles in 2018; this is presented in the impact table below.

IMPACTS OF THE SUSTAINABILITY TOPICS ALONG THE VALUE CREATION CHAIN

The impact table shows which sustainability topics are deemed material for PALFINGER, at which stage of the value creation chain their impacts occur, and to which areas the impacts are allocated. The ranking of the material topics corresponds to their long-term impacts and at the same time the overall relevance identified by internal and external stakeholders in 2017. All 38 topics that were assessed in the materiality analysis have been included. Any changes in comparison with previous reports are indicated in the key and/or the chapter "Materiality analysis". References to guidelines and reporting standards and the meeting of KPIs are indicated as well. In addition, the measures conducive to the development of a sustainability topic were reported for the first time in 2018.

Management report, Materiality analysis, page 45

IMPACT TABLE

Responsible employer · Eco-efficiency in production · Sustainable products · Fair business

Ranking	Material topics	Impact on value creation chain: Supply chain	Impact on value creation chain: Within the Company	Impact on value creation chain: Product use	**References to guidelines** GRI disclosures, NaDiVeG, SDG, UNGC	Intensity of reporting	Measures
1	**Product safety** PALFINGER's products should be distinguished by utmost safety. The prevention of accidents during their use should go beyond statutory requirements.		Fair business	Sustainable products, Fair business	• GRI: 416-1, 416-2	Quantitative presentation of any accidents involving products and description of safety innovations for products	• Product data tracking for safety
2	**Product research and development** PALFINGER should increasingly invest in product research and development and offer the latest technologies.	Fair business	Sustainable products, Fair business	Sustainable products	• No GRI disclosures available • NaDiVeG • SDG: 9, 13	Quantitative presentation of investment in research and development	• R&D process • Training of R&D employees
3	**Innovation in production** PALFINGER should promote sustainable innovations and technologies in the production process in order to increase efficiency ("more output with less input").	Eco-efficiency in production, Fair business	Eco-efficiency in production, Fair business		• No GRI disclosures available • NaDiVeG • SDG: 9, 13	Quantitative presentation of investment in research and development	• R&D process
4	**Viability of the business model** PALFINGER should make sure that its business model remains viable in the long term and actively pursue trends (e.g. urbanization, rental instead of purchase, circular economy, etc.). PALFINGER should make a contribution to society.	Fair business	Responsible employer, Fair business	Fair business	• GRI: 201-1, 201-2 • SDG: 8, 9	Quantitative presentation of monetary flows to stakeholders, management systems as well as presentation in the context of the management report, risk management, economic performance, organizational profile	• Marine business as second mainstay • GLOBAL PALFINGER ORGANIZATION
5	**Health and safety** PALFINGER should protect its employees against accidents and proactively promote occupational health and safety as well as preventive health care and social security provision. A good work-life balance should contribute to the employees' well-being.	Fair business	Responsible employer, Fair business		• GRI: 403-2 • NaDiVeG • SDG: 3	Quantitative presentation of accidents, fatalities, staff absences in the Company's own production process, absentee rate and management systems as well as description of initiatives	• Uniform global definition of accidents and uniform reporting • Expansion of PALfit • Global health initiative
6	**Product lifecycle** PALFINGER products should be characterized by their reduced weight and their lower need for energy and operating materials over the entire product lifecycle. The products should be of top quality, reliable, durable and low in maintenance.	Eco-efficiency in production	Sustainable products	Sustainable products	• GRI: 301-1, 302-1, 302-3, 305-1, 305-2, 305-3, 305-4 • NaDiVeG • SDG: 12 • UNGC: 7-9	Quantitative description of warranty costs and waste cuttings rate as well as qualitative description of product innovations for quality enhancement as well as of safe and efficient products	• Lifecycle approach • Lifecycle app • Business model innovation (TCO)
7	**Employee development** PALFINGER should promote the initial and further training of its employees and prepare them in good time for changes in their working environment (e.g. Industry 4.0, expert development).		Responsible employer		• GRI: 404-1 • NaDiVeG • SDG: 4, 8	Quantitative presentation of hours of training, appraisal interviews as well as qualitative description of development programmes	• Coaching for executives • Expansion of employee development • Learning strategy • Global leadership framework & programme

Ranking	Material topics	Impact on value creation chain: Supply chain	Within the Company	Product use	References to guidelines GRI disclosures, NaDiVeG, SDG, UNGC	Intensity of reporting	Measures
8	**Energy efficiency and climate protection** PALFINGER should strive to continuously optimize energy consumption and intra-company transport (e.g. on-demand logistics, e-drive induction loops) and to reduce costs and emissions, thus making an active contribution to climate protection. PALFINGER should aim for the highest building efficiency possible under regional conditions.				• GRI: 302-1, 302-3, 305-1, 305-2, 305-3, 305-4 • NaDiVeG • SDG: 13 • UNGC: 7-9	Quantitative indicators and management systems as well as qualitative description of energy efficiency and climate protection	• Paint shops and powder coating plants • Modernization and expansion of plants • Greenfield investments marine business • Energy efficiency Russia • E-mobility • Exchange on environmental topics • Photovoltaic systems • Heating degree days • Climate strategy • Renewable energy
9	**Raw material demand and efficiency** In production, PALFINGER should use raw materials such as steel, aluminium and glass fibre efficiently.				• GRI: 301-1 • NaDiVeG • SDG: 12 • UNGC: 7-9	Quantitative presentation of raw material demand, waste cuttings rate and hazardous waste as well as qualitative description of raw material demand and efficiency	• Steel supplier assessment • Waste cuttings rate
10	**Attractive employment** PALFINGER should be highly reputed as an attractive employer, maintain a high employee retention rate and create development opportunities (horizontally and vertically) within the Company.				• GRI: 102-8, 401-1 • NaDiVeG • SDG: 4, 5, 8 • UNGC: 3-6	Quantitative presentation of employee development, employee turnover and diversity; qualitative description of PALFINGER's attractiveness as an employer	• Establishment of an employer branding strategy • Personnel marketing • On-boarding process • HR strategy • HR system • Job architecture
11	**Corporate culture and values** PALFINGER employees, in particular executives, should set an example when it comes to embracing PALFINGER's corporate culture and acting on the basis of its values of entrepreneurship, respect and learning. This should lead, among other things, to intercultural understanding, a higher level of recognition and appreciation and an active exchange of knowledge.				• GRI: 102-16, 102-17 • NaDiVeG • SDG: 8 • UNGC: 10	Quantitative presentation of employee survey as well as qualitative description of corporate culture and values	• Focus on corporate culture and vision • Organizational structure
12	**Compliance with legal and ethical standards** PALFINGER should act in an ethically correct manner: laws are obeyed, taxes are paid correctly and corruption is counteracted.				• GRI: 102-16, 102-17, 205-1, 205-2, 205-3, 206-1, 307-1, 417-2, 417-3, 419-1 • NaDiVeG • SDG: 5, 8, 10, 16 • UNGC: 7-10	Presentation of violations, if any, and description of initiatives regarding corporate ethics and prevention of corruption	• Training in corporate ethics for new employees • Corporate audit • Compliance training • Compliance risk analysis • Human rights assessment • Code of Conduct review • Data protection
13	**Industry 4.0 and digitalization** PALFINGER should focus increasingly on the digitalization and connectivity of machinery; this also extends to its suppliers (open sourcing). The responsible handling of data, in particular utmost data protection, should be guaranteed.				• No GRI disclosures available • NaDiVeG • SDG: 9	Qualitative description of digitalization and Industry 4.0	• PALFINGER 21st

Ranking	Further topics	Impact on value creation chain: Supply chain	Impact on value creation chain: Within the Company	Impact on value creation chain: Product use	References to guidelines (GRI disclosures, NaDiVeG, SDG, UNGC)	Intensity of reporting	Measures
14	**Alternative drive systems** PALFINGER should offer alternative drive systems (e.g. electric, hybrid).				• No GRI disclosures available • SDG: 13	Qualitative description of product innovations	
15	**Effluents and wastes** At PALFINGER sites, potentially hazardous waste and substances should be avoided, safely stored, and disposed of in an environmentally friendly manner or, if possible, reused.				• No GRI disclosures reported • SDG: 12	Presentation of waste cuttings rate and development of hazardous waste, description of the state of the art of electroplating and paint shops, description of product innovations	• Reduction of hazardous waste
16	**Working conditions** PALFINGER should establish uniform minimum standards in order to guarantee globally applicable working conditions for its employees. This should create safe and healthy jobs.				• GRI: 403-2, 412-1, 412-2 • NaDiVeG • SDG: 3, 8, 10 • UNGC: 1-6	Quantitative presentation of health and safety, human rights issues as well as qualitative description of working conditions	
17	**Environmentally friendly products** PALFINGER products should avoid noise and emissions during operation, be free of hazardous substances (e.g. chromium VI), offer product variants with biodegradable hydraulic oil and thus avoid potential risks to humans and the environment.				• GRI: 305-1, 305-2, 305-3, 305-4 • NaDiVeG • SDG: 12, 13 • UNGC: 7-9	Quantitative indicators and qualitative description of emissions, product innovations for quality enhancement, the state of the art of electroplating and paint shops as well as presentation of waste cuttings rate and development of hazardous waste	• Low impact product definition • CO_2 emissions in product use • PALfluid
18	**Overall performance** PALFINGER should increasingly become a full-service provider for one-stop-shop solutions.				• No GRI disclosures available	Qualitative description of PALFINGER's overall performance	• PALdrive platform
19	**Fair remuneration** PALFINGER should offer fair remuneration regardless of age, gender, origin and other diversity factors, and should ensure local minimum wages.				• No GRI disclosures reported • NaDiVeG • SDG: 5, 10	Qualitative description of wage level	
20	**Employee motivation** PALFINGER should provide an environment that raises the motivational level of its employees. Innovative incentive systems should support this, especially for agile teams.				• No GRI disclosures available	Qualitative description of employee motivation	
21	**Regional responsibility** PALFINGER sites should become actively involved at the regional level and should invest in public welfare (e.g. donations, sponsoring, development programmes). Good relations should be maintained with local residents.				• GRI: 203-2 • NaDiVeG	Qualitative description of regional responsibility	
22	**Diversity and equal opportunity** PALFINGER should enhance diversity and offer all employees the same opportunities – irrespective of age, gender, personal background and other diversity factors. Discrimination should actively be prevented.				• GRI: 405-1, 406-1 • NaDiVeG • SDG: 5, 10 • UNGC: 3-6	Quantitative presentation of the percentage of women, generations and incidents of discrimination, as well as qualitative description of diversity strategy, employees with disabilities and of initiatives	• PALversity project "Recruiting" • PALversity project "Working Conditions" • PALversity project "Talent Management" • Diversity scheme

Ranking	Further topics	Impact on value creation chain: Supply chain	Within the Company	Product use	References to guidelines GRI disclosures, NaDiVeG, SDG, UNGC	Intensity of reporting	Measures
23	**Correct corporate governance** The management should act in a correct manner and guarantee the independence of the Supervisory Board, the involvement of shareholders and the transparent remuneration of the top management. The importance of acting in accordance with defined corporate values should be emphasized.				• GRI: 102-18, 102-19, 102-20, 102-21, 102-22, 102-24, 102-32, 415-1 • NaDiVeG • SDG: 10 • UNGC: 10	Presentation of compliance management and any violations	
24	**Sustainability in the supply chain: suppliers** PALFINGER should take an interest in whether suppliers pay attention to environmental protection and to their social responsibility. Suppliers that show commitment in these fields should receive advantages from PALFINGER.				• GRI: 308-1, 308-2, 407-1, 408-1, 409-1, 414-1, 414-2 • NaDiVeG • SDG: 8, 12, 13 • UNGC: 1-9	Number of supplier audits and results	
25	**Product recyclability** Starting in the development phase, PALFINGER products should be designed so that they can be easily disabled (decommissioned) and recycled at the end of their lifecycle.				• No GRI disclosures available • SDG: 12	Presentation of waste cuttings rate and development of hazardous waste, description of the state of the art of electroplating and paint shops, description of product innovations	
26	**Employee communication** Every employee should be informed about major corporate developments in a timely manner. Communication with and among employees should take place at an elevated international level and be characterized by the common corporate values.				• GRI: 402-1 • SDG: 10	Qualitative description of employee communication	• New intranet • Communication strategy and concept
27	**Modern workplaces** PALFINGER should create structures, processes and framework conditions to ensure flexible, agile and mobile workplaces. These should take into account the interests of present and future employees (working time models, remote working arrangements, parental leave, expatriation rules, etc.).				• No GRI disclosures available • SDG: 5, 8, 10	Qualitative description of modern workplaces	
28	**Sustainability in the supply chain: dealers** PALFINGER should take an interest in whether dealers pay attention to environmental protection and to their social responsibility. Dealers that show commitment in these fields should receive advantages from PALFINGER.				• GRI: 308-1, 308-2, 407-1, 408-1, 409-1, 414-1, 414-2 • NaDiVeG • UNGC: 1-9	Qualitative presentation of dealer relations	
29	**Environmentally friendly transport** The transport of raw materials, components and PALFINGER products should be kept short and environmentally friendly.				• GRI: 305-1, 305-2, 305-3, 305-4 • NaDiVeG • UNGC: 7-9	Qualitative description of transport	• CO_2 emissions in transport

Ranking	Further topics	Impact on value creation chain: Supply chain	Within the Company	Product use	References to guidelines GRI disclosures, NaDiVeG, SDG, UNGC	Intensity of reporting	Measures
30	**Solutions for developing and emerging countries** PALFINGER should adjust its products to the needs in less developed countries to make them affordable and to make physical labour easier.				• No GRI disclosures available • SDG: 1, 8	Qualitative description of lifting solutions for developing and emerging countries	
31	**Efficiency of water consumption** The water consumption in PALFINGER's production should be constantly reduced.				• No GRI disclosures reported • NaDiVeG • SDG: 6	Qualitative description of efficient use of water	
32	**Product information and fair marketing** Users should be provided with product information and training in order to ensure safety and environmental protection when using PALFINGER products. Promotion of the products should be honest and transparent.				• GRI: 102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7, 102-8, 102-9, 102-10, 102-11, 102-12, 102-13, 417-2, 417-3 • NaDiVeG • UNGC: 3-9	Qualitative description of product information and marketing	• Review of dealer standards • Operator's guides and training • End customers in the system
33	**Products for ecological/social use** PALFINGER should increasingly strive for product innovations for the use in environmental and social fields. This has already been achieved in the case of cranes for wind energy plants, access systems for people with disabilities or davit systems (rescue boats).				• No GRI disclosures available	Qualitative description of product innovations	
34	**Regional procurement and production** PALFINGER should procure regionally and produce in the region where the products are placed on the market.				• No GRI disclosures reported	Qualitative description of regional procurement and production	
35	**Freedom of association** PALFINGER should uphold freedom of association and guarantee freedom of expression.				• GRI: 102-41, 407-1 • NaDiVeG • UNGC: 1-6	Qualitative description of freedom of association	
36	**Stakeholder involvement** PALFINGER should openly inform customers, suppliers, employees and all other cooperation partners, and engage them in the development of the Company accordingly.				• GRI: 102-40, 102-41, 102-42, 102-43, 102-44 • NaDiVeG • UNGC: 3-6	Presentation within the framework of stakeholder management	
37	**Biodiversity** PALFINGER should practise nature conservation and, in particular, preserve biodiversity at its sites.				• No GRI disclosures reported • NaDiVeG • SDG: 14, 15	Qualitative presentation of protection of biodiversity	
38	**Second-hand market** In the future, PALFINGER should collaborate with its dealers to promote the second-hand market, thus promoting the control and a possible upgrade of used products.				• No GRI disclosures available	Qualitative presentation of PALFINGER's second-hand market	

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SUSTAINABILITY PROGRAMME

The following table lists all the individual measures that form PALFINGER's sustainability programme, broken down by the four sustainability areas identified by PALFINGER. It provides an overview of the current status of implementation as well as the time horizon for these measures. The purpose of these measures is to contribute to achieving the qualitative and quantitative goals set by PALFINGER and to support the five most relevant SDGs.

