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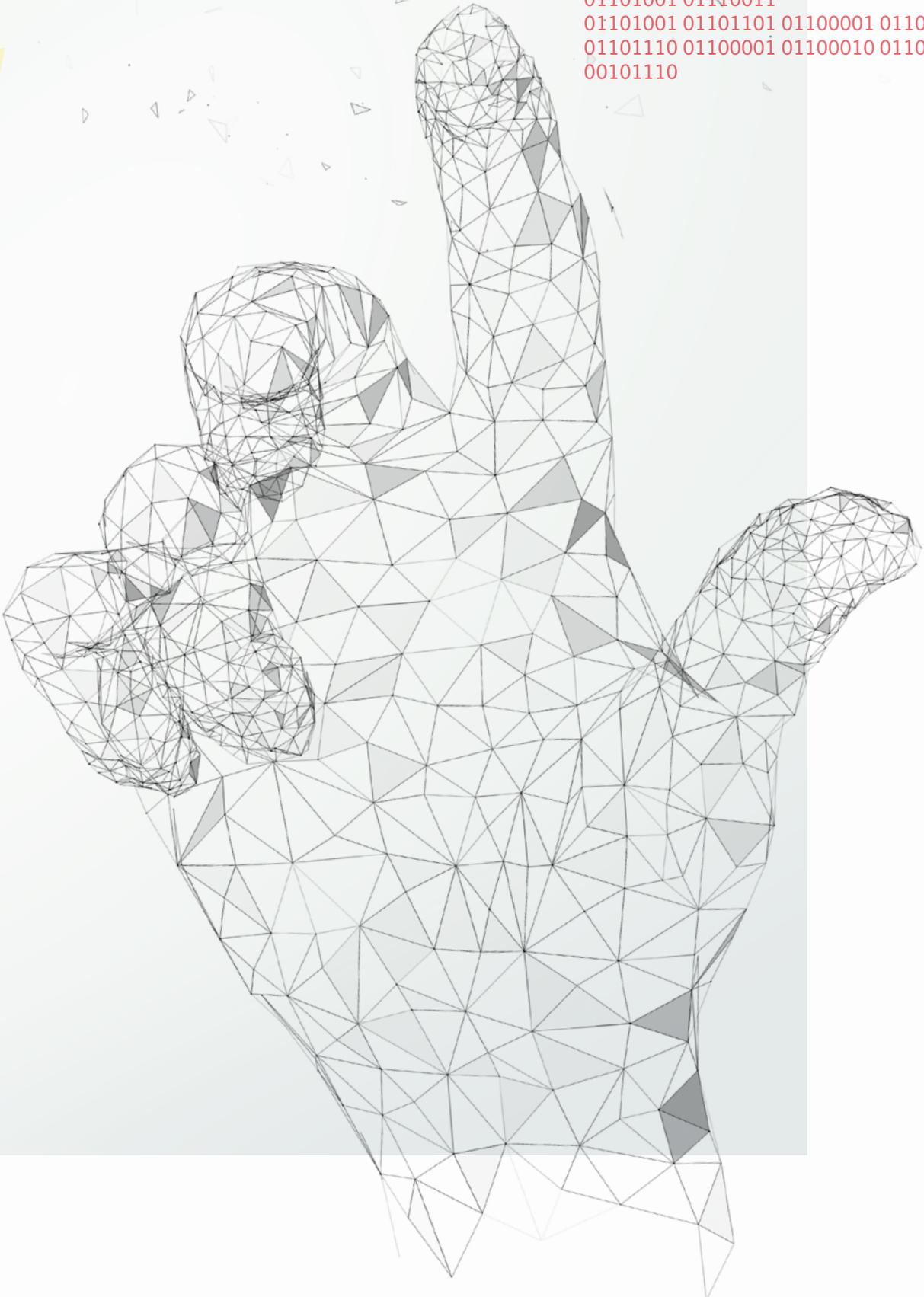


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**Reinventing yourself
over and over again.
Thinking in new
ways and in terms
of solutions.
Never standing still.
But always keeping
the people in mind.**

**The future is:
whatever is imaginable.**

KEY FIGURES OF THE PALFINGER GROUP

EUR thousand	2013	2014	2015	2016	2017
Income statement					
Revenue	973,909	1,063,421	1,229,892	1,357,012	1,471,075
EBITDA ¹⁾	100,692	104,637	154,370	172,452	185,982
EBITDA margin ¹⁾	10.3%	9.8%	12.6%	12.7%	12.6%
EBIT ¹⁾	68,957	66,079	113,415	123,747	129,684
EBIT margin ¹⁾	7.1%	6.2%	9.2%	9.1%	8.8%
EBITDA	100,692	104,637	145,330	155,997	167,350
EBITDA margin	10.3%	9.8%	11.8%	11.5%	11.4%
EBIT	68,957	66,079	104,375	106,049	110,190
EBIT margin	7.1%	6.2%	8.5%	7.8%	7.5%
Result before income tax	56,037	54,165	92,974	93,213	88,519
Consolidated net result for the period	38,749	38,162	64,366	61,173	52,513
Balance sheet					
Current capital (average)	268,036	286,513	310,195	356,518	390,473
Current capital ratio ²⁾	27.5%	26.9%	25.2%	26.3%	26.5%
Capital employed (average)	591,249	705,316	834,911	975,784	1,090,996
Equity ratio	45.3%	40.5%	42.1%	37.7%	37.3%
Net debt	219,980	356,600	347,913	513,077	513,282
Gearing	57.9%	78.4%	68.1%	88.5%	89.2%
Cash flows and investments					
Cash flows from operating activities	69,236	47,208	110,623	109,579	91,978
Free cash flows	28,993	(159,525)	54,704	(68,700)	43,058
Net investments	31,723	175,855	60,440	71,359	68,301
Depreciation, amortization and impairment	31,735	38,558	40,955	49,948	57,160
Value creation					
ROCE	9.0%	7.4%	9.6%	8.1%	7.5%
ROE	11.7%	10.5%	14.8%	12.7%	11.3%
EVA	9,535	6,713	25,880	20,546	13,613
WACC	7.4%	6.5%	6.5%	6.0%	6.2%
Human resources					
Employees ³⁾	6,490	8,225	9,102 ⁴⁾	9,846 ⁵⁾	10,212
Percentage of women	10.0%	12.5%	12.9% ⁴⁾	13.3% ⁵⁾	13.1%
Employee turnover	10.3%	10.4%	14.2% ⁴⁾	15.4% ⁵⁾	18.7%
Staff absences due to industrial accidents (in % of regular working time)	0.18%	0.09%	0.12% ⁴⁾	0.21% ⁵⁾	0.18%
Training hours per employee ⁶⁾	11.9	9.0	15.7 ⁴⁾	15.6 ⁵⁾	19.7
Environment					
Index: Energy consumption in relation to revenue	100.0%	95.5%	91.0%	94.8%	91.1%
Index: Greenhouse gas emissions in relation to revenue	100.0%	96.9%	93.6%	98.7%	90.4%
Index: Hazardous waste in relation to revenue	100.0%	103.2%	124.8%	157.7%	325.4%
Share					
Market capitalization	1,030,810	789,082	994,342	1,075,167	1,280,050
Price as at year end (EUR)	28.85	20.99	26.45	28.60	34.05
Earnings per share in EUR	1.09	1.04	1.73	1.63	1.40
Dividend per share (EUR)	0.41	0.34	0.57	0.57	0.47 ⁷⁾

1) Figures since 2015 were normalized (n) by restructuring costs.

2) Current capital (average) in proportion to revenue of the previous 12 months.

3) Balance-sheet date figures of consolidated Group companies excluding equity shareholdings and excluding temporary workers.

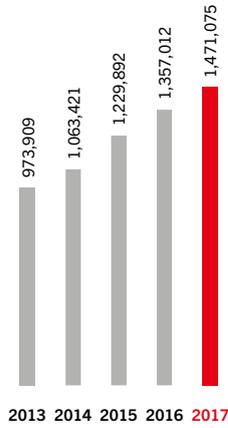
4) Internal control loops to improve data quality led to changes.

5) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

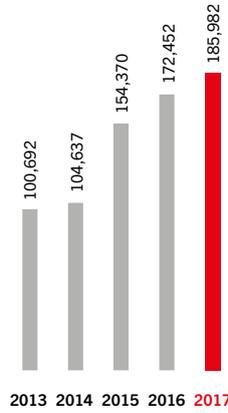
6) Deviating reporting boundaries due to sites that do not report these indicators.

7) Proposal to the Annual General Meeting.

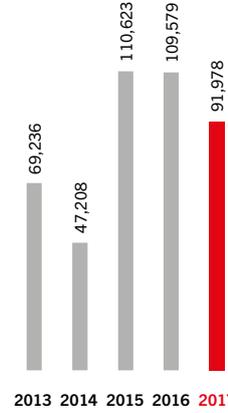
ECONOMY



REVENUE
(EUR thousand)

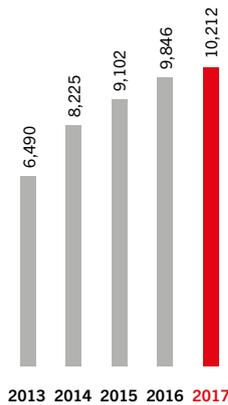


EBITDA_n
(EUR thousand)

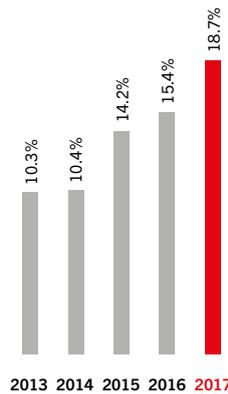


OPERATING CASH FLOWS
(EUR thousand)

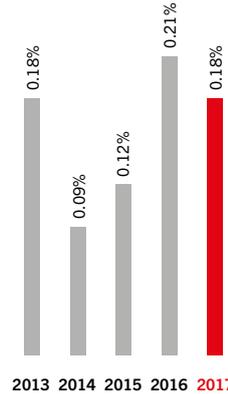
HUMAN RESOURCES



EMPLOYEES
(as at 31 Dec)

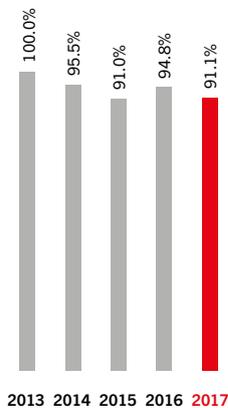


EMPLOYEE TURNOVER
(in per cent)

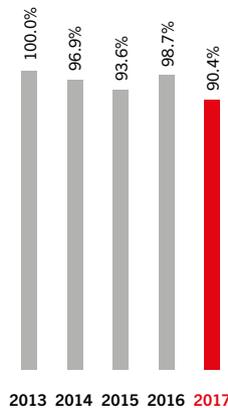


STAFF ABSENCES DUE TO INDUSTRIAL ACCIDENTS
(in per cent)

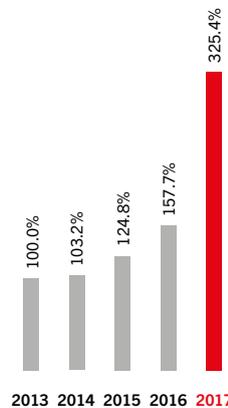
ENVIRONMENT



INDEX: ENERGY CONSUMPTION IN RELATION TO REVENUE



INDEX: GREENHOUSE GAS EMISSIONS IN RELATION TO REVENUE



INDEX: HAZARDOUS WASTE IN RELATION TO REVENUE

ABOUT THIS REPORT

The 2017 financial year was a highly successful one for PALFINGER. Revenue climbed to a new record high; EBIT increased as well, but due to one-time effects fell short of expectations. The 2017 financial year also was a year in which the course was set for the future. Consolidation and restructuring are the basis for the successful further advancement of the existing business and vehicles for new developments. PALFINGER's vision and strategy for the digital age support the goal of continuing to be the global market leader.

This Integrated Annual Report 2017 contains the PALFINGER Group's reporting on financial and non-financial performance indicators. PALFINGER is convinced that active analysis of the opportunities, risks and effects of its own business operations – also in connection with the upstream and downstream stages in the value creation chain – determines the long-term success of the Company. Since 2013, this philosophy has therefore also been reflected in PALFINGER's reporting, which has combined economic and legal information with the issues and results of sustainable management.

The Report was prepared in accordance with the International Financial Reporting Standards (IFRS) and the GRI standards: Core option. Moreover, PALFINGER is committed to the UN Global Compact (UNGC), the United Nations' Sustainable Development Goals and the OECD Guidelines for Multinational Enterprises. The integrated approach taken by PALFINGER 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:

 **Reference to information regarding a GRI disclosure and to 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 according to IFRS and the detailed GRI and sustainability disclosures. Material chapters presented in the Report are also available as a web version.

 **GRI 102-12, 102-54**

 **Detailed GRI and sustainability disclosures, page 211**

 **www.palfinger.ag/en/newsroom/annual-reports; www.palfinger.ag/en/sustainability/publications/communication-on-progress-for-the-un-global-compact; i-report.palfinger.ag**

FOREWORD BY THE MANAGEMENT BOARD

DEAR READERS,

In this Annual Report 2017 of the PALFINGER Group we proudly present to you a highly successful year, as can be seen in the key figures at first glance. But it is only at second glance that the changes we have made in order to prepare PALFINGER for further long-term, profitable growth in a digital future are revealed.

2017 was a year characterized by enormous demand and a soaring volume of incoming orders. At EUR 1,471.1 million, revenue reached a new high for the seventh time in succession. Despite comprehensive restructuring measures and the negative impact of one-time measures, EBIT increased once again, although it fell short of our expectations. EBITDA_n (EBITDA normalized by restructuring costs) rose to EUR 186.0 million, which corresponds to an EBITDA_n margin of 12.6 per cent. Bottlenecks in production accounted for our inability to complete a significant order volume in due time at the end of the year. These orders will therefore only be reflected in the figures for 2018.

2017 was also a year of consolidation, following the conclusion of the largest acquisition in the Company's history in the previous year. The integration of the globally operating Harding Group is proceeding and will be on our agenda for a while. A restructuring programme aimed at generating profitable growth in all areas and regions was launched in 2016. In North America and in the marine business, numerous changes were effected in this connection. The adjustments, process improvements and consolidations made will have an increasingly positive impact on earnings; however, we believe that the evaluation of additional measures is necessary in order to be well-positioned for a future upswing in the marine business in particular.

2017 was also a year in which the course was set for the future. We prepared the vision for PALFINGER in the digital age. The basis for this is our time-tested successful path, along which we will continue to proceed. For a long time we have been dealing with the changes caused by digitalization. In the future, we will give a new structure to these changes at PALFINGER and thereby create sufficient scope not only for making improvements but also for developing brand-new business models. This approach will be supported by a number of group-wide initiatives, the objectives of which were determined in the strategic corporate planning up to 2022.

The survey carried out among our stakeholders within the scope of the materiality analysis ensures that issues relevant from your perspectives are considered. We have set ourselves financial as well as non-financial objectives, containing short-term as well as long-term targets. In 2017, for example, we specified an additional long-term target: a 25 per cent reduction of CO₂ emissions by 2030.

2017 also was a year of changes in the Management Board. First Christoph Kaml, and then Herbert Ortner, the Company's CEO since 2008, resigned from the Management Board of PALFINGER AG with effect as of the end of the year to pursue new challenges. We would like to thank them for their excellent cooperation and wish them all the very best for the future. We at PALFINGER are looking ahead. We are pleased to have you accompany us on the road into the future.



Felix Strohbichler



Martin Zehnder

The future is: reinventing yourself over and over again.

What can a market leader still achieve? Everything.

Our Company stands for constant transformation. Our openness to new ideas has enabled us to grow continuously over the past few decades.

Now we are in the middle of the next transformation: Digitalization has pervaded all spheres of life; it is both the challenge and the opportunity of the years to come. We are determined to utilize our leadership position in order to emerge as the winner of this new competitive race.

For this reason, the three strategic pillars of our corporate success – innovation, internationalization and flexibility – have been supplemented by a fourth: **PALFINGER 21st**.

The interplay of these four pillars will enable us to realize our vision and continue to achieve our corporate objective in the future:

**TOGETHER WE ARE SHAPING THE FUTURE
OF OUR CUSTOMERS' LIFTING SOLUTIONS.**

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The future is: thinking in new ways.

**PALFINGER 21st is more than just a buzzword.
It ushers in the era of a new entrepreneurial spirit.**

A new way of thinking that puts the focus on **digitalization** from the very beginning and keeps it there throughout: from **process planning** to production to **overall solutions**.

In the future, this incorporation of digitalization into PALFINGER's DNA will make it possible to speed up the process of developing and testing new ideas and translating them into reliable industrial business models. The basis for this will be our existing processes, products and services, which we will incorporate into new and comprehensive solutions, thereby creating **further added value**.

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The future is: thinking in terms of solutions.

Only those who know their customers' needs can survive in the market. In a world of accelerating change, it is important to know at all times what is in demand on the market – ideally, even before the market itself knows. For this reason, we are moving closer to our customers all over the world, so that we can identify **their challenges and their needs** and offer them the appropriate solutions.

Having the **courage to review our own performance** regularly is the key to our sustainable success.

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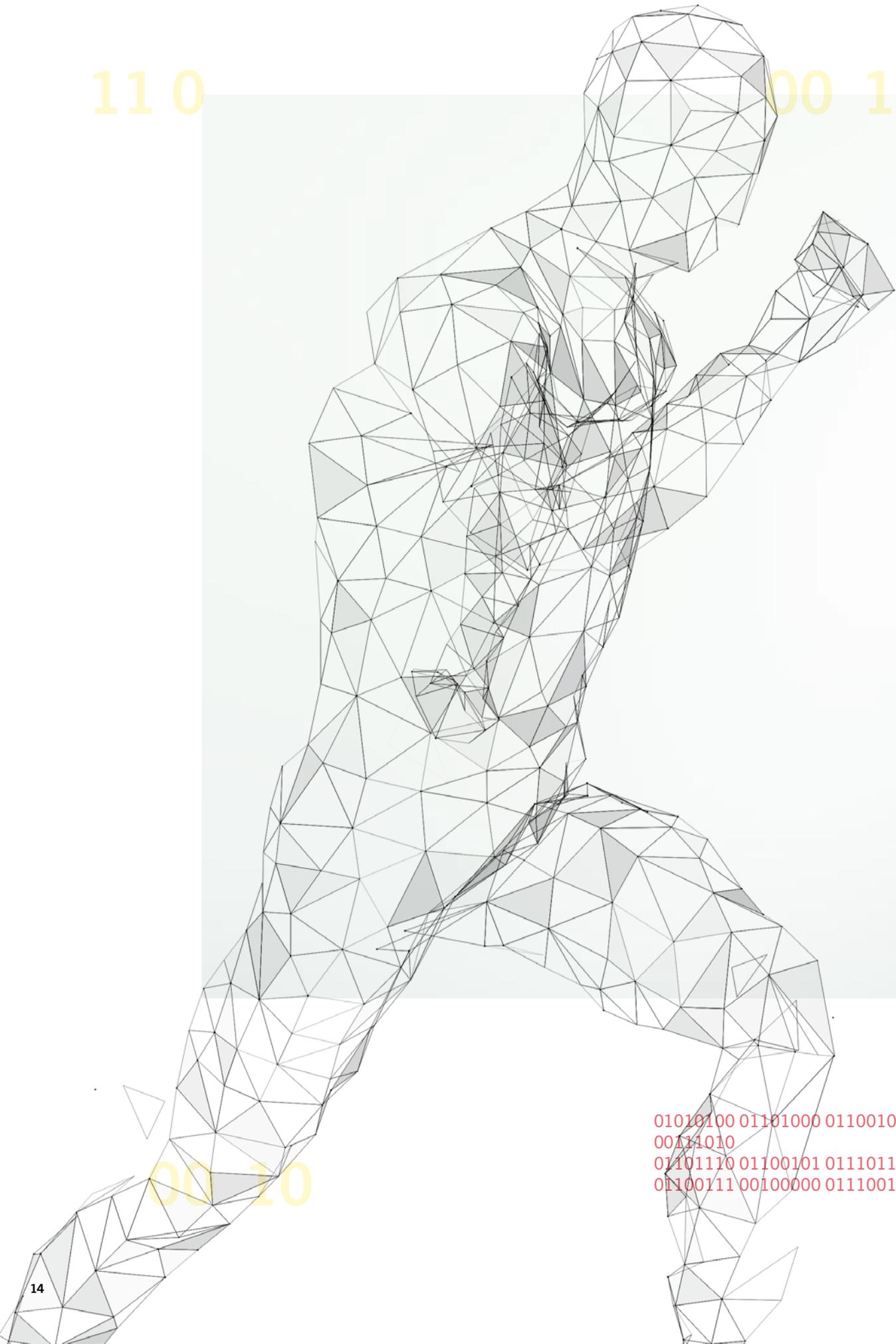
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The future is: never standing still.

Tomorrow's success lies outside the box. Nothing is more dated than yesterday's success. That is why it is especially important for a company to **maintain a keen interest** in everything and **stay on the move**. This is the only way to develop new and unusual solutions.

Our **new location at the start-up hub in Vienna** will propose new ideas and concepts, which we will evaluate as to their industrial feasibility. With the help of **PALFINGER's Process Excellence**, our structures are going to change. In that way, our efficient and flexible organization will always keep pace with the times.

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The future is: keeping the people in mind.

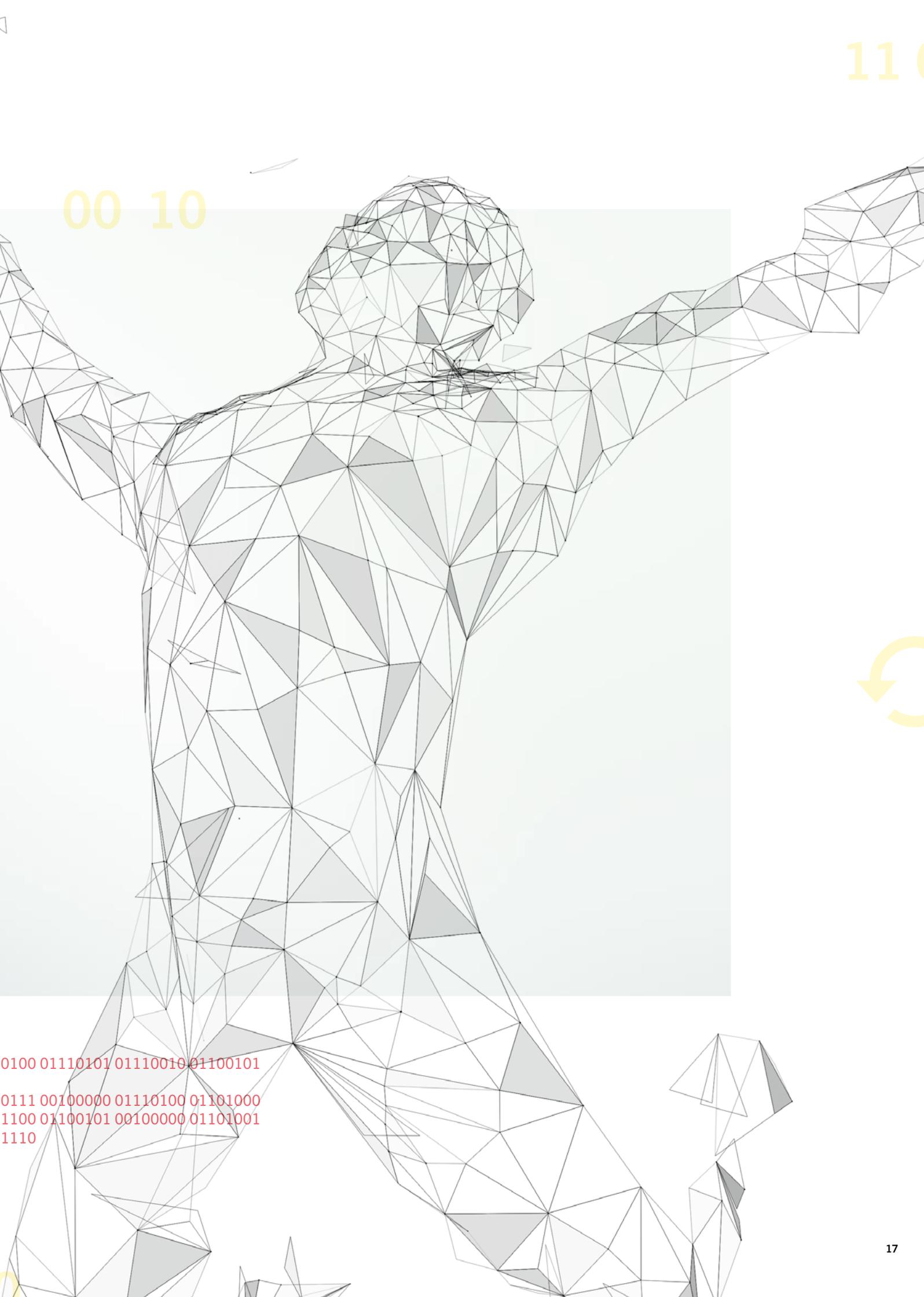
Our values are the compass showing us the way.

No matter what changes may come, some things are immutable – such as the **values** on which our corporate culture is based: **entrepreneurship, respect and learning.** People, as individuals, are and will remain at the heart of these values. By people we mean our **employees** as well as all other **stakeholders** of PALFINGER.

WE VALUE PEOPLE. PEOPLE CREATE VALUE.

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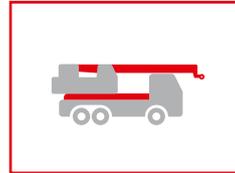
PALFINGER LAND



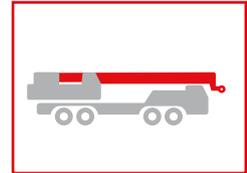
LOADER CRANES



**TIMBER &
RECYCLING CRANES**



TELESCOPIC CRANES



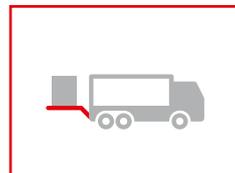
MOBILE CRANES



STIFF BOOM CRANES



ACCESS PLATFORMS



TAIL LIFTS



**HOOKLIFTS &
SKIPLOADERS**



**TRUCK MOUNTED
FORKLIFTS**



PASSENGER LIFTS



**BRIDGE INSPECTION
UNITS**



RAILWAY SYSTEMS

PALFINGER SEA



CRANES



**LIFESAVING
EQUIPMENT**



**WINCHES & HANDLING
EQUIPMENT**



ROPE ACCESS

PALFINGER AT A GLANCE

The PALFINGER Group, headquartered in Bergheim near Salzburg, Austria, comprises 90 companies in 35 countries and has a total workforce of 10,212. PALFINGER is regarded as the leader in technology and innovation in its sector.

PALFINGER is the global market leader for loader cranes, timber and recycling cranes, hooklifts and skiploaders, and railway systems. The acquisition of the globally operating Harding Group in 2016 also made PALFINGER the world's market leader in maritime lifesaving equipment. Moreover, the Company is a leading specialist in tail lifts, marine cranes and wind cranes, as well as truck mounted forklifts. PALFINGER is committed to providing the best service in the industry.

Production takes place at 38 manufacturing and assembly sites in Europe, CIS, North and South America, and Asia. A global sales and service network with more than 200 independent general importers and approx. 5,000 outlets in more than 130 countries on all continents guarantees optimum proximity to customers.

For years, the PALFINGER Group has recorded continuous growth, also driven by acquisitions. In the 2017 financial year, revenue climbed to a new record value of EUR 1,471.1 million. EBITDAn (EBITDA normalized by restructuring costs) came to EUR 186.0 million, and EBITn (EBIT normalized by restructuring costs) increased to EUR 129.7 million.

PALFINGER assumes social and ecological responsibility, which it deems to be a material success factor. For this reason, PALFINGER measures its value enhancement also by means of sustainability indicators. Its sound financial basis, the quality of its products and services, and its focus on sustainability are the foundations of PALFINGER's success.

In 2017, PALFINGER updated its vision and strategy in view of existing and future requirements in the digital age. For example, a development site was opened at a start-up centre in Vienna to promote new approaches and open innovation. PALFINGER's declared goal is to remain the world market leader and a trendsetter in digitalization.

🌐 **GRI 102-1, 102-2, 102-3, 102-7**

🌐 **Sustainability and Diversity Improvement Act**

🔗 www.palfinger.ag

SIGNIFICANT EVENTS

January 2017



INTEREST IN SKY STEEL SYSTEMS

PALFINGER acquired 20 per cent of the shares in Sky Steel Systems. The company is headquartered in Dubai and produces facade access equipment. PALFINGER identified numerous synergies with its Railway Systems business unit, which also encompasses servicing and repairs to infrastructure and buildings.

January 2017



ACQUISITION OF PALFINGER DANMARK

The previous owner of PALFINGER's Danish dealer decided to focus on its core business. PALFINGER acquired the shares in the company, taking over all of the staff and continuing the business.

March 2017



SALE OF A BUSINESS DIVISION IN NORTH AMERICA

Within the scope of its restructuring measures, PALFINGER sold its service body distribution and mounting business in North America.

March 2017



AUSTRIA'S LARGEST HACKATHON

PALFINGER hosted a hackathon in Vienna, the largest one held in Austria to date. Open innovation means developing innovative concepts in cooperation with external talents.

March 2017

EUR
200
MILLION

ISSUE OF PROMISSORY NOTE LOAN

PALFINGER issued a promissory note loan in the amount of EUR 200 million in three tranches, with maturities of five, seven and ten years.

May 2017



OPENING OF PALFINGER WORLD

PALFINGER opened an interactive exhibition in Lengau, putting the spotlight on its brand promise with state-of-the-art technology. The exhibition also features the new delivery centre for complete vehicles.

September 2017



OPENING OF DIGITAL DEVELOPMENT SITE

Central and Eastern Europe's largest business incubator was opened in Vienna. PALFINGER is represented as a partner company at its new development site for IoT solutions, which is designed primarily to profit from cooperation with start-ups.

October 2017



SUCCESSION

FELIX STROHBICHLER SUCCEEDS CHRISTOPH KAML

In June, Christoph Kaml, CFO of PALFINGER AG since 2009, announced his intentions to pursue new career challenges starting in September. In October, he was succeeded by Felix Strohbichler, who had held several management positions at PALFINGER from 2000 to 2015.

November 2017



RESIGNATION OF HERBERT ORTNER

Herbert Ortner, who joined PALFINGER in 2001 and had been the Company's CEO for the past ten years, announced his resignation from the Management Board for personal reasons as of the end of 2017. Starting in January 2018, the other two Board members will carry out his responsibilities until a successor is found.

November 2017



VISION AND STRATEGY FOR THE DIGITAL AGE

The strategic corporate planning up to 2022 was confirmed by the Management Board. Together with a new vision for the digital age and group-wide development programmes, it points the way for the years to come.

December 2017



LOWERING OF PROFIT FORECAST

Current figures and forecasts suggest that the consolidated net result for 2017 will be lower than in 2016. This is due to capacity bottlenecks and several one-time effects in the fourth quarter of 2017 with an impact on EBIT and the net financial result.

TOGETHER WE ARE **SHAPING THE FUTURE** OF OUR CUSTOMERS' LIFTING SOLUTIONS



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





THE NEW VISION

The three strategic pillars – innovation, internationalization and flexibility – have facilitated the global, profitable growth of the PALFINGER Group in previous years and will be consistently pursued in the future as well.

To allow for a prioritization of the challenges and opportunities of digital transformation, this time-tested strategy has 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 respect, learning and entrepreneurship** are central elements in the implementation of this vision. 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 solutions.

 Strategy & Value Management, page 33



A FIRESIDE CHAT WITH THE MANAGEMENT BOARD

STRATEGY TALKS WITH THE MANAGEMENT BOARD OF PALFINGER AG HERBERT ORTNER (CEO UP TO 31 DECEMBER 2017), FELIX STROHBICHLER AND MARTIN ZEHNDER

AFTER SEVEN YEARS OF POSTING RECORD FIGURES, WHERE DOES PALFINGER SEE THE LIMITS OF ITS GROWTH?

Ortner: As an entrepreneur, you should not set yourself any limits. What is fascinating is that no one knows what the future will bring, that is to say, which markets will grow and which markets will shrink or even disappear. PALFINGER's limits cannot be put into numbers. The question is whether we will manage to keep our position as the world market leader or even expand it. There are enough regions and product areas in which PALFINGER is not yet number one. That is where there is potential for growth.

WHAT WERE THE BASIC IDEAS BEHIND THE NEW STRATEGY AND CORPORATE PLANNING?

Zehnder: There are two mistakes you can make as a successful enterprise: Either you deny the need to change and rest on your laurels, or, in an excessive spirit of exuberance, you glorify disruption, jettison what you already have, and try to reinvent the wheel. On the Management Board we all agreed that we had to find the right balance for PALFINGER. This right balance, which prepares the old for the new, is a recurring theme in our vision, our strategy and our strategic corporate planning up to 2022.

“Proximity to our customers is indispensable.”

Felix Strohbichler

HOW DO YOU ACHIEVE THIS BALANCE?

Strohbichler: The factors that have influenced our success to date will continue to be most relevant to PALFINGER, which is why innovation, internationalization and flexibility will remain integral elements of our vision and our strategy. And we have incorporated a fourth element, which we call PALFINGER 21st: under this motto we will meet the new challenges relating to the digital transformation with new skills and solutions and new business models in connection with our products.

Proximity to our customers is indispensable for generating additional user benefits. It is not just a matter of having great ideas. We need to focus on the best idea for each specific purpose and implement it swiftly and surely.

HOW IMPORTANT IS PALFINGER 21st?

Strohbiehler: The three strategic pillars – innovation, internationalization and flexibility – have been supplemented by a fourth: PALFINGER 21st. PALFINGER’s solutions will have to meet our customers’ needs in the digital future as well.

For this reason, we have created a separate PALFINGER 21st unit with the corresponding resources to facilitate these innovations outside our standard organizational structure. New developments require different structures that allow things to be pushed forward quickly. The existing organization, however, is designed for process reliability, quality, and security in planning.

We can utilize digitalization to improve products; however, it is possible that we will also develop disruptive business models in conjunction with our products, models which we do not even envision today. Perhaps we will also translate risks into opportunities and business models. In reporting, PALFINGER 21st is shown as a part of the HOLDING unit.

“We mustn’t let ourselves become so caught up in a state of digital euphoria that we jettison everything that has made us strong and successful to date.”

Martin Zehnder

HOW WILL PALFINGER HAVE TO CHANGE TO MEET THE NEEDS OF DIGITAL TRANSFORMATION?

Zehnder: We have to become more agile in our organization, structures and management. It is not only new things that count. It is important to quickly and seamlessly connect and supplement existing structures, processes and products with new solutions, new perspectives and new processes. We mustn’t let ourselves become so caught up in a state of digital euphoria that we jettison everything that has made us strong and successful to date. Rather, we must develop, test and implement new things in a targeted manner on that solid basis. In this process, friction will arise, and it is the responsibility of the management team to transmute this energy into efficient processes and solutions. That is what we call agile management.

At the product level, we use our long-standing expertise in mechanics, hydraulics and mechatronics to turn our solutions into smart products with digital features. In designing our internal processes, we will, in the same way, maintain our time-tested order and efficiency and enrich them by means of the lessons learned from PALFINGER 21st.

HOW CAN PALFINGER 21st CONTRIBUTE TO PALFINGER’S RESULTS? WHAT DOES THAT MEAN FOR YOUR EMPLOYEES, INCLUDING FUTURE ONES?

Strohbiehler: We all have to be clear about one thing: In the years to come, we will continue to generate our revenue and earnings with our existing business. In a first step, PALFINGER 21st is our investment in the future. This is where new solutions and business models will be developed and brought to market maturity. Subsequently, these solutions will be incorporated into the LAND and SEA segments.

Our employees will continue to be the decisive factor. It goes without saying that we need more digital natives and employees with the necessary know-how. However, it is not just technical expertise that will determine our success, but also soft skills. It is the combination of know-how, experience, communication skills and the ability to work in teams. We need people with strong personalities: employees who can accept and get past their own failures and those of others and advance the Company through lessons learned from mistakes.

WHAT DO YOU EXPECT OF THE DEVELOPMENT SITE IN VIENNA?

Zehnder: Our development site at a Vienna-based innovation hub is one small piece of a larger parcel. It is a strong, widely visible commitment to new developments. Together with other large industrial enterprises we have opened a location in a start-up centre, where we will profit from direct contact with talents.

ARE YOU CONCERNED THAT ANY DISRUPTIVE DEVELOPMENTS WILL BE DISADVANTAGEOUS TO PALFINGER?

Zehnder: I view disruption first and foremost as an opportunity and not a risk. It is not something we need to be afraid of. Disruption unleashes a potential that we can utilize. Of course, new competitors will appear on the playing field, especially in some niches or regarding some technologies. We need to be prepared and see how we can use these opportunities to our benefit. That is the strategy that facilitates our success.

“I assume that our strong market position will make us a most wanted partner for such solutions.”

Martin Zehnder

Zehnder: Data is a big issue for our customers and our industry environment. The English term “digitization” means the electronic collection of data. “Digitalization” describes the process of using this collection of data to generate added value for the customer. For this purpose we need a big-data strategy: First of all, we need to know exactly what data are to be generated by our products. Second, we need to collect these data, which requires connectivity for all products and solutions. Third, we can ultimately use our data to generate new products and new services creating added value for our customers and ourselves. That is one of the core functions of PALFINGER 21st.

However, we will also see our data strategy being subject to external influences: comprehensive industry solutions, for example, will want our data. I assume that our strong market position will make us a most-wanted partner for such solutions, which will give us the opportunity to participate in designing such platforms.

HOW DO YOU INCREASE CUSTOMER BENEFITS IN NEW SOLUTIONS? AREN'T PALFINGER'S CUSTOMERS CHANGING AS WELL?

Zehnder: We have already recognized that new customer benefits which we can actually sell can only be achieved by proximity to our customers. This means that we have to move close to our customers in general – not just in PALFINGER 21st – in order to develop a better understanding for them. This is a major issue for the future. Our dealers must also become a part of this new customer proximity.

Strohbichler: That's right; our customers are rapidly changing as well, and in some ways quite substantially. We are not talking only about technological change, but primarily of the consequences of the consolidation of the industry. The buying and utilization behaviour is changing. To come up with an adequate response, we need new structures, interfaces, products and services. Throughout the PALFINGER Group – as is already the case in the marine business – we are going to put a much stronger focus on customer industries.

“We are going to put a much stronger focus on customer industries.”

Felix Strohbichler

WHAT INVESTMENTS HAVE TO BE TAKEN IN WHAT TIME FRAME IN ORDER TO REMAIN COMPETITIVE?

Strohbichler: We will make an especially large investment in acquiring new skills, in other words in PALFINGER 21st. We will fund this through reallocating resources and achieving savings in our processes. In the past few years, PALFINGER has recorded strong growth, and we are seeing a substantial potential in terms of synergies and higher earnings which can be generated through restructuring and process optimization.

We are now creating the structures we need in order to shape our future. For this purpose, we need our employees' commitment, a strong corporate culture and values that are embraced by everyone at PALFINGER. At the same time we require investments, and of course we will also go through some learning loops until we find the right ideas and concepts.

MR. ORTNER, YOU HAVE PLAYED A DECISIVE ROLE IN SHAPING THE ROAD INTO PALFINGER'S FUTURE. WHERE IS THE JOURNEY HEADED?

Ortner: I spent 15 years on the Management Board of PALFINGER AG and served as CEO from 2008, when the financial crisis began, until the end of 2017. In 2010, PALFINGER's revenue started to increase again and has done so every year since then. And soon profitability was also back at a good level, all of which underlines the success of our strategy to date. We have made ongoing adjustments, and now the time has come for a major overhaul. With its strategic pillars, now four in total, with its focus on the customer, its ongoing initiatives and not least with its highly motivated employees, PALFINGER is in an excellent position for the future. I would like to wish my fellow Board members Martin Zehnder and Felix Strohbichler and the future CEO all the best, and of course I will follow all developments.

THANK YOU VERY MUCH FOR THE INTERVIEW.

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Investor Relations

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INVESTOR RELATIONS

PALFINGER sees transparent communication and ongoing dialogue as the basis of stable investor relations. Something that has also been stable is the Company's dividend policy, which provides that approximately one third of the annual profit is to be distributed. Independent analyses and ratings, also in the area of sustainability, promote the transparency of PALFINGER AG.

PALFINGER's Management 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 Centre, 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 2017, PALFINGER also attended various sustainability-related expert meetings in the German-speaking countries.

The investor relations team also addresses retail shareholders and sustainability-oriented investors

THE PALFINGER SHARES

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.

In the period under review, the price of PALFINGER shares increased significantly, with the average trading volume more than doubling compared to 2016. Starting out from EUR 28.60 at the end of 2016, the share price reached its peak of EUR 42.00 on 20 July 2017. At year end (29 December 2017), the shares closed at EUR 34.05, i.e. 19.1 per cent above the previous year's level. Securities research is done for PALFINGER by a number of financial institutions, most recently also the Swiss bank UBS.

The average trading volume in 2017 doubled as compared to 2016

Shareholder information as at 31 December 2017

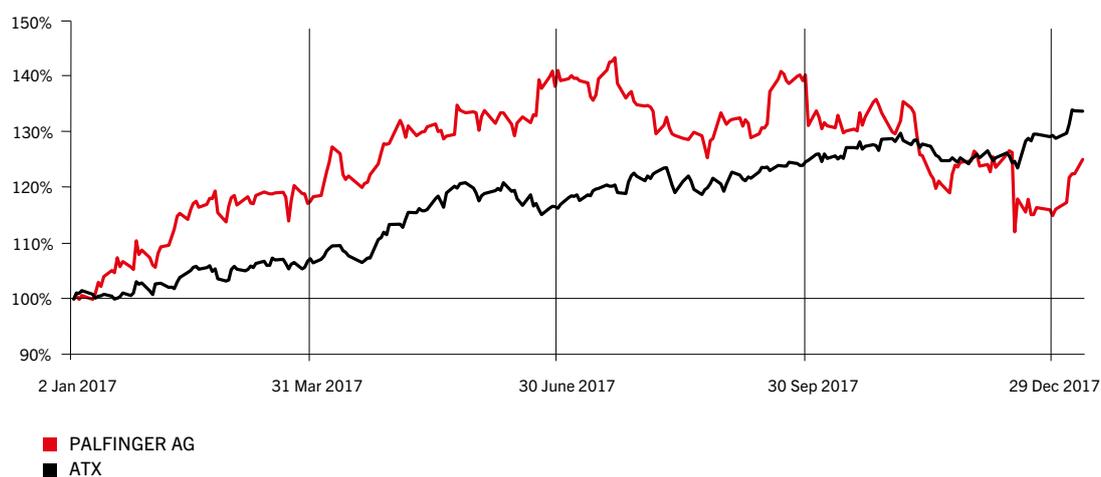
ISIN	AT0000758305
Number of shares issued	37,593,258
Own shares	0
Shares outstanding	37,593,258
Listing on the Vienna Stock Exchange	Prime market
OTC listing	New York, Frankfurt, Stuttgart, Berlin, Munich, Dusseldorf
Ticker symbols	Reuters: PALF.VIE; Bloomberg: PALF:AV; Vienna Stock Exchange: PAL

EUR	2015	2016	2017
Low	20.07	22.71	29.30
High	28.06	28.99	42.00
Average price	25.33	26.17	36.85
Price at year end	26.45	28.60	34.05
Earnings per share ¹⁾	1.73	1.63	1.40
Operating cash flow per share ¹⁾	2.97	2.93	2.45
Dividend per share	0.57	0.57	0.47 ²⁾
Dividend yield in relation to the average share price	2.3%	2.2%	1.3%
Market capitalization as at year end (EUR million)	994.34	1,075.17	1,280.05

1) Calculated using the weighted average number of shares outstanding.

2) Proposal to the Annual General Meeting.

SHARE PRICE DEVELOPMENT IN 2017



RESEARCH REPORTS

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

RATINGS

The available sustainability impact assessments show that investors embracing sustainability regard PALFINGER 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. In the marine sector, however, boats are produced for the coast guard or the military, and PALFINGER's hooklifts and skiploaders or truck mounted forklifts are used as transport vehicles.

In Oekom's corporate rating of 2016, PALFINGER was rated B– (2014: B–), corresponding to prime status. The agency was particularly appreciative of the Company's environmentally relevant product measures as well as its measures in the field of health and safety. An update will be made in 2018.

Sustainability ratings and assessments show PALFINGER as best in class

In its re-evaluation of 2016, GREEN BRANDS confirmed PALFINGER's ranking and the right to bear the GREEN BRANDS Austria 2016/2017 seal, honouring the Company's ecological and social commitment. The next evaluation will take place in mid-2018.

In the rating for the VÖNIX sustainability index, PALFINGER received a B+ rating (previous year: A–) as a sustainable business in 2017. The Company was specifically praised for having strategies concerning sustainability management, stakeholder orientation and corporate ethics. The downgrading was related to the expansion of the marine business, which, from a sustainability point of view, contains sensitive aspects.

In 2017, PALFINGER participated for the second time in the environmental performance assessment of the Carbon Disclosure Project (CDP). In 2016, PALFINGER obtained a CDP climate scoring level B and a status of "Sector Leader in the DACH Region" in the "Industrials" sector, to be followed by a scoring level C in 2017. This puts PALFINGER at the "Awareness" level and at the industry average in the "Electrical Equipment and Machinery" sector.

🌐 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 2017 amounted to EUR 306.8 million; at the Annual General Meeting, the Management Board and the Supervisory Board will propose that a dividend of EUR 0.47 per share be distributed.

The Management Board and the Supervisory Board will propose a dividend of EUR 0.47 per share

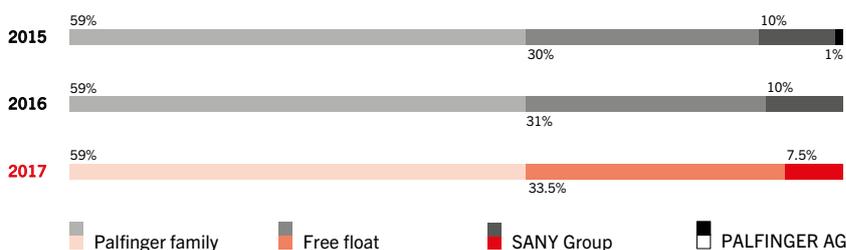
OWNERSHIP STRUCTURE

The Palfinger family, which either directly or indirectly owns approx. 59 per cent of the shares in PALFINGER AG, is PALFINGER's stable core shareholder. In addition, there is a cross shareholding between PALFINGER and the SANY Group. SANY sold 900,000 PALFINGER shares at the end of September to refinance its European business operations, thus reducing SANY's share in PALFINGER AG to approx. 7.5 per cent as at the end of December 2017 (previous year: almost 10 per cent). Approximately 33.5 per cent of the shares (previous year: approx. 31 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 core shareholder, the Palfinger family holds approx. 59 per cent of the shares

🌐 GRI 102-5

SHAREHOLDER STRUCTURE



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Consolidated Management Report

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CONSOLIDATED MANAGEMENT REPORT

STRATEGY AND VALUE MANAGEMENT

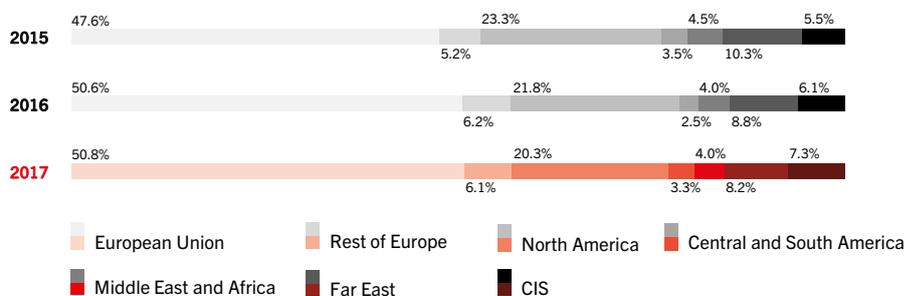
The consistent implementation of its strategy has facilitated PALFINGER’s growth over previous years. The three strategic pillars – innovation, internationalization and flexibility – will therefore remain the priorities. They are now supplemented by PALFINGER 21st, a unit for innovation and business models of the digital age. 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, continuous increase in revenue and earnings. Each and every decision is knowledge-based and made in consideration of long-term aspects relating to cost effectiveness as well as social and environmental impact. Short-to-medium-term goals as well as strategies and development programmes support this long-term orientation.

The objective is for PALFINGER to achieve and/or maintain a leading position in the global markets. PALFINGER aspires to be one of the top three players in all product and customer segments. In line with achieving a global balance, approx. one third of the consolidated revenue is to be generated, in the medium term, in each of the three regions EMEA (Europe, Middle East, Africa and Australia), North and South America, as well as Asia and Pacific, including CIS.

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

REVENUE BY REGION
(in per cent)



The development of the Group is achieved through organic growth as well as through acquisitions, greenfield investments and joint ventures. Each expansion step is based on a conscientious review. Before a decision is made, economic factors such as revenue, return on assets and market potential, as well as common strategic issues such as working conditions or the observance of fundamental rights are considered. A key factor of success is PALFINGER’s focus on local value creation while maintaining a global orientation, which ensures the development and manufacture of products aligned with regional customer needs. Moreover, it provides for a natural currency hedge, increases flexibility along the value creation chain group-wide and significantly reduces logistics costs.

In pursuing its objectives, PALFINGER updated its three time-tested strategic pillars – innovation, internationalization and flexibility – in 2017 and supplemented them with PALFINGER 21st. The four pillars are underpinned by relevant financial and non-financial performance indicators. The planning and implementation of these pillars are carried out taking account of significant issues defined on the basis of a materiality analysis.

The time-tested strategic pillars have been supplemented by PALFINGER 21st

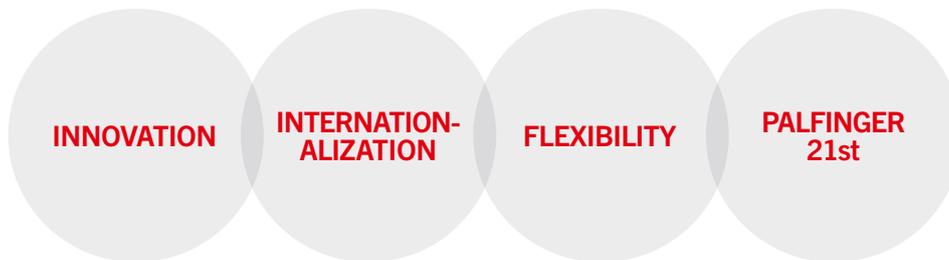
🌐 GRI 102-16

🌐 Sustainability and Diversity Improvement Act

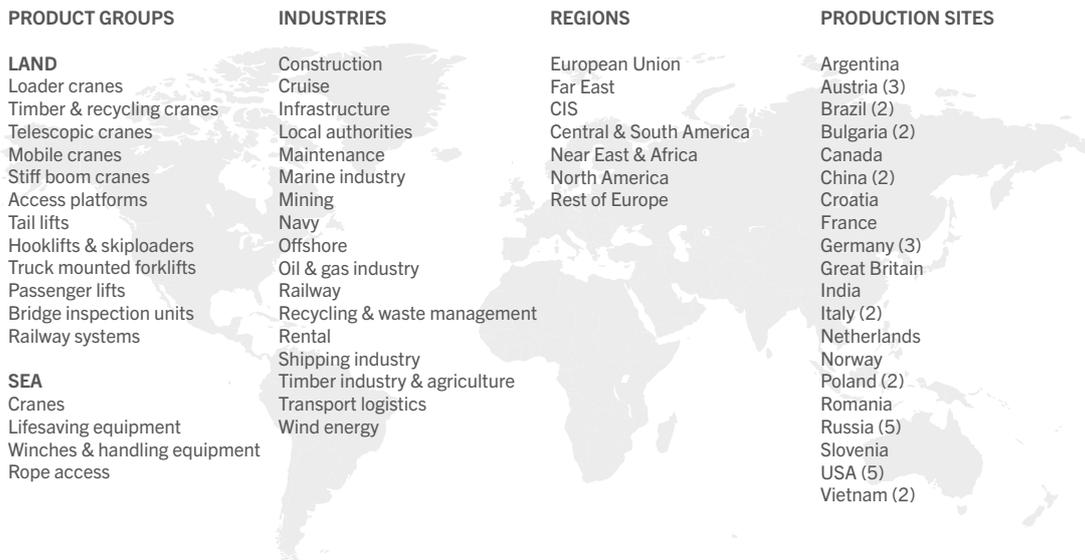
📄 Materiality analysis, page 42



STRATEGY TO MEET THE OBJECTIVE



IMPACT



PROMISE

LIFETIME EXCELLENCE

EFFICIENCY

RELIABILITY

INNOVATION

STRATEGIC PILLARS AND SUSTAINABILITY ASPECTS

Innovation

Innovation is the foundation that will enable PALFINGER to maintain its global market leadership in the future. It confirms PALFINGER's commitment to being the technology leader and service champion among the suppliers of lifting solutions. Innovation also comprises all activities and objectives in the field of digitalization and new technologies. With innovative digital solutions, PALFINGER will offer its customers new, enhanced and more suitable products and services.

PALFINGER is continuously striving to improve its products and services as well as its internal processes and the organization. In this regard, the end customers and their needs are PALFINGER's highest priority. The strictest standards of safety and operation are observed or enhanced. Regular surveys of end customers and employees on the subjects of innovation, turnkey products and smart solutions support PALFINGER's global innovation strategy.

Innovation comprises products and services, processes and the organization

Internationalization

Internationalization enables PALFINGER to be and to remain the preferred global partner in the lifting industry. In the medium term, this leading position is to be reinforced through acquisitions. The objective of generating one third of the consolidated revenue in each of the three large market regions (EMEA, the Americas, Asia and Pacific, and CIS) confirms the targeted global balance of business operations.

With its own enterprises and strategic partnerships, PALFINGER maintains close proximity to its customers and can offer them the best solution in each particular case. In regions where PALFINGER does not yet have a strong presence, there are plans for expansion in the medium term. This is primarily true of China and the global marine business. Based on its global and local know-how, PALFINGER is striving to identify and develop innovative solutions for local requirements and needs.

Internationalization allows PALFINGER to be in close proximity to its customers worldwide

In 2017, priority was placed on the integration of the companies acquired in previous years. In particular, the acquisition of the globally operating Norwegian Harding Group in 2016 will remain on PALFINGER's agenda for a while. The cooperation with SANY in Asia and with KAMAZ in Russia/CIS was successfully intensified. Nonetheless, in 2017 PALFINGER kept a lookout on the market for international strategic acquisition opportunities to expand its strong international position.

Flexibility

Given the volatility of the markets and trends, the enhancement of flexibility has become critical for PALFINGER's success. It enables the Group to maintain and increase its profitability. The importance of enhanced flexibility applies to all sites and processes as well as to the organization itself, in other words the entire value creation chain.

Flexibility supports the Group in times of volatile market developments

In addition, strategic development programmes such as PALFINGER Process Excellence make a valuable contribution to increasing the flexibility of processes and the organization in the long term.

PALFINGER 21st

PALFINGER 21st has been incorporated into the new vision to supplement PALFINGER's three time-tested strategic pillars. PALFINGER 21st is the umbrella term describing the preparation of new developments: new core competences, new approaches, new products and business models, particularly in connection with digitalization.

PALFINGER 21st stands for the preparation of new topics primarily in connection with digitalization

Organizationally, the strategic pillar PALFINGER 21st was defined as a separate unit promoting digital ideas and innovations in an open and flexible manner. The unit directly reports to the CEO and is involved with new – and sometimes disruptive – developments, and thus ensures that, in addition to the successful business of PALFINGER, new things can be created. All of this is based on the willingness to try out new ideas quickly and accept mistakes when they happen.

In 2017, PALFINGER expanded its cooperation and partnerships both with young innovative businesses and with established institutions. Cooperation with start-ups of the digital world will make it possible to utilize synergies. Thus, external perspectives supplement the Company's internal innovation competence.

Crucial success factors in this field are not only partnerships and cooperation projects but also digital training and the ability to create numerous ideas. A big step was taken in 2017: PALFINGER became a partner company in Central and Eastern Europe's largest business incubator weXelerate in Vienna. This gives the Company the opportunity to cooperate with and/or invest in promising innovative start-ups.

The Company aims at being a trendsetter in new technologies as well

With PALFINGER 21st, tomorrow's products and services are to be created with the help of a profound understanding of the customers' needs. The various group-wide development programmes and strategies promote this approach. PALFINGER is committed to being a trendsetter, also when it comes to new technologies and processes.

Strategic sustainability aspects

PALFINGER carries out a regular analysis to identify the material aspects of sustainability that are of strategic significance for the Company from both an internal as well as an external point of view. In 2017, the following issues gained in importance: product research and development, innovation in production, digitalization and product lifecycle approach. The most relevant issues for the success of PALFINGER and its stakeholders are the following:



STRATEGIC OBJECTIVES

In 2017, PALFINGER completed its strategic corporate planning for the period up to 2022. It is based on the new vision and the related strategies and development programmes reflecting the changes particularly in connection with the growing rate of digitalization. In principle, the Company's comprehensive corporate planning follows up on the previously defined objectives for 2017 and 2018. For PALFINGER it is a roadmap for its development plans in support of resource planning and prioritization. It contains both qualitative and quantitative targets.

The following table presents an overview of the priority issues and the goals until 2020.

