THINGS ARE LOOKING UP

2010 ANNUAL REPORT

PALFINGER

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HOW TO USE

WHERE PALFINGER IS TODAY

From page 1 to page 7 of this Report you will find an overview of the PALFINGER Group and its business performance in the 2010 financial year. The overview includes the Group's financial ratios, its highlights, and a description of the PALFINGER Group and its products.

Starting from page 157 we have compiled a short reference tool for you: a definition of performance indicators, a schedule of all our corporate locations worldwide, an index for a quick search, and an organisational chart of the companies of the PALFINGER Group.

At the beginning of each chapter you will also find a brief summary of the focuses placed in 2010. These focuses will be described in greater detail on the subsequent pages.

HOW PALFINGER RISES TO A CHALLENGE

On page 11, Herbert Ortner has summarised his personal view of the performance of the PALFINGER Group in a letter addressed to the shareholders.

HOW THE INDIVIDUAL GOVERNING BODIES OF PALFINGER OPERATE

Starting from page 12, the corporate governance report contains detailed information on the Management and Supervisory Boards, their cooperation and remuneration, as well as PALFINGER's commitment to observing the standards of the Austrian Corporate Governance Code. This report has been audited by the Company's auditor.

WHAT PALFINGER WAS CONCERNED WITH IN 2010

A survey of the Group's strategy introduces the audited consolidated management report, starting out on page 24. It contains a comprehensive market review describing economic developments as well as industrial sectors that are of relevance for us, as well as for our competitors, customers, and suppliers. In the following the business development of PALFINGER is described – using performance indicators, changes, a risk report, and research and development. Fundamental issues such as value creation, human resources, investor relations, and sustainability are addressed with a view to recent trends and developments. And last but not least, the outlook paints a picture of what to expect in the months to come.

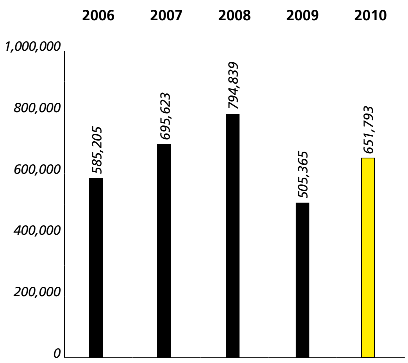
HOW THE RESULTS OF PALFINGER ARE COMPOSED

The audited consolidated financial statements starting on page 84 contain all notes and details regarding the business performance of PALFINGER in the 2010 financial year. It is our aim that this Annual Report, as far as this is possible, will leave no question unanswered.

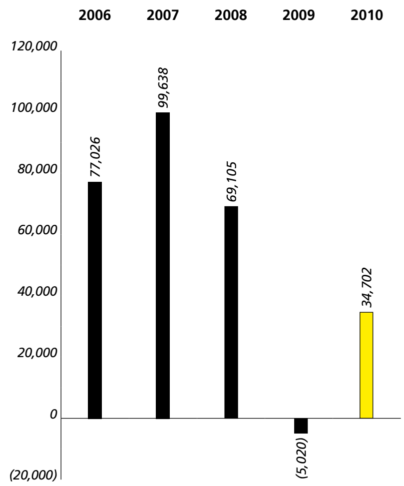
WHY THINGS ARE LOOKING UP FOR PALFINGER

Information on the upward trend that we have recorded can be found throughout our Annual Report. You will also find selected highlights confirming this trend on the photo pages in this Report.

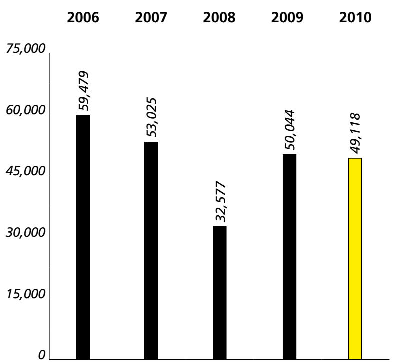
FINANCIAL HIGHLIGHTS OF THE PALFINGER GROUP



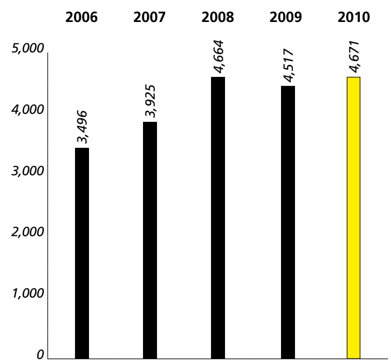
REVENUE
(TEUR)



EBIT
(TEUR)



OPERATING CASH FLOWS
(TEUR)