○ New ◒ In preparation ● Completed ⊘ Deferred ⊗ Cancelled

RESPONSIBLE EMPLOYER		Status	Goal
Health and safety			
PALFINGER has set itself the goal of lowering staff absences due to industrial accidents to under 0.11 per cent starting in 2016.			
Uniform global definition of accidents and uniform reporting	In 2018, a new measure was launched to develop an HSQE concept. Included in this concept, a uniform global definition of accidents and absence periods is being determined. Therefore, the existing measure has been integrated into the new measure "Concept for health, safety, quality and environment". Data reviews continued in 2018 in order to evaluate national standards.	⊗	2018
Expansion of PALfit	The occupational health management PALfit was expanded into several countries, e.g. Croatia and China. In Germany, the project has been deferred for the time being due to restructuring measures. In the future, PALfit is to be established at additional sites.	⊘	2019
Global health initiative	An assessment of existing health initiatives at all PALFINGER locations was conducted. These data are being analysed and will contribute to determining minimum standards for global health initiatives. This will be part of the HSQE concept.	○	2019
Employee development			
Coaching for executives	In 2018, coaching programmes for executives were continued and a continuous approach was developed.	●	2018
Expansion of employee development	The idea of the PALFINGER College is being integrated into the new HR system and therefore represents a global learning platform. The transition will start in 2019.	⊘	2020
Learning strategy	PALFINGER started to create a new Learning Strategy 2022. The basis of this strategy is the definition of job competencies with respect to the job architecture project.	○	2022
Global leadership framework & programme	PALFINGER started to create a global leadership programme, as well as an area leadership programme. The basis of these programmes is also the definition of a framework for global leadership initiatives.	○	2020
Attractive employment			
PALFINGER has set itself the goal of lowering employee turnover to under 10 per cent starting in 2016.			
Establishment of an employer branding strategy	A group-wide employer branding strategy will be established in 2019. One of the objectives of this strategy is to enhance PALFINGER's attractiveness as an employer at all corporate locations worldwide. Individual initiatives took place in 2018 in order to enhance employer identity.	⊘	2019
Personnel marketing	PALFINGER uses additional new media for HR marketing purposes in order to actively promote its attractiveness as an employer. In this connection, a project for a group-wide recruiting platform will be launched with the new HR system in 2019.	◒	2019
On-boarding process	In the future, additional initiatives are to be carried out to enhance the integration of new staff members. The on-boarding process is also part of the new HR system.	⊘	2019
HR strategy	In 2017, PALFINGER defined a new HR Strategy 2020 and HR goals. In the future, HR processes will be aligned to it. As a basis, job competencies were defined in 2018. In the course of the year, the implementation of the HR system was also started.	◒	2020
HR system	In 2019, PALFINGER will start with the go-live of the new HR system. Part of this process is the finalization of the job architecture. The system, which will be implemented in the next two years, covers topics such as master data, talent management, recruiting, training and communication.	◒	2020
Job architecture	As part of the HR strategy, PALFINGER started the project of a job architecture. The architecture was defined in 2018. Further processes will follow.	◒	2019

RESPONSIBLE EMPLOYER		Status	Goal
Corporate culture and values			
Focus on corporate culture and vision	The further development of PALFINGER's corporate culture is intended to help to increase transparency. In 2018, priority was given primarily to globally communicating the vision of PALFINGER.	●	2018
Organizational structure	In 2018, PALFINGER adapted its organizational structure in order to better serve the new vision. This change needs to be implemented throughout the Company. To this end, appropriate change management will be necessary in 2019.	○	2019
Diversity and equal opportunity			
Two quantitative goals to be achieved by 2022 were defined under the diversity scheme: to raise the percentage of non-Austrians working at headquarters to 20 per cent, and to increase the percentage of women in top management positions until it corresponds to the percentage of women in the overall headcount of the Group.			
PALversity project "Recruiting"	A recruiting tool is part of the new HR system. This topic is already included in the measure "Personnel marketing".	⊗	2018
PALversity project "Working Conditions"	PALFINGER acts as an "Employer of Choice" at the individual sites and takes adequate employee-friendly measures with the objective of employing the best staff. The creation of an HSQE concept provides for uniform standards in terms of health and safety of workers.	⊘	2020
PALversity project "Talent Management"	The aim of the project is to generate group-wide awareness for talent management. It is part of defining job competencies and implementing a learning strategy.	⊗	2018
Diversity scheme	In consideration of the new Austrian legislation on non-financial reporting, PALFINGER is establishing a diversity scheme. Its implementation and the development of further measures were begun in 2018.	◒	2022
Communication with employees			
New intranet	In order to further improve internal communications, the existing intranet is to be replaced by a modern tool for specific subjects. This is part of the new HR system. The project is currently on hold until the new measure of a communication concept is finished.	⊘	2019
Communication strategy and concept	PALFINGER is starting to work on a strategy and a concept for internal as well as external communication. Internal and external platforms are hereby being considered, revised and implemented.	○	2019

ECO-EFFICIENCY IN PRODUCTION		Status	Goal
Innovation in production			
R&D process	Currently, the research and development process is being redefined and sustainability criteria are being included in the production innovation process. In this context, the impact on the environment and society is being considered.	○	2020
Energy efficiency and climate protection			
PALFINGER has set itself the goal of improving energy efficiency by 1.8 percentage points every year starting in 2014. In the reporting period, the additional long-term goal of achieving a 30 per cent reduction in the energy index by 2030 was defined. The goal of achieving a 25 per cent CO_2 reduction by 2030 (base year 2015), which was defined in 2017, will not be affected by the new goal. In addition, a new goal to be met by 2022 was defined in 2018: 75 per cent of the Group's electricity is to be generated from renewable energy sources.			
Paint shops and powder coating plants	Existing paint shops and powder coating lines in EMEA are being optimized or replaced by new lines. New paint shops and powder coating lines started to operate in 2018. This measure continues in the future as a continuous improvement process.	●	2018
Modernization and expansion of plants	Austrian, Bulgarian and Russian sites were modernized and expanded in the past year. This measure is being continued as an ongoing improvement process.	●	2018
Greenfield investments marine business	The option of greenfield investments is being reviewed in the course of the integration of the Harding sites. These sites are then to be equipped with the best possible energy balance and renewable energy sources. Due to the ongoing restructuring in the marine business, this measure has been cancelled for the time being.	⊗	2018
Energy efficiency Russia	The optimization of the Russian plants in regard to energy efficiency is being reviewed. In 2017, the transition from coal to natural gas was accomplished at the site of Velikiye Luki. Especially the implementation of heating degree days will give further insights into efficiency topics starting in 2019.	◒	2019
E-mobility	The use of e-mobility at PALFINGER sites is being promoted. The charging infrastructure for electric vehicle mobility is available at eight locations, which accounts for 22 per cent of all group locations.	●	2018

ECO-EFFICIENCY IN PRODUCTION		Status	Goal
Exchange on environmental topics	PALFINGER organizes exchange meetings with local environmental officers. The topics relate to environmental aspects such as energy, waste, water, etc. Due to the focus on organizational changes and strategic targets, this measure has been deferred until 2019.	⊘	2019
Photovoltaic systems	Analyses regarding extensive installations of photovoltaic systems at sites in the business area EMEA are taking place. First systems are being installed in Austria.	◒	2020
Heating degree days	Heating degree days have been considered in the calculation of the energy index for 2018 (normalized to the year 2017). Further improvements will be implemented in 2019, also considering the dependency of revenue and consumption.	●	2018
Climate strategy	Creation of a PALFINGER climate strategy by identifying the biggest potentials of CO_2 savings, considering direct and indirect emissions in the whole value creation chain (including Scope 3). The CO_2 reduction target will support the global goal to stop global warming and will be based on the Science Based Target initiative.	○	2019
Renewable energy	A systematic inquiry will be initiated to check the group-wide potential of renewable energy at production sites. In 2017, the percentage of renewable electricity compared to the Group's total electricity consumption was 29 per cent. Raising the percentage of renewable electricity to 75 per cent by 2022 is a feasible goal.	○	2022
Raw material demand and efficiency	12 RESPONSIBLE CONSUMPTION AND PRODUCTION		
Steel supplier evaluation	PALFINGER is evaluating the major steel suppliers regarding their CO_2 footprint and targets in order to intensify cooperation to derive more accurate Scope 3 CO_2 emissions data. This supports the new climate strategy.	○	2019
Waste cuttings rate	The KPI of metal waste cuttings rate will be re-designed. This ensures a better differentiation of various processes and the possibility of consolidating the KPI at a group level.	○	2019
Effluents and wastes	12 RESPONSIBLE CONSUMPTION AND PRODUCTION		
PALFINGER has set itself the goal of reducing hazardous waste (index) by 1.8 percentage points every year starting in 2014. In the reporting period, the additional long-term goal of achieving a 30 per cent reduction of hazardous waste (index) by 2030 was defined.			
Reduction of hazardous waste	PALFINGER identified Lazuri as the plant generating the largest quantities of hazardous waste and is developing solutions in order to reduce this waste.	◒	2019
Environmentally friendly transport			
CO_2 emissions in transport	Transport within and outside the company is analysed in order to identify leverage in terms of possibilities for the reduction of energy consumption and CO_2 emissions.	○	2019

SUSTAINABLE PRODUCTS		Status	Goal
Product safety			
Product data tracking for safety	Utilization of product data through digitalization: automatic recording of near-miss situations, which acts as data basis for new product developments and safety improvements.	○	2020
Product research and development	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 13 CLIMATE ACTION		
R&D process	Currently, the research and development process is being redefined and sustainability criteria are being included in the product innovation process. Thereby, the impact on the environment and society is being considered.	○	2020
Training of R&D employees	On the basis of the new R&D innovation process, a training concept for R&D employees regarding environmental aspects and consequences of products and processes is being implemented. This contributes to awareness raising and the incorporation of environmental and social aspects within the R&D process.	○	2020
Product lifecycle	12 RESPONSIBLE CONSUMPTION AND PRODUCTION		
Lifecycle approach	The project of lifecycle costs assessment was started in 2017. In this project, the lifecycle costs of PALFINGER products, in particular loader cranes, were monitored and analysed. The project ended in 2018 and is now continued in the new measure of an app development.	●	2018
Lifecycle app	The project of lifecycle costs assessment was finished in 2018. It is being continued in the development of an app. This app is able to determine which lifecycle costs are relevant to a PALFINGER product while it is in use. While presenting the benefits of a product to an end customer, dealers are also able to show the environmental impacts of the product via the app.	○	2019

SUSTAINABLE PRODUCTS		**Status**	**Goal**
Business model innovation (TCO)	A product lifecycle analysis is being carried out in order to determine the total cost of ownership (TCO) for PALFINGER products, also with respect to the circular economy approach.	○	2020
Environmentally friendly products	12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION		
Low impact product definition	On the basis of a hot-spot analysis, minimum environmental criteria (e.g. CO_2 emissions, safety aspects, extended lifecycle, end-of-life recyclability) are being defined for negative-impact products at PALFINGER. These criteria are allocated to targets that need to be met by each product line.	○	2020
CO_2 emissions in product use	The energy consumption during the use of a PALFINGER product is significantly higher than in its production. Therefore, a concept for appropriate measures, as well as KPIs, are being analysed in order to address the reduction of CO_2 emissions in the use phase of the product.	○	2019
PALfluid	PALFINGER offers branded lubricants including hydraulic oil to its customers. This includes an oil monitoring programme that contains frequent oil-quality measurements, so that an annual oil change is not necessarily required. This approach is both economically interesting for the customer and especially environmentally friendly.	○	2020
Product information and fair marketing			
Review of dealer standards	The purpose of the review of international dealer standards was to support the safe use of the products and to enhance product quality and longevity. The evaluation process is being continuously expanded to other regions and product groups. In the future, compliance with dealer standards will be supported by relevant training courses.	●	2018
Operator's guides and training	PALFINGER reviewed the operator's guide for loader cranes. In this context, a new template was generated and is being rolled out to other product groups. Additionally, PALFINGER offers hand-over guidelines and, if needed, operator training for all products in order to better ensure proper handovers in the future.	●	2018
End customers in the system	PALFINGER has started to enter end customers into the corporate system to ensure better business partner management. Networking between the customer and PALFINGER fosters a sustainable business relation.	◒	2020