 Sustainability programme, page 220

	IMPLEMENTATION IN 2017	OBJECTIVES UNTIL 2020
Further growth with focus on BRIC countries	<ul style="list-style-type: none"> Intensification of cooperation with SANY (Asia and Pacific region) and KAMAZ (CIS region) Market update analysis for Africa and India 	<ul style="list-style-type: none"> Selective investments Further growth activities in all markets
Development of China as largest single market	<ul style="list-style-type: none"> Completion of local product portfolio in Asia and Pacific region Development of technologies and products for local customer demands 	<ul style="list-style-type: none"> Enhancement of sales structures in China and surrounding countries
Global balance regarding production and sales markets	<ul style="list-style-type: none"> Integration of Palfinger Iberica (Spain) Acquisition of the Danish dealer 	<ul style="list-style-type: none"> Establishment of a mounting centre for the northern part of Europe Further intensification of customer proximity in all regions
Strengthening of position in marine business	<ul style="list-style-type: none"> Establishment of a new management team in the SEA segment Ongoing integration of the Harding Group (lifesaving equipment) Focus on restructuring 	<ul style="list-style-type: none"> After consolidation, integration and restructuring: focus on strengthening of the market position through acquisitions and expansion of the product portfolio
Retention of innovation leadership in all markets	<ul style="list-style-type: none"> Continuation of focus on digitalization Establishment of connectivity for new smart PALFINGER products Continuation of product innovations in all areas (e.g. new truck mounted forklift prototype) Establishment of development site at weXelerate hub in Vienna as PALFINGER's future start-up accelerator 	<ul style="list-style-type: none"> Establishment of PALFINGER 21st as an innovation centre for innovators who think outside the box Continuous improvement of smart solutions' offering
Satisfaction of customer expectations	<ul style="list-style-type: none"> Placement of the customer in the centre of the new PALFINGER vision Strengthening of business models through integration of service and solution concepts Customer segmentation to provide solutions according to customer needs 	<ul style="list-style-type: none"> Further establishment of customer segments and customer centric solutions in all markets Greater customer proximity through enhanced internal processes and business models Turnkey solutions
Responsibility for society and the environment to ensure viability	<ul style="list-style-type: none"> Development of a diversity scheme with nationality and gender targets Establishment of a new HR Strategy 2020 Adjustment of reporting in line with GRI standards Taking into account new obligations pursuant to the Austrian Sustainability and Diversity Improvement Act Definition of an absolute 25 per cent CO₂ reduction as a long-term target by 2030 Analysis of the Sustainable Development Goals (SDGs) with regard to all sustainability issues and prioritization of five SDGs 	<ul style="list-style-type: none"> Reinforcement and utilization of employee diversity Establishment of guidelines and guiding principles in the entire Group Continuous reduction of industrial accidents and employee turnover Establishment of additional employee targets Consistent observance of the globally valid PALFINGER Code of Conduct and introduction of the Code at new sites Further implementation of PALFINGER's environmental protection guideline and implementation of continuous improvement processes Annual improvement of energy efficiency and reduction of hazardous waste volumes by 1.8 percentage points each, as well as a gradual approach to the CO₂ reduction target Innovation leadership also in products for ecological and social purposes Integration of the Sustainable Development Goals into the sustainability vision

GROUP-WIDE DEVELOPMENT PROGRAMMES

The continuous development of PALFINGER is the necessary foundation for the Group's future ability to operate successfully. Group-wide development programmes and strategic goals support this commitment.

The restructuring programme in North America and the marine business is aimed at increasing profitability

In 2016, PALFINGER also initiated a restructuring programme for North America and the marine business. In North America, the earnings recorded in previous years had lagged behind revenue growth, whereas the restructuring measures taken in the marine business became necessary due to the weak development of oil prices and the resulting declines occurring in some customer industries, on the one hand, and the enormous growth recorded by PALFINGER, in particular as a result of the acquisition of the Harding Group, on the other hand. This restructuring process is designed to create synergies and structures that will give PALFINGER the intended competitive edge in a future market upswing. As a consequence of the weak but still changing market development in the marine business, it is necessary to evaluate the potential benefits of additional restructuring measures, possible synergies between production sites, and/or a stronger concentration of the product portfolio. This evaluation is now being carried out; the implementation will follow regardless of business development and management resources. In North America, it is expected that the restructuring measures will be completed in the first half of 2018.

 Significant changes within the PALFINGER Group, page 71; Performance by segment, page 105

Current capital

The strong international growth recorded by the PALFINGER Group also resulted in greater debt and a higher lockup of current capital. Through active management of current capital, an excessive increase was counteracted.

Current capital lockup should not exceed 25 per cent of revenue

In addition, PALFINGER initiated the group-wide "Current Capital 25%" project in 2015, which aims to reduce the ratio of current capital lockup to revenue to 25 per cent and keep it at that level in the long term. The focus is on optimizing inventories, for example by reducing workshop inventory levels, as well as on managing accounts payable and accounts receivable.

Following the pilot projects carried out in the business units in Austria, Germany, Norway, North America and Brazil in 2016, the group-wide operational phase started at the beginning of 2017. Since then, all companies of the PALFINGER Group have been developing measures to reduce current capital, which are regularly evaluated. The initiative was thus concluded in the reporting period and integrated into the corporate controlling department. The measures initiated are starting to bring about first successes; an excessive increase in the current capital ratio due to the acquisitions made was curbed.

 Key figures of the PALFINGER Group, front cover; Financial position, cash flows and result of operations, page 67

Digitalization

Digitalization will change the presentation, sale and use of PALFINGER's products and services; digital solutions will change the products themselves, and new business models will be created. Therefore, PALFINGER has identified adjustments for the entire value creation chain, on the supplier side and the user side alike. It will become faster, smarter and safer.

Digitalization will change the complete value creation chain of PALFINGER

Digital applications facilitate communication between humans and PALFINGER's products, thus increasing the customers' benefits. Telematics systems, cloud solutions or apps and tablets are integral elements along this way. To PALFINGER, the digital information flow also means closer proximity to its customers through new services (e.g. for vehicle fleet managers) or new business models such as pay-per-use.

In 2016, PALFINGER started setting up a digitalization unit. In the period under review, this unit was expanded, and a development site for IoT (Internet of Things) issues was opened in a start-up hub in Vienna. A major milestone for the future was the establishment of a new vision in 2017, including the fourth strategic pillar PALFINGER 21st, which will promote all the new digitalization-related issues.

 **Vision, page 22; Significant changes within the PALFINGER Group, page 71; Research and development, page 93**

PALFINGER Process Excellence

PALFINGER's business has been significantly impacted by fundamental changes that are only partly related to digitalization. In the past few years, for example, the need for tailor-made solutions to meet the needs of specific regions and industries has gone up, which is why customers increasingly ask for complete solutions instead of individual products. In the SEA segment as well as the LAND segment, more and more customers have international operations and wish to have a central contact at PALFINGER. Digitalization will change the interaction with customers and users as well as operational business processes. And last but not least, the growth recorded by the PALFINGER Group has led to a convergence of heterogeneous processes and systems that still harbour synergies and potential.

These changes have necessitated new approaches in order to consolidate the Group's further profitable growth. The scope of the PALFINGER Process Excellence initiative creates the necessary conditions for this process. The objective is, on the one hand, to intensify the contact with end customers. By being more perceptive of its customers' needs, PALFINGER can take their industry-specific requirements even more closely into account and also offer complete solutions for end customers. In addition, uniform business processes, tools and data structures are to be increasingly implemented throughout the PALFINGER Group. It is essential that standardized end-to-end processes also take account of regional and industry-specific requirements.

PALFINGER is changing its approaches in response to changes in the business

This means that the organization of the PALFINGER Group will be adjusted, which is the only way to fulfil the customers' expectations regarding products and services. The existing sales network will continue to be an integral element.

HR Strategy 2020

PALFINGER has observed changes not only with regard to its business. Trends like digitalization, globalization, the new generation of millennials and digital natives, and, not least, social media and new technologies are changing everyone's life and work. In response to these changes, PALFINGER adopted its HR strategy in the period under review. The HR Strategy 2020 reflects the new requirements on staff as well as on the organization and human resources management. As an employer, PALFINGER has defined specific targets in support of future profitable growth. Being an attractive employer is one of those targets, as is an agile, mobile, effective and efficient organization. What ultimately counts is the flexibility to have the right employees with the right skills available when and where they are needed.

On this basis, PALFINGER has defined specific plans for the period until 2020 in addition to existing activities. A group-wide project for job architecture and employee skills is being implemented, and in a next step a global HR information system (SAP SuccessFactors) will be introduced. It will include minimum standards to be applied throughout the Group as well as tools for talent management, succession planning, employer branding and internal communication. Between now and 2020, PALFINGER also plans to design a global e-learning platform to make training programmes simple and easily accessible for all employees. A pilot project was initiated in North America in 2017.

With its HR Strategy 2020, PALFINGER has defined specific HR development goals

 **GRI 102-16**

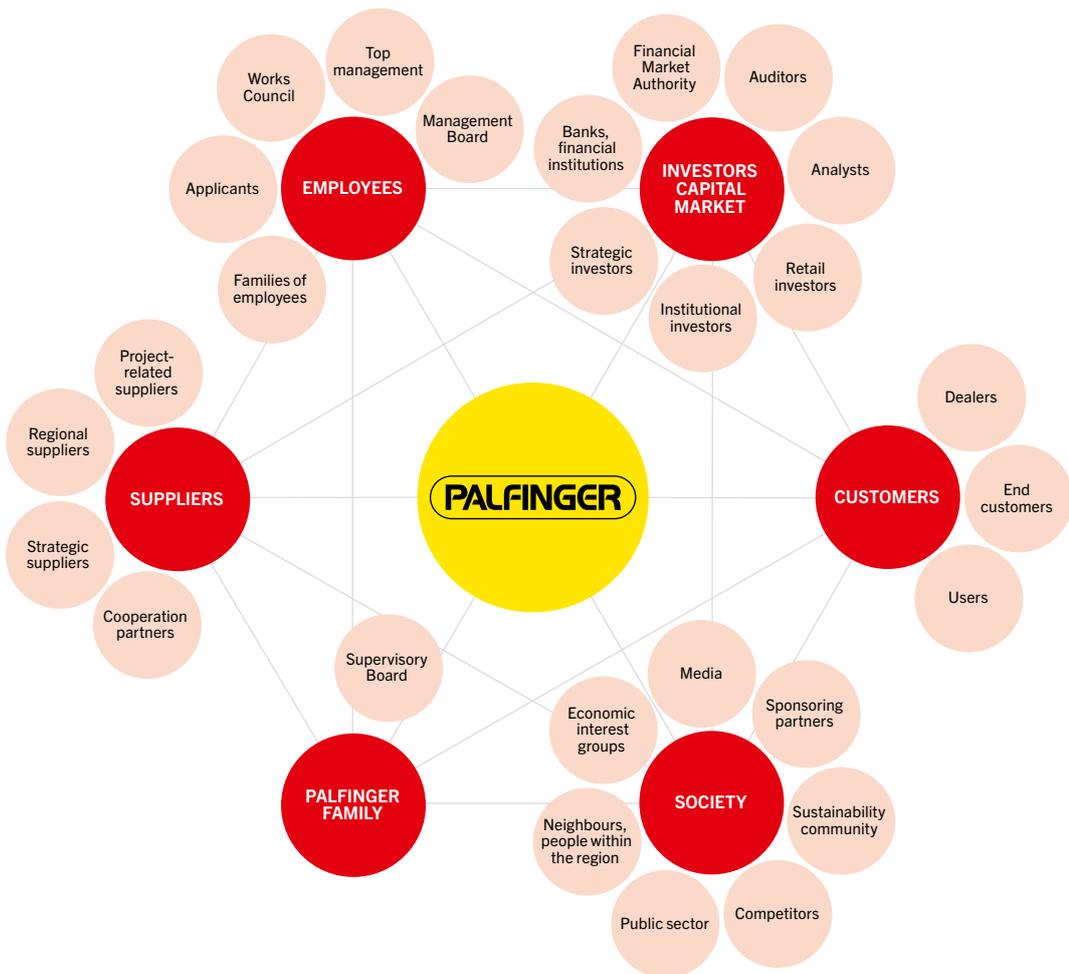
 **Responsible employer, page 84**

STAKEHOLDER MANAGEMENT

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 issues: responsible employer, eco-efficiency in production, sustainable products and fair business.

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, communications with them, and stakeholder engagement are described briefly in the following.

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



Description of stakeholders

HUMAN RESOURCES AND WORKS COUNCILS

The core success factor of PALFINGER is its staff of well-trained and highly motivated employees. As a consequence, PALFINGER strives to offer existing as well as potential employees attractive jobs. PALFINGER's corporate culture is based on the values of respect, learning and entrepreneurship and is conducive to communication across all levels; the participation and commitment of employees is explicitly encouraged. Means of communication include, apart from the regular appraisal interviews, the Intranet, the corporate blog, the staff magazine PALFINGER Internal Newsletter (PIN), which is published three times a year in fourteen languages, and increasingly also new media such as the social media network Yammer. Employee events as well as regular employee surveys promote active exchange. Continuous communication with the Works Council takes place in various forms, depending on the respective site. PALFINGER regards good cooperation and partnership as an asset for employees and the Company alike.

 [Responsible employer, page 84](#)

PALFINGER involves its stakeholders and takes their interests into account

SUPPLIERS AND PARTNERS

Close cooperation with suppliers and partners is the foundation for PALFINGER's success and flexibility. Therefore, the Group seeks long-term relations with its suppliers and partners and fosters joint developments. Supply and quality assurance contracts, which include sustainability aspects, have been entered into with strategic suppliers. Every two years, an international supplier meeting is held, most recently in 2017. On these occasions, the current economic situation and the planned developments of the PALFINGER Group are presented. This targeted integration measure and the related discourse have contributed to successful cooperation and have been enhancing awareness for the issues that are important to PALFINGER.

 [Suppliers, page 62](#)

CUSTOMERS AND DEALERS

PALFINGER's products are distributed through independent dealers and the Group's own distribution companies. This forms a comprehensive network for the end customers. Dealers are a prime link to the Group's end customers and, apart from the latter, are PALFINGER's most important customer group. Every year, an international dealer conference is 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 2017, a total of 25 surveys were carried out with end customers, potential customers, dealers and subdealers in different countries.

 **GRI 102-43**

 [Customers and dealer network, page 60](#)

INVESTORS

Since its IPO in 1999, PALFINGER has attached great importance to maintaining continuous and transparent communications with its investors. PALFINGER's Management Board and Investor Relations team attend investors' conferences and, moreover, speak personally with individual stakeholders, also at trade events.

 [Investor relations, page 29](#)

LOCAL ENVIRONMENTS

PALFINGER wants to be recognized as a reliable partner and an attractive employer in the individual regions. In a first step, an adequate sales network is built up in the individual market regions. When sufficient volume has been reached, the second step is local value creation, meaning that PALFINGER relies especially on local suppliers and partners. Dialogue with these partners is transparent and takes place on an equal footing. Local decision-makers appreciate direct contact; communication measures also include local media relations as well as participation in and/or the hosting of events. Voluntary investments in public welfare are made 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 48](#)

PALFINGER carried out a new comprehensive materiality analysis in 2017

Materiality analysis

The changes occurring in the Company and its environment in recent years prompted PALFINGER to carry out another comprehensive materiality analysis in 2017. In this analysis, the material economic, social, ecological and ethical aspects were reviewed and updated.

First of all, in a multi-stage process, the most important issues according to the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) as well as the Austrian Sustainability and Diversity Improvement Act were defined. Subsequently, they were reviewed together with the respective managers and parts of them were arranged in new clusters; this resulted in a total of 38 issues being presented for assessment. PALFINGER then carried out a quantitative survey of selected international representatives of the most important stakeholder groups, who ranked those issues as to their significance and long-term impact. In addition, the previous commitment and the significance of the 17 Sustainable Development Goals (SDGs) were assessed.

The response rate came to 29 per cent, with the population of 625 participants having tripled compared to the previous survey. Accordingly, the number of actual responses increased as well. Furthermore, a weighting of the various stakeholder groups was defined.



The result confirms the previous material issues in the four sustainability areas

The result confirmed the previous material issues, which are reflected in a well-balanced manner in PALFINGER's four sustainability areas. This means that no adjustment of internal or external indicators was necessary to control the individual issues. What changed, however, was the order of importance among the top issues; moreover, this whole group of issues was given higher relevance. In addition, PALFINGER increased the number of top issues from 12 to 13; these material issues are shown in the materiality matrix.

Three of the newly defined issues were ranked to be significant and are therefore among the 13 material issues: innovation in production processes (rank 3), corporate culture and values (rank 11), Industry 4.0 & digitalization (rank 13). Within the top 13 issues, product lifecycle approach and employee development notably gained ground, whereas attractive employment decreased in significance the most in the stakeholder ranking. Efficient and environmentally friendly products as well as correct corporate governance are no longer among the top 13 issues. Indirectly, however, they are included in aspects such as product lifecycle (rank 6) or compliance with legal and ethical standards (rank 12). Moreover, sustainability in the supply chain constitutes an important aspect to PALFINGER as it ensures long-term supplier relations and high quality.

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

🌐 **Sustainability and Diversity Improvement Act**

📄 **Value creation, page 52; Detailed GRI and sustainability disclosures, page 211**

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.

PALFINGER included the SDGs in its 2017 stakeholder survey in order to take greater account of the long-term impacts of sustainability issues. The internal initial analysis of the SDGs made in 2016 was confirmed with one exception only, namely SDG 4 – Quality education, which is no longer included, and was replaced by SDG 10 – Reduced inequalities. The material sustainability issues of PALFINGER were analysed as to their impacts on the SDGs. In the future, the five most relevant SDGs will be taken into account in PALFINGER's strategy:

- SDG 12 – Responsible consumption and production
- SDG 13 – Climate action
- SDG 8 – Decent work and economic growth
- SDG 9 – Industry, innovation and infrastructure
- SDG 10 – Reduced inequalities

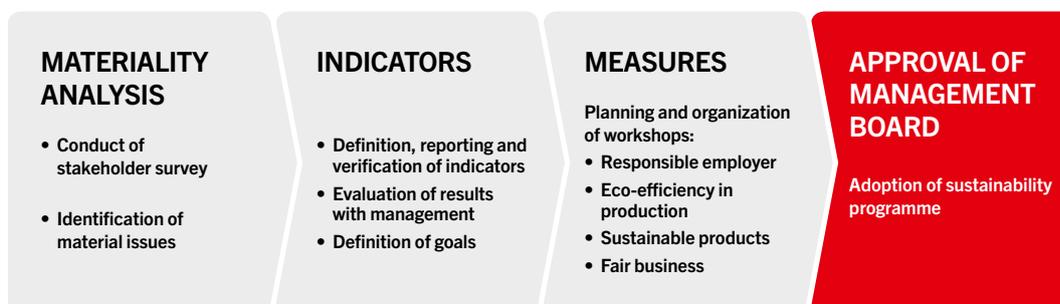
📄 **Impact table, page 216**

The SDGs refer to the long-term impact on business operations

Sustainability management

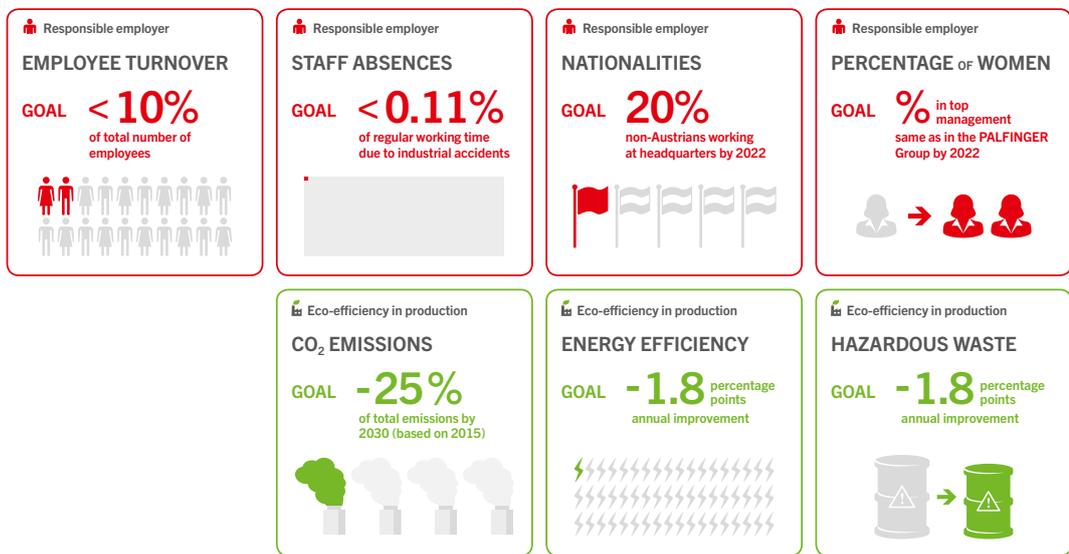
Sustainability is integrated into PALFINGER's strategy, and the management is committed to its group-wide professional implementation. Sustainability management falls within the responsibility of the CEO. The head of sustainability management is part of the Corporate Communications and Investor Relations team and reports directly to the Management Board.

Sustainability is integrated into the strategy and is implemented professionally group-wide



Sustainability targets are adopted by the Management Board; three long-term targets were added in 2017

The Management Board cooperates with other executives in preparing the strategy, policies and values of the Company. The results of the materiality analysis, which form the basis for sustainability reporting and the workshops, as well as the sustainability programme and targets, are adopted by the Management Board. In 2016, two long-term HR targets were defined: to keep employee turnover below 10 per cent and to keep staff absences due to industrial accidents below 0.11 per cent. 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. 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). In the year under review, a CO₂ reduction of 25 per cent of the 2015 base year was defined as a long-term target to be reached by 2030.



The internal reporting structures and systems, as well as the non-financial indicators, are in line with the results of the materiality analysis and have been integrated into financial reporting. The data are collected on a monthly or quarterly basis. The top management is informed regarding the development of the key figures as well as other relevant developments at least on a quarterly basis. These are reflected in the sustainability programme, which is shown below in a condensed version. PALFINGER's aim is to further raise the quality of information and decision-making tools for the Company and stakeholders alike.

[Corporate governance report, Diversity scheme, page 117](#)

RESPONSIBLE EMPLOYER 

Measures	Status	Goal
Health & safety		
Uniform global definition of accidents and uniform reporting	○	2019
Expansion of PALfit	○	2019
“Healthy leadership”	●	2017
Crisis intervention team	●	2017
Attractive employment		
Establishment of an employer branding strategy	◐	2018
Personnel marketing	○	2019
On-boarding process	○	2019
HR strategy	○	2018
HR system	○	2019
Job architecture	○	2019
Employee development		
Coaching for executives	○	2019
Expansion of employee development	○	2020
Diversity & equal opportunity		
PALiversity project “Recruiting”	○	2019
PALiversity project “Working Conditions”	○	2019
PALiversity project “Talent Management”	○	2019
Diversity scheme	○	2022
Communication with employees		
New Intranet	◐	2019
Corporate culture & values		
Focus on corporate culture and vision	◐	2018

SUSTAINABLE PRODUCTS 

Measures	Status	Goal
Product lifecycle		
Lifecycle approach	◐	2019
Product information & fair marketing		
Review of dealer standards	◐	2018
New website: environmentally friendly and safe products	⊗	2017
Operator’s guide and training	○	2019
End customers in the system	○	2019

ECO-EFFICIENCY IN PRODUCTION 

Measures	Status	Goal
Energy efficiency & climate protection		
Continuation of lighthouse projects for energy efficiency	●	2017
Best-practice pool of energy efficiency	●	2017
Certified environmental management systems at additional sites	●	2017
Paint shops and powder coating plants	◐	2018
Modernization and expansion of plants	◐	2019
Greenfield investment marine business	○	2019
Energy efficiency Russia	◐	2018
E-mobility	◐	2018
Exchange on environmental topics	○	2018
Photovoltaic systems	○	2020
Heating degree days	○	2018
Effluents and wastes		
Reduction of hazardous waste	○	2018

FAIR BUSINESS 

Measures	Status	Goal
Viability of the business model		
Marine business as a second mainstay	◐	2020
Industry 4.0 & digitalization		
Industry 4.0 and digitalization	●	2017
PALFINGER 21st	○	2019
Compliance with legal & ethical standards		
Training in corporate ethics for new employees	◐	2018
Corporate audit	◐	2018
Regional procurement & production		
Regional procurement	●	2017

SUSTAINABILITY MANAGEMENT 

Measures	Status	Goal
Group conference for environmental and health officers	◐	2018
Targeted stakeholder communication	◐	2018
Sustainable Development Goals and Science Based Targets	◐	2018
Sustainability vision	○	2018
Facility management	○	2018

○ New ◐ In preparation ● Completed ○ Deferred ⊗ Cancelled

🌐 GRI 102-18, 102-19, 102-20, 102-32

🌐 Sustainability and Diversity Improvement Act

📄 Materiality analysis, page 42; Ratings, page 30; Corporate governance report, Diversity scheme, page 113; Detailed GRI and sustainability disclosures, page 211

Monetary flows to stakeholders

The stakeholders make a valuable contribution to PALFINGER's success. Employees, suppliers, owners, public authorities and banks also participate in the Group's income. 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 rose from EUR 1,362.2 million in 2016 to EUR 1,476.3 million in the 2017 financial year. The impact of the economic success differed from one stakeholder to another.

In 2017, payments to suppliers accounted for the largest monetary flow, coming to EUR 926.9 million. They included remuneration for various services and supplies such as raw materials, parts and components, plants, operating supplies and energy.

The Company's second-largest monetary flow, in the amount of EUR 400.2 million, is composed of the wages and salaries paid to employees. Primarily due to the expansion of PALFINGER's production and the acquisition of new companies, an increase of 11.1 per cent was recorded.

PALFINGER pursues a consistent dividend and interest policy, which provides that approximately one third of the annual profit is to be distributed as a dividend. In the 2017 financial year, payments to investors came to EUR 43.2 million (previous year: EUR 34.0 million).

In 2017, payments to public authorities increased by approx. 33 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 33.8 million (previous year: EUR 25.6 million), and subsidies went up to EUR 2.7 million (previous year: EUR 2.3 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.

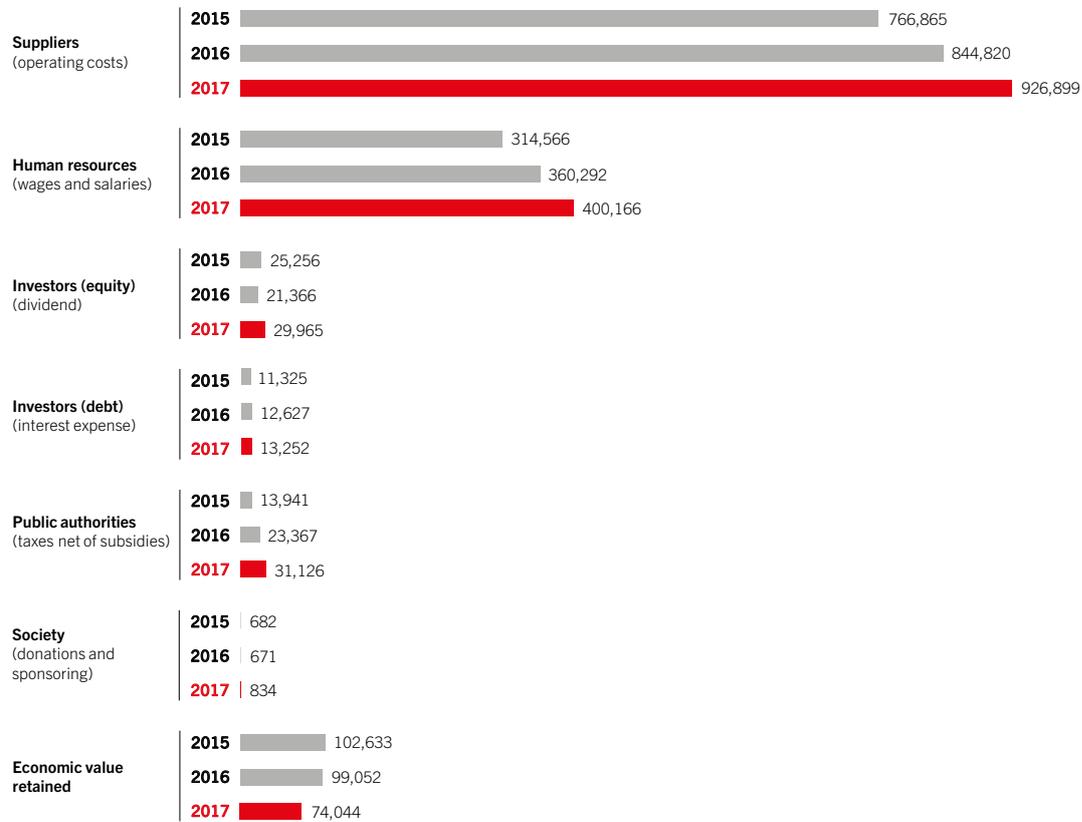
Investments in public welfare increased by 24.3 per cent. In total, expenses for donations and sponsoring came to EUR 834 thousand in the 2017 financial year (previous year: EUR 671 thousand).

In total, these monetary flows account for a monetary value paid out in the amount of EUR 1,401.4 million. The difference between income and monetary flows to stakeholders results in the monetary value retained, which decreased by approx. 25 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 211](#)

MONETARY FLOWS TO STAKEHOLDERS¹⁾ (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

PALFINGER's social commitment is reflected in its active involvement and support

Commitment

PALFINGER assumes an active role in shaping standards and guidelines regarding products, becomes involved through its memberships in various associations, and cooperates with local educational organizations and institutes. As a Climate Alliance enterprise, PALFINGER is committed to playing an active role in protecting the environment. Through its Code of Conduct, PALFINGER 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. PALFINGER has been a member of the Cercle Investor Relations Austria (C.I.R.A.) since 2000, and Hannes Roither, Spokesperson of PALFINGER AG, has held a seat at the C.I.R.A. Board from 2001 to 2017.

PALFINGER's commitment is, for example, reflected in its donations and sponsoring activities. These are mostly of a financial nature, and amounted to EUR 834,368 in 2017. 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 (four-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 in wheelchair marathon and multiple world champion and European champion in wheelchair marathon).

DONATIONS

At PALFINGER, donations are defined as voluntary contributions for the common good for which no compensation is received, such as the support of children or young people. Plant managers receive a certain budget for donations. As a matter of principle, PALFINGER does not make any donations to political parties or political organizations, which is also laid down in an internal group guideline.

PALFINGER has supported the non-profit organization AMREF (African Medical and Research Foundation) for 25 years. 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 more than ten 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 14th time in 2017. PALFINGER provides organizational and financial support for this event.

Together with the Austrian leukaemia society "Geben für Leben – Leukämiehilfe Österreich", PALFINGER organized a stem cell typing campaign in 2017 for employees at Austrian sites and paid the typing costs. In addition, PALFINGER gave donations to other charities such as Caritas, Unicef, Jugend eine Welt, Ein Funken Wärme and Licht ins Dunkel to help children and young people, and thus supported projects to guarantee basic needs such as water, food or medical care.

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.

🌐 GRI 201-1, 413-1, 415-1

📄 Monetary flows to stakeholders, page 46

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

Awards

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

PRODUCTS

In 2017, PALFINGER won two awards for its products: The German journal Verkehrsrundschau, which is regarded to be the mouthpiece of the German commercial vehicle industry, gave the Image Award in the "Loader Crane" category to PALFINGER. This was based on a survey asking about the reputation and renown of the big suppliers. The factors assessed included product and service quality, honesty in customer relations, and the quality of communications. PALFINGER won this coveted award for the third time, having also received it in 2013 and 2015.

PALFINGER received numerous awards in 2017

In Spain, PALFINGER's crane PK 165.002 TEC 7 received the "Best Hydraulic Knuckle Boom Crane" award from the leading Spanish commercial vehicle magazine Movicarga.

PALFINGER's marine business set a new world record with the world's largest lifeboat, PALFINGER's new flagship for the cruise industry: In the first full-scale boarding test, 440 passengers boarded and took their seats in the lifeboat within five minutes and 21 seconds. The prescribed time limit was ten minutes.

EMPLOYEES

In 2017, PALFINGER Epsilon once again received the quality seal for workplace health promotion "Gütesiegel für Betriebliche Gesundheitsförderung (BFG)": the highest Austrian award for exemplary and sustainable investments in the health of employees.

The Federal Economic Chamber of Salzburg gave PALFINGER the award "Wirtschaft unterstützt Ehrenamt 2017" (Economy supports volunteering 2017). PALFINGER won third place in the category "Exemption for training and operations", confirming that PALFINGER promotes the commitment of its employees to the fire brigade, water rescue, mountain rescue, cave rescue, etc.

BUSINESS AND COMMUNICATIONS

PALFINGER's business performance and transparent communications were again recognized in 2017: As an outstanding Austrian business enterprise, PALFINGER won the Hermes.Business.Prize in the "Industry" category. The ALC (Austria's Leading Companies) Award recognized PALFINGER as one of the most successful Salzburg companies. Moreover, Salzburg's governor Wilfried Haslauer presented PALFINGER with the Salzburger Landeswappen award.

In 2017, PALFINGER won third place in the Small & Mid Cap category of the Vienna Stock Exchange awards.

At the Austrian Event Awards the gold medal went to PALFINGER's "Lifting Future" show presented at the Company's dealer conference.

PALFINGER's Annual Reports have won numerous national and international awards over the years. In 2017, PALFINGER won first place in the Austrian Sustainability Reporting Award (ASRA) in the category "Integrated Reports" for the fourth time in succession. Internationally, in the Annual Report Competition (ARC) in New York, the Annual Report won three Gold and four Silver Awards as well as one Bronze Award. Moreover, the Company received two Grand Awards in the categories Coverphoto/Design and Written Text.

The Annual Reports have repeatedly won national and international awards

🔗 www.palfinger.ag/en/about-us/our-people-our-values/awards

VALUE MANAGEMENT

The value enhancement achieved by the PALFINGER Group is first shown by operating profitability and revenue increase. The medium-to-long-term success is measured by other indicators such as capital lockup, the health of employees and environmentally friendly business operations. The value creation structures and the PALFINGER brand are the basis for the business.

Financial and non-financial indicators provide information on value enhancement

PALFINGER regularly measures its group development progress and value enhancement by means of financial and non-financial indicators, which were adapted and supplemented in 2016 as to their relevance and now encompass the following:

- Revenue increase
- EBITDAn margin
- EBITn margin and EBIT margin
- Current capital ratio
- 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

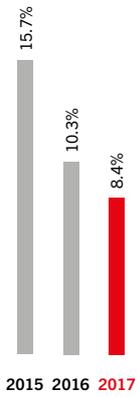
The focus is on the long-term development of the indicators

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 economic indicators. Following the high revenue increases of previous years, revenue rose again in 2017 by 8.4 per cent. The EBITDAn (EBITDA normalized by restructuring costs) margin decreased marginally to 12.6 per cent. The EBITn (n=normalized) margin, decreased to 8.8 per cent, and the EBIT margin came to 7.5 per cent. The current capital ratio, which measures the capital lockup, increased slightly to 26.5 per cent due to the acquisitions made. ROCE came to 7.5 per cent, which was lower than in the previous year as a result of the restructuring costs and the negative impact of one-time effects. The ongoing initiatives are designed to improve these indicators, in particular profitability and return on assets.

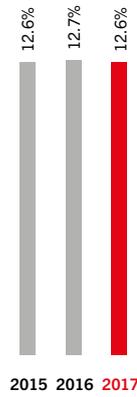
Integrated sustainability management is an essential part of value management in that it reduces costs and risks. Examples of this can be seen in two aspects, the financial impact of which PALFINGER can measure: the health of its employees and energy efficiency.

Absentee rate due to sick leaves, occupational diseases and other causes increased to 4.36 per cent of regular working time in the reporting year (previous year: 4.19 per cent). This negative change in the absentee rate, of 0.17 percentage points, translated into additional expenses of approx. EUR 2.3 million compared to 2016.

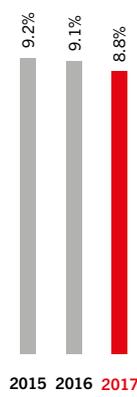
After recording an increase in 2016, the index of energy consumption in relation to revenue improved (decrease by 3.7 percentage points), which corresponds to savings on electricity and gas in the amount of EUR 170,000 (previous year: EUR 90,000).



REVENUE INCREASE
(in per cent)



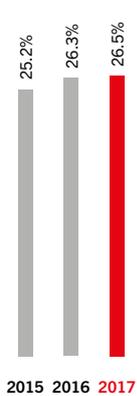
EBITDA margin
(in per cent)



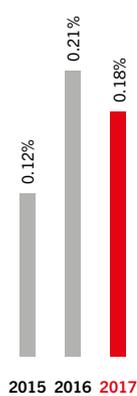
EBIT margin
(in per cent)



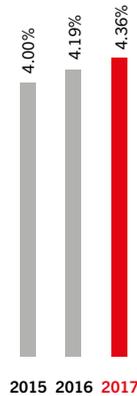
ROCE
(in per cent)



CURRENT CAPITAL RATIO
(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 43

At PALFINGER, value creation starts with raw materials and ends with product use

Value creation

PALFINGER looks at value creation not only within the Group but also along the entire value creation chain, which means that opportunities and risks are analysed under a holistic approach: from the raw materials to the use of the products by the end customers.

GLOBAL ORIENTATION

PALFINGER has centred all of its activities in the value creation chain on the needs of its customers. In addition to customers, locally available resources and employees are core factors in the sustainable development of value creation.

Through its global orientation, PALFINGER can better utilize available capacities

A central element of PALFINGER's strategy is to base production in the region of the sales market. This regional approach reflecting different requirements is supplemented by holistic optimization at all levels of value creation. In 2017, PALFINGER made an in-depth review of the flexibility and quality level of its global production structures to be able to better utilize the available global capacities in the future. Local approaches may have benefits regarding the development, production and sale of country-specific product variants, but the global orientation makes it possible to manufacture products where capacities are available and costs are advantageous. PALFINGER can take advantage of exchange rates by utilizing any intra-group supplier relations across the regions, while at the same time minimizing exchange rate risks.

Value creation processes are more closely aligned with the business model in support of PALFINGER's global production footprint. Under the PALFINGER Process Excellence initiative, the Company started to define and standardize its processes from sales plans to product delivery globally in 2017. Integrated into a uniform system landscape, this step will contribute towards higher transparency and lower process costs in the years to come.

The focus is on existing and future customers as well as on corporate responsibility

For more than a decade, lean management has been an integral part of corporate development. However, the PALFINGER Production System (PPS) goes a step further and establishes a culture of continuous improvement in all corporate areas. The focus is on PALFINGER's existing and future customers and also comprises social and environmental responsibility.

This commitment to continuous improvement and the maturity of lean management have enabled the implementation of digitalization and Industry 4.0 – in production as well as value creation. In several plants and/or areas, Industry 4.0 applications are being tested in pilot projects, ranging from VR/AR technology to the specific collection and analysis of machine and process data, including the support of employees in production through production apps. The goal is to use new technologies to identify process inefficiencies faster and more easily, to prevent deviations and to make targeted improvements.

LOCAL STRATEGY

Local value is created together with central centres of excellence

In recent years, value creation has been continuously enhanced and modernized in all business regions through investments in infrastructure and the machine park. These investments are implemented by the respective regional area management in cooperation with central business units, which have centres of excellence and shared service structures at their disposal. The structure of the centres of excellence contributes to the enhanced performance of production sites globally and promotes innovation as well as cost reductions in products and processes in all business units.

LAND segment**EMEA**

The largest part of the PALFINGER Group's value creation still takes place in the EMEA region. In 2017, strong demand in many product areas posed enormous challenges in particular for components factories. PALFINGER continues to pursue its strategy to shift uncomplicated and/or repetitive operations as well as the manufacture of components to low-wage countries. The primary concern in the reporting period, however, was to meet demand and stabilize processes. In Cherven Brjag (BG), the expansion of production space was completed and a new modern machining centre was put into operation. In the last few months of 2017, notwithstanding the expanded production facilities with additional new employees, it was not possible to fully meet the demand, and substantial short-term bottlenecks in production occurred. Additional priorities were production planning and control, as well as quality. In Maribor (SI), the construction of a paint shop for large parts, with a focus on the painting of marine equipment, was completed. The manufacture of cylinders for tail lifts went into full operation at the site in Tenevo (BG). PALFINGER also designed a future concept for this plant to enable it to meet expected volumes and product requirements. The construction of a workshop for the manufacture of small parts as well as the expansion of the paint shop have already been decided upon.

Towards the end of the year there were substantial short-term shortages

Capacity utilization at the plants in Austria was highly satisfactory as well. In Lengau, PALFINGER has been continuously striving to develop innovative production and logistics solutions such as the automated provision of small parts for welding workstations. The powder coating plant was successfully put into operation, and a state-of-the-art paint booth for complete vehicles is another core factor at the Company's Mounting Competence Centre. Also, the site concept for Köstendorf was reviewed on the basis of some promising market potential, particularly in railway systems. In October 2017, a comprehensive expansion of infrastructure for product development and testing was initiated.

CIS

Capacity utilization at the plants in the CIS region was good in 2017 against the backdrop of volatile demand. The sites which used to be relatively independent have been increasingly growing together as a production network. The consolidation of production processes and component supplies among the sites made progress, which led to a more equal distribution of production capacities. At the plant in Arkhangelsk (RU), PALFINGER will focus exclusively on foundry operations with mechanical processing of the cast parts. For this purpose, the building infrastructure was streamlined and restructured, and investments were made in a reprocessing plant for foundry sand. In Velikiye Luki (RU), implementation of the plant concept of 2015/2016 was commenced. In the course of the revitalization of the machine park, a modern 8-m folding press was put into operation. At the Ishimbay plant (RU), the storage area for sheet metal is being redesigned and investments are being made in additional laser cutting capacities.

The cylinder joint venture with KAMAZ in Neftekamsk (RU) has been developing very well, as a result of which imports of cylinders are already decreasing. The joint venture will primarily produce supplies for the assembly facilities in Velikiye Luki and Ishimbay as well as for plants in Europe. In 2017, PALFINGER established a painting strategy for steel components and cylinders for the entire CIS region, providing for an expansion of the existing plant in Ishimbay and the construction of a new plant in Velikiye Luki. This will aggregate volumes at the two assembly sites, and will also markedly increase the quality level and align it with global requirements.

Americas

In North America, capacity utilization of the production plants was for the most part satisfactory. At its site in Council Bluffs (US), PALFINGER also promoted manufacturing for third parties to compensate for weak capacity utilization in connection with pick-up bodies.

In South America, the lingering weak market environment was also reflected in the local situation of PALFINGER. In an attempt to reduce fixed costs, investments in value creation were postponed. 2017 was characterized by cost savings in all areas, but at the same time PALFINGER promoted the development of a product portfolio in conformity with the market and the stabilization of value creation processes. In the future, PALFINGER intends to supply additional regions from its site in Caxias do Sul (BR), which should help to balance out capacities.

Asia and Pacific

In Asia, value creation primarily occurs 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 – is under one roof. The expansion of the product portfolio and new markets in Asia promise additional capacity utilization. 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 and one-stop-shop solutions.

SEA segment

As a result of the acquisition of the Harding Group, the SEA segment now has seven production sites. Marine cranes, offshore cranes and wind cranes are manufactured in Maribor (SI) and Gdynia (PL); lifesaving equipment in Olve (NO), Solej Kujawski (PL), Hanoi (VN), Qingdao (CN) and Harderwijk (NL). In 2017, capacity utilization was good at some plants, whereas other sites felt the tense market environment. In Maribor, investments were made in a new, state-of-the-art paint shop. In the course of the restructuring measures, production in the Netherlands and Korea was consolidated in the period under review. In 2018, the global production footprint will be further analysed in order to tap into synergies between sites and realize potential.

🌐 GRI 102-9

🌐 Sustainability and Diversity Improvement Act

In the SEA segment, the global production footprint will be analysed for additional synergies and potential

Brand and brand 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 new PALFINGER World at the Lengau site is more than an interactive exhibition

The exciting and interactive exhibition puts the spotlight on PALFINGER’s brand promise at three levels with a total floor space of more than 850 square metres. It features a 3D cinema with wall and floor projections and active stereo 3D technology, a test track with faithful PALFINGER models built at a scale of 1:14, and a series of virtual reality stations where visitors can discover the essence of the PALFINGER brand promise for themselves.

The Lengau site has been home to PALFINGER’s largest production plant worldwide. In response to the immense public interest, tours of the facility have been given here for many years. PALFINGER World, located in a separate building, has now become the starting point for these tours.

PALFINGER World is more than just an interactive exhibition; it also contains the new delivery centre for PALFINGER’s factory-assembled complete vehicles. This centre makes it possible, for example, to combine product delivery with a customer briefing in a professional environment.

Last but not least, PALFINGER World is ideally suited as an event location for the PALFINGER Group. At its inauguration, the international dealer conference was held there, and the Annual General Meeting of PALFINGER AG for the 2017 financial year will take place there as a green event.

RAW MATERIALS & MATERIALS

RECY-CLING	ORES	CRUDE OIL
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MATERIAL PRODUCTION, PRIMARILY STEEL, ALUMINIUM & GLASS FIBRE

- CO₂-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 on 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 AND 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

- Water solubility 🌱
- No heavy metals and chromate 🌱
- Ecological substitution products 🌱

OTHER OPERATING SUPPLIES

- Cooling agents, welding gases and wires, chemicals for electroplating 🌱

SUPPORTING ACTIVITIES

EMPLOYEES

- Occupational health and safety 🌱
- Respect of human rights 🌱
- Employee development 🌱
- "PALiversity" 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 🌱

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
ELECTROPLATING	

- 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 🌱

VALUE CREATION CHAIN



MARKET REVIEW

The PALFINGER Group operates globally. With its various product groups, it addresses a variety of customer industries in the individual regions. 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.

PALFINGER divides its business into the LAND segment, which comprises lifting solutions for use on commercial vehicles (trucks and railways), and the SEA segment, which encompasses all operations in connection with ships, oil and gas platforms, and wind energy plants, as well as rope access.

REGIONS AND INDUSTRIES BY SEGMENT

LAND segment

EMEA

In the EMEA region, the market environment was highly satisfactory for PALFINGER in 2017

In the EMEA region, the most relevant customer industries for PALFINGER's wide range of product groups are construction and construction materials, forestry, recycling and waste management, transport logistics, railway infrastructure, public institutions as well as (heavy) industry.

In 2017, the European core markets saw tremendous construction activity; the German construction industry achieved a record level of orders. The progressing urbanization is reflected in large city structure programmes. In the light of initiatives such as the planned ban on diesel cars, the significance of alternatively fuelled vehicles will be on the rise. Moreover, when operating in densely built-up areas, products require higher flexibility.

Customer demands are changing

The consolidation and hence the internationalization of customers continued in the period under review. Procurement processes have been increasingly centralized, resulting in the first European-wide tenders. An increasing number of customers are requesting one-stop-shop solutions; 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.

2017 was a challenging year for PALFINGER, not as regards the economic environment in general, but 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 regularly pose new challenges for PALFINGER. In the years to come, digitalization and related issues, such as connectivity with the respective carrier vehicle, will change product development and business models with lasting effect.

In the EMEA region, PALFINGER capitalizes on the high quality, precision and reliability of its products – characteristics that are linked with high availability. Another significant factor of success is the dense service network and, in particular, the high standards of the companies it comprises.

AMERICAS

In North America, PALFINGER benefitted from a good market environment

In North America, PALFINGER supplies customers in more than 20 different market segments, most importantly construction and construction materials, telecommunications and utilities, forestry, railway, oil and gas, local authorities, mining, rental companies and truck body manufacturers. In addition, industries such as wind energy, waste management and transport logistics are of relevance for some product groups.

In 2017, the construction industry in North America recorded further growth, with low inflation and interest rates as well as growing consumer confidence continuing to have a positive effect. As a result, PALFINGER managed to further expand its market position in particular 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 traditionally are the construction sector, the rental business and mining. In the difficult current economic environment, energy suppliers and agricultural businesses are gaining in importance. As far as exports are concerned, the construction industry in Argentina and mining in Chile are worthy of mention.

After enormous declines in the Brazilian market over previous years, the downturn appeared to have bottomed out in 2017. PALFINGER offers high-tech solutions and strives to maintain adequate price levels. The trend in Brazil is towards sector-specific solutions, including one-stop-shop solutions.

The market in South America continued to be weak

PALFINGER's customers in South America appreciate the Company's innovative, high-end solutions as well as the excellent cost-benefit ratio. In addition, the comprehensive distribution network in Brazil, which includes repair shops and services, has proven its worth.

CIS

In Russia/CIS, PALFINGER's customers are mainly to be found in construction, forestry, recycling, the oil and gas industry, the energy sector and public institutions.

The performance of the construction industry was weaker than expected in 2017. Particularly small-sized enterprises were burdened with financial difficulties and high interest rates. The expansion of economic sanctions subdued the oil and gas industry, but all in all PALFINGER profited from the import restrictions, due to its local value creation. In particular, demand from, for the most part, state-owned enterprises markedly increased. The timber and recycling industries showed first signs of recovery, which is expected to continue in 2018. However, a potential tax reform could have a negative impact on all industries.

In CIS, PALFINGER profits from local value creation

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

PALFINGER's most important customer industries in Asia are construction, transport logistics, mining, forestry and landscaping, as well as government authorities. Energy suppliers as well as waste management, recycling and paper industries are also among PALFINGER's customers.

Particularly in India and China, digitalization has become a relevant issue. In China, the political focus on digitalization became evident in everyday applications such as smart refuse trucks, which were used in 2017 for the first time. In Japan and in Southeast Asia there has been a growing interest in user-friendly, convenient and safe products.

The markets in the Asia and Pacific region are challenging for PALFINGER

For various reasons, the market environment in this heterogeneous region was challenging for PALFINGER in 2017: Chinese customers have proven to be extremely price sensitive, which has resulted in intense price competition. In India and Southeast Asia, PALFINGER has been confronted with stiff competition from local as well as international suppliers. In Southeast Asia, political instability in some countries and the weak economic environment have presented additional challenges. In Japan, the Company must first get to know the market requirements and establish its brand image.

Basically, PALFINGER has an excellent reputation in the Asia and Pacific region and stands for experience and quality. Sales and service are major success factors.

The markets in the SEA segment have global structures. The situation was still difficult in 2017

SEA segment

In the SEA segment, PALFINGER addresses highly diverse groups of customers, primarily in the following industries: offshore, shipping and cruises, navy and coast guard as well as wind energy. In the offshore and marine business in particular, the customers' specific needs call for customized solutions and systems. The shipping industry tends to use standardized solutions. The wind energy sector requests customer-specific solutions which are later serially produced. To a major extent, this business is characterized by global structures.

The overall significant market decline since 2014 has meant that customers are increasingly basing their decisions on costs, which is also a big challenge for PALFINGER. In the offshore industry (oil and gas, offshore vessels), the first signs of potential improvement were felt in 2017, but it remains to be seen whether it will materialize.

Performance in the shipping industry (bulkers, tankers, container ships, ferries, workboats and service boats) continued to be weak in 2017 and there is no reason to expect an improvement. Moreover, these vessels are increasingly being built in China and also being fitted with Chinese equipment. The fishing and fish farming industry recorded stable development and showed positive trends globally. An upswing related to increasing oil prices would only benefit PALFINGER with significant delay, as the fitting-out of ships only occurs after the construction of the ship, which takes approximately two years, has been completed.

In contrast, the cruise industry (cruises, ferries) continued to perform well, and the large shipyards are being utilized to full capacity. PALFINGER was able to profit from strong demand in this sector.

PALFINGER is cautiously optimistic as regards the navy and coast guard sector (police, special forces, fire brigade, coast guard and harbour police, offshore patrol vessels) as well as the offshore wind sector (wind farms and supply boats, crew transfer boats). It is difficult to predict the further developments, given that both sectors involve a high political dependence due to substantial state subsidies.

The acquisition of Harding in 2016 was a major step towards making PALFINGER an integrated supplier of deck equipment. Both the comprehensive product portfolio – ranging from cranes, winches and handling equipment to lifesaving equipment – and the global service network of the PALFINGER Group have proven their worth. With service centres in 28 locations worldwide, PALFINGER is able to provide fast and efficient service.

🌐 GRI 102-6

CUSTOMERS AND DEALER NETWORK

The dealer and service network is the most important group of customers and a link to end customers

PALFINGER products are distributed in more than 130 countries all over the world, primarily through some 200 general importers and the Group's distributing companies. Together with more than 5,000 service centres, this forms a comprehensive network for the end customers. The dealer and service network, which is a vital link to the Group's end customers, is thus PALFINGER's most important group of customers.

In January 2017, PALFINGER acquired its Danish distribution partner Palfinger Denmark. In the EMEA region, a focus was also placed on raising and standardizing qualifications within the network of independent dealers. The introduction of dealer standards and training programmes offered by the PALFINGER University support this endeavour.

In North America, the network as well as the provision of mobile services in core markets were further expanded. In South America, PALFINGER's dealers have felt the difficult environment, and the corruption scandals in government-affiliated institutions were detrimental as well. PALFINGER plans to enhance the quality of the sales and service network in this region by providing more training programmes and sales support.

In CIS, the structures of the dealer network were analysed and consolidated in 2017 to achieve targeted improvement. PALFINGER has increasingly pursued the strategy of mono brand dealers in CIS. The cooperation with KAMAZ has proven to be advantageous in many regards.

PALFINGER evaluated its dealer network in the Asia and Pacific market region as well. To achieve closer cooperation, the dealers have been supported in their strategies. PALFINGER has been expanding its market presence in the LAND segment in this region, most recently by establishing its own sites in Japan, Korea and Indonesia. In the SEA segment, PALFINGER's priority has been to reinforce its presence in existing markets.

PALFINGER supports its dealers also with training programmes

There are no markets in which PALFINGER products or services are prohibited.

🌐 GRI 102-2, 102-6

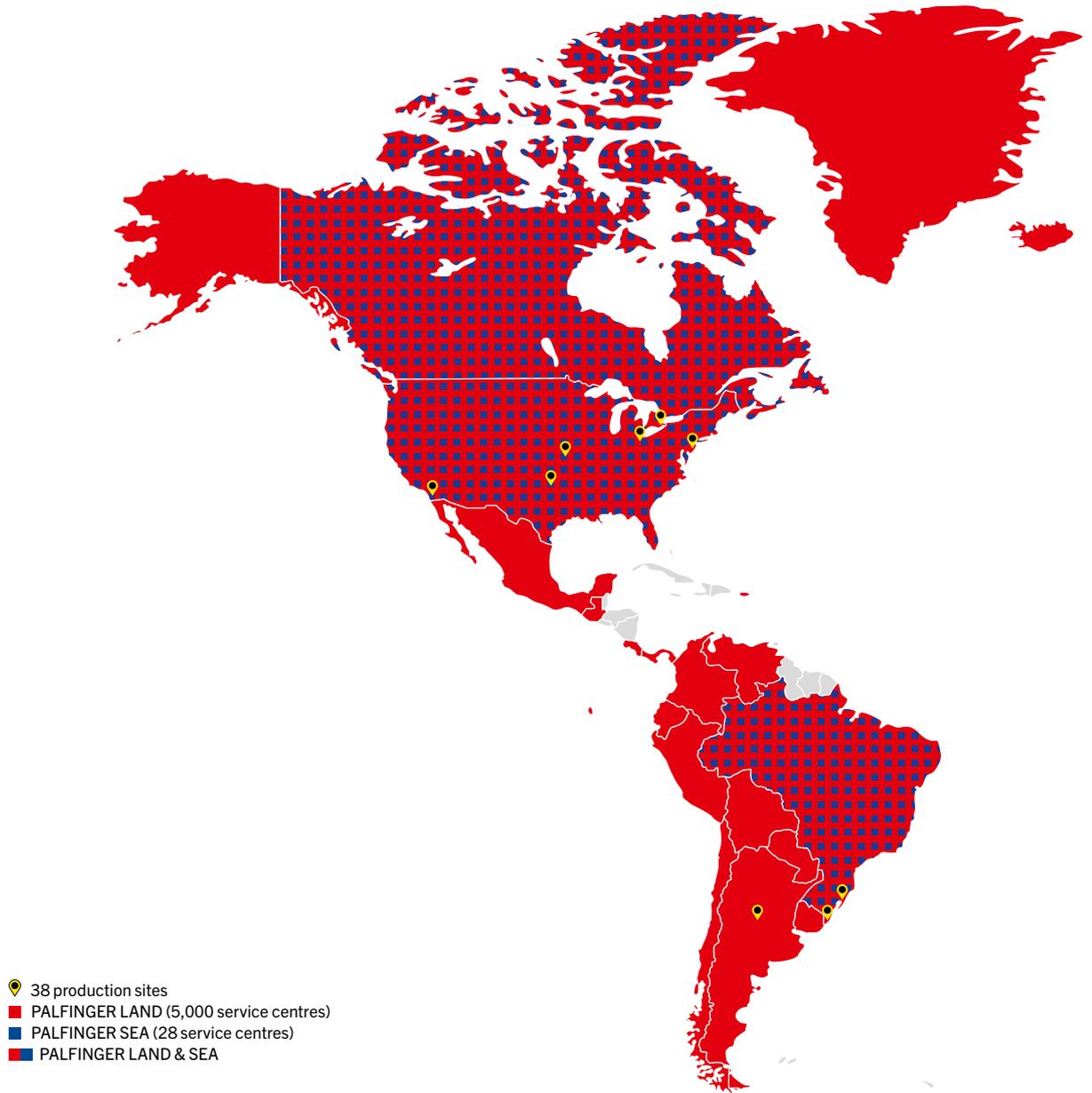
🌐 Sustainability and Diversity Improvement Act

PALFINGER AND ITS COMPETITORS

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 2017. PALFINGER is the global market leader for loader cranes, timber and recycling cranes, hook-lifts and skiploaders, 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. Changes in the competitive environment of 2017 were primarily related to acquisitions of formerly weak competitors by strong competitors.

In CIS, PALFINGER has encountered increasing competition from Korean crane producers, which are entering the market with competitive products and targeting local value creation. In addition, there is a certain risk that new products made by Russian manufacturers will be subsidized by the government as being "100 per cent Russian". In Asia, PALFINGER's competitors are primarily local, but HIAB has a regional presence as well. There is no doubt that competition in this market region is on the rise.

In the SEA segment, the difficult situation in 2017 allowed for little movement in the market. In the crane business, NOV, Liebherr, TTS and MacGregor, also a company of the Cargotec Group, are among the Company's main competitors. When it comes to winches and lifesaving equipment, Rolls Royce Marine and MacGregor are the major players. A further consolidation of the winch market is to be expected, as illustrated by the recent acquisition of Rapp Marine by MacGregor. In the cruise industry, PALFINGER succeeded in strengthening its market position in 2017.

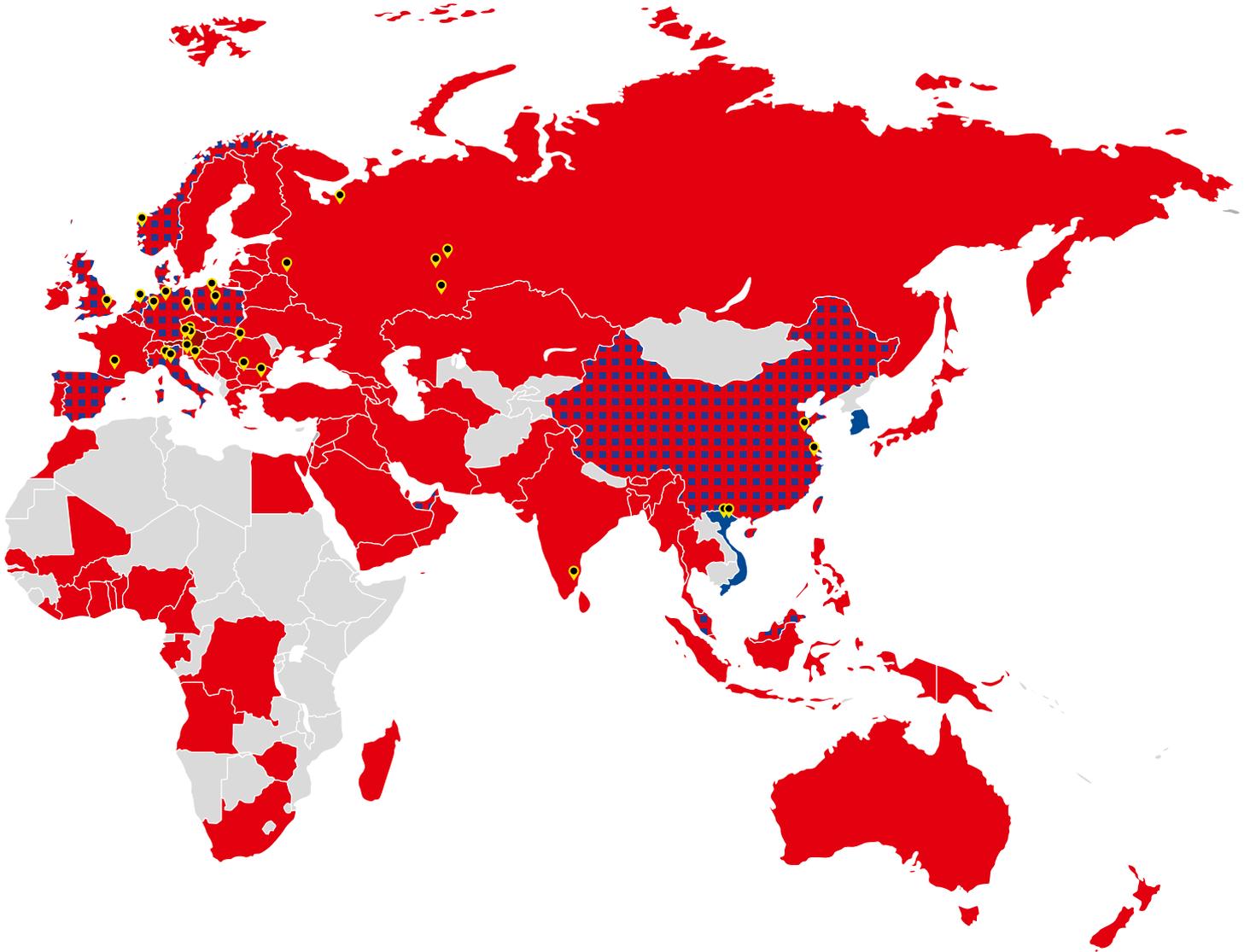


SUPPLIERS

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 with respect to 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

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. The procurement market underwent a material change in 2017: The pronounced upward trend of the entire industry pushed up prices enormously and resulted in a scarcity of resources. Average delivery times showed an extraordinarily high increase. In this environment, the multiple-sourcing strategy, initiated by PALFINGER years ago, proved its worth. This strategy as well as rolling planning succeeded in largely securing supplies and maintaining reliability in supplier delivery. In November and December, however, PALFINGER was confronted with delivery problems. Due to long-standing partnerships and the Company's stockpiling strategy, PALFINGER was able to cushion price increases significantly.

High demand in 2017 led to price increases and a scarcity of resources

Raw materials form the lion's share of procurement costs, accounting for about 19 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.

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, Croatia and China gaining in importance as pricing pressure continues. The growing trend towards digitalization and the ensuing increase in the number of electronic components make 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 stimulate the local economies. A special global sourcing department focuses on utilizing the potential of new procurement markets for PALFINGER. Recently, PALFINGER has expanded its portfolio of suppliers primarily in Asia, first and foremost in China. All new suppliers must observe quality and sustainability standards, for instance human rights and the prevention of corruption. Current information shows that PALFINGER is not subject to the Conflict Mineral Act and does not process any minerals listed therein because of the specifications of its products.

PALFINGER maintains long-term relations with its main suppliers and promotes their involvement in the Company's activities

PALFINGER maintains long-term relationships with its suppliers in order to continuously enhance quality and thus also competitiveness. Every two years, most recently in October 2017, PALFINGER organizes an international supplier meeting to improve the suppliers' involvement in the Company's activities. 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.

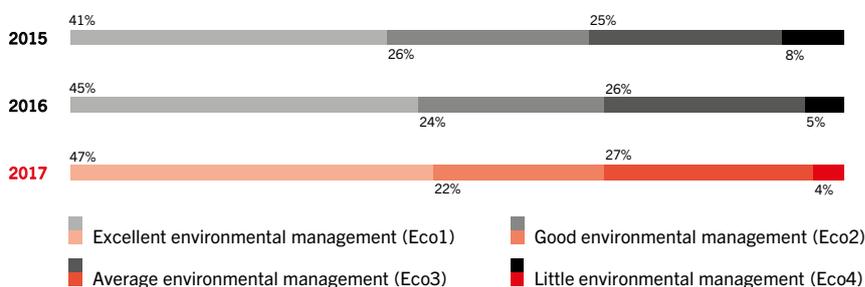
🌐 GRI 308-1

Sustainability among suppliers

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 2017, 69 per cent (previous year: 69 per cent) of the suppliers already had an excellent or good environmental system in place (Eco1 and Eco2), and the percentage of suppliers with an excellent environmental system had increased to 47 per cent. The response rate in 2017 was also higher than in the previous year, going up from 96 per cent in 2016 to 97 per cent in 2017. These positive trends confirm 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)



As a matter of principle, all of PALFINGER’s new suppliers have to undergo an initial audit. Just under half of the 200 strategic suppliers were audited by PALFINGER in 2017, 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 issues:

- 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

Environmental management and PALFINGER’s Code of Conduct are material standards for suppliers

In addition, the checklist is also used to verify the suppliers’ own assessments of their environmental management systems.

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; a general exchange on sustainability aspects was facilitated in internal Global Supplier Quality Meetings.

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, 308-2, 414-1, 414-2**

🌐 **Sustainability and Diversity Improvement Act**

📄 **Eco-efficiency in production, page 99; Corporate governance report, Fair business, page 119**

PERFORMANCE OF THE PALFINGER GROUP

The 2017 financial year was a highly successful one for the operations of the PALFINGER Group. Global developments were heterogeneous, but all in all satisfactory. Revenue rose by 8.4 per cent, reaching a new record level, and EBIT improved as well. However, the comprehensive restructuring measures, capacity and supply bottlenecks, and one-off effects reflected, in particular, in the net financial result, had a detrimental impact on earnings. As a consequence, the consolidated net result fell short of the previous year's figure. The Management Board and the Supervisory Board will propose a dividend of EUR 0.47.

BUSINESS PERFORMANCE IN 2017

The PALFINGER Group continued its growth in the 2017 financial year and raised revenue to a new record high for the seventh time in succession. Revenue of the PALFINGER Group increased to EUR 1,471.1 million. Compared with the previous year's figure of EUR 1,357.0 million, this corresponds to an increase of 8.4 per cent.

One reason for this expansion of business was the outstanding performance in Europe. PALFINGER also posted significant increases in Russia and China. The acquisitions and changes to the scope of consolidation made in 2016 and 2017 also contributed significantly to the growth of business. Incoming orders reached a record high at the end of 2017, and due to supply shortages, orders accounting for a substantial volume could not be completed within the reporting period. They will therefore be reflected in the revenue and earnings for 2018. The global marine business continued to be influenced by the extremely difficult market environment in 2017.

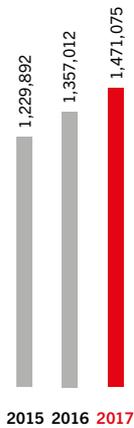
 Significant changes within the PALFINGER Group, page 71; Performance by segment, page 105

Although the global environment remained heterogeneous, PALFINGER improved the absolute profitability of its operating business compared to the previous year. EBITDA_n (EBITDA normalized by restructuring costs) rose by 7.8 per cent, from EUR 172.5 million to EUR 186.0 million. The EBITDA_n margin thus amounted to 12.6 per cent, as compared to 12.7 per cent in the 2016 financial year.

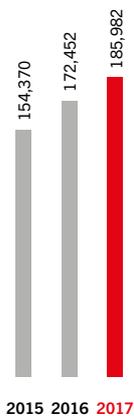
The performance over the individual quarters shows the continuous rise in revenue and EBIT in the past two years. The second half of the year is always influenced by the fact that there are fewer working days due to the two weeks of company holidays (at the European sites) in August and the Christmas holidays. In 2017, the company holidays were shortened due to the large order backlog.

 GRI 102-7

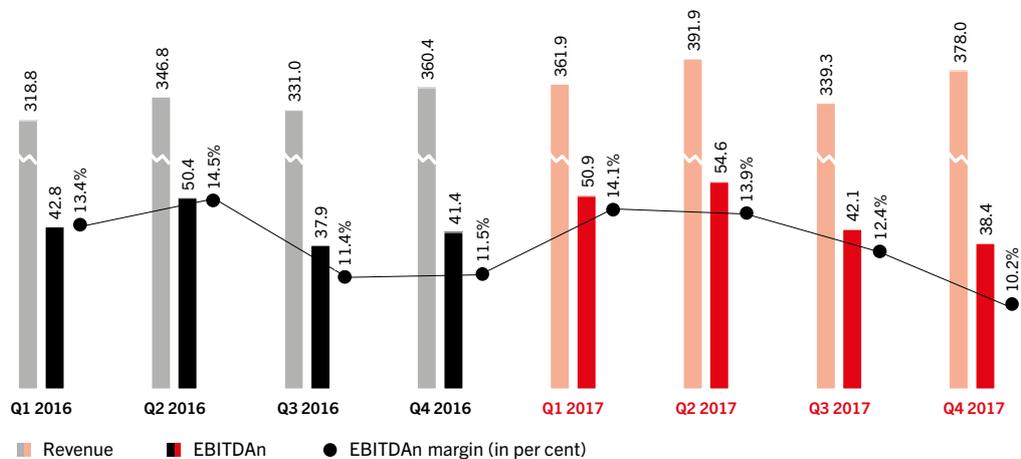
DEVELOPMENT OF REVENUE AND EBITDA_n (EUR million)



DEVELOPMENT OF REVENUE
(EUR thousand)



DEVELOPMENT OF EBITDA_n
(EUR thousand)



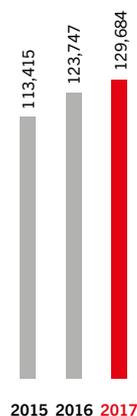
FINANCIAL POSITION, CASH FLOWS AND RESULT OF OPERATIONS

Earnings

In the 2017 financial year, revenue increased by 8.4 per cent to EUR 1,471.1 million (previous year: EUR 1,357.0 million). In terms of regions, the European Union remained PALFINGER's most important sales market, accounting for 50.8 per cent (previous year: 50.6 per cent) of the Group's revenue. North America contributed 20.3 per cent (previous year: 21.8 per cent) to the Group's revenue, while 8.2 per cent (previous year: 8.8 per cent) was generated in the Far East. In the reporting period, PALFINGER managed to increase revenue generated in the CIS region to 7.3 per cent (previous year: 6.1 per cent) of consolidated revenue. Due to a change in the scope of consolidation – the full consolidation of Hidro-Grubert – the contribution of Central and South America to consolidated revenue rose to 3.3 per cent (previous year: 2.5 per cent). Changes in foreign exchange rates had a negative impact of –EUR 1.6 million on revenue development, the main causes being the depreciation of the US dollar against the euro and the drop in value of the Norwegian crown. The Russian ruble and the Brazilian real, both of which showed stronger exchange rates than in 2016, had positive effects.

In 2016, PALFINGER carried out the biggest acquisition in its corporate history: The Norwegian Harding Group has been part of the PALFINGER Group since the end of June 2016. In the twelve months of 2017, Harding contributed around EUR 101.6 million to revenue. The acquisition of Palfinger Danmark in 2017 and the full consolidation of Hidro-Grubert also contributed substantially to the increase in business achieved, accounting for around EUR 30.4 million of the Group's revenue.

The EU market region accounted for around 51 per cent of the record revenue achieved



2015 2016 2017

DEVELOPMENT OF EBITn
(EUR thousand)

ABBREVIATED CONSOLIDATED INCOME STATEMENT

EUR million	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2017
Revenue	1,229.9	1,357.0	1,471.1
EBITDA ¹⁾	154.4	172.5	186.0
EBITDA margin ¹⁾	12.6%	12.7%	12.6%
EBITn ¹⁾	113.4	123.7	129.7
EBITn margin ¹⁾	9.2%	9.1%	8.8%
EBITDA	145.3	156.0	167.4
EBITDA margin	11.8%	11.5%	11.4%
EBIT	104.4	106.0	110.2
EBIT margin	8.5%	7.8%	7.5%
Consolidated net result for the period	64.4	61.2	52.5
Earnings per share (EUR)	1.73	1.63	1.40
Dividend per share (EUR)	0.57	0.57	0.47 ²⁾

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

²⁾ Proposal to the Annual General Meeting.

Consolidated financial statements, Notes to the consolidated income statement, page 151

As a consequence of the growth achieved, the cost of sales rose from EUR 1,023.0 million to EUR 1,112.1 million. The cost of materials in relation to revenue remained roughly at the previous year's level. Personnel costs increased by 11.8 per cent to EUR 159.5 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 334.0 million to EUR 359.0 million, and the gross profit margin was 24.4 per cent (previous year: 24.6 per cent).

Structural costs, engendered by the areas of research and development, sales, and administration, rose from EUR 237.4 million to EUR 261.2 million. This increase was brought about primarily by the acquisitions made, one-off effects at the HOLDING unit resulting from the changes in the management team, and investments in the expansion of digitalization. Structural costs increased by 0.3 percentage points in relation to revenue.

Due to the developments in the fourth quarter, the EBITn margin was only 8.8 per cent

EBITDA (EBITDA normalized by restructuring costs) went up by EUR 7.8 per cent, from EUR 172.5 million in the previous year to EUR 186.0 million, resulting in an EBITDA margin of 12.6 per cent after 12.7 per cent in the same period of 2016. This increase in absolute figures was facilitated by the significant improvement in earnings reported by the LAND segment. Normalized EBIT (EBITn) rose from EUR 123.7 million to EUR 129.7 million, while the EBITn margin dropped from 9.1 per cent in the previous year to 8.8 per cent. Even though the EBITn margin fell 1.2 percentage points short of the target of 10 per cent, primarily due to the developments in the fourth quarter of 2017, PALFINGER considers itself to be well underway in terms of improving profitability.

In the reporting period, restructuring costs came to EUR 19.5 million

In the reporting period, restructuring costs came to EUR 19.5 million (previous year: EUR 17.7 million) and were incurred primarily in connection with initiatives taken in North America and in the marine business. 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.

 **Group-wide development programmes, page 38; Significant changes within the PALFINGER Group, page 71; Performance by segment, page 105**

EBIT thus increased by 3.9 per cent, from EUR 106.0 million to EUR 110.2 million, which means that despite ongoing restructuring measures, PALFINGER achieved a new peak in its corporate history. The EBIT margin decreased from 7.8 per cent in 2016 to 7.5 per cent in 2017.

The 2017 net financial result was affected by the necessary termination of hedge accounting for hedges in connection with a marine project. Income tax expense was just under the previous year's figure, coming to EUR 23.3 million in the reporting period as compared to EUR 23.9 million in 2016; this raised the tax rate to 26.3 per cent. The consolidated net result for the 2017 financial year was EUR 52.5 million, 14.2 per cent lower than the previous year's figure of EUR 61.2 million. Earnings per share came to EUR 1.40, as compared to EUR 1.63 in 2016.

In line with PALFINGER's dividend policy, the Management Board and the Supervisory Board are going to propose to the Annual General Meeting that a dividend of EUR 0.47 (previous year: EUR 0.57) be distributed for the 2017 financial year.

 **Dividend, page 31**

Assets

ABBREVIATED CONSOLIDATED BALANCE SHEET

EUR million	31 Dec 2015	31 Dec.2016 ¹⁾	31 Dec 2017
Non-current assets	708.9	921.2	894.6
Current assets	503.5	614.7	650.4
Total assets	1,212.4	1,535.8	1,545.0
Equity	510.7	579.9	575.7
Non-current liabilities	395.5	525.3	576.1
Current liabilities	306.2	430.6	393.3
Total equity and liabilities	1,212.4	1,535.8	1,545.0

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

 **Consolidated financial statements, Notes to the consolidated balance sheet, page 160**

Total assets increased slightly by 0.6 per cent, from EUR 1,535.8 million as at 31 December 2016 to EUR 1,545.0 million as at 31 December 2017.

Non-current assets decreased from EUR 921.2 million to EUR 894.6 million, while current assets rose from EUR 614.7 million to EUR 650.4 million due to the expansion of business. Average current capital in proportion to revenue increased slightly from 26.3 per cent in 2016 to 26.5 per cent in the reporting period. 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.

 **Current capital, page 38**

Equity decreased by 0.7 per cent, from EUR 579.9 million as at 31 December 2016 to EUR 575.7 million. This decrease was primarily due to the lower consolidated net result in 2017 and was lowered further by dividend payments and foreign currency translation effects. The equity ratio decreased from 37.7 per cent in the previous year to 37.3 per cent, also as a consequence of the expansion of total assets.

In March, PALFINGER placed a promissory note loan in the amount of EUR 200 million, which facilitated the long-term refinancing of the acquisition of the Harding Group as well as other acquisition projects. In this connection, non-current liabilities increased from EUR 525.3 million to EUR 576.1 million, while current liabilities decreased from EUR 430.6 million to EUR 393.3 million. 98.1 per cent of PALFINGER's total capital employed has been secured on a long-term basis.

Net debt rose slightly from EUR 513.1 million to EUR 513.3 million. As at 31 December 2017, the gearing ratio came to 89.2 per cent, as compared to 88.5 per cent as at 31 December 2016.

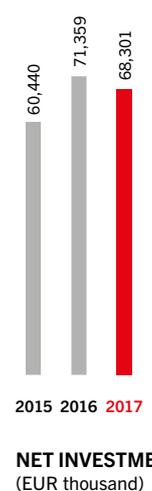
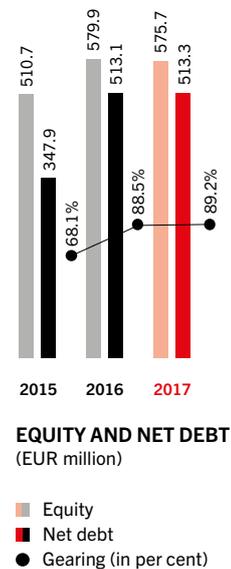
Net investment during the reporting period came to EUR 68.3 million (previous year: EUR 71.4 million) and comprised primarily the enlargement of production capacities and replacement investments.

Financial position

EUR million	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2017
Cash flows from operating activities	110.6	109.6	92.0
Cash flows from investing activities	(64.6)	(187.7)	(58.7)
	46.0	(78.1)	33.3
Adjusted interest on borrowings after tax	8.7	9.4	9.8
Free cash flows	54.7	(68.7)	43.1

Cash flows from operating activities lessened from EUR 109.6 million in the 2016 financial year to EUR 92.0 million in the reporting period. Even though the improved EBIT situation and the increase in liabilities had a positive effect, the performance was dampened by higher inventories. As a consequence of the higher purchase price payments for the acquisitions in 2016, cash outflows from investing activities decreased from –EUR 87.7 million to –EUR 58.7 million in the reporting period. As a result, free cash flows amounted to 43.1 million, as compared to –EUR 68.7 million in the previous year.

The acquisitions and restructuring measures were reflected in the value creation indicators in the 2017 financial year. Return on equity fell from 12.7 per cent as at the end of 2016 to 11.3 per cent as at 31 December 2017, return on capital employed came to 7.5 per cent, falling short of the previous year's figure of 8.1 per cent. Due to higher market capitalization, weighted average cost of capital (WACC) was higher than in the previous year, coming to 6.2 per cent (previous year: 6.0 per cent). These developments resulted in a decline in economic value added from EUR 20.5 million to EUR 13.6 million.



At EUR 43.1 million, free cash flows were clearly positive again

CONSOLIDATED MANAGEMENT REPORT

EUR million	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2017
EBIT	104.4	106.0	110.2
Adjusted income tax expense	(24.3)	(27.3)	(28.7)
NOPLAT	80.1	78.7	81.5
Inventories	250.8	272.6	285.9
Trade receivables	173.4	217.6	259.3
Trade payables	(93.3)	(112.3)	(129.6)
Advances received on orders	(20.8)	(21.4)	(25.2)
Current capital	310.2	356.5	390.5
Other current receivables and assets	27.5	33.0	40.4
Income tax receivables	2.9	3.5	3.0
Current provisions	(14.1)	(17.1)	(18.8)
Current liabilities	(63.4)	(91.3)	(101.7)
Income tax liabilities	(7.2)	(8.7)	(10.9)
Net working capital¹⁾	256.0	275.9	302.5
Non-current operating assets	655.9	782.7	876.5
Non-current provisions	(42.0)	(46.3)	(47.9)
Deferred tax liabilities	(7.6)	(16.2)	(18.8)
Liabilities from puttable non-controlling interests	(16.0)	(5.9)	(2.8)
Other non-current liabilities	(11.3)	(14.4)	(18.4)
Capital employed¹⁾	834.9	975.8	1,091.0
ROCE	9.6%	8.1%	7.5%

1) Annual average.

SIGNIFICANT CHANGES WITHIN THE PALFINGER GROUP

Focus on consolidation and restructuring

In the past twenty years, the PALFINGER Group carried out approximately thirty acquisitions and established various joint ventures and partnerships. The acquisition of the Norwegian Harding Group in 2016 was the largest acquisition in PALFINGER's corporate history. In 2017, the focus was placed on consolidating the Group, adjusting its structures and utilizing its global synergies in order to ensure the long-term profitability of the growth achieved.

In 2016, PALFINGER initiated specific restructuring measures in North America and in the marine business. The declared aim of the comprehensive set of measures was to raise operating profitability into the double-digit range and prepare for continued growth and the recovery of the relevant marine industries.

The restructuring measures have already proven successful, but have not been completed yet

A major structural change was PALFINGER's sale of its business of mounting and selling service bodies, i.e. special truck bodies for small trucks and pick-ups, at four PalFleet sites in North America to the Reading Truck Group. The transaction was closed at the end of March. In the marine business, the most important measures comprised organizational cost optimization, the use of synergies in the sales and service structure and the evaluation of the global production sites. In this connection, the sites in Korea and the Netherlands were consolidated. The restructuring, particularly in the marine sector, has proven to be more complex than expected and will therefore continue in 2018.

 **Group-wide development programmes, page 38; Performance by segment, page 105**

Acquisitions

Nevertheless, in support of its future success, PALFINGER also seized opportunities for further growth in 2017. In January 2017, Palfinger EMEA GmbH acquired 20 per cent of the shares in Sky Steel Systems LLC, Dubai. In addition, a call option for another 29 per cent was agreed upon. Sky Steel Systems produces facade access equipment, which is primarily used to maintain and clean the facades of high-rise buildings. PALFINGER's Railway Systems business unit has already been engaged in the business of maintenance of infrastructure and buildings, and the Group expects numerous synergies in this field. A first project was implemented in cooperation with Sky Steel Systems in 2016.

Despite the focus for 2017 being on the consolidation of the Group, PALFINGER also seized opportunities for growth

On 31 January 2017, Palfinger EMEA GmbH acquired 100 per cent of the shares in the Danish company Palfinger Danmark AS. Since then, the previous owner has focused on its core business. PALFINGER took over all the staff and has kept the entire sales and service network in operation under the direction of the company's established management team.

Development site for IoT

Since the autumn of 2017, PALFINGER has maintained a development site at the newly opened start-up hub weXelerate in Vienna. weXelerate, Central and Eastern Europe's largest business incubator, was established at the Vienna Design Tower, and PALFINGER is one of the partner companies at that start-up hub. The PALFINGER development team will cooperate closely with the start-ups, devising new solutions in the field of Internet of Things (IoT). This opens up completely new business models for PALFINGER. A PALFINGER IoT platform forms the technical basis for interconnected products. This is where data on the PALFINGER products are collected, analysed and visualized, making it possible to depict the current state of each product. As a consequence, PALFINGER is able to offer its customers new services such as pro-active and predictive maintenance of lifting solutions.

PALFINGER opened a development site at Central and Eastern Europe's largest business incubator

 **Research and development, page 93**

Changes in the Management Board

On 1 October 2017, PALFINGER AG appointed Felix Strohbichler as its new CFO. He succeeded Christoph Kaml, who had left the Company at the end of August. Felix Strohbichler was most recently employed as the managing director of B&C Industrieholding GmbH. Prior to that, he gained 15 years of experience with the PALFINGER Group, holding executive positions in various business units.

Felix Strohbichler has been CFO since October 2017; the search for a suitable successor for the position of CEO is underway

In November, CEO Herbert Ortner announced that he planned to retire. Ortner had been on the Management Board since 2003, chairing it as CEO since 2008. He retired from his office on the Management Board of PALFINGER effective 31 December 2017 and has supported the Company in an advisory capacity since then. The Supervisory Board immediately gave instructions to find a successor, which is expected to take several months. Until further notice, the responsibilities of the CEO will be fulfilled by the two remaining members of the Management Board, Felix Strohbichler and Martin Zehnder.

🌐 GRI 102-10

FURTHER CHANGES UNDER COMPANY LAW

On 31 January 2017, the Slovenian company PALFINGER proizvodnja d.o.o. acquired 100 per cent of the shares in the Slovenian company CAPITAL INVESTMENT investicije, nepremičnine, svetovanje, d.o.o. The seller was Capital Investment GmbH, an Austrian company belonging to the private foundation Palfinger Privatstiftung. The acquired company is the owner of a property at the Maribor site that is being rented by the PALFINGER Group, and has no business operations apart from that. On 2 October 2017, it was merged into PALFINGER proizvodnja d.o.o.

In November, Palfinger S. Units GmbH, on the basis of the joint venture agreement signed in February 2013, sold 3 per cent of the shares in Palfinger Platforms Italy s.r.l. to the co-shareholder Sky Access Srl.

PALFINGER strives to continuously simplify and adjust its group structure

In addition, PALFINGER effected additional changes in order to simplify and adjust the Group's structure:

In March, MBB Inter S.A.S., France, was renamed Palfinger Hayons S.A.S. At the end of August, the name of the Slovak company MBB Palfinger s.r.o. was changed to Palfinger Tail Lifts s.r.o. In September, the Chinese company Palfinger (Shenzhen) Ltd. was renamed Palfinger Equipment (Nantong) Co., Ltd.

September also saw the merger of Palfinger North America GmbH into Palfinger South America GmbH, which was then renamed Palfinger Americas GmbH. North America and South America are also aggregated for the purposes of internal reporting.

Many of the changes were made in connection with the integration of the Harding Group

Starting in February 2017, the Norwegian participation structure was adjusted through mergers involving the companies Harding Holding I AS, Harding Holding II AS, Harding Safety Eiendom AS and Noreq Fender AS. Through this reorganization process, part of which was carried out in multiple stages, Palfinger Marine Safety AS became the legal successor to all of these companies. In a final step, Palfinger Harding Holding AS was merged into Palfinger Marine Safety AS in April 2017.

In the course of the integration of the Harding companies in 2017, additional corporate names were changed by adding the words "Palfinger Marine". The following companies were renamed: Harding Safety Denmark AS became Palfinger Marine DK AS, Harding Safety Poland sp.z.o.o. became Palfinger Marine LSE Poland sp.z.o.o., Harding Safety Czech s.r.o. became Palfinger Marine Czech s.r.o., Harding Safety USA Inc. became Palfinger Marine USA Inc., Harding Safety Canada Inc. became Palfinger Marine Canada Inc., Harding Safety Panama Inc. became Palfinger Marine Panama Inc., Harding Safety Hong Kong Limited became Palfinger Marine Hong Kong Limited, Harding Safety Korea Co., Ltd. became Palfinger Korea Co. Ltd., Harding Boatbuilding (Qingdao) Co. Ltd. became Palfinger Marine LSE (Qingdao) Co. Ltd. and Harding Safety (Shanghai) Co. Ltd. was renamed Palfinger Marine Shanghai Co., Ltd.

In September 2017, all shares in Harding Safety Italy Srl were transferred from Harding Safety Spain SL to Palfinger Marine Safety AS.

In November 2017, Palfinger Marine Safety AS acquired 100 per cent of the shares in Heron Davits AS. The target company is engaged in the development of a new generation of davit cranes and has the corresponding know-how.

In December 2017, Harding Safety Singapore PTE Ltd. and Noreq PTE. LTD were both merged into Palfinger Asia Pacific Pte. Ltd.

INFORMATION PURSUANT TO SEC. 243A OF THE BUSINESS CODE

As at 31 December 2017, 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 2017, 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 2017, the Palfinger family directly or indirectly held approx. 59 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 33.5 per cent of the PALFINGER shares were in free float.

Within the PALFINGER Group there is no employee stock option programme 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 Management 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 Management Board and the Supervisory Board.

🌐 GRI 102-5

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

Under the Austrian Sustainability and Diversity Improvement Act, a non-financial statement is required

For PALFINGER, as a long-standing family enterprise, sustainable business has always been a matter of course. For more than a decade now, 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-phase process, which also involved stakeholders, PALFINGER defined the material aspects of sustainability, most recently in the 2017 reporting period. They can be broken down into the following four sustainability areas:

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

In this Integrated Annual Report, financial and non-financial information is sorted and presented by topic

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 2017 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 issues and references to the respective pages of this 2017 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 2017 financial year is also available on its corporate website.

 Corporate governance report, page 113

 <https://www.palfinger.ag/en/investor-relations/corporate-governance>

TREASURY

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.

Liquidity is controlled for the whole Group by the treasury department

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 efficient cash management systems (cash pooling). 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 43.0 million (previous year: EUR 37.9 million) as at the balance sheet date (31 December 2017) and were fully derecognized in accordance with the rules of IAS 39 due to the transfer of control.

Moreover, in October 2017, PALFINGER implemented a reverse factoring structure with an Austrian credit institution. As at 31 December 2017, this concerned trade payables totalling EUR 0.3 million.

In 2017, PALFINGER also used the favourable situation on the interest markets in order to further optimize its financing structure. In March 2017, PALFINGER issued a promissory note loan in the total amount of EUR 200 million featuring maturities of five, seven and ten years. In the second quarter of 2017, loans for the acquisition of interests in the total amount of EUR 60 million and with an average maturity of six years were raised. The financing was used to redeem the syndicated loans that were raised in 2016 to finance the acquisition of the Norwegian Harding Group ahead of time and to extend the maturity of the Group's financial liabilities.

PALFINGER used the favourable situation on the interest markets in 2017 and optimized its financing structure

RISK REPORT

Risk management includes the identification of risks as well as opportunities

PALFINGER is aware of the fact that a 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 swiftly to changing framework conditions.

The risk management system set up by the PALFINGER Group is based on 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. At that level, risk topics are regularly gathered and evaluated. Corporate Risk Management reports directly to the Management 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 opportunities and risks is carried out in respect of their possible impacts on the results 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, this group-level department supports the early identification of risks that might impair the continued existence of the Company.

Short-term risk issues 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 issues

PALFINGER divides the risk areas into four main categories

The current risk exposure of the PALFINGER Group is influenced by developments in the market. Europe's economic growth, current risks in China 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 and cultures. The establishment and expansion of new business units harbours the risk of increasing complexity. A key success factor for PALFINGER is therefore 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 and
- Internal risks related to supporting processes

EXTERNAL RISKS

Economic developments

Current geopolitical and economic developments in PALFINGER's core markets have had a massive impact on the order situation and on financial results. Following a phase of economic cool down, Europe's economy most recently has been on the upswing. This led to production bottlenecks which were managed accordingly. The consequences of international events such as the Brexit, as well as the stagnant developments regarding the TTIP free trade agreement, could affect the order books in the respective regions. The prospects for major trading partners such as Brazil have not changed, and only a slight economic recovery is predicted. The picture is similar in the markets in Africa, the Middle East and South America in general, where political uncertainty continued to have a negative influence on orders in 2017.

The Commonwealth of Independent States (CIS) recorded increasing economic growth in 2017. This was primarily due to the strengthening of economic performance in Russia. In this connection, PALFINGER managed to cushion the negative effects of the sanctions against Russia through local value creation.

PALFINGER sees numerous long-term opportunities in the BRIC countries despite the economic cool down in these markets. This region, led by the sales market of China, opens up future potential even though growth has been slower than originally expected. Cooperation with SANY has the purpose of fostering the development of the Chinese market and strengthening PALFINGER's position vis-à-vis its Chinese competitors. However, the continuous investment in this cooperation also harbours a strategic risk.

Uncertainties in the US market have persisted. New legislation, such as taxes on imported goods, could be particularly detrimental to business, since it affects trade relations between Europe and the USA as well as within the NAFTA region. In 2017, even though economic growth in the US market was satisfactory, PALFINGER was unable to fully capitalize on market opportunities and EBIT margins. Appropriate restructuring measures are being implemented.

As a result of the acquisitions carried out in the marine sector, PALFINGER's dependence on the oil industry has increased further. Moreover, the low capacity utilization of shipping vessels in the oil supply sector has had an impact on the marine services business. In some regions, the recovery of the oil price has revived investments, but overall, investments, like the oil price itself, still fell far short of the pre-crisis level. PALFINGER took measures to integrate the acquired companies and to restructure its marine business in order to meet the requirements of the market.

In general, PALFINGER has responded to the current developments regarding global opportunities and risks by showing utmost flexibility, which is why the controlling department pays great attention to consistently pursuing the strategic objectives by means of medium-term and short-term control tools. Short-term adjustments and decisions are made on the basis of rolling forecasts. All information provided by market participants – customers and suppliers – is integrated into this planning process in order to ensure that the stock of data is as valid as possible.

Risks due to energy supply and climate change

Energy costs make up only a relatively small percentage of PALFINGER's total cost. At the majority 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, energy costs could fluctuate strongly. In order to minimize this risk and the impact on the environment, measures aimed at enhancing energy efficiency as well as audits in connection with the EU's Energy Efficiency Directive and environmental management systems have been implemented in recent years. In 2017, PALFINGER participated in the CDP environmental performance assessment for the second time.

 Ratings, page 30

As steel and aluminium have a high energy intensity and are essential materials used by PALFINGER, higher fuel and energy taxes would push up procurement costs. 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 CO₂ emissions. In some countries where PALFINGER maintains sites, preparations for CO₂ taxation are being made, for instance in Slovenia, France, Great Britain, Poland and South Korea. A moderate tax on CO₂ of just EUR 0.04 to EUR 0.10 for one tonne of CO₂ (Scope 1) in these countries would translate into additional costs of EUR 120,000 to EUR 300,000 for PALFINGER. Moreover, in the medium term, CO₂ taxes or higher energy taxes may also be introduced throughout the EU or 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 CO₂ price of EUR 30 per tonne of CO₂ equivalents for emissions in order to prepare for a future taxation of CO₂ 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 CO₂. 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.

PALFINGER's product portfolio also includes wind cranes, recycling cranes and hooklifts and skidloaders. 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 CO₂ 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 issues 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's Code of Conduct covers various issues, including the observance of human rights aspects and the prevention of child labour, forced labour and compulsory labour, also in the supply chain. However, there are no material risks of that kind in connection with PALFINGER's business practices.

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 and defining the consequences of violations.

🌐 Sustainability and Diversity Improvement Act

📄 Corporate governance report, Fair business, page 119

STRATEGIC RISKS

Strategy

In the reporting period, PALFINGER 21st was introduced as another strategic pillar in addition to innovation, internationalization and flexibility. Following numerous acquisitions over previous years, PALFINGER is currently focusing on the integration of the acquired companies. The general consolidation of the market increasingly calls for the realization of synergies so as to be able to counter the risk of receding margins. This harbours the risk of additional costs for further integration and restructuring measures.

📄 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 and utilized on a regular basis.

PALFINGER's expansion of the volatile project business, particularly in the marine business and in railway systems, has increased the Group's project risks. To lower its dependence on the oil price in the marine business, PALFINGER is striving to enter new markets, such as the cruise business. In doing so, entry barriers have to be overcome.

Organization and culture

A side-effect of PALFINGER's growth strategy is an increase in structural costs. In order to counter the higher level of costs and tap into synergies, group-wide initiatives and integration projects have been promoted with a focus on standardizing and optimizing business processes, consolidating structures, and expanding shared-service activities. Lengthy decision-making processes could delay the implementation of optimization measures, which means that increases in efficiency might be implemented more slowly or only to a limited degree. Integration projects harbour the risk that the synergies planned may not be realized in a timely manner and/or that integration costs may be higher than planned.

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 at all levels. Language barriers pose an additional hurdle to be overcome.

 [Attractive jobs with individual responsibility, page 86](#)

INTERNAL RISKS RELATED TO VALUE CREATION

Development

The challenge in the field of development is to continuously reconfirm PALFINGER's status as an innovation leader. Therefore, research and development are core issues in order for PALFINGER to bring new products and services to the market on an ongoing basis. Today's dynamic environment and heavy competitive pressure tend to result in an ever-faster product cycle, thus increasing the risk of quality defects if innovations are launched prematurely. For PALFINGER, the digitalization trend harbours additional opportunities and risks alike. Continuous communication with PALFINGER's sales partners and customers is essential so that PALFINGER can continue to develop customer-oriented solutions and thereby generate competitive advantages on the market. In addition, the market has to be monitored with regard to disruptive technologies.

Procurement

As regards risk minimization, the focus in procurement has recently shifted from liquidity issues towards the topic of material availability. In line with its multiple-sourcing strategy, PALFINGER places an emphasis on creating at least one additional procurement option, particularly in the case of strategically significant materials and parts.

In 2017, quality and price continued to be of crucial importance. Suppliers are continuously supported to help them perform even better in the future and to counter 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 62](#)

Production

For PALFINGER, the major value creation stages are the manufacture and assembly of its products. An extended production downtime at one site would have a significant impact on the financial results generated by PALFINGER. The current high level of capacity utilization at its European plants further presents PALFINGER with the challenge of keeping its supply chain stable.

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 based on 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 211](#)

Sales and service

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. In order to constantly improve market development efforts, common standards have been defined, the observance of which is ensured through dealer audits.

Whenever the market environment changes in a way that affects distribution channels, market shares may be lost. European dealers oftentimes have no definite provisions for their business succession. In order to counter these risks, cooperation with dealers is being further intensified and dealer standards are being defined.

 [Customers and dealer network, page 60](#)

INTERNAL RISKS RELATED TO SUPPORTING PROCESSES

Finance and accounting

As a result of the strained economic environment, it is essential for PALFINGER to have a flexible capital structure. A further downturn of the situation 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.

Due to current 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 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 finance requirements can be coordinated with the partners at an early stage.

Working capital financing is the responsibility of the treasury department. 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, tranches of promissory note loans and profit-participating loans. The determination of credit limits and the amount of refinancing costs depend on the banks' assessment of PALFINGER's future perspective. Therefore, PALFINGER maintains close contacts with its banking partners.

 [Treasury, page 75](#)

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 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. On the basis of the ongoing analyses of these positions, hedging strategies have been established, which are evaluated at regular meetings.

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 controls the interest rate risk for the entire PALFINGER Group. 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 2017, the central treasury department used the low interest level to extend the interest and capital lockup periods of the financing portfolio. In 2017, the financing transactions and promissory note loans were structured primarily with 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 evaluations of facts necessary for this purpose. The combination of various booking procedures entails a certain reporting risk.

A uniform 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 basic cornerstones of this system, such as the segregation of duties and the four-eyes principle, have been introduced. 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. As a result of the acquisition of the Harding Group in the previous year, the carrying amount of goodwill in the BA Marine CGU was significantly increased, coming to EUR 156.5 million as at 31 December 2017. The development of goodwill in the business area Marine CGU is primarily influenced by the development of the offshore market. A long-term deterioration of this market could necessitate an impairment.

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), EUR 149.6 million were shown under investments in companies reported at equity as at the balance sheet date 31 December 2017. These shares include goodwill of EUR 87.3 million. Whether these shares will have to be impaired depends on the development of the Chinese economy, the degree of success of the internationalization strategy, and the economic development of the sales markets of Palfinger Sany International Mobile Cranes Sales. In China, the need for impairment of these shares will be influenced primarily by the performance of the construction industry. The progressing urbanization, the necessary infrastructure projects resulting from it, increasing wage costs and the associated increase in the economic effectiveness of automated 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 may have an impact on whether or not the shares in connection with the partnership with SANY will have to be impaired.

 **Consolidated financial statements, Investments in companies at equity, page 149**

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. Hedge accounting is discontinued if the hedged transaction is no longer expected to occur.

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, initial and further training programmes, regular 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.

Uncertainty for employees and other stakeholders was also raised by the changes in the Management Board that occurred in 2017.

 **Responsible employer, page 84**

Information technology

Most of the processes within the Company rely on IT. 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 IT infrastructure across the entire Group. IT security is a topic that is becoming even more important given the increase in digitalization.

PALFINGER has implemented a range of technical 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.

Moreover, the risk of fraudulent activities and manipulation through IT attacks by third parties (large-scale cyber attacks, such as hacking and phishing mails) is rising. Therefore, additional awareness-raising measures, such as seminars or newsletters, have been promoted by PALFINGER, and the internal control system and the supporting IT systems have been continuously developed.

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 Group 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 Management 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 76](#)

CONTROLS

The group guidelines define not only the substance of general parameters but also the internal controls that, from a group perspective, need to be implemented in local processes. 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 guarantees that the management team has an overview of the Group's performance. Twice a year, a report on the control system is presented to the Audit Committee of the Supervisory Board.

AUDITS AND CONTROLS

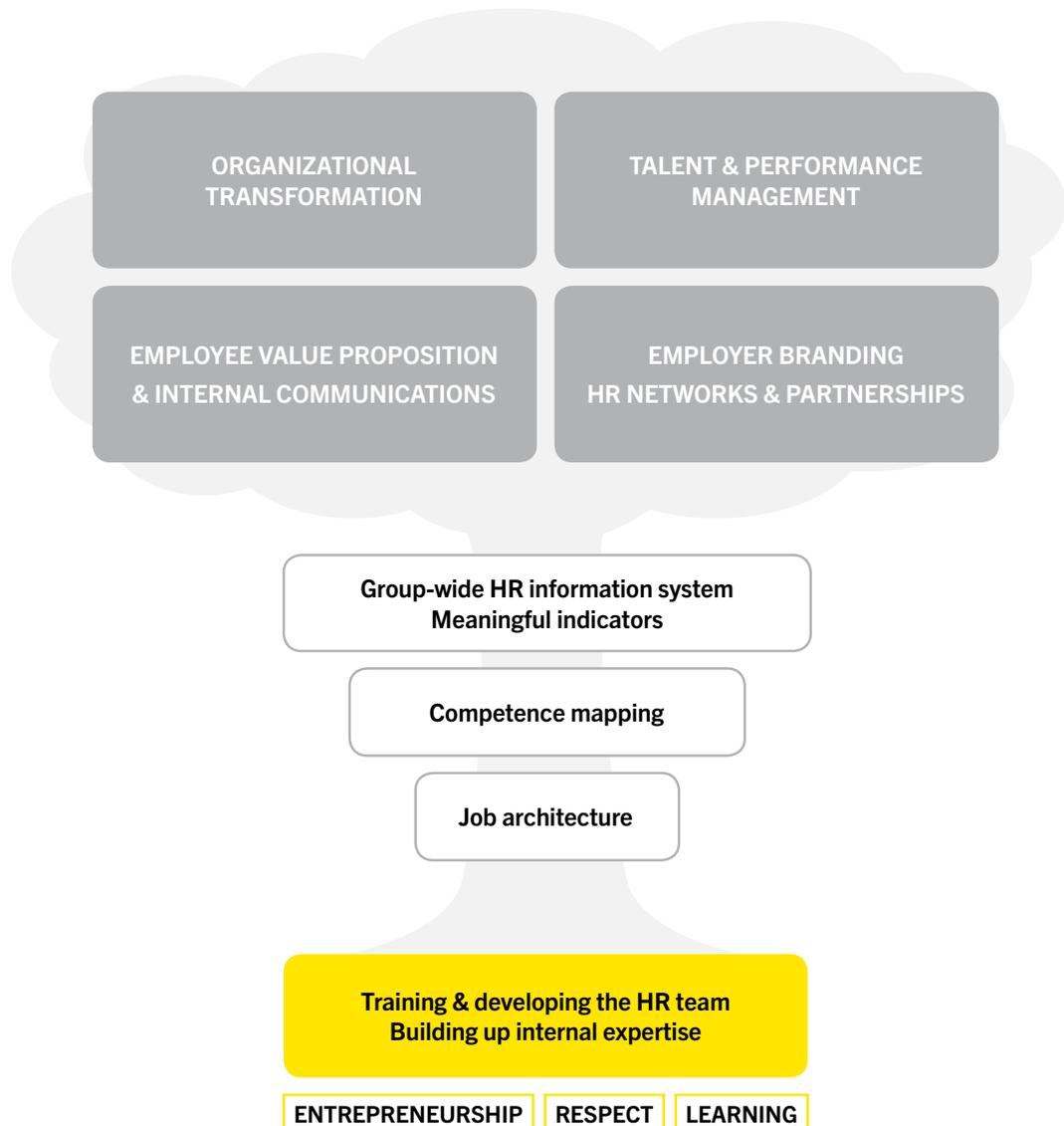
Close cooperation with the auditor of the consolidated financial statements, whose international network guarantees uniform auditing standards, ensures a comprehensive and efficient external audit of the financial statements. Thanks to the close interplay of Controlling and Accounting, estimates are regularly compared and coordinated with results. 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 Management Board members and managing directors.

RESPONSIBLE EMPLOYER

10,212 staff members from 70 nations work for the PALFINGER Group worldwide. Their motivation, qualifications, health and safety are prerequisites for the Group's success. PALFINGER is committed to the advancement of its corporate culture as well as to open communication. In the 2017 financial year, PALFINGER developed its vision for the digital era. The HR Strategy 2020 takes into account the new requirements to be met by employees, the organization and personnel management.

HR Strategy 2020



Corporate culture

The basis of PALFINGER's success is its staff. "We value people. People create value." That is the motto for PALFINGER's corporate culture. Values provide a structure, a framework for one's actions and a sense of orientation, particularly in a dynamic environment. Currently, the PALFINGER Group employs people from 70 different nations. The objective is to have a corporate culture characterized by respect in dealing with diversity and differences.

🌐 GRI 102-16

🌐 Sustainability and Diversity Improvement Act

📄 Diversity and equal opportunity, page 91

The motto for PALFINGER's corporate culture is "We value people. People create value."

For many years, PALFINGER's core values have been respect, entrepreneurship and learning. In 2016, these values were reinterpreted and guiding principles were defined. In the reporting period, PALFINGER focused on communicating these values, behaviours and leadership principles throughout the Group. Since then, they have also been an integral component of integration projects, new strategic initiatives and succession planning. At many sites, new media and innovative ideas are being used for this purpose. For instance, "value buddies" were honoured all over the world. These are employees who truly embrace the PALFINGER values in an outstanding manner. The values, and their internalization, were also a topic included in the staff survey performed in 2016. PALFINGER's goal is to make them an essential element of decision-making processes.

HUMAN RIGHTS

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. Rules on the acceptance of gifts, measures to prevent child labour, forced labour and compulsory 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.

📄 Suppliers, page 62; Corporate governance report, Fair business, page 119

PALFINGER is committed to communication across all levels, as well as to internal bodies for the representation of employees and works councils, and rejects any kind of repressions in these respects. In accordance with its corporate values, PALFINGER attaches great importance to enabling active exchange at all times and to treating the articulated needs of its staff members with respect. In principle, 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.

At PALFINGER, communication takes place across all levels

Freedom of association and the legal right to appoint employee representatives are also guaranteed at PALFINGER's production sites in Asia. Communication hierarchies are still flat at these comparatively small sites. The low employee turnover rates at the Company's Asian sites give evidence of the fact that remuneration terms and other labour conditions are well accepted:

🌐 GRI 407-1, 408-1, 409-1

🌐 Sustainability and Diversity Improvement Act

COMMUNICATION AND ENGLISH AS THE CORPORATE LANGUAGE

After having developed a new PALFINGER vision for the digital age in the course of 2017, this vision also has to be effectively communicated to all stakeholders of PALFINGER now, at the beginning of 2018. This primarily concerns the more than 10,000 staff members worldwide. PALFINGER attaches great importance not only to informing the stakeholders but also to ensuring their participation and active commitment.

📄 Vision, page 22

Another key issue is the common language within the PALFINGER Group. 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 English as the corporate language. Specific measures to promote the common language have been planned, including, for example, offering

English is being promoted as the common language of the global Group

more English courses in the various countries, preparing all group reports and presentations in English by default and carrying out parts of the global recruiting of executives in English.

🌐 GRI 402-1

🌐 Sustainability and Diversity Improvement Act

Attractive jobs with individual responsibility

PALFINGER endeavours to offer attractive jobs and interesting, meaningful work content to its existing and potential workforce, based on its core values: respect, entrepreneurship 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, have been good reasons to work for PALFINGER – for 85 years.

The staff gave PALFINGER an excellent employee satisfaction rating of 73 per cent

In early 2017, the results of the global employee survey carried out in 2016 were presented. With an impressive response rate of 73 per cent and an average employee satisfaction of 73 per cent, the staff of the PALFINGER Group gave their employer an excellent rating. At the same time, PALFINGER received valuable feedback, which will be used to improve working conditions further. In the following months, measures to accelerate improvements and to implement the suggestions made by the employees were defined at all sites.

Employer branding boosts the motivation and loyalty of PALFINGER's staff and helps to attract new employees. Satisfied employees are the best brand ambassadors and the most effective type of employer branding.

An additional, completely new way of showcasing the benefits of working for PALFINGER is PALFINGER World, which was opened in 2017. PALFINGER's plan for 2018 is to define a group-wide employer branding strategy in order to become an even more attractive employer at all sites worldwide.

WORKING HOURS AND REMUNERATION

Flexible working time schemes are of advantage to employees and to PALFINGER

PALFINGER attaches importance to flexible working time schemes in order to maintain a high level of entrepreneurial flexibility. If the job permits, home office 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.

In general, PALFINGER pays wages that are higher than the respective regional remuneration levels. 56.1 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. In 2017, the variable remuneration model was adapted following an in-depth analysis. Since the beginning of 2018, a new bonus model has been in place that constitutes a defined standard for the entire PALFINGER Group, thereby guaranteeing a higher level of transparency and common objectives.

🌐 GRI 102-41

🌐 Sustainability and Diversity Improvement Act

APPRAISAL INTERVIEWS

At many PALFINGER sites, appraisal interviews have become a standard management tool. In the reporting period, 26.1 per cent (previous year: 40.4 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. The new HR system will standardize this process within the Group, making the exact determination of this indicator easier.

🌐 Sustainability and Diversity Improvement Act

WORKPLACE COMMUNITY

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. In 2017, on the occasion of the 25th anniversary of Inman, the CIS-wide sports festival “PALFINGER HEROES” was organized, and employees from all sites in the CIS region took part in an obstacle course race. In Salzburg, several PALFINGER teams competed against teams of other companies at the Salzburg Business Run.

🌐 **GRI 102-43**

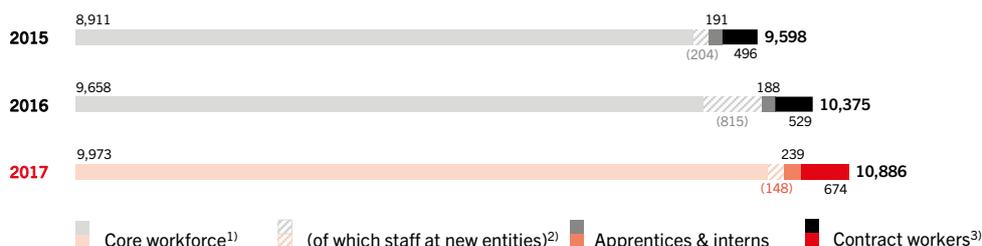
🌐 **Sustainability and Diversity Improvement Act**

Site-specific and regional events and activities enhance the staff’s feeling of community

Employment trend

In the 2017 financial year, the number of people employed by the PALFINGER Group remained relatively stable. As at 31 December 2017, the PALFINGER Group employed a total of 10,212 staff members in its fully consolidated group companies, which corresponds to an increase of 3.7 per cent or 366 people compared to the previous year. While the headcount grew in the EMEA region, primarily in Austria, Bulgaria and Slovenia, the restructuring projects and the necessary savings in North America and CIS as well as in the marine business led to a significant decrease in staff numbers in these regions. In South America, however, the PALFINGER workforce increased as a consequence of the full consolidation of Hidro-Grubert.

EMPLOYMENT TREND AS AT 31 DEC



1) Headcount as at 31 Dec including staff at new entities.
 2) Number of employees who joined through new entities in the respective year.
 3) Contract workers are shown as headcount (31 Dec).

PALFINGER had a core workforce of 9,973 and also employed 239 apprentices and interns. Women accounted for 13.1 per cent of the total headcount of 10,212. In addition, 674 temporary workers were employed to cover capacity bottlenecks, primarily in Europe and in the USA. Broken down by function, investments in innovation, research and development as well as construction led to a 54-member increase in staff. In the course of the 2017 financial year, the number of employees working in production also increased, by 206 persons. At 1,077, the administrative headcount remained mostly stable in 2017.

🌐 **GRI 102-8**

🌐 **Sustainability and Diversity Improvement Act**

📄 **Diversity and equal opportunity, page 91**

Women accounted for 13.1 per cent of the total headcount of 10,212

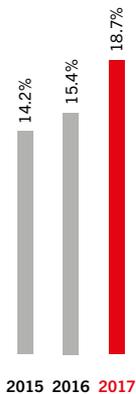
TYPES OF EMPLOYMENT CONTRACTS

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 2017 only 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 used for work experience placements, in the course of which PALFINGER gives young talents the opportunity to gain work experience, or in special situations, e.g. temporary replacements, special projects or to cover peaks in capacity utilization. In the reporting period, 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 211**



EMPLOYEE TURNOVER
(in per cent)

EMPLOYEE TURNOVER

Employee turnover of the core workforce increased by 3.3 percentage points compared to the previous year, coming to 18.7 per cent in the 2017 reporting period (previous year: 15.4 per cent). In 2017, 1,868 staff members (previous year: 1,291) left PALFINGER during the year. This figure includes all staff leaving including staff retirements as compared to the total staff employed, temporary workers excluded. The turnover rate among women was lower than the overall rate within the PALFINGER Group, coming to 18.0 per cent, which corresponds to 236 staff members.

At the same time, 1,882 staff members started employment with PALFINGER in the reporting period, 231 of whom were women. This figure does not include new staff resulting from acquisitions and/or full consolidation.

In 2016, PALFINGER set the annual target for employee turnover at a maximum of 10 per cent. In 2017, the employee turnover rate rose to 18.7 per cent, moving PALFINGER further away from achieving this target. This was primarily due to the restructuring measures in the regions North America, South America and CIS as well as the marine business.

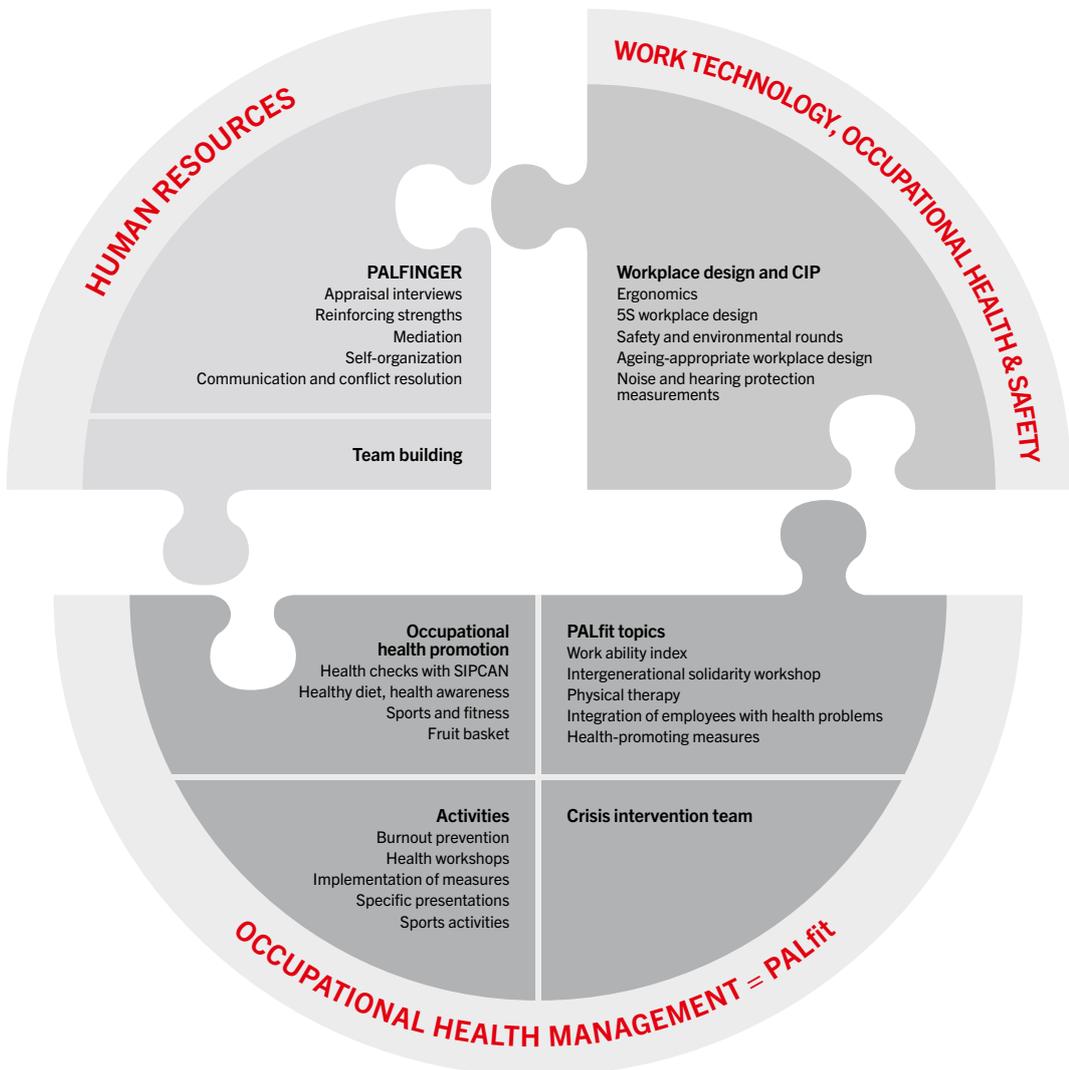
🌐 GRI 401-1

🌐 Sustainability and Diversity Improvement Act

📄 Value management, page 50; Detailed GRI and sustainability disclosures, page 211

Health and safety

OCCUPATIONAL HEALTH MANAGEMENT



At PALFINGER, occupational health management is implemented through and supported by the PALfit health initiative, which comprises development programmes – including programmes to develop and strengthen personal skills – and voluntary social benefits. 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.

At the end of 2017, PALFINGER carried out its first group-wide survey on occupational health and safety. The focus was on topics relating to voluntary health-promoting activities (PALfit), training and development and voluntary social benefits. The objective for 2018 is to analyse individual aspects of this survey and, through knowledge transfer and best practice examples, to assist the sites in deriving and implementing relevant measures.

 [Detailed GRI and sustainability disclosures, page 211](#)
 www.fit2work.at

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 2017 financial year, even though 478 industrial accidents (previous year: 170) occurred, staff absences were reduced to 0.18 per cent of regular working time (previous year: 0.21 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.

Even though the reduction in staff absences was a highly positive development, a lethal industrial accident occurred in 2017, as in 2016. In Dubai, a rope access technician died at a construction site after having disregarded several safety provisions. The local management immediately initiated a detailed investigation of the incident and instituted measures to prevent such accidents in the future.

PALFINGER’s various sites all over the world do their reporting on staff absences 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 by 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. In 2017, 24 per cent of all staff members worked at locations with such a certification.

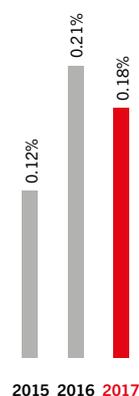
 **GRI 403-2**
 **Sustainability and Diversity Improvement Act**
 **Value management, page 50; Detailed GRI and sustainability disclosures, page 211**

ABSENTEE RATE

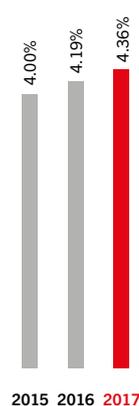
At PALFINGER, absentee rate due to sick leaves and other causes had decreased steadily in recent years. However, following an increase in 2016, they continued to rise in the reporting period, coming to 4.36 per cent (previous year: 4.19 per cent). Percentages and trends vary from region to region. Since 2017, occupational diseases have been reported separately under an additional sub-category of this indicator. As a general rule, absentee rate of between 3 and 4 per cent are not uncommon in the field of manufacturing and represent a comparatively good figure.

PALFINGER ascribes the low staff absences to its health promoting measures, the design of the working environment, the PALFIT programme and additional local measures. Healthy and well-balanced employees are very important to PALFINGER.

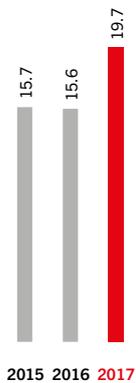
 **GRI 403-2**
 **Sustainability and Diversity Improvement Act**
 **Value management, page 50; Detailed GRI and sustainability disclosures, page 211**



STAFF ABSENCES DUE TO INDUSTRIAL ACCIDENTS
(in per cent)



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



TRAINING HOURS
(per employee)

Skilled labour

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. With respect to training, standards differ in the individual countries in which PALFINGER operates. In all cases, PALFINGER meets at least the respective national standards and in some cases takes measures that exceed such standards by far. The objective is to enhance the qualifications of staff in all countries; to this end, the training measures will continue to be expanded on a regular basis.

In addition to the established regional programmes such as the PALFINGER College in Austria, an e-learning platform was introduced as a pilot project in North America in 2017. This “PALFINGER University” grants employees at several sites access to training content in various formats. In the reporting period, SAP SuccessFactors was selected as the future holistic HR information system. It includes a modern digital learning platform and will therefore facilitate a global scheme for blended learning: classroom training combined with e-learning.

In 2017, hours of initial and further training per employee increased.

🌐 **GRI 404-1**

📄 **Detailed GRI and sustainability disclosures, page 211**

APPRENTICES

When it comes to staff qualifications, the training of apprentices is a central topic at PALFINGER. In the 2017 financial year, 67 apprentices were trained in Austria, primarily mechanical engineers, production/process engineers, mechatronic engineers, construction engineers and industrial business management assistants. 47 of them graduated with distinction from the part-time vocational school for apprentices, and one PALFINGER apprentice came third in the “Lehrlingsaward Oberösterreich” (Apprentice Award of Upper Austria). The “Lehre mit Matura” (apprenticeship and upper secondary school leaving certificate) scheme had 11 participants. Thanks to this investment into its staff, skilled workers account for 85 per cent of the workforce at PALFINGER’s production sites in Austria.

PALFINGER also uses its own programmes to train skilled labour worldwide

At several locations outside Austria, PALFINGER uses specific programmes of its own 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, 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. In Bulgaria, PALFINGER launched a mechatronics training course in 2016. In 2017, this programme was expanded and ten additional apprentices were accepted. In addition, a new training centre was opened in Tenevo (BG). At the Sany Palfinger joint venture in China, a government-approved apprenticeship training programme using Austrian standards has been in place since 2016. Following the welding course in 2016, a first mechatronics course was launched in 2017, in which 15 apprentices participated. In this connection, two Chinese mechatronic engineers are currently undergoing a six-month training course at Lengau to improve their skills. In the future, they will act as instructors in Rudong, passing on the extra knowledge gained in Austria to the Chinese apprentices.

In 2017, 239 employees (previous year: 188 employees) worldwide participated in PALFINGER apprenticeships or similar programmes, 29 of them were women.

MANAGEMENT

For some time now, PALFINGER has been in a position to successfully fill strategic management positions through internal recruitment. This has been facilitated to a great extent by the corporate executive development programmes, in which 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.

The Global Leadership Programme prepares participants for their future top management positions, helping them to develop their strategic and innovative skills as well as their individual abilities as change managers. In

Executive positions are frequently filled by internal recruitment

October 2017, twelve participants from seven nations successfully completed the programme. This time, no women attended the course.

Another important pillar of executive training is the Company Leadership Programme; the current courses ended in February 2017. Priority topics included leadership and communication as a management tool. 21 per cent of the attendees of this course were women.

In June 2017, the latest Business Excellence management course was completed as well. This course gives attendees from various divisions an opportunity to expand their business administration skills through practice-oriented training. 15 per cent of the participants of this course were women.

A team-leading programme, tailored to local needs, is offered in some countries in order to allow for an early identification and development of potential junior managers. This programme focuses on topics such as leadership in combination with personality, communication, conflict management and organization.

In 2017, PALFINGER introduced additional measures to prepare future executives for their responsibilities. Between July and November, the first Basic Leadership Programme took place at the headquarters in Bergheim. It focused on the “role of an executive”, leadership and conflict management. Programmes that have similar objectives and meet the respective local requirements have recently been introduced at other sites as well.

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. In addition, various forms of objective assessments are being used increasingly. These assessments provide an additional evaluation of candidates based on scientific criteria, in particular at major milestones in their careers. For instance, PALFINGER uses these assessments when recruiting executives, determining the location of management teams, and planning succession.

INTERNATIONAL ASSIGNMENTS

For PALFINGER, on-the-job development opportunities for staff members are at least as important as off-the-job training. In-house promotion, challenging new responsibilities and assignments abroad have become part of everyday life at PALFINGER.

Staff members are given the opportunity to work abroad on a temporary basis

In 2017, 49 employees opted for temporary postings abroad. PALFINGER has created various types of assignment: long-term expatriates, flyers for “medium-term” projects and 90-180-day 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. For this reason, PALFINGER plans to further expand these programmes.

Diversity and equal opportunity

PALFINGER is a long-standing family business with global operations. Today, 10,212 staff members from 70 different nations work at PALFINGER. Maintaining global operations 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 of the diversity scheme are described in the corporate governance report.

 [HR Strategy 2020, page 39; Corporate governance report, Diversity scheme, page 117](#)

The diversity strategy aims at increasing diversity within the Group

PALFINGER is already well-positioned as regards many diversity aspects. In the 2017 financial year, no incidents of discrimination were reported at PALFINGER. PALFINGER explicitly records data on diversity in terms of gender and generations. Information on how employees with disabilities are integrated is available in the detailed GRI and sustainability disclosures.

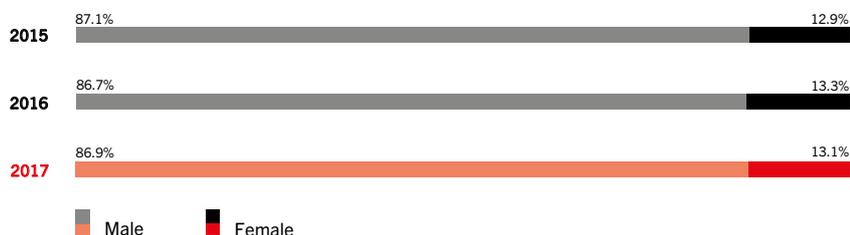
🌐 **GRI 406-1**

📄 **Detailed GRI and sustainability disclosures, page 211**

GENDER

As is typical for the industry, the percentage of women within the PALFINGER Group is low. Overall, the percentage of women employed remained stable at 13.1 per cent (previous year: 13.3 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.

GENDER DISTRIBUTION (in per cent)



The percentage of women in management continued to increase slightly in 2017 and is now 17.7 per cent (previous year: 17.2 per cent). Employees in management positions include all members of the Management Board, the heads of business areas, business units and corporate functions as well as all employees in disciplinary management positions. One woman held a top management position, but there was still not a single woman on the Management Board or on the Supervisory Board in 2017.

Since 2012, PALFINGER has been under a statutory obligation to present an income report for its Austrian companies. On the basis of these reports, the classifications were 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 102-8, 405-1**

🌐 **Sustainability and Diversity Improvement Act**

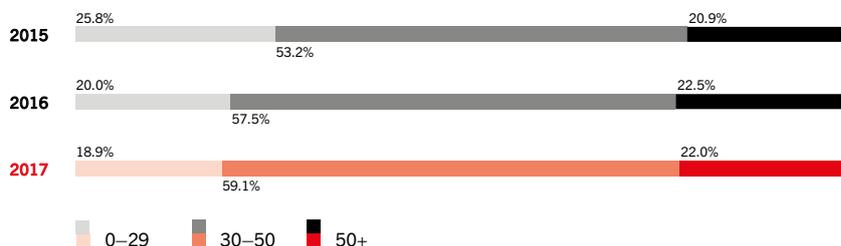
📄 **Corporate governance report, Diversity scheme, page 117; Detailed GRI and sustainability disclosures, page 211**

GENERATIONS

In recent years, the average age structure within the PALFINGER Group has changed, primarily in connection with the new sites. In the reporting period, PALFINGER made a change to the age categories used for reporting. Members of the core workforce are now assigned to the following age brackets: 0–29, 30–50 and over 50. Around 19 per cent of the staff members belong to the youngest age category. Approximately 59 per cent of the employees are between 30–50 years of age, and 22 per cent are over the age of 50. In 2017, the number of employees aged 50 and older decreased by 0.5 percentage points. Details on regional developments are available in the detailed GRI and sustainability disclosures.

📄 **Detailed GRI and sustainability disclosures, page 211**

GENERATIONS (in per cent)



PALFINGER has a group-wide generation management system in place to ensure that upcoming retirements are actively managed 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 211**

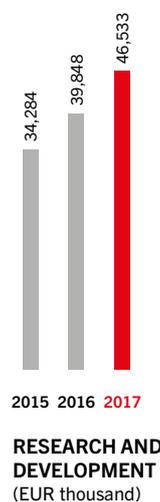
RESEARCH AND DEVELOPMENT

Research and development, as well as innovation, make PALFINGER’s products more user-friendly, safe and efficient, but R&D activities also focus on processes and the organization itself. Digitalization and Industry 4.0 are increasingly finding their way into product solutions and production processes. These new approaches are supported by cooperation projects and open innovation.

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 succinctly: 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.

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

In 2017, PALFINGER invested EUR 46.5 million (previous year: EUR 39.8 million) in research and development, i.e. 3.2 per cent of its total revenue.



Mechatronics and digitalization

Mechatronics remained a major field of product development at PALFINGER. In the first half of 2017, the entire mechatronics unit was subjected to a detailed organization and process analysis in the course of the strategic project PALFINGER Process Excellence. Based on the results of this analysis, PALFINGER then devised the reorganization of this unit as a centre of excellence that will be directly integrated into the EMEA business region.

The medium-term objective of the EMEA mechatronics centre of excellence is to harmonize the mechatronic control systems and the related development processes throughout the PALFINGER Group. The local mechatronics development teams in the respective product areas will focus on the serial development of future product applications and functionalities. This new structure has also been reflected in PALFINGER’s reporting since November 2017.

The networked system of central and local development teams at PALFINGER is the foundation for meeting the current challenges and requirements stemming from digitalization.

At PALFINGER, priorities in the field of digitalization include automation, connectivity, as well as data and analytics. In certain parts of production, PALFINGER already uses new technologies, such as virtual and augmented reality or 3D printing. Where products and customers are concerned, the focus is on smart products and services as well as on the interconnection of products and systems. Besides new functions and applications, PALFINGER sees great potential in machine learning. First pilot projects have already been implemented; the details are presented in this Report under major innovations in 2017. Since 2016, all digitalization efforts have been amalgamated in a single digitalization unit, which is continuously being expanded. Moreover, in autumn 2017, PALFINGER opened a development site for IoT solutions at a start-up hub in Vienna.

 [Group-wide development programmes, page 38](#); [Significant changes within the PALFINGER Group, page 71](#)

Patents

The PALFINGER Group currently holds 64 (previous year: 61) active patents, utility models and special registered designs for the protection of functional design elements.

Safe and efficient products

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.

 [Value creation, page 52](#); [Eco-efficiency in production, page 99](#); [Detailed GRI and sustainability disclosures, page 211](#)

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 orienting itself on 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 211](#)

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 damage 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 resulting in injuries of varying severity while using PALFINGER products sank in the reporting period; three people were injured. Unfortunately one fatal accident, involving a truck mounted forklift in North America, was reported.

Economic, ecological and social aspects have an impact on research, development and innovation

Safety during product use is improved continuously

PALFINGER investigates all incidents causing personal damage

Accidents with PALFINGER products	2015	2016	2017
Reported accidents with fatalities ¹⁾	8	1	1
Reported accidents with injuries of varying severity ¹⁾	7	10	3
Penalties imposed by court on grounds of accidents	0	0	0
Pending complaints (under negotiation) on grounds of accidents with products (as at 31 Dec)	4	4	4
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. A project order for hooklifts/skiploaders and loader cranes, and the increase in marine business in the Navy and Coast Guard segment boosted revenue from products used in the military field to EUR 35.1 million in 2017. This corresponds to 2.4 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 2017

The SOLID crane series, which is used for simple loading tasks and stands for great lifting power, was completed with six new models up to 19 metre tonnes that all boast the high level of quality and functionality for which PALFINGER is known.

In 2017, innovation focused on new product models and series, as well as features

The High Performance Stability Control (HPSC) system for cranes was further developed and now offers additional application-oriented product features in a modular system. Following the motto "making the best even better", PALFINGER has developed the new PRO aluminium oil tank series, which is a perfect match for PALFINGER cranes. In addition to significant technical advantages, the oil tanks boast an optimized price-performance ratio. Due to the simple mounting on each truck, the PALFINGER partners will have a major benefit in terms of cost-effective mounting.

In the field of access platforms, PALFINGER added the powerful and flexible P 370 KS platform to the premium class. With a maximum basket load of 500 kg, it reaches a working height of up to 37 metres and a lateral reach of up to 31.5 metres. However, it still remains compact and manoeuvrable with a vehicle length of just 8.35 metres and the patented counter slewing device. The P 370 KS thus combines the best of two worlds. It combines the impressive flexibility of the WT series with the compact design and counter slewing system of the KS series.

The new top class P 1000 is the largest all-terrain access platform in the world to date. With its lateral reach of 35 metres, jobs can be carried out at a height of 102.5 metres with a basket load of 200 kg. The maximum nominal load in the basket is 600 kg. In addition to its considerable working height, the platform also features two new assistance systems to support the driver. The ADAS Hands Free and Collision Protection functions enhance user friendliness and safety.

PALFINGER added a new feature to the Jumbo class NX access platforms, an innovative crane mode. This new function allows loads of up to 900 kg to be lifted using the crane hook. The system's cable winch has a lifting capacity of up to 460 kg, and measuring equipment prevents overloading. The crane mode makes the access platform more flexible and versatile. Therefore, an additional crane is no longer required at the construction site for simple lifting tasks.

PALFINGER ushered in a new era in the field of timber, construction and recycling cranes. At the ELMIA Wood 2017 fair, PALFINGER presented the first prototype of the new Q series (onroad). The new series is up to 10 per cent lighter than the predecessor models, its reach is 1.4 metres larger, and its speed is up to 15 per cent higher.

In the marine sector, a new generation of the FRSQ 630 rescue boat was developed. The boat combines the lifesaving systems expertise of the Harding Group acquired in 2016 and the boat expertise of PALFINGER. It boasts an innovative design and excellent capabilities, ensuring great stability and optimal working conditions. The rescue vessel can achieve speeds of up to 34 knots and has the capacity to carry up to 15 persons, including a stretcher.

In addition, PALFINGER launched the latest model of the marine knuckle boom crane range on the market: The new PK 41002 M is a state-of-the-art crane equipped with features such as a second slewing gear and simpler maintenance of the hose guide and oil return system.

 Awards, page 49; Detailed GRI and sustainability disclosures, page 211

INNOVATION IN THE FIELDS OF DIGITALIZATION AND INDUSTRY 4.0

In 2017, PALFINGER also made considerable progress in the field of digitalization. Activities regarding telematics applications for access platforms (hardware and software) were expanded, with various group departments working in close cooperation. Telematics testing was also carried out using a newly developed crawler crane. PALFINGER was actively involved in defining future standards in the VDA (German Association of the Automotive Industry) truck telematics working group.

PALFINGER is already using virtual reality applications in some fields

In addition, PALFINGER implemented a pilot project using virtual reality (VR) technology in the field of access platforms: With this technology, a workman's basket for the pruning of trees was developed in cooperation with a customer. Usually, a 3D-CAD model would be created on the basis of the specifications but nevertheless it would take the building of a prototype to make the structure tangible. Using VR, the customer was able to inspect the details and proportions as soon as the first draft was completed and make requests for changes at that point. Welding and assembly work was also reviewed and optimized using virtual tools.

VR applications are also being used in the marine business: A VR vessel was fully equipped with marine products. Hot spots were defined, to which users can virtually beam themselves to see the products true to life. In May, the VR vessel was used for the first time at a trade fair. It solved the problem of how to present the entire range of marine products – for ships, oil platforms and wind turbines. Moreover, similar to what is being done in the field of access platforms, VR stations are increasingly being used for early presentations of product developments.

The new Smart Inspection app is a practical tool for all PALFINGER service partners. During the annual mandatory checks of the equipment, they are required to complete numerous inspection steps and to record and archive the results. With the new app, this process is made easier and clearer for the service workshops. The Smart Inspection app guides the user through the entire inspection process. Once the process has been completed, the data are directly transmitted to PALDESK – a portal solution for sales and service partners and employees – for further processing. For the time being, the app is only available for loader cranes; PALFINGER plans to make the upcoming releases available for other products as well.

The 2017 financial year also saw new Industry 4.0 applications. Examples include the creation of 3D models, automated damage detection using image recognition methods, GPS localization of defects, as well as the preparation of expert opinions and delivery of status classes for processing in an asset management system.

In China and in India, PALFINGER prepared shared-economy business models using a pay-per-use approach for some product groups.

COOPERATION

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 centres of excellence in the fields of mechatronics, mechanical engineering, material technology and materials science.

Cooperation is a crucial factor contributing to development

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 48**

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. Within the weXelerate ecosystem, it will be possible to work on the newest developments and realize original ideas while engaging in ongoing exchange with like-minded technology leaders.

 **Significant changes within the PALFINGER Group, page 71**

In light of the increasing importance of open innovation, PALFINGER organized a hackathon in 2017 – a forum for the joint development of innovative concepts for hardware and software. With more than 100 participants, this hackathon was the largest to be held in Austria to date. The 24 participating teams had two days to come up with innovative ideas for four subject areas selected by PALFINGER and to present them to a jury. The winning teams will further develop their ideas together with PALFINGER. PALFINGER is planning a similar development event for 2018.

More than 100 young talents participated in the PALFINGER hackathon in 2017

QUALITY MANAGEMENT

PALFINGER strives to continuously extend its quality leadership among international competitors. This aim is supported by a three-stage quality strategy: preventive quality management, reactive quality management, and quality governance and culture.

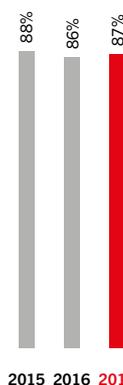
Preventive measures start early, in the product development process, where PALFINGER incorporates experience gained along the entire value creation chain into new products and their pre-market testing. Once the products are on the market, reported errors are regularly analysed in order to draw conclusions on how to further enhance the products. PALFINGER defines governance and culture as the involvement and responsibility of each and every staff member to contribute to quality enhancement.

The success of this strategy has been directly reflected in the decline in warranty costs in proportion to revenue. In 2017, these costs were further reduced despite the growing complexity of the applications.

PALFINGER's open-minded and solution-oriented way of handling errors facilitates the efficient and customer-oriented development of enhancements. The increasing use of digital technologies in PALFINGER products will hugely impact the further development of quality management, also in connection with the respective legal requirements and customer needs.

As at 31 December 2017, 87 per cent (previous year: 86 per cent) of the staff worked at sites with ISO 9001 certification or with a comparable quality management system. This slightly positive development can be traced back primarily to the newly integrated marine sites.

In 2017, eight sites in the EMEA and CIS regions successfully adjusted to the new requirements of ISO 9001:2015. All other sites that have received certification so far are expected to follow by the end of 2018.



2015 2016 2017

QUALITY MANAGEMENT SYSTEM ISO 9001*

(in per cent of employees)
*as well as other similar quality management standards

Process quality is improved continuously through audits performed by the departments of quality management and process management in close cooperation. In recent years, these audits focused on developments in mechatronics and the subsequent production, service and procurement processes. The organization's level of maturity was significantly augmented in all areas. In 2017, as in the previous year, the main priorities were software engineering and consistent efficiency in the development of new products: the prototype and initial sample inspection process.

 [Detailed GRI and sustainability disclosures, page 211](#)

MANUFACTURING FOR THIRD PARTIES

PALFINGER and external customers alike benefit from the business model of manufacturing for third parties

PALFINGER also provides its production capacities and production know-how to external customers. PALFINGER's strength lies in manufacturing complex painted components with high quality standards, also making use of production sites in low-wage countries. Today, PALFINGER not only manufactures products but is also involved in design-to-cost projects with its customers, starting at the product development stage. In the reporting period, the site in Lazuri (RO), which contributes substantially to this business model, was included in the reporting of this indicator for the first time. The previous year's figure was therefore adjusted. Accordingly, PALFINGER generated revenue of around EUR 69 million from manufacturing for third parties in 2017. Compared to the adjusted previous year's figure of EUR 52 million, this corresponds to another increase of around 32 per cent.

In the reporting period, substantial growth in nearly all areas led to massive capacity bottlenecks at the production plants, affecting internal and external customers alike. The main challenge was to maintain reliability in delivery. This trend will probably continue in 2018, but PALFINGER has developed strategies to better balance out capacity fluctuations. 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.

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.

ECO-EFFICIENCY IN PRODUCTION

PALFINGER is aware of the fact that its operations as a producing company have a large impact on the environment. An environmental protection guideline guarantees group-wide standards at all sites. Moreover, PALFINGER has set itself the target of enhancing the key indicators for energy efficiency and hazardous waste by 1.8 percentage points every year and reducing CO₂ emissions by 25 per cent by 2030.

Efficient use of raw materials

The lion's share of PALFINGER's products is made of steel; aluminium is used primarily for tail lifts. In 2017, 103,334 tonnes of steel and 2,201 tonnes of aluminium were used in manufacturing PALFINGER products, corresponding to a year-on-year increase of 15 per cent and a year-on-year decrease of 2 per cent, respectively. Due to the expansion of operations in the marine sector, increasing volumes of glass fibre reinforced plastics are being used for the construction of boat hulls. Depending on the further development of these volumes, PALFINGER may include them in its group-wide monitoring. PALFINGER products are de facto manufactured without the use of any renewable materials, even biodegradable hydraulic oil is synthetically produced.

🌐 **GRI 301-1**

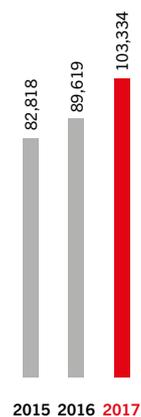
For PALFINGER, the efficient use of raw materials is important from both the ecological and the economic perspective: On the one hand, raw materials account for approx. 10 per cent of PALFINGER's total costs. On the other hand, the upstream generation of raw materials and materials causes considerable environmental costs. The mining of mineral ores and the extraction of crude oil require large areas 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 emission certificates trading in these industries was still reasonable in the 2017 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 optimize its waste cuttings and rejects in order to 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. In 2017, the individual sites showed differences in the development of waste cuttings rates; more information is provided in the detailed GRI and sustainability disclosures.

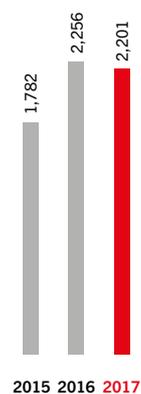
🌐 **GRI 302-2**

🌐 **Sustainability and Diversity Improvement Act**

📄 **Detailed GRI and sustainability disclosures, page 211**



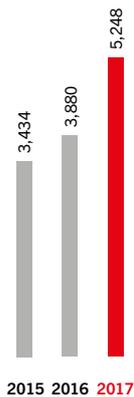
STEEL CONSUMPTION
(in tonnes)



ALUMINIUM CONSUMPTION
(in tonnes)

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.



HAZARDOUS WASTE
(in tonnes)

**Hazardous waste (index)
increased substantially in
2017**

The production sites that generate the largest quantities of hazardous waste are, in descending order: Lazuri (RO), Maribor (SI), Lengau (AT), Arkhangelsk (RU), Tenevo (BG) and Velikiye Luki (RU), with the Lazuri site leading the list for the first time. These plants produce a total of 88 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 2017, total hazardous waste recorded by PALFINGER amounted to 5,248 tonnes (previous year: 3,880 tonnes). The total weight of hazardous waste generated at the four sites with paint shops was around 2,410 tonnes, and at the two sites with electroplating processes it was around 2,209 tonnes.

Hazardous waste from paint shops and hazardous waste from electroplating processes showed different trends: At the four above-mentioned sites with painting processes, the index of hazardous waste in relation to revenue improved – except for Arkhangelsk (RU) where the foundry caused an increase in hazardous waste. The reason for the improvement was the targeted optimization of existing plants. In 2017, new plants with powder coating lines were put into operation as well. The absolute quantities of hazardous waste at locations with paint shops remained at a stable level, accounting for 2,410 tonnes (previous year: 2,399 tonnes) despite the production expansion. This positive trend regarding waste from painting processes was caused primarily by improvements at the site in Maribor (SI), where an existing plant was replaced by a new, more efficient one in 2017. PALFINGER has planned further optimization of paint shops for 2018.

The situation was different at the two sites with electroplating processes. Both the absolute quantities of hazardous waste as well as the intensity of hazardous waste produced in relation to the production quantities increased. This resulted in a further significant deterioration of the index of hazardous waste generated at sites with electroplating processes, which was in part due to the expansion of production, including manufacturing for third parties. In Lazuri (RO) coating processes have been carried out at the site's electroplating facilities since 2013, currently more than 80 per cent of them for external customers. At the same time, PALFINGER also increased the degree of value added: Components that used to be coated by suppliers are now increasingly processed by PALFINGER. As a consequence, the hazardous waste quantities showed a disproportionately 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. Another main reason for the increase recorded in 2017 is that the definition of hazardous waste was broadened at this site. The fractions that have been classified as hazardous waste increased the quantities reported in the previous year threefold.

The main reason for the heavy weight of the hazardous waste volumes produced at the Lazuri (RO) site is their high water content. A measure to be taken in the future is going to change this. The plan is to remove the water from the hazardous waste, thereby reducing both their volume and weight. This will be implemented step-by-step and is scheduled to be completed by 2019.

Detailed figures on regional developments are provided in the detailed GRI and sustainability disclosures.

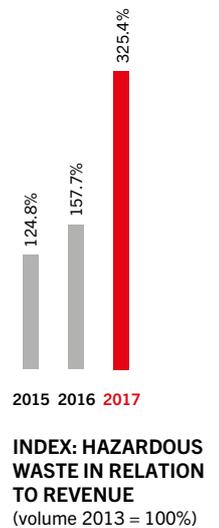
 [Detailed GRI and sustainability disclosures, page 211](#)

The negative trend observed at sites with electroplating plants outweighed the positive trend observed at sites with large paint shops, so that the target of annually reducing hazardous waste by 1.8 percentage points in relation to revenue (index) was once again not achieved. The absolute quantities of hazardous waste have also increased considerably in recent years. Therefore, apart from the aforementioned measures for the Lazuri (RO) site, an in-depth material flow analysis will be carried out at the sites with largest quantities of hazardous waste in 2018 in order to lay the foundation for a group-wide positive trend.

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; however, they usually generate extra costs. Since 2014, the PALFINGER Group's calls for tenders relating to new paint shops have included the requirement of meeting ecological minimum standards. The plants 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 sector, only solvent-based paints are used due to marine-specific requirements. In the CIS area, 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. All in all, the proportion of solvent-free paints purchased remained relatively constant at 94 per cent in 2017 (previous year: 95 per cent).

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 211

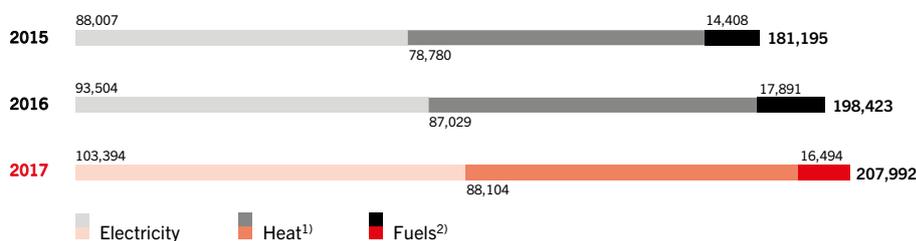


Energy efficiency

As a metal-processing business, PALFINGER is not an energy-intensive enterprise. In 2017, the energy costs of the PALFINGER Group rose by 10 per cent to EUR 7.4 million (previous year: EUR 6.7 million). In 2017, total energy consumption rose to 208 million kWh (previous year: 198 million kWh), 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
- 📄 Detailed GRI and sustainability disclosures, page 211

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.

In terms of processes, the paint shops and electroplating plants 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 has been part of the PALFINGER Group since 2013. Since then, parts that used to be processed by suppliers have been coated at this site, increasingly also for external customers. As a result of the plant expansion carried out in recent years, the Lazuri site now accommodates a total of nine chrome plating lines. In 2017, production in Lazuri remained the largest consumer of electricity within the PALFINGER Group by far. Energy efficiency improved considerably during

the reporting period, but this was primarily caused by a more favourable price structure of the product portfolio. At the second site where electroplating is used for coating, in Tenevo (BG), optimization measures also resulted in a more efficient use of electricity.

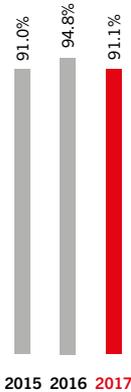
Apart from paint shops and electroplating plants, PALFINGER does not use any energy-intensive processes. Compressed air plants, cutting processes (laser and plasma cutting machines), welding processes, and the filling and testing of the products require comparatively moderate amounts of energy. Therefore, 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. 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 plethora of measures was clearly positive.

The target of annually improving energy efficiency (index) was met in 2017

The energy efficiency index illustrates the changes in energy consumption in relation to revenue across 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 current reporting period, energy consumption in relation to revenue was 3.7 percentage points lower than in 2016, so that the annual objective of enhancing energy efficiency by 1.8 percentage points was met in 2017. This was facilitated primarily by the gains in efficiency of electricity consumption in the EMEA region and the optimization of heating energy consumption in the CIS region.

🌐 GRI 302-3, 302-4

🌐 Sustainability and Diversity Improvement Act



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

Consistent energy management is to guarantee further improvements of energy efficiency in the future. At the site in Velikiye Luki (RU), the installation of a new heating system, which was considered and embarked on in 2017, is expected to increase the efficiency of heating energy consumption by around 10 per cent from 2018 onwards. Given the high relevance of this site, this measure alone may result in savings of around 1.5 per cent of the total heating energy requirement of the PALFINGER Group.

Energy efficiency depends in part on efficiency-enhancing measures and in part on the production capacity utilization. In particular, the energy requirement for heating the buildings also depends on weather conditions. As a consequence, since the consolidation of the sites in Russia, energy consumption at PALFINGER has been increasingly influenced by the low temperatures in this region during the winter months. For this reason, there are plans to weight the energy consumption for the heating of the buildings of the PALFINGER Group by means of heating degree days in 2018. This will further improve the energy efficiency monitoring.

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 2017, the PALFINGER fleet was increasingly converted to electrically-powered cars for employees travelling on business. The Austrian sites in Bergheim, Köstendorf and Lengau have already installed the necessary charging stations and are using a number of electric vehicles. In Caussade (FR), the purchase of several electric cars is planned for 2018. In addition, as an awareness-raising measure, PALFINGER organized a combined course on fuel-efficient and safe driving for all users of company cars in Austria in the reporting period.

🌐 GRI 302-2

🌐 Sustainability and Diversity Improvement Act

The production of steel and aluminium, the two raw materials most frequently used at PALFINGER, requires high levels of energy and CO₂. The amount of energy needed to produce steel, and the greenhouse gases emitted in that process, are considerable. It is assumed that around 2,000 million kWh were needed to produce the steel and aluminium quantities purchased by PALFINGER in 2017, meaning that the energy requirements for the production of the raw materials was just under ten times higher than the energy requirements for production at PALFINGER. This makes initiatives for an efficient use of raw materials even more important for PALFINGER.

📄 Efficient use of raw materials, page 99

Energy is also consumed when the PALFINGER products are used. Information on the optimization of energy consumption during product use can be found in the detailed GRI and sustainability disclosures.

 [Detailed GRI and sustainability disclosures, page 211](#)

Climate protection

PALFINGER thoroughly analyses all climate-relevant emissions that are caused by its own energy consumption and does not participate in emissions trading. 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. 72,533 tonnes of CO₂ equivalents in 2017 (previous year: 78,194 tonnes). That illustrates PALFINGER’s success in decoupling climate-relevant emissions from energy consumption: While energy consumption increased for production-related reasons, CO₂ emissions were reduced in the same period.

 [GRI 305-1, 305-2, 305-3](#)

 [Sustainability and Diversity Improvement Act](#)

The reduction in absolute greenhouse gas emissions also resulted in a clear improvement of CO₂ intensity. In relation to revenue, the CO₂ index improved by 8.3 percentage points, as compared to the previous year. The main reason for this improvement was optimization measures carried out in the regions EMEA and CIS.

 [GRI 305-4](#)

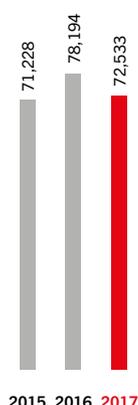
 [Sustainability and Diversity Improvement Act](#)

The reduction of climate-relevant emissions was facilitated by several initiatives implemented at PALFINGER: For example, the changeover to electricity from 100 per cent renewable energy sources was continued. Following the example of all Austrian sites, which changed to “green power” in 2014, the two Bulgarian sites in Cherven Brjag and Tenevo also opted for CO₂-free electricity in 2017. Since the beginning of 2017, the electricity used at the site in Caussade (FR) has also come from 100 per cent renewable energy sources. Additional measures are planned for 2018: In Lengau, roof areas will be made available for photovoltaic systems. At the same time, a review to identify further areas eligible for photovoltaic use within the PALFINGER Group will be performed.

At the Velikiye Luki (RU) site, energy sources that have low CO₂ emissions have been in use since 2017. In the course of the replacement of the heating systems, the changeover from coal to natural gas was started, it is anticipated to be completed in the first half of 2018. When used for heating, natural gas causes considerably lower CO₂ emissions than coal. Moreover, the new heating system will have an overall lower heat requirement due to efficiency gains. Given that the old heating system at this site accounted for around 6 per cent of the PALFINGER Group’s total emissions in 2017, this changeover will make a considerable contribution to improving PALFINGER’s corporate carbon footprint from 2018 onwards.

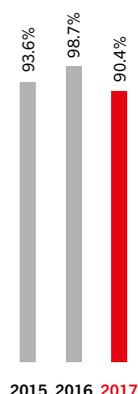
The greenhouse gas emissions caused by the energy consumption at the PALFINGER sites only account for a small part of total emissions with an impact on climate. As in the comprehensive energy balance, emissions in the upstream supply chain have a much stronger impact, in particular when it comes to steel. PALFINGER buys primarily steel and aluminium from Europe, and the resulting Scope 3 greenhouse gases may be estimated to be approx. 543,000 tonnes of CO₂ equivalents. They are thus just under nine times as high as the climate-relevant emissions caused by the energy consumption at PALFINGER’s sites.

PALFINGER assumes that the CO₂ emissions caused when using PALFINGER products are also multiple times higher than those emissions caused by the PALFINGER plants. However, given the broad product range and the various uses of the individual products, no quantitative estimate of impacts on climate during product use can be made at the moment. However, PALFINGER is currently carrying out a project that involves the calculation of emissions during product use in the field of cranes.



2015 2016 2017

GREENHOUSE GAS EMISSIONS
(in tonnes of CO₂ equivalents)



2015 2016 2017

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

PALFINGER intends to reduce CO₂ emissions by 25 per cent by 2030

Details on the specific greenhouse gas emissions broken down by region can be found in the detailed GRI and sustainability disclosures. 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 CO₂ emissions in line with the global "two degrees Celsius target". At PALFINGER, decisions on the implementation of climate protection measures are made at plant level. At group-level, the target of achieving CO₂ emissions savings of 25 per cent by 2030 as compared to 2015 was agreed upon at the end of 2017. The relevant initiatives are centrally coordinated and supported. Moreover, PALFINGER has recorded a fictitious CO₂ price of EUR 30 per tonne of CO₂ equivalents in the group-wide monitoring to prepare for the upcoming CO₂ taxation, which has become an increasingly urgent item on the political agendas of several countries.

🌐 **Sustainability and Diversity Improvement Act**

📄 **Ratings, page 30; Risk report, page 76; Detailed GRI and sustainability disclosures, page 211**

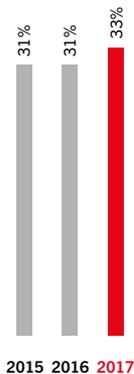
An environmental protection guideline defines uniform standards for all manufacturing, assembly and distribution sites

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 Group's sustainability management department, 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 Group's sustainability management. 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 issues 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, instead of holding the planned group conference for environmental officers, PALFINGER organized a series of webinars for the environmental officers of the PALFINGER Group. Key issues included the exchange of best practices, data management, energy efficiency and renewable energies. The webinar series was received well internationally and helped strengthen the common understanding of environmental management within the PALFINGER Group. In 2017, all PALFINGER manufacturing and assembly locations could enter the measures they had implemented in an internal competition, and three best-practice initiatives were acknowledged.



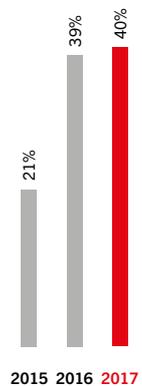
ENVIRONMENTAL MANAGEMENT SYSTEM ISO 14001
(in per cent of employees)

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 Group's management welcomes the introduction of certified management systems, but the decision still lies within the discretion of the respective site managers. 2017 saw the introduction of an ISO 14001 environmental management system in Elsbethen (AT). The percentage of sites working with certified environmental and energy management systems increased slightly in 2017. As at the end of 2017, a total of 33 per cent of PALFINGER's employees were working at sites with certified environmental management systems in place and 40 per cent at sites with certified energy management systems.

🌐 **Sustainability and Diversity Improvement Act**

📄 **Detailed GRI and sustainability disclosures, page 211**



ENERGY MANAGEMENT SYSTEM ISO 50001
 (in per cent of employees)

PERFORMANCE BY SEGMENT

PALFINGER divides its business into the segments LAND and SEA as well as the HOLDING unit. In the LAND segment, further growth was recorded due to the core business in Europe and the structures in Russia and Asia. In the SEA segment, the 2016 acquisition of the Harding Group led to a significant expansion of business, but the market environment was difficult in 2017.

As a consequence of the enormous growth recorded in the marine business in connection with the acquisition of the Harding Group, PALFINGER adapted its segment reporting in 2016. The LAND segment now 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.

🌐 **GRI 102-6**

PALFINGER divides its business into the segments LAND and SEA as well as the HOLDING unit

Segments 2017	LAND	SEA	HOLDING	Consolidation	PALFINGER Group
Revenue (EUR million)	1,230.2	240.9			1,471.1
Revenue in %	83.6%	16.4%			
EBITDA _n (EUR million) ¹⁾	201.4	3.2	(18.6)		186.0
EBITDA _n in %	16.4%	1.3%			12.6%
EBIT _n (EUR million) ¹⁾	160.8	(9.4)	(21.8)	0.0	129.7
EBIT _n in %	13.1%	(3.9)%			8.8%
EBITDA (EUR million)	188.9	(2.3)	(19.3)		167.4
EBITDA in %	15.4%	(0.9)%			11.4%
EBIT (EUR million)	147.5	(14.8)	(22.4)	0.0	110.2
EBIT in %	12.0%	(6.2)%			7.5%

¹⁾ Figures were normalized (n) by restructuring costs

LAND SEGMENT

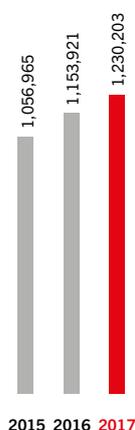
The LAND segment comprises the business regions EMEA, Americas, CIS, as well as Asia and Pacific. This includes all land-based product areas of PALFINGER in these markets: loader cranes, timber and recycling cranes, telescopic cranes, mobile cranes, stiff boom cranes, access platforms, tail lifts, hooklifts and skiploaders, truck mounted forklifts, passenger lifts, bridge inspection units and railway systems.

Business performance in 2017

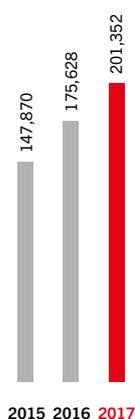
In the 2017 financial year, revenue generated in the LAND segment grew from EUR 1,153.9 million to EUR 1,230.2 million, corresponding to an increase of 6.6 per cent. The growth was achieved primarily in Europe, with the acquisition of the Danish distribution partner Palfinger Danmark AS contributing to the increase as well. In addition, business performance was satisfactory in Asia and CIS. In the reporting period, the LAND segment accounted for 83.6 per cent (previous year: 85.0 per cent) of the Group's revenue:

The segment EBITDAn (EBITDA normalized by restructuring costs) saw a significant increase of 14.6 per cent, from EUR 175.6 million to EUR 201.4 million. The EBITDAn margin rose from 15.2 per cent to 16.4 per cent in 2017. Factors contributing to this positive development included the acquisition of the Danish dealer and the product mix, involving larger quantities in Europe. The segment's EBITn increased from EUR 138.4 million to EUR 160.8 million, raising the EBITn margin to 13.1 per cent after 12.0 per cent in the previous year. Restructuring costs accrued primarily in the region North America and amounted to EUR 13.3 million in the reporting period compared to EUR 9.5 million in the previous year. The segment also recorded an extraordinarily high increase in EBIT from EUR 128.9 million to EUR 147.5 million.

The order situation was good throughout 2017, and the high order backlog at year end suggests that this segment will record further growth in 2018.



DEVELOPMENT OF REVENUE
LAND SEGMENT
(EUR thousand)



DEVELOPMENT OF EBITDAn
LAND SEGMENT
(EUR thousand)

In the LAND segment, PALFINGER benefited from strong demand in the core markets

EUR thousand	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenue	280,434	306,965	273,837	292,685	297,249	327,339	284,214	321,401
Segment EBITDAn ¹⁾	44,103	51,576	39,291	40,658	51,694	54,792	47,320	47,546
Segment EBITn ¹⁾	35,029	42,378	29,941	31,008	41,599	44,501	37,389	37,326
Segment EBITDA	43,222	48,352	37,681	36,880	48,045	50,957	45,941	43,925
Segment EBIT	34,148	39,154	28,332	27,234	37,951	40,666	36,010	32,842

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

Operational highlights

The economic recovery in Europe was still felt in the EMEA region in 2017. Particularly in construction and infrastructure, PALFINGER benefited from the increase in necessary replacement investments, which had been suspended in recent years. Performance was particularly noteworthy in the core markets and in Southern Europe, where the markets had recently been weak, and, in terms of products, once again in the crane business, which also had a highly positive impact on earnings. For the most part, the other product divisions in Europe showed good development as well.

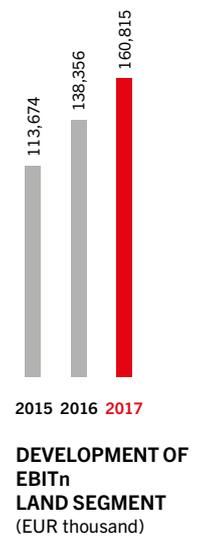
The restructuring in North America brought material success. In addition to making adaptations to its internal organization, PALFINGER sold its service body business in the first quarter of 2017. The revision of the existing product portfolio is progressing. Non-profitable products and business divisions were phased out and the first newly developed products were about to be launched on the market at year end. Provided that the demand for loader cranes continues to be satisfactory, profitability in North America is expected to grow in 2018; the restructuring measures are expected to be completed in the first half of 2018. In South America, PALFINGER continued to operate in a highly difficult market environment, but it seems that the downturn has bottomed out.

In Asia, particularly in China, the partnership with SANY is the foundation for the sound development of business. The Sany Palfinger joint venture recorded significant increases in revenue during the reporting period. In Russia/CIS, the economic environment remained a challenging one, and local value creation continued to prove highly advantageous, facilitating additional growth.

 Significant changes within the PALFINGER Group, page 71

Segment share in consolidated net result for the period	2015	2016	2017	in % of Group
Income statement				
External revenue (EUR thousand)	1,056,965	1,153,921	1,230,203	83.6%
EBITDA ⁿ (EUR thousand) ¹⁾	147,870	175,628	201,352	108.3%
EBITDA (EUR thousand)	141,146	166,135	188,867	112.8%
Depreciation, amortization and impairment (EUR thousand)	34,202	37,267	41,398	72.4%
EBIT ⁿ (EUR thousand) ¹⁾	113,674	138,356	160,815	124.0%
EBIT (EUR thousand)	106,944	128,868	147,469	133.8%
Segment assets (EUR thousand)	959,232	1,034,433	1,009,285	65.3%
Segment liabilities (EUR thousand)	343,539	402,564	257,906	26.6%
Investments in intangible assets and property, plant and equipment (EUR thousand)	50,401	61,495	69,899	80.1%
EBIT ⁿ margin ¹⁾	10.8%	12.0%	13.1%	
EBIT margin	10.1%	11.2%	12.0%	
Human resources				
Employees ²⁾	7,682 ³⁾	7,757 ⁴⁾	8,224	
Percentage of women	13.0% ³⁾	12.1% ⁴⁾	11.8%	
Employee turnover	14.6% ³⁾	15.6% ⁴⁾	18.7%	
Staff absences due to industrial accidents (in % of regular working time)	0.14% ³⁾	0.24% ⁴⁾	0.17%	
Training hours per employee ⁵⁾	15.4 ³⁾	15.7 ⁴⁾	19.0	
Environment⁶⁾				
Index: Energy consumption in relation to revenue	91.1%	95.2%	91.4%	
Index: Greenhouse gas emissions in relation to revenue	92.6%	98.0%	89.4%	
Index: Hazardous waste in relation to revenue	125.3%	152.1%	328.0%	

1) Figures were normalized (n) by restructuring costs.
 2) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding temporary workers.
 3) Internal control loops to improve data quality led to changes.
 4) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.
 5) Deviating reporting boundaries due to sites that do not report these indicators.
 6) Volume 2013 = 100%.

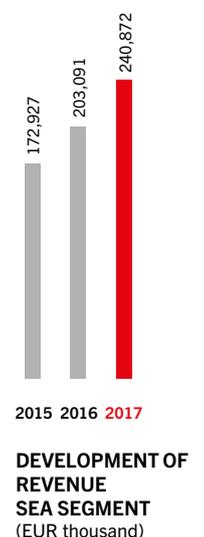


SEA SEGMENT

The SEA segment comprises PALFINGER's global maritime product groups: marine cranes, offshore cranes, wind cranes, davit systems, boats, winches and offshore equipment, as well as service and rope access. In order to guarantee the best possible use of synergies in development, production and distribution, the product groups are subsumed into four global product divisions: Cranes, Winches and Handling Equipment, Lifesaving Equipment, and the new Production and Procurement division established in 2017. The Service unit operates across all product groups. Rope access, which is the business domain of Megarme, is held as an investment.

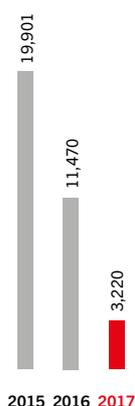
Business performance in 2017

Revenue generated by the SEA segment rose to EUR 240.9 million in the 2017 financial year. This massive 18.6 per cent increase from the previous year's revenue of EUR 203.1 million was primarily due to the business volume of the Harding Group. In 2016, Harding was only included in the scope of consolidation from the end of June onwards, and in 2017 it added EUR 101.6 million to PALFINGER's revenue. In 2017, the SEA segment accounted for 16.4 per cent (previous year: 15.0 per cent) of consolidated revenue.



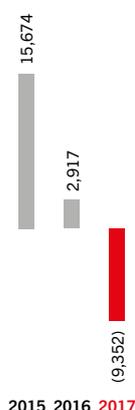
The segment's EBITDAn (EBITDA normalized by restructuring costs) declined from EUR 11.5 million in the previous year to EUR 3.2 million in 2017. The EBITDAn margin recorded in the SEA segment came to 1.3 per cent, as compared to 5.6 per cent in the previous year. This decline reflects the difficult environment, but also the integration of the Harding Group. The EBITn generated by this segment was negative at –EUR 9.4 million in the reporting period after EUR 2.9 million in the 2016 financial year. The EBITn margin was –3.9 per cent after 1.4 per cent in the previous year. The restructuring costs incurred in this segment included primarily acquisition and integration costs incurred in connection with Harding and amounted to EUR 5.5 million, as compared to EUR 6.1 million in 2016. The segment's EBIT dropped from the previous year's figure of –EUR 3.2 million to –EUR 14.8 million in the reporting period.

Incoming orders in this segment reflected the challenging market environment in 2017. From today's point of view, no recovery is expected in the near future. Moreover, it is likely that a large-scale order placed in 2013, which comprised the delivery of a total of 28 offshore cranes, will not be honoured in full by the customer.



DEVELOPMENT OF EBITDAn SEA SEGMENT (EUR thousand)

Growth in the SEA segment was generated in connection with the 2016 acquisition of Harding



DEVELOPMENT OF EBITn SEA SEGMENT (EUR thousand)

EUR thousand	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenue	38,329	39,843	57,197	67,722	64,628	64,535	55,141	56,568
Segment EBITDAn ¹⁾	2,804	2,417	2,367	3,882	2,121	3,812	(157)	(2,556)
Segment EBITn ¹⁾	1,751	1,359	110	(303)	(1,254)	756	(3,256)	(5,598)
Segment EBITDA	2,116	2,203	1,069	1,204	933	2,494	(1,733)	(3,944)
Segment EBIT	1,064	1,144	(2,090)	(3,328)	(2,482)	(520)	(4,834)	(6,986)

¹⁾ 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 continuing low oil price dampened investment propensity considerably in many core customer industries in 2017. Following a highly volatile first half of 2017, signs of stabilization at a low level became evident in the second half of the year.

With the acquisition of the globally operating Harding Group in the previous year, PALFINGER expanded its marine business by adding new products in the field of lifesaving equipment. Since then, PALFINGER also has maintained a global service network. Service is a major factor for success in the marine business, not least because there are strict regulatory provisions. Therefore, this acquisition represented a massive growth step as well as an important strategic development for PALFINGER. In 2017, the integration of this large acquisition was a significant challenge also in terms of earnings.

Following a significant organic decline in business in 2016, PALFINGER, excluding the acquisition of Harding, reported only slight declines in revenue in the reporting period. The level of incoming orders was on the increase in some areas, pointing to a stabilization of the market situation. In the cruise industry, PALFINGER succeeded in strengthening its market position thanks to a highly satisfactory order for lifesaving equipment and cranes.

PALFINGER intends to position itself favourably for future upturns through targeted restructuring of the entire marine business. Some measures, such as the consolidation of business operations and sites in Korea and the Netherlands, have already been implemented. These measures will enable PALFINGER to utilize synergies between PALFINGER's established marine business and the Harding Group. The integration of Harding is expected to take some more months. The implementation of further restructuring measures is currently being evaluated.

Significant changes within the PALFINGER Group, page 71

Segment share in consolidated net result for the period	2015	2016	2017	in % of Group
Income statement				
External revenue (EUR thousand)	172,927	203,091	240,872	16.4%
EBITDA ¹⁾ (EUR thousand)	19,901	11,470	3,220	1.7%
EBITDA (EUR thousand)	19,234	6,592	(2,250)	(1.3)%
Depreciation, amortization and impairment (EUR thousand)	4,227	9,802	12,572	22.0%
EBIT ¹⁾ (EUR thousand)	15,674	2,917	(9,352)	(7.2)%
EBIT (EUR thousand)	15,007	(3,210)	(14,822)	(13.5)%
Segment assets (EUR thousand)	205,836	463,398	410,136	26.5%
Segment liabilities (EUR thousand)	105,604	205,715	80,658	8.3%
Investments in intangible assets and property, plant and equipment (EUR thousand)	7,445	10,853	10,921	12.5%
EBIT ¹⁾ margin	9.1%	1.4%	(3.9)%	
EBIT margin	8.7%	(1.6)%	(6.2)%	
Human resources				
Employees ²⁾	1,169 ³⁾	1,827 ⁴⁾	1,681	
Percentage of women	8.9% ³⁾	14.9% ⁴⁾	16.4%	
Employee turnover	11.5% ³⁾	14.5% ⁴⁾	20.6%	
Staff absences due to industrial accidents (in % of regular working time)	0.02% ³⁾	0.23% ⁴⁾	0.28%	
Training hours per employee ⁵⁾	18.2 ³⁾	15.4 ⁴⁾	29.2	
Environment⁶⁾				
Index: Energy consumption in relation to revenue	77.6%	90.9%	97.7%	
Index: Greenhouse gas emissions in relation to revenue	119.2%	127.8%	132.6%	
Index: Hazardous waste in relation to revenue	110.0%	329.6%	217.5%	

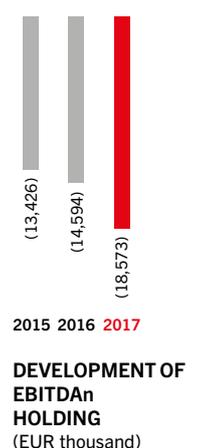
1) Figures were normalized (n) by restructuring costs.
2) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding temporary workers.
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5) Deviating reporting boundaries due to sites that do not report these indicators.
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.

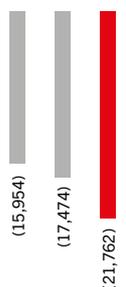
Business performance in 2017

In the 2017 financial year, the unit recorded EBITDAⁿ (EBITDA normalized by restructuring costs) of –EUR 18.6 million, as compared to –EUR 14.6 million in the previous year. The higher costs were primarily caused by the ongoing group-wide initiatives, the extraordinary expenses caused by the changes in management and the sale of the company aircraft. At –EUR 21.8 million the unit's EBITⁿ was lower than the previous year's figure of –EUR 17.5 million. The restructuring costs allocated to this unit came to EUR 0.7 million, as compared to EUR 2.1 million in 2016, and primarily pertain to integration costs. The unit's EBIT declined from –EUR 19.6 million in the previous year to –EUR 22.4 million in the reporting period.



EUR thousand	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unit EBITDA ⁿ¹⁾	(4,033)	(3,615)	(3,816)	(3,130)	(2,957)	(3,975)	(5,062)	(6,579)
Unit EBIT ⁿ¹⁾	(4,740)	(4,327)	(4,544)	(3,863)	(3,720)	(4,785)	(5,898)	(7,359)
Unit EBITDA	(4,303)	(4,794)	(4,125)	(3,457)	(3,111)	(4,084)	(5,305)	(6,750)
Unit EBIT	(5,009)	(5,507)	(4,853)	(4,189)	(3,875)	(4,893)	(6,141)	(7,531)

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



2015 2016 2017

**DEVELOPMENT OF
EBITn
HODLING**
(EUR thousand)

The current group-wide initiatives with a focus on customer orientation, digitalization and the optimization of processes support the PALFINGER Group in its endeavours to prepare for the challenges of the coming years. In this connection, PALFINGER has also been reviewing its corporate vision. PALFINGER's comprehensive strategic corporate planning up to 2022 was concluded in November 2017 and will also take these topics into account.

Henceforth, reporting on the HOLDING unit will also include the new strategic pillar/unit PALFINGER 21st. The opening of the innovation site at the weXelerate start-up hub in Vienna in September 2017 constituted an important first step towards the planned activities for using the Internet of Things for new services.

Strategic pillars and sustainability aspects, page 35; Group-wide development programmes, page 38; Significant changes within the PALFINGER Group, page 71

Share in consolidated net result for the period	2015	2016	2017	in % of Group
Income statement				
EBITDA _n (EUR thousand) ¹⁾	(13,426)	(14,594)	(18,573)	(10.0)%
EBITDA (EUR thousand)	(15,071)	(16,679)	(19,250)	(11.5)%
EBIT _n (EUR thousand) ¹⁾	(15,954)	(17,474)	(21,762)	(16.8)%
EBIT (EUR thousand)	(17,597)	(19,558)	(22,440)	(20.4)%
Human resources				
Employees ²⁾	251 ³⁾	262 ⁴⁾	307	
Percentage of women	29.9% ³⁾	32.1% ⁴⁾	31.2%	
Employee turnover	13.8% ³⁾	11.8% ⁴⁾	8.6%	
Staff absences due to industrial accidents (in % of regular working time)	0.00% ³⁾	0.01% ⁴⁾	0.00%	
Training hours per employee ⁵⁾	13.6 ³⁾	13.6 ⁴⁾	16.1	
Environment				
Index: Energy consumption in relation to revenue	100.0%	79.8%	59.6%	
Index: Greenhouse gas emissions in relation to revenue	100.0%	81.7%	58.8%	
Index: Hazardous waste in relation to revenue ⁶⁾	0.0%	0.0%	0.0%	

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

2) Balance-sheet date figures of consolidated group companies excluding equity shareholdings and excluding temporary workers.

3) Internal control loops to improve data quality led to changes.

4) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

5) Deviating reporting boundaries due to sites that do not report these indicators.

6) No hazardous waste in the HOLDING unit.

OUTLOOK

PALFINGER's aim is to continue its profitable growth. To this end, initiatives in connection with digitalization will be aggregated in the new PALFINGER 21st unit, which has been added to the time-tested strategic pillars. PALFINGER also plans to be a pioneer in digital solutions, thereby consolidating its leading position in the global market. The management envisages another record in revenue and earnings for 2018.

In 2017, PALFINGER adapted its corporate vision and strategy in light of the challenges and opportunities of the digital era. The choice of the fourth strategic pillar, PALFINGER 21st, demonstrates that developing new products, services and business models, including disruptive ones, will be a priority in the years to come. In order to ensure that time-tested, successful strategies will be continued while new solutions are being created, PALFINGER 21st has been set up as a separate organizational unit.

The new corporate vision and strategy are preparing PALFINGER for the digital future

In 2018, PALFINGER intends to firmly incorporate its adapted vision, the new unit and the IoT development centre in Vienna into the organization. The group-wide development programmes with a focus on customer-orientation, digitalization and the optimization of processes will support the PALFINGER Group in positioning itself for these changes.

The process of selecting and appointing a new CEO, following Herber Ortner's retirement from the Management Board with effect as of the end of 2017, may take the Supervisory Board quite some time.

PALFINGER will continue to promote its social and environmental standards along the entire value creation chain. PALFINGER will adhere to the targets quantified in 2014 and 2016. In 2017, a new target was added: a 25 per cent reduction in CO₂ emissions by 2030, as compared to the 2015 level.

PALFINGER renewed and expanded its ecological and social targets

Under its HR Strategy 2020, PALFINGER defined additional measures to ensure the continued availability of skilled and motivated staff. The objectives quantified in this connection include significantly increasing the percentage of non-Austrians working at the headquarters and the percentage of women in global executive positions.

Once again, the target of reducing hazardous waste was not met in 2017. PALFINGER plans to perform a comprehensive analysis in 2018 to identify the causes and the potential for improvement. Energy consumption and CO₂ emissions are expected to be lowered further in 2018. Alongside other initiatives, primarily the new heating system at the Velikiye Luki (RU) site will help achieve this group-wide improvement. At the site in Lengau (AT), the first photovoltaic system will be installed and will contribute to reducing climate-relevant emissions in the future; additional surfaces are to be made available for the same purpose.

As the order backlog at the end of 2017 was very high, PALFINGER is optimistic regarding business performance in 2018. Due to short-term internal and external delivery problems, a significant order volume could not be completed by the end of 2017 and had to be postponed until 2018. Capacity utilization of the production plants is expected to remain at a high level. The increasingly global approach to value creation structures will be conducive to balancing capacity utilization peaks.

Even though the conditions predicted for 2018 harbour a great deal of uncertainty, the management, from today's point of view, foresees that revenue in the 2018 financial year will reach a new record high. It is anticipated that the restructuring measures in North America will be completed in the first half of 2018; further measures in the marine business are being evaluated. The changes already made in 2017, as well as additional changes, are expected to facilitate an extraordinarily high increase in earnings and thus also a record result.

The management expects record revenue and an increase in earnings in the 2018 financial year



Corporate Governance Report

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CORPORATE GOVERNANCE REPORT

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

PALFINGER is committed to the standards of the Austrian Code of Corporate Governance (www.corporate-governance.at) and complies with nearly all rules 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/investor-relations/corporate-governance; www.corporate-governance.at

PALFINGER is committed to compliance with the Austrian Code of Corporate Governance

GOVERNING BODIES OF THE COMPANY AND METHOD OF OPERATION OF THE MANAGEMENT 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 Management 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 Management Board directs the managements responsible for operations in the individual segments and/or business areas. In addition, the Management Board is represented in the managements of individual Austrian holding companies of PALFINGER. In 2017, Martin Zehnder also was a member of the Supervisory Board of Palfinger Europe GmbH.

The Supervisory Board supervises the management and assists the Management Board in significant decisions. Open communication between the Management Board and the Supervisory Board and also within the respective Boards has a long-standing tradition at PALFINGER. At its meetings held in 2017, the Supervisory Board primarily discussed the ongoing business operations, the effects of the challenging economic environment, measures to cut costs and capital employed, projects of integration, restructuring and expansion, risk management and the internal control system, key sustainability issues and the diversity scheme, the changes in the Management Board, as well as perspectives for 2018.

At present, no special sustainability criteria are used when selecting members of the Supervisory Board and the Management 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 is in place.

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

📄 Sustainability management, page 43

MANAGEMENT BOARD

At the end of 2017, the Management Board had three members

In the 2017 financial year, the Management Board of PALFINGER AG was composed of three members, except for one period of time when there were only two. Herbert Ortner and Martin Zehnder were members of the Board throughout the year. Christoph Kaml resigned from the Management Board in August and was succeeded by Felix Strohbichler as the new CFO in October. Herbert Ortner, who had been the CEO since June 2008, resigned from the Management Board effective as of the end of 2017. Until the appointment of his successor, Mr. Strohbichler and Mr. Zehnder will assume Mr. Ortner's responsibilities.

Name	First appointment	End of term	Diversity factors ¹⁾
Herbert Ortner (CEO)	1 February 2003	31 December 2017	Male born in 1968 Austria
Christoph Kaml (CFO)	1 January 2009	31 August 2017	Male born in 1974 Austria
Felix Strohbichler (CFO)	1 October 2017	30 September 2022	Male born in 1974 Austria
Martin Zehnder (Member)	1 January 2008	31 December 2018	Male born in 1967 Switzerland

¹⁾ Diversity factors include: gender, age, nationality.

 GRI 405-1

Herbert Ortner

CEO – CHIEF EXECUTIVE OFFICER (UP TO 31 DECEMBER 2017)

Born in 1968, Herbert Ortner was the global Business Unit Manager for industrial hoses at the publicly listed Semperit Group until 2001. He then joined PALFINGER, where he developed the spare parts, equipment and service business before being appointed to the Management Board in February 2003. The focus of his activities as Chief Marketing Officer included PALFINGER's product areas railway systems, tail lifts, truck mounted forklifts and access platforms as well as the further expansion of the service business. As CEO he was in charge of procurement, legal affairs, personnel, communications, investor relations, sustainability management and marketing since June 2008. Herbert Ortner resigned from the Management Board for personal reasons, with effect from 31 December 2017.

Herbert Ortner is a member of the Supervisory Boards of ENGEL Austria GmbH and ENGEL Holding GmbH.

Christoph Kaml

CFO – CHIEF FINANCIAL OFFICER (UP TO 31 AUGUST 2017)

Born in 1974, Christoph Kaml started his career with Gemini Consulting. Before joining PALFINGER AG in 2004, he was the holder of a general commercial power of attorney at an M&A consulting company in Switzerland. In 2006, he switched from PALFINGER Corporate Development to the management of the business area North America domiciled in Niagara Falls, Canada, where he was in charge of finances, strategy and business development. From January 2009 to August 2017, Kaml was the CFO of PALFINGER AG.

Christoph Kaml is Chairman of the Supervisory Board of Putzmeister Holding GmbH.

Martin Zehnder

MEMBER OF THE MANAGEMENT BOARD AND PRESIDENT OF THE LAND SEGMENT

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, and since January 2008 he has been responsible for global manufacturing and assembly as well as product management and digitalization. Since 2017 he has been the President of the LAND Segment.

Felix Strohbiehler

CFO – CHIEF FINANCIAL OFFICER AND PRESIDENT OF THE SEA SEGMENT (SINCE 1 OCTOBER 2017)

Born in 1974, Strohbiehler 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, risk management and internal audit, as well as information and communication technology. In addition, he is the President of the SEA segment.

Felix Strohbiehler is a member of the Supervisory Boards of Lenzing AG and Semperit AG Holding.

SUPERVISORY BOARD

As at 31 December 2017, the Supervisory Board of PALFINGER AG consisted of six members elected by 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.

At the end of the year, the Supervisory Board consisted of nine members

 [Report of the Supervisory Board, page 260](#)

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 Austria
Gerhard Rauch (1 st Deputy Chairman since 6 June 2016)	9 March 2016	AGM 2021	Male born in 1963 Austria
Hannes Palfinger (2 nd Deputy Chairman since 10 December 2013)	30 March 2011	AGM 2021	Male born in 1973 Austria
Dawei Duan	9 March 2016	AGM 2021	Male born in 1972 China
Heinrich Dieter Kiener	30 March 2011	AGM 2021	Male born in 1956 Austria
Hannes Bogner	8 March 2017	AGM 2022	Male born in 1959 Austria
Peter Pessenlehner	31 March 2010	8 March 2017	Male born in 1970 Austria
Johannes Kücher¹⁾	6 February 2015	¹⁾	Male born in 1963 Austria
Alois Weiss¹⁾	13 February 2006	¹⁾	Male born in 1962 Austria
Erwin Asen¹⁾	20 December 2017	¹⁾	Male born in 1971 Austria
Gerhard Gruber¹⁾	15 May 2006	24 October 2017 ¹⁾	Male born in 1960 Austria

¹⁾ Delegated by the Works Council.

²⁾ Diversity factors include: gender, age, nationality.

The elections to the Supervisory Board held at the Annual General Meeting of 8 March 2017 resulted in the following changes: At his own request, Peter Pessenlehner resigned from the Board effective as of the end of the 2017 AGM. Hannes Bogner was elected as a new Supervisory Board member.

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

HEINRICH DIETER KIENER

Managing Director of Stieglbrauerei

Member of the Supervisory Board of Schoellerbank

Member of the Board of the Federation of Austrian 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

HANNES BOGNER

Member of the Supervisory Board of STRABAG SE

Member of the Supervisory Board of Wiener Börse AG

Member of the Supervisory Board of CEESEG AG

Member of the Supervisory Board of Casinos Austria AG

Member of the Supervisory Board of Niederösterreichische Versicherung AG

Chairman of the Supervisory Board of Wienwert AG

PETER PESSENLEHNER

Partner of PwC Österreich GmbH Wirtschaftsprüfungsgesellschaft

[🔗 https://www.palfinger.ag/en/about-us/our-people-our-values/supervisory-board](https://www.palfinger.ag/en/about-us/our-people-our-values/supervisory-board)

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, Dawei Duan was unable to participate in any meetings of the Supervisory Board; however, the Management Board regularly informed Mr. Duan about significant developments on the basis of Supervisory Board documents.

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 2017, the Audit Committee held three meetings dealing with the 2016 financial statements, the internal control system, risk management, IFRS/accounting issues, internal audits as well as with PALFINGER's cooperation with the auditor.

Members: Peter Pessenlehner (up to 8 March 2017; financial expert; Chairman), Hannes Bogner (since 29 May 2017; financial expert; Chairman), Hubert Palfinger jun., Gerhard Rauch, Hannes Palfinger, Johannes Kücher

Nomination Committee

The Nomination Committee met regularly in 2017 and discussed, in particular, the cooperation within and working methods of the Management Board. The main issues included the resignation of Christoph Kaml in June and the resignation of Herbert Ortner in November, as well as the search for candidates for the vacated positions and the appointments of the new members of the Management Board.

Members: Hubert Palfinger jun. (Chairman), Gerhard Rauch, Hannes Palfinger

Remuneration Committee

At its regular meetings held in 2017, the Remuneration Committee dealt with the remuneration of Management Board members and conducted feedback interviews with the members of the Management 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 2017 financial statements and consolidated financial statements of PALFINGER AG and appointed by the Annual General Meeting on 8 March 2017.

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.

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, the global transfer of know-how through higher mobility. Furthermore, two quantitative targets were set to reinforce the diversity scheme.

PALFINGER's diversity strategy contains specific objectives and initiatives

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.

By 2022, PALFINGER wants the percentage of women at top management levels to correspond to the group-wide percentage of women

Currently there are no women on either the Supervisory Board or the Management Board at PALFINGER; the other top management positions include one woman. 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 of high potential. When 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 2017 it was 13.1 per cent).

🌐 GRI 405-1

🌐 Sustainability and Diversity Improvement Act

📄 Responsible employer, page 84; Detailed GRI and sustainability information, page 211

REMUNERATION REPORT

The remuneration of Management Board members also includes performance-related elements, based on short-term and long-term targets

The remuneration system in place for Management Board members includes fixed elements and performance-related payments and is adequate given the size and complexity of the Company. In 2017, performance-related remuneration was based, on the one hand, on targets that were set in agreement with the individual Management Board members and, on the other hand, on fundamental financial ratios of the PALFINGER Group: revenue growth and EBIT, as well as a higher corporate value in the long term. In 2017, the variable pay of Management Board members amounted, on average, to approx. 45 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 199

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 remuneration of Supervisory Board members was decided upon at the 2016 Annual General Meeting

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
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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.

A D&O insurance policy, the premiums of which are paid by PALFINGER AG, has been taken out for Supervisory and Management Board members as well as for other high-ranking executives of the PALFINGER Group.

FAIR BUSINESS

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 issues, 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. Furthermore, an internal guideline on "Rules of Conduct for the Prevention of Corruption and Anti-Competitive Behaviour" is in place.

The Code of Conduct is binding for employees, dealers and partners of PALFINGER

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 also presents a video in support of communication. Based on the current findings, no child labour, forced labour or compulsory labour was used at any PALFINGER sites in 2017 and no young employees are exposed to any dangerous labour. Even at risky sites, for example in Asia, compliance with the Code of Conduct is mandatory.

In the event of any severe violations of the Code of Conduct, the rules of behaviour or other group guidelines, the internal auditing department consults with the Management 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

📄 Risk report, Control environment, page 83

🔗 www.palfinger.ag/en/Pages/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.

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.

Even in small units, the four-eyes principle and separation of function apply

In 2017, PALFINGER was again confronted with several phishing and fraud attempts via e-mail, which, however, did not cause any material damage. The incidents were reported to the responsible authorities and also communicated internally to increase awareness among employees. Internal processes and systems are continuously being improved to avoid any potential damage.

PALFINGER has been preparing for the stricter requirements in connection with the European data protection provisions (General Data Protection Regulation) since 2016. The necessary measures and investments were defined by the legal and IT departments together with the operational units and are being gradually implemented.

PALFINGER creates awareness for compliance issues and provides information on guidelines and processes

Information on guidelines and corporate ethics

The Group's risk management 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 all employees in the finance and HR departments as well as all management teams with information material regarding compliance at PALFINGER. In the reporting period, workshops on anti-trust compliance were held in the sales units.

🌐 GRI 205-2

Internal audits and risk management

The corporate risk management department regularly carries out audits of the companies of the PALFINGER Group and engages employees in discussions on ethics and corruption in the workshops held. In 2017, three audits were performed and concluded in Austria, Norway and the USA.

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 can be reached via the Company's website; reports are received by the corporate risk management department. In the period under review, one internal substantiated, albeit insignificant, allegation was reported, following which the issue was settled without delay through appropriate measures.

COMPLIANCE VIOLATIONS

Any compliance violations are reported to the central legal department. In 2017, as in previous years, no major cases of corruption were reported at PALFINGER. Three internal substantiated, albeit insignificant, cases were investigated, following which appropriate measures were taken. Two employees were dismissed. There were no incidents involving business partners. No public corruption charges were filed against the organization or its employees. 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

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 2015. 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 its website. 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, 31 January 2018

Felix Strohbichler m.p.

Martin Zehnder m.p.

 Consolidated financial statements, Disclosures concerning business transactions with related parties, page 198
 www.palfinger.ag/en/investor-relations/corporate-governance

DEFINITION OF PERFORMANCE INDICATORS

ECONOMY

Capital employed	reflects capital investment and is calculated as <ul style="list-style-type: none"> • intangible assets • plus property, plant and equipment, shareholdings and net current assets
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.
EBIT EBITn	(Earnings before interest and taxes) PALFINGER makes a distinction between EBIT according to IFRS and EBITn – EBIT normalized by restructuring costs.
EBITDA EBITDA_n	(Earnings before interest, taxes, depreciation and amortization) PALFINGER calculates EBITDA _n – EBITDA normalized by restructuring costs.
Earnings per share	is the ratio of the consolidated net result for the period to the weighted average number of shares outstanding.
EVA	(Economic value added) indicates the Company's economic profit: <ul style="list-style-type: none"> • ROCE minus WACC • multiplied by average capital employed
Free cash flows	is the net amount of cash available to service internal or external borrowing: <ul style="list-style-type: none"> • cash flows generated from operations • plus interest on borrowings • minus tax shield on interest on borrowings
Gearing ratio	is a measure relating to the Company's debt: <ul style="list-style-type: none"> • ratio of net debt and equity in per cent
Net debt	is calculated as <ul style="list-style-type: none"> • non-current and current financial liabilities minus <ul style="list-style-type: none"> • long-term and short-term securities • long-term loans • cash and cash equivalents
NOPLAT	(Net operating profit less adjusted taxes) is composed of <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • ratio of after-tax earnings and • average equity as a percentage

WACC	(Weighted average cost of capital) is a measure of the average cost of capital employed (debt and equity)
Working capital	is the net surplus of current assets over current liabilities

HUMAN RESOURCES

Full-time equivalent	A full-time equivalent is an employee's total hours worked as stipulated in his/her employment contract divided by the number of hours worked in a regular full-time schedule.
Employee turnover	Employee turnover is defined as the ratio of the number of employees that have left the Company during a certain year to the average annual headcount. It is expressed as a percentage. 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 due to occupational diseases was added as the third category of this ratio in 2017. 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 energy input in relation to revenue. It takes into account electricity, fuel (petrol, diesel and kerosene) and heating energy (fuel oil, natural gas, LPG, propane, butane, district heating and coal). The energy input is determined in relation to the local revenue of the individual site (volume 2013 = 100 per cent). In calculating group-wide indices, the various production sites are weighted by the volume of energy consumed in the year under review. 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 revenue. The volume of hazardous waste is determined in relation to the local revenue of the individual site (volume 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.



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Consolidated Financial Statements

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CONSOLIDATED INCOME STATEMENT

EUR thousand	Note	Jan–Dec 2016	Jan–Dec 2017
Revenue	15	1,357,012	1,471,075
Cost of sales	17, 23, 24, 25	(1,023,024)	(1,112,105)
Gross profit		333,988	358,970
Other operating income	16	13,058	23,183
Research and development costs	18, 24, 25	(26,662)	(29,369)
Distribution costs	19, 24, 25	(97,368)	(108,653)
Administrative costs	20, 24, 25	(113,396)	(123,191)
Other operating expenses	21	(10,745)	(22,353)
Income from companies reported at equity	22	7,174	11,603
Earnings before interest and taxes – EBIT		106,049	110,190
Interest income	26	2,387	1,267
Interest expenses for financial liabilities	26	(11,824)	(12,618)
Other interest expenses	26	(2,187)	(1,997)
Exchange rate differences	26	(1,884)	(8,049)
Other financial result	26	672	(274)
Net financial result		(12,836)	(21,671)
Result before income tax		93,213	88,519
Income tax expense	27, 67	(23,931)	(23,304)
Result after income tax		69,282	65,215
attributable to			
shareholders of PALFINGER AG (consolidated net result for the period)		61,173	52,513
non-controlling interests		8,109	12,702
EUR			
Earnings per share (undiluted and diluted)	43	1.63	1.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	Jan–Dec 2016	Jan–Dec 2017
Result after income tax		69,282	65,215
Amounts that will not be reclassified to the income statement in future periods			
Re-measurements acc. to IAS 19	49	(2,308)	(2,021)
Deferred taxes thereon		622	394
Amounts that may be reclassified to the income statement in future periods			
Unrealized profits (+)/losses (–) from foreign currency translation of foreign subsidiaries		20,432	(35,008)
Unrealized profits (+)/losses (–) from foreign currency translation of companies reported at equity	31	(5,666)	(9,972)
Unrealized profits (+)/losses (–) from foreign currency translation of long-term loans to foreign subsidiaries (acc. to IAS 21.15)		5,700	(14,149)
Deferred taxes thereon		(483)	2,091
Effective taxes thereon		(953)	1,847
Profits (+)/losses (–) from cash flow hedge	45		
Changes in unrealized profits (+)/losses (–)		(1,532)	2,653
Deferred taxes thereon		(592)	(1,027)
Effective taxes thereon		822	295
Realized profits (–)/losses (+)		5,701	10,980
Deferred taxes thereon		(579)	(1,644)
Effective taxes thereon		(846)	(955)
Other comprehensive income after income tax		20,318	(46,516)
Total comprehensive income		89,600	18,699
attributable to			
shareholders of PALFINGER AG		79,673	7,832
non-controlling interests		9,927	10,867

CONSOLIDATED BALANCE SHEET

EUR thousand	Note	31 Dec 2016 ¹⁾	31 Dec 2017
Non-current assets			
Intangible assets	1, 2, 3, 28, 58	380,112	368,171
Property, plant and equipment	2, 29, 59	312,314	312,106
Investment property	30, 60	328	308
Investments in companies reported at equity	4, 22, 31	171,871	167,266
Other non-current assets	34	5,715	1,724
Deferred tax assets	8, 32, 67	18,128	14,890
Non-current financial assets	13, 33, 54, 64	32,706	30,166
		921,174	894,631
Current assets			
Inventories	7, 35, 61	282,702	289,034
Trade receivables	5, 36, 54, 62, 64	251,672	266,890
Other current receivables and assets	38	35,152	43,777
Income tax receivables	67	4,195	1,852
Current financial assets	13, 37, 54, 64	5,137	9,098
Cash and cash equivalents	39, 54, 64	33,922	39,756
		612,780	650,407
Non-current assets held for sale	29	1,893	0
		614,673	650,407
Total assets		1,535,847	1,545,038
Equity			
Share capital	40	37,593	37,593
Additional paid-in capital	41	86,844	86,844
Retained earnings	43, 44, 45	418,180	460,037
Foreign currency translation reserve	42	11,851	(41,556)
Total equity of the shareholders of PALFINGER AG		554,468	542,918
Non-controlling interests	46	25,452	32,796
Total equity		579,920	575,714
Non-current liabilities			
Liabilities from puttable non-controlling interests	11, 44, 47, 54, 63, 64	3,004	2,580
Non-current financial liabilities	48, 54, 64	431,918	492,957
Non-current purchase price liabilities from acquisitions	12, 49, 54, 64	15,364	15,478
Non-current provisions	9, 50, 65, 66	49,576	46,235
Deferred tax liabilities	32, 67	22,795	14,798
Other non-current liabilities	51	2,621	4,025
		525,278	576,073
Current liabilities			
Current financial liabilities	54, 64	152,804	99,268
Current provisions	10, 52, 66	18,973	18,829
Income tax liabilities	27, 67	7,924	13,933
Trade payables and other current liabilities	53, 54, 64	250,948	261,221
		430,649	393,251
Total equity and liabilities		1,535,847	1,545,038

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Equity attributable to the shareholders of PALFINGER AG		
	Note	Share capital	Additional paid-in capital
As at 1 Jan 2016		37,593	82,141
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, 63	0	0
Addition non-controlling interests		0	0
Acquisition non-controlling interests		0	0
Sale of own shares		0	4,573
Other changes	41	0	130
		0	4,703
As at 31 Dec 2016		37,593	86,844
As at 1 Jan 2017		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, 63	0	0
Addition non-controlling interests		0	0
Other changes	41	0	0
		0	0
As at 31 Dec 2017		37,593	86,844

					Equity attributable to the shareholders of PALFINGER AG		
Retained earnings					Total	Non-controlling interests	Equity
Treasury stock	Other retained earnings	Re-measurements acc. to IAS 19	Valuation reserve acc. to IAS 39	Foreign currency translation reserve			
(1,543)	404,998	(8,464)	(18,341)	(5,372)	491,012	19,646	510,658
0	61,173	0	0	0	61,173	8,109	69,282
0	0	0	0	17,223	17,223	1,807	19,030
0	0	(1,697)	0	0	(1,697)	11	(1,686)
0	0	0	2,974	0	2,974	0	2,974
0	0	(1,697)	2,974	17,223	18,500	1,818	20,318
0	61,173	(1,697)	2,974	17,223	79,673	9,927	89,600
0	(14,551)	0	0	0	(14,551)	(6,816)	(21,367)
0	(4,476)	0	0	0	(4,476)	474	(4,002)
0	0	0	0	0	0	3,480	3,480
0	(3,561)	0	0	0	(3,561)	(1,264)	(4,825)
1,543	0	0	0	0	6,116	0	6,116
0	125	0	0	0	255	5	260
1,543	(22,463)	0	0	0	(16,217)	(4,121)	(20,338)
0	443,708	(10,161)	(15,367)	11,851	554,468	25,452	579,920
0	443,708	(10,161)	(15,367)	11,851	554,468	25,452	579,920
0	52,513	0	0	0	52,513	12,702	65,215
0	0	0	0	(53,407)	(53,407)	(1,784)	(55,191)
0	0	(1,576)	0	0	(1,576)	(51)	(1,627)
0	0	0	10,302	0	10,302	0	10,302
0	0	(1,576)	10,302	(53,407)	(44,681)	(1,835)	(46,516)
0	52,513	(1,576)	10,302	(53,407)	7,832	10,867	18,699
0	(21,428)	0	0	0	(21,428)	(8,818)	(30,246)
0	294	0	0	0	294	(12)	282
0	0	0	0	0	0	5,223	5,223
0	1,752	0	0	0	1,752	84	1,836
0	(19,382)	0	0	0	(19,382)	(3,523)	(22,905)
0	476,839	(11,737)	(5,065)	(41,556)	542,918	32,796	575,714

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	Jan–Dec 2016	Jan–Dec 2017
Result before income tax		93,213	88,519
Write-downs and impairments (+)/write-ups (–) of non-current assets		49,950	57,160
Gains (–)/losses (+) on the disposal of non-current assets	16, 21	50	3,713
Interest income (–)/interest expenses (+)	26	11,624	13,348
Income from companies reported at equity	31	(7,174)	(11,603)
Change in purchase price liabilities	47	(642)	(151)
Other non-cash income (–)/expenses (+)		378	15,836
Increase (–)/decrease (+) of assets		2,587	(68,138)
Increase (+)/decrease (–) of provisions		5,080	(5,888)
Increase (+)/decrease (–) of liabilities		(8,758)	23,862
Cash flows generated from operations		146,308	116,658
Interest received		1,976	912
Interest paid		(12,135)	(10,765)
Dividends received from companies reported at equity	31	3,565	5,153
Income tax paid		(30,135)	(19,980)
Cash flows from operating activities		109,579	91,978
Cash receipts from the sale of intangible assets and property, plant and equipment		1,761	10,512
Cash payments for the acquisition of intangible assets and property, plant and equipment		(73,668)	(82,187)
Cash payments for the acquisition of subsidiaries net of cash acquired*		(114,109)	(2,958)
Cash payments for the acquisition of companies reported at equity	31	(1,700)	(1,626)
Cash receipts from the disposal of other business units	16	0	12,337
Prepayments for the acquisition of subsidiaries	55	(2,663)	0
Cash receipts from the sale of securities		34	15
Cash payments for the acquisition of securities		(24)	(889)
Cash receipts from other assets		4,466	6,475
Cash payments for other assets		(1,761)	(363)
Cash flows from investing activities		(187,664)	(58,684)
Dividends to shareholders of PALFINGER AG	44	(14,551)	(21,428)
Dividends to non-controlling shareholders	46	(6,815)	(9,105)
Cash payments for the acquisition of non-controlling interests*	46, 47	(4,164)	(9,845)
Cash receipts from the sale of own shares	40	7,640	0
Cash receipts from non-controlling shareholders		256	0
Issue of promissory note loan	48	0	200,000
Loans for the acquisition of interests		100,000	60,000
Repayment of loans for acquisitions		(14,762)	(2,000)
Long-term refinancing of redemptions and maturing short-term loans		20,000	0
Repayment of maturing/terminated loans		(94,295)	(105,000)
Bridge financing loans for the acquisition of interests		90,000	0
Repayment of bridge financing loans for the acquisition of interests		0	(90,000)
Repayment of maturing/terminated leasing liabilities		0	(10,012)
Repayment of maturing/terminated promissory note loans		0	(13,000)
Repayment of current financing		0	(12,507)
Cash payments for/cash receipts from other financial liabilities	48	5,701	(11,935)
Cash flows from financing activities		89,010	(24,832)
Total cash flows		10,925	8,462

*See Scope of consolidation.

EUR thousand		2016	2017
Funds as at 1 Jan	39	21,551	33,922
Effects of foreign exchange differences		1,446	(2,628)
Total cash flows		10,925	8,462
Funds as at 31 Dec	39	33,922	39,756

OPERATING SEGMENTS

The Management Board of PALFINGER AG manages the Group in two application-related segments, LAND and SEA. This structure of the operating segments follows the strategy of the Management Board to build up the marine business as the Group's second mainstay, as well as the organizational and management structures in place, and separates the different customer industries, business models and industry-specific risks.

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, davits, boats, winches and offshore equipment, wind cranes, service as well as rope access. The marine business is to a very large extent characterized by global structures.

The SEA segment, with its extraordinarily strong, growing service business, is to become the Group's second mainstay. Services have gained strongly in importance since the acquisition of the Harding Group. The strategic aim pursued by PALFINGER in the SEA segment is to achieve a leading position in the marine market and to establish PALFINGER as an integrated marine deck equipment provider with its own service locations around the world. In the future, PALFINGER aims to be a one-stop shop for all maritime customer industries worldwide, supplying them with competitive and diversified products and services.

LAND SEGMENT

The LAND segment comprises business with lifting, loading and handling equipment for use on commercial vehicles (trucks and railways). The LAND segment comprises the following business areas:

- Business area EMEA
- Business area Americas
- Business area Asia and Pacific
- Business area CIS

The LAND segment comprises the business units Loader Cranes, Timber and Recycling Cranes, Tail Lifts, Access Platforms, Hooklifts and Skiploaders, Truck Mounted Forklifts, 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.

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 the region North America and in the marine business, EBIT has been normalized by restructuring costs (EBITn) to transparently reflect operating profitability. The Management Board now controls the segments on the basis of both financial indicators, EBIT and EBITn.

Current capital (on annual average) is composed of inventories and trade receivables on the assets side and trade payables and advances received on the liabilities side.

In principle, 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 the new internal reporting. The reconciliation statement can be found on page 134.

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) and income taxes are controlled uniformly for the entire Group rather than being allocated to the individual operating segments.

EUR thousand	LAND Jan–Dec 2016	SEA Jan–Dec 2016	HOLDING Jan–Dec 2016	Consolidation Jan–Dec 2016	Unallocated amounts Jan–Dec 2016	Total Jan–Dec 2016
External revenue	1,153,921	203,091	0	0	0	1,357,012
Intra-group revenue	11,649	5,387	0	(17,036)	0	0
Total revenue	1,165,570	208,478	0	(17,036)	0	1,357,012
Depreciation, amortization and impairment	(37,267)	(9,802)	(2,879)	0	0	(49,948)
thereof						
impairment	0	(1,269)	0	0	0	(1,269)
Income from companies reported at equity	7,174	0	0	0	0	7,174
EBIT	128,868	(3,210)	(19,558)	(51)	0	106,049
Restructuring costs	9,487	6,126	2,085	0	0	17,698
EBITn	138,355	2,917	(17,474)	(51)	0	123,747
Segment assets ¹⁾	1,034,433	463,398	286,637	(342,590)	93,969	1,535,847
thereof						
investments in companies reported at equity	171,871	0	0	0	0	171,871
current capital assets	373,447	125,676	0	0	(8,886)	490,237
Segment liabilities	402,564	205,715	74,796	(342,590)	615,942	956,427
thereof						
current capital liabilities	87,356	40,750	0	0	5,614	133,720
Investments in intangible assets and property, plant and equipment	61,495	10,853	3,562	0	0	75,910

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

EUR thousand	LAND	SEA	HOLDING	Consolidation	Unallocated amounts	Total
	Jan–Dec 2017	Jan–Dec 2017	Jan–Dec 2017	Jan–Dec 2017	Jan–Dec 2017	Jan–Dec 2017
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)	(12,572)	(3,190)	0	0	(57,160)
thereof						
impairment	(499)	(30)	0	0	0	(529)
Income from companies reported at equity	11,603	0	0	0	0	11,603
EBIT	147,469	(14,822)	(22,440)	(17)	0	110,190
Restructuring costs	13,346	5,470	678	0	0	19,494
EBITn	160,815	(9,352)	(21,762)	(17)	0	129,684
Segment assets	1,009,285	410,136	31,873	(1,941)	95,685	1,545,038
thereof						
investments in companies reported at equity	167,266	0	0	0	0	167,266
current capital assets	401,333	153,522	0	0	(9,647)	545,208
Segment liabilities	257,906	80,658	11,746	(1,941)	620,955	969,324
thereof						
current capital liabilities	98,584	49,644	0	0	6,538	154,766
Investments in intangible assets and property, plant and equipment	69,899	10,921	6,496	0	0	87,316

The reconciliation of EBIT to EBITn was as follows:

EUR thousand	2016			2017		
	LAND	SEA	HOLDING	LAND	SEA	HOLDING
EBIT	128,868	(3,210)	(19,558)	147,469	(14,822)	(22,440)
Restructuring costs						
Business model adjustments	6,264	0	0	7,130	0	0
Relocation/closure of sites, significant capacity adjustments	443	2,490	0	3,402	0	0
M&A and integration costs (and related projects)	2,296	3,637	2,084	2,814	5,470	678
Costs for one-off payments for termination of dealer relationships	484	0	0	0	0	0
EBITn	138,355	2,917	(17,474)	160,815	(9,352)	(21,762)

The following table shows revenue broken down by product group:

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Loader cranes	805,390	878,403
Hydraulic systems	551,622	592,672
Total	1,357,012	1,471,075

The product segment loader cranes is primarily composed of the products loader cranes, timber 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 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 2016 ¹⁾	31 Dec 2017
Intangible assets		
Germany	37,288	37,224
France	16,736	16,600
Austria	56,540	63,959
Netherlands	4,401	4,056
Norway	169,695	157,027
Other foreign countries	9,160	13,020
Romania	6,780	6,517
Russia	25,476	23,830
Spain	7,224	6,529
USA	21,386	17,434
United Arab Emirates	25,426	21,975
	380,112	368,171
Property, plant and equipment		
Brazil	12,103	9,711
Bulgaria	33,504	36,169
Germany	23,260	23,719
France	4,583	4,581
Austria	74,362	73,908
Canada	5,924	4,872
Korea	6,722	5,939
Norway	6,853	6,002
Other foreign countries	32,403	31,542
Romania	16,301	20,463
Russia	21,498	27,754
Slovenia	20,900	26,917
USA	53,901	40,529
	312,314	312,106
Investment property		
Germany	328	308
	328	308
Other non-current assets		
Argentina	0	118
Brazil	387	313
Denmark	0	76
Germany	95	76
France	903	72
India	64	58
Austria	816	493
Other foreign countries	478	203
Russia	49	80
Slovenia	2,663	0
USA	260	235
	5,715	1,724

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

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 2017 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 taken into account.

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 2017 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg, Austria. The consolidated financial statements for the year ended 31 December 2017 were released for submission to the Supervisory Board on 31 January 2018 by the Management 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 2017.

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 10 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.

The scope of consolidation, including PALFINGER AG as the parent company, is disclosed in the statement of investments on pages 206 to 209.

LIMITATIONS IN CONNECTION WITH INTERESTS IN SUBSIDIARIES

PALFINGER granted a pre-emptive right to Mr. Palfinger sen. in the event of the sale of Palfinger systems units GmbH or of all shares held by PALFINGER in the Megarme companies.

REORGANIZATIONS

These reorganizations did not have any impact on the scope of consolidation:

Starting in February 2017, the Norwegian participation structure was adjusted through mergers involving the companies Harding Holding I AS, Harding Holding II AS, Harding Safety Eiendom AS and Noreq Fender AS. Through this reorganization process, part of which was carried out in multiple stages, Palfinger Marine Safety AS became the legal successor to all of these companies. In a final step, Palfinger Harding Holding AS was merged into Palfinger Marine Safety AS in April 2017.

In September 2017, Palfinger North America GmbH was merged into Palfinger South America GmbH with effect as of 31 December 2016; the latter was then renamed Palfinger Americas GmbH.

In September 2017, all shares in Harding Safety Italy Srl were transferred from Harding Safety Spain SL to Palfinger Marine Safety AS.

In December 2017, Harding Safety Singapore PTE Ltd. and Noreq PTE. LTD were both merged into Palfinger Asia Pacific Pte. Ltd.

ACQUISITIONS IN 2017

The closing of PALFINGER's acquisition of 20 per cent of the shares in Sky Steel Systems LLC took place on 3 January 2017. In addition, a call option was agreed upon, entitling PALFINGER to acquire another 29 per cent in Sky Steel Systems effective 31 December 2019. The call option, which has a variable structure, is based on the average earnings before interest and taxes recorded in the previous three years. Sky Steel Systems produces facade access equipment, which is primarily used to maintain and clean the facades of high-rise buildings. PALFINGER's Railway Systems business unit has already been engaged in the business of maintenance of infrastructure and buildings, and the Group expects numerous synergies in this field. The company is included in the scope of consolidation at equity as an associated company.

At the end of January 2017, PALFINGER acquired 100 per cent of the shares in its Danish dealer, Palfinger Danmark AS. Since then, the previous owner has focused on its core business. PALFINGER took over all the staff and has kept the entire sales and service network in operation under the direction of the company's established management team. The acquisition ensures a long-term, stable ownership structure in a market of strategic importance for PALFINGER. Palfinger Danmark was a general importer and dealer of PALFINGER for more than 20 years. It employs around 20 staff members at two locations and distributes primarily truck mounted loader cranes, timber and recycling cranes, and hooklifts and skiploaders. Denmark is a highly developed market for lifting and loading equipment and is expected to continue recording stable growth rates.

On 31 January 2017, PALFINGER acquired 100 per cent of the shares in Capital Investment d.o.o. The seller was Capital Investment GmbH, a company belonging to the private foundation Palfinger Privatstiftung. The acquired company is the owner of a property at the Maribor site that is being rented by the PALFINGER Group, and has no business operations apart from that. A prepayment of EUR 2,663 thousand on the purchase price was already made in 2016. At the beginning of October 2017, the company was merged into PALFINGER proizvodnja d.o.o.

PALFINGER has held an at-equity interest of 30 per cent in the Argentinian company Andrés N. Bertotto S.A.I.C. (Hidro-Grubert) since 2014. Hidro-Grubert produces access platforms, hydraulic knuckle boom cranes and truck bodies. As PALFINGER was granted a call option for another 40 per cent in the company, exercisable any time between 2017 and 2019, there is currently the ability of PALFINGER to exercise control over Hidro-Grubert. Therefore, the company has been fully consolidated since 1 January 2017. The call option, which has a variable structure, is based on the average earnings before interest and taxes recorded in the previous three years.

The fair value measurement of the 30 per cent interest held so far, carried out in the course of the initial consolidation, resulted in proceeds of EUR 1,218 thousand reported under income from companies reported at equity.

In November, Palfinger Marine Safety AS acquired 100 per cent of the shares in Heron Davit AS. The target company is engaged in the development of a new generation of davit cranes and possesses the required know-how; it has no other operations. In 2017, EUR 626 thousand of the total purchase price of EUR 2,086 thousand was paid. The transaction was not an acquisition pursuant to IFRS 3.

At the time of acquisition, the preliminary purchase price allocation for the acquisitions was made on the basis of the estimated fair values as follows:

EUR thousand	Sky Steel Systems LLC ¹⁾	Palfinger Danmark AS	Capital Investment d.o.o. ²⁾	Hidro-Grubert	Heron Davits AS ²⁾
Purchase price paid in cash	1,626	3,585	2,818	0	626
Purchase price not yet fallen due	0	0	0	0	1,460
Fair value of interests already held	0	0	0	4,453	0
Pro-rata net assets of non-controlling interests	0	0	0	5,223	0
Subtotal	1,626	3,585	2,818	9,676	2,086
Net assets	(29)	(2,472)	(2,818)	(7,460)	(2,086)
Goodwill	1,597	1,113	0	2,216	0

1) As an associated company, Sky Steel Systems LLC is consolidated according to the equity method. The net assets stated correspond to 20 per cent of the net assets.
 2) No acquisitions pursuant to IFRS 3.

The goodwill arising from the acquisition of Sky Steel Systems LLC primarily reflects the benefits expected from synergies and potential arising from the field of infrastructure and building maintenance, and from the market access. The goodwill arising from the acquisitions of Palfinger Danmark AS and Hidro-Grubert primarily reflects the potential arising from market expansion in Denmark and Argentina, respectively, and from staff know-how. The goodwill generated cannot be used for tax purposes.

EUR thousand	Palfinger Danmark AS	Capital Investment d.o.o.	Hidro-Grubert
Non-current assets			
Intangible assets	1,618	0	2,740
Property, plant and equipment	191	2,638	3,059
Deferred tax assets	20	0	169
Other non-current assets	2	0	0
	1,831	2,638	5,968
Current assets			
Inventories	795	0	4,465
Trade receivables	1,842	30	2,512
Other current receivables and assets	31	3	1,470
Income tax receivables	0	0	730
Cash and cash equivalents	377	155	251
	3,045	188	9,428
Non-current liabilities			
Non-current financial liabilities	76	0	75
Deferred tax liabilities	273	0	1,515
	349	0	1,590
Current liabilities			
Current financial liabilities	26	0	38
Current provisions	115	0	409
Income tax liabilities	136	3	870
Trade payables and other current liabilities	1,778	5	5,029
	2,055	8	6,346
Net assets	2,472	2,818	7,460

The trade receivables taken over have a gross value of EUR 4,565 thousand (Palfinger Danmark AS: EUR 1,892 thousand, Capital Investment d.o.o.: EUR 30 thousand, Hidro-Grubert: EUR 2,643 thousand). The total impairment loss for probable bad debt is EUR 181 thousand (Palfinger Danmark AS: EUR 50 thousand, Hidro-Grubert: EUR 131 thousand).

Net cash flows from the acquisitions were as follows:

EUR thousand	Palfinger Danmark AS	Capital Investment d.o.o.	Hidro-Grubert
Cash flows from operating activities			
Transaction costs	(77)	0	0
Cash flows from investing activities			
Purchase price paid in cash	(3,585)	(2,818)	0
Cash and cash equivalents	377	155	251
Net cash flows from the acquisitions	(3,285)	(2,663)	251

Since the initial consolidation, the acquisitions have added EUR 30,422 thousand (Palfinger Danmark AS: EUR 17,337 thousand, Hidro-Grubert: EUR 13,085 thousand) to the consolidated revenue of PALFINGER AG and EUR 362 thousand (Palfinger Danmark AS: –EUR 57 thousand, Hidro-Grubert: EUR 319 thousand, Capital Investment d.o.o.: EUR 100 thousand) to the consolidated net result for the period.

The consolidated net result for the period would not have been materially different if all acquisitions had been made with effect from 1 January 2017.

NON-CONTROLLING INTERESTS

In December 2016, the remaining 30 per cent in the Megarme Group, Middle East, were acquired from the previous non-controlling shareholder at a price of EUR 9,845 thousand as the non-controlling shareholder had exercised its put option to sell the shares. The purchase price was paid in January 2017. See also Notes (47) and (53).

In November, Palfinger S. Units GmbH, on the basis of the joint venture agreement signed in February 2013, sold 3 per cent of the shares in Palfinger Platforms Italy S.r.l. to the co-shareholder Sky Access Srl for EUR 1.5 thousand.

ACQUISITIONS IN 2016

In 2016, the acquisitions of the Harding Group and the MYCSA Group were carried out. For details see the Annual Report 2016. The purchase price allocation was made on the basis of the preliminarily estimated fair values. The amounts stated for the acquired net assets of MYCSA remained unchanged.

The amounts stated for the acquired net assets resulting from the acquisition of the Harding Group were readjusted in the first half of 2017, i.e. within the measurement period of 12 months from the date of acquisition. An adjustment of the fair value of intangible assets (software) in the amount of –EUR 1,955 thousand was made.

EUR thousand	Preliminary	Final
Purchase price paid in cash	115,032	115,032
Subtotal	115,032	115,032
Net assets	(12,934)	(11,468)
Goodwill	102,098	103,564

EUR thousand	Preliminary fair value	Adjustments in 2017	Final fair value
Non-current assets			
Intangible assets	44,082	(1,955)	42,127
Property, plant and equipment	15,934	0	15,934
Deferred tax assets	4,177	0	4,177
Other non-current assets	269	0	269
	64,462	(1,955)	62,507
Current assets			
Inventories	13,295	0	13,295
Trade receivables	43,217	0	43,217
Other current receivables and assets	10,765	0	10,765
Income tax receivables	95	0	95
Cash and cash equivalents	4,636	0	4,636
	72,008	0	72,008
Non-current liabilities			
Non-current financial liabilities	56,144	0	56,144
Non-current provisions	1,513	0	1,513
Deferred tax liabilities	10,425	(489)	9,936
	68,082	(489)	67,593
Current liabilities			
Current financial liabilities	14,713	0	14,713
Current provisions	583	0	583
Income tax liabilities	2,046	0	2,046
Trade payables and other current liabilities	38,112	0	38,112
	55,454	0	55,454
Net assets	12,934	(1,466)	11,468

See Integrated Annual Report 2016, pp. 127-129, for information on the adjustments made in 2016.

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 on a straight-line basis 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 operation. Exchange rate differences arising on such monetary items are recognized directly in other comprehensive income. Upon disposal of the net investment, such exchange differences are reclassified from equity to profit or loss.

The following exchange rates are of particular importance for the consolidated financial statements:

1 euro equals	Exchange rate		Average exchange rate	
	31 Dec 2016	31 Dec 2017	Jan–Dec 2016	Jan–Dec 2017
BRL	3.4305	3.9729	3.8571	3.6271
CAD	1.4188	1.5039	1.4630	1.4684
GBP	0.8562	0.8872	0.8159	0.8742
NOK	9.0863	9.8403	9.2888	9.3497
RMB	7.3202	7.8044	7.3199	7.6299
RUB	64.3000	69.3920	73.8756	66.0349
USD	1.0541	1.1993	1.1021	1.1307

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 2017 financial year. IAS 7 requires additional disclosures on changes in liabilities from financing activities. The remaining standards were of no relevance for the consolidated financial statements of PALFINGER AG.

Standards/interpretations	Mandatory application in the EU	Endorsement status
IAS 7 Disclosure Initiative (published in January 2016)	1 January 2017	endorsed in November 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (published in January 2016)	1 January 2017	endorsed in November 2017
Improvements to IFRS (2014-2016) IFRS 12 Disclosure of Interests in Other Entities (published in December 2016)	1 January 2017	n/a

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. For this reason, they are not relevant for these consolidated financial statements:

Standards/interpretations	Mandatory application
IAS 40 Transfers of Investment Property (published in December 2016)	1 January 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions (published in June 2016)	1 January 2018
IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (published in September 2016)	1 January 2018
IFRS 9 Financial Instruments (published in July 2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers (published in May 2014)	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration (published in December 2016)	1 January 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers (published in April 2016)	1 January 2018
Improvements to IFRS (2014-2016) IFRS 1 First-time Adoption of IFRS (published in December 2016)	1 January 2018
Improvements to IFRS (2014-2016) IFRS 28 Investments in Associates and Joint Ventures (published in December 2016)	1 January 2018
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
IFRS 17 Insurance Contracts (published in May 2017)	1 January 2021
IFRS 10/IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published in September 2014)	n/a

It is currently not planned to apply the above standards ahead of time.

PALFINGER has to apply IFRS 15 and IFRS 9 for the first time as of 1 January 2018. The PALFINGER Group has made a preliminary assessment of the expected effects of the adoption of IFRS 15 and IFRS 9 on the consolidated financial statements. The actual effects from the initial application of these standards may, however, still change and will be reported on in the interim financial information as at 31 March 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 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 will apply the new standard for the first time as of 1 January 2018. PALFINGER plans to use the modified retrospective approach, meaning that IFRS 15 will only be applied starting from the 2018 financial year. The accumulated effect of

the first-time application will be 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 will be applied to contracts that were not yet complete on 1 January 2018.

The PALFINGER Group has made an assessment of the effects of the application of IFRS 15 on the consolidated financial statements.

Sale of products

At present, revenue from the sale of serially produced goods is recognized when the related risks and rewards of ownership are transferred in accordance with the terms and conditions of delivery. The 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.

According to IFRS 15, revenue is recognized when control of the goods is transferred to the customer. No major changes in revenue recognition are expected to result for regular cases of selling 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 will not result in any major changes of the consolidated financial statements.

Therefore, the first-time application of IFRS 15 will not result in any changes regarding the sale of serial products as of 1 January 2018.

Contract manufacturing and rendering of services

In the project business, revenue from customized manufacturing orders is currently 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 are expected to 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. PALFINGER's project business comprises projects in the field of railway systems in the EMEA area and projects in the fields of offshore cranes, winches, boats and marine and wind cranes in the Marine area.

Certain contracts do not meet the "right to payment" criterion. In these cases, revenue will only be recognized upon the transfer of control to the customers. Therefore, the first-time application of IFRS 15 will result in a reduction of retained earnings as at 1 January 2018 in the amount of EUR 1,231 thousand.

The current wind crane projects in the Marine area do not meet the "no alternative use" criterion. However, given that there are no such contracts outstanding as at year end, the first-time application of IFRS 15 as at 1 January 2018 will have no effect.

Pursuant to IFRS 15 in conjunction with IAS 37, expected losses resulting from a contract must be recognized immediately as a provision for onerous contracts pursuant to IAS 37.66. Currently, imminent losses are recorded under accounts receivable. Therefore, the first-time application of IFRS 15 will result in an increase of EUR 3,729 thousand in trade receivables and other provisions. Retained earnings will not change.

Contracts for the provision of long-term services are currently recognized in accordance with the percentage 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 will 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 will be effective for financial years beginning on or after 1 January 2018. PALFINGER will apply the new IFRS 9 standard for the first time as of 1 January 2018.

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). PALFINGER takes the view that the 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 instruments classified as available-for-sale and held for the long term in the amount of EUR 1,608 thousand. Under IFRS 9, these instruments are classified as FVOCI. Therefore, all material fair value gains and losses are recognized under other comprehensive income and will not be reclassified to the income statement in the future.

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. According to IFRS 9, either the 12-month expected credit losses, i.e. the expected credit losses that result from default events that are possible within the next 12 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, as well as to trade receivables without a significant financing component.

At present, trade receivables are measured by means of standardized bad-debt allowances, using a country-specific measurement matrix that takes into account the days overdue and the country risk on the basis of an external rating and, if an indicator is present, by means of specific bad-debt allowances. In the course of the analysis regarding IFRS 9, the current measurement matrix was adjusted on the basis of the results of an analysis of historical data and the assessment of future developments. The first-time application of IFRS 9 will result in an insignificant reversal of the standardized bad-debt allowance and in an increase in retained earnings of up to EUR 500 thousand as at 1 January 2018.

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 loss as at 1 January 2018 is considered to be negligible. Therefore, the first-time application of IFRS 9 will 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 will be no transition effects as at 1 January 2018 and no material effects of the first-time application of IFRS 9 are expected.

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 begun a first assessment of the potential consequences for the consolidated financial statements. So far, it has shown that the most significant effect on the consolidated financial statements will be the new capitalization of assets and

liabilities for operating leases and rentals of office, production and warehouse facilities, which will result in a significant increase in total assets and an increase in net debt at the time of initial application. The type of expenses incurred in connection with these leases and rentals will also change, 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. 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.

The future obligations under operating lease contracts are disclosed in the explanations regarding other liabilities and risks on page 196. As this disclosure of obligations is limited to non-cancellable operating lease periods, the effect from the initial application of IFRS 16 will probably be higher.

PALFINGER currently intends to apply IFRS 16 from 1 January 2019 onwards. It is likely that the modified retrospective approach 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 either at the value that would have resulted from retrospective accounting or at the amount of the recognized lease liability. If this method is selected, the lessee will be obligated to make additional disclosures in the notes.

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 allocation

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. Further details on the acquisitions made in 2017 are provided on page 139.

(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 these 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 economic and market environment of businesses partnering with SANY is marked by the changes experienced by the Chinese economy, which has no longer been able to record double-digit growth rates in recent years. The assumptions made for the purpose of identifying a triggering event for impairment were based on the underlying assumption that the Chinese construction machinery market, in particular, would stabilize in the years to come and growth would be possible again. In recent years, the Chinese market for cranes has been characterized by strong consolidation. A slump in the market in 2012 was followed by several years with annual reductions in volume of around 20 per cent. In 2016, the first increase was achieved, and in 2017 the market posted strong growth compared to the previous year. PALFINGER is proceeding on the assumption that this high level will be upheld and that the total demand will continue to grow in the years to come. In addition, PALFINGER expects its shares in the market for truck and crawler cranes to grow as a consequence of competitors leaving the market, as well as due to PALFINGER's strategy of internationalization and diversification. Moreover, demand for mobile cranes and crawler cranes has shown an increasingly positive development in the sales regions of Palfinger Sany International Mobile Cranes Sales. For these reasons, there is currently no indication of an impairment. Therefore, in accordance with IFRS, there was no need to perform an impairment test. 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 experience regarding 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 are presented in Note (36) Trade receivables. 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 this estimate of total costs may deviate from the actual costs incurred. Further details on revenue generated from contract manufacturing and the rendering of services are available in Note (15) Revenue and Note (36) Trade receivables.

(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 capitalized, 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) 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 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 (54).

(12) Non-current purchase price liabilities from acquisitions

The item non-current purchase price liabilities from corporate 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 (54).

(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 (54) Financial instruments.

(14) Changes in estimates

No major changes in estimates were made in the 2017 financial year.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(15) Revenue

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
European Union	685,922	747,680
Far East	119,972	120,997
CIS	83,447	107,022
Central and South America	33,675	48,818
Middle East and Africa	53,569	58,942
North America	296,470	298,162
Rest of Europe	83,957	89,454
Total	1,357,012	1,471,075

The classification by geographical area is governed by the customer's registered office. In Austria, PALFINGER's country of origin, revenue of EUR 67,608 thousand (previous year: EUR 68,674 thousand) was achieved.

Revenue recorded in the European Union increased primarily in France, Spain and Croatia. The increase achieved in the Rest of Europe chiefly relates to the LAND segment in Turkey. Revenue in Central and South America rose primarily due to the full consolidation of Hidro-Grubert. Thanks to PALFINGER's consistent implementation of its internationalization strategy, revenue generated outside Europe has been rising constantly. In North America and CIS, PALFINGER managed to increase revenue.

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Revenue invoiced	1,223,243	1,334,087
Revenue from contract manufacturing and rendering of services	133,769	136,988
Total	1,357,012	1,471,075

Revenue from contract manufacturing rose primarily in the SEA segment. Revenue arising from the rendering of services came from Megarme and 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 2016	Jan–Dec 2017
Income from the disposal of intangible assets and property, plant and equipment	232	845
Income from charges for services	2,828	3,011
Exchange rate differences	3,907	7,370
Insurance income	213	947
Rental income	429	348
Income from other grants	221	1,248
Income from disposal of business units	0	2,630
Miscellaneous other operating income	5,228	6,784
Total	13,058	23,183

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. The contract for the transaction was closed at the end of March, resulting in other operating income of EUR 2.6 million.

Income from charges for services mostly resulted from the provision of after-sales services and guarantee services.

For details on exchange rate differences, see Note (54) Financial instruments, item 3 Foreign exchange risk.

(17) Cost of sales

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Changes in inventories and own work capitalized	(7,297)	2,952
Materials and external services	(667,904)	(733,448)
Employee benefits expenses	(225,184)	(250,726)
Depreciation, amortization and impairment	(35,457)	(39,710)
Outgoing freight costs	(18,785)	(19,710)
Guarantees and warranties	(11,736)	(12,404)
Repairs and maintenance	(11,269)	(12,514)
Rentals and leases	(7,856)	(8,219)
Commissions	(4,263)	(3,911)
Temporary workers and other third-party services	(9,354)	(9,920)
Energy infrastructure	(5,979)	(6,660)
Travel expenses	(5,870)	(5,525)
Vehicle fleet	(3,116)	(3,201)
Consultancy services	(2,187)	(1,825)
Miscellaneous other expenses	(6,767)	(7,284)
Total	(1,023,024)	(1,112,105)

Cost of sales increased slightly more than revenue, which is why the gross profit margin went down from 24.6 per cent to 24.4 per cent.

(18) Research and development costs

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Changes in inventories and own work capitalized	12,746	15,182
Materials and external services	(2,976)	(3,905)
Employee benefits expenses	(30,846)	(33,574)
Depreciation, amortization and impairment	(873)	(1,445)
Income from research grants	2,008	2,263
Consultancy services	(2,303)	(2,465)
Temporary workers and other third-party services	(1,452)	(2,259)
Travel expenses	(915)	(1,048)
Miscellaneous other expenses	(2,051)	(2,118)
Total	(26,662)	(29,369)

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 8,555 thousand (previous year: EUR: 6,203 thousand) is reported under cost of sale. Therefore, total research and development expenses came to EUR 37,924 thousand (previous year: EUR 32,865 thousand).

(19) Distribution costs

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Changes in inventories and own work capitalized	(74)	(26)
Materials and external services	(1,178)	(741)
Employee benefits expenses	(58,721)	(66,120)
Depreciation, amortization and impairment	(6,685)	(9,503)
Advertising, representation and market costs	(10,403)	(9,862)
Travel expenses	(7,168)	(7,587)
Temporary workers and other third-party services	(1,350)	(1,027)
Vehicle fleet	(2,780)	(3,258)
Transport costs	(1,707)	(2,088)
Consultancy services	(1,786)	(1,767)
Office and IT expenses	(1,757)	(1,782)
Miscellaneous other expenses	(3,759)	(4,892)
Total	(97,368)	(108,653)

(20) Administrative costs

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Changes in inventories and own work capitalized	(2)	973
Materials and external services	(100)	(57)
Employee benefits expenses	(63,501)	(69,694)
Depreciation, amortization and impairment	(6,932)	(6,503)
Consultancy services	(10,268)	(11,262)
Temporary workers and other third-party services	(6,184)	(6,897)
Office and IT expenses	(5,589)	(7,082)
Travel expenses	(4,106)	(4,178)
Vehicle fleet	(2,799)	(2,772)
Advertising, representation and market costs	(1,978)	(2,609)
Rentals and leases	(4,352)	(3,970)
Taxes other than those on income	(2,093)	(2,592)
Insurance	(2,530)	(3,001)
Repair and maintenance	(1,586)	(1,765)
Bank charges	(1,069)	(1,177)
Miscellaneous other expenses	(307)	(605)
Total	(113,396)	(123,191)

FEES CHARGED BY THE AUDITOR

For services provided in the 2017 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 2016	Jan–Dec 2017
Audit of the consolidated financial statements and related certification services (including reviews)	(1,063)	(1,109)
of which Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.	(315)	(257)
Tax advice	(128)	(267)
Other services	(35)	(14)
Total	(1,226)	(1,390)

(21) Other operating expenses

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Losses on the disposal of intangible assets and property, plant and equipment	(322)	(4,535)
Losses on bad debt and impairment losses	(942)	(2,552)
Exchange rate differences	(2,837)	(9,048)
Damage costs	(713)	(444)
Expenses in connection with other income	(947)	(995)
Allocation default reserve from factoring	(272)	0
Allocation provision for legal disputes	(22)	(229)
Contractual penalty	(451)	(97)
Miscellaneous other operating expenses	(4,239)	(4,453)
Total	(10,745)	(22,353)

In the fourth quarter of 2017, the company aircraft was sold. The loss on this sale was EUR 1,751 thousand (see also Note (54) on page 196).

(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 2016	Jan–Dec 2017
Share in the net result for the period	7,174	10,385
Income from revaluation of shares due to the full consolidation	0	1,218
Total	7,174	11,603

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, resulted in proceeds of EUR 1,218 thousand reported under income from companies reported at equity.

(23) Materials and external services

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Cost of materials	(622,952)	(683,240)
Cost of external services	(49,206)	(54,911)
Total	(672,158)	(738,151)

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 2016	Jan–Dec 2017
Wages and salaries	(291,854)	(325,662)
Expenses for severance payments	(4,152)	(4,206)
Pension expenses	(3,579)	(4,536)
Expenses for statutory social security contributions and other pay-related contributions	(60,705)	(65,762)
Other employee benefits	(17,962)	(19,948)
Total	(378,252)	(420,114)

Expenses for severance payments include payments made under defined contribution plans in the amount of EUR 994 thousand (previous year: EUR 1,515 thousand) which, in turn, include payments made to external severance pay funds for employees, totalling EUR 994 thousand (previous year: EUR 813 thousand).

Pension expenses include expenses under defined contribution plans amounting to EUR 3,830 thousand (previous year: EUR 3,224 thousand).

(25) Depreciation, amortization and impairment expenses

EUR thousand	Jan–Dec 2016	Jan–Dec 2017
Depreciation and amortization	(48,679)	(56,631)
Impairment	(1,269)	(529)
Total	(49,948)	(57,160)

The development of depreciation, amortization and impairment is discussed in detail in Note (28) Intangible assets, Note (29) Property, plant and equipment and Note (30) Investment property.

The impairment recorded in 2017 refers primarily to an impairment loss recorded for a service crane in the USA.

The impairment recorded in 2016 refers to assets under construction in the Netherlands, construction of which was discontinued in the course of the restructuring measures implemented in the marine business. The plot of land included in these assets was reported as non-current assets held for sale in 2016 and was sold in 2017. See Note (29).

(26) Interest result and other financial result

The following table shows the item interest result and other financial result:

Jan–Dec 2016

Financial instruments acc. to IAS 39

EUR thousand	Total	Loans and receivables	Financial liabilities at amortized cost
Interest income	2,387	2,039	0
Interest expenses from financial liabilities	(11,824)	0	(11,587)
Other interest expenses	(2,187)	0	0
Interest result	(11,624)	2,039	(11,587)
Valuation of financial liabilities	642	0	0
Income from the disposal of financial assets	35	0	0
Loss from the disposal of financial assets	(3)	0	0
Write-up of financial assets	1	0	0
Impairment of financial assets	(3)	0	0
Exchange rate differences	(1,884)	(1,838)	0
Net result	(1,212)	(1,838)	0
Net financial result	(12,836)	201	(11,587)

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)

For details on exchange rate differences of the net financial result, please see page 192.

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	348	0	0	0
0	0	0	0	(237)
0	0	(1,241)	(946)	0
0	348	(1,241)	(946)	(237)
0	0	642	0	0
35	0	0	0	0
(3)	0	0	0	0
1	0	0	0	0
(3)	0	0	0	0
0	421	(467)	0	0
30	421	175	0	0
30	769	(1,066)	(946)	(237)

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)

(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 2016	Jan–Dec 2017
Effective tax expense (–)/income (+)	(21,926)	(29,484)
thereof from previous years	1,088	30
thereof from the use of tax-loss carry forwards so far not used	325	483
Deferred tax expense (–)/income (+)	(2,005)	6,180
thereof from the recognition of tax-loss carry forwards from previous years	1,216	483
thereof due to tax rate changes	407	921
thereof from the adjustment of tax-loss carry forwards	(115)	(209)
Total	(23,931)	(23,304)

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 2016	Jan–Dec 2017
Result before income tax	93,213	88,519
Tax rate payable by the Group	25.0%	25.0%
Book income tax expense	23,303	22,130
Adjustment to foreign tax rates	(917)	345
Tax-reducing factors		
Research and education allowances	(424)	(572)
Investment grants	(378)	(581)
Tax rate changes	(621)	(976)
Tax-free income from investments measured at equity	(1,794)	(2,901)
Reversal of non-taxable provisions	(44)	(109)
Other income not subject to tax	(580)	(2,041)
Recognition and use of loss carry forwards from previous years	(1,216)	(896)
Income tax from previous years	(1,862)	(1,818)
Reversal of impairment of deferred taxes	(50)	0
Valuation of investments and intra-group valuation of receivables	(1,305)	(4,052)
	(8,274)	(13,946)
Tax-increasing factors		
Tax rate changes	112	1,723
Non-capitalized loss carry forwards	3,447	4,484
Impairment of loss carry forwards	115	209
Non-tax-deductible expenses	2,463	5,220
Minimum taxes	134	85
Income tax from previous years	1,932	1,625
Non-deductible withholding taxes	556	577
Consolidation effects	225	225
Other tax-increasing factors	835	606
Impairment of deferred taxes	0	21
	9,819	14,775
Income tax expense	23,931	23,304

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 2016	127,330
Corporate acquisitions	105,768
Additions	0
Disposals	0
Reclassifications	0
Foreign currency translation	7,684
As at 31 Dec 2016	240,782
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
Accumulated depreciation and impairment	
As at 1 Jan 2016	0
Corporate acquisitions	0
Amortization	0
Disposals	0
Reclassifications	0
Foreign currency translation	2
As at 31 Dec 2016	2
As at 1 Jan 2017	2
Corporate acquisitions	0
Amortization	0
Disposals	0
Foreign currency translation	(4)
As at 31 Dec 2017	(2)
Carrying amounts as at 31 Dec 2016	240,780
Carrying amounts as at 31 Dec 2017	229,993

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

Intangible assets with indefinite useful lives	Development expenditure	Brands, customer base and order backlog	Other intangible assets ¹⁾	Prepayments	Total
28,192	48,478	60,075	19,575	34	283,684
0	23,737	25,744	5,414	0	160,663
0	13,186	0	1,444	71	14,701
0	(332)	0	(38)	(30)	(400)
0	203	0	(567)	(30)	(394)
1,352	994	519	460	1	11,010
29,544	86,266	86,338	26,288	46	469,264
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
0	14,988	39,663	14,615	0	69,269
0	6,135	0	950	0	7,085
0	6,203	4,987	2,203	0	13,393
0	(257)	0	(41)	0	(298)
0	25	0	(66)	0	(41)
0	283	(868)	327	0	(256)
0	27,377	43,782	17,988	0	89,152
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	(613)	0	(460)	0	(1,073)
0	(1,075)	(2,618)	(511)	0	(4,208)
0	34,244	48,136	19,285	0	101,666
29,544	58,889	42,556	8,300	46	380,112
27,879	65,611	36,130	8,539	22	368,171

GOODWILL

Reported goodwill resulting from business combinations pertains to the following cash-generating units:

EUR thousand	31 Dec 2016 ¹⁾	31 Dec 2017
Business area EMEA cash-generating unit	47,917	48,881
Business area Marine cash-generating unit	167,685	156,523
Business area CIS cash-generating unit	17,028	15,778
Business area Americas cash-generating unit	8,150	8,811
Total	240,780	229,993

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

ETI used to be a separate CGU. At the end of 2017, the business area Americas underwent reorganization. Henceforth, goodwill of ETI will be managed and monitored at the level of the Americas CGU. Therefore, goodwill had to be reallocated. The integration of ETI continues to progress, and such integration is part of the strategy pursued by the Management Board. In the future, management as well as the distribution and service policy will be performed jointly at the level of the Americas area.

INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Intangible assets with indefinite useful lives result from business combinations and are as follows:

EUR thousand	31 Dec 2016	31 Dec 2017
Business area EMEA		
MBB brand	5,840	5,840
Nimet brand	4,950	4,823
Business area Marine		
Megarme brand	6,223	5,496
Business area Americas		
OMAHA STANDARD brand	2,103	1,848
American Roll-off brand	654	575
ETI brand	5,403	4,748
Hidro-Grubert brand	0	498
Business area CIS		
INMAN brand	1,769	1,640
Velmarsh brand	2,602	2,411
Total	29,544	27,879

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.

After subjecting the intangible assets with indefinite useful lives to impairment tests, no need for impairment was found.

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 five years. Subsequently, the cash flows are extrapolated using a growth rate. The growth rates used in 2017 were 0.9 per cent for the business area EMEA CGU, 0.9 per cent for the business area Marine CGU, 2 per cent for the business area CIS CGU, and 1.5 per cent for the business area Americas CGU. In the previous year, the cash flows were extrapolated at a constant rate. The cash flow forecasts are based on the strategic corporate planning for the years 2018 to 2022 carried out at the end of 2017 and approved by the Management Board and the Supervisory Board.

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:

in per cent	Pre-tax discount rate	
	2016	2017
Business area EMEA cash-generating unit	8.1	10.4
Business area Marine cash-generating unit	8.7	10.5
Business area Americas cash-generating unit	10.7 or 11.6	14.1
Business area CIS cash-generating unit	16.6	17.1

A sensitivity analysis has found that even if the discount factor increases by 1 percentage point, the carrying amounts in the CGUs EMEA, Americas and CIS will still be covered, and that there will be no need for impairment. In the Marine CGU, a need for impairment would arise if the discount factor increased by more than 0.84 percentage points.

The sensitivity analysis also determined that if the EBITs for the years 2018 to 2022 decrease by 10 per cent, provided that all other parameters remain unchanged, the carrying amounts in the CGUs EMEA, Americas and CIS will still be covered and there will be no need for impairment. In the Marine CGU, a need for impairment would arise if the EBITs for the years 2018 to 2022 decreased by 8.1 percentage points.

The recoverable amount exceeds the carrying amount in the Marine CGU by EUR 28 million.

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 2017 financial year, PALFINGER capitalized development expenditure of EUR 15,132 thousand (previous year: EUR 13,186 thousand) as internally generated intangible assets.

In the course of the acquisition of Heron Davits AS, development services in the amount of EUR 2,032 thousand were purchased (see also the explanations on the acquisitions in 2017).

BRANDS, CUSTOMER BASE AND ORDER BACKLOG

In the course of the purchase price allocation for the acquisition of Palfinger Danmark and the initial consolidation of Hidro-Grubert, EUR 2,913 thousand was capitalized for customer base and EUR 775 thousand for order backlog.

In the 2017 financial year, EUR 5,766 thousand (previous year: EUR 3,900 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 2016 **192,528**

Corporate acquisitions 19,759

Additions 5,711

Investment grants 0

Disposals (1,544)

Reclassifications 1,659

Reclassifications held for sale 0

Foreign currency translation 5,707

As at 31 Dec 2016 **223,820**

As at 1 Jan 2017 **223,820**

Corporate acquisitions and disposals (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**

Accumulated depreciation and impairment

As at 1 Jan 2016 **52,481**

Corporate acquisitions 9,233

Depreciation 6,756

Impairment 6

Reversal of impairment losses 0

Disposals (1,066)

Reclassifications (206)

Foreign currency translation 1,466

As at 31 Dec 2016 **68,670**

As at 1 Jan 2017 **68,670**

Corporate acquisitions and disposals (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**

Carrying amounts as at 31 Dec 2016 **155,150**

Carrying amounts as at 31 Dec 2017 **152,897**

Undeveloped land	Plant and machinery	Other plant, fixtures, fittings and equipment	Prepayments and assets under construction	Total
2,014	190,030	99,767	12,764	497,103
0	7,858	7,156	0	34,773
0	16,177	13,323	26,000	61,211
0	95	28	0	123
0	(5,747)	(8,416)	(13)	(15,720)
0	10,824	1,284	(13,373)	394
0	0	0	(1,893)	(1,893)
18	5,987	2,346	681	14,739
2,032	225,224	115,488	24,166	590,730
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
(302)	121,324	54,818	0	228,321
0	4,658	4,822	0	18,713
21	16,646	11,849	0	35,272
5	0	2	1,256	1,269
0	(3)	0	0	(3)
0	(4,759)	(5,447)	0	(11,272)
0	177	70	0	41
(9)	3,236	1,382	0	6,075
(285)	141,279	67,496	1,256	278,416
(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
2,317	83,945	47,992	22,910	312,314
2,198	80,428	43,871	32,712	312,106

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 29,454 thousand (previous year: EUR 31,174 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 29,783 thousand (previous year: EUR 21,605 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 m², 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.

As was the case in the previous year, no borrowing costs on qualifying assets were capitalized in the reporting period.

In the 2017 financial year, no government grants (previous year: EUR 123 thousand) were taken into account as reductions of acquisition and/or manufacturing costs in accordance with IAS 20.

As at 31 December 2017, no property, plant and equipment (previous year: EUR 916 thousand) was pledged as collateral for liabilities.

In 2016, non-current assets held for sale in the amount of EUR 1,893 thousand referred to a plot of land in the SEA segment that was sold in 2017. The property was measured at the agreed purchase price less costs to sell. In 2016, an impairment loss was recorded for the related assets under construction (see Note [25]).

(30) Investment property

As at 31 December 2017, investment property included acquisition costs totalling EUR 832 thousand (previous year: EUR 832 thousand) and had a carrying amount of EUR 308 thousand (previous year: EUR 328 thousand). Depreciation and impairment amounted to EUR 20 thousand (previous year: EUR 20 thousand) in the reporting period. As at 31 December 2017, the fair value of investment property came to EUR 507 thousand (previous year: EUR 527 thousand). The fair value was determined on the basis of calculations made internally. This was a Level 3 fair value measurement made by means of acknowledged calculation models. Calculation was based on an expert opinion prepared in 2005 by an independent expert on the basis of sales prices observed in the market for similar properties. The standard land value has not changed since then. The building values were adjusted for depreciation.

Rental income from the lease of investment property amounted to EUR 72 thousand (previous year: EUR 63 thousand) and directly attributable operating expenses were EUR 20 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	2016	2017
As at 1 Jan	175,675	171,871
Additions	0	1,626
Write-ups	0	313
Share in the net result for the period	7,174	10,385
Dividends	(5,312)	(3,963)
Foreign currency translation	(5,666)	(9,972)
Change in consolidation method	0	(2,994)
As at 31 Dec	171,871	167,266

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.

EUR thousand	Palfinger France S.A.S.		SANY Automobile Hoisting Machinery Co., Ltd.		Sany Palfinger SPV Equipment Co., Ltd. ¹⁾	
	Jan–Dec 2016	Jan–Dec 2017	Oct 2015–Sept 2016	Oct 2016–Sept 2017	Jan–Dec 2016	Jan–Dec 2017
Revenue	111,178	129,563	352,694	583,810	25,185	35,935
Result after income tax	6,201	7,634	13,394	(46,214)	732	(241)
Other comprehensive income after income tax	0	0	(47,861)	(82,363)	(1,601)	(2,743)
Total comprehensive income	6,201	7,634	(34,467)	(128,577)	(869)	(2,984)
EUR thousand	31 Dec 2016	31 Dec 2017	30 Sept 2016	30 Sept 2017	31 Dec 2016	31 Dec 2017
Non-current assets	2,533	3,627	345,742	300,801	9,660	10,070
Current assets	46,257	55,262	315,080	376,009	54,823	56,464
Non-current liabilities	0	2,521	2,824	5,538	108	143
Current liabilities	21,226	25,454	286,195	367,809	20,107	25,022
Net assets	27,563	30,914	371,802	303,463	44,268	41,369
EUR thousand	2016	2017	2016	2017	2016	2017
Shares/voting rights	49%	49%	10%	10%	50%	50%
Carrying amounts as at 1 Jan	11,891	12,529	135,062	130,249	22,536	22,101
Additions	0	0	0	0	0	0
Share in the net result for the period	3,038	3,740	1,339	6,951	366	(121)
Foreign currency translation	0	0	(4,786)	(8,236)	(801)	(1,372)
Dividends	(2,400)	(2,400)	(1,366)	0	0	0
Carrying amounts as at 31 Dec	12,529	13,869	130,249	128,964	22,101	20,608
of which goodwill	0	0	93,069	87,295	0	0
of which downstream sales	(977)	(1,279)	0	0	(33)	(77)
of which pro-rata net assets	13,506	15,148	37,180	41,669	22,134	20,685

1) At the balance sheet date, the company's cash and cash equivalents were EUR 3,660 thousand (previous year: EUR 6,188 thousand). The company did not have any financial liabilities. In the reporting period depreciation and amortization came to EUR 545 thousand (previous year: EUR 556 thousand), interest income amounted to EUR 595 thousand (previous year: EUR 336 thousand) and tax expenses to –EUR 397 thousand (previous year: –EUR 104 thousand).

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.

EUR thousand	2016	2017
Carrying amounts of investments in associated companies	6,658	4,372
Result after income tax	2,221	680
Other comprehensive income after income tax	(119)	(348)
Total comprehensive income	2,102	332

EUR thousand	2016	2017
Carrying amounts of investments in joint ventures	333	(547)
Result after income tax	209	(865)
Other comprehensive income after income tax	39	(15)
Total comprehensive income	249	(880)

(32) Deferred tax assets and liabilities

EUR thousand	31 Dec 2016	31 Dec 2017
Deferred tax assets		
Non-current assets		
Intangible assets – different useful lives	629	855
Intangible assets – tax deductible goodwill	1,187	471
Property, plant and equipment – different useful lives	1,914	1,679
Non-current financial assets – financial asset write-downs not yet taxed	968	4,852
Other non-current assets	117	105
	4,815	7,962
Current assets		
Inventories – elimination of intercompany profits, differences in tax measurement of manufacturing costs	5,531	6,887
Trade receivables – differences in tax measurement of impairment losses	1,290	1,206
Other current assets – severance payments not yet taxed	332	467
	7,153	8,560
Non-current liabilities		
Non-current provisions – different recognition of employee benefits provisions IAS 19	8,263	8,634
of which deferred taxes directly recognized in other comprehensive income	3,489	3,936
Other non-current liabilities	4,047	1,257
of which deferred taxes directly recognized in other comprehensive income	3,747	956
	12,310	9,891
Current liabilities		
Current financial liabilities – lease financing	0	0
Current provisions – different recognition of provisions for guarantee expenses	3,080	2,762
Trade payables and other current liabilities	1,417	772
	4,497	3,534
Total deferred tax assets	28,775	29,947

EUR thousand	31 Dec 2016 ¹⁾	31 Dec 2017
Deferred tax liabilities		
Non-current assets		
Intangible assets – acquisitions, development expenditure	(28,512)	(27,633)
Property, plant and equipment – different useful lives	(9,383)	(6,879)
Non-current financial assets	(5,119)	(2,038)
of which deferred taxes directly recognized in other comprehensive income	(2,811)	(363)
	(43,014)	(36,550)
Current assets		
Inventories – differences in tax measurement of manufacturing costs	(843)	(495)
Trade receivables – contract manufacturing (POC)	(6,701)	(9,499)
Other current assets – differences in tax measurement	(2,927)	(1,472)
of which deferred taxes directly recognized in other comprehensive income	0	0
	(10,471)	(11,466)
Non-current liabilities		
Non-current financial liabilities – differences in tax measurement	(270)	0
Non-current provisions	(107)	(139)
of which deferred taxes directly recognized in other comprehensive income	(2)	(2)
	(379)	(139)
Current liabilities		
Current provisions – different recognition of provisions for guarantee expenses	(481)	(350)
Trade payables and other current liabilities	(746)	(874)
	(1,227)	(1,224)
Total deferred tax liabilities	(55,091)	(49,379)
Deferred tax assets on loss carry forwards	21,649	19,524
Deferred taxes	(4,667)	92
thereof		
deferred tax assets	18,128	14,890
deferred tax liabilities	(22,795)	(14,798)

1) These figures were adjusted with retrospective effect (see acquisitions in 2016).

Deferred taxes contain deferred tax assets directly recognized in other comprehensive income of EUR 4,527 thousand (previous year: EUR 4,423 thousand).

Tax-loss carry forwards are comprised of the following:

EUR thousand	Non-capitalized loss carry forwards		Capitalized loss carry forwards	
	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
Loss carry forwards subject to expiry				
within one year	841	0	891	858
within two years	25	519	933	0
within three years	0	206	0	1,359
within four years	220	1,599	1,406	0
within five years	1,697	2,064	0	471
after more than five years	38,272	30,252	29,053	33,123
Loss carry forwards not subject to expiry	26,812	43,974	40,334	47,629
Total	67,867	78,614	72,617	83,440

For tax-loss carry forwards of EUR 78,614 thousand (previous year: EUR 67,867 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 316,878 thousand (previous year: EUR 283,491 thousand) from investments in subsidiaries and joint ventures, deferred taxes in the amount of EUR 57,289 thousand (previous year: EUR 53,505 thousand) existed as at 31 December 2017. For these differences, no deferred tax liabilities were recognized according to IAS 12.39, as PALFINGER is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not be reversed in the foreseeable future.

In December 2017, a tax reform was adopted and implemented in the USA, bringing into effect the respective legislation as of 1 January 2018. The federal corporate income tax rate was lowered from a maximum of 35 per cent to 21 per cent. This change resulted in an additional tax expense of EUR 1,927 thousand from the re-measurement of the capitalized loss carry forwards and other deferred tax assets and liabilities as at 31 December 2017.

(33) Non-current financial assets

Non-current financial assets are comprised of the following:

EUR thousand	31 Dec 2016	31 Dec 2017
Loans	3,830	5,152
Financial receivables from related parties	25,183	22,161
Securities	1,137	1,608
Cash at banks	1,976	471
Other shareholdings	119	77
Derivative financial instruments	461	697
Total	32,706	30,166

Securities comprise shares 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 25,520 thousand (previous year: EUR 28,759 thousand) (of which EUR 22,161 thousand are non-current receivables and EUR 3,359 thousand are current receivables); an instalment plan for repayment over the next seven 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 (guarantees, pledging of lease proceeds) so that no impairment loss for the overall accounts receivable of EUR 25,520 thousand has to be recorded. Interest payable on the receivables will be in observance of the arm's length principle. Repayment will be made according to the instalment plan.

(34) Other non-current assets

Other non-current assets are the following:

EUR thousand	31 Dec 2016	31 Dec 2017
Prepayments for acquisitions	2,663	0
Employer's pension liability reinsurance and other receivables	2,839	1,549
Deferred expenses	171	43
Miscellaneous other non-current assets	42	132
Total	5,715	1,724

Prepayments made in 2016 for corporate acquisitions relate to the acquisition of Capital Investment d.o.o. (see Note [55]).

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 2016	31 Dec 2017
Materials and production supplies	111,910	114,155
Work in progress	83,683	87,629
Finished goods and goods for resale	84,429	84,855
Prepayments	2,680	2,395
Total	282,702	289,034

EUR 4,162 thousand (previous year: EUR 576 thousand) in inventories was valued at net realizable value.

In the 2017 financial year, an impairment of inventories of EUR 5,264 thousand (previous year: EUR 2,880 thousand) and a reversal of an impairment of inventories from obsolescence measurements of EUR 2,792 thousand (previous year: EUR 466 thousand) were made and recognized as cost of sales.

(36) Trade receivables

Trade receivables are as follows:

EUR thousand	31 Dec 2016	31 Dec 2017
Receivables from contract manufacturing and rendering of services	67,699	76,844
Invoiced receivables	183,973	190,046
Total	251,672	266,890

At the end of 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 2017), the receivables sold in connection with the existing factoring agreement amounted to EUR 42,978 thousand (previous year: EUR 37,854 thousand) and were fully derecognized in accordance with the rules of IAS 39 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 2017, the maximum risk of loss resulting therefrom amounted to EUR 816 thousand (previous year: EUR 699 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.

Manufacturing orders according to the percentage of completion method are shown below:

EUR thousand	31 Dec 2016	31 Dec 2017
Costs incurred	268,092	242,685
Plus profits recognized	86,709	75,366
Minus losses recognized	(1,913)	(3,729)
Progress billings	(285,189)	(237,478)
Receivables from contract manufacturing and rendering of services	67,699	76,844

Receivables from contract manufacturing increased primarily in the Marine business area, first and foremost as a result of projects in the sectors of offshore cranes and lifesaving equipment.

Based on experience, allowances for doubtful debts of EUR 10,057 thousand (previous year: EUR 10,459 thousand) were made to take into account insolvency risks. These allowances are the following:

EUR thousand	Specific bad-debt allowances		Standardized bad-debt allowances	
	2016	2017	2016	2017
As at 1 Jan	4,643	4,001	4,127	6,458
Change in scope of consolidation	285	23	1,560	153
Allocation	890	1,537	3,359	2,910
Use	(1,230)	(586)	(272)	(966)
Reversal	(1,015)	(559)	(2,292)	(2,239)
Reclassification	84	650	(84)	(650)
Foreign currency translation	344	(253)	60	(422)
As at 31 Dec	4,001	4,813	6,458	5,244

(37) Current financial assets

Current financial assets are shown below:

EUR thousand	31 Dec 2016	31 Dec 2017
Financing receivables from companies reported at equity	88	438
Derivative financial instruments	973	4,616
Receivables from related parties	3,595	3,359
Other financing receivables	481	267
Securities	0	418
Total	5,137	9,098

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 2016	31 Dec 2017
Receivables relating to social security and other taxes	11,269	15,171
Other receivables	14,307	18,858
Deferred expenses and indemnification	7,879	9,674
Receivables from companies reported at equity	1,697	74
Total	35,152	43,777

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 2016	31 Dec 2017
Cash in hand	1,180	1,518
Cash at banks	32,742	38,238
Total	33,922	39,756

As at 31 December 2017, there were restraints on the disposal over funds in the amount of EUR 1.3 million (previous year: EUR 4.6 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 at 31 December 2017, PALFINGER did not hold any treasury stock. All treasury stock (282,756) was sold via the Vienna Stock Exchange in 2016.

(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	2016	2017
AED	1,132	(3,156)
BRL	4,469	(2,954)
GBP	(1,305)	(223)
NOK	3,415	(14,149)
RMB	(5,737)	(10,041)
RUB	11,911	(5,065)
USD	3,511	(15,042)
Other	(173)	(2,777)
Total change	17,223	(53,407)

(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 2017 financial year, the weighted average number of shares outstanding amounted to 37,593,258 shares (previous year: 37,460,001 shares).

On the basis of the consolidated net result for the period, amounting to EUR 52,513 thousand (previous year: EUR 61,173 thousand), undiluted earnings per share were EUR 1.40 (previous year: EUR 1.63). Diluted earnings per share were identical with undiluted earnings per share.

(44) Retained earnings

Retained earnings increased by EUR 294 thousand (previous year: increase of EUR 4,476 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 2016 financial year (Annual General Meeting of 8 March 2017)	21,428	37,593,258	0.57
Dividend resolved for the 2015 financial year (Annual General Meeting of 9 March 2016)	21,267	37,310,502	0.57

The distribution of the net profit for 2017 reported in the financial statements of PALFINGER AG in accordance with the Business Code is as follows:

	EUR thousand
Net profit for 2017 of PALFINGER AG	41,081
Profit carry forward from 2016	265,669
Total net profit	306,750
Proposed dividend (EUR 0.47 per share)	17,669
Remaining net profit	289,081

The Management Board will propose to the Annual General Meeting of 7 March 2018 to distribute a dividend of EUR 0.47 per share.

(45) Valuation reserves according to IAS 39

As in the previous year, the valuation reserves according to IAS 39 only contain cash flow hedging reserves. Changes in the cash flow hedging reserves are presented in the following table (after taxes):

EUR thousand	2016	2017
Changes in unrealized profits (+)/losses (-)	(1,302)	1,922
thereof from		
interest rate swaps	(980)	(144)
forward foreign exchange contracts	(322)	2,066
Realized profits (-)/losses (+)	4,276	8,380
thereof from		
interest rate swaps	1,689	1,868
forward foreign exchange contracts	2,587	6,512
Total change	2,974	10,302

(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:

	Andrés N. Bertotto (Hidro-Grubert)		EPSILON Kran GmbH		Palfinger Iberica Group		Nimet Srl		Guima Palfinger S.A.S.	
EUR thousand	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	
Non-current assets	6,202	1,963	2,092	9,597	10,255	23,080	26,982	8,058	6,198	
Current assets	9,547	36,613	42,094	21,775	27,761	13,346	17,069	11,163	18,515	
Non-current liabilities	1,650	807	878	1,195	1,014	889	1,130	1,267	1,575	
Current liabilities	5,872	17,380	24,061	14,822	19,164	17,845	20,442	8,145	11,844	
Net assets	8,227	20,389	19,247	15,355	17,838	17,692	22,479	9,809	11,294	
Shares/voting rights of non-controlling interests	70%	35%	35%	25%	25%	40%	40%	35%	35%	
Carrying amount of non-controlling interests	4,593	7,324	6,925	3,847	4,581	6,625	8,550	3,379	3,898	
EUR thousand	Jan-Dec 2017	Jan-Dec 2016	Jan-Dec 2017	May-Dec 2016	Jan-Dec 2017	Jan-Dec 2016	Jan-Dec 2017	Jan-Dec 2016	Jan-Dec 2017	
Cash flows from operating activities	514	22,513	20,129	(105)	(5,057)	5,334	9,795	2,712	4,860	
Cash flows from investing activities	(529)	(9,946)	(1,879)	(2,294)	(1,696)	(4,821)	(6,692)	(508)	(2,936)	
Cash flows from financing activities	320	12,568	(18,250)	1,718	9,347	(911)	(2,647)	(2,281)	(2,079)	
Profit/loss attributable to non-controlling interests	932	6,318	5,995	367	837	1,726	3,295	782	1,322	
Other comprehensive income attributable to non-controlling interests	(1,365)	(11)	(7)	0	0	(26)	(210)	21	(44)	
Dividends to non-controlling interests	281	4,399	6,388	0	103	886	1,160	796	759	

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	2016	2017
As at 1 Jan	8,701	3,004
Addition	2,857	0
Redemption	(604)	0
Reclassification to other liabilities	(9,701)	0
Increase directly in equity	1,761	270
Reversal directly in equity	(10)	(694)
As at 31 Dec	3,004	2,580

The addition in 2016 relates to the new agreement of a put option of the non-controlling shareholders of Palfinger Platforms Italy s.r.l. to sell all non-controlling interests.

In December 2016, the remaining 30 per cent in the Megarme Group, Middle East, were acquired from the previous non-controlling shareholder at a price of EUR 9,700 thousand as the non-controlling shareholder had exercised its put option to sell the shares. The purchase price was paid at the beginning of 2017 (see Note [53]).

The carrying amounts are Level 3 fair values, determined on the basis of the following valuation methods and inputs:

Liabilities from puttable non-controlling interests	Valuation method	Inputs
Palfinger Platforms Italy s.r.l., Italy	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 2017 and 2016:

EUR thousand	Change in assumption	Change in fair value recognized in OCI			
		Increase		Decrease	
		2016	2017	2016	2017
Interest rate	+/-1 BP	(94)	30	99	(30)

(48) Non-current financial liabilities

At the end of March 2017, PALFINGER raised a promissory note loan in the amount of EUR 200 million. The issue was heavily oversubscribed; the promissory note loan was issued in three tranches featuring maturities of five, seven and ten years. The proceeds were primarily used for the long-term refinancing of the bridging loan for the acquisition of the Harding Group.

Deferred interest expenses are contained in current financial liabilities.

The average interest rate is the interest burden as at 31 December 2017 in per cent relating to the carrying amount of the financial liabilities as at 31 December 2017, after interest hedging has been taken into account, and amounts to 1.78 per cent (previous year: 1.75 per cent).

(49) Non-current purchase price liabilities from acquisitions

The following table shows the movements in non-current purchase price liabilities from acquisitions:

EUR thousand	2016	2017
As at 1 Jan	8,715	15,364
Corporate acquisitions	6,218	0
Allocation	129	0
Interest cost	901	1,156
Use	(424)	(414)
Reversal	(642)	(319)
Foreign currency translation	467	(309)
As at 31 Dec	15,364	15,478

As at 31 December 2017, non-current purchase price liabilities from acquisitions included purchase price portions not yet due from the acquisition of subsidiaries in 2014 and 2016. These purchase price portions consist of a put/call option regarding another 20 per cent in Palfinger PM Holding, which may be exercised in 2019, as well as a disproportional dividend for the years 2014 to 2018. Moreover, a contingent consideration has been recognized since 2016 for the acquisition of the MYCSA Group, 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:

Non-current 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 2017 and 2016:

EUR thousand	Change in assumption	Change in fair value			
		Increase		Decrease	
		2016	2017	2016	2017
Interest rate	+/-1 BP	(271)	(235)	284	245
Projected profit measure	+/-10%	790	790	(790)	(789)
EUR/RUB	+/-10%	(213)	(162)	260	198

(50) Non-current provisions

The following table shows non-current provisions:

EUR thousand	31 Dec 2016	31 Dec 2017
Pension provisions	10,911	11,385
Provisions for severance payments	26,483	27,209
Anniversary bonus provisions	5,974	6,422
Other non-current provisions	6,208	1,219
Total	49,576	46,235

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.)	
	2016	2017	2016	2017	2016	2017
Austria	65 years	65 years	1.50%–2.00%	1.50%–2.00%	1.5%	1.7%
Germany	63 years	63 years	1.25%–2.00%	1.00%–2.00%	1.5%	1.5%
Norway	67 years	67 years	2.50%	2.30%	0.4%	0.4%
France	62-63 years	62-63 years	1.50%	1.50%	2.0%	2.7%

The change in the interest rate is based on the re-measurement necessitated by the change in market conditions.

As at 31 December 2017, the average duration of defined benefit pension obligations from pension commitments was 13.40 years (previous year: 13.57 years).

The calculation of pension provisions was performed as at 31 December 2017 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 according to 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-2008-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 2005 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.)	
	2016	2017	2016	2017	2016	2017
Austria	1.25%–2.00%	1.50%–2.00%	3.0%	3.0%	2.0%	service-related 0.2% to 0.45%
Slovenia	1.75%	1.75%–2.00%	3.0%	3.0%	2.0%	2.0%
Bulgaria	1.25%	1.25%	5.0%	5.0%	age-related 5.0% to 20.0%	age-related 5.0% to 20.0%
South Korea	3.00%	-	5.0%	-	age-related 7.1% to 27.1%	-
UAE and Qatar	3.75%	3.75%	4.0%	4.0%	service-related 3.5% to 13.5%	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 2017, the average duration of defined benefit pension obligations from pension commitments was 12.76 years (previous year: 13.23 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, 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:

EUR thousand	Pensions		Severance payments	
	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
Net present value of defined benefit	11,983	12,121	26,483	27,209
Fair value of plan assets	(1,072)	(736)	0	0
Provision	10,911	11,385	26,483	27,209

EUR thousand	Pensions		Severance payments	
	2016	2017	2016	2017
Net present value of defined benefit obligation as at 1 Jan	9,905	11,983	24,077	26,483
Addition through corporate acquisition	2,464	0	0	0
Reclassification to liabilities to employees	0	0	(519)	(843)
Current service cost	355	185	1,740	1,750
Interest expenses	263	189	600	449
Gains (-)/losses (+) from re-measurements	428	536	1,879	1,471
Benefits paid	(641)	(456)	(1,387)	(1,814)
Settlement	(834)	(283)	0	0
Foreign currency translation	43	(33)	93	(287)
Net present value of defined benefit obligation as at 31 Dec	11,983	12,121	26,483	27,209

Plan assets consist of a pension fund with a renowned insurance company.

EUR thousand	2016	2017
Fair value of plan assets as at 1 Jan	718	1,072
Addition through corporate acquisition	951	0
Settlement	(646)	(183)
Expected return on plan assets	31	19
Gains (+)/losses (-) from re-measurements	10	(11)
Employer contributions	180	4
Actual benefits paid by fund	(194)	(134)
Foreign currency translation	22	(31)
Fair value of plan assets as at 31 Dec	1,072	736

The actual return amounted to EUR 8 thousand (previous year: EUR 41 thousand).

Net costs for pensions and severance payments, resulting from defined benefit plans, are comprised as follows:

EUR thousand	Pensions		Severance payments	
	Jan–Dec 2016	Jan–Dec 2017	Jan–Dec 2016	Jan–Dec 2017
Employee benefits expenses				
Current service cost	(355)	(185)	(1,740)	(1,750)
Interest expenses				
Interest expenses	(232)	(170)	(600)	(449)
Net cost	(587)	(355)	(2,340)	(2,199)

Re-measurements are composed as follows:

EUR thousand	Pensions		Severance payments	
	Jan–Dec 2016	Jan–Dec 2017	Jan–Dec 2016	Jan–Dec 2017
Gains (–)/losses (+) from re-measurements	418	547	1,879	1,471
thereof experience adjustments	(120)	253	98	1,180
thereof from changes in demographic assumptions	0	0	(3)	318
thereof from changes in financial assumptions	548	283	1,784	(27)
thereof from return on plan assets	(10)	11	0	0

Realistic changes in the following actuarial parameters as at the reporting date that are deemed to be essential for calculating pension costs and the expected defined benefit claims, with all other parameters remaining constant, would give rise to the following change in the net present value of an obligation:

EUR thousand	Change in the net present value of defined benefit obligation							
	Pensions				Severance payments			
	+ 1 %		– 1 %		+ 1 %		– 1 %	
	2016	2017	2016	2017	2016	2017	2016	2017
Interest rate	(1,439)	(1,459)	1,778	1,792	(3,114)	(3,087)	3,743	3,692
Pension increase/salary increase	1,456	1,641	(1,232)	(1,380)	3,498	3,472	(2,982)	(2,977)

ANNIVERSARY BONUS PROVISIONS

Provisions for anniversary bonuses derived from collective bargaining and/or company agreements were calculated using the same parameters (with the exception of the employee turnover discount) as for the provision for severance payments.

The following table shows the movements in anniversary bonus provisions:

EUR thousand	2016	2017
As at 1 Jan	5,295	5,974
Allocation	746	609
Interest cost	114	85
Use	(181)	(246)
As at 31 Dec	5,974	6,422

OTHER NON-CURRENT PROVISIONS

The changes in other non-current provisions are shown in the following table:

EUR thousand	2016	2017
As at 1 Jan	4,555	6,207
Change in scope of consolidation	9	0
Allocation	2,233	13
Interest cost	340	0
Use	(843)	(4,713)
Reversal	0	(245)
Reclassification	(131)	0
Foreign currency translation	44	(43)
As at 31 Dec	6,207	1,219

Other non-current provisions contain other non-current employee benefits provisions of EUR 1,153 thousand (previous year: EUR 6,140 thousand). In 2016 and 2017, other non-current provisions were used, among other things, for the payment of long-term bonus agreements for executives and Management Board members (see Note [56]).

(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:

EUR thousand	Provision for guarantee and warranty expenses		Other current provisions	
	2016	2017	2016	2017
As at 1 Jan	11,876	13,731	3,426	5,242
Change in scope of consolidation	742	163	0	258
Allocation	2,985	2,820	4,130	1,444
Use	(1,688)	(2,221)	(434)	(1,152)
Reversal	(373)	(600)	(1,320)	(56)
Reclassification	13	0	0	0
Foreign currency translation	176	(386)	(560)	(414)
As at 31 Dec	13,731	13,507	5,242	5,322

(53) Trade payables and other current liabilities

Trade payables and other current liabilities are broken down as follows:

EUR thousand	31 Dec 2016	31 Dec 2017
Trade payables	118,929	136,529
Liabilities to companies reported at equity	1,698	2,626
Advances received on orders	21,462	28,135
Liabilities to employees	35,599	38,982
Liabilities relating to social security and other taxes	17,367	20,318
Liability from exercised put options regarding non-controlling interests	9,701	0
Other liabilities	45,203	33,066
Deferred income	989	1,565
Total	250,948	261,221

Liabilities to employees, amounting to EUR 38,982 thousand (previous year: EUR 35,599 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 33,066 thousand (previous year: EUR 45,203 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.

The liability from exercised put options regarding non-controlling interests in 2016 relates to the acquisition of the remaining 30 per cent in the Megarme Group in December 2016 and was paid in January 2017.

At the end of 2017, PALFINGER started a reverse factoring programme to help individual suppliers finance their receivables vis-à-vis PALFINGER. Under this programme, which is to be 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 will continue to be reported under trade payables as well as in cash flows from operating activities. As at 31 December 2017, the programme was utilized for trade payables in the total amount of EUR 261 thousand.

(54) Financial instruments

The reconciliation of the carrying amounts for each category under IAS 39 to fair values is shown in the following table:

EUR thousand	Carrying amounts 31 Dec 2017	No financial instrument/ recognition acc. to IFRS 10	At amortized cost
Measured acc. to IAS 17			
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
Total 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	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
Total 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
		0	1,701	0		
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 2016	No financial instrument/ recognition acc. to IFRS 10	At amortized cost
Non-current assets			
Non-current financial assets	32,706	0	0
thereof Level 1 fair value			
thereof Level 2 fair value			
Current assets			
Trade receivables	251,672	67,699	0
Current financial assets	5,137	0	0
thereof Level 2 fair value			
Other current receivables and assets	35,152	19,606	0
Cash and cash equivalents	33,922	0	0
Total assets	358,589	87,305	0
Non-current liabilities			
Liabilities from puttable non-controlling interests	3,004	3,004	0
Non-current financial liabilities	431,918	0	0
thereof Level 2 fair value			
Non-current purchase price liabilities from acquisitions	15,364	0	0
thereof Level 3 fair value			
Other non-current liabilities	2,621	2,621	0
Current liabilities			
Liabilities from puttable non-controlling interests	0	0	0
Current financial liabilities	152,804	0	10,397
thereof Level 2 fair value			
Trade payables and other current liabilities	250,948	85,118	0
Total liabilities	856,659	90,743	10,397

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 IAS 39					Carrying amount of financial instruments 31 Dec 2016
	At amortized cost	At fair value			Recognized in the income statement	
		Recognized in other comprehensive income				
Loans and receivables	At amortized cost	Available for sale	Hedging derivatives	Held for trading / other derivatives		
	30,989	119	1,137	461	0	32,706
			1,137			
				461	0	
	183,973	0	0	0	0	183,973
	4,164	0	0	216	757	5,137
			0	216	757	
	15,546	0	0	0	0	15,546
	33,922	0	0	0	0	33,922
	268,594	119	1,137	677	757	271,284
	0	0	0	0	0	0
	0	425,634	0	6,284	0	431,918
			0	6,284	0	
	0	6,889	0	0	8,475	15,364
					8,475	
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	137,165	0	4,706	536	152,804
			0	4,706	536	
	0	165,830	0	0	0	165,830
	0	735,518	0	10,990	9,011	765,916

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 492,957 thousand (previous year: EUR 431,918 thousand) more or less correspond to the market values (Level 2) of EUR 495,678 thousand (previous year: EUR 433,890 thousand) as they mostly carry floating interest rates. 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 2017 financial year, income from the disposal of securities amounted to EUR 37 thousand (previous year: EUR 36 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	2016	2017
As at 1 Jan	2,602	8,475
Addition through corporate acquisition	5,534	0
Interest cost	809	1,063
Redemption	(424)	(414)
Reversal through profit and loss	(642)	(319)
Increase through profit and loss	129	0
Exchange rate differences through profit and loss	467	(309)
As at 31 Dec	8,475	8,496

Result in the income statement	Jan–Dec 2016	Jan–Dec 2017
Other interest expenses	(809)	(1,063)
Other financial result	642	151
Other operating expenses/income	(129)	168
Exchange rate differences of the net financial result	(467)	309
Unrealized gain/loss for financial instruments held on the balance sheet date	(763)	(435)

As at 31 December 2017, 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, scope for value-enhancing investments and the retention of solid balance-sheet ratios.

A strong equity structure retains the trust of investors, lenders and the market and guarantees a solid capital basis for its future business development.

Net debt of PALFINGER is controlled centrally in consultation with the corporate treasury department, whose main responsibilities include 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 controls 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 40 to 50 per cent and a gearing ratio, which corresponds to the ratio of net debt and equity, of 50 to 60 per cent are desirable. At present, the equity ratio is 37.3 per cent (previous year: 37.7 per cent), and the gearing ratio 89.2 per cent (previous year: 88.5 per cent). Net debt of EUR 513,282 thousand (previous year: EUR 513,077 thousand) includes non-current and current financial assets and the cash holdings as well as non-current and current financial liabilities. Equity of EUR 575,714 thousand (previous year: EUR 579,920 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 consolidated net result for the period to its shareholders, a dividend of EUR 0.57 (previous year: EUR 0.57) per share was paid in 2017 for the 2016 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 responsibility 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 control and group-wide distribution of the required liquidity is facilitated.

The facilities that matured in 2017 were either repaid or extended on a long-term basis. The syndicated loans taken out to finance the acquisition of the Norwegian Harding Group in 2016 were redeemed in full in 2017 by means of the proceeds of the issue of the 200-million-euro promissory note loan. In order to utilize the attractive interest level and increase the maturity profile of the financial liabilities, loans for the acquisition of interests in the total amount of EUR 60 million and with an average maturity of six years was raised in June 2017. The existing promissory note loan agreements and credit agreements contain covenants providing for a minimum equity ratio of 25 per cent. At year end, the equity ratio came to 37.3 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 have durations of up to three years. These unutilized financing reserves, which amounted to more than EUR 120 million as at 31 December 2017, 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:

EUR thousand	31 Dec 2016	< 1 year	1–5 years	> 5 years
Financial liabilities	599,901	168,757	425,437	5,707
Liabilities from cash flow hedges	13,743	7,674	5,096	973
Liabilities from derivatives held for trading	534	534	0	0
Non-current purchase price liabilities from acquisitions	19,715	445	19,270	0
Trade payables and other liabilities				
Trade payables	120,134	120,134	0	0
Other liabilities for financial instruments	45,696	45,696	0	0
	165,830	165,830	0	0
Total	799,723	343,240	449,803	6,680

EUR thousand	31 Dec 2017	< 1 year	1–5 years	> 5 years
Financial liabilities	621,231	136,951	300,141	184,139
Liabilities from cash flow hedges	6,581	2,373	3,421	787
Liabilities from derivatives held for trading	983	983	0	0
Non-current purchase price liabilities from acquisitions	18,344	267	18,077	0
Trade payables and other liabilities				
Trade payables	139,031	138,969	62	0
Other liabilities for financial instruments	33,252	33,252	0	0
	172,283	172,221	62	0
Total	819,422	312,795	321,701	184,926

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 was 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 overdue:

EUR thousand	31 Dec 2016	31 Dec 2017
Receivables not yet due	190,769	209,385
Receivables impaired		
Overdue for less than 30 days	35,894	33,715
Overdue for more than 30 days but less than 60 days	10,192	10,331
Overdue for more than 60 days but less than 90 days	6,451	4,800
Overdue for more than 90 days but less than 120 days	1,612	2,289
Overdue for more than 120 days	6,754	6,370
	60,903	57,505
Total	251,672	266,890

When investing funds, only banks with excellent 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. Foreign exchange cash flows from operations are hedged by means of forward foreign exchange contracts (cash flow hedges).

The 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 earnings before interest and taxes (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 2016	Jan–Dec 2017
Exchange rate differences income	3,907	7,370
Exchange rate differences expenses	(2,837)	(9,048)
Exchange rate differences in at equity result	199	241
Earnings before interest and taxes – EBIT	1,269	(1,437)
Exchange rate differences of the net financial result	(1,884)	(8,049)
Result from exchange rate differences	(615)	(9,486)

Given that hedge accounting was terminated because cash flows were no longer highly probable, exchange rate losses of EUR 5.7 million were transferred from other comprehensive income to the net financial result.

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 2016	+10 %			-10 %		
	Impact on profit or loss	Impact on equity	Total impact	Impact on profit or loss	Impact on equity	Total impact
EUR thousand						
USD	(698)	(36)	(734)	853	44	897
GBP	(212)	(16)	(228)	259	20	279
BRL	(125)	(1,786)	(1,911)	153	2,183	2,336
SGD	(375)	0	(375)	459	0	459
CNY	60	0	60	(74)	0	(74)
RUB	(784)	(848)	(1,632)	958	1,037	1,995
INR	0	(65)	(65)	0	79	79
CAD	(84)	0	(84)	103	0	103
NOK	1,130	(8,015)	(6,885)	(1,381)	9,796	8,415
SEK	3	0	3	(4)	0	(4)
HRK	72	0	72	(88)	0	(88)
JPY	45	0	45	(55)	0	(55)
PLN	(36)	0	(36)	44	0	44
AED	(39)	0	(39)	48	0	48
RON	(654)	0	(654)	800	0	800
KRW	0	(480)	(480)	0	586	586
DKK	(123)	0	(123)	150	0	150
CZK	560	0	560	(684)	0	(684)
HKD	14	0	14	(17)	0	(17)
Foreign currency sensitivities	(1,246)	(11,246)	(12,492)	1,524	13,745	15,269

31 Dec 2017	+10 %			-10 %		
	Impact on profit or loss	Impact on equity	Total impact	Impact on profit or loss	Impact on equity	Total impact
EUR thousand						
USD	(298)	(4,149)	(4,447)	365	5,071	5,436
GBP	(175)	(28)	(203)	214	34	248
BRL	(7)	(2,229)	(2,236)	8	2,724	2,732
SGD	79	0	79	(97)	0	(97)
CNY	(105)	0	(105)	128	0	128
RUB	(696)	(786)	(1,482)	850	961	1,811
INR	(303)	0	(303)	370	0	370
CAD	167	156	323	(204)	(191)	(395)
NOK	275	(2,574)	(2,299)	(336)	3,146	2,810
SEK	4	0	4	(5)	0	(5)
HRK	99	0	99	(121)	0	(121)
JPY	(57)	0	(57)	69	0	69
VND	0	0	0	0	0	0
PLN	316	0	316	(386)	0	(386)
AED	(32)	0	(32)	40	0	40
RON	(627)	0	(627)	766	0	766
KRW	(70)	(512)	(582)	86	625	711
DKK	1	0	1	(1)	0	(1)
CZK	466	0	466	(569)	0	(569)
HKD	10	0	10	(12)	0	(12)
Foreign currency sensitivities	(953)	(10,122)	(11,075)	1,165	12,370	13,536

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. The floating-rate exposure of the Group's financing is hedged by interest rate swaps of EUR 140.0 million (previous year: EUR 190.0 million).

The sensitivity analysis is made on the basis of PALFINGER's floating-interest financial liabilities. A hypothetical change in floating interest rates by 100 base points or one percentage point per year would change PALFINGER's interest expenses by EUR 738 thousand (previous year: EUR 2,061 thousand). A hypothetical increase in interest rates by 100 base points would raise other comprehensive income by EUR 4,323 thousand (previous year: EUR 6,132 thousand); a decrease of 100 base points would reduce other comprehensive income by EUR 4,687 thousand (previous year: EUR 6,479 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 hedged through intra-group foreign currency netting or forward foreign exchange contracts.

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.

thousand	Nominal amount in contract currency		Mark-to-market valuation (EUR)	
	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
Forward foreign exchange contracts				
sell USD/buy EUR	USD 12,000	USD 4,500	(612)	(35)
sell EUR/buy NOK	EUR 18,610	EUR 18,155	305	(834)
sell USD/buy NOK	USD 67,584	USD 20,765	(5,242)	347
sell GBP/buy NOK	GBP 1,849	GBP 1,729	371	88
sell CAD/buy NOK	CAD 0	CAD 2,580	0	(36)
Interest rate swaps	EUR 190,000	EUR 140,000	(5,136)	(2,838)
Total			(10,314)	(3,308)

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 IAS 39 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.

thousand	Nominal amount in contract currency		Mark-to-market valuation (EUR)	
	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
Currency swaps				
sell USD/buy EUR	USD 48,350	USD 59,400	(475)	468
sell JPY/buy EUR	JPY 35,000	JPY 325,000	5	66
sell NOK/buy EUR	NOK 470,000	NOK 505,000	752	2,677
sell AED/buy EUR	AED 16,930	AED 31,000	(39)	71
sell PLN/buy EUR	PLN 11,491	PLN 34,400	(21)	(222)
sell DKK/buy EUR	DKK 0	DKK 34,000	0	4
sell GBP/buy EUR	GBP 0	GBP 1,250	0	(59)
sell SGD/buy EUR	SGD 0	SGD 5,000	0	(16)
sell USD/buy NOK	USD 0	USD 6,932	0	178
Total			222	3,167

Valuation gains/losses from currency swaps amount to EUR 2,945 thousand (previous year: EUR 421 thousand) and are reported in the financial result under exchange rate difference amounting to EUR 2,945 thousand (previous year: EUR 421 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 14,735 thousand (previous year: EUR 11,597 thousand) for the 2018 financial year and EUR 27,880 thousand (previous year: EUR 30,876 thousand) for the following four years and EUR 25,505 thousand (previous year: EUR 23,305 thousand) in more than five years. They also include business transactions with related parties. On the basis of the IFRS 16 analysis, this disclosure was supplemented by rentals and the previous year's figures were adjusted accordingly.

In the reporting period, minimum lease payments from operating leases and rentals in the amount of EUR 13,254 thousand (previous year: EUR 9,461 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.

EUR thousand	Minimum lease payments 31 Dec 2016	Present value of minimum lease payments 31 Dec 2016
Up to one year	10,849	10,397
Between one and five years	0	0
More than five years	0	0
Total	10,849	10,397
Minus any future finance costs	(452)	
Present value of finance lease liabilities	10,397	

Other financial obligations

As at 31 December 2017 and 31 December 2016, 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 decreased primarily as a result of the lower results and the build-up of working capital.

Other non-cash income and expenses included exchange rate differences and measurement effects.

Cash flows from investing activities improved mainly because fewer acquisitions were made in 2017.

Additions of intangible assets and property, plant and equipment include non-cash investments in the amount of EUR 3,864 thousand (previous year: EUR 3,810 thousand).

The following table shows the reconciliation of the changes in cash flows from investing activities:

EUR thousand	Promissory note loans	Loans for acquisitions	Finance lease liability	Other loans	Total
As at 1 Jan 2017	119,000	257,514	10,626	186,052	573,192
Changes in cashflows from financing activities					
Issue of promissory note loan	200,000	0	0	0	200,000
Loans for the acquisition of interests	0	60,000	0	0	60,000
Repayment of loans for acquisitions	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 leasing 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)
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	307,916	125,514	0	153,335	586,765

The Total column of the above table equals the total of current and non-current financial liabilities excluding derivative financial instruments.

OTHER DISCLOSURES

(55) 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 Management Boards of PALFINGER AG. Other related parties primarily include businesses controlled by the key management.

All transactions with associated companies, joint ventures and enterprises controlling associated companies 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 Management Board members are not contained in the following table; for details, please see "Disclosures concerning governing bodies and employees", pages 199 to 200.

EUR thousand	Associated companies		Joint ventures		Supervisory Board		Other	
	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
Receivables	10,320	7,334	1,661	1,889	0	0	33,115	26,775
Liabilities	159	53	1,539	2,573	143	139	1,635	243
Revenue	78,113	90,056	1,902	3,478	0	0	6,425	6,128
Other operating income	129	112	322	306	0	0	569	515
External services	0	0	(1,327)	(819)	(224)	(180)	(5,165)	(2,624)
Cost of materials	(1)	(7)	0	(3,923)	0	0	(97)	(8)
Interest income	0	0	10	13	0	0	412	356

Receivables from associated companies and joint ventures include trade receivables of EUR 8,211 thousand (previous year: EUR 9,696 thousand).

Of the liabilities to associated companies and joint ventures of EUR 2,626 thousand (previous year: EUR 1,698 thousand), EUR 2,440 thousand (previous year: EUR 1,205 thousand) resulted from the provision of goods and services.

Receivables from related parties of EUR 25,520 thousand (previous year: EUR 28,759 thousand) refer to Hubert Palfinger Technologies GmbH; an instalment plan for repayment over the next seven 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.

In December 2016, PALFINGER proizvodnja d.o.o. (SI) signed an agreement on the acquisition of 100 per cent of the shares in Capital Investment d.o.o. from Capital Investment GmbH (a company belonging to the private foundation Palfinger Privatstiftung). This company is the owner of a property at the Maribor site, which is rented by the PALFINGER Group, and has no other business operations beyond that. The final takeover of the shares in Capital Investment d.o.o. happened on 31 January 2017. Receivables from related parties in the amount of EUR 2,663 thousand in 2016 refer to the prepayment made for this acquisition. The balance of the purchase price, in the amount of EUR 155 thousand, was paid in 2017.

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.

Any restrictions in connection with investments in subsidiaries are specified on page 138.

(56) Disclosures concerning governing bodies and employees

EMPLOYEES

The average number of employees (FTEs) in the PALFINGER Group (including the Management Board) during the financial year was 9,713 (previous year: 9,580). At the balance sheet date there were 10,212 group employees (previous year: 9,846).

SUPERVISORY BOARD

In the 2017 financial year, the following individuals were either appointed, or delegated by the Works Council, to serve on the Supervisory Board:

- Hubert Palfinger jun., Chairman¹⁾
- Gerhard Rauch, 1st Deputy Chairman¹⁾
- Hannes Palfinger, 2nd Deputy Chairman¹⁾
- Heinrich Dieter Kiener
- Hannes Bogner²⁾
- Dawei Duan
- 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.

Peter Pessenlehner resigned from the Supervisory Board effective as of the end of the AGM on 8 March 2017. Hannes Bogner was elected as a new Supervisory Board member at the Annual General Meeting of 8 March 2017. Gerhard Gruber (Works Council member) also resigned from the Supervisory Board, effective 24 October 2017.

MANAGEMENT BOARD

- Felix Strohbichler, CFO
- Martin Zehnder, Member of the Management Board

Effective 31 August 2017, the Chief Financial Officer Christoph Kaml resigned from the Management Board. Felix Strohbichler assumed the position of CFO on 1 October 2017.

Herbert Ortner, the CEO of PALFINGER AG, resigned from the Management Board effective 31 December 2017.

The recurring short-term remuneration of the Management Board consists of several components and is broken down as follows:

EUR thousand	Current fixed salary		Current performance-related remuneration	
	Jan–Dec 2016	Jan–Dec 2017	Jan–Dec 2016	Jan–Dec 2017
Herbert Ortner	543	550	483	450
Christoph Kaml	422	285	465	149
Felix Strohbichler	0	104	0	83
Wolfgang Pilz	338	0	357	0
Martin Zehnder	344	390	357	407
Total	1,647	1,329	1,662	1,089

For the short-term performance-related remuneration of Management Board members, liabilities totalling EUR 482 thousand (previous year: EUR 1,434 thousand) were recognized.

In addition, the following long-term, performance-related remuneration is paid:

Previous bonus agreements concluded with members of the Management Board either expired in February 2014 or at the end of 2015. In the 2016 financial year, EUR 295 thousand were paid out for these bonuses. In order to ensure a smooth transition, a new agreement on bonuses for the achievement of a long-term increase in corporate value was concluded in mid-2015. The new agreement refers 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, a portion of the bonus for the increase in corporate value up to 2017 was paid to Herbert Ortner (EUR 1,220 thousand) and to Martin Zehnder (EUR 815 thousand). The premium payable to Martin Zehnder for the increase in corporate value up to 2018 will be paid out upon achievement of the agreed targets in 2019. 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 connection with Herbert Ortner's resignation as at 31 December 2017, an amount of EUR 3,139 thousand was reported in the income statement in the 2017 financial year. The entire liability amounted to EUR 3,561 thousand as at 31 December 2017 and included various variable and fixed remuneration components plus ancillary wage costs until the end of the original term of contract as at 31 December 2018. Payment will be made in 2018.

For benefits payable after termination of employment, EUR 44 thousand (previous year: EUR 54 thousand) were reported as current service cost in the 2016 financial year. This concerns severance payment obligations for Herbert Ortner as well as individual contracts regarding pension commitments concluded with Wolfgang Pilz.

At PALFINGER AG, expenses for severance and pension payments for members of the Management Board and other executives amounted to EUR 113 thousand (previous year: –EUR 275 thousand), for the remaining employees to EUR 941 thousand (previous year: EUR 1,870 thousand).

The expenses for severance payments contain payments made to contribution-based severance pay funds for members of the Management Board in the amount of EUR 47 thousand (previous year: EUR 23 thousand).

(57) Key events after the balance sheet date

After the end of the 2017 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
(58) Intangible assets			
	Intangible assets with definite useful lives	<p>At amortized cost</p> <p>Straight-line amortization over useful lives</p> <p>In general 2–15 years</p> <p>Capitalized customer relationships 5–10 years</p> <p>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.</p>	<p>IAS 38</p> <p>IAS 36</p>
	Intangible assets with indefinite useful lives and intangible assets under development	<p>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.</p>	<p>IAS 38</p> <p>IAS 36</p>
	Goodwill	<p>Impairment-only approach (see above)</p> <p>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.</p> <p>When determining the recoverable amount, assumptions regarding future development and estimates are made that might not occur as predicted.</p> <p>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 is used.</p> <p>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.</p> <p>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.</p> <p>According to IAS 36, once goodwill has been written down for impairment, no recovery of the goodwill may be recognized in later periods.</p>	<p>IFRS 3</p> <p>IAS 36</p>
	Research and development	<p>Research expenses are reported in the income statement when incurred.</p> <p>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.</p> <p>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.</p>	<p>IAS 38</p> <p>IAS 36</p>

Note	Balance sheet item	Accounting and valuation principles	Standard
(59)	Property, plant and equipment	At amortized cost	IAS 16
		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 36
	Government grants	Investment grants 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 capitalized 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 earnings before interest and taxes (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
(60)	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
(61)	Inventories	Valued at cost (see (59) 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
(62)	Contract manufacturing and rendering of services	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.	IAS 11 IAS 18
(63)	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 IAS 39

Note	Balance sheet item	Accounting and valuation principles	Standard
		<p>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.</p> <p>If, however, the non-controlling shareholders are not the beneficial owners, they are presented as an accelerated acquisition and recognized acc. to IAS 39/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.</p> <p>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.</p>	
(64)	Financial instruments	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Acquisitions or sales of financial assets are recognized at the trade date.</p> <p>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, except in the case of "available for sale" equity instruments where impairment losses are reversed through other comprehensive income.</p>	IAS 32 IAS 39 IFRS 7 IFRS 13
	Securities and other shareholdings	<p>"Available for sale": Measurement subsequent to initial recognition at fair value; recognized in other comprehensive income.</p> <p>In the case of sales, the unrealized profit and/or loss that up to that point was reported under other comprehensive income will be reported in the income statement under other financial result.</p>	
	Loans	"Loans and receivables": Measurement subsequent to initial recognition reported at amortized cost applying the effective interest method, if necessary less impairment losses	
	Receivables	"Loans and receivables": Measurement subsequent to initial recognition reported at amortized cost, if necessary less impairment losses that are recorded in allowance accounts	
	Cash and cash equivalents	Mark to market	
	Liabilities	Subsequent to initial recognition, liabilities are measured at amortized cost applying the effective interest method.	
	Non-current purchase price liabilities from acquisitions	Non-current 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 IAS 39 are classified as held for trading according to IAS 39 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 IAS 39 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 IAS 39. 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
(65)	Long-term employment benefits		IAS 19
	Defined benefit plans	<p>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.</p> <p>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.</p> <p>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.</p>	
	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	<p>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 Management Board and other executives.</p> <p>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.</p>	
(66)	Other provisions	Provisions are reported at the anticipated settlement amount; non-current provisions are reported at their present value.	IAS 37
(67)	Income tax	<p>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.</p> <p>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.</p> <p>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.</p>	IAS 12
(68)	Recognition of revenue and expenses	<p>Revenue arising from the provision of goods is recognized when all major risks and rewards arising from the delivered object have been transferred to the buyer. Revenue from the provision of services refers to short-term services which are recognized when the service is rendered.</p> <p>Operating expenses are recognized when the service is rendered or a delivery is received, or at the time the expenses are incurred. Interest is recognized using the effective interest method. For information on contract manufacturing and the rendering of services see Note (6).</p>	IAS 11 IAS 18

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 is 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)		Indirect investment ³⁾ (in per cent)		Curr. ⁴⁾
		2016	2017	2016	2017	
Fully consolidated companies						
PALFINGER AG, Bergheim (AT)						EUR
Andrés N. Bertotto S.A.I.C., Río Tercero (AR) <i>(Initial consolidation: 1 January 2017)</i>	PAM	30.00	30.00	30.00	30.00	ARS ⁵⁾
Elesa centro de montaje y servicios 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)	PUSA	100.00	100.00	100.00	100.00	USD
FairWind Renewable Energy Services, LLC, Lawton (US)	PUSA	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 Holding I AS, Seimsfoss (NO)	PHH	100.00	-	100.00	-	NOK
Harding Holding II AS, Seimsfoss (NO)	HH1	100.00	-	100.00	-	NOK
Harding Safety Brazil Ltda., Niteroi (BR)	PALM AS/PALM US	100.00	100.00	100.00	100.00	BRL
Harding Safety Eiendom AS, Seimsfoss (NO)	PALM AS	100.00	-	100.00	-	NOK
Harding Safety Italy Srl, Livorno (IT)	PALM AS	100.00	100.00	100.00	100.00	EUR
Harding Safety Singapore PTE Ltd., Singapore (SG)	PALM AS	100.00	-	100.00	-	SGD
Harding Safety Spain SL, Cádiz (ES)	PALM AS	100.00	100.00	100.00	100.00	EUR
Heron Davits AS, Seimsfoss (NO) <i>(Acquisition: 1 November 2017)</i>	PALM AS	-	100.00	-	100.00	EUR
Holding Company Podyomnie Maschini AO, Arkhangelsk (RU)	VMS/PMH	100.00	100.00	60.00	60.00	RUB
INMAN AO, Ishimbay (RU)	PCIS	100.00	100.00	100.00	100.00	RUB
Madal Palfinger S.A., Caxias do Sul (BR)	PAM	99.72	99.73	99.72	99.73	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 Fender AS, Husnes (NO)	PALM AS	100.00	-	100.00	-	NOK
Noreq LLC, Houston (US)	PALM AS	100.00	100.00	100.00	100.00	USD
Noreq PTE. LTD, Singapore (SG)	PALM AS	100.00	-	100.00	-	SGD
Omaha Standard, LLC, Council Bluffs (US)	PUSA	100.00	100.00	100.00	100.00	USD
PalAir GmbH, Salzburg, (AT)	PAG	100.00	100.00	100.00	100.00	USD
Palfinger Americas GmbH, Salzburg (AT) <i>(formerly: Palfinger South America GmbH)</i>	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	100.00	100.00	EUR
Palfinger Boats Vietnam Co., Ltd., Hung Yen (VN)	BOATS	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 Correia (PT)	PIB	60.00	60.00	45.00	45.00	EUR
Palfinger Crane Rus OOO, St. Petersburg (RU)	PARUS	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) <i>(Initial consolidation: 31 January 2017)</i>	EMEA	-	100.00	-	100.00	DKK
Palfinger EMEA GmbH, Salzburg (AT)	PAG	100.00	100.00	100.00	100.00	EUR

Company, registered office	Controlling company ¹⁾	Direct investment ²⁾ (in per cent)		Indirect investment ³⁾ (in per cent)		Curr. ⁴⁾
		2016	2017	2016	2017	
Fully consolidated companies						
Palfinger Equipment (Nantong) Co., Ltd., Nantong (CN) <i>(formerly: Palfinger (Shenzhen) Ltd.)</i>	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 Harding Holding AS, Seimsfoss (NO)	PALMA	100.00	-	100.00	-	NOK
Palfinger Hayons S.A.S., Silly en Gouffern (FR) <i>(formerly: MBB Inter S.A.S.)</i>	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., Geoje-si (KO) <i>(formerly: Harding Safety Korea Co. Ltd.)</i>	PALM AS	100.00	100.00	100.00	100.00	KRW
Palfinger Liftgates, LLC, Cerritos (US)	PUSA	100.00	100.00	100.00	100.00	USD
Palfinger Lifting Technology (Nantong) Co., Ltd., Nantong (CN)	PAP	100.00	100.00	100.00	100.00	CNY
Palfinger Marine Canada Inc., Langley (CA) <i>(formerly: Harding Safety Canada Inc.)</i>	PALM AS	100.00	100.00	100.00	100.00	CAD
Palfinger Marine Czech s.r.o., Slaný (CZ) <i>(formerly: Harding Safety Czech s.r.o.)</i>	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, Odense SØ (DK) <i>(formerly: Harding Safety Denmark AS)</i>	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) <i>(formerly: Harding Safety Hong Kong Limited)</i>	PALM AS	100.00	100.00	100.00	100.00	HKD
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) <i>(formerly: Harding Boatbuilding (Qingdao) Co. Ltd.)</i>	PALM AS	100.00	100.00	100.00	100.00	CNY
Palfinger Marine LSE Poland sp.z.o.o., Solec Kujawski (PL) <i>(formerly: Harding Safety Poland Spółka z o.o.)</i>	PALM AS	100.00	100.00	100.00	100.00	PNL
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., Barneveld (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 (PAN) <i>(formerly: Harding Safety Inc. (Panama))</i>	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 Safety AS, Seimsfoss (NO) <i>(formerly: Harding Safety AS)</i>	PALMA	100.00	100.00	100.00	100.00	NOK
Palfinger Marine Shanghai Co., Ltd., Shanghai (CN) <i>(formerly: Harding Safety (Shanghai) Co. Ltd.)</i>	PALM AS	100.00	100.00	100.00	100.00	CNY
Palfinger Marine UK Limited, Gosport Hampshire (GB)	PALM AS	100.00	100.00	100.00	100.00	GBP
Palfinger Marine USA Inc., New Iberia (US) <i>(formerly: Harding Safety USA Inc.)</i>	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 North America GmbH, Salzburg (AT)	PAUG	100.00	-	100.00	-	EUR
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	80.00	77.00	80.00	77.00	EUR
Palfinger PM Holding GmbH, Salzburg (AT)	PCIS	60.00	60.00	60.00	60.00	EUR
Palfinger Produktionstechnik Bulgaria EOOD, Cherven Brjag (BG)	EMEA	100.00	100.00	100.00	100.00	EUR

Company, registered office	Controlling company ¹⁾	Direct investment ²⁾ (in per cent)		Indirect investment ³⁾ (in per cent)		Curr. ⁴⁾
		2016	2017	2016	2017	
Fully consolidated companies						
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., Harderwijk (NL)	PAG	100.00	100.00	100.00	100.00	EUR
Palfinger Russland GmbH, Salzburg (AT)	PCIS	100.00	100.00	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) <i>(formerly: MBB Palfinger s.r.o.)</i>	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 USA, Inc., Council Bluffs (US)	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	99.72	99.73	BRL
PalFleet Truck Equipment Company, LLC, Tiffin (US)	OSP	100.00	100.00	100.00	100.00	USD
Podyomnie Maschiny AO, Velikiye Luki (RU)	PMH	100.00	100.00	60.00	60.00	RUB
SMZ OOO, Arkhangelsk (RU)	PM/HKPM	100.00	100.00	60.00	60.00	RUB
Velmash-S OOO, Velikiye Luki (RU)	PM/HKPM	100.00	100.00	60.00	60.00	RUB

Company, registered office	Controlling company ¹⁾	Direct investment ²⁾ (in per cent)		Indirect investment ³⁾ (in per cent)		Curr. ⁴⁾
		2016	2017	2016	2017	
Companies reported at equity						
Associated companies						
Alu1 Norge AS, Husnes (NO)	PALM AS	34.00	34.00	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	49.00	48.94	49.00	48.94	EUR
SANY Automobile Hoisting Machinery Co., Ltd., Changsha (CN)	PAP	10.00	10.00	10.00	10.00	CNY
STEPSA Farmkran Gesellschaft m.b.H., Elisabethen (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

Company, registered office	Controlling company ¹⁾	Direct investment ²⁾ (in per cent)		Indirect investment ³⁾ (in per cent)		Curr. ⁴⁾
		2016	2017	2016	2017	
Other shareholdings						
Rosendal Hamn Egedom 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
Athens AS, Stord (NO)	PALM AS	6.20	6.20	6.20	6.20	NOK

1) Controlling company:

BOATS = Palfinger Boats B.V., Haderwijk (NL)

EMEA = Palfinger EMEA GmbH, Salzburg (AT)

ETI = Equipment Technology, LLC, Oklahoma City (US)

HH1 = Harding Holding I AS, Seimsfoss (NO)

HKPM = Holding Company Podyomnie Maschini AO, Arkhangelsk (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)

PHH = Palfinger Harding Holding AS, Seimsfoss (NO)

PIB = Palfinger Ibérica Maquinaria S.L., Madrid (ES)

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)

PUSA = Palfinger USA, Inc., Tiffin (US)

VMS = Velmarsh-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, 31 January 2018

The Management Board of PALFINGER AG

Felix Strohbichler m.p.
 Chief Financial Officer

Martin Zehnder m.p.
 Member of the Management Board



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Detailed GRI and Sustainability Disclosures

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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 2017 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 and take into account PALFINGER's four sustainability areas. The GRI content index provides an overview of the sustainability issues, 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.

 [Materiality analysis, page 42](#); [GRI content index, page 242](#)

All figures for the year 2017 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, above all, aggregated KPIs at group level; detailed reporting can be found in this chapter.

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 four sites have chosen this exception regarding specific staff KPIs: Palfinger Tail Lifts s.r.o., Palfinger Hayons S.A.S., Palfinger Danmark AS and Palfinger Marine Korea Ltd. 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 206](#)

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 2017 is found on the following pages in the chapter "Management systems in use". The sites in Sacheon (KR), Nantong (CN) and Barneveld (NL) were closed down and are therefore no longer included. In turn, three new sites were added: Olve (NO), Solec Kujawski (PL), Qingdao (CN).

Differentiation by scope of direct and indirect CO₂ 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"). In 2016, due to the new sites, two additions were made to the sources of energy reported on: coal and district heating. Conversion was based on the 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. In the reporting period, 2013 was maintained as the base year for index presentation; this provides 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 requirements 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

MANAGEMENT SYSTEMS IN USE

PALFINGER attaches great importance to continuously enhancing 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 by the production site in Lengau (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 2017, approx. 87 per cent (previous year: 86 per cent) of all employees were working at sites with an ISO 9001 quality management system in place. The introduction of such a system is scheduled for the Russian site in Neftekamsk for 2018. PALFINGER's quality standards for welding processes are equally high; at the reporting date, approx. 43 per cent (previous year: 41 per cent) of all employees were working at sites that had obtained country-specific welding certificates. 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 33 per cent (previous year: 31 per cent), work at plants that have been certified under ISO 14001. The initial certification of the Austrian site in Elsbethen was successfully completed in 2017. 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.

📄 [Environmental and energy management, page 104](#)

Since 2015, PALFINGER sites in Austria, Germany, Slovenia, Romania and Bulgaria have been subject to the provisions of the relevant national legislations transposing the EU Energy Efficiency Directive. The percentage of staff employed at sites with energy management systems according to ISO 50001 remained more or less constant at 40 per cent (previous year: 39 per cent).

At PALFINGER, one way of managing occupational health and safety aspects is OHSAS 18001 certification. The percentage of employees to which this applies was marginally increased to 24 per cent (previous year: 23 per cent). This type of certification is scheduled to be introduced at a site in Germany in 2018.

Certifications			Quality		Environment		Safety
Site or registered office	Company	Headcount	ISO 9001 ¹⁾	Welding certifications ²⁾	ISO 14001	ISO 50001	OHSAS 18001
Ainring (DE)	Palfinger GmbH	232	X	X		X	
Arkhangelsk (RU)	SMZ OOO	167	X				
Bergheim (AT)	PALFINGER AG	287					
Cadelbosco Sopra (RE) (IT)	Palfinger Gru Idrauliche S.r.l.	75	X				
Caussade (FR)	Guima Palfinger S.A.S.	194	X	X	X		X
Caxias do Sul - Madal (BR)	Madal	216	X				
Cherven Brjag (BG)	PPT-Bulgarien Cherven Briag	620	X	X			
Council Bluffs (US)	OSP	176					
Delnice (HR)	Palfinger proizvodna tehnologija Hrvatska d.o.o.	84	X	X			
Elsbethen (AT)	EPSILON Kran GmbH	109	X		X		
Ganderkesee (DE)	Palfinger Tail Lifts GmbH	217	X	X		X	
Gdynia (PL)	Palfinger Marine Poland sp.z.o.o.	22	X				
Hanoi (VN)	Palfinger Marine Vietnam Co., Ltd.	64	X				
Harderwijk - Boats (NL)	Palfinger Boats B.V.	23	X				
Hung Yen (VN)	Palfinger Boats Vietnam Co., Ltd.	42	X				
Ishimbay (RU)	INMAN AO	483	X				
Köstendorf (AT)	Palfinger Europe GmbH	394	X		X	X	X
Krefeld (DE)	Palfinger Platforms GmbH	113	X	X		X	
Lazuri (RO)	Nimet Srl	544	X		X		X
Lengau (AT)	Palfinger Europe GmbH	786	X	X	X	X	X
Löbau (DE)	Palfinger Platforms GmbH	186	X			X	
Maribor (SI)	PALFINGER proizvodnja d.o.o.	559	X	X		X	
Maribor - Palfinger Marine (SI)	Palfinger Marine d.o.o., Maribor	98	X			X	
Modena (IT)	Palfinger Platforms Italy s.r.l.	28	X				
Neftekamsk (RU)	Palfinger Kama Cylinders OOO	193	Plan 2018				
Niagara Falls (CA)	Palfinger, Inc.	92					
Oklahoma (US)	Equipment Technology, LLC	264					
Olve (NO)	Palfinger Marine Safety AS	216	X				
Porto Alegre (BR)	Palfinger Marine Montagens Industriais do Brasil Ltda.	8					
Qingdao (CN)	Palfinger Marine LSE (Qingdao) Co., Ltd.	56	X				
Seifhennersdorf (DE)	Palfinger Platforms GmbH	45	X	X		X	Plan 2018
Solec Kujawski (PL)	Palfinger Marine LSE Poland sp.z.o.o.	79	X				
Tenevo (BG)	PPT-Bulgarien Tenevo	656	X	X	X	X	
Trenton / New Jersey (US)	PARO	70					
Velikiye Luki (RU)	Vel mash-S OOO	634	X				
Welwyn Garden City (GB)	Palfinger Tail Lifts Limited	101	X				
Total headcount		8,133	7,043	3,506	2,683	3,286	1,918
Percentage of headcount using certificate			87%	43%	33%	40%	24%

1) As well as other similar quality management standards.

2) According to the following certifications: ZL EN729, EN3834-2, Schweiß-ZL GL, BS 4872 or EN287 issued to individuals; at American sites certification by TSSA, ASTM A36, A514 T1 or HNSI/AWS D1.1 issued to individuals.

REPORTING STANDARDS

GRI STANDARDS

The allocation of PALFINGER's sustainability issues to the respective GRI disclosures is marked by references. Moreover, the impacts of an issue, 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 issues are associated with which provisions of the Austrian Sustainability and Diversity Improvement Act, which was applied in the reporting year for the first time. 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 issues on a Sustainable Development Goal.

The top 13 sustainability issues of PALFINGER directly impact nine SDGs. The major impact is shown to be exerted on the five following goals in descending order. These five often interact and support each other. They will be taken into account in reporting in the future.

SDG 12: Responsible consumption and production

PALFINGER assumes responsibility by using raw materials efficiently. The reduction of energy consumption 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 or the switch to renewable energy, provided that an adequate solution is offered by the energy supplier. Specific objectives and measures regarding energy consumption and CO₂ 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 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, which are also aimed at maintaining 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 issues 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)

For four years, PALFINGER has been committed to compliance with the ten principles of the UN Global Compact. Instead of disclosing a Communication on Progress report, the sustainability issues are combined with the UN principles in the impact table below.

IMPACTS OF THE SUSTAINABILITY ISSUES ALONG THE VALUE CREATION CHAIN

The impact table shows which sustainability issues and topics are deemed material for PALFINGER, at which stage of the value creation chain their impacts occurs, 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 issues 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.

 [Materiality analysis, page 42](#)

 Responsible employer

 Eco-efficiency in production

 Sustainable products

 Fair business

IMPACT TABLE

Ranking	Material topics	Stage of value creation chain			References to guidelines GRI disclosures NaDiVeG SDG UNGC	Intensity of reporting
		Supply chain	Within the Company	Product use		
1	Product safety PALFINGER's products should be distinguished by utmost safety. The prevention of accidents during their use should go beyond statutory requirements.				<ul style="list-style-type: none"> • GRI: 416-1, 416-2 	Quantitative presentation of any accidents involving products and description of safety innovations for products
2	Product research and development¹⁾ PALFINGER should increasingly invest in product research and development and offer the latest technologies.				<ul style="list-style-type: none"> • No GRI disclosures available • NaDiVeG • SDG: 9, 13 	Quantitative presentation of investment in research and development
3	Innovation in production¹⁾ PALFINGER should promote sustainable innovations and technologies in the production process in order to increase efficiency ("more output with less input").				<ul style="list-style-type: none"> • No GRI disclosures available • NaDiVeG • SDG: 9, 13 	Quantitative presentation of investment in research and development
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.				<ul style="list-style-type: none"> • 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
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.				<ul style="list-style-type: none"> • 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
6	Product lifecycle²⁾ 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.				<ul style="list-style-type: none"> • GRI: 301-1, 302-1, 302-2, 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
7	Employee development³⁾ 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).				<ul style="list-style-type: none"> • GRI: 404-1 • NaDiVeG • SDG: 4, 8 	Quantitative presentation of hours of training, appraisal interviews as well as qualitative description of development programmes
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.				<ul style="list-style-type: none"> • GRI: 302-1, 302-2, 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
9	Raw material demand and efficiency In production, PALFINGER should use raw materials such as steel, aluminium and glass fibre efficiently.				<ul style="list-style-type: none"> • 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
10	Attractive employment⁴⁾ 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.				<ul style="list-style-type: none"> • 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

Ranking	Material topics	Stage of value creation chain			References to guidelines GRI disclosures NaDiVeG SDG UNGC	Intensity of reporting
		Supply chain	Within the Company	Product use		
11	Corporate culture and values⁵⁾ 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.				<ul style="list-style-type: none"> • 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
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.		 		<ul style="list-style-type: none"> • GRI: 102-16, 102-17, 205-1, 205-2, 205-3, 206-1, 307-1, 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
13	Industry 4.0 and digitalization⁵⁾ 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.	 	 		<ul style="list-style-type: none"> • No GRI disclosures available • NaDiVeG • SDG: 9, 13 	Qualitative description of digitalization and Industry 4.0

Ranking	Further topics	Stage of value creation chain			References to guidelines GRI disclosures NaDiVeG SDG UNGC	Intensity of reporting
		Supply chain	Within the Company	Product use		
14	Alternative drive systems PALFINGER should offer alternative drive systems (e.g. electric, hybrid).				<ul style="list-style-type: none"> • 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.		 		<ul style="list-style-type: none"> • 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
16	Working conditions⁵⁾ PALFINGER should establish uniform minimum standards in order to guarantee globally applicable working conditions for its employees. This should create safe and healthy jobs.		 		<ul style="list-style-type: none"> • 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 products⁶⁾ 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.		 		<ul style="list-style-type: none"> • 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
18	Overall performance⁵⁾ PALFINGER should increasingly become a full-service provider for one-stop-shop solutions.				<ul style="list-style-type: none"> • No GRI disclosures available 	Qualitative description of PALFINGER's overall performance
19	Fair remuneration PALFINGER should offer fair remuneration regardless of age, gender, origin and other diversity factors, and should ensure local minimum wages.		 		<ul style="list-style-type: none"> • No GRI disclosures reported • NaDiVeG • SDG: 5, 10 	Qualitative description of wage level

Ranking	Further topics	Stage of value creation chain			References to guidelines GRI disclosures NaDiVeG SDG UNGC	Intensity of reporting
		Supply chain	Within the Company	Product use		
20	Employee motivation⁵⁾ PALFINGER should provide an environment that raises the motivational level of its employees. Innovative incentive systems should support this, especially for agile teams.				<ul style="list-style-type: none"> 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.		 		<ul style="list-style-type: none"> 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.		 		<ul style="list-style-type: none"> 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
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.				<ul style="list-style-type: none"> 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: suppliers⁷⁾ 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.	 			<ul style="list-style-type: none"> 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.		 		<ul style="list-style-type: none"> 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.				<ul style="list-style-type: none"> No GRI disclosures available SDG: 10 	Qualitative description of employee communication
27	Modern workplaces⁵⁾ 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, home offices, parental leave, expatriations, etc.).				<ul style="list-style-type: none"> No GRI disclosures available SDG: 5, 8, 10 	Qualitative description of modern workplaces
28	Sustainability in the supply chain: dealers⁷⁾ 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.		 		<ul style="list-style-type: none"> GRI: 308-1, 308-2, 407-1, 408-1, 409-1, 414-1, 414-2 NaDiVeG UNGC: 1-9 	Qualitative presentation of dealers
29	Environmentally friendly transport The transport of raw materials, components and PALFINGER products should be kept short and environmentally friendly.		 		<ul style="list-style-type: none"> GRI: 305-1, 305-2, 305-3, 305-4 NaDiVeG UNGC: 7-9 	Qualitative description of transport
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.		 		<ul style="list-style-type: none"> No GRI disclosures available SDG: 1, 8 	Qualitative description of lifting solutions for developing and emerging countries

Ranking	Further topics	Stage of value creation chain			References to guidelines GRI disclosures NaDiVeG SDG UNGC	Intensity of reporting
		Supply chain	Within the Company	Product use		
31	Efficiency of water consumption⁵⁾ The water consumption in PALFINGER's production should be constantly reduced.				<ul style="list-style-type: none"> No GRI disclosures reported NaDiVeG SDG: 6 	Qualitative description of efficient use of water
32	Product information and fair marketing³⁾ 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.				<ul style="list-style-type: none"> 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
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).				<ul style="list-style-type: none"> No GRI disclosures available 	Qualitative description of product innovations
34	Regional procurement and production⁹⁾ PALFINGER should procure regionally and produce in the region where the products are placed on the market.				<ul style="list-style-type: none"> No GRI disclosures reported 	Qualitative description of regional procurement and production
35	Freedom of association¹⁰⁾ PALFINGER should uphold freedom of association and guarantee freedom of expression.				<ul style="list-style-type: none"> GRI: 402-1, 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.				<ul style="list-style-type: none"> GRI: 102-40, 102-41, 102-42, 102-43, 102-44 NaDiVeG UNGC: 3-6 	Presentation within the framework of stakeholder management
37	Biodiversity⁵⁾ PALFINGER should practise nature conservation and, in particular, preserve biodiversity at its sites.				<ul style="list-style-type: none"> 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.				<ul style="list-style-type: none"> No GRI disclosures available 	Qualitative presentation of PALFINGER's pre-owned market

Changes as compared to the previous materiality analysis:

- 1) More detailed presentation of the former topic: Research and development
- 2) Former terms: Durability of products; Combination of the topics: Efficient and environmentally friendly products, Low product weight
- 3) Former term: Training
- 4) Former term: Attractive employment possibility
- 5) New topic
- 6) Combination of the topics: Avoidance of noise and emissions, Biodegradable hydraulic oil, Products without problematic substances
- 7) More detailed presentation of the former topic: Sustainability in the supply chain
- 8) Combination of the topics: Product information, Fair marketing
- 9) Former term: Regional procurement
- 10) Former term: Freedom of assembly

 **GRI 103-1**
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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
PALFINGER has set itself the goal of lowering employee turnover to under 10 per cent and staff absences due to industrial accidents to under 0.11 per cent starting in 2016. 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.			
Health and safety			
Uniform global definition of accidents and uniform reporting	In the future, in addition to absentee rate, individual accidents will also be reported group-wide in accordance with a uniform definition regarding severity. This will support the local continuous improvement processes. This measure has been deferred until 2018. Data reviews were begun in 2017 in order to evaluate the national standards.	◑	2019
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 other priorities. In the future, PALfit is to be established at additional sites.	◑	2019
"Healthy leadership"	Industry psychologists (focus: crisis communication) will give presentations to raise employees' awareness; follow-up measures are also to be implemented. The Austrian project was introduced at other sites. No further expansion is planned at the moment.	●	2017
Crisis intervention team	In Austria, a crisis intervention team was trained in order to be able to manage crises in the best possible way.	●	2017
Attractive employment			
Establishment of an employer branding strategy	In 2018, a group-wide employer branding strategy will be defined. One of the objectives of this strategy is to enhance PALFINGER's attractiveness as an employer at all corporate locations worldwide.	◐	2018
Personnel marketing	PALFINGER used 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.	◑	2019
On-boarding process	In the future, additional initiatives are to be carried out in various areas to enhance the integration of new staff members.	◑	2019
HR strategy	In 2017, PALFINGER defined a new HR strategy and HR goals. Future HR processes will be aligned with this strategy. In a first step, an HR system as well as the competencies of individual jobs within the Company are being defined.	○	2018
HR system	In 2017, PALFINGER chose a provider for a new HR system, which will be implemented within the next three years and will cover topics such as master data, talent management, recruiting, training and communication.	○	2019
Job architecture	As part of its HR strategy, PALFINGER launched the job architecture project, under which competencies will be defined. The project started with a pilot for the marine business.	○	2019
Employee development			
Coaching for executives	In 2017, the establishment of coaching programmes for executives was continued and the availability of these programmes was actively communicated. Further measures, as well as a new approach, are planned for the future.	◑	2019
Expansion of employee development	The college programme was expanded in Austria and North America. The idea of the PALFINGER College will be integrated into the new HR system and become a global learning platform.	◑	2020
Diversity and equal opportunity			
PALiversity project "Recruiting"	All employees were given access to all social media platforms. In addition, a recruiting tool will be part of the new HR system.	◑	2019
PALiversity 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 individual business areas have regional responsibility to implement the best working conditions.	◑	2019
PALiversity project "Talent Management"	The project intends to generate group-wide awareness for talent management. Afterwards, corporate targets are to be defined and the necessary HR requirements for a relevant tool are to be gathered and evaluated. This tool will also be part of the HR system.	◑	2019
Diversity scheme	PALFINGER is establishing a diversity scheme that takes into account the new Austrian legislation on non-financial reporting. The implementation of the scheme, as well as further measures, will take place in 2018.	○	2022

RESPONSIBLE EMPLOYER		Status	Goal
Employee communication			
New intranet	In order to further improve internal communications, the existing intranet is to be replaced by a modern tool for specific subjects. This will be part of the new HR system.	●	2019
Corporate culture and values			
Focus on corporate culture and vision	The further development of PALFINGER's corporate culture is intended to help increase transparency. Insight into this issue is provided primarily by the employee survey. Priority will be given primarily to communicating the values and vision of PALFINGER.	●	2018
ECO-EFFICIENCY IN PRODUCTION		Status	Goal
PALFINGER has set itself the goal of improving energy efficiency and reducing hazardous waste (Index) by 1.8 percentage points every year starting in 2014. In 2017, the additional goal of achieving a 25 per cent CO ₂ reduction by 2030 (base year 2015) was defined.			
Energy efficiency and climate protection			
Continuation of lighthouse projects for energy efficiency	PALFINGER will continue to place a focus on eco-efficiency in production and facility management: Efforts to enhance energy efficiency were initiated, and transferred to the line structure.	●	2017
Best-practice pool for energy efficiency	Information on successfully implemented energy-efficiency initiatives was electronically provided to the local responsible officers throughout the Group. As Sharepoint was not sufficiently used as a networking platform, PALFINGER is now increasingly promoting face-to-face communication. In 2017, a webinar series touching on several material topics for all local environmental officers as well as persons responsible for reporting was held.	●	2017
Certified environmental management systems at additional sites	An environmental management system certified according to ISO 14001 was introduced at the site in Elsbethen (AT) in 2017.	●	2017
Paint shops and powder coating plants	Existing paint shops and powder coating plants in EMEA are being optimized and/or replaced by new lines. New paint shops and powder coating lines are scheduled to take up operations in 2018.	●	2018
Modernization and expansion of plants	Austrian sites were modernized in the course of the expansion of the building control systems. At the Bulgarian and Russian sites, expansion of the plants has started and the modernization programmes have been launched.	●	2019
Greenfield investments marine business	The option of greenfield investments will be reviewed in the course of the integration of Harding sites. These sites are then to be equipped with the best possible energy balance and renewable energy sources. Due to the prevailing market conditions, this measure has been put on hold.	○	2019
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 begun at the Velikiye Luki (RU) site.	●	2018
E-mobility	The use of e-mobility at sites or in connection with PALFINGER products is being promoted. So far, charging stations for electric vehicles are available at five locations: Bergheim (AT), Kasern (AT), Köstendorf (AT), Lengau (AT) and Ainring (DE).	●	2018
Exchange on environmental topics	PALFINGER will organize meetings for exchange between local environmental officers. These meetings will focus on various environmental topics, such as energy, waste, water, etc.	○	2018
Photovoltaic systems	Analyses regarding extensive installations of photovoltaic systems at sites in the EMEA region are being made.	○	2020
Heating degree days	Heating has a great impact on the amount of energy consumed. In order to be able to better interpret heating KPIs, heating degree days are to be taken into account in the index calculation.	○	2018
Effluents and wastes			
Reduction of hazardous waste	PALFINGER will analyse the plants that contribute the largest volumes of hazardous waste and develop solutions to reduce these waste volumes.	○	2018
SUSTAINABLE PRODUCTS		Status	Goal
Product lifecycle			
Lifecycle approach	The lifecycle assessment project, in which the lifecycle costs of PALFINGER products are monitored and analysed, was launched in 2017. For the time being, this project is being implemented for individual product groups only.	●	2019
Product information and fair marketing			
Review of dealer standards	The purpose of the review of international dealer standards is 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
New website: environmentally friendly and safe products	A general description of all PALFINGER products has already been made available on the new responsive website. It was internally agreed that these descriptions would not be supplemented by a presentation of the products' environmental and safety advantages.	⊗	2017
Operator's guides and training	PALFINGER will review the operator's guides for its products and offer operator training in order to better ensure proper use of the products after delivery in the future.	○	2019
End customers in the system	In the future, PALFINGER will enter end customers into the corporate system to ensure a better business partner management. Networking between PALFINGER and its customers will foster sustainable business relations.	○	2019

FAIR BUSINESS		Status	Ziel
Viability of the business model			
Marine business as a second mainstay	PALFINGER's marine business is to be established as a second mainstay. The acquisition of Harding in 2016 was already a major step towards achieving this objective. The strategic focus on the marine business is being supported by ongoing consolidation into the organizational structure.	●	2017
Industry 4.0 and digitalization			
Industry 4.0 and digitalization	Digitalization is seen as a crucial factor for the viability of PALFINGER's business model and thus as an integral part of the corporate strategy. PALFINGER 21st is a new strategic pillar that supports PALFINGER's vision for a digital future. In 2017, the new digitalization department concentrated on establishing an online connection of the PALFINGER products as well as intelligent production processes.	●	2017
PALFINGER 21st	PALFINGER has developed a new vision with a new business model called PALFINGER 21st. Sustainability issues will be considered in this model in the future as well.	○	2019
Compliance with legal and ethical standards			
Training in corporate ethics for new employees	In 2017, training sessions were held in China in order to raise awareness of corporate ethics. A video explaining the Code of Conduct was internationally distributed and translated into 19 languages. A training concept for compliance topics is being developed.	●	2018
Corporate audit	The further development of the corporate audit approach is being evaluated and will be adjusted at the beginning of 2018. Moreover, the headcount was increased in 2017 and will continue to grow in 2018.	●	2018
Regional procurement and production			
Regional procurement	PALFINGER's inventories were actively reduced thanks to the group-wide Current Capital 25% initiative launched in 2015 to optimize internal processes. The initiative was completed in 2017 and was integrated into the corporate controlling department. Moreover, additional initiatives for local procurement were launched regionally.	●	2017
SUSTAINABILITY MANAGEMENT		Status	Goal
Group conference for environmental and health officers	All local environmental officers were invited to take part in a webinar series to engage in exchange on their experience and ideas concerning a wide range of environmental issues. Objectives of the webinar series included creating a common sustainability culture at PALFINGER, standardizing definitions and optimizing reporting and the exchange of experience among personnel in charge of reporting. In 2018, this webinar series will be expanded to include to health and safety issues.	●	2018
Targeted stakeholder communication	In 2017 another sustainability analysis in the form of a stakeholder survey was conducted. On the basis of the findings, targeted measures for the control of communication strategies will be implemented.	●	2018
Sustainable Development Goals and Science Based Targets	In 2017, PALFINGER carried out an in-depth internal analysis of the Sustainable Development Goals (SDGs) and also asked external stakeholders regarding the most important SDGs for PALFINGER. Five SDGs with particularly significant impacts were identified. The evaluation of the Science Based Targets was begun and will continue in 2018. It will be used as a basis for defining the targets for key environmental indicators.	●	2018
Sustainability vision	The corporate sustainability team will update the PALFINGER sustainability vision and consider new trends.	○	2018
Facility management	In 2018, the corporate sustainability team will focus on connecting the strategic and operational aspects of sustainability management.	○	2018

🌐 GRI 103-2, 205-2

DETAILED SUSTAINABILITY DISCLOSURES

RESPONSIBLE EMPLOYER

Headcount overview

		2015 ¹⁾	2016 ²⁾	2017
PALFINGER Group	Core workforce (current)	8,911	9,658	9,973
	Apprentices & interns	191	188	239
	TOTAL	9,102	9,846	10,212
Regions	European Union	4,879	5,484	6,009
	Far East	310	423	374
	CIS	1,843	1,742	1,575
	Central and South America	297	259	458
	Middle East and Africa	609	611	521
	North America	1,081	1,019	957
	Rest of Europe	83	308	318
Gender	Female	12.9%	13.3%	13.1%
	Male	87.1%	86.7%	86.9%
Generations³⁾	0-29	25.8%	20.0%	18.9%
	30-50	53.2%	57.5%	59.1%
	50+	20.9%	22.5%	22.0%
Employment type	Full-time	-. ⁴⁾	96.9%	95.0%
	Part-time	-. ⁴⁾	3.1%	5.0%
Employment contract	Permanent	-. ⁴⁾	93.3%	95.6%
	Temporary	-. ⁴⁾	6.7%	4.4%

1) Changes in the calculation basis have changed personnel indicators with retrospective effect.

2) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

3) Age categories were altered marginally. The presentation of 2015 figures is based on approximate values to retain comparability.

4) The indicator for 2015 is not available. Personnel indicators were adjusted to the GRI standard from 2016 onwards with retrospective effect.

Employment trend

Overall, the number of employees in the PALFINGER Group increased compared to the previous year. At year end 2017, PALFINGER's headcount was 10,212. As a result of acquisitions and sales, the total number of staff increased by more than 350 persons. In the 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 resulting capacity increases. As a consequence, more than 500 staff members were added to the headcount in the European Union. In the Americas, the headcount grew by more than 130 year on year, primarily due to the full consolidation of Hidro-Grubert in Argentina during the reporting period. The CIS region as well as the global marine locations experienced a workforce reduction by approx. 150 employees, due to restructuring measures. Temporary workers are employed primarily in the European Union; their number rose to 674 in the reporting period (previous year: 529 temporary workers). The number of permanent employees in this region increased at the same rate.

EMPLOYEE TURNOVER

In the 2017 reporting period, the employee turnover rate grew from 15.4 per cent to 18.7 per cent. The elevated employee turnover rates in some regions can be traced back to developments at individual sites. Restructuring in North America, Brazil and Russia was the biggest factor influencing these rates.

🌐 GRI 401-1

Employment trend (headcount / in per cent)			2015 ¹⁾		2016 ²⁾		2017	
PALFINGER Group	Employee entries		1,419 / 15.9%		1,198 / 13.3%		1,882 / 18.9%	
	Employee turnover		1,218 / 14.2%		1,291 / 15.4%		1,868 / 18.7%	
	Core workforce (current)		8,911		9,658		9,973	
	of which staff at new entities		204		815		148	
	Apprentices & interns		191		188		239	
	Contract workers		496		529		674	
	TOTAL		9,598		10,375		10,886	
			Female & Male	Female	Male	Female	Male	
Employee entries	Generations ³⁾	0-29	-	-	-	101 / 44.3%	697 / 42.0%	
		30-50	-	-	-	107 / 13.5%	811 / 15.9%	
		50+	-	-	-	23 / 8.0%	143 / 7.5%	
	Regions	European Union	641 / 13.6%	61 / 10.8%	569 / 11.9%	114 / 18.0%	1,071 / 20.5%	
		Far East	96 / 32.1%	4 / 4.6%	21 / 6.3%	20 / 24.4%	46 / 15.8%	
		CIS	330 / 18.2%	55 / 14.6%	236 / 17.6%	54 / 15.9%	149 / 12.2%	
		Central and South America	30 / 10.1%	9 / 28.1%	53 / 25.2%	12 / 24.5%	91 / 28.1%	
		Middle East and Africa	94 / 15.4%	2 / 8.7%	102 / 17.3%	1 / 4.3%	64 / 12.9%	
		North America	220 / 20.4%	8 / 8.1%	75 / 8.2%	26 / 28.0%	217 / 25.1%	
		Rest of Europe	8 / 9.6%	0 / 0.0%	3 / 1.4%	4 / 4.3%	13 / 5.8%	
		SUM	1,419 / 15.9%	139 / 12.2%	1,059 / 13.5%	231 / 17.6%	1,651 / 19.1%	
Employee turnover	Generations ³⁾	0-29	-	-	-	67 / 29.4%	527 / 31.7%	
		30-50	-	-	-	110 / 13.9%	828 / 16.2%	
		50+	-	-	-	59 / 20.4%	277 / 14.6%	
	Regions	European Union	417 / 9.2%	33 / 6.6%	332 / 7.5%	73 / 11.6%	759 / 14.5%	
		Far East	33 / 11.1%	5 / 21.7%	9 / 7.1%	18 / 22.0%	76 / 26.0%	
		CIS	326 / 18.9%	110 / 29.1%	275 / 20.5%	94 / 27.6%	278 / 22.7%	
		Central and South America	80 / 21.5%	18 / 60.0%	94 / 49.5%	10 / 20.4%	112 / 34.6%	
		Middle East and Africa	86 / 15.8%	0 / 0.0%	96 / 17.1%	1 / 4.3%	141 / 28.3%	
		North America	255 / 24.4%	31 / 46.3%	276 / 42.7%	33 / 35.5%	254 / 29.4%	
		Rest of Europe	21 / 21.6%	2 / 10.5%	10 / 13.2%	7 / 7.6%	12 / 5.3%	
		SUM	1,218 / 14.2%	199 / 19.2%	1,092 / 14.8%	236 / 18.0%	1,632 / 18.8%	
Core workforce (actual)	Generations ⁴⁾	0-29	2,246 / 25.8%	228 / 2.4%	1,706 / 17.7%	228 / 2.3%	1,660 / 16.6%	
		30-50	4,627 / 53.2%	739 / 7.6%	4,816 / 49.8%	794 / 8.0%	5,100 / 51.1%	
		50+	1,821 / 20.9%	304 / 3.1%	1,865 / 19.3%	289 / 2.9%	1,902 / 19.1%	
	Regions	European Union	4,726 / 51.9%	566 / 5.7%	4,771 / 48.5%	632 / 6.2%	5,234 / 51.3%	
		Far East	299 / 3.3%	87 / 0.9%	336 / 3.4%	82 / 0.8%	292 / 2.9%	
		CIS	1,817 / 20.0%	378 / 3.8%	1,343 / 13.6%	340 / 3.3%	1,225 / 12.0%	
		Central and South America	297 / 3.3%	32 / 0.3%	210 / 2.1%	49 / 0.5%	324 / 3.2%	
		Middle East and Africa	609 / 6.7%	23 / 0.2%	588 / 6.0%	23 / 0.2%	498 / 4.9%	
		North America	1,080 / 11.9%	99 / 1.0%	920 / 9.3%	93 / 0.9%	863 / 8.5%	
		Rest of Europe	83 / 0.9%	86 / 0.9%	219 / 2.2%	92 / 0.9%	226 / 2.2%	
		SUM	8,911 / 97.9%	1,271 / 12.9%	8,387 / 85.2%	1,311 / 12.8%	8,662 / 84.8%	
Apprentices & interns			191 / 2.1%	34 / 0.3%	154 / 1.6%	29 / 0.3%	210 / 2.1%	
Contract workers			496 / 5.5%	10 / 0.1%	519 / 5.3%	55 / 0.5%	619 / 6.1%	

1) Changes in the calculation basis have changed personnel indicators with retrospective effect.

2) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

3) Indicators for 2015 and 2016 are not available. Reporting on the new age structure was begun for full year 2017.

4) Age categories were altered marginally. The presentation of 2015 figures is based on approximate values to retain comparability.

TYPES OF EMPLOYMENT CONTRACTS

Most of the PALFINGER Group's employees work on a full-time basis. In the 2017 financial year, only around 5 per cent of all employees had part-time contracts. While the largest share of part-time employees works around 8 per cent of the staff in the regions European Union and, Rest of Europe, and Middle East and Africa was employed part-time, there were hardly any part-time employees in the Americas, Asia and CIS.

Employment type (headcount) ¹⁾	2015 ²⁾		2016 ³⁾		2017	
PALFINGER Group	Full-time	-	7,996		9,476	
	Part-time	-	252		497	
	TOTAL		8,248		9,973	
Full-time	Female & Male	Female	Male	Female	Male	
European Union	-	358	3,909	472	4,932	
Far East	-	74	277	82	292	
CIS	-	379	1,361	337	1,217	
Central and South America	-	30	188	49	324	
Middle East and Africa	-	19	561	23	498	
North America	-	75	765	93	856	
Rest of Europe	-	0	0	81	220	
PALFINGER Group	-	935	7,061	1,137	8,339	
Part-time	Female & Male	Female	Male	Female	Male	
European Union	-	119	120	154	308	
Far East	-	0	1	0	0	
CIS	-	0	6	3	8	
Central and South America	-	0	1	0	0	
Middle East and Africa	-	0	0	0	0	
North America	-	0	5	0	7	
Rest of Europe	-	0	0	10	7	
PALFINGER Group	-	119	133	167	330	

1) The indicator is based on the core workforce (excl. apprentices and interns).

2) The indicator for 2015 is not available. Personnel indicators were adjusted to the GRI standard from 2016 onwards with retrospective effect.

3) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

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 a common practice. The only exceptions are certain projects and work experience placements, in the course of which PALFINGER gives young talents the opportunity to gain work experience in an international environment. The vast majority of PALFINGER employees, i.e. around 96 per cent, have employment contracts of indefinite duration.

Employment contract (headcount) ¹⁾		2015 ²⁾		2016 ³⁾	2017	
PALFINGER Group	Permanent	-	-	7,698		9,532
	Temporary	-	-	550		441
TOTAL				8,248		9,973
Permanent	Female & Male	Female	Male		Female	Male
European Union	-	460	3,835		612	5,024
Far East	-	69	239		76	244
CIS	-	373	1,354		332	1,216
Central and South America	-	30	189		49	324
Middle East and Africa	-	11	293		19	368
North America	-	75	770		92	863
Rest of Europe	-	0	0		91	222
PALFINGER Group	-	1,018	6,680		1,271	8,261
Temporary	Female & Male	Female	Male		Female	Male
European Union	-	17	194		14	216
Far East	-	5	39		6	48
CIS	-	6	13		8	9
Central and South America	-	0	0		0	0
Middle East and Africa	-	8	268		4	130
North America	-	0	0		1	0
Rest of Europe	-	0	0		0	5
PALFINGER Group	-	36	514		33	408

1) The indicator is based on the core workforce (excl. apprentices and interns).

2) The indicator for 2015 is not available. Personnel indicators were adjusted to the GRI standard from 2016 onwards with retrospective effect.

3) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

🌐 GRI 102-8

Health and safety

Employee safety has always been a priority at PALFINGER. Nevertheless, in 2017 a fatal industrial accident in Dubai could not be prevented. The total number of accidents during the reporting period was 478. The fact that the number of industrial accidents reported in European countries is considerably higher 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.

 Occupational safety and accident prevention, page 89

Accidents and fatalities (number / in per cent)		2015 ¹⁾		2016 ²⁾		2017	
PALFINGER Group	Employees	-		146 / 0.001%		432 / 0.002%	
	Contract workers	-		25 / 0.003%		47 / 0.003%	
	TOTAL	-		171 / 0.001%		479 / 0.002%	
Employees	Female & Male	Female	Male	Female	Male	Female	Male
European Union	-	2 / 0.000%	120 / 0.001%	7 / 0.001%	350 / 0.003%		
Far East	-	0 / 0.000%	4 / 0.001%	0 / 0.000%	2 / 0.000%		
CIS	-	1 / 0.000%	0 / 0.000%	0 / 0.000%	0 / 0.000%		
Central and South America	-	0 / 0.000%	5 / 0.001%	1 / 0.001%	11 / 0.002%		
Middle East and Africa	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	1 / 0.000%		
North America	-	1 / 0.001%	13 / 0.001%	3 / 0.002%	53 / 0.003%		
Rest of Europe	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	4 / 0.001%		
PALFINGER Group	-	4 / 0.000%	142 / 0.001%	11 / 0.000%	421 / 0.002%		
Contract workers	Female & Male	Female	Male	Female	Male	Female	Male
European Union	-	0 / 0.000%	18 / 0.002%	2 / 0.010%	43 / 0.005%		
Far East	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	0 / 0.000%		
CIS	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	0 / 0.000%		
Central and South America	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	0 / 0.000%		
Middle East and Africa	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	0 / 0.000%		
North America	-	0 / 0.000%	7 / 0.004%	0 / 0.000%	2 / 0.001%		
Rest of Europe	-	0 / 0.000%	0 / 0.000%	0 / 0.000%	0 / 0.000%		
PALFINGER Group	-	0 / 0.000%	25 / 0.003%	2 / 0.006%	45 / 0.003%		

1) The indicator for 2015 is not available. Personnel indicators were adjusted to the GRI standard from 2016 onwards with retrospective effect.
2) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

Staff absences due to industrial accidents have been at a low level in recent years, decreasing further to 0.18 per cent of regular working time in the 2017 financial year (previous year: 0.21 per cent). These figures illustrate that the measures taken in recent years have been efficient at all sites.

At PALFINGER, three types of absentee rates are measured: those due to sick leaves, those due to occupational diseases, and those due to other causes. In 2017, absentee rate rose from 4.19 per cent to 4.36 per cent year on year. In CIS, absentee rate remained stable for the most part. What is striking is the substantial increase in sick leaves in North America, which may have been related to changes occurring in connection with the restructuring measures taken there.

Staff absences and absentee rate (in per cent of regular working time)		2015 ¹⁾	2016 ²⁾	2017	
PALFINGER Group	Staff absences	0.12%	0.21%	0.18%	
	Absentee rate	4.00%	4.19%	4.36%	
Staff absences due to industrial accidents	Female & Male	Female	Male	Female	Male
European Union	0.19%	0.04%	0.15%	0.02%	0.21%
Far East	0.15%	0.00%	0.62%	0.00%	0.20%
CIS	0.00%	0.02%	0.01%	0.00%	0.00%
Central and South America	0.12%	0.00%	0.04%	0.02%	0.09%
Middle East and Africa	0.00%	0.00%	0.00%	0.00%	0.00%
North America	0.09%	0.08%	0.03%	0.12%	0.64%
Rest of Europe	0.04%	0.00%	0.00%	0.00%	0.03%
PALFINGER Group	0.12%	0.03%	0.09%	0.02%	0.19%
Absentee rates due to sick leaves, occupational diseases and other causes	Female & Male	Female	Male	Female	Male
European Union	4.65%	3.92%	2.30%	5.75%	4.26%
Far East	5.40%	2.20%	0.88%	17.43%	5.63%
CIS	4.35%	5.15%	3.93%	5.99%	3.91%
Central and South America	1.23%	1.34%	0.21%	4.84%	1.58%
Middle East and Africa	0.69%	0.00%	0.05%	0.67%	0.31%
North America	2.70%	1.17%	1.13%	4.51%	5.32%
Rest of Europe	3.72%	0.00%	0.00%	37.87%	16.19%
PALFINGER Group	4.00%	4.00%	2.27%	6.56%	4.05%

1) Gender-specific reporting of these personnel indicators was begun at the end of 2016. Changes in the calculation basis have changed personnel indicators with retrospective effect.
2) Adjustments of personnel indicators to the GRI standard have 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 strives to avoid risks for employees in production i.e. around 75 per cent of the total workforce 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.

The final fit2work survey conducted in the fourth quarter of 2017 produced excellent results for all Austrian sites, evidencing that the re-entry part-time model has been well established within the Company. Under this project, a team composed of staff members with the necessary training and knowledge regarding the re-entry of employees returning to work after an extended sick leave was set up at each site. Employees on sick leave may, on a voluntary and confidential basis, contact the respective team, which will facilitate their quick return and smooth re-entry and provide them with support.

Skilled labour

In the period under review, training programmes were further developed at many PALFINGER sites. Cross-region executive and management training courses were attended by 46 participants from 11 nations, including seven 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. Languages and intercultural training are going to be even bigger priorities in the future. In North America, PALFINGER University was introduced as a pilot project in 2017. Under a blended learning scheme, classroom training is combined with a wide selection of e-learning modules, giving employees the opportunity to engage in training adjusted to their needs, independent of time or place. At the end of the year, this new learning platform was available, for example, at sites in Canada, Iowa and California.

Training (in hours)		2015 ¹⁾	2016 ²⁾		2017	
PALFINGER Group	COGS direct³⁾	12.8		13.2		21.6
	Struct. cost - Production	14.4		14.0		13.9
	R&D	16.5		11.5		21.9
	Sales, Services & Marketing	23.2		20.1		17.5
	Administration	25.5		30.8		23.4
	TOTAL	15.7		15.6		19.7
		Female & Male	Female	Male	Female	Male
Categories	COGS direct ³⁾	12.8	48.9	8.1	48.1	20.9
	Struct. cost - Production	14.4	8.6	10.3	13.3	14.0
	R&D	16.5	4.2	7.4	18.8	22.1
	Sales, Services & Marketing	23.2	6.0	8.0	16.1	17.9
	Administration	25.5	13.4	8.7	22.0	24.7
Regions	European Union	16.3	4.6	4.2	13.8	11.5
	Far East	11.4	38.5	24.0	20.7	14.6
	CIS	19.4	29.6	27.9	35.4	52.9
	Central and South America	24.5	2.1	1.2	10.1	17.9
	Middle East and Africa	25.2	0.0	1.5	0.0	24.8
	North America	1.2	1.1	1.0	1.4	5.1
	Rest of Europe	0.6	0.0	0.0	30.7	37.4
PALFINGER Group		15.7	14.7	8.6	21.0	19.6

1) Gender-specific reporting of these personnel indicators was begun at the end of 2016. Changes in the calculation basis have changed personnel indicators with retrospective effect.

2) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect.

3) COGS = costs of goods sold. These are employees assigned to specific orders.

 **GRI 404-1**

Diversity and equal opportunity

Diversity (in per cent)			2015 ¹⁾	2016 ²⁾	2017	
PALFINGER GROUP	Generations	0-29	25.8%	20.0%		18.9%
		30-50	53.2%	57.5%		59.1%
		50+	20.9%	22.5%		22.0%
	Level	Management position	8.9%	9.5%		9.6%
		Categories	COGS direct ³⁾	52.0%	51.5%	
		Struct. cost - Production	24.0%	24.0%		22.3%
		R&D	5.5%	5.3%		5.7%
		Sales, Services & Marketing	9.1%	9.7%		10.0%
		Administration	9.4%	9.4%		9.6%
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Level		Female & Male	Female	Male	Female	Male
Management position	0-29	0.5%	0.2%	0.7%	0.1%	0.3%
	30-50	5.9%	1.1%	5.0%	1.3%	5.5%
	50+	2.4%	0.4%	2.1%	0.3%	2.1%
	SUM	8.9%	1.6%	7.9%	1.7%	7.9%
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Function		Female & Male	Female	Male	Female	Male
COGS direct ³⁾	0-29	15.5%	0.2%	11.8%	0.2%	11.1%
	30-50	27.1%	0.7%	28.4%	0.8%	29.3%
	50+	9.4%	0.4%	10.2%	0.5%	10.5%
	SUM	52.0%	1.3%	50.3%	1.5%	50.9%
Struct. cost - Production	0-29	4.8%	0.8%	2.8%	0.7%	2.3%
	30-50	12.8%	2.7%	11.3%	2.6%	11.0%
	50+	6.3%	1.3%	5.3%	1.0%	4.7%
	SUM	24.0%	4.7%	19.3%	4.3%	18.0%
R&D	0-29	1.8%	0.1%	1.4%	0.1%	1.5%
	30-50	2.7%	0.2%	2.7%	0.2%	2.9%
	50+	1.0%	0.1%	0.8%	0.1%	0.9%
	SUM	5.5%	0.4%	4.9%	0.4%	5.3%
Sales, Services & Marketing	0-29	1.8%	0.5%	1.3%	0.5%	1.2%
	30-50	5.4%	1.1%	4.8%	1.2%	5.0%
	50+	1.9%	0.3%	1.8%	0.3%	1.8%
	SUM	9.1%	1.9%	7.8%	2.0%	8.0%
Administration	0-29	1.8%	0.8%	0.5%	0.8%	0.5%
	30-50	5.2%	3.0%	2.8%	3.1%	2.9%
	50+	2.4%	1.1%	1.2%	1.0%	1.2%
	SUM	9.4%	4.9%	4.5%	5.0%	4.6%

1) Age categories were altered marginally. The presentation of 2015 figures is based on approximate values to retain comparability. Changes in the calculation basis have changed personnel indicators with retrospective effect.

2) Adjustments of personnel indicators to the GRI standard have resulted in changes with retrospective effect

3) COGS = costs of goods sold. These are employees assigned to specific orders.

🌐 GRI 102-8, 405-1

GENDER

In the 2017 financial year, the percentage of women in PALFINGER's core workforce of 9,973 excluding apprentices and interns stayed more or less stable, coming to 12.8 per cent (previous year: 12.9 per cent; the low figure is typical for the industry. At 17.7 per cent, the percentage of women in management positions was higher than their percentage in the overall workforce, and also higher than the previous year's figure of 17.2 per cent. Countries typically known for a higher percentage of women in management include primarily Norway and those in Central and South America and in the CIS region. In Austria, 35 employees were on parental leave in 2017; 18 of them were men. 17 employees returned to their jobs after having taken parental leave.

🌐 GRI 405-1, 406-1

GENERATIONS

In the reporting period, PALFINGER adapted its reporting structure regarding generations. Reporting is now broken down into three age brackets: 0–29, 30–50, and over 50. Around 19 per cent of the staff members belong to the youngest age category. Around 59 per cent of the employees are between 30–50 years of age, and 22 per cent are over the age of 50. In the over-50 category, substantial regional differences were recorded: In Asia, a percentage of just under 10 per cent shows that the team is relatively young, which is due to demographic reasons. In CIS, however, 27 per cent belong to this category, so that open positions are now being deliberately staffed with younger employees. In North America, employees tend to retire later and the industry has been of little attraction for young people so far. As a result, more than 30 per cent of the workforce is over the age of 50. In general, the age structure is influenced by external factors, such as demographic development or the catchment area of the sites.

🌐 GRI 405-1

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. Since the 2017 relaunch of the PALFINGER websites in the EMEA region, PALFINGER has also been providing accessible web contents.

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 generated the highest waste cuttings rates of up to 37 per cent, the waste cuttings rate of optimized plate-cutting processes was as low as 6 per cent.

At most of the Russian sites, in particular, waste cuttings were reduced by up to 7 percentage points. The South American site in Caxias do Sul (BR) also achieved optimization by a continued focus on the stacking of the parts on the steel plates. There were only a few changes in the rates recorded by the European sites, with Caussade (FR) and Lengau (AT) showing slightly higher rates and Cherven Brjag (BG), Tenevo (BG), Maribor (SI) and Lazuri (RO) carrying on with their continuous improvement. In Welwyn Garden City (UK), high quantities of metal cuttings were recorded due to one-time clean-up operations. In North America, waste cuttings rates were calculated on the basis of stable base object cost estimates. A re-evaluation of reporting at the North American sites is planned for 2018.

Apart from steel and aluminium, PALFINGER also uses fibre glass reinforced plastics and hydraulic oils as raw materials, which, however, account only for comparatively small quantities. There are hardly any waste cuttings when producing life-boats, 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.

🌐 GRI 301-1

Waste cuttings broken down by manufacturing and assembly site (in per cent)	2015	2016	2017
Arkhangelsk (RU)	21.9%	26.8%	19.2%
Caussade (FR)	28.7%	31.1%	32.4%
Caxias do Sul - Madal (BR)	25.9%	24.0%	22.4%
Cherven Brjag (BG)	26.3%	25.8%	25.7%
Council Bluffs (US)	15.0%	15.0%	15.0%
Hanoi (VN)	16.3%	18.6%	17.5%
Hung Yen (VN)	15.5%	12.2%	14.5%
Ishimbay (RU)	31.1%	28.9%	25.7%
Lazuri (RO)	11.5%	14.1%	13.1%
Lengau (AT)	23.7%	23.8%	23.9%
Maribor (SI)	29.2%	29.5%	28.7%
Neftekamsk (RU) ¹⁾	-	38.1%	30.9%
Oklahoma (US) ¹⁾	-	10.3%	10.3%
Tenevo (BG)	3.0%	6.8%	5.6%
Velikiye Luki (RU)	34.5%	30.5%	37.3%
Welwyn Garden City (UK)	11.0%	8.6%	31.0%

¹⁾ No 2015 data available.

Hazardous waste

In the 2017 financial year, the volume of hazardous waste increased once again, to 5,248 tonnes (previous year: 3,880 tonnes). This was primarily due to the expansion of production and the changed reporting process in Lazuri (RO).

The largest quantities of hazardous waste are produced at the sites within the European Union. In the reporting period, they increased to 4,127 tonnes (previous year: 2,763 tonnes). While a 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 Lengau (AT) and particularly in Lazuri (RO) rose substantially. The main reason for Lazuri's recording an increase to 1,841 tonnes (previous year: 578 tonnes) in 2017 was the broadening of the definition of hazardous waste at this site. The fractions that now classify as hazardous waste tripled the quantities reported in the previous year. In Lengau, one of the reasons was the new additional powder coating line that started operations in October 2016. Coatings that used to be applied by the suppliers are now performed by PALFINGER.

CIS is the region with the second-largest volume of hazardous waste within the PALFINGER Group. In Russia, quantities remained stable year on year, coming to 928 tonnes in 2017 (previous year: 913 tonnes), with Arkhangelsk and Velikiye Luki being the main producers of hazardous waste. The planned replacement of the paint shop in Velikiye Luki was postponed until 2018. In Arkhangelsk (RU), hazardous waste is caused not only by the paint shop but also by the foundry sand from moulds used to manufacture parts. In the course of the reporting period, a reprocessing plant was installed, which may lower waste caused by foundry sand by up to 60 per cent. Due to the expansion of production, the actual savings achieved will not become evident before 2018. In addition, the improved purification of used oil for reuse lowered oil consumption by up to 40 per cent.

In North America, the absolute quantities of hazardous waste dropped to 34 tonnes (previous year: 38 tonnes) due to lower capacity utilization of the plants and as a consequence of restructuring processes. In South America, hazardous waste quantities remained more or less stable, coming to 104 tonnes (previous year: 98 tonnes).

The figures recorded in the Far East dropped significantly to 52 tonnes (previous year: 68 tonnes) since hardly any hazardous waste is being produced in this region following the closure of the site in Sacheon (KR). The Olve (NO) site, which was integrated in the reporting period, is the only site located in the Rest of Europe region and does not produce any significant volume of hazardous waste.

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.)

Hazardous waste (in tonnes)	2015	2016	2017
European Union	2,538	2,763	4,127
Far East	84	68	52
CIS	656	913	928
Central and South America	133	98	104
North America	24	38	34
Rest of Europe	0	0	2
Total	3,434	3,880	5,248

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 323 per cent (previous year: 158 per cent) once again fell short of the target of annually reducing hazardous waste by 1.8 percentage points. This was due to the higher level of value added and the related increase in coating processes. Another main reason for the increase in 2017 was the broadening of the definition of hazardous waste at the Lazuri (RO) site, which resulted in large additional volumes being reported in the period under review. This one-off effect

as well as the expansion of production for manufacturing for third parties, which also led to a higher level of value added, are clearly reflected in the index result of the European Union region and the PALFINGER Group. If one looked at the performance of all sites excluding Lazuri (RO), a positive development as compared to the previous year would become evident and the group index for the reporting period would be 111 per cent. In the CIS region, the index was affected by the Arkhangelsk (RU) site where the production of cast parts, which involves large quantities of hazardous waste, was increased. The index value for that region rose to 145 per cent (previous year: 136 per cent). The new reprocessing plant for foundry sand is going to counteract the increase in hazardous waste. While the index improved slightly in the North America region, the index value continued to grow in Central and South America. The main reason for this increase was the lack of revenue at the Porto Alegre site, which impacted the index negatively. In the Far East, following the high value recorded in 2016, quantities normalized again, accounting for 103 per cent (previous year: 481 per cent) due to the closure of the site in Sacheon (KR), which had been responsible for the largest hazardous waste volumes.

Index: Hazardous waste in relation to revenue (in per cent)¹⁾	2015	2016	2017
European Union	134.2%	158.8%	372.6%
Far East	126.9%	480.9%	102.9%
CIS	95.3%	135.9%	145.2%
Central and South America	91.9%	125.7%	247.0%
North America	116.8%	107.3%	106.0%
Rest of Europe	0.0%	0.0%	100.0%
PALFINGER Group	124.8%	157.7%	325.4%

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/or 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 – an option that will be increasingly expanded in 2018.

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.

In the field of timber, construction and recycling cranes, the new Q series was developed in the reporting period. As the cylinder area of this series is smaller, less oil is needed to operate it. The start of serial production is scheduled for 2018.

PALFINGER has completed its changeover to water-soluble paints, in particular when it comes to interior-paint on PALPro body compartments. PALFINGER dealers, particularly in Spain, also plan to switch to using only water-based paint within the next two years. Not only is this environmentally friendly; it also enhances product quality.

The purchase volumes of paint were 13 per cent higher in the reporting period. However, the proportion of water-soluble solvent-free paints remained roughly the same as in the previous year, namely 94 per cent.

Purchase volumes of paint (in tonnes)	2015	2016	2017
Volume of water-soluble paints	229	248	280
Volume of solvent-based paints	12	14	17
Total	241	262	297

Energy efficiency

In the reporting period, total energy consumption rose to 208 million kWh (previous year: 198 million kWh); this corresponds to an increase of 5 per cent, and was primarily caused by the strong growth posted by the European sites and the three newly integrated sites in the marine business.

At PALFINGER, the most widely used energy source is electricity, accounting for 50 per cent (previous year: 47 per cent) of total energy consumption. For production-related reasons, electricity consumption, expressed in absolute figures, increased to 103 million kWh (previous year: 94 million kWh), corresponding to a rise of 11 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 increased only marginally to 88 million kWh (previous year: 87 million kWh) and was strongly influenced by weather conditions and the long winter in the respective regions. At 59 million kWh (previous year: 55 million kWh) and accounting for 29 per cent of total energy consumption (previous year: 28 per cent), natural gas consumption remained constant. The main natural gas consumers were the sites in Lengau (AT), Council Bluffs (US) and Maribor (SI) as the CDP paint shops require substantial heat. Coal was used exclusively in Velikiye Luki (RU). The replacement of the heating system at this site facilitates the changeover to gas, a project that will be completed in 2018. A first positive effect is already evident: in the reporting period, the percentage of coal used decreased to 5 per cent (previous year: 8 per cent) of total energy consumption. All other energy sources in this category played only a minor role in total energy consumption.

Fuel consumption decreased to 16 million kWh (previous year: 18 million kWh), first and foremost due to the sale of the company aircraft and the related kerosene savings of 43 per cent, but also due to the closure of the Sacheon (KR) site, where diesel had been used to test marine applications. 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 have a positive impact on the fuel footprint.

Energy consumption broken down by energy source (in MWh)		2015	2016	2017
Electricity	Electricity	88,007	93,504	103,394
Heat	Natural gas	54,994	55,276	59,847
	Propane	2,896	3,161	3,934
	Butane	582	856	1,216
	LPG	3,153	3,256	3,777
	Heating oil	1,151	30	234
	District heating	4,412	7,913	7,777
Fuels	Coal	11,592	16,537	11,318
	Diesel	11,166	14,218	13,563
	Petrol	2,158	2,066	2,020
	Kerosene	1,084	1,607	911
Total		181,195	198,423	207,992

Accounting for 64 per cent of total consumption, the European Union is the main energy consumer, and the percentage of total energy consumed by EU sites increased by around 3 percentage points compared to the previous year. In contrast, energy consumption decreased at the Russian sites, which had the second-largest energy consumption within the PALFINGER Group in 2017, accounting for 21 per cent. The heat requirement in Russia returned to normal after the cold winter in the previous year and was therefore lower than in 2016. The percentage of total energy consumption attributed to North America decreased slightly to 11 per cent (previous year: 13 per cent) due to the restructuring measures. In all other regions, the percentages of total energy consumption remained stable.

Energy consumption broken down by category (in MWh)		2015	2016	2017
European Union	Electricity	64,895	67,520	74,373
	Heat (incl. process heat)	41,736	42,253	47,684
	Fuels	8,973	11,868	11,459
Far East	Electricity	900	676	663
	Heat (incl. process heat)	167	77	268
	Fuels	545	686	181
CIS	Electricity	10,634	13,149	14,282
	Heat (incl. process heat)	19,567	28,743	25,636
	Fuels	4,469	4,766	4,173
Central and South America	Electricity	2,115	1,894	2,042
	Heat (incl. process heat)	842	722	504
	Fuels	274	253	213
North America	Electricity	9,464	10,265	9,448
	Heat (incl. process heat)	16,469	15,233	14,012
	Fuels	146	318	331
Rest of Europe	Electricity	0	0	2,586
	Heat (incl. process heat)	0	0	0
	Fuels	0	0	137
Total	Electricity	88,007	93,504	103,394
	Heat (incl. process heat)	78,780	87,029	88,104
	Fuels	14,408	17,891	16,494
Total energy consumption		181,195	198,423	207,992

Interrupted by a one-time negative trend in the previous year, the positive development of energy efficiency within the PALFINGER Group continued in 2017. The energy consumption index in relation to revenue was 3.7 percentage points lower than in the previous year. That means that the objective of annually improving energy efficiency by 1.8 percentage points was met in the reporting period.

The European Union made a positive contribution to the Group's result, with the index improving by 2.9 percentage points to 86 per cent (previous year: 89 per cent). In the Far East region, the index improved to 106 per cent (previous year: 123 per cent), achieved primarily due to effects from the relocation and integration of sites. Absolute energy consumption was at a very low level of around 1 million kWh in this region. Following a surge in the previous year, the milder winter and satisfactory growth figures brought the energy index in the CIS region back to normal. The region made a positive contribution to the Group's result with an index value of 95 per cent (previous year: 105 per cent). Development in the Americas remained negative: In North America, the index rose by 7.6 percentage points compared to the previous year; in Central and South America it rose by 11.9 percentage points. In both regions, the main cause for this trend was the low capacity utilization and the resulting lack of revenue.

Index: Energy consumption in relation to revenue (in per cent) ¹⁾	2015	2016	2017
European Union	90.0%	89.0%	86.1%
Far East	83.2%	122.9%	106.1%
CIS	95.6%	105.4%	94.8%
Central and South America	88.2%	107.9%	119.8%
North America	90.2%	99.6%	107.2%
Rest of Europe	0.0%	0.0%	100.0%
PALFINGER Group	91.0%	94.8%	91.1%

1) Volume 2013=100%.

Climate protection

Greenhouse gas emissions in absolute figures are calculated on the basis of the energy consumption. In the 2017 financial year, emissions decreased to 72,533 tonnes of CO₂ equivalents (previous year: 78,194 tonnes). Direct emissions under Scope 1, accounting for approx. 30.4 per cent of the total, remained relatively stable at 22,030 tonnes of CO₂ equivalents (previous year: 22,666 tonnes). Indirect emissions under Scope 2 amounted to 41,132 tonnes of CO₂ equivalents (previous year: 45,797 tonnes), accounting for the largest percentage of these emissions. At 9,371 tonnes of CO₂ equivalents (previous year: 9,731 tonnes), Scope 3 emissions indirectly caused by third parties were relatively low. The Scope 3 emissions disclosed herein include only 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.

In 2017, greenhouse gas emissions were lowered whereas energy consumption increased. The reason for this development was the stronger growth at the European sites which, in general, have a less CO₂-intensive energy mix. Moreover, the two Bulgarian sites, Tenevo and Cherven Brjag, as well as the site in Caussade (FR), changed their electricity providers and are now supplied with CO₂-neutral electricity from renewable energy sources by the new “green providers”. In the reporting period, the percentage of green power used at the sites in Bulgaria, France and Austria in the Group’s total electricity consumption was 30 per cent (previous year: 15 per cent).

In 2017, the five locations within the PALFINGER Group that recorded the highest CO₂ emission levels were Lazuri (RO), Veliikiye Luki (RU), Council Bluffs (US), Maribor (SI) and Ishimbay (RU); together they accounted for 59 per cent of PALFINGER’s CO₂ emissions.

Scope 1, 2 and 3 greenhouse gas emissions caused by energy consumption (in tonnes of CO ₂ equivalents)		2015	2016	2017
Scope 1	Electricity	0	0	0
	Heat (incl. process heat)	16,676	18,061	17,785
	Fuels	3,706	4,605	4,245
Scope 2	Electricity	41,279	44,858	40,201
	Heat (incl. process heat)	544	939	931
	Fuels	0	0	0
Scope 3	Electricity	4,704	5,015	4,600
	Heat (incl. process heat)	3,657	3,906	4,033
	Fuels	662	810	738
Total		71,228	78,194	72,533

Specific greenhouse gas emissions in relation to revenue decreased by 8.3 percentage points as compared to the previous year, which is even better than the energy efficiency result.

This positive effect came from the regions European Union and CIS. In the Far East, CO₂ developments ran counter to the energy development. This can be traced back to the high percentage of electricity consumed, which caused a poorer CO₂ footprint than the other energy sources. Negative developments in the regions North America and South America were in line with the energy efficiency index.

Index: Specific greenhouse gas emissions in relation to revenue (in per cent) ¹⁾	2015	2016	2017
European Union	91.8%	91.8%	77.7%
Far East	153.4%	199.0%	230.9%
CIS	97.8%	108.2%	102.7%
Central and South America	96.6%	118.1%	130.0%
North America	88.2%	100.7%	107.5%
Rest of Europe	0.0%	0.0%	100.0%
PALFINGER Group	93.6%	98.7%	90.4%

1) Volume 2013=100%.

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 and the related product standards such as the EN12999 standard for loader cranes or, in the field of railway systems, the standards EN ISO 13849 (functional safety) and EN 50128 (safety-related software in the railway industry) are of relevance.

In the field of tail lifts, anti-slip surfaces have made a material contribution to user safety. Thanks to new production facilities in the EMEA region, PALFINGER achieved a higher classification of the platform surface (anti-slip properties) pursuant to DIN 51130 for type AluLite aluminium platforms in 2017.

PALFINGER's active participation in the preparation of safety policy papers makes the integration of new requirements easier. For example, PALFINGER was involved in the preparation of the position paper regarding camera monitor systems for the monitoring of tail lifts prepared by the German Social Accident Insurance (DGUV).

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 2017 financial year, PALFINGER introduced numerous customer-specific product components to increase occupational safety. A safeguard against improper operation was installed in the pioneer version of hooklifts, and additional safety features for tail lifts were developed in cooperation with customers.

All information for the user is documented in the technical product information. Apart from technical features, correct user behaviour is of central importance when it comes to safety. PALFINGER provides information and training in various forms, and in 2017, substantial innovations were made here as well. An example in the field of railway systems was the opening of the railway demo and training centre for service technicians and end customers in Salzburg. In the field of tail lifts, PALFINGER also introduced individual end customer training on operator safety and, in cooperation with these end customers, developed additional safety features. Virtual operator instructions for access platforms, referred to as "smart instructions", were developed. In India, PALFINGER plans to join the ICEMA (Indian Construction Equipment Manufacturers Association) in 2018 in order to train users of knuckle boom cranes within the context of the national "Skill India" initiative. In the field of timber and recycling cranes, a pilot training initiative for truck drivers was held in Germany in cooperation with UPM on the subject of how to properly secure the load.

On the Iberian Peninsula, in Italy and in China, the main training focus was on dealers and sales personnel, to enable them to explain proper operation to end customers when delivering the product. The system of handing over a detailed check list for safe operation and a service and maintenance booklet to all customers, which has proven its worth in Europe, has also been introduced in the Asian market.

🌐 GRI 416-1

Product innovation for user safety

In 2017, PALFINGER continued its development of a series of innovations for the prevention of accidents. In the field of loader cranes, HPSC-Plus-LOAD, an inclination-based stability control system with indirect load detection was rolled out internationally. The system ensures that the crane achieves its best possible performance with full stability in every situation. In 2017, radio remote control systems for loader cranes were introduced in the Chinese market. With the new market-specific radio remote control system for Sany Palfinger stiff boom cranes, some parts of the crane folding and slewing processes can be performed automatically.

In the field of hooklifts, a radio remote control system was introduced to improve occupational safety: The operators can use this system to freely select their location and change their positions, thereby obtaining a better overview.

2017 also saw several innovations to increase user safety in the field of electrohydraulically powered, truck mounted access platforms: automated hands-free driving, collision protection of the workman basket using ultrasonic sensors, electrical secondary control and/or emergency mode via display, support control from the ground and a new modular control panel are just a few examples. A new control unit was also developed for self-propelled scissor lift platforms in the Chinese market, which has improved safety considerably.

🌐 GRI 416-1

Eco-efficient product innovation

Customers are increasingly paying attention to the total cost of ownership when making purchase decisions. A reduction of costs during the product utilization phase makes a product increasingly more attractive. This is why the “Best Price Deal” was relaunched in the reporting period. In 2017, eco-efficient innovations focused primarily on light construction, demand-oriented control of engine performance and the prevention of emissions.

When the weight of PALFINGER products is reduced, less material is used and less fuel is consumed during transport or the vehicles are able to transport a higher payload. PALFINGER continually institutes weight-optimizing measures in all product groups and is continuing its development of weight-optimized models.

Against the backdrop of the introduction of the Euro 6 standard and the related increase in the truck’s deadweight, all truck mounted access platforms were subjected to a weight check. Through modern light-construction methods such as the use of high-tension steel and optimized aluminium extrusion profiles, the weight of the light and smart platforms was reduced while at the same time their performance was increased (e.g. smart class: basket load increased from 230 kg to 250 kg and light class: working height increased from 26 m to 28 m). In its environmental policy for timber and recycling cranes, PALFINGER has stipulated that new products must, as a matter of principle, have lower resources consumption and/or higher performance with the same resource input. This was reflected in the models presented in 2018. The lower weight was achieved by using a higher percentage of high-tension steel. In the field of loader cranes, the PK 135.002 TEC 7 was introduced in the European market as an additional P profile model.

Demand-oriented control of engine performance is an efficient approach to reducing diesel consumption and the related costs and emissions during product use. To this end, a system reducing the rotational speed of the engine during individual hydraulic movements was introduced for access platforms in the light class. In China, an automatic RPM system that automatically adjusts the rotational speed of the truck's engine to the crane's performance was introduced in early 2017.

Improvements in energy efficiency were achieved for the newly launched access platform model P 370 KS. This was facilitated by the use of a double-pump load sensing system that adjusts the engine performance to optimize consumption. When it comes to reducing CO₂ emissions during operation, it is standard for all diesel engines used for crawler cranes in the railway systems sector to meet the requirements under EU Stage IV. Upon request, they meet the requirements under EU Stage V, which will only enter into force in 2019 and 2020.

In the field of loader cranes, intensive research into energy efficiency was performed and, in cooperation with technological partners, the development of alternative drives is being accelerated. An electronic control unit, the Power Pack, was introduced for hooklifts in the Chinese Market. Alternative drives offer new energy-efficient solutions without local emissions. PALFINGER has been using hybrid drives for some years now. They enable the electro-hydraulic operation of the crane, which is almost silent and emission-free.

In 2017, noise-reducing components were installed in the new roll stop of AluLite aluminium tail lifts in order to reduce noise emissions during the locking process.

Quality enhancements of the paintwork and welded seams of fully hydraulic truck mounted access platforms have reduced maintenance requirements. In addition, a hydraulic brake was installed at the boom cylinder of the P200AXE and P240AXE models to prevent fatigue effects on the main structure. Field tests were performed for timber and recycling cranes to make longer intervals between maintenance works possible.

PALFINGER products for people and the environment

PALFINGER's product portfolio includes lifting solutions that also serve ecological and social purposes. Railway systems are used for low-emission rail transport, wind cranes are installed in wind energy plants, lifeboats are used in maritime emergency situations, timber 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. In 2017, these products were specifically adapted for use by fire brigades, thereby expanding their fields of application. 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

In 2017, payments to public authorities were broken down by country and by region for the first time. 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.

Public authorities - taxes net of subsidies (in EUR)	2015	2016	2017
Belgium (BE)	0	0	0
Bulgaria (BG)	739,299	(173,297)	129,821
Denmark (DK)	0	0	20,682
Germany (DE)	1,600,464	2,075,736	3,074,560
France (FR)	849,396	1,101,223	1,579,657
Italy (IT)	194,342	175,877	361,222
Netherlands (NL)	453,882	(361,476)	114,764
Austria (AT)	7,626,308	12,488,827	13,861,824
Poland (PL)	4,355	74,693	155,857
Portugal (PT)	0	48,419	142,916
Romania (RO)	937,041	1,077,897	1,869,994
Slovakia (SK)	6,299	11,483	5,213
Slovenia (SI)	1,060,815	1,032,793	1,353,667
Spain (ES)	0	484,508	1,082,816
Czech Republic (CZ)	0	1,443	6,208
Hungary (HR)	23,264	130,502	76,812
United Kingdom (GB)	144,368	123,652	6,600
European Union	13,639,833	18,292,280	23,842,614
China (CN)	128,615	67,483	110,964
India (IN)	10,274	14,586	15,857
Japan (JP)	0	2,601	37,019
Korea (KR)	21,453	25,508	20,134
Singapore (SG)	333,863	84,728	46,807
Vietnam (VN)	80,033	21,044	33,298
Far East	574,238	215,950	264,080
Russia (RU)	859,654	1,812,433	2,376,233
CIS	859,654	1,812,433	2,376,233
Argentina (AR)	0	0	1,175,876
Brazil (BR)	270,325	492,439	524,770
Central and South America	270,325	492,439	1,700,646
Qatar (QA)	414,868	290,048	179,022
United Arab Emirates (UA)	0	26,764	67,734
Middle East and Africa	414,868	316,812	246,756
Canada (CA)	2,080,346	2,558,389	3,630,446
United States (US)	(1,527,207)	2,024,789	1,638,996
North America	553,139	4,583,178	5,269,443
Norway (NO)	14,799	(84,114)	92,113
Rest of Europe	14,799	(84,114)	92,113
SUM	16,326,856	25,628,978	33,791,883

GRI CONTENT INDEX

In the 2017 financial year, PALFINGER transitioned from GRI-G4 Guidelines to 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, moreover, 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 216**

 www.palfinger.ag/en/sustainability/publications/communication-on-progress-for-the-un-global-compact

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
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. 19	
	102-2: Activities, brands, products and services	PALFINGER at a glance p. 19; Customers and dealer network p. 60	
	102-3: Location of headquarters	PALFINGER at a glance p. 19	
	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. 243c of the Business Code p. 73	
	102-6: Markets served	Regions and industries by segment p. 58; Customers and dealer network p. 60; Performance by segment p. 105	
	102-7: Scale of the organization	PALFINGER at a glance p. 19; Performance of the PALFINGER Group p. 66	
	102-8: Information on employees and other workers UNGC 3-6	Employment trend p. 87; Diversity and equal opportunity p. 91; Employment trend (Sustainability Annex) p. 223; Diversity and equal opportunity (Sustainability Annex) p. 230	
	102-9: Supply chain	Value creation p. 52; Suppliers p. 62; Sustainability among suppliers p. 64	
	102-10: Significant changes to the organization and its supply chain	Suppliers p. 62; Sustainability among suppliers p. 64; Significant changes within the PALFINGER Group p. 71	
	102-11: Precautionary principle or approach UNGC 7-9	Risk report p. 76	
	102-12: External initiatives	About this Report p. 6; Ratings p. 30; Commitment p. 48	
	102-13: Membership of associations	Commitment p. 48	
Strategy			
GRI 102: General Disclosures 2016	102-14: Statement from senior decision-maker	Foreword by the Management Board p. 7	
	102-15: Key impacts, risks, and opportunities	Risk report p. 76	
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. 39; Corporate culture p. 85; Group guidelines and Code of Conduct p. 119	
	102-17: Mechanisms for advice and concerns about ethics UNGC 10	Group guidelines and Code of Conduct p. 119; Internal audits and risk management p. 120	

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
Governance			
GRI 102: General Disclosures 2016	102-18: Governance structure	Sustainability management p. 43; Governing bodies of the Company and method of operation of the Management Board and the Supervisory Board pursuant to sec. 243c para.2 and sec. 267b of the Business Code p. 113	
	102-19: Delegating authority	Sustainability management p. 43; Governing bodies of the Company and method of operation of the Management Board and the Supervisory Board pursuant to sec. 243c para.2 and sec. 267b of the Business Code p. 113	
	102-20: Executive-level responsibility for economic, environmental, and social topics	Sustainability management p. 43; Governing bodies of the Company and method of operation of the Management Board and the Supervisory Board pursuant to sec. 243c para.2 and sec. 267b of the Business Code p. 113	
	102-21: Consulting stakeholders on economic, environmental, and social topics	Stakeholder management p. 40	
	102-22: Composition of the highest governance body and its committees	Governing bodies of the Company and method of operation of the Management Board and the Supervisory Board pursuant to sec. 243c para.2 and sec. 267b of the Business Code p. 113	
	102-24: Nominating and selecting the highest governance body	Governing bodies of the Company and method of operation of the Management Board and the Supervisory Board pursuant to sec. 243c para.2 and sec. 267b of the Business Code p. 113	
	102-32: Highest governance body's role in sustainability reporting	Sustainability management p. 43	
	Stakeholder engagement		
GRI 102: General Disclosures 2016	102-40: List of stakeholder groups	Stakeholder management p. 40	
	102-41: Collective bargaining agreements UNGC 3-6	Attractive jobs with individual responsibility p. 86	
	102-42: Identifying and selecting stakeholders	Stakeholder management p. 40	
	102-43: Approach to stakeholder engagement	Stakeholder management p. 40; Attractive jobs with individual responsibility p. 86	
	102-44: Key topics and concerns raised	Stakeholder management p. 40	
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	Materiality analysis p. 42; Sustainability report profile and boundaries (Sustainability Annex) p. 211	
	102-47: List of material topics	Strategic pillars and sustainability aspects p. 35; Materiality analysis p. 42; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	102-48: Restatements of information	Materiality analysis p. 42; Sustainability report profile and boundaries (Sustainability Annex) p. 211	
	102-49: Changes in reporting	Materiality analysis p. 42	
	102-50: Reporting period	Sustainability report profile and boundaries (Sustainability Annex) p. 211	
	102-51: Date of most recent report	Sustainability report profile and boundaries (Sustainability Annex) p. 211	
	102-52: Reporting cycle	Sustainability report profile and boundaries (Sustainability Annex) p. 211	
	102-53: Contact point for questions regarding the report	General information back cover	

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
	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. 242	
	102-56: External assurance	Independent assurance statement p. 257	
MATERIAL TOPICS & ADDITIONAL TOPICS			
GRI 200: Economic			
Material topic: Research and development for products			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Risk report p. 76; Research and development p. 93; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Risk report p. 76; Research and development p. 93; Sustainable products (Sustainability Annex) p. 238	
	103-3: Evaluation of the management approach	Research and development p. 93; Sustainable products (Sustainability Annex) p. 238	
	PALFINGER KPI: Research and development costs	Research and development p. 93	
Material topic: Innovation in production			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Research and development p. 93; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Research and development p. 93	
	103-3: Evaluation of the management approach	Research and development p. 93	
	PALFINGER KPI: Research and development costs	Research and development p. 93	
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 sustainable aspects p. 35; Group-wide development programmes p. 38; Materiality analysis p. 42; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Strategic pillars and sustainable aspects p. 35; Group-wide development programmes p. 38; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Strategic pillars and sustainable aspects p. 35; Group-wide development programmes p. 38; Monetary flows to stakeholders p. 46	
GRI 201: Economic Performance 2016	201-1: Direct economic value generated and distributed	Monetary flows to stakeholders p. 46; Commitment p. 48; Fair business (Sustainability Annex) p. 241	
	201-2: Financial implications and other risks and opportunities due to climate change	Risk report p. 76	
	PALFINGER KPI: Management systems	Quality management p. 97; Management systems in use (Sustainability Annex) p. 212	
Material topic: Compliance with legal and ethical standards			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Risk report p. 76; Fair business p. 119; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
	103-2: The management approach and its components	Risk report p. 76; Fair business p. 119; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Fair business p. 119	
GRI 205: Anti-corruption 2016	205-1: Operations assessed for risks related to corruption UNGC 10	Internal audits and risk management p. 120	
	205-2: Communication and training about anti-corruption policies and procedures UNGC 10	Group guidelines and Code of Conduct p. 119; Information on guidelines and corporate ethics p. 120; Sustainability programme (Sustainability Annex) p. 220	Information is unavailable: Training in the form of e-learning is planned.
	205-3: Confirmed incidents of corruption and actions taken UNGC 10	Internal audits and risk management p. 120	
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. 120	
GRI 307: Environmental Compliance 2016	307-1: Non-compliance with environmental laws and regulations UNGC 7-9	Internal audits and risk management p. 120	
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. 120	
Material topic: Industry 4.0 and digitalization			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Digitalization p. 38; Materiality analysis p. 42; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Digitalization p. 38; Mechatronics and digitalization p. 93; Major innovations in 2017 p. 95; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Digitalization p. 38; Mechatronics and digitalization p. 93; Major innovations in 2017 p. 95	
Indirect economic impacts			
GRI 203: Indirect Economic Impacts 2016	203-2: Significant indirect economic impacts	Risk report p. 76	
GRI 300: Environmental			
Material topic: Product lifecycle			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Research and development p. 93; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Research and development p. 93	
	103-3: Evaluation of the management approach	Research and development p. 93	
	PALFINGER KPI: Scrap	Efficient use of raw materials p. 99; Efficient use of raw materials (Sustainability Annex) p. 232	
	PALFINGER KPI: Warranty costs	Quality management p. 97	

DETAILED GRI AND SUSTAINABILITY DISCLOSURES

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
Material topic: Energy efficiency and climate protection			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Energy efficiency p. 101; Climate change p. 103; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Energy efficiency p. 101; Climate protection p. 103; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Energy efficiency p. 101; Climate protection p. 103; Energy efficiency (Sustainability Annex) p. 235; Climate protection (Sustainability Annex) p. 237	
GRI 302: Energy 2016	302-1: Energy consumption within the organization UNGC 7-9	Energy efficiency p. 101; Energy efficiency (Sustainability Annex) p. 235	
	302-2: Energy consumption outside of the organization UNGC 7-9	Efficient use of raw materials p. 99; Energy efficiency p. 101	
	302-3: Energy intensity UNGC 7-9	Energy efficiency p. 101; Energy efficiency (Sustainability Annex) p. 235	
GRI 305: Emissions 2016	305-1: Direct (Scope 1) GHG emissions UNGC 7-9	Climate protection p. 103; Climate protection (Sustainability Annex) p. 237	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. 103; Climate protection (Sustainability Annex) p. 237	
	305-3: Other indirect (Scope 3) GHG emissions UNGC 7-9	Climate protection p. 103; Climate protection (Sustainability Annex) p. 237	
	305-4: GHG emissions intensity UNGC 7-9	Climate protection p. 103; Climate protection (Sustainability Annex) p. 237	Not applicable: PALFINGER does not generate any biogenic CO ₂ emissions.
	PALFINGER KPI: Management systems	Environmental and energy management p. 104; Management systems in use (Sustainability Annex) p. 212	
Material topic: Raw material demand and efficiency			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Efficient use of raw materials p. 99; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Efficient use of raw materials p. 99	
	103-3: Evaluation of the management approach	Efficient use of raw materials p. 99; Efficient use of raw materials (Sustainability Annex) p. 232	
GRI 301: Materials 2016	301-1: Materials used by weight or volume UNGC 7-9	Efficient use of raw materials p. 99; Efficient use of raw materials (Sustainability Annex) p. 232	Not applicable: PALFINGER is not using any renewable materials.
	PALFINGER KPI: Scrap	Efficient use of raw materials p. 99; Efficient use of raw materials (Sustainability Annex) p. 232	
	PALFINGER KPI: Hazardous waste	Hazardous waste p. 100; Hazardous waste (Sustainability Annex) p. 233	
Supplier environmental assessment			
GRI 308: Supplier Environmental Assessment 2016	308-1: New suppliers that were screened using environmental criteria UNGC 7-9	Procurement factors, markets and strategies p. 63	
	308-2: Negative environmental impacts in the supply chain and actions taken UNGC 7-9	Sustainability among suppliers p. 64	

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
GRI 400: Social			
Material topic: Product safety			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Safe and efficient products p. 94; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Safe and efficient products p. 94; Internal audits and risk management p. 120; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Safe and efficient products p. 94; Internal audits and risk management p. 120; Safety assessment and product labelling (Sustainability Annex) p. 238; Product innovation for user safety (Sustainability Annex) p. 239	
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. 94; Sustainable products (Sustainability Annex) p. 238	
	416-2: Incidents of non-compliance concerning the health and safety impacts of products and services	Safe and efficient products p. 94; Internal audits and risk management p. 120	
Material topic: Health and safety			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Health and safety p. 88; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Health and safety p. 88; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Health and safety p. 88; Health and safety (Sustainability Annex) p. 227	
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. 88; Health and safety (Sustainability Annex) p. 227	
	PALFINGER KPI: Management systems	Health and safety p. 88; Health and safety (Sustainability Annex) p. 227	
Material topic: Employee development			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Attractive jobs with individual responsibility p. 86; Skilled labour p. 90; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Attractive jobs with individual responsibility p. 86; Skilled labour p. 90; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Attractive jobs with individual responsibility p. 86; Skilled labour p. 90; Skilled labour (Sustainability Annex) p. 229	
GRI 404: Training and Education 2016	404-1: Average hours of training per year per employee	Skilled labour p. 90; Skilled labour (Sustainability Annex) p. 229	
	PALFINGER KPI: Appraisal interviews	Attractive jobs with individual responsibility p. 86	

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
Material topic: Attractive employment			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	HR Strategy 2020 p. 39; Materiality analysis p. 42; Corporate culture p. 85; Attractive jobs with individual responsibility p. 86; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	HR Strategy 2020 p. 39; Corporate culture p. 85; Attractive jobs with individual responsibility p. 86; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Corporate culture p. 85; Attractive jobs with individual responsibility p. 86; Employment trend p. 87; Employment trend (Sustainability Annex) p. 223	
GRI 401: Employment 2016	401-1: New employee hires and employee turnover UNGC 3-6	Employment trend p. 87; Employment trend (Sustainability Annex) p. 223	
GRI 405: Diversity and Equal Opportunity 2016	405-1: Diversity of governance bodies and employees UNGC 3-6	Diversity and equal opportunity p. 91; Management Board p. 114; Supervisory Board p. 117; Diversity and equal opportunity (Sustainability Annex) p. 230	
Material topic: Corporate culture and values			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary	Materiality analysis p. 42; Corporate culture p. 85; Impacts of the sustainability issues along the value creation chain (Sustainability Annex) p. 215	
	103-2: The management approach and its components	Corporate culture p. 85; Sustainability programme (Sustainability Annex) p. 220	
	103-3: Evaluation of the management approach	Corporate culture p. 85	
	PALFINGER KPI: Staff survey	Attractive jobs with individual responsibility p. 86	
Labour/Management relations			
GRI 402: Labour/Management relations 2016	402-1: Minimum notice periods regarding operational changes	Corporate culture p. 85	
Non-discrimination			
GRI 406: Non-discrimination 2016	406-1: Incidents of discrimination and corrective actions taken	Diversity and equal opportunity p. 91	
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. 85	
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. 85; Group guidelines and Code of Conduct p. 119	
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. 85; Group guidelines and Code of Conduct p. 119	

GRI standard	GRI disclosures UN Global Compact	Page numbers	Omission
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. 120	
	412-2: Employee training on human rights policies or procedures UNGC 1-6	Internal audits and risk management p. 120	Information is unavailable: 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	Stakeholder management p. 40; Commitment p. 48	Not applicable: no material topic, thus qualitative description of engagement with local communities 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. 64	
	414-2: Negative social impacts in the supply chain and actions taken UNGC 1-6	Suppliers p. 62; Sustainability among suppliers p. 64	
Public policy			
GRI 415: Public Policy 2016	415-1: Political contributions UNGC 10	Commitment p. 48	
Marketing and labelling			
GRI 417: Marketing and Labelling 2016	417-2: Incidents of non-compliance concerning product and service information and labeling	Internal audits and risk management p. 120	
	417-3: Incidents of non-compliance concerning marketing communications	Internal audits and risk management p. 120	



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**Statement of All
Legal Representatives**

Auditor's Report

**Report of the
Supervisory Board**

00 10



STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements for the year ended 31 December 2017 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 2017 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 2017 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 2017 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, 31 January 2018

The Management Board of PALFINGER AG

Felix Strohbichler m.p.
Chief Financial Officer

Martin Zehnder m.p.
Member of the Management Board

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 statement of financial position as of 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal 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 of 31 December 2017 and its financial performance for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by EU, and the additional requirements under Section 245a Austrian Company 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 Austrian Standards on Auditing. Those standards require that we comply with 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 General 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 judgment, were of most significance in our audit of the consolidated financial statements of the fiscal 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 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:

Valuation of goodwill - Impairment test acc. to IAS 36

Title	Valuation of goodwill – impairment tests according to IAS 36
Risk	<p>In all the relevant cash-generating units (CGUs), PALFINGER has goodwill from mergers in the total amount of EUR 230.0 million (previous year: EUR 240.8 million).</p> <p>When carrying out the annual impairment test according to IAS 36, the legal representatives have to make key assumptions and judgements regarding the value in use, applying the discounted cash flow method. The recoverable amount strongly 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 estimate of these future cash flows and the timely implementation of the restructuring measures in the CGU Marine and as well as the derivation of the discount rate.</p> <p>More detailed information on the goodwill and its valuation can be found in Note (28) to the consolidated financial statements.</p>
Addressing this risk in the audit	<p>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:</p> <ul style="list-style-type: none"> • 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, in consultation with our valuation experts • Inspection of planning documents as well as plausibility check and analysis of the major value drivers (revenue, expenses, investments and changes in working capital) to verify the adequacy of these plans • Inspection of the measures defined and evaluated in the context of the restructuring project and alignment with the planning principles for the impairment test • Review of conformity of the estimated revenue and earnings as well as investments for the CGUs with the plans presented to the Supervisory Board, and review of their reconciliation to the requirements of IAS 36 • Performance of a risk analysis in the form of sensitivity analyses as well as downside valuation scenarios and deviation analyses

RESPONSIBILITIES OF MANAGEMENT AND OF THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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 Section 245a Austrian Company Code UGB 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, 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 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 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 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 management.
- conclude on the appropriateness of 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 to 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 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.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with 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 Section 243a Austrian Company Code UGB, 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 EU REGULATION

We were elected as auditor by the ordinary general meeting at 8 March 2017. We were appointed by the Supervisory Board on 15 September 2017. 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 par. 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, 31 January 2018

Ernst & Young

Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Gerhard Schwartz mp

Certified Public Accountant

Mag. Diether Dämon mp

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. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

INDEPENDENT ASSURANCE REPORT

Independent assurance over the 2017 sustainability disclosures and data 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 over the 2017 sustainability disclosures and data (hereafter "Reporting") in accordance with the GRI Standards CORE Option of PALFINGER AG.

The assurance engagement covers the Reporting as follows:

- "Integrated Annual and Sustainability Report 2017" in pdf-format 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, nor references made directly in the Reporting.

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.

LIMITATIONS TO OUR REVIEW

- The scope of our review procedures at operational level was limited to the site visits in Bergheim, Austria.
- We did not test data derived from external surveys, we only verified that relevant disclosures and data are correctly quoted in the Reporting.
- 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.
- Limited assurance over prospective information was not subject to our engagement.
- 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.

CRITERIA

The information included in the Reporting was based on the criteria applicable in the year 2017 ("The Criteria"), consisting of:

- GRI Standards¹⁾ in connection with the Austrian Sustainability and Diversity Improvement Act (NaDiVeG)

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' ISAE3000²⁾ 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 its 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"³⁾, 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 headquarters 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 issues against the key issues 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 IIRC⁴⁾ and GRI;
- Assessment whether the NaDiVeG requirements have been adequately addressed;
- Challenged a sample of statements and claims in the Reporting against our work steps and the GRI Standards;
- Reviewed whether the GRI Standards were consistently applied for the CORE Option;
- Assessed completeness of UNGC reporting against the links with the "10 principles" of the UNGC as outlined in the GRI guidelines.⁵⁾

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, 31 January 2018

ERNST & YOUNG Wirtschaftsprüfungsgesellschaft m.b.H

Stefan Uher m.p.

ppa. Christine Jasch m.p.

🌐 GRI 102-56

1) <https://www.globalreporting.org/standards/>

2) International Federation of Accountants' International Standard for Assurance Engagements Other than Audits or reviews of Historical Financial Information (ISAE3000) Revised, effective for assurance statements dated on or after 15 December, 2015.

3) version of February 21th 2011 (AAB 2011) issued by the Chamber of Public Accountants and Tax Advisors, section 8 http://www.kwt.or.at/PortalData/1/Resources/aab/AAB_2011.pdf

4) <http://www.theiirc.org/international-ir-framework/>

5) <https://www.globalreporting.org/resource/library/UNGC-G4-linkage-publication.pdf>

REPORT OF THE SUPERVISORY BOARD

In the 2017 financial year, the Supervisory Board performed all duties assigned to it by law and by the Company's Articles of Association. Four Supervisory Board meetings were held, on 7 February, 29 May, 19 September and 18 December 2017, and attended by the Management Board. The Management 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 CEO, also outside the scope of the Supervisory Board meetings, in order to confer with him 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, acquisition projects and 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 focused on the strategic orientation and further development of the Group as well as on the new appointments to and cooperation within the Management Board.

PALFINGER AG's financial statements for the year ended 31 December 2017 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 2017. 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 2017 and the management report for the 2017 financial year, thereby adopting the 2017 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 Management Board with respect to the distribution of profits for the 2017 financial year.

The Supervisory Board would like to express its thanks and recognition to the members of the Management Board and all staff members of PALFINGER for their outstanding commitment and excellent achievements in the 2017 financial year.

On behalf of the entire Supervisory Board I would like to thank, first and foremost, Herbert Ortner and Christoph Kaml for their enormous contributions to the growth of the PALFINGER Group and their excellent, long-standing cooperation. Christoph Kaml served as our Chief Financial Officer for nine years and resigned in August. Herbert Ortner was a member of the Management Board for 15 years, almost ten thereof as our Chief Executive Officer. He resigned from the Board as of the end of 2017. Both Ortner and Kaml strongly influenced the development of the Company over the past years and initiated PALFINGER's first steps into the digital age. We wish them all the best for the future.

Bergheim, 8 February 2018

Hubert Palfinger jun. m.p.
Chairman of the Supervisory Board

GENERAL INFORMATION

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🌐 **GRI 102-53**

Consulting and Text Design

Scholdan & Company
Doris Gstatter . IR & mehr (editing)

Consulting Sustainability Aspects

Denkstatt GmbH

Graphic Design

Rahofer Werbeagentur

Translation

ff-translations
Claudia Fischer-Ballia and Martina Flor

Typesetting

in-house, using firesys

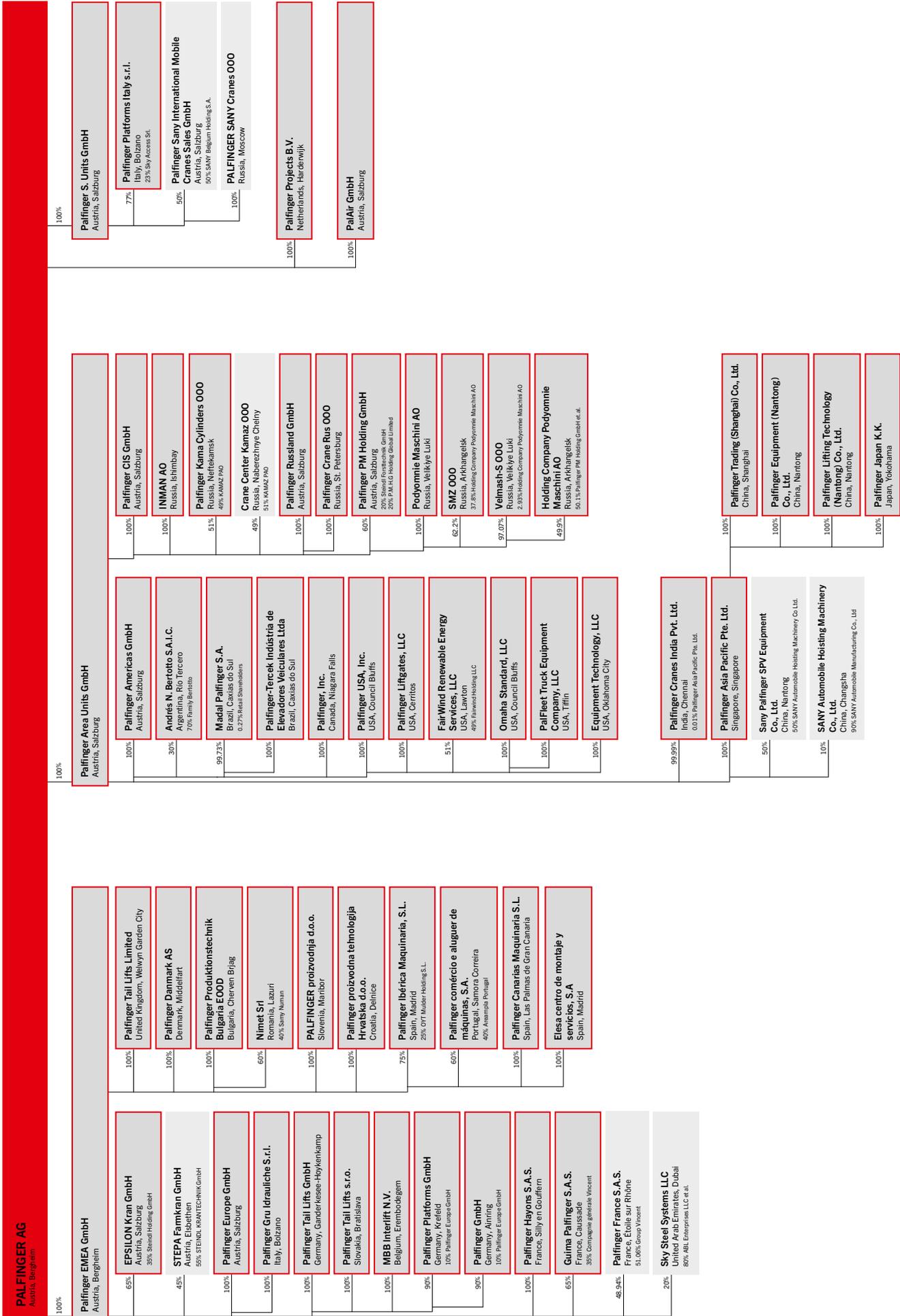
Minimal arithmetic differences may arise from the application of commercial rounding to individual items and percentages in this Report.

The English translation of the PALFINGER Report is for convenience. Only the German text is binding.

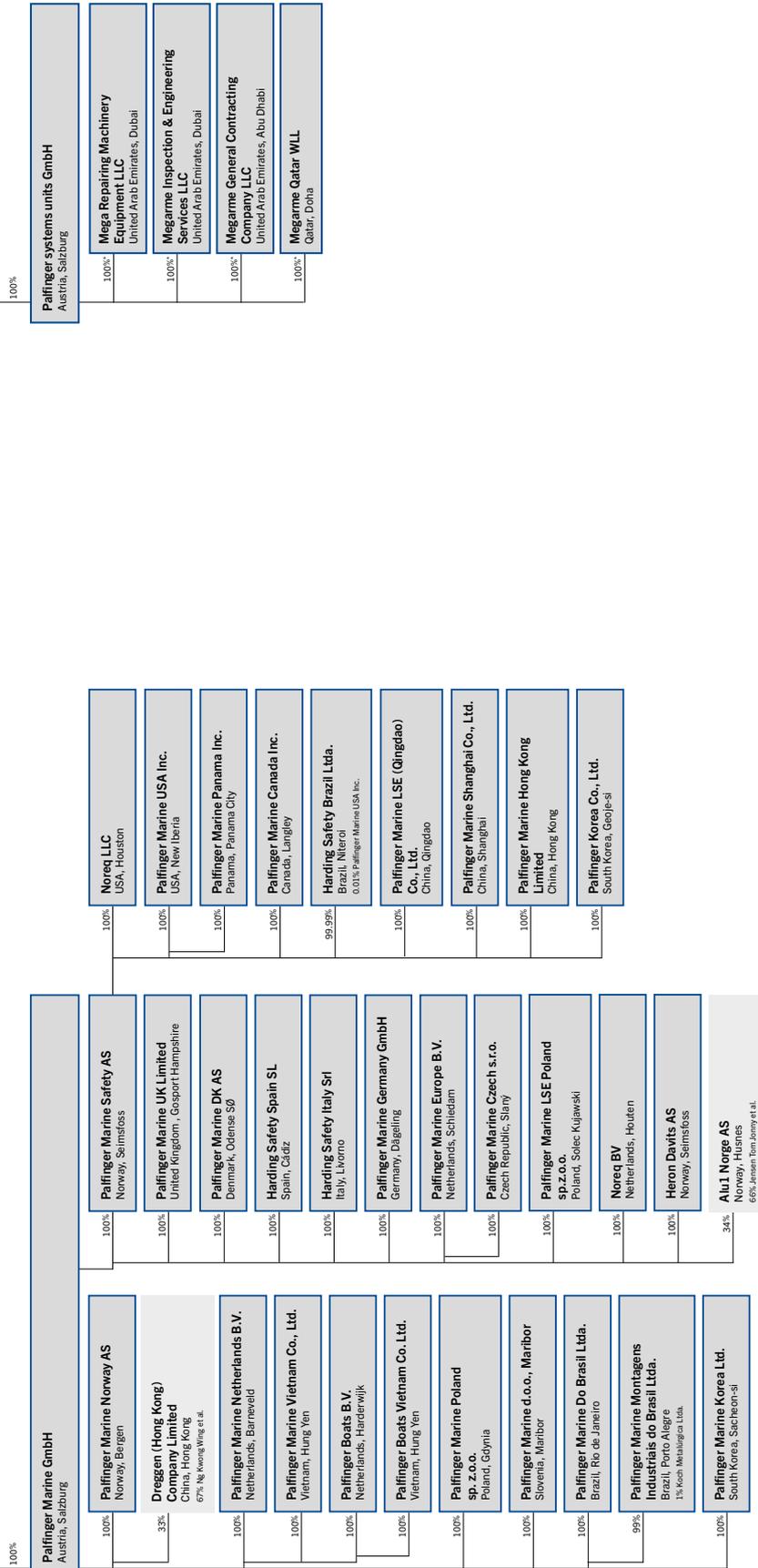
This Integrated Annual Report contains forward-looking statements made on the basis of all information available at the date of its preparation. Forward-looking statements are usually identified by the use of terminology such as "expect", "plan", "estimate", "believe", etc. Actual outcomes and results may be different from those predicted. Moreover, in individual cases, changes in non-financial performance indicators of previous years may result from the application of stricter internal control loops for the purpose of improving data quality.

Published on 8 February 2018

No liability is assumed for any typographical or printing errors.



■ Fully consolidated
■ At equity and other shareholdings



□ Fully consolidated
 ■ At equity and other shareholdings
 * Partly held in escrow
 As at 31 December 2017

FINANCIAL CALENDAR 2018

25 February 2018	Record date Annual General Meeting
7 March 2018	Annual General Meeting
9 March 2018	Ex-dividend date
12 March 2018	Record date dividend
13 March 2018	Dividend payment date
30 April 2018	Publication of results for the first quarter of 2018
30 July 2018	Publication of results for the first half of 2018
29 October 2018	Publication of results for the first three quarters of 2018

Additional dates such as trade fairs or road shows will be announced on the Company's website under Financial Calendar.

www.palfinger.ag/en/investor-relations/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/investor-relations/ir-services

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