

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.

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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 (1 st Deputy Chairman since 6 June 2016)	9 March 2016	AGM 2021	Male; born in 1963; AT
Hannes Palfinger (2 nd 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 Kücher¹⁾	6 February 2015	¹⁾	Male; born in 1963; AT
Alois Weiss¹⁾	13 February 2006	¹⁾	Male; born in 1962; AT
Erwin Asen¹⁾	20 December 2017	¹⁾	Male; born in 1971; AT

¹⁾ Delegated by the Works Council.

²⁾ Diversity factors include gender, year of birth, nationality.

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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

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**

Performance-related remuneration is also tied to long-term corporate targets

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**

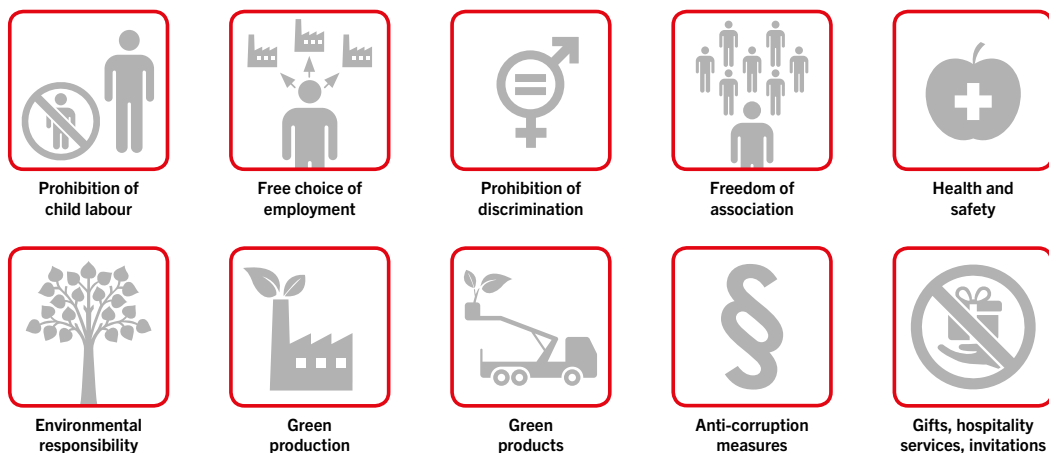
Group guidelines and Code of Conduct

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 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.

The four-eyes principle and the separation of functions mitigate corruption risks and protect employees

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

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.

In an on-boarding seminar, new employees become acquainted with compliance at PALFINGER

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.

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.

The Integrity Line can be reached via the Company's website

🌐 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.

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 www.palfinger.ag/en/investors/corporate-governance