FAIR BUSINESS		**Status**	**Goal**
Viability of the business model	8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE		
Marine business as second mainstay	PALFINGER's marine business was originally established as a second mainstay. Under the new GPO, the strategic focus on the marine business is being consolidated into the organizational structure of PALFINGER and no longer separately developed as a second mainstay.	⊗	2018
GLOBAL PALFINGER ORGANIZATION	The new GLOBAL PALFINGER ORGANIZATION (GPO) aims at facilitating and accelerating efficiency gains. The GPO places emphasis on flexible and global team structures and intensified cooperation across business units as well as product segments and regions. Work on the GPO started in September 2018; its implementation started at the beginning of 2019.	○	2022
Compliance with legal and ethical standards	5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS		
Training in corporate ethics for new employees	A training concept was developed and can be found in detail in the new measure "Compliance training". Corporate ethics is part of these training measures.	●	2018
Corporate audit	The further development of the corporate audit approach was evaluated and adjusted in 2018. Moreover, the headcount was increased and will be further increased in accordance with the audit approach in the future.	●	2018
Compliance training	PALFINGER developed an online training concept in regard to compliance training and assessments. The plan is to implement on-site training measures as well as e-learning with a wide set of topics on a regular schedule. Online training courses on the topics of cyber risk and data protection were given in 2018. The Code of Conduct is in the focus of next year's training measures.	○	2020
Compliance risk analysis	PALFINGER's department of "Corporate Risk Management, Internal Audit & Compliance" has started to conduct a compliance risk analysis. Sustainability topics are being given special consideration. Austria was the first country to be analysed; further countries are to follow.	○	2020
Human rights assessment	PALFINGER is starting a human rights (risk) assessment of its sites in order to exclude any potential risks. Further measures will follow after the initial analysis. The possibility for applying globally recognized audit standards is also being evaluated.	○	2019
Code of Conduct review	PALFINGER is reviewing its Code of Conduct to determine whether adjustment to current international business standards is necessary.	○	2020
Data protection	PALFINGER takes the matter of data protection very seriously and implemented a group guideline and organized mandatory training for PALFINGER employees concerning this matter. A group data protection officer is implementing further processes, e.g. face to face training, in order to guarantee compliance.	○	2019

FAIR BUSINESS

		Status	Goal
Industry 4.0 and digitalization			
PALFINGER 21st	In 2017, PALFINGER created a new vision with a new business model called PALFINGER 21st. First discussions and projects were started in 2018 in order to consider sustainability topics in this model in future. An Innovation Lab with a focus on sustainability is planned for 2019.	◒	2019
Overall performance			
PALdrive platform	PALdrive is an online platform that offers a variety of new vehicles, second-hand equipment, demo and training trucks of different models and performance categories. Since 2018, the platform has been available in a responsive design. The platform will be expanded to different regions and product models.	○	2020

SUSTAINABILITY MANAGEMENT

		Status	Goal
Group conference for environmental and health officers	In 2017, all local officers for the environment were invited to take part in a webinar series concerning a wide range of environmental topics. Plans were made to expand this series to health and safety topics in 2018. A new measure to create an HSQE concept is being implemented; it includes a communication strategy, with a special focus on webinar series.	●	2018
Targeted stakeholder communication	In 2018, the Corporate Sustainability team focussed on communication with stakeholders via internal and external social media, and internal dialogues were started. In the future, a communication strategy will be implemented.	⊘	2019
Sustainable Development Goals and Science Based Targets	In 2017, PALFINGER thoroughly examined the Sustainable Development Goals (SDGs). The main impact was determined for five SDGs. The evaluation of the Science Based Targets initiative was also started in 2017 and continued in 2018. A new measure defines targets for key environmental indicators.	●	2018
Sustainability vision	The Corporate Sustainability team started to work on the PALFINGER sustainability vision, taking new trends into account. Due to organizational changes, this measure will be finalized in 2019.	◒	2019
Facility management	In 2018, the Corporate Sustainability team integrated the topic of facility management into the core process of strategic sustainability management and started operative projects.	●	2018
Concept for health, safety, quality and environment	PALFINGER started to work on an HSQE concept in 2018. With respect to the new GLOBAL PALFINGER ORGANIZATION, the corporate function “Safety & Quality” has been established as a first step. Health and environmental topics are currently under review in order to utilize further synergies and regarding the organizational set-up.	○	2020
Merchandising fan shop	The PALFINGER fan shop is being analysed as to whether its products could be procured from sustainable sources.	○	2020

GRI 103-2, 205-2

DETAILED SUSTAINABILITY DISCLOSURES

RESPONSIBLE EMPLOYER

Employment trend

Overall, the number of employees in the PALFINGER Group rose compared to the previous year. At the end of 2018, PALFINGER's headcount was 10,780, an increase of more than 500 persons. No substantial corporate acquisitions or sales took place in the reporting year, which means that the staff increased entirely through organic growth.

In the regions European Union and the Rest of Europe, the PALFINGER workforce grew primarily in connection with the good order situation, in particular regarding core products, and the conversion and expansion of the marine site in Poland into a Mounting Competence Center for the LAND segment. As a consequence, more than 450 staff members were added to the headcount in the European Union. In the Americas, the headcount at the end of 2018 had grown by more than 100 person compared to the previous year; a contributing factor here was the satisfactory order situation. In Asia, staff numbers remained stable, with the exception of the merger of two internal locations. No significant changes in the workforce were recorded in CIS either; at the end of 2018, staff relocated in connection with the establishment of a sales centre. The growing number of employees working at headquarters means that extensive activities concerning on-boarding, culture and learning have to be managed.

Contract workers are employed primarily in the European Union; their number decreased to 617 in the reporting period (previous year: 674 contract workers).

Number and per cent	2016	2017	2018	%
Gender				
Female	1,271	1,311	1,365	12.9%
Male	8,387	8,662	9,232	87.1%
Generations[1]				
0–29	-	1,888	1,968	18.6%
30–50	-	5,894	6,303	59.5%
50+	-	2,191	2,326	21.9%
Regions				
European Union	5,337	5,866	6,322	59.7%
Far East	423	374	365	3.4%
CIS	1,721	1,565	1,658	15.6%
Central and South America	242	373	468	4.4%
Middle East and Africa	611	521	472	4.5%
North America	1,019	956	1,036	9.8%
Rest of Europe	305	318	276	2.6%
Core workforce	**9,658**	**9,973**	**10,597**	**100.0%**
of which staff at new entities	815	148	2	
Apprentices & interns	**188**	**239**	**183**	
Contract workers	**529**	**674**	**617**	
PALFINGER Group	**10,375**	**10,886**	**11,397**	

1) The indicator for 2016 is not available.

TYPES OF EMPLOYMENT CONTRACTS

Most of the PALFINGER Group's employees work on a full-time basis. In the 2018 financial year, only around 2.6 per cent of all employees had part-time contracts. Most of the part-time employees work in the regions European Union and Rest of Europe; there are hardly any part-time employees in the remaining regions.

Number	2016	2017	2018	%
Full-time employment				
Gender				
Female	933	1,137	1,207	11.4%
Male	7,056	8,339	9,110	86.0%
Regions				
European Union	4,266	5,404	6,070	57.3%
Far East	351	374	365	3.4%
CIS	1,740	1,554	1,651	15.6%
Central and South America	212	373	466	4.4%
Middle East and Africa	580	521	472	4.5%
North America	840	949	1,033	9.7%
Rest of Europe	0	301	260	2.5%
	7,989	**9,476**	**10,317**	**97.4%**
Part-time employment				
Gender				
Female	119	167	160	1.5%
Male	132	330	120	1.1%
Regions				
European Union	239	462	252	2.4%
Far East	1	0	0	0.0%
CIS	6	11	7	0.1%
Central and South America	0	0	2	0.0%
Middle East and Africa	0	0	0	0.0%
North America	5	7	3	0.0%
Rest of Europe	0	17	16	0.2%
	251	**497**	**280**	**2.6%**
Core workforce	**9,658**[1)]	**9,973**	**10,597**	**100.0%**
Apprentices & interns	**188**	**239**	**183**	
Contract workers	**529**	**674**	**617**	
PALFINGER Group	**10,375**	**10,886**	**11,397**	

1) Due to the adjustment of the GRI indicator with retrospective effect, no detailed information is available for 1,418 of the 9,658 employees.

Basically, there is no disguised employment and no seasonal employee turnover at PALFINGER. As a general rule, PALFINGER employees are permanently employed. Fixed-term employment contracts beyond the probationary period are not common practice. The only exceptions are certain projects, work experience placements and interim management contracts. The vast majority of PALFINGER employees, i.e. around 96 per cent, have employment contracts of unlimited duration.

Number	2016	2017	2018	%
Permanent employment contract				
Gender				
Female	1,016	1,271	1,334	12.6%
Male	6,674	8,261	8,817	83.2%
Regions				
European Union	4,294	5,636	5,986	56.5%
Far East	308	320	306	2.9%
CIS	1,727	1,548	1,646	15.5%
Central and South America	212	373	430	4.1%
Middle East and Africa	304	387	472	4.5%
North America	845	955	1,035	9.8%
Rest of Europe	0	313	276	2.6%
	7,690	**9,532**	**10,151**	**95.8%**
Temporary employment contract				
Gender				
Female	36	33	33	0.3%
Male	514	408	413	3.9%
Regions				
European Union	211	230	336	3.2%
Far East	44	54	59	0.6%
CIS	19	17	12	0.1%
Central and South America	0	0	38	0.4%
Middle East and Africa	276	134	0	0.0%
North America	0	1	1	0.0%
Rest of Europe	0	5	0	0.0%
	550	**441**	**446**	**4.2%**
Core workforce	**9,658**[1)]	**9,973**	**10,597**	**100.0%**
Apprentices & interns	**188**	**239**	**183**	
Contract workers	**529**	**674**	**617**	
PALFINGER Group	**10,375**	**10,886**	**11,397**	

1) Due to the adjustment of the GRI indicator with retrospective effect, no detailed information is available for 1,418 of the 9,658 employees.

GRI 102-8

EMPLOYEE TURNOVER

In the 2018 financial year, employee turnover decreased from 19.3 per cent to 18.7 per cent. In some regions the turnover rate was higher, which was due to site-specific developments: restructuring at global marine sites as well as in the European Union and North America had the biggest impacts.

GRI 401-1

Number and per cent	2016	2017	2018	%[1]
Gender				
Female	190	236	201	15.3%
Male	1,057	1,632	1,665	19.2%
Generations[2]				
0–29	-	594	604	32.0%
30–50	-	938	962	16.3%
50+	-	336	300	13.7%
Regions				
European Union	359	832	1,015	17.3%
Far East	14	94	88	23.7%
CIS	385	372	185	11.8%
Central and South America	112	122	115	30.8%
Middle East and Africa	96	142	221	42.4%
North America	269	287	186	19.5%
Rest of Europe	12	19	56	17.6%
Employee turnover	**1,247**	**1,868**	**1,866**	**18.7%**

1) This indicator refers to the number of employees per category.
2) The indicator for 2016 is not available.

EMPLOYEE ENTRIES

In the 2018 financial year, the number of employee entries increased compared to previous years as well, particularly in the regions European Union, CIS and North America.

GRI 401-1

Number and per cent	2016	2017	2018	%[1]
Gender				
Female	155	231	245	18.1%
Male	1,133	1,651	2,059	22.5%
Generations[2]				
0–29	-	798	852	43.6%
30–50	-	918	1,265	20.3%
50+	-	166	187	8.0%
Regions				
European Union	632	1,185	1,368	21.9%
Far East	72	66	84	23.0%
CIS	291	203	276	16.7%
Central and South America	62	103	131	28.0%
Middle East and Africa	104	65	169	35.8%
North America	124	243	261	25.2%
Rest of Europe	3	17	15	5.4%
Employee entries	**1,288**	**1,882**	**2,304**	**21.9%**

1) This indicator refers to the number of employees per category.
2) The indicator for 2016 is not available.

Diversity

GENDER

In the 2018 financial year, the percentage of women in PALFINGER's workforce remained more or less stable, coming to 12.9 per cent (previous year: 13.1 per cent); the low figure is typical for the industry. The percentage of the total workforce holding management positions at PALFINGER was at 8.6 per cent. At 16.8 per cent, the percentage of women in management positions was higher than their percentage in the overall workforce, but lower than the previous year's figure of 17.7 per cent. Countries or regions with a higher percentage of women in management include primarily CIS, Central and South America as well as Norway and South East Asia. In Austria, 41 employees were on parental leave in 2018; 18 of them were men on paternal leave or claiming the family time bonus. 26 employees returned to their jobs after having taken parental leave.

GRI 405-1

GENERATIONS

18.6 per cent of the staff members belong to the youngest age category of 29 or under. 59.5 per cent are between 30 and 50 years of age, and 21.9 per cent are over the age of 50. In the over-50 category, substantial regional differences were recorded: In Asia, the team is relatively young, which is due to demographic reasons. In North America and CIS, employees tend to retire later and the industry has been of little attraction for young people so far. As a result, a higher percentage of the workforce is over the age of 50. In the CIS region in particular, employer-branding measures are being instituted as a means of recruiting young talent. In general, the age structure is influenced by external factors, such as demographic development or the catchment areas of the respective sites.

GRI 405-1

in per cent	**2016**	**2017**	**2018**
Gender			
Female	17.2%	17.7%	16.8%
Male	82.8%	82.3%	83.2%
Generations			
0–29	8.1%	4.5%	5.8%
30–50	65.1%	70.3%	70.3%
50+	26.8%	25.3%	23.8%
Management positions	**100.0%**	**100.0%**	**100.0%**

GRI 102-8, 405-1

in per cent	2016	2017	2018
COGS[1] direct			
Gender			
Female	1.3%	1.5%	1.7%
Male	50.3%	50.9%	51.9%
Generations			
0–29	11.9%	11.3%	11.0%
30–50	29.1%	30.1%	31.3%
50+	10.5%	11.0%	11.3%
	51.6%	**52.4%**	**53.6%**
Structural cost – production			
Gender			
Female	4.7%	4.3%	4.3%
Male	19.3%	18.0%	18.1%
Generations			
0–29	3.5%	3.0%	3.2%
30–50	13.9%	13.6%	13.7%
50+	6.6%	5.7%	5.5%
	24.0%	**22.3%**	**22.4%**
R&D			
Gender			
Female	0.4%	0.4%	0.3%
Male	4.9%	5.3%	5.1%
Generations			
0–29	1.5%	1.6%	1.5%
30–50	2.9%	3.1%	3.0%
50+	0.9%	0.9%	0.9%
	5.3%	**5.7%**	**5.4%**
Sales, services & marketing			
Gender			
Female	1.9%	2.0%	1.9%
Male	7.8%	8.0%	7.9%
Generations			
0–29	1.8%	1.7%	1.5%
30–50	5.8%	6.2%	6.1%
50+	2.1%	2.1%	2.2%
	9.7%	**10.0%**	**9.8%**
Administration			
Gender			
Female	4.9%	5.0%	4.7%
Male	4.5%	4.6%	4.1%
Generations			
0–29	1.3%	1.3%	1.3%
30–50	5.7%	6.0%	5.4%
50+	2.4%	2.3%	2.0%
	9.4%	**9.6%**	**8.8%**
Core workforce	**100.0%**	**100.0%**	**100%**
Apprentices & interns	**188**	**239**	**183**
Contract workers	**529**	**674**	**617**
PALFINGER Group	**10,375**	**10,886**	**11,397**

1) COGS = costs of goods sold. These are employees assigned to specific orders.

EMPLOYEES WITH DISABILITIES

PALFINGER wants to offer its staff members with special needs a meaningful occupation and integration into the Company's teams. In Austria, PALFINGER falls short of the stipulated employment quota of 4 per cent and therefore has to pay penalties. PALFINGER has implemented all statutory provisions regarding the accessibility of buildings to facilitate the employment of persons with disabilities.

Learning organization

In the period under review, training programmes were enhanced at many PALFINGER sites. Cross-region executive and management training courses were attended by 15 participants from seven nations, including two women. At the Austrian sites, the PALFINGER College has become a well-established institution over the years. This training and development programme is essentially based on the transfer of knowledge by internal experts, supplemented by courses and seminars held by external experts. The focus is on establishing technical and methodological competencies, but languages and intercultural training are also becoming higher priorities in meeting organizational requirements (Process Excellence, GPO, etc.).

In the European Union and in North America, more attention is being paid to (further) training as a result of the higher headcount. In the Far East region, PALFINGER cooperates with colleges and universities in an effort to offer training schemes similar to traineeships as well as other (further) training programmes for employees. In CIS, an online training system was implemented in the reporting period with the objectives of improving soft skills, particularly the English language, and offering on-boarding programmes. At PALFINGER's headquarters, the increase in staff numbers resulting from the new GPO and additional group-wide projects has raised the importance of on-boarding, cultural aspects and learning.

in hours	**2016**	**2017**	**2018**
Gender			
Female	14.7	21.0	21.8
Male	8.6	19.6	16.4
Regions			
European Union	12.7	11.7	11.2
Far East	27.8	15.8	10.1
CIS	28.9	49.1	45.1
Central and South America	10.9	16.7	20.7
Middle East and Africa	15.0	23.8	27.5
North America	1.0	4.8	5.2
Rest of Europe	2.6	36.2	9.3
Categories			
COGS[1)] direct	13.2	21.3	16.7
Structural cost – production	14.0	14.6	19.7
R&D	11.5	21.9	15.5
Sales, services & marketing	20.1	17.5	15.4
Administration	30.8	23.5	15.9
Training	**15.6**	**19.7**	**17.1**

1) COGS = costs of goods sold. These are employees assigned to specific orders.

GRI 404-1

Health and safety

Employee safety is a priority at PALFINGER. The total number of accidents in the 2018 financial year was 563 (previous year: 478 and 1 fatality). The fact that the number of industrial accidents reported is considerably higher in European countries than in the other regions is indicative of the different safety awareness levels: The largest productions sites are located in Europe, and at these sites there is a higher awareness of health and safety-related processes.

In the Americas, regional initiatives reduced the number of accidents and enhanced safety. These initiatives included the introduction of programmes, manuals, regular meetings and training as well as the hiring of safety managers. In addition, other measures such as re-entry programmes were set up, at first only at production sites, to increase PALFINGER's attractiveness as an employer.

Safety initiatives were regularly implemented in CIS and have produced beneficial results. Accident and injury data are collected in a structured format and on a continuous basis. The first initiatives, such as the introduction of a monthly health and safety meeting, were aimed at raising awareness for health and safety.

Management report, Occupational safety and accident prevention, page 94

Number and per cent	2016	2017	2018	%[1]
Employees				
Gender				
Female	4	11	16	0.000%
Male	142	421	492	0.002%
Regions				
European Union	122	357	318	0.003%
Far East	4	2	10	0.000%
CIS	1	-	56	0.002%
Central and South America	5	12	64	0.010%
Middle East and Africa	-	1	-	0.000%
North America	14	56	58	0.004%
Rest of Europe	-	4	2	0.001%
	146	**432**	**508**	**0.003%**
Contract workers				
Gender				
Female	-	2	1	0.000%
Male	25	45	54	0.000%
Regions				
European Union	18	45	51	0.000%
Far East	-	-	-	0.000%
CIS	-	-	-	0.000%
Central and South America	-	-	-	0.000%
Middle East and Africa	-	-	-	0.000%
North America	7	2	4	0.000%
Rest of Europe	-	-	-	0.000%
	25	**47**	**55**	**0.000%**
Injuries and fatalities	**171**	**479**	**563**	**0.003%**

1) This indicator refers to the number of employees per category.

GRI 403-2

Staff absences due to industrial accidents have remained at a low level in recent years, with a marginal increase to 0.17 per cent of regular working time in the 2018 financial year (previous year: 0.16 per cent). These satisfactory figures illustrate that the measures taken in recent years have been efficient at all sites. In 2018, safety measures and safety monitoring, and hence data quality, were on the agenda particularly in the Americas, Asia and CIS.

At PALFINGER, three types of absentee rates are measured: due to sick leaves, due to occupational diseases, and due to other causes. In 2018, the absentee rate rose from 3.72 per cent to 3.92 per cent year on year; this can be ascribed primarily to several influenza epidemics that occurred in EMEA at the beginning of 2018.

in per cent	2016[1)]	2017[1)]	2018
Gender			
Female	0.03%	0.02%	0.06%
Male	0.09%	0.16%	0.18%
Regions			
European Union	0.29%	0.19%	0.19%
Far East	0.47%	0.14%	0.16%
CIS	0.02%	0.00%	0.01%
Central and South America	0.15%	0.10%	0.56%
Middle East and Africa	0.00%	0.00%	0.00%
North America	0.14%	0.51%	0.27%
Rest of Europe	0.19%	0.02%	0.07%
Staff absences due to industrial accidents	**0.20%**	**0.16%**	**0.17%**

1) Figures increased with retrospective effect due to new consolidation procedures.

GRI 403-2

in per cent	2016[1)]	2017[1)]	2018
Gender			
Female	3.72%	5.25%	4.17%
Male	1.96%	3.50%	3.89%
Regions			
European Union	4.30%	4.15%	4.34%
Far East	0.33%	2.98%	2.40%
CIS	4.77%	4.36%	3.66%
Central and South America	1.82%	1.77%	2.25%
Middle East and Africa	0.49%	0.30%	1.79%
North America	2.57%	2.11%	2.73%
Rest of Europe	1.08%	6.17%	16.15%
Absentee rates due to sick leaves, occupational diseases and other causes	**3.65%**	**3.72%**	**3.92%**

1) A clarification of reporting boundaries has resulted in changes with retrospective effect.

GRI 403-2

For quite some time now, psychological strain has been among the most frequent causes of employee absences in the European countries. Around 60 per cent of the reasons for sick leave can be found in the private realms of the employees. At the production sites, PALFINGER's focus is on preventing physical strain and improving workplace ergonomics. In principle, health management for employees in production (i.e. around 76 per cent of the total workforce) strives to avoid risks arising, in particular, from the following sources: noise, emissions and radiation during welding and coating processes, chemicals used in coating processes, handling of heavy loads and strenuous work postures. PALFINGER makes an effort to preserve and promote the health and working capacity of its staff through preventative measures.

In Austria, ever since the statutory changes in the field of occupational health and safety came into effect (2013 amendment), psychological strain at the workplace has been increasingly analysed and evaluated. This is an ongoing process, which is repeated either every two to three years or whenever there is a change in workplace. There are four important dimensions: 1. Task requirements and activities; 2. Working atmosphere; 3. Working environment; 4. Workflows and work organization. This evaluation process also produces valuable insights for workplace design, which are implemented on a regular basis. In production, it is possible for PALFINGER, in many cases, to provide the necessary support through additional tools. Processes are discussed with the team and the responsible executive and then improved. By listening to the employees' needs and recognizing them, many sources of stress can be eliminated.

ECO-EFFICIENCY IN PRODUCTION

Efficient use of raw materials

Waste cuttings – i.e. steel and aluminium scrap – are produced exclusively at PALFINGER's manufacturing and assembly sites, and in most cases there is only minimal room for further improvement. The waste cuttings rates vary considerably from site to site, depending on the different processes and levels of value added. Whereas the production of turned parts generates the highest waste cuttings rates of up to 36 per cent, the waste cuttings rate of optimized plate-cutting processes was as low as 5 per cent. The separate calculation of the waste cuttings rates of the two process categories (cutting and chipping) is expected to be implemented in 2019 and will then be reflected in the relevant indicators.

At most of the Russian sites, in particular, waste cuttings were reduced by up to 6 percentage points. At the South American site in Caxias do Sul (BR), the rate increased slightly. There were only a few changes in the rates recorded by the European sites, with Lengau (AT) showing a slightly higher rate and the other European sites recording minor improvements. In North America, waste cuttings rates are calculated on the basis of stable base object cost estimates. These calculations will be replaced by actual waste cuttings rates as a result of the planned indicator adjustment.

Apart from steel and aluminium, PALFINGER also uses hydraulic oils and fibre glass reinforced plastics as raw materials. There are hardly any waste cuttings when producing lifeboats, as the fibre glass reinforced plastic can be shaped to fit precisely. PALFINGER does not process hydraulic oils during production, but rather integrates the untreated oils into the finished products. The amounts of hydraulic oil used are, however, not insignificant, which is why they are at the centre of improvement measures. A first step in this direction was taken with the PALfluid project.

GRI 301-1

in per cent	2016	2017	2018
Archangelsk (ARC)	26.8%	19.2%	16.7%
Caussade (CAU)	31.1%	32.4%	31.5%
Caxias do Sul - Madal (CAX)	24.0%	22.4%	23.5%
Cherven Brjag (CHE)	25.8%	25.7%	25.2%
Council Bluffs (COB)	15.0%	15.0%	15.0%
Hanoi (HAN)	18.6%	17.5%	19.8%
Hung Yen (HUN)	12.2%	14.5%	12.7%
Ishimbay (ISC)	28.9%	25.7%	23.6%
Lazuri (LAZ)	14.1%	13.1%	11.7%
Lengau (LEN)	23.8%	23.9%	24.2%
Maribor (MAR)	29.5%	28.7%	28.0%
Neftekamsk (NEF)	38.1%	30.9%	28.0%
Oklahoma (OKL)	10.3%	10.3%	10.3%
Tenevo (TEN)	6.8%	5.6%	5.2%
Rio Tercero (TER)[1]	-	-	35.6%
Velikiye Luki (VEL)	30.5%	37.3%	31.3%
Welwyn Garden City (WGC)	8.6%	31.0%	9.8%

1) No data available for 2016 and 2017.

Hazardous waste

ABSOLUTE WASTE QUANTITIES

In the 2018 financial year, the volume of hazardous waste remained stable at 5,286 tonnes (previous year: 5,248 tonnes) despite high capacity utilization.

The largest quantities of hazardous waste are produced at the sites within the European Union. In the reporting period, they increased marginally to 4,391 tonnes (previous year: 4,127 tonnes). However, a further reduction was achieved at the Maribor (SI) site due to a new paint shop and process enhancements during the activation of the CDP basin. The quantities reported in Lazuri (RO) stabilized for the first time. Despite steep growth and the construction of a second workshop, only minor increases were recorded.

CIS is the region with the second-largest volume of hazardous waste within the PALFINGER Group. In Russia, the volume was dramatically reduced year on year, coming to 669 tonnes in 2018 (previous year: 928 tonnes): Whereas in Velikiye Luki, the main producer of hazardous waste, the volume increased due to construction work and the demolition of a building, the site in Archangelsk was able to decrease its volume significantly. 2018 saw a change in national waste legislation, which is why foundry sand underwent a detailed analysis. The results led to a change in the allocation of hazardous waste volumes. Regardless of the classification, PALFINGER managed to reduce waste caused by the reprocessing plant for foundry sand, installed at the end of 2017, by more than half. The planned replacement of the paint shop in Velikiye Luki was postponed until 2019 because of changing priorities.

In North America, the absolute quantities of hazardous waste remained constant at 31 tonnes (previous year: 34 tonnes) despite higher capacity utilization. In Central and South America, hazardous waste quantities rose significantly, coming to 168 tonnes (previous year: 104 tonnes); this was caused by one-time effects generated by the cleaning of the paint shop, a process that has to be carried out once every few years.

The figures recorded in the Far East dropped to 26 tonnes (previous year: 52 tonnes) due to the irregular collection of hazardous waste at the site in Qingdao. Olve (NO) is the only site located in the Rest of Europe region; it does not produce any significant volume of hazardous waste.

in tonnes	2016	2017	2018
European Union	2,763	4,127	4,391
Far East	68	52	26
CIS	913	928	669
Central and South America	98	104	168
North America	38	34	31
Rest of Europe	0	2	1
Hazardous waste	**3,880**	**5,248**	**5,286**

PAINT SHOPS

Within the PALFINGER Group, every paint shop is designed individually, but the process is governed by group-wide principles:

- Commitment to achieving energy efficiency through insulation, heat recovery, energy-efficient engines and burners
- Protection of the environment through the use of environmentally friendly materials and technologies, solvent-free paints and the like, as well as drying processes at low temperatures
- Conservation of resources through the use of state-of-the-art technologies (e.g. air recirculation, prevention of wastewater, ergonomics, etc.)

SPECIFIC WASTE VOLUMES

When using an index for presentation, it is possible to present the figures adjusted for revenue developments. In the reporting period, the group index value of 263 per cent (previous year: 325 per cent) fulfilled the target of annually reducing hazardous waste by 1.8 percentage points. This was a major trend reversal; however, the figure is still very high.

The site in Lazuri (RO) has the biggest impact on the results recorded by the Group and in the European Union region. The waste reduction measures taken showed some effect, but at the same time additional waste was produced as a result of the increasing level of value creation. Nevertheless, the excellent revenue figures caused the index to clearly improve at this site in the reporting period. Within the CIS region, the positive development at the sites in Archangelsk (RU) and Velikiye Luki (RU) had a highly positive impact on the index, which came to 99 per cent (previous year: 145 per cent). In the region North America, the index improved, and the figure recorded in Central and South America was lowered to the level of 2016 following one-time effects in 2017. In the Far East, a reduction to 64 per cent (previous year: 103 per cent) was achieved in 2018, caused by low and volatile waste volumes. In the Rest of Europe region, only insubstantial volumes of hazardous waste were produced at the site in Olve (NO) in the reporting period.

in per cent[1]	**2016**	**2017**	**2018**
European Union	158.8%	372.6%	296.2%
Far East	480.9%	102.9%	63.9%
CIS	135.9%	145.2%	98.7%
Central and South America	125.7%	247.0%	121.0%
North America	107.3%	106.0%	102.9%
Rest of Europe	0.0%	100.0%	54.2%
Index: Hazardous waste in relation to revenue	**157.7%**	**325.4%**	**263.3%**

1) Volume 2013=100%.

USE OF HAZARDOUS SUBSTANCES

Not only production processes are analysed as to their hazardous substances. Product innovations use new environmentally friendly technologies that reduce the consumption of resources and energy during use and reduce potentially hazardous substances. PALFINGER products are designed to avoid noise and emissions during operation, be free of hazardous substances and allow for variants with biodegradable hydraulic oil. This is how potential risks for humans and the environment are reduced.

When it comes to loader cranes, access platforms and other products, customers may opt to operate the systems with biodegradable hydraulic oil. With PALfluid, oil change intervals are extended through enhanced measuring methods, which results in a huge reduction of oil during the product lifecycle.

The use of a new guide block technology in loader cranes reduces the maintenance need of cranes and also increases environmental compatibility, as the extension boom systems only have to be greased once at the beginning of product use and the substance used is fully biodegradable.

In the case of hydraulic screw connections and standard mounting parts, PALFINGER uses chromium-VI-free products.

A precise recording of the purchase volumes of paint at group level is no longer made due to the considerable amount of time involved and the relatively insignificant amounts.

Energy efficiency

ENERGY CONSUMPTION BROKEN DOWN BY ENERGY SOURCE

In the reporting period, total energy consumption remained more or less stable at 212 million kWh (previous year: 208 million kWh); despite satisfactory growth, the increase only amounted to 2 per cent. This was primarily caused by the lower heat requirement in the CIS region.

At PALFINGER, the most widely used energy source is electricity, accounting for 53 per cent (previous year: 50 per cent) of total energy consumption. For production-related reasons, electricity consumption increased to 113 million kWh (previous year: 103 million kWh), corresponding to a rise of 9 per cent. The main consumer was the site in Lazuri (RO), due to the new, larger electroplating plant, followed by the large production plants with electricity-intensive processes in Lengau (AT), Tenevo (BG) and Maribor (SI). These four sites taken together account for 55 per cent of the PALFINGER Group's total electricity consumption.

The demand for heat and process energy decreased significantly to 83 million kWh (previous year: 88 million kWh). It is always strongly influenced by weather conditions and the length of the winter in the respective regions. Natural gas consumption rose to 68 million kWh (previous year: 60 million kWh) and accounted for 32 per cent of total energy consumption (previous year: 29 per cent). The reason for this increase was the changeover from coal to natural gas at the site in Velikiye Luki (RU) in the course of the replacement of the entire heating system with a more modern one at the end of 2017. The main natural gas consumers were the sites in Lengau (AT), Council Bluffs (US), Velikiye Luki (RU) and Maribor (SI) as the CDP paint shops require substantial heat. All other energy sources in this category played only a minor role in total energy consumption.

Fuel consumption remained more or less constant and amounted to 16 million kWh (previous year: 16 million kWh). At 7 per cent (previous year: 7 per cent), diesel accounted for the largest fuel portion of overall energy consumption. The fact that more and more pool vehicles operated by natural gas or electricity are being used will continue to have a positive impact on the fuel footprint.

in MWh	2016	2017	2018
Electricity			
Electricity	93,504	103,394	112,951
	93,504	**103,394**	**112,951**
Heat			
Natural gas	55,276	59,847	68,402
Propane	3,161	3,934	3,564
Butane	856	1,216	997
LPG	3,256	3,777	4,423
Heating oil	30	234	96
District heating	7,913	7,777	5,822
Coal	16,537	11,318	0
	87,029	**88,104**	**83,305**
Fuels			
Diesel	14,218	13,563	13,861
Petrol	2,066	2,020	1,891
Kerosene	1,607	911	0
	17,891	**16,494**	**15,753**
Energy consumption broken down by energy source	**198,423**	**207,992**	**212,008**

ENERGY CONSUMPTION BROKEN DOWN BY REGION

Accounting for 66 per cent of total consumption, the European Union is the main energy consumer. The percentage of total energy consumed by EU sites increased compared to the previous year, when it came to 64 per cent. In contrast, energy consumption in the CIS region decreased, especially because at all sites the heat requirement was lower than in the previous year. The CIS sites had the second-largest energy consumption within the PALFINGER Group in 2018, accounting for 18 per cent (previous year: 21 per cent). Major factors for the decrease in CIS were the replacement of the heating system in Velikiye Luki (RU), the installation of a more efficient heating control system at the site in Neftekamsk (RU) and the demolition of an old, inefficient building at the Archangelsk (RU) site. The percentage of total energy consumption attributed to North America almost remained stable at 12 per cent (previous year: 11 per cent). The remaining regions each consume only a minor percentage and remained stable in terms of their percentages of total energy consumption.

in MWh	2016	2017	2018
Electricity			
European Union	67,520	74,373	81,319
Far East	676	663	745
CIS	13,149	14,282	16,262
Central and South America	1,894	2,042	3,126
North America	10,265	9,448	8,916
Rest of Europe	0	2,586	2,583
	93,504	**103,394**	**112,951**
Heat (incl. process heat)			
European Union	42,253	47,684	47,531
Far East	77	268	134
CIS	28,743	25,636	18,986
Central and South America	722	504	1,105
North America	15,233	14,012	15,549
Rest of Europe	0	0	0
	87,029	**88,104**	**83,305**
Fuels			
European Union	11,868	11,459	10,669
Far East	686	181	202
CIS	4,766	4,173	3,592
Central and South America	253	213	114
North America	318	331	1,126
Rest of Europe	0	137	49
	17,891	**16,494**	**15,753**
Energy consumption broken down by category	**198,423**	**207,992**	**212,008**

SPECIFIC ENERGY CONSUMPTION

The positive development of energy efficiency within the PALFINGER Group in previous years took another step forward in the right direction: The energy consumption index in relation to revenue was 11.4 percentage points lower than in the previous year. Thus, the objective of annually improving energy efficiency by 1.8 percentage points was clearly met in the reporting period.

All regions made positive contributions to the Group's result. In the European Union, the index improved by 9 percentage points to 77 per cent (previous year: 86 per cent). Another improvement was recorded in the Far East region, where the index was 79 per cent in 2018 (previous year: 106 per cent); however, it should be noted that the absolute energy consumption in the Far East was extremely low at approx. 1 million kWh. The CIS region had a substantial impact on the Group's results and made a positive contribution with an index value of 78 per cent (previous year: 95 per cent), facilitated by satisfactory growth and targeted measures. Both American regions once again recorded a satisfactory performance: The index came down by 14 percentage points year on year in North America and by 19 percentage points in Central and South America. The latter difference is attributable to one-time revenue effects in 2017 at the site in Porto Alegre (BR), which has been closed down.

in per cent[1)]	2016	2017	2018
European Union	89.0%	86.1%	77.0%
Far East	122.9%	106.1%	79.0%
CIS	105.4%	94.8%	77.9%
Central and South America	107.9%	119.8%	100.6%
North America	99.6%	107.2%	93.1%
Rest of Europe	0.0%	100.0%	89.0%
Index: Energy consumption in relation to revenue	**94.8%**	**91.1%**	**79.7%**

1) Volume 2013=100%

GRI 302-1, 302-3

Climate protection

ABSOLUTE EMISSION LEVELS

Greenhouse gas emissions in absolute figures are calculated on the basis of energy consumption. In the 2018 financial year, emissions increased marginally to 73,086 tonnes of CO_2 equivalents (previous year: 72,533 tonnes; base year 2013: 50,089 tonnes). Direct emissions under Scope 1, accounting for approx. 27 per cent, showed a slight decline to 20,035 tonnes of CO_2 equivalents (previous year: 22,030 tonnes). At 59 per cent, indirect emissions under Scope 2 amounted to 43,263 tonnes of CO_2 equivalents (previous year: 41,132 tonnes), accounting for the largest percentage of these emissions. At 9,789 tonnes of CO_2 equivalents (previous year: 9,371 tonnes), energy suppliers' Scope 3 emissions indirectly caused by third parties were relatively low. The Scope 3 emissions disclosed herein include only emissions indirectly caused by energy sources such as electricity or natural gas, but no upstream emissions generated from materials such as steel or aluminium or downstream emissions from product use. At present, these are shown separately.

In 2018, the increase in greenhouse gas emissions was lower than the increase in energy consumption. The reason for this was the positive development in the CIS region as well as the stronger growth at the European sites which, in general, have a less CO_2 intensive energy mix. The percentage of the Group's total electricity consumption accounted for by green power used at the sites in Bulgaria, France and Austria remained more or less stable at 29 per cent (previous year: 30 per cent). PALFINGER is promoting a changeover to green power at other sites as well, with specific projects such as photovoltaic systems.

In 2018, the five locations within the PALFINGER Group that recorded the highest CO_2 emission levels were Lazuri (RO), Velikiye Luki (RU), Council Bluffs (US), Maribor (SI) and Ishimbay (RU); together they accounted for 59 per cent of PALFINGER's CO_2 emissions.

in tonnes of CO_2 equivalents	2016	2017	2018
Scope 1			
Electricity	0	0	0
Heat (incl. process heat)	18,061	17,785	15,982
Fuels	4,605	4,245	4,053
	22,666	**22,030**	**20,035**
Scope 2			
Electricity	44,858	40,201	42,551
Heat (incl. process heat)	939	931	711
Fuels	0	0	0
	45,797	**41,132**	**43,263**
Scope 3			
Electricity	5,015	4,600	5,131
Heat (incl. process heat)	3,906	4,033	3,973
Fuels	810	738	685
	9,731	**9,371**	**9,789**
Scope 1, 2 and 3 greenhouse gas emissions caused by energy consumption	**78,194**	**72,533**	**73,086**

SPECIFIC EMISSION LEVELS

Specific greenhouse gas emissions in relation to revenue decreased by 12.2 percentage points as compared to the previous year, which is even better than the energy efficiency result.

This positive effect came from almost all the regions, first and foremost from CIS and the European Union. The only region to record a negative development in 2018 was Rest of Europe, comprising only the site in Olve (NO), as a result of the irregular filling intervals of the local diesel tank. These volumes are insignificant, however.

in per cent[1)]	2016	2017	2018
European Union	91.8%	77.7%	68.0%
Far East	199.0%	230.9%	199.5%
CIS	108.2%	102.7%	83.9%
Central and South America	118.1%	130.0%	109.1%
North America	100.7%	107.5%	94.4%
Rest of Europe	0.0%	100.0%	112.2%
Index: Specific greenhouse gas emissions in relation to revenue	**98.7%**	**90.4%**	**78.2%**

1) Volume 2013=100%.

GRI 305-1, 305-2, 305-3, 305-4

SUSTAINABLE PRODUCTS

Safety assessment and product labelling

PALFINGER products are among the market leaders when it comes to combining ease of use with utmost safety. All of PALFINGER's products are sold on the international market in accordance with the relevant standards applicable in each country. In Europe, the Machinery Directive 2006/42/EC, safety standards such as EN ISO 13849 (functional safety) and the related product standards such as the EN 12999 standard for loader cranes or EN 50128 (safety-related software in the railway industry) are of relevance.

What counts, however, is that PALFINGER complies with these safety standards in a user-friendly manner. Otherwise, users might regard the safety features as a restriction, which in turn could tempt them to deactivate such features. All of PALFINGER's products are assessed as to their health and safety impacts, and any potential for improvement is continuously being realized.

In the reporting period, the container locking system of the new skiploader PS T14 TEC3 obtained TÜV-Süd certification.

EN 1756-1, the relevant standard for tail lifts, is being reviewed. PALFINGER estimates that control aids, such as the radio remote control of tail lifts, will be of greater significance in future. PALFINGER will respond to such new requirements with new developments.

Product innovation for user safety

In 2018, PALFINGER developed numerous innovations to improve occupational safety.

In loader cranes, the stability control systems HPSC LOAD and HPSC FSTAB were rolled out comprehensively. The new slewing stabilizer STZ-M for loader cranes is ergonomic, cost-efficient and easy to use. The new electronic joystick allows the operator to use all available features designed for safety, comfort and ecology-friendliness. The innovative multifunctional adapter MFA facilitates a comfortable changeover of the crane without the difficult manipulation of equipment.

In access platforms, PALFINGER reviewed the support control: It is now operated from the ground in the premium class as well. The operator no longer has to exit the basket to slide the mandatory stabilizer packs under the stabilizers. This simplification will provide for a more consistent use of stabilizer packs and encourage users not to forgo their use out of convenience.

The anti-collision system for access platforms was brought to series production in 2018. The ultrasonic system can be mounted on workman baskets and emits an acoustic and optical warning signal before a collision. The user can also set the platform to slow down or stop its movement to avoid a collision or accident.

The PAD touch controls in connection with the automatic cycle ensure the convenient operation of a hookloader. Via the touch screen, the operator has a clear view of the field of operation and sees all information required for a safe transport of the cab control, which allows the operator to concentrate on steering the vehicle.

In 2018, additional rail guard options were presented for tail lifts to enhance operator safety. In passenger systems, PALFINGER introduced new self-raising side safety guards to prevent wheelchairs from rolling over during operation of the lift.
GRI 416-1

Eco-efficient product innovation

All product developments fulfil PALFINGER's strict internal standards to raise eco-efficiency. Through optimized features, PALFINGER helps to reduce the overall use of materials, the energy consumption and noise emissions, and improve the general recyclability of the products.

With the new loader crane TEC series, PALFINGER has achieved significant weight reductions. Due to the trucks' lower deadweight, CO_2 emissions are reduced. At the same time, a higher payload can be transported, which makes fewer trips necessary.

All new developments in tail lifts are aimed at reducing the trucks' deadweight so as to increase their payload. In September, PALFINGER presented its TRAINLIFT TRB-E, the first e-drive passenger lift for persons with restricted mobility, designed for use on regional trains.

In access platforms, PALFINGER expanded the premium class with the P 370 KS E, the first access platform with electrical drive. It is quiet, efficient and emission-free, making it ideal for night-time and indoor work as well as for use on construction sites in urban areas. The P 370 KS E combines a diesel drive system with an electric drive system, thus offering the performance and service life of a diesel engine at low operating costs.

PALFINGER products for people and the environment

PALFINGER's product portfolio includes lifting solutions that also serve ecological and social purposes. Loader cranes and access platforms are used for low-emission rail transport for the installation, repair and maintenance of railway infrastructure. Special cranes are installed in wind energy plants, forestry cranes are used in forestry, for biomass handling, or in the field of recycling, which is also the main area of application for hooklifts and skiploaders. PALFINGER access systems make it easier for wheelchair users to access means of public transport such as buses or trains.

FAIR BUSINESS

Taxes by country

Since 2017, payments to public authorities have been broken down by country and by region. They comprise taxes other than those on income, for example property tax, and income-based taxes such as corporation tax, net of investment or research and development grants.

EUR	2016	2017	2018
European Union			
Belgium	0	0	0
Bulgaria	(173,297)	129,821	221,433
Denmark	0	20,682	198,050
Germany	2,075,736	3,074,560	5,473,365
France	1,101,223	1,579,657	3,156,380
Italy	175,877	361,222	628,239
Netherlands	(361,476)	114,764	(63,160)
Austria	12,488,827	13,861,824	11,640,242
Poland	74,693	155,857	102,302
Portugal	48,419	142,916	256,550
Romania	1,077,897	1,869,994	3,045,637
Slovakia	11,483	5,213	1,431
Slovenia	1,032,793	1,353,667	2,101,857
Spain	484,508	1,082,816	1,145,365
Czech Republic	1,443	6,208	10,883
Hungary	130,502	76,812	112,951
United Kingdom	123,652	6,600	162,999
	18,292,280	**23,842,614**	**28,194,524**
Far East			
China	67,483	110,964	94,318
India	14,586	15,857	9,722
Japan	2,601	37,019	102,099
Korea	25,508	20,134	88,364
Singapore	84,728	46,807	65,402
Vietnam	21,044	33,298	23,901
	215,950	**264,080**	**383,806**
CIS			
Russia	1,812,433	2,376,233	2,419,251
	1,812,433	**2,376,233**	**2,419,251**
Central and South America			
Argentina	0	1,175,876	728,685
Brazil	492,439	524,770	2,105,405
	492,439	**1,700,646**	**2,834,090**
Middle East and Africa			
Qatar	290,048	179,022	101,892
United Arab Emirates	26,764	67,734	101,501
	316,812	**246,756**	**203,392**
North America			
Canada	2,558,389	3,630,446	4,330,370
United States	2,024,789	1,638,996	1,291,729
	4,583,178	**5,269,443**	**5,622,099**
Rest of Europe			
Norway	(84,114)	92,113	405,766
	(84,114)	**92,113**	**405,766**
Public authorities - taxes net of subsidies	**25,628,978**	**33,791,883**	**40,062,928**

GRI 201-1

GRI CONTENT INDEX

Since the 2017 financial year, PALFINGER has prepared its reports in accordance with the GRI Standards. In accordance with the requirements of the Global Reporting Initiative (Core option), this Report contains general disclosures and a description, on the basis of GRI disclosures, of the economic, ecological and social aspects relating to the topics that are of relevance according to the materiality analysis. The following GRI content index contains the relevant references, indicating the chapters and page numbers. In the Integrated Annual Report, the references are marked with the relevant icon. Since 2013, PALFINGER has also been committed to compliance with the ten principles of the UN Global Compact; it illustrates the progress made in the impact table, which also includes references to GRI Standards.

GRI 102-55
Impact table, page 218
www.palfinger.ag/en/news/publications/sustainability-publications

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
FOUNDATION			
GRI 101: Foundation 2016			
GENERAL DISCLOSURES			
Organizational profile			
GRI 102: General Disclosures 2016	**102-1:** Name of the organization	PALFINGER at a glance p. 21	
	102-2: Activities, brands, products and services	PALFINGER at a glance p. 21; Customers and dealer network p. 62	
	102-3: Location of headquarters	PALFINGER at a glance p. 21	
	102-4: Location of operations	Companies of the PALFINGER Group back cover	
	102-5: Ownership and legal form	Ownership structure p. 31; Information pursuant to sec. 243a of the Business Code p. 74	
	102-6: Markets served	Regions and industries by segment p. 60; Customers and dealer network p. 62; Performance by segment p. 108	
	102-7: Scale of the organization	PALFINGER at a glance p. 21; Business performance in 2018 p. 66	
	102-8: Information on employees and other workers UNGC 3-6	Employment trend p. 94; Employment trend (Sustainability Annex) p. 229	
	102-9: Supply chain	Value creation p. 54; Suppliers p. 64; Sustainability among suppliers p. 65	
	102-10: Significant changes to the organization and its supply chain	Suppliers p. 64; Sustainability among suppliers p. 65; Significant changes within the PALFINGER Group p. 71	
	102-11: Precautionary principle or approach UNGC 7-9	Risk report p. 77	
	102-12: External initiatives	About this Report p. 6; Ratings p. 30; Commitment p. 50	
	102-13: Membership of associations	Commitment p. 50	
Strategy			
GRI 102: General Disclosures 2016	**102-14:** Statement from senior decision-maker	Foreword by the Executive Board p. 7	
	102-15: Key impacts, risks, and opportunities	Risk report p. 77	
Ethics and integrity			
GRI 102: General Disclosures 2016	**102-16:** Values, principles, standards, and norms of behaviour UNGC 10	Strategy and value management p. 33; HR Strategy 2020 p. 86; Corporate culture p. 87; Group guidelines and Code of Conduct p. 122	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
	102-17: Mechanisms for advice and concerns about ethics UNGC 10	Group guidelines and Code of Conduct p. 122; Internal audits and risk management p. 123	
Governance			
GRI 102: General Disclosures 2016	**102-18:** Governance structure	Sustainability management p. 44; Governing bodies of the Company and method of operation of the Executive Board and the Supervisory Board pursuant to sec. 243c para. 2 and sec. 267b of the Business Code p. 116	
	102-19: Delegating authority	Sustainability management p. 44; Governing bodies of the Company and method of operation of the Executive Board and the Supervisory Board pursuant to sec. 243c para. 2 and sec. 267b of the Business Code p. 116	
	102-20: Executive-level responsibility for economic, environmental, and social topics	Sustainability management p. 44; Governing bodies of the Company and method of operation of the Executive Board and the Supervisory Board pursuant to sec. 243c para .2 and sec. 267b of the Business Code p. 116	
	102-21: Consulting stakeholders on economic, environmental, and social topics	Stakeholders p. 42	
	102-22: Composition of the highest governance body and its committees	Governing bodies of the Company and method of operation of the Executive Board and the Supervisory Board pursuant to sec. 243c para. 2 and sec. 267b of the Business Code p. 116	
	102-24: Nominating and selecting the highest governance body	Governing bodies of the Company and method of operation of the Executive Board and the Supervisory Board pursuant to sec. 243c para. 2 and sec. 267b of the Business Code p. 116	
	102-32: Highest governance body's role in sustainability reporting	Sustainability management p. 44	
Stakeholder engagement			
GRI 102: General Disclosures 2016	**102-40:** List of stakeholder groups	Stakeholders p. 42	
	102-41: Collective bargaining agreements UNGC 3-6	Attractive employer p. 89	
	102-42: Identifying and selecting stakeholders	Stakeholders p. 42	
	102-43: Approach to stakeholder engagement	Stakeholders p. 42; Corporate culture p. 87	
	102-44: Key topics and concerns	Stakeholders p. 42	
Reporting practice			
GRI 102: General Disclosures 2016	**102-45:** Entities included in the consolidated financial statements	Companies of the PALFINGER Group back cover	
	102-46: Defining report content and topic boundaries	Sustainability management p. 44; Sustainability report profile and boundaries (Sustainability Annex) p. 214	
	102-47: List of material topics	Strategic pillars and sustainability aspects p. 35; Sustainability management p. 44; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	102-48: Restatements of information	Sustainability management p. 44; Sustainability report profile and boundaries (Sustainability Annex) p. 214	
	102-49: Changes in reporting	Sustainability management p. 44	
	102-50: Reporting period	Sustainability report profile and boundaries (Sustainability Annex) p. 214	
	102-51: Date of most recent report	Sustainability report profile and boundaries (Sustainability Annex) p. 214	
	102-52: Reporting cycle	Sustainability report profile and boundaries (Sustainability Annex) p. 214	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
	102-53: Contact point for questions regarding the report	General information back cover	
	102-54: Claims of reporting in accordance with the GRI Standards	About this Report p. 6	
	102-55: GRI content index	GRI content index (Sustainability Annex) p. 247	
	102-56: External assurance	Report about the independent assurance of the non-financial reporting p. 263	
MATERIAL TOPICS & ADDITIONAL TOPICS			
GRI 200: Economic topics			
Material topic: **Research and development for products**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Research and development p. 96; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Research and development p. 96; Sustainability programme (Sustainability Annex) p. 224, Sustainable products (Sustainability Annex) p. 244	
	103-3: Evaluation of the management approach	Research and development p. 96; Sustainable products (Sustainability Annex) p. 244	
	PALFINGER KPI: Research and development costs	Research and development p. 96	
Material topic: **Innovation in production**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Research and development p. 96; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Research and development p. 96, Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Research and development p. 96	
	PALFINGER KPI: Research and development costs	Research and development p. 96	
Material topic: **Viability of the business model**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Strategic pillars and sustainability aspects p. 35; Sustainability management p. 44; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Strategic pillars and sustainability aspects p. 35; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Strategic pillars and sustainability aspects p. 35; Monetary flows to stakeholders p. 43	
GRI 201: Economic Performance 2016	**201-1:** Direct economic value generated and distributed	Stakeholders p. 42; Commitment p. 50; Fair business (Sustainability Annex) p. 246	
	201-2: Financial implications and other risks and opportunities due to climate change	Risk report p. 77	Restrictions due to a secrecy obligation: Costs of taking action are internal matters and are not disclosed.
	PALFINGER KPI: Management systems	Quality management p. 101; Management systems in use (Sustainability Annex) p. 215	
Material topic: **Compliance with legal and ethical standards**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Risk report p. 77; Fair business p. 122; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
	103-2: The management approach and its components	Risk report p. 77; Fair business p. 122; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Fair business p. 122	
GRI 205: Anti-corruption 2016	**205-1:** Operations assessed for risks related to corruption UNGC 10	Internal audits and risk management p. 123	
	205-2: Communication and training about anti-corruption policies and procedures UNGC 10	Group guidelines and Code of Conduct p. 122; Information on guidelines and corporate ethics p. 123; Sustainability programme (Sustainability Annex) p. 224	No information available: Training in the form of e-learning is planned. Anti-corruption training is scheduled for 2019.
	205-3: Confirmed incidents of corruption and actions taken UNGC 10	Internal audits and risk management p. 123	
GRI 206: Anti-competitive Behaviour 2016	**206-1:** Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Internal audits and risk management p. 123	
GRI 307: Environmental Compliance 2016	**307-1:** Non-compliance with environmental laws and regulations UNGC 7-9	Internal audits and risk management p. 123	
GRI 417: Marketing and Labelling 2016	**417-2:** Incidents of non-compliance concerning product and service information and labelling	Internal audits and risk management p. 123	
	417-3: Incidents of non-compliance concerning marketing communications	Internal audits and risk management p. 123	
GRI 419: Socioeconomic Compliance 2016	**419-1:** Non-compliance with laws and regulations in the social and economic area	Internal audits and risk management p. 123	
Material topic: **Industry 4.0 and digitalization**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Strategic pillars and sustainability aspects p. 35; Sustainability management p. 44; Value creation p. 54, Significant changes within the PALFINGER Group p. 71, Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Strategic pillars and sustainability aspects p. 35; Research and development p. 96; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Strategic pillars and sustainability aspects p. 35; Research and development p. 96	
Indirect economic impacts			
GRI 203: Indirect Economic Impacts 2016	**203-2:** Significant indirect economic impacts	Risk report p. 77	
GRI 300: Environmental topics			
Material topic: **Product lifecycle**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Research and development p. 96; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Research and development p. 96	
	103-3: Evaluation of the management approach	Research and development p. 96	
	PALFINGER KPI: Waste cuttings	Efficient use of raw materials (Sustainability Annex) p. 238	
	PALFINGER KPI: Warranty costs	Quality management p. 101	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
Material topic: **Energy efficiency and climate protection**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Energy efficiency p. 104; Climate protection p. 106; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Energy efficiency p. 104; Climate protection p. 106; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Energy efficiency p. 104; Climate protection p. 106; Energy efficiency (Sustainability Annex) p. 241; Climate protection (Sustainability Annex) p. 243	
GRI 302: Energy 2016	**302-1:** Energy consumption within the organization UNGC 7-9	Energy efficiency p. 104; Energy efficiency (Sustainability Annex) p. 241	Not applicable: PALFINGER does not consume cooling energy or steam and does not sell any energy.
	302-3: Energy intensity UNGC 7-9	Energy efficiency p. 104; Definition of performance indicators p. 126, Energy efficiency (Sustainability Annex) p. 241	
GRI 305: Emissions 2016	**305-1:** Direct (Scope 1) GHG emissions UNGC 7-9	Climate protection p. 106; Sustainability report profile and boundaries (Sustainability Annex) p. 214, Climate protection (Sustainability Annex) p. 243	Not applicable: PALFINGER does not generate any biogenic CO_2 emissions.
	305-2: Energy indirect (Scope 2) GHG emissions UNGC 7-9	Climate protection p. 106; Sustainability report profile and boundaries (Sustainability Annex) p. 214, Climate protection (Sustainability Annex) p. 243	
	305-3: Other indirect (Scope 3) GHG emissions UNGC 7-9	Climate protection p. 106; Sustainability report profile and boundaries (Sustainability Annex) p. 214, Climate protection (Sustainability Annex) p. 243	Not applicable: PALFINGER does not generate any biogenic CO_2 emissions.
	305-4: GHG emissions intensity UNGC 7-9	Climate protection p. 106; Sustainability report profile and boundaries (Sustainability Annex), p. 214, Climate protection (Sustainability Annex) p. 243	
	PALFINGER KPI: Management systems	Environmental and energy management p. 107; Management systems in use (Sustainability Annex) p. 215	
Material topic: **Raw material demand and efficiency**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Efficient use of raw materials p. 102; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Efficient use of raw materials p. 102, Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Efficient use of raw materials p. 102; Efficient use of raw materials (Sustainability Annex) p. 238	
GRI 301: Materials 2016	**301-1:** Materials used by weight or volume UNGC 7-9	Efficient use of raw materials p. 102; Efficient use of raw materials (Sustainability Annex) p. 238	Not applicable: PALFINGER does not use any renewable materials.
	PALFINGER KPI: Waste cuttings	Efficient use of raw materials (Sustainability Annex) p. 238	
	PALFINGER KPI: Hazardous waste	Hazardous waste p. 102; Hazardous waste (Sustainability Annex) p. 239	
Supplier environmental assessment			
GRI 308: Supplier Environmental Assessment 2016	**308-1:** New suppliers that were screened using environmental criteria UNGC 7-9	Sustainability among suppliers p. 65	
	308-2: Negative environmental impacts in the supply chain and actions taken UNGC 7-9	Sustainability among suppliers p. 65	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
GRI 400: Social topics			
Material topic: **Product safety**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Safe and efficient products p. 97; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Safe and efficient products p. 97; Internal audits and risk management p. 123; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Safe and efficient products p. 97; Internal audits and risk management p. 123; Sustainable products (Sustainability Annex) p. 244	
GRI 416: Customer Health and Safety 2016	**416-1:** Assessment of the health and safety impacts of product and service categories	Safe and efficient products p. 97; Sustainable products (Sustainability Annex) p. 244	
	416-2: Incidents of non-compliance concerning the health and safety impacts of products and services	Safe and efficient products p. 97; Internal audits and risk management p. 123	Not applicable: Irrespective of fault, every incident is documented and investigated. Due to PALFINGER's business model, service incidents are not reported separately.
Material topic: **Health and safety**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Health and safety p. 92; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Health and safety p. 92; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Health and safety p. 92; Health and safety (Sustainability Annex) p. 236	
GRI 403: Occupational Health and Safety 2016	**403-2:** Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Health and safety p. 92; Definition of performance indicators p. 126, Health and safety (Sustainability Annex) p. 236	
	PALFINGER KPI: Management systems	Health and safety p. 92; Management systems in use (Sustainability Annex) p. 215	
Material topic: **Employee development**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Attractive employer p. 89; Learning organization p. 91; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Attractive employer p. 89; Learning organization p. 91; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Attractive employer p. 89; Learning organization p. 91; Learning organization (Sustainability Annex) p. 235	
GRI 404: Training and Education 2016	**404-1:** Average hours of training per year per employee	Learning organization p. 91; Learning organization (Sustainability Annex) p. 235	
	PALFINGER KPI: Appraisal interviews	Attractive employer p. 89	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
Material topic: **Attractive employment**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; HR Strategy 2020 p. 86; Corporate culture p. 87; Attractive employer p. 89; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	HR Strategy 2020 p. 86; Corporate culture p. 87; Attractive employer p. 89; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Corporate culture p. 87; Attractive employer p. 89; Employment trend p. 89; Employment trend (Sustainability Annex) p. 229	
GRI 401: Employment 2016	**401-1:** New employee hires and employee turnover UNGC 3-6	Employment trend p. 94; Employment trend (Sustainability Annex) p. 229	
GRI 405: Diversity and Equal Opportunity 2016	**405-1:** Diversity of governance bodies and employees UNGC 3-6	Employment trend p. 94; Executive Board p. 117; Supervisory Board p. 118; Diversity scheme p. 120; Employment trend (Sustainability Annex) p. 229	Not applicable: PALFINGER reports diversity only in the categories gender, age and nationality where relevant.
Material topic: **Corporate culture and values**			
GRI 103: Management Approach 2016	**103-1:** Explanation of the material topic and its boundary	Sustainability management p. 44; Corporate culture p. 87; Impacts of the sustainability topics along the value creation chain (Sustainability Annex) p. 218	
	103-2: The management approach and its components	Corporate culture p. 87; Sustainability programme (Sustainability Annex) p. 224	
	103-3: Evaluation of the management approach	Corporate culture p. 87	
Labour/Management relations			
GRI 402: Labour/Management Relations 2016	**402-1:** Minimum notice periods regarding operational changes	Corporate culture p. 87	
Non-discrimination			
GRI 406: Non-discrimination 2016	**406-1:** Incidents of discrimination and corrective actions taken	Diversity p. 88	
Freedom of association and collective bargaining			
GRI 407: Freedom of Association and Collective Bargaining 2016	**407-1:** Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk UNGC 1-6	Corporate culture p. 87	Not applicable: Freedom of association is not a material topic at PALFINGER, which is why only a qualitative description is presented.
Child labour			
GRI 408: Child Labour 2016	**408-1:** Operations and suppliers at significant risk for incidents of child labour UNGC 1-6	Corporate culture p. 87; Group guidelines and Code of Conduct p. 122	
Forced or compulsory labour			
GRI 409: Forced or Compulsory Labour 2016	**409-1:** Operations and suppliers at significant risk for incidents of forced or compulsory labour UNGC 1-6	Corporate culture p. 87; Group guidelines and Code of Conduct p. 122	

GRI Standard	GRI disclosures UN Global Compact	Page numbers	Omissions
Human rights assessment			
GRI 412: Human Rights Assessment 2016	**412-1:** Operations that have been subject to human rights reviews or impact assessments UNGC 1-6	Internal audits and risk management p. 123	
	412-2: Employee training on human rights policies or procedures UNGC 1-6	Information on guidelines and corporate ethics p. 123	No information available: Training in the form of e-learning is planned.
Local communities			
GRI 413: Local Communities 2016	**413-1:** Operations with local community engagement, impact assessments, and development programmes	Stakeholders p. 42; Commitment p. 50	Not applicable: no material topic, thus qualitative description of engagement with local communities is sufficient.
Supplier social assessment			
GRI 414: Supplier Social Assessment 2016	**414-1:** New suppliers that were screened using social criteria UNGC 1-6	Sustainability among suppliers p. 65	
	414-2: Negative social impacts in the supply chain and actions taken UNGC 1-6	Suppliers p. 64; Sustainability among suppliers p. 65	
Public policy			
GRI 415: Public Policy 2016	**415-1:** Political contributions UNGC 10	Commitment p. 50	

How to write a report.

STATEMENT AND REPORTS

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements for the year ended 31 December 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and that the consolidated management report for the year ended 31 December 2018 gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm to the best of our knowledge that the separate financial statements for the year ended 31 December 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of PALFINGER AG as required by the Austrian Business Code (UGB) and that the management report for the year ended 31 December 2018 gives a true and fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties the Company faces.

Bergheim, 6 February 2019

The Executive Board of PALFINGER AG

Andreas Klauser m.p.
Chief Executive Officer

Felix Strohbichler m.p.
Chief Financial Officer

Martin Zehnder m.p.
Chief Operating and
Chief Technology Officer

AUDITOR'S REPORTS

(Translation)[1)]

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the consolidated financial statements of

PALFINGER AG, Bergheim near Salzburg,

and of its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as at 31 December 2018 and its financial performance for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements under sec. 245a of the (Austrian) Business Code (UGB).

BASIS FOR OPINION

We conducted our audit in accordance with Regulation (EU) No 537/2014 (in the following "EU Regulation") and in accordance with the Austrian Standards on Auditing. Those standards require that we comply with the International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian Generally Accepted Accounting Principles and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the financial year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the following, we present the key audit matters from our point of view:

Title	**Valuation of goodwill – impairment tests according to IAS 36 for goodwill allocated to the Marine business area CGU**
Risk	PALFINGER reported goodwill generated by mergers in the total amount of EUR 145.0 million (previous year: EUR 147.6 million). In the SEA segment, EUR 74.4 million of this goodwill was allocated to the Marine business area CGU (Marine CGU). In 2018, the Austrian Financial Reporting Enforcement Panel (AFREP) found an error regarding the measurement of future cost savings and measures, which resulted in a correction of the test for impairment as at 31 December 2017. Subsequently, in line with IAS 8.42, an impairment loss of EUR 82.4 million had to be recorded with retrospective effect for the goodwill of the Marine CGU (Adjustments with retrospective effect, correction of accounting-related estimates and errors). These changes in estimates have been accounted for in the impairment tests for 2018 in accordance with IAS 36, on the basis of the latest information available. The economic framework conditions and the economic environment must be taken into account at the time of making a judgement regarding the value in use. The recoverable amount depends on the discount rate applied (WACC) as well as on the expected and planned cash inflows on the basis of medium-term corporate planning and the perpetual annuity. The main risk lies in the current estimate of these future cash flows. The timely implementation of the restructuring measures taken in the Marine CGU and their impact on the cost savings potential are a crucial factor in this regard. Detailed information on goodwill and its valuation is presented in the consolidated financial statements in Note (28). The disclosures regarding adjustments with retrospective effect can be found on page 144 of the notes to the consolidated financial statements.
Addressing this risk in the audit	In order to address this risk, we critically questioned the assumptions and estimates made by the management, and in doing so performed the following procedures, among others: • Inspection of the modified planning documents for the Marine CGU as well as plausibility check and analysis of the major value drivers (revenue, expenses, investments, changes in working capital and effects of the restructuring measures implemented and planned) to verify the adequacy of these plans. • Review whether the changes in the cash-flow assumptions 2017 have been recognized in the new planning process for the impairment test 2018. • Reconciliation of the approved plans for the 2019 financial year and subsequent years for the Marine CGU with cash-flow planning used in the impairment test 2018 in accordance with IAS 36, as well as an analysis of the most relevant changes in working capital, and an analysis as to whether the remaining effects from the restructuring measures contained in the cash inflows are sufficiently substantiated in accordance with IAS 36. • Inspection of the measures defined and evaluated in the context of the restructuring project broken down by degree of implementation and impact on the results. • Performance of a risk analysis by simulating the effects of technical valuation parameters using DCF calculations, as well as downside valuation scenarios resulting from the impairment test 2018 in accordance with IAS 36 for the Marine CGU at group level. • Review of the methods applied, the mathematical correctness of the documents presented and the calculations made, as well as plausibility check of the discount rates and planning approaches, in consultation with our valuation experts as well as benchmarking of the planning assumptions regarding revenue growth and EBIT margin by means of analysts' estimates and peer-group data (outside-in analysis). • Verification of the regularity of the adjustments with retrospective effect in accordance with IAS 8 and the corresponding mandatory explanations in the consolidated financial statements 2018. • Review of the mandatory disclosures regarding the impairment test in accordance with IAS 36 in the notes to the consolidated financial statements 2018.

RESPONSIBILITIES OF THE MANAGEMENT AND OF THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under sec. 245a of the Business Code for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation and in accordance with the Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation and in accordance with the Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

COMMENTS ON THE MANAGEMENT REPORT FOR THE GROUP

Pursuant to the Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Regarding the consolidated non-financial statement contained in the consolidated management report, our responsibility is to audit as to whether it was prepared in accordance with the applicable legal regulations, to read the non-financial statement and, in doing so, to consider on the basis of the knowledge obtained in the audit whether it is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

The management is responsible for the preparation of the management report for the Group in accordance with the Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with the Austrian Standards on Auditing for the audit of the management report for the Group.

OPINION

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with sec. 243a of the Business Code, and is consistent with the consolidated financial statements.

STATEMENT

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

ADDITIONAL INFORMATION IN ACCORDANCE WITH ARTICLE 10 OF THE EU REGULATION

We were elected as auditor by the Annual General Meeting on 7 March 2018. We were appointed by the Supervisory Board on 5 July 2018. We have been auditors without cease since 2008.

We confirm that the audit opinion in the Section "Report on the consolidated financial statements" is consistent with the additional report to the Audit Committee referred to in article 11 of the EU Regulation.

We declare that no prohibited non-audit services (article 5 para. 1 of the EU Regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

RESPONSIBLE AUSTRIAN CERTIFIED PUBLIC ACCOUNTANT

The engagement partner is Mr. Diether Dämon, Certified Public Accountant.

Salzburg, 6 February 2019

Ernst & Young

Wirtschaftsprüfungsgesellschaft m.b.H.

Gerhard Schwartz m.p.	Diether Dämon m.p.
Certified Public Accountant	Certified Public Accountant

1) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. sec. 281 paragraph 2 of the Business Code applies to alternated versions.

REPORT ABOUT THE INDEPENDENT ASSURANCE OF THE NON-FINANCIAL REPORTING

Independent assurance regarding the non-financial disclosures and data 2018 of PALFINGER AG

Attention: This letter has been translated from German to English for referencing purposes only. Please refer to the officially legally binding version as written and signed in German. Only the German version is the legally binding version.

ENGAGEMENT

We were requested to perform a limited assurance engagement regarding the non-financial reporting 2018 (hereafter "Reporting") in accordance with the requirements of the sec. 267a UGB Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG) and the GRI Standards CORE Option of PALFINGER AG.

The assurance engagement covers the Reporting as follows:

• "Integrated Annual and Sustainability Report 2018" concerning information in and references linked from the GRI index to sustainability disclosures and data.

Our assurance engagement solely covers references directly specified in the GRI index. It does not cover any further web references.

Our procedures have been designed to obtain a limited level of assurance on which to base our conclusions. The extent of evidence gathering procedures performed is less than for that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

CLARIFICATIONS TO OUR ENGAGEMENT

• The objective of our engagement was neither a financial audit nor a financial audit review. We did not perform any further assurance procedures on data, which were subject of the annual financial audit, the corporate governance report or the risk reporting. We merely checked that data was presented in accordance with the GRI Guidelines.
• Neither the detection and investigation of criminal offenses, such as embezzlement or other fraudulent actions, nor the assessment of effectiveness and efficiency of management were subject to our engagement.
• Limited assurance regarding prospective information was not subject to our engagement.
• We did not test data derived from external surveys, we only verified that relevant disclosures and data are correctly quoted in the Reporting.

CRITERIA

The information included in the Reporting was based on the criteria applicable in the year 2018 ("The Criteria"), consisting of:

• Requirements according to sec. 267a UGB (NaDiVeG) and the GRI Standards[1)]

We believe that these criteria are suitable for our assurance engagement.

MANAGEMENT RESPONSIBILITIES

PALFINGER AG's management is responsible for the Reporting and that the information therein is in accordance with the criteria mentioned above. This responsibility includes designing, implementing and maintaining internal controls. These are essential for the elimination of material misstatements in the Reporting.

OUR RESPONSIBILITIES

It is our responsibility to express a conclusion on the information included in the Reporting on the basis of the limited assurance engagement.

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' ISAE 3000 (Revised) and the Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC), which includes requirements in relation to our independence.

The objective of our engagement is not to account for the interests of any third parties. Our work solely serves the client and his purpose. Our engagement is thus not destined to be used as a basis of decision-making for third parties.

The "General Conditions of Contract for the Public Accounting Professions"[2)], are binding for this engagement. According to that, our liability is limited and an accountant is only liable for violating intentionally or by gross negligence the contractual duties and obligations entered into. In cases of gross negligence the maximum liability towards PALFINGER AG and any third party together is EUR 726,730 in the aggregate.

WHAT WE DID TO FORM OUR CONCLUSION

We have performed all the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions. The assurance engagement was conducted at the company's headquarter in Bergheim. Our main procedures were:

- Obtained an overview over the industry as well as the characteristics and governance of the organisation;
- Interviewed a selection of group and functional senior managers and executives to understand key expectations and identify systems, processes and internal control processes to support them;
- Reviewed group level, board and executive documents to assess awareness and priority and to understand how progress is tracked;
- Examined risk management and governance processes related to sustainability and critical evaluation of the representation in the Reporting;
- Performed analytical procedures at group level;
- Performed site visits in Bergheim to review progress and obtain evidence of performance. In addition we reviewed data samples at site level for completeness, reliability, accuracy and timeliness;
- Reviewed data and processes on a sample basis to test whether they had been collected, consolidated and reported appropriately at group level. This included reviewing data samples to test whether the data had been reported in an accurate, reliable and complete manner;
- Reviewed the coverage of material topics against the key topics raised in the stakeholder dialogues, areas of performance covered in external media reports and the environmental and social reports of peers;
- Evaluated the materiality assessment, including sector specific megatrends and aspects of IIRC[3)] and GRI;
- Assessment whether the Requirements according to sec. 267a UGB (NaDiVeG) have been adequately addressed;
- Assessed completeness of UNGC reporting against the links with the "10 principles" of the UNGC as outlined in the GRI guidelines[4)];
- Challenged a sample of statements and claims in the Reporting against our work steps and the GRI Standards principles and
- Reviewed whether the GRI Standards were consistently applied for the CORE Option.

OUR CONCLUSION

Based on the scope of our review nothing has come to our attention that causes us to believe that the disclosures and data in the Reporting were not prepared in accordance with the criteria identified above.

Vienna, 6 February 2019

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Stefan Uher **ppa. Dr. Christine Jasch**

GRI 102-56

1) https://www.globalreporting.org/standards/
2) Version of April 18th 2018 (AAB 2018) issued by the Chamber of Public Accountants and Tax Advisors, section 7 http://www.kwt.or.at/PortalData/1/Resources/aab/AAB_2018_de.pdf
3) http://www.theiirc.org/international-ir-framework/
4) https://www.globalreporting.org/resourcelibrary/UNGC-G4-linkage-publication.pdf

REPORT OF THE SUPERVISORY BOARD

In the 2018 financial year, the Supervisory Board performed all duties assigned to it by law and by the Company's Articles of Association. Five Supervisory Board meetings were held, on 7 February, 16 April, 28 May, 24 September and 10 December 2018, and attended by the Executive Board. The Executive Board informed the Supervisory Board regularly, both in writing and verbally, about the course of business and the position of the Company and of the group companies. The Chairman of the Supervisory Board communicated regularly with the Executive Board, also outside the scope of the Supervisory Board meetings, in order to confer with the Executive Board concerning the Company's strategy, business development and risk situation.

Besides current developments and planning, the Supervisory Board focused primarily on strategy in the individual segments, changes on the Executive Board, major investment decisions, economic, environmental and social risks, the developments of group-wide sustainability management as well as the cooperation with the Chinese SANY Group. The Audit Committee, the Nomination Committee and the Remuneration Committee met at regular intervals during the reporting period. The discussions focussed on the strategic orientation and further development of the Group, the search for and appointment of a new Chief Executive Officer, as well as on cooperation within the Executive Board.

PALFINGER AG's financial statements for the year ended 31 December 2018 and the management report including the Company's accounting records were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg. The audit revealed that the accounting records, the financial statements and the management report comply with the applicable legal regulations and the provisions of the Articles of Association. The final findings of the audit did not give rise to any objections, thus allowing an unqualified auditor's opinion to be issued for 2018. This also applies to the consolidated financial statements. The consolidated financial statements prepared in accordance with IFRS (as adopted by the European Union) were supplemented by the consolidated management report and additional information in accordance with sec. 245a of the Business Code.

The Supervisory Board has approved the financial statements for the year ended 31 December 2018 and the management report for the 2018 financial year, thereby adopting the 2018 financial statements of PALFINGER AG according to sec. 96 para. 4 of the Companies Act. The Supervisory Board has approved the consolidated financial statements and the consolidated management report prepared according to sec. 244 et seq. of the Business Code. The Supervisory Board has evaluated and approved the proposal of the Executive Board with respect to the distribution of profits for the 2018 financial year.

The Supervisory Board would like to express its thanks and recognition to the members of the Executive Board and all staff members of PALFINGER for their outstanding commitment and excellent achievements in the 2018 financial year.

Bergheim, 18 February 2019

Hubert Palfinger jun. m.p.
Chairman of the Supervisory Board

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GRI 102-53

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COMPANIES OF THE PALFINGER GROUP

PALFINGER AG
Austria, Bergheim

- 100% **Palfinger EMEA GmbH** – Austria, Bergheim
  - 65% **EPSILON Kran GmbH** – Austria, Salzburg – 35% Steindl Holding GmbH
  - 45% **STEPA Farmkran GmbH** – Austria, Elsbethen – 55% STEINDL KRANTECHNIK GmbH
  - 100% **Palfinger Europe GmbH** – Austria, Salzburg
  - 100% **Palfinger Gru Idrauliche S.r.l.** – Italy, Bolzano
  - 100% **Palfinger Tail Lifts GmbH** – Germany, Ganderkesee-Hoykenkamp
  - 100% **Palfinger Tail Lifts s.r.o.** – Slovakia, Bratislava
  - 100% **MBB Interlift N.V.** – Belgium, Erembodegem
  - 90% **Palfinger Platforms GmbH** – Germany, Krefeld – 10% Palfinger Europe GmbH
  - 90% **Palfinger GmbH** – Germany, Ainring – 10% Palfinger Europe GmbH
  - 100% **Palfinger Hayons S.A.S.** – France, Silly en Gouffern
  - 65% **Guima Palfinger S.A.S.** – France, Caussade – 35% Compagnie générale Vincent
  - 48.94% **Palfinger France S.A.S.** – France, Étoile sur Rhône – 51.06% Group Vincent et.al.
  - 100% **Palfinger Tail Lifts Limited** – United Kingdom, Welwyn Garden City
  - 100% **Palfinger Danmark AS** – Denmark, Middelfart
  - 100% **Palfinger Produktionstechnik Bulgaria EOOD** – Bulgaria, Cherven Brjag
  - 60% **Nimet Srl** – Romania, Lazuri – 40% Samy Numan
  - 100% **PALFINGER proizvodnja d.o.o.** – Slovenia, Maribor
  - 100% **Palfinger proizvodna tehnologija Hrvatska d.o.o.** – Croatia, Delnice
  - 100% **Palfinger Marine LSE Poland sp.z.o.o** – Poland, Solec Kujawski
  - 75% **Palfinger Ibérica Maquinaria, S.L.** – Spain, Madrid – 25% OYT Mulder Holding S.L.
  - 60% **Palfinger comércio e aluguer de máquinas, S.A.** – Portugal, Samora Correira – 40% Areampla Portugal
  - 100% **Palfinger Canarias Maquinaria S.L.** – Spain, Las Palmas de Gran Canaria
  - 100% **Elesa centro de montaje y servicios, S.A** – Spain, Madrid
- 100% **Palfinger Area Units GmbH** – Austria, Salzburg
  - 100% **Palfinger Americas GmbH** – Austria, Salzburg
  - 30% **Andrés N. Bertotto S.A.I.C.** – Argentina, Río Tercero – 70% Family Bertotto
  - 99.85% **Madal Palfinger S.A.** – Brazil, Caxias do Sul – 0.15% Retail Shareholders
  - 100% **Palfinger-Tercek Indústria de Elevadores Veiculares Ltda** – Brazil, Caxias do Sul
  - 100% **Palfinger, Inc.** – Canada, Niagara Falls
  - 100% **Palfinger US Holdings, Inc.** – USA, Council Bluffs
  - 100% **Palfinger Liftgates, LLC** – USA, Cerritos
  - 51% **FairWind Renewable Energy Services, LLC** – USA, Lawton – 49% Fairwind Holding LLC
  - 100% **Omaha Standard, LLC** – USA, Council Bluffs
  - 100% **Palfinger USA, LLC** – USA, Tiffin
  - 100% **Equipment Technology, LLC** – USA, Oklahoma City
  - 100% **Palfinger CIS GmbH** – Austria, Salzburg
  - 100% **INMAN AO** – Russia, Ishimbay
  - 51% **Palfinger Kama Cylinders OOO** – Russia, Neftekamsk – 49% KAMAZ PAO
  - 49% **Crane Center Kamaz OOO** – Russia, Naberezhnye Chelny – 51% KAMAZ PAO
  - 100% **Palfinger Crane Rus OOO** – Russia, St. Petersburg
  - 75.03% **Palfinger PM Holding GmbH** – Austria, Salzburg – 24,97% Steindl Forsttechnik GmbH
  - 100% **Podyomnie Maschini AO** – Russia, Velikiye Luki
  - 62.2% **SMZ OOO** – Russia, Arkhangelsk – 37.8% Holding Company Podyomnie Maschini AO
  - 97.07% **Velmash-S OOO** – Russia, Velikiye Luki – 2.93% Holding Company Podyomnie Maschini AO
  - 49.9% **Holding Company Podyomnie Maschini AO** – Russia, Arkhangelsk – 50.1% Palfinger PM Holding GmbH et.al.
  - 99.99% **Palfinger Cranes India Pvt. Ltd.** – India, Chennai – 0.01% Palfinger Asia Pacific Pte. Ltd.
  - 100% **Palfinger Asia Pacific Pte. Ltd.** – Singapore, Singapore
    - 100% **Palfinger Trading (Shanghai) Co., Ltd.** – China, Shanghai
    - 100% **Palfinger Equipment (Nantong) Co., Ltd.** – China, Nantong
    - 100% **Palfinger Japan K.K.** – Japan, Yokohama
  - 100% **Palfinger Korea Co., Ltd.** – South Korea, Seongnam-si
  - 50% **Sany Palfinger SPV Equipment Co., Ltd.** – China, Nantong – 50% SANY Automobile Hoisting Machinery Co Ltd.
  - 10% **SANY Automobile Hoisting Machinery Co., Ltd.** – China, Changsha – 90% SANY Automobile Manufacturing Co., Ltd
- 100% **Palfinger S. Units GmbH** – Austria, Salzburg
  - 77% **Palfinger Platforms Italy s.r.l.** – Italy, Bolzano – 23% Sky Access Srl.
  - 50% **Palfinger Sany International Mobile Cranes Sales GmbH** – Austria, Salzburg – 50% SANY Belgium Holding S.A.
  - 100% **PALFINGER SANY Cranes OOO** – Russia, Moscow
- 100% **Palfinger Projects B.V.** – Netherlands, Elst

Fully consolidated
At equity and other shareholdings

As at 31 December 2018

PALFINGER AG
Austria, Bergheim

- 100% **Palfinger Marine GmbH**, Austria, Salzburg
  - 100% **Palfinger Marine Norway AS**, Norway, Bergen
    - 33% **Dreggen (Hong Kong) Company Limited**, China, Hong Kong (67% NG Kwong Wing et al.)
  - 100% **Palfinger Marine Netherlands B.V.**, Netherlands, Harderwijk
    - 100% **Palfinger Marine Vietnam Co., Ltd.**, Vietnam, Hung Yen
    - 100% **Palfinger Boats Vietnam Co. Ltd.**, Vietnam, Hung Yen
  - 100% **Palfinger Marine Poland sp. z.o.o.**, Poland, Gdynia
  - 100% **Palfinger Marine d.o.o., Maribor**, Slovenia, Maribor
  - 100% **Palfinger Marine Do Brasil Ltda.**, Brazil, Rio de Janeiro
    - 99% **Palfinger Marine Montagens Industriais do Brasil Ltda.**, Brazil, Porto Alegre (1% Koch Metalúrgica Ltda.)
  - 100% **Palfinger Marine Korea Ltd.**, South Korea, Sacheon-si
  - 100% **Palfinger Marine Rus OOO**, Russia, St. Petersburg
  - 100% **Palfinger Marine Safety AS**, Norway, Seimsfoss
    - 100% **Noreq LLC**, USA, Houston
    - 100% **Palfinger Marine USA Inc.**, USA, New Iberia
      - 100% **Palfinger Marine Panama Inc.**, Panama, Panama City
    - 100% **Palfinger Marine Canada Inc.**, Canada, Langley
    - 100% **Palfinger Marine LSE (Qingdao) Co., Ltd.**, China, Qingdao
    - 100% **Palfinger Marine Shanghai Co., Ltd.**, China, Shanghai
    - 100% **Palfinger Marine Hong Kong Limited**, China, Hong Kong
  - 100% **Palfinger Marine UK Limited**, United Kingdom, Gosport Hampshire
  - 100% **Palfinger Marine DK AS**, Denmark, Munkebo
  - 100% **Harding Safety Spain SL**, Spain, Cádiz
  - 100% **Palfinger Marine Italy Srl**, Italy, Livorno
  - 100% **Palfinger Marine Germany GmbH**, Germany, Dägeling
  - 100% **Palfinger Marine Europe B.V.**, Netherlands, Schiedam
    - 100% **Palfinger Marine Czech s.r.o.**, Czech Republic, Slaný
  - 100% **Noreq BV**, Netherlands, Houten
  - 100% **Heron Davits AS**, Norway, Seimsfoss
- 100% **Palfinger systems units GmbH**, Austria, Salzburg
  - 100%* **Mega Repairing Machinery Equipment LLC**, United Arab Emirates, Dubai
  - 100%* **Megarme Inspection & Engineering Services LLC**, United Arab Emirates, Dubai
  - 100%* **Megarme General Contracting Company LLC**, United Arab Emirates, Abu Dhabi
  - 100%* **Megarme Qatar WLL**, Qatar, Doha

Fully consolidated
At equity and other shareholdings
* Partly held in escrow

As at 31 December 2018

FINANCIAL CALENDAR 2019

19 February 2019	**Balance sheet presentation**
10 March 2019	**Record date Annual General Meeting**
15 March 2019	**Deadline for certificates of deposit**
20 March 2019	**Annual General Meeting**
22 March 2019	**Ex-dividend date**
25 March 2019	**Record date dividend**
26 March 2019	**Dividend payment date**
30 April 2019	**Publication of results for the first quarter of 2019**
30 July 2019	**Publication of results for the first half of 2019**
29 October 2019	**Publication of results for the first three quarters of 2019**

Additional dates such as trade fairs or road shows will be announced on the Company's website under Financial Calendar.

Investors and other interested parties who wish to receive regular news about the PALFINGER Group may register for the info service on the PALFINGER website. The PALFINGER Investor Relations app is also available for download on the Company's website as well as in leading app stores.
www.palfinger.ag/en/investors; www.palfinger.ag/en/investors/ir-service

The digital version of the Integrated Annual Report as well as the download link can be found at i-report.palfinger.ag
i-report.palfinger.ag

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