PAYROLL

FINANCIAL HIGHLIGHTS OF THE PALFINGER GROUP

TEUR	2010	2009	2008	2007	2006
Income statement					
Revenue	651,793	505,365	794,839	695.623	585,205
EBITDA	57,441	16,446	97,780	115,276	92,126
EBITDA margin	8.8%	3.3%	12.3%	16.6%	15.7%
EBIT	34,702	(5,020)	69,105	99,638	77,026
EBIT margin	5.3%	(1.0%)	8.7%	14.3%	13.2%
Result before income tax	29,833	(11,860)	63,915	102,392	75,583
Consolidated net result for the period	24,225	(7,823)	43,907	73,978	56,603
Balance sheet					
Total assets	677,431	587,973	641,331	531,761	409,366
Non-current operating assets	378,101	310,934	306,360	241,842	153,522
Net working capital (as of the reporting date)	114,071	132,876	170,297	131,253	98,637
Capital employed (as of the reporting date)	492,172	443,810	476,657	373,095	252,159
Equity	331,360	292,277	309,885	295,056	241,964
Equity ratio	48.9%	49.7%	48.3%	55.5%	59.1%
Net debt	160,932	151,880	166,774	78,694	10,195
Gearing	48.6%	52.0%	53.8%	26.7%	4.2%
Cash flow and investment					
Cash flows from operating activities	49,118	50,044	32,577	53,025	59,479
Free cash flow	4,166	41,979	(39,537)	(23,246)	43,734
Investment in property, plant, and equipment	14,582	7,992	46,515	61,444	21,351
Depreciation, amortisation, and impairment	22,739	21,466	28,675	15,638	15,100
Payroll					
Average annual payroll[1)]	4,671	4,517	4,664	3,925	3,496
Value creation					
ROCE	6.9%	0.0%	13.1%	25.7%	25.7%
ROE	8.7%	(2.4%)	15.9%	29.1%	27.1%
EVA	(3,955)	(31,033)	26,044	54,502	41,979
WACC	7.8%	7.0%	6.9%	8.2%	8.4%
Share					
Number of shares issued	35,730,000	35,730,000	35,730,000	37,135,000	9,283,750
Market capitalisation	1,027,238	556,673	401,605	951,399	863,389
Price as of 31 December (EUR)	28.75	15.58	11.24	25.62	23.25[2)]
Earnings per share (EUR)	0.68	(0.22)	1.24	2.09	1.60[2)]
Operating cash flows per share (EUR)	1.39	1.41	0.92	1.50	1.60[2)]
Dividend per share (EUR)	0.22[3)]	0.00	0.39	0.70	0.55[2)]

1) Consolidated Group companies excluding equity shareholdings, as well as excluding temporary workers and workers employed for only very short periods. The calculation of payroll figures was harmonised according to the PALFINGER standard.
2) The comparative figures for 2006 were adjusted in accordance with the four-for-one stock split of 2007.
3) Proposal for presentation to the Annual General Meeting.

MISSION STATEMENT

PALFINGER STANDS FOR INNOVATIVE HYDRAULIC LIFTING, LOADING, AND HANDLING SOLUTIONS FOR COMMERCIAL VEHICLES. WITH OUR MARKET KNOW-HOW, OUR TECHNOLOGICAL SKILLS, AND THE COMMITMENT OF OUR STAFF, WE ENABLE OUR CUSTOMERS ALL OVER THE WORLD TO BE MORE SUCCESSFUL. SUSTAINABLE ACTIONS OPTIMISE PRODUCTS AND PROCESSES AND SIGNIFICANTLY CONTRIBUTE TO THE ECONOMIC SUCCESS OF PALFINGER.

INNOVATION

is the result of our passion for the permanent improvement of product, process, and organisation. Innovations ensure PALFINGER's market leadership and open up new fields of application that broaden the base of the business.

INTERNATIONALISATION

ensures that our customers on all five continents receive products that conform to market standards and provides our Company with maximum independence from regional economic fluctuations while simultaneously opening up new areas of potential growth.

FLEXIBILITY

allows us to meet all market developments by quickly adjusting our resources and capacities, thus also safeguarding the success of our business in times of high volatility.

HIGHLIGHTS

25 JANUARY 2010
PRELIMINARY RESULTS FOR 2009

After an extremely difficult year, PALFINGER recorded a 37-percent decline in revenue and negative EBIT in the amount of EUR 5.0 million for 2009. Despite this dramatic slump PALFINGER's outlook was optimistic: thanks to the measures that were implemented quickly and efficiently, earnings were improved in 2009 and turned positive in the fourth quarter. Also the markets seemed to have bottomed out.

1 MARCH 2010
AVIVA PLC HOLDS MORE THAN 5 PERCENT IN PALFINGER

Aviva plc announced that the stake held by Aviva and its subsidiary Delta Lloyd Asset Management NV in PALFINGER AG had exceeded the 5-percent mark. PALFINGER welcomed the increased interest shown by this shareholder.

31 MARCH 2010
ANNUAL GENERAL MEETING

The Annual General Meeting resolved not to distribute a dividend for 2009 due to the earnings situation.

9 APRIL 2010
MAJORITY INTEREST IN ETI

PALFINGER acquired an 80-percent interest in access platform manufacturer ETI – a top player in the North American market. This was a major step for PALFINGER, as the Group had not been present in North America with access platforms before.

11 MAY 2010
PUBLICATION OF RESULTS FOR FIRST QUARTER 2010

PALFINGER reported higher sales in all the areas which, together with the reinforcement of the Group, accounted for clearly positive earnings in the first quarter.

16 JULY 2010
MAJORITY STAKE IN NED-DECK MARINE

With the acquisition of a 75-percent interest in the Dutch company Ned-Deck Marine B.V. (NDM), PALFINGER entered the market of ship-mounted cranes. Plans for a further expansion of the marine business were already in the pipeline at this point.

2010

11 AUGUST 2010
PUBLICATION OF RESULTS FOR FIRST HALF 2010

In the first half 2010 revenue was higher than in the same period of the previous year, and a very strong increase in earnings was recorded. Against the backdrop of growing utilisation rates, short-time work was ended early at the Austrian sites at the end of August.

28 OCTOBER 2010
EXPANSION OF BUSINESS UNIT MARINE SYSTEMS

PALFINGER expanded its marine portfolio with the acquisition of the marine and windmill crane business of Palfinger systems GmbH – the market leader in cranes for offshore wind energy plants. This acquisition made PALFINGER one of the leading suppliers of marine cranes.

5 NOVEMBER 2010
EXPANSION OF SERVICE BUSINESS FOR TAIL LIFTS

The previous competitor Ross & Bonnyman in Scotland was going to terminate its service business for commercial tail lifts, and it was agreed that PALFINGER would take over this business. Subject to the approval of anti-trust authorities, PALFINGER will gain access to a significant customer base in Great Britain.

11 NOVEMBER 2010
PUBLICATION OF RESULTS FOR FIRST THREE QUARTERS 2010

The third quarter showed a continuation of the slight upward trend in numerous significant markets, even though earnings were lower due to the three-week company holiday.

PALFINGER AT A GLANCE

TRUCK-MOUNTED KNUCKLE BOOM CRANES

Knuckle-boom cranes are compact bodies that are attached to a truck's chassis. PALFINGER is the global market, technology, and innovation leader, and the cranes we build have the best ratio of lifting power to deadweight.

TIMBER AND RECYCLING CRANES

Whether truck-mounted or stationary: PALFINGER is the world's leading producer of cranes for the handling of timber and scrap metal and for recycling applications. Characteristic features of this crane series include a multitude of model variants and utmost reliability.

TELESCOPIC CRANES

Thanks to multiple telescopic boom extension and a compact and lightweight design, these solid truck bodies with a crane operator's cab at the basis provide maximum safety and comfort when work is being done at great heights.

TRUCK BODIES AND PICK-UP TAIL LIFTS

PALFINGER supplies truck bodies and tail lifts suitable for a wide variety of models of pick-ups and trucks. The broad product range guarantees an ideal design for all vehicle types and applications.

TAIL LIFTS AND PASSENGER LIFTS

Retractable, tuckaway, or folding: PALFINGER's comprehensive product portfolio of tail lifts and passenger lifts is suitable for a multitude of vehicle types and offers benefit-oriented flexibility.

ACCESS PLATFORMS

Safety at work, even at high lift heights and in exposed places: robust telescopic extension booms that are fixed to the chassis and lightweight workman baskets ensure optimal working conditions in compliance with all safety regulations.

As of 31 December 2010 the PALFINGER Group, headquartered in Salzburg, Austria, comprised 53 companies in 22 countries. Its 29 manufacturing and assembly sites as well as the global sales and service network with more than 200 independent dealers and approximately 4,500 outlets in more than 130 countries on all continents guarantee perfect proximity to customers in all eleven product groups.

PALFINGER is regarded as the leader in technology and innovation. PALFINGER is the worldwide number one for truck-mounted knuckle boom cranes, timber and recycling cranes, as well as hookloaders and number two in the market for tail lifts and transportable forklifts. Moreover, the Company is the leading specialist in high-tech railway applications.

In 2010 the PALFINGER Group achieved revenue in the amount of EUR 651.8 million, which corresponds to an increase of 29.0 percent compared to the previous year's figure. The acquisitions carried out in 2010 contributed to this growth with approximately 30 percent. After recording a loss in 2009, EBIT came to EUR 34.7 million and turned sustainably positive.

With an equity ratio of 48.9 percent, a gearing ratio of 48.6 percent, and cash flows from operating activities of EUR 49.1 million, PALFINGER has a sound capital foundation.

HOOKLOADERS

Trucks with mounted skiploaders or hookloaders are used to transport exchangeable containers. The systems come with a loading device that is firmly attached to the chassis and facilitates the holding of various containers.

TRANSPORTABLE FORKLIFTS

These flexible forklifts designed to be transported by truck are used in all fields of the transport and logistics industry, in particular for the handling of beverages and construction material. The PALFINGER forklifts are characterised by their low deadweight and their great lifting performance.

RAILWAY SYSTEMS

PALFINGER's railway systems solutions are mounted on the maintenance car. These cranes and access platforms are used for the quick, precise, and economical installation, processing, and maintenance of catenary systems and railway bridges.

MARINE CRANES AND CRANES FOR OFFSHORE WIND ENERGY PLANTS

Marine cranes are used on workboats and in harbour facilities primarily for cargo handling. As the globally leading producer of platform and nacelle cranes for offshore wind energy plants, PALFINGER is also a supplier for the growing wind energy industry.

SERVICES

Service is what makes the difference to customers and dealers. PALFINGER rises to the challenge of providing "Perfect Customer Service" by setting benchmarks in the framework of training courses and at the Company's demo centre.

WE ACHIEVED VERY SOLID EARNINGS GROWTH

The Management Board of PALFINGER:
Wolfgang Pilz, Martin Zehnder, Herbert Ortner, Christoph Kaml

FOREWORD
BY THE CEO

DEAR SHAREHOLDERS,

“Things are looking up” – that was what we proclaimed at the end of 2009, though with cautious optimism. After the close of the 2010 financial year, there is good cause for us to reiterate this statement.

In the year under review our sales markets varied greatly in their performance, but all in all we recorded a distinct upward trend – a fact that is emphasised by a revenue increase of 29 percent in 2010.

To a considerable extent this growth in revenue was due to the strengthening of our market position. Innovation, targeted measures to expand our market, and last but not least the acquisitions made have supported our endeavours. In North America we now operate from a strong basis that will enable us to grow by means of our own resources as soon as the market recovers. The new Marine Systems unit has given us access to two interesting customer segments, marine and offshore wind energy, both boasting high growth potential. In Russia and India, young markets for PALFINGER, we managed on our own to establish structures for our expansion in 2010.

However, all of this would not have been possible if we had not started to optimise our cost and organisational structure as early as 2008. Starting with the end of 2009 earnings went up again and recorded a significantly larger increase relative to revenue – a trend that continued throughout 2010. The long-term orientation of our capital structure and the focus on the reduction of capital employed provided us with sufficient funds available to invest in our further growth without substantially raising net debt.

At the end of 2010 we are still a long way from reaching the record levels recorded in previous years, but we are still highly satisfied with what we have achieved. A comparison with like enterprises as well as the outstanding performance of our share price confirms our achievements.

But we also know that still a lot can be done – our vision is still geared towards the future. The increasing uncertainty and the related volatility of markets make long-term planning a difficult task. In previous years we benefited a great deal from our flexible structures, and yet we have decided to make the PALFINGER Group even more flexible in order to meet the challenges of the future even better. For this reason we have made flexibility our third strategic pillar, side by side with innovation and internationalisation.

Not only do our employees contribute to these developments, but their commitment is in fact essential to ensuring our market leadership, and their willingness to achieve even-better results forms the foundation of our ongoing successful development. For that I would like to thank them on behalf of the entire Management Board, the Palfinger family, and all the shareholders.

Herbert Ortner

Commitment to the Austrian Corporate Governance Code

Alexander Doujak Chairman of the Supervisory Board since 13 December 2010

Variable remuneration of Board members of 52 percent on average in 2010

CORPORATE GOVERNANCE REPORT

12–17

CORPORATE GOVERNANCE REPORT

INFORMATION ACCORDING TO SEC. 243B OF THE BUSINESS CODE (UGB)

PALFINGER is committed to the standards of the Austrian Corporate Governance Code (www.corporate-governance.at) and complies with nearly all rules of the Code. In accordance with legal provisions this commitment is evaluated by an external auditor. The evaluation result confirms that corporate governance is genuinely put into practice at PALFINGER. The audited, evaluated questionnaire is made available to all interested parties on the Company's website (www.palfinger.com).

CORPORATE GOVERNANCE CODE
PAGE 17

WWW.PALFINGER.COM
➔ CORPORATE GOVERNANCE

MANAGEMENT AND SUPERVISORY BOARDS AND THEIR OPERATIONS ACCORDING TO SEC. 243B PARA. 2 OF THE BUSINESS CODE (UGB)

Pursuant 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 the employees and of the shareholders as well as the public interest. 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 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. In its meetings held in 2010, the Supervisory Board primarily discussed the ongoing business operations in the existing economic environment, measures to cut costs and the capital employed, projects of acquisition and expansion, risk management, as well as the forecast for 2011.

At present there are no women on either the Supervisory Board or the Management Board or in any top management positions at PALFINGER. Even in the levels below that, the share of women in executive positions is low. This situation is to change in the medium run, which is why for more than a year PALFINGER has increased its presence at job fairs and has specifically addressed prospective female applicants of high potential. When new executive positions are created or existing ones become vacant, PALFINGER is making a greater effort to encourage women to apply for such positions.

However, one problem in this regard is that technical training is a prerequisite for the majority of executive positions at PALFINGER. Austria has a low rate of women engineers, which is why often no women apply for a position in the Company. Still PALFINGER is going to continue its efforts to step up the share of women in (junior) management.

MANAGEMENT BOARD

The Management Board of PALFINGER AG is composed of four members, with Herbert Ortner acting as CEO since June 2008.

Name	First appointment	End of term
Herbert Ortner (CEO)	1 February 2003	30 June 2013
Christoph Kaml (CFO)	1 January 2009	31 December 2011
Wolfgang Pilz (CMO)	1 February 2003	31 January 2014
Martin Zehnder (COO)	1 January 2008	31 December 2013

Herbert Ortner
CEO – CHIEF EXECUTIVE OFFICER

Born in 1968, Herbert Ortner was global Business Unit Manager for industrial hoses at the public 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 railway applications, tail lifts, transportable forklifts, and access platforms, as well as the further expansion of the service business. As CEO he has been in charge of legal affairs, procurement, personnel, communications, and investor relations since June 2008.

Christoph Kaml
CFO – CHIEF FINANCIAL OFFICER

Born in 1974, Mr Kaml started his career with Gemini Consulting. Before joining PALFINGER AG in 2004, he was a proxy holder at an M&A consulting company in Switzerland. In 2006 he changed from PALFINGER Corporate Development to the management of the area North America domiciled in Niagara Falls, Canada, where he was in charge of finances, strategy, and business development. Since January 2009 Mr Kaml has been PALFINGER AG's Chief Financial Officer.

Wolfgang Pilz
CMO – CHIEF MARKETING OFFICER

Born in 1959, Mr Pilz has more than 25 years of experience in the crane business at PALFINGER. He was appointed Marketing & Sales Manager of the truck crane division in 1997. Since February 2003 he has been Chief Marketing Officer for the core business areas of cranes and hookloaders.

Martin Zehnder
COO – CHIEF OPERATING OFFICER

Born in 1967, Mr Zehnder started his career at Alstom Schienenfahrzeuge AG in 1984. From 2000 to 2005 he was 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 as the Company's Chief Operating Officer he has been responsible for global manufacturing and assembly.

SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD PAGE 156

As of the balance sheet date the Supervisory Board of PALFINGER AG consisted of six members elected by the Annual General Meeting and three members delegated by the Works Council. In the 2010 Annual General Meeting Hubert Palfinger jun., whose term of office expired in 2010, was re-elected to the Supervisory Board. Wolfgang Anzengruber and Peter Pessenlehner were elected to the Board, each for the first time. Peter R. Scharler retired from the Supervisory Board with effect as of 31 March 2010. In the Supervisory Board meeting held on 13 December 2010, Alexander Exner retired as Chairman but retained a seat on the Board. Alexander Doujak was elected his successor in office.

Name	First appointment	End of term of office
Alexander Doujak (Chairman since 13 December 2010) born in 1965	5 April 2006	AGM 2011
Hubert Palfinger jun. (Deputy Chairman) born in 1969	13 April 2005	AGM 2015
Alexander Exner (Chairman up to 13 December 2010) born in 1947	21 June 1995	AGM 2014
Hubert Palfinger born in 1942	20 June 1989	AGM 2014
Peter R. Scharler born in 1957	14 April 2004	31 March 2010
Wolfgang Anzengruber born in 1956	31 March 2010	AGM 2015
Peter Pessenlehner born in 1970	31 March 2010	AGM 2015
Johann Mair* born in 1951	24 May 2005	*
Alois Weiss* born in 1962	13 February 2006	*
Gerhard Gruber* born in 1960	15 May 2006	*

* Delegated by the Works Council.

Alexander Doujak

CHAIRMAN OF THE SUPERVISORY BOARD (SINCE 13 DECEMBER 2010)

Alexander Doujak is an acting partner of corporate consultants Alexander Doujak GmbH. The economist has acted as a consultant for PALFINGER since 1995 on a number of strategic issues. In 2006 he was elected to the Supervisory Board of PALFINGER AG, and has been Chairman of the Board since 13 December 2010.

Hubert Palfinger jun.

DEPUTY 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 has acted as Deputy Chairman of the Supervisory Board since September 2008.

Alexander Exner

CHAIRMAN OF THE SUPERVISORY BOARD (UP TO 13 DECEMBER 2010)

Mr Exner is a management consultant and founding member of the Neuwaldegg consultancy group. His relationship with PALFINGER goes back over 35 years. Mr Exner was CEO of Palfinger Holding AG in the 1990s. After the establishment of PALFINGER AG in 1995 he became Deputy Chairman of the Supervisory Board and in 2003 Chairman of the Supervisory Board. In the Supervisory Board meeting held on 13 December 2010, Mr Exner retired as Chairman for personal reasons. He continues to have a seat on the Board.

Hubert Palfinger

MEMBER OF THE SUPERVISORY BOARD

Mr Palfinger began with the industrial production of truck-mounted cranes in 1964 at the age of 22, after taking over his father's business. The majority shareholder of the Group headed the Company for 33 years and was Chairman of the Supervisory Board from 1997 to 2003.

Other than Hubert Palfinger and Hubert Palfinger jun. no member of the Supervisory Board has either a direct or an indirect shareholding of more than 1 percent in PALFINGER AG.

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 2010 the Audit Committee held two meetings dealing primarily with the 2009 financial statements, the internal control system, risk management, and internal audits.
Members: Alexander Doujak (Chairman; since 13 December 2010), Alexander Exner (Chairman; up to 13 December 2010), Peter Pessenlehner (from June 2010 onwards; financial expert), Hubert Palfinger jun., Johann Mair

Nomination Committee

The Nomination Committee met four times in 2010 and held debates in particular on the re-election of Mr Zehnder as Management Board member, the appointment of Supervisory Board members to fill vacancies, and the cooperation within the Management Board and working methods of the Management Board.
Members: Alexander Doujak (Chairman; since 13 December 2010), Alexander Exner (Chairman; up to 13 December 2010), Hubert Palfinger jun., Hubert Palfinger

Remuneration Committee

In its four meetings held in 2010 the Remuneration Committee dealt with the remuneration of Management Board members for 2009 and 2010, in particular with the variable pay and the stock option programme. The Committee also conducted feedback interviews with the members of the Management Board.
Members: Alexander Doujak (Chairman; since 13 December 2010), Alexander Exner (Chairman; up to 13 December 2010), Hubert Palfinger jun., Hubert Palfinger

AUDITOR

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg, was proposed, and appointed by the Annual General Meeting on 31 March 2010, as the auditor of the 2010 financial statements and consolidated financial statements of PALFINGER AG.

REMUNERATION REPORT

The remuneration system in place for Management Board members includes fixed elements and profit-related payments and is adequate given the size and complexity of the Company. Profit-related remuneration is based on targets that are set in agreement with the individual Management Board members, on the one hand, and the fundamental financial ratios of the PALFINGER Group – revenue growth, profit before tax, and ROCE, on the other. In 2010 the variable pay of Management Board members amounted to approximately 52 percent of their annual remuneration on an average.

CONSOLIDATED FINANCIAL STATEMENTS, DISCLOSURES CONCERNING GOVERNING BODIES AND EMPLOYEES
PAGE 151

The stock option programme adopted by the 2009 and 2010 Annual General Meetings and the performance standards defined in this programme are a means of rewarding in particular long-term and sustainable success. For detailed information on remuneration, stock options, as well as special bonuses, please refer to the notes to the consolidated financial statements of this Report.

The members of the Supervisory Board received no remuneration for their services in the 2010 financial year.

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.

CORPORATE GOVERNANCE CODE

PALFINGER satisfies the requirements of the binding L-rules (Legal Requirement) and adheres to almost all C-rules (Comply or Explain) of the Austrian Corporate Governance Code in its revised version of January 2010. The following C-rules are not observed:

Rule No. 53 (Independent Members of the Supervisory Board)

PALFINGER does not fully comply with Rule No. 53. No criteria for independence have been established. Rather, PALFINGER AG publishes personal 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 made a significant contribution to the success of PALFINGER AG in recent years. The well-balanced composition of the Supervisory Board, the diligent 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 the greatest importance in this respect. For all of these reasons it is not regarded as necessary to establish criteria for the independence of Supervisory Board members.

CONSOLIDATED FINANCIAL STATEMENTS, BUSINESS TRANSACTIONS WITH RELATED PARTIES
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Information on contracts requiring prior approval can be found in the notes to the consolidated financial statements and on the Company's website www.palfinger.com.

Rule No. 39 (Supervisory Board Committees)

The requirements of Rule No. 39 are satisfied in principle. The sole exception, as noted in the comments regarding Rule No. 53, is the third paragraph ("sufficient number of independent members in the committees").

Salzburg, 4 February 2011

Herbert Ortner m.p.   Wolfgang Pilz m.p.
Christoph Kaml m.p.   Martin Zehnder m.p.

THE CORPORATE VALUE SHOWED A SIGNIFICANT INCREASE

STRATEGY AND VALUE MANAGEMENT

19–23

Innovation, internationalisation, and flexibility as a strategic basis

Targeted implementation of measures and initiatives in 2010

Indicators revenue increase, EBIT margin, and ROCE confirm increase in corporate value

STRATEGY AND VALUE MANAGEMENT

The PALFINGER Group has been pursuing a long-term growth strategy that is being consistently implemented. Under this strategy, short to medium-term goals are adapted to changing framework conditions so as to ensure that they are implemented in a targeted manner. In autumn 2010 strategic corporate planning was set up for 2011 to 2015.

LONG-TERM GROUP STRATEGY

PALFINGER has been striving to achieve sustainably profitable growth and the best shareholder value possible. Well-trained and highly motivated employees are the core success factor of the Group, which is why they are at the centre of all considerations.

Sustainability is reflected in all the aspects of the PALFINGER Group. Embracing economic, ecological, and social aspects is seen as a basic requirement for corporate success.

The target of growth is to be achieved in the medium run by positive results contributed by all product groups. This goes hand in hand with the goal to have a ranking among the top three market players in every product group, which will be achieved by organic as well as inorganic growth.

Innovation – internationalisation – flexibility

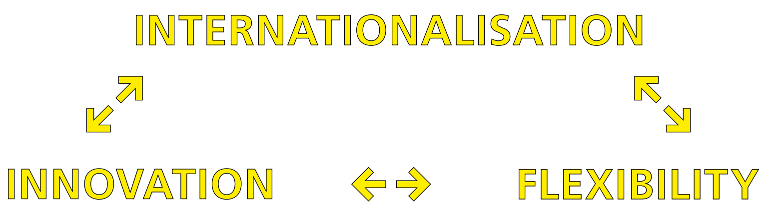
PALFINGER defines innovation as the continuous improvement of products, services, and processes, especially with a view to improved ease of operation for customers and users.

FLEXIBILITY BECAME THE THIRD STRATEGIC PILLAR IN 2010

Product groups other than cranes contributed approximately 50 percent to Group revenue, which means that PALFINGER has completed its diversification process for the time being. A stronger focus will now be placed on further internationalisation. In the long term, the three market areas EMEA (Europe, Middle East, Africa and Australia), North and South America, and the remaining regions (Asia and Pacific, India, CIS) are to generate equal shares of revenue.

For this reason PALFINGER set up a new organisational structure, which was implemented at the beginning of 2010. Whereas previously the product areas cranes and hydraulic systems used to be at the core, now the structure centres on regions, which will be promoted by expanding existing and developing new markets for PALFINGER.

The diversity of the markets in which PALFINGER operates as well as the rapid changes in the economic environment requires a growing degree of flexibility. In previous years, PALFINGER implemented numerous measures with the goal of becoming more flexible in all fields. This strategy has stood its ground especially during the economic crisis and has even allowed the Group to emerge stronger than before the slump. This is why in 2010 flexibility, in order to reflect its growing significance, replaced diversification – a process already completed – as the third strategic pillar on which the fulfilment of PALFINGER’s corporate targets is based.



A MAJOR GROWTH FACTOR – THE FLEXIBILITY OF OUR STAFF

Reinhard Natter
Head of Human Resources Area EMEA

FOCUS IN 2010

Flexibility
The continued focus on greater flexibility is in line with the increased volatility of the markets and the related lower predictability of corporate success. In line with PALFINGER's degree of value creation, a holistic view is taken of this topic, including all the fields, starting with supplier management, including the optimisation of material and information flow in the supply chain and order-based manufacturing, up to working time and remuneration models and IT.

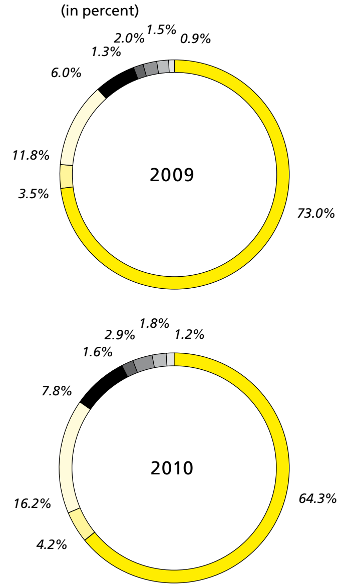
Internationalisation
With the acquisition of ETI, a manufacturer of access platforms in the US, PALFINGER completed its acquisition-driven growth in North America, where the Group has managed to obtain a good basis with local value creation for further organic growth. The necessary preparations such as the development of the service network are well underway. From now on, the focus will be placed on other markets which, in the opinion of PALFINGER, have great potential. The establishment of a dealer network in Russia, for instance, has yielded first successes, and the search for additional partners in that vast market is progressing. In India significant steps were taken in 2010 with the establishment of assembly facilities and the development of the first crane products specifically developed for the local market.

Business unit Marine Systems
In 2010, PALFINGER expanded its product portfolio by adding ship-mounted cranes. The integration of the marine business achieved through the acquisition of two renowned suppliers has been a relevant strategic step for PALFINGER in various respects: First of all, PALFINGER can tap into two new customer segments – marine and offshore wind energy, both boasting high growth potential. In addition, this acquisition has supported the Group's internationalisation strategy as Asia, in particular, is a major marine crane market. Moreover, both the earning capacity of this unit and the numerous synergies presenting themselves with the existing business will add to the Group's profitability.

Value-creation strategy
The great number of initiatives and measures being carried out serves as the basis of PALFINGER's Group-wide value-creation strategy. This strategy is primarily aimed at finding an optimum solution for the challenges created by organic and inorganic growth, continuing to raise the flexibility of the entire value-creation chain, and ensuring that the market, development, and value-creation strategies are interlinked in an ideal way.

Current capital employed
In 2010, PALFINGER increased its Group focus on capital that is employed at PALFINGER for a short time. As a result, net working capital has been significantly reduced in proportion to revenue. In addition to revenue growth and EBIT, net working capital is another integral part of corporate controlling and was therefore introduced as a benchmark for the system of variable remuneration paid to managers in 2010.

REVENUE BY REGION
(in percent)



	2009	2010	
	73.0%	64.3%	European Union
	3.5%	4.2%	Rest of Europe
	11.8%	16.2%	North America
	6.0%	7.8%	Middle and South America
	1.3%	1.6%	Middle and Near East
	2.0%	2.9%	Far East
	1.5%	1.8%	Oceania
	0.9%	1.2%	Africa

VALUE CREATION
PAGE 62

SIGNIFICANT CHANGES, FURTHER DEVELOPMENT OF STRATEGY
PAGE 41

TARGETS 2011–2015

Within the framework of the strategic corporate planning process, which was completed in autumn 2010, PALFINGER's management set out its targets for the next five years. Some measures and basic strategies were established for certain core issues that had been previously defined.

The focus of the internationalisation process will be on significant future markets in the East, such as, for example, Russia. Acquisitions are likely to contribute to this market expansion. Sustainably rooting these changes within the Group by making adequate adjustments to the organisational structure proved to be essential in the past and are therefore going to be part and parcel of future acquisition projects.

With its existing product series PALFINGER has, to a large extent, rounded off its product range available to customers in the medium term; further diversification will only take place within the core competences. The Company will now direct its full and undivided attention to rendering support to its existing sales and service partners but will put special emphasis on acquiring and expanding the range of partners in young markets such as India, the Commonwealth of Independent States (CIS), as well as Asia. The continuous further development of PALFINGER products and the stability which many core markets have most recently managed to regain form the basis of these endeavours.

In the years to come special attention will be paid to local value creation in the areas and to products ideally suited to meet regional needs. This market strategy will be supported by a whole array of measures that put the globally diverse needs and requirements of the customers in the fore. One of the pillars in this strategy is the excellent quality of the dealer and service network that will be further ensured and/or promoted by training and education programmes.

Moreover, for those business units that currently post negative earnings, special packages of measures were prepared with the goal of achieving a turnaround within the next two years, including, for example, the establishment of a separate area management for EMEA that will be responsible for successfully implementing this goal.

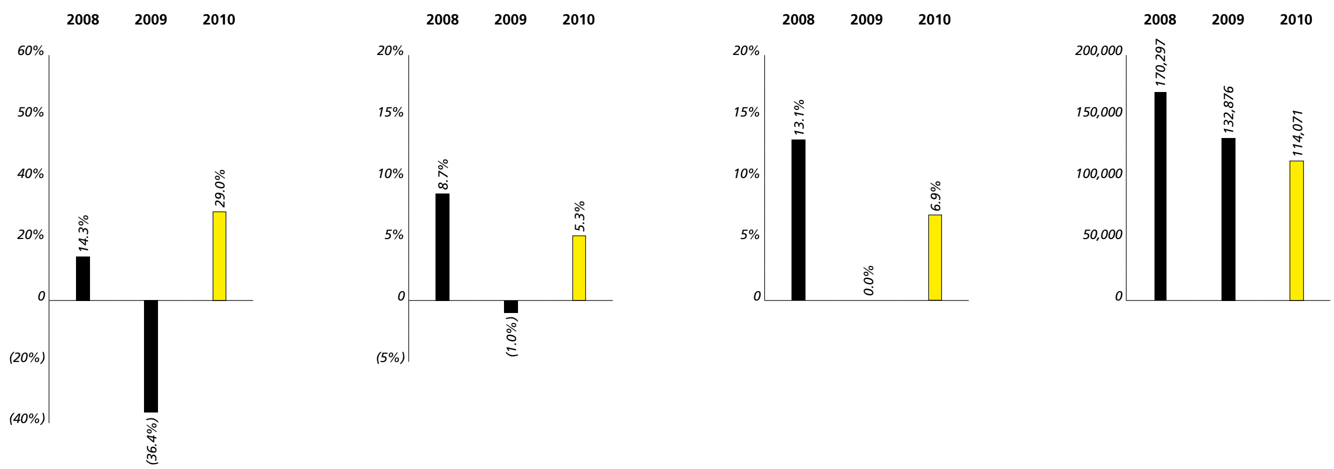
VALUE MANAGEMENT

INDICATORS USED BY CORPORATE CONTROLLING CONFIRM THE UPWARD TREND

At PALFINGER growth and value creation are determined by the indicators revenue increase, EBIT margin, and ROCE. In 2010 the performance of net working capital was introduced as the fourth relevant ratio.

The development over the past three years clearly shows a slump in business that had major implications on the performance of the PALFINGER Group, especially in 2009. But it is also as clear a reflection of the recovery of the economic environment, which, together with numerous optimisation measures, PALFINGER has translated into an exceptionally high value creation. In this process net working capital was brought down not only in absolute numbers but also in proportion to revenue.

Value creation in 2010



REVENUE INCREASE (in percent)

EBIT MARGIN (in percent)

ROCE (in percent)

NET WORKING CAPITAL (AS OF THE REPORTING DATE) (TEUR)

CONSOLI-DATED MANAGE-MENT REPORT

24–83

THE UPWARD MARKET TREND PLAYED RIGHT INTO OUR HANDS

Felix Strohbichler
Managing Director Area EMEA

MARKET REVIEW

27–35

Global economic growth driven by emerging markets

Recovery tendencies in relevant industries

PALFINGER's competitive position consolidated

Customers and suppliers supported as partners

MARKET REVIEW

ECONOMIC BACKGROUND

Following the extremely difficult economic situation in 2009 with the global economy contracting by 0.6 percent, recovery began in late 2009 and continued in 2010. Although the underlying trend was more than moderate and risks of a downward development persist, economic recuperation was to some extent even stronger than originally expected. The International Monetary Fund (IMF) most recently forecast that the global economy would grow by 5.0 percent in 2010 with growth slowing down slightly to + 4.4 percent in 2011.

THE RECOVERY OF THE GLOBAL ECONOMY CONTINUED IN 2010, BUT DOWNWARD RISKS PERSIST

This recovery is primarily supported by the strong GDP growth rates recorded in the emerging markets. Many of the industrialised countries are faced with the challenge of high budget deficits and a financial sector in need of reform. In addition to this, high unemployment rates curb consumer trust; this keeps consumption low and intensifies social imbalances. The upward business trend in these countries thus remains fragile.

In Europe economic dynamics slowed down in the second half 2010. Development in the euro zone was highly heterogeneous: While in Germany economic growth of 3.6 percent is expected for 2010, Greece applied for state aid from the euro-zone countries and the IMF as early as in April, and Ireland found itself in the same situation in November. Both countries as well as Spain are most likely going to record an economic contraction in 2010. This will slow down economic growth in the euro zone, with the IMF expecting an increase of 1.8 percent and a similar development (+ 1.5 percent) for 2011. Central and Eastern Europe developed differently as well but with an expected increase of 4.2 percent and 3.6 percent for 2010 and 2011, respectively, this region experienced clearly higher economic growth.

In the US the weak labour market continues to curb economic development, even more so as 70 percent of the US economic performance is based on consumption. The US economy is expected to grow by 2.8 percent in 2010 and to record a slight increase to + 3.0 percent in 2011.

Latin America and first and foremost Brazil exceeded expectations in 2010 – the economy was booming and effective welfare programmes contributed to the fact that a growth rate of 7.5 percent is expected for Brazil in 2010. However, on the basis of a strong appreciation of the real and the overheated development, a deceleration of economic growth to 4.5 percent is forecast for 2011.

China and India remain the drivers of growth in Asia with expected growth rates of 10.3 percent and 9.7 percent, respectively, although a slight slowing down to + 9.6 percent in China and + 8.4 percent in India is expected for 2011.

Financial markets reflected the continuing high insecurity – among other things in connection with the large public debt in some European countries – and were strongly volatile in 2010. Over the year, the leading share indices of major European stock exchanges and the New York Stock Exchange rose by 10 to 20 percent, while the Japanese Nikkei 225 closed the year 3 percent down.

The euro was weakened by the economic developments and at the beginning of 2010 lost in value considerably. In the second half, a slight recovery was noted so that the euro-to-dollar exchange rate at the end of 2010 was USD 1.33, which compared to the end-of-year price quoted in 2009 corresponds to a weakening of the euro by around 7 percent. In the same period, the euro also depreciated around 10 percent against the Chinese yuan and the Brazilian real.

As demand picked up again in the raw material markets, prices increased although inventories remained at a high level. Against this backdrop, the oil price picked up considerably in the second half and at the end of the year came to USD 92.60 for one barrel of Brent, which is 18 percent above the figure reported at the previous year's reporting date.

INDUSTRY REVIEW

The business development in the individual product divisions depends on the performance of the various industries in which PALFINGER products are used. Over the previous years, the PALFINGER Group's originally strong dependence on the construction industry on the basis of the core product – of truck-mounted knuckle boom crane – has been successfully reduced. Thanks to its other product groups, PALFINