

Even
profound
changes
have humble
beginnings.

CORPORATE GOVERNANCE REPORT

DECLARATION OF COMMITMENT TO THE AUSTRIAN CODE OF CORPORATE GOVERNANCE PURSUANT TO SECS. 243C AND 267B OF THE AUSTRIAN COMMERCIAL CODE (UNTERNEHMENSGESETZBUCH, UGB)

PALFINGER is committed to the standards of the Austrian Code of Corporate Governance, satisfies the requirements of the mandatory L-rules (legal requirements) and adheres to nearly all C-rules (comply or explain) of the Code. In accordance with legal provisions, this commitment is evaluated annually by an external auditor. The result of this evaluation confirms that corporate governance is 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/en/investors/corporate-governance; www.corporate-governance.at/code

GOVERNING BODIES OF THE COMPANY AND FUNCTIONING OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD PURSUANT TO SECS. 243C(2) AND 267B OF THE UGB

In accordance with the Austrian Stock Corporation Act (Aktiengesetz, AktG), the Executive Board of PALFINGER AG manages the company under its own responsibility in the best interest of the company, taking into consideration the interests of all stakeholders. The principles guiding the work of the individual board members include fostering a positive working relationship and continuous communication with the other members of the board, keeping an open mind and reaching decisions quickly and efficiently. The Executive Board directs the management teams responsible for operations in the individual segments and/or businesses and functions. In addition, the Executive Board is represented at the management level of individual Austrian PALFINGER holding companies. Martin Zehnder is also a member of the Supervisory Board of Palfinger Europe GmbH.

The Supervisory Board of PALFINGER AG supervises the management and supports the Executive Board in major decisions. Open communication between the Executive Board and the Supervisory Board and also within the respective Boards has a long-standing tradition at PALFINGER.

The Supervisory Board focused on the following topics during its meetings in 2019: the current performance of the business, the effects of the challenging economic operating environment, measures intended to reduce costs and the capital employed, the implementation of the new GLOBAL PALFINGER ORGANIZATION (GPO), the restructuring of Segment SEA, other projects aimed at integration, restructuring, and expansion, risk management and the internal control system, key sustainability issues, the diversity plan, and the strategic orientation of the PALFINGER Group for the next few years.

Special expertise and experience with respect to sustainability topics are not currently criteria in the selection of new members of the Supervisory and Executive Boards. 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. There is no independent assessment of sustainability governance nor a remuneration system based on such criteria in place within the PALFINGER Group at this time.

🌐 GRI 102-18, 102-19, 102-22, 102-24

📄 Management report, Sustainability management, page 45

EXECUTIVE BOARD

The Executive Board of PALFINGER AG comprised three people over the entire fiscal year 2019.

Name	Initial appointment	End of the term of office	Diversity factors ¹⁾
Andreas Klauser (CEO)	6/1/2018	5/31/2023	male; born in 1965; AT
Felix Strohbichler (CFO)	10/1/2017	12/31/2022	male; born in 1974; AT
Martin Zehnder (COO/CTO)	1/1/2008	12/31/2023	male; born in 1967; CH

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

Andreas Klauser

CEO – Chief Executive Officer (since June 1, 2018)

Born in 1965, Andreas Klauser began his career at STEYR Landmaschinentechnik in Upper Austria. He was responsible for the integration of twelve brands and nine business units in Turin, Italy, as the COO of CNH Industrial for the EMEA region until 2015. Most recently, Klauser was a member of the CNH Industrial board of directors based in the US as well as acting as the Global Brand President of Case IH and STEYR. Andreas Klauser has been the Chief Executive Officer of PALFINGER AG since June 2018. In his capacity as the CEO, his responsibilities include the following areas: Business Development, PALFINGER 21st, Human Resources, Marketing, Communications, Investor Relations, Sustainability, and implementation of the GPO executive project. Furthermore, he is responsible for Segment Sales & Service LAND.

Andreas Klauser has been the Chairman of the Supervisory Board of CTI Holding AG and Chairman of the Supervisory Board of Trivest AG since September 18, 2019.

Felix Strohbichler

CFO – Chief Financial Officer (since October 1, 2017)

Born in 1974, Strohbichler became head of the Legal department of PALFINGER AG in 2000. He went on to hold numerous executive positions in several areas of the PALFINGER Group, most recently that of EMEA Area Manager in charge of Marketing, Sales and Service, Finance, and Controlling. Strohbichler became the Managing Director of B&C Industrieholding GmbH in May 2015 – a position he held until September 2017. In his capacity as CFO of PALFINGER AG, he has been responsible for the areas of Controlling, Accounting, Tax, Treasury, Legal Affairs, Risk Management, Internal Audit, Compliance, and Sales & Operations Planning as well as Information and Communication Technology since October 2017. In addition, he is in charge of Segment SEA.

Martin Zehnder

COO/CTO – Chief Operating Officer and Chief Technology Officer (since January 1, 2008)

Born in 1967, Martin Zehnder began 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, Zehnder took charge of all production facilities in the PALFINGER Group as Global Manufacturing Manager. Zehnder has been responsible for the worldwide manufacturing and assembly area as the Chief Operating Officer since January 2008. In addition, his responsibilities have included the following areas since September 2017: Product Line Management, Research & Development, Purchasing, Safety & Quality, and the two executive projects Process Excellence and Turnkey Solutions. He is also responsible for Segment Operations LAND.

Furthermore, Martin Zehnder is a member of the Supervisory Board of Rosenbauer International AG.

🌐 GRI 102-18, 102-20, 102-22, 102-32, 405-1

🌐 NaDiVeG

SUPERVISORY BOARD

In 2019, the Supervisory Board of PALFINGER AG comprised six members elected at the Annual General Meeting and three members delegated by the Works Council. Hubert Palfinger is the Chairman. Gerhard Rauch and Hannes Palfinger are the Deputy Chairmen.

 [Report of the Supervisory Board, page 280](#)

Name	Initial appointment	End of the term of office	Diversity factors ²⁾
Hubert Palfinger (Chairman since 12/10/2013)	4/13/2005	AGM 2020	male; born in 1969; AT
Gerhard Rauch (First Deputy Chairman since 6/6/2016)	3/9/2016	AGM 2021	male; born in 1963; AT
Hannes Palfinger (Second Deputy Chairman since 12/10/2013)	3/30/2011	AGM 2021	male; born in 1973; AT
Hannes Bogner	3/8/2017	AGM 2022	male; born in 1959; AT
Ellyn Shenglin Cai	3/7/2018	AGM 2023	female; born in 1986; CN
Heinrich Dieter Kiener	3/30/2011	AGM 2021	male; born in 1956; AT
Johannes Kücher¹⁾	2/6/2015	¹⁾	male; born in 1963; AT
Alois Weiss¹⁾	2/13/2006	¹⁾	male; born in 1962; AT
Erwin Asen¹⁾	12/20/2017	¹⁾	male; born in 1971; AT

¹⁾ Delegated by the Works Council.

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

Hubert Palfinger

CHAIRMAN OF THE SUPERVISORY BOARD

After 15 years in various companies of the PALFINGER Group, Hubert Palfinger took over the management of Industrieholding GmbH in 2004. He has been a member of the Supervisory Board of PALFINGER AG since 2005 and became Deputy Chairman in September 2008. In 2013, he was elected Chairman of the Supervisory Board. Furthermore, Hubert Palfinger is Managing Director of IC International Consulting GmbH, HP Immobilien GmbH, and Industrieholding GmbH. In addition, he was a member of the Supervisory Board of Salzburger Flughafen GmbH until May 28, 2019.

Gerhard Rauch

FIRST DEPUTY CHAIRMAN

As Managing Partner of the Walser Group, Gerhard Rauch has wide-ranging experience in truck body manufacturing and vehicle construction and has cooperated with the PALFINGER Group in this business area for decades. Furthermore, Gerhard Rauch is co-owner of Rauch Fruchtsäfte GmbH & Co. OG. Since 2016, he has been a member of the Supervisory Board of PALFINGER AG, serving as First Deputy Chairman.

Hannes Palfinger

SECOND DEPUTY CHAIRMAN

After studying business administration 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, he held an executive position at Palfinger Systems GmbH. Hannes Palfinger is currently Managing Director of both Clear Holding GmbH, HP Immobilien GmbH, Industrieholding GmbH, as well as Audiodata Lautsprecher GmbH. He has been a member of the Supervisory Board of PALFINGER AG since 2011 and has served as Second Deputy Chairman since 2013.

Further positions held by members of the Supervisory Board**HANNES BOGNER**

In addition to being a member of the Supervisory Board of PALFINGER AG, Hannes Bogner is a member of the Supervisory Board of Niederösterreichische Versicherung AG.

ELLYN SHENGLIN CAI

In addition to being a member of the Supervisory Board of PALFINGER AG, Ellyn Shenglin Cai is Group Accounting Manager of Sany Heavy Industries Co., Ltd., as well as a member of the Supervisory Board of Putzmeister Holding GmbH.

HEINRICH DIETER KIENER

In addition to being a member of the Supervisory Board of PALFINGER AG, Heinrich Dieter Kiener is Managing Director of Stieglbrauerei zu Salzburg GmbH and a member of the Supervisory Board of Schoellerbank AG. Furthermore, Kiener is a member of the Executive Council of the Federation of Austrian Industries (Industriellenvereinigung) as well as of its Salzburg branch. Mr. Kiener is also a member of the Steering Committee of the Austrian Brewers' Association (Verband der Brauereien Österreichs) as well as a member of the management of the Industry Division of the Salzburg Economic Chamber.

Other than Hubert Palfinger and Hannes Palfinger, none of the Supervisory Board members is a shareholder or stakeholder with an interest of more than 10 percent in PALFINGER AG.

Pursuant to Rule No. 58 of the Austrian Code of Corporate Governance, please note that Ms. Cai was unable to participate in three (out of a total of four) Supervisory Board meetings in 2019 due to scheduling conflicts.

🌐 **GRI 102-22, 102-24, 405-1**

🌐 **NaDiVeG**

🔗 www.palfinger.ag/en/company/management

SUPERVISORY BOARD COMMITTEES

Audit Committee

The decision-making authority of the Audit Committee of PALFINGER AG is in compliance with the provisions of the AktG. In 2019, the Audit Committee held three meetings dealing with the 2018 financial statements, the internal control system, risk management, IFRS/accounting topics, and internal audits as well as cooperation with the independent auditor.

The following people were members of the Audit Committee in 2019: Hannes Bogner (Chairman, financial expert), Hubert Palfinger, Gerhard Rauch, Hannes Palfinger, and Johannes Kücher.

Nomination Committee

The Nomination Committee met regularly in 2019 to discuss in particular the following topics: the collaboration and functioning of the Executive Board, the development of recommendations for the appointment of new members and the appointment of a member to fill a vacancy during the course of the Annual General Meeting 2020.

The following people were members of the Nomination Committee in 2019: Hubert Palfinger (Chairman), Gerhard Rauch, and Hannes Palfinger.

Remuneration Committee

At its regular meetings in 2019, the Remuneration Committee dealt with the remuneration of Executive Board members and provided feedback in discussions with each member of the Executive Board. Furthermore, the Remuneration Committee drafted a resolution proposal regarding the remuneration policy for the Executive Board and the Supervisory Board for the Annual General Meeting 2020.

The following people were members of the Remuneration Committee in 2019: Hubert Palfinger (Chairman), Gerhard Rauch, and Hannes Palfinger.

🌐 GRI 102-18, 102-24

🌐 NaDiVeG

AUDITOR

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg, was proposed by the Supervisory Board to be the auditor of the 2019 financial statements and consolidated financial statements of PALFINGER AG and elected by the Annual General Meeting on March 20, 2019.

🌐 GRI 102-56

📄 Auditor's Reports, page 270

DIVERSITY PLAN

PALFINGER understands diversity to include not only the primary dimensions such as origin, cultural background, gender, and generations, but also secondary dimensions such as a person's working style, values, knowledge, and skills. PALFINGER is convinced that diversity, as part of its corporate culture, benefits all stakeholders, not least its employees.

In 2017, PALFINGER revised its diversity strategy for the entire Group. Concrete goals and initiatives were defined in this context in order to further increase the diversity within the PALFINGER Group by 2022. These include the use of English as the common group language, the internationalization and intercultural understanding of the employees at headquarters, family-friendly working conditions, and the global transfer of knowledge by way of greater mobility.

Two defined quantitative targets underpin this diversity plan: The share of representatives of other nationalities at corporate headquarters in Austria should increase considerably so that PALFINGER can benefit more from the numerous advantages provided by a diverse environment. PALFINGER intends to achieve a 20 percent share of non-Austrians at its headquarters by 2022, while still remaining committed to its Austrian roots.

There are currently no women on PALFINGER's Executive Board. However, the Supervisory Board has had one female board member since 2018, and there is likewise one woman in a top management position in the leadership team. In the levels below that, the percentage of female executives is low, and women work primarily in commercial roles. This should change in the medium term. To this end, PALFINGER continues to present itself at job fairs and also specifically addresses prospective female applicants with high potential. Whenever new executive positions are created or existing ones become vacant, PALFINGER actively encourages women to apply for them. PALFINGER is striving to further increase the share of female executives in its training programs. The goal is, at a minimum, to align the proportion of women in the upper management levels with the proportion of women in the PALFINGER Group as a whole by 2022. In 2019, the percentage of women in the Group amounted to 13.6 percent, compared with a 6.9 percent share of women in upper management.

🌐 **GRI 405-1**

🌐 **NaDiVeG**

📄 **Management report, Responsible employer, page 90;**

Detailed GRI and sustainability disclosures, page 225

REMUNERATION REPORT

The remuneration system for the members of PALFINGER'S Executive Board includes fixed and performance-based components. The adequacy was evaluated based on a comparison with companies of the same size and complexity. In 2019, performance-based remuneration was based on the one hand on EBT and on the other hand on a personal assessment on the part of the Supervisory Board as well as the increase in ROCE and the structural cost trend over the long term. The variable remuneration of the Executive Board members constituted on average around 48 percent of their total annual salaries in 2019. For detailed information on remuneration, please refer to the Notes to the consolidated financial statements of this report.

 **Consolidated financial statements, Disclosures of governing bodies and employees, page 214**

Since the resolution adopted at the Annual General Meeting on March 9, 2016, the members of the Supervisory Board have been entitled to the following remuneration:

The members of the Supervisory Board (shareholder representatives) elected at the Annual General Meeting receive EUR 2,500 for each Supervisory Board meeting attended in person. In addition, they receive an annual payment for fiscal 2016 and the subsequent fiscal years (unless a future Annual General Meeting decides otherwise). This payment was determined as follows:

- EUR 45,000 for the Chairman of the Supervisory Board
- EUR 20,000 for the Deputy Chairmen of the Supervisory Board
- EUR 7,000 for each member of the Supervisory Board
- an additional EUR 2,000 for each committee member for each seat they hold on a committee

Insofar as members of the Supervisory Board and/or a committee have not held their seat for the entire fiscal year, their remuneration will be pro-rated (on a monthly basis). Beginning with fiscal year 2017 (base: January 2016), the specified amounts of the attendance fee and fixed remuneration will be indexed to the Consumer Price Index 2010 published by Statistics Austria.

At the Annual General Meeting held on March 7, 2018, it was also decided that the Chairman of the Audit Committee was to receive an annual remuneration of EUR 15,000, which is likewise to be indexed to the Consumer Price Index 2010 published by Statistics Austria beginning with fiscal year 2018 (base: January 2018). If a chairperson has not held their seat on the Audit Committee for an entire fiscal year, their remuneration shall be pro-rated on a monthly basis. A D&O insurance policy for which the annual premiums are paid by PALFINGER AG has been taken out for Supervisory and Executive Board members as well as for other high-ranking executives of the PALFINGER Group.

Fair Business

No Incidents of Corruption

Three Internal Audits

Top Topics

Group policies systematically updated
Compliance training carried out on a continual basis
Consistent, detailed integration
of non-financial topics into the risk area

SDGs

8 DECENT WORK AND
ECONOMIC GROWTH



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



10 REDUCED
INEQUALITIES



FAIR BUSINESS

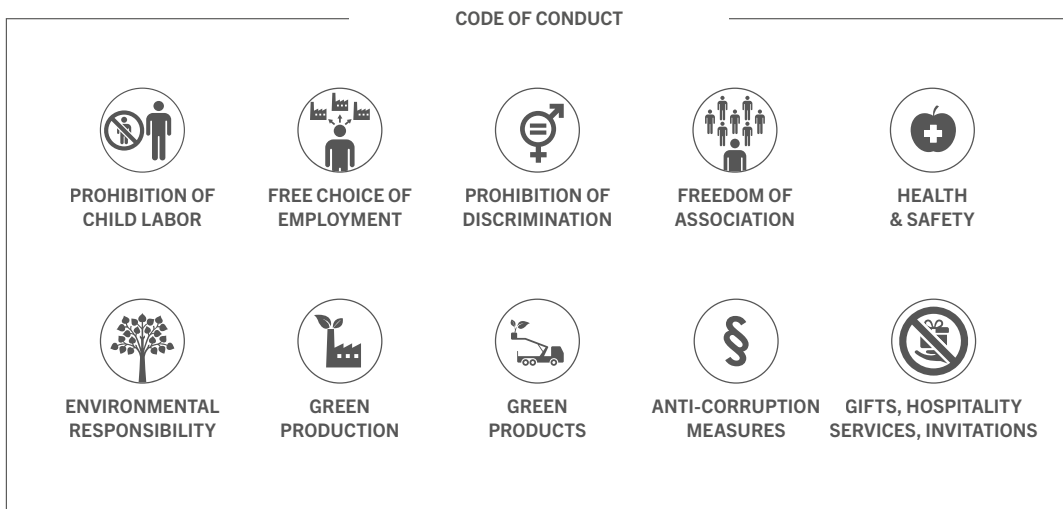
- **The Code of Conduct updated in 2019 applies from 2020**
- **The Group policies were systematically updated**
- **No major instances of corruption were reported in 2019**
- **Three internal audits were conducted in fiscal year 2019**

CORPORATE ETHICS AND PREVENTION OF CORRUPTION

PALFINGER considers human rights violations and corruption to be morally intolerable. They contradict its corporate values and are harmful to the economy – and consequently also to PALFINGER. PALFINGER takes action immediately whenever any irregularities are suspected. PALFINGER has defined a multi-layered catalog of measures to prevent or, if need be, detect any violations.

Code of Conduct and Group policies

The PALFINGER Code of Conduct forms the basis for the fair and ethical conduct of business and governs guidelines for human rights, business ethics, and environmental standards. Agreements with employees, dealers, suppliers and collaborative partners include binding references to the PALFINGER Code of Conduct. This Code of Conduct can be found on PALFINGER’s website.



A project was initiated in 2019 to revise the PALFINGER Code of Conduct. The updated Code applies beginning in 2020 and strengthens PALFINGER’s commitment to conducting business fairly and ethically.

Furthermore, the Group policy system was systematically updated. The Group policies contained therein describe the principles for implementation across the entire PALFINGER Group. Among other things, these Group policies, which were extensively revised in 2019, include principles of conduct for the prevention of corruption and anticompetitive behavior as well as for the giving and receiving of gifts. Awareness for these topics was increased significantly on the basis of training measures.

Based on the current findings, no instances of child labor or forced or compulsory labor were identified at any of PALFINGER’s sites in the reporting 2019 period, nor were any young employees subjected to dangerous work.

Violations of the Code of Conduct and the Group policies are analyzed by the Corporate Governance, Risk, Compliance (GRC) & Internal Audit department in coordination with the Executive Board. Concrete measures are derived from such an analysis on a case-by-case basis.

🌐 GRI 102-16, 102-17, 407-1, 408-1, 409-1

🌐 NaDiVeG

📄 Management report, Risk report, page 81

🔗 www.palfinger.ag/en/code-of-conduct

The principle of dual control and the separation of functions

PALFINGER follows the principles of dual control and the separation of functions. These two principles were anchored more firmly in the Group by the GPO in 2019. Group policies govern the internal approval process (delegation of authorities), taking into account the principles of dual control and the separation of functions. Topicality and implementation are ensured by the heads of the PALFINGER functions and reviewed by the Corporate GRC & Internal Audit department. These Group policies apply for all of PALFINGER's business units and processes.

Communication regarding the Code of Conduct and Group policies

The Corporate GRC & Internal Audit department makes use of the existing internal communications media, such as the PALFINGER internal newsletter and ad-hoc reports, in order to disseminate current topics and new developments within the company. Furthermore, PALFINGER employees are trained in compliance topics as part of a training program.

New or updated Group policies are published over the central Group policy system and communicated to the employees by the Corporate GRC & Internal Audit department as well as by the responsible management. New employees receive collected information regarding the Code of Conduct and the Group policy system over the course of the onboarding process.

Governance, risk management and compliance as well as internal audits

Information regarding the PALFINGER Group's risk situation is gathered in interviews with experts and the responsible management, then assessed and reported to the Executive Board. Measures are defined by the responsible management to actively manage high risks. The implementation of the measures is regularly reviewed by the Corporate GRC & Internal Audit department.

Awareness for such compliance issues is increased through internal training. In addition, an "Integrity Line" enables the anonymous reporting of potential violations of laws and the Group policies. It can be reached over PALFINGER's corporate website. The reports are received by the Corporate GRC & Internal Audit department. In the reporting period, 17 such reports were received and investigated by PALFINGER. Appropriate measures were defined and initiated.

The Corporate GRC & Internal Audit department performs planned audits of the companies of the PALFINGER Group on the basis of the annual audit plan. There were three internal audits in fiscal year 2019. One audit involved PALFINGER sites in Bulgaria and Austria, one took place in Slovenia, and one in Russia. Human rights aspects are also a component of the Code of Conduct. They are regularly reviewed and training on human rights is conducted periodically. The corresponding results were presented to the Executive Board of the PALFINGER Group as well as to the responsible management.

COMPLIANCE VIOLATIONS

Reports of compliance violations are collected in the Corporate GRC & Internal Audit department. As in previous years, no major incidents of corruption were reported at PALFINGER in 2019. No public corruption charges were filed against the company or its employees in the reporting period. Similarly, no major fines were imposed for any violations of legal provisions by PALFINGER. In addition, no pending charges have been lodged against PALFINGER on grounds of anti-competitive conduct.

There are no indications of material violations of environmental laws and regulations, civil and financial laws and regulations regarding health or safety implications on the part of products or services or in connection with product and service information or labeling, and there are likewise no indications of irregularities in connection with marketing or communications measures on the part of PALFINGER in fiscal year 2019.

🌐 GRI 102-17, 205-1, 205-3, 206-1, 307-1, 412-1, 416-2, 417-2, 417-3, 419-1

🌐 NaDiVeG

European data protection provisions

PALFINGER dealt at an early stage with the stricter requirements of the European General Data Protection Regulation (GDPR), which entered into effect on May 25, 2018. A Group Data Protection Officer was appointed at the beginning of 2018 and has since then ensured the implementation and continuous improvement of provisions to comply with the law. In this context, processes are evaluated and entered in the records of processing activities, employees are trained, and their knowledge is tested. The exchange of personal data between companies is regulated in corresponding contracts. An additional position was also established in 2019 to provide support for this area.

CORPORATE GOVERNANCE CODE

PALFINGER satisfies the requirements of the mandatory L-rules (legal requirements) and adheres to nearly all C-rules (comply or explain) of the Austrian Code of Corporate Governance in the version dated January 2018.

Only the requirements for **C-rules no. 39 and no. 53 (independence of the supervisory board and independence of the committee members)** are not met.

For example, PALFINGER AG does not fully adhere to rule no. 53, because criteria for the independence of the Supervisory Board have not been defined. On the contrary, PALFINGER AG publishes personal and qualification profiles of the members of the Supervisory Board and discloses any circumstances that might limit their independence in the Corporate Governance Report of this Integrated Annual Report 2019 as well as on the corporate website of PALFINGER. Any shareholder as well as the general public can gain insight into the qualifications of the members of the Supervisory Board and assess their suitability for this Board on the basis of this information.

The performance of the Supervisory Board members has contributed substantially 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 based on their professional qualifications and personal qualities as well as their knowledge of the company and of the sector as a whole have been of great importance in this respect. For all of these reasons, PALFINGER AG does not consider it necessary to establish criteria for the independence of its Supervisory Board members.

This approach and point of view also apply with respect to the committee members (rule no. 39).

Bergheim, February 7, 2020

Andreas Klausner

Felix Strohbichler

Martin Zehnder

Chairman of the Executive Board

Chief Financial Officer

Chief Operating and Chief Technology Officer

🌐 GRI 102-22

📄 Consolidated financial statements, Disclosures of business transactions with related parties, page 213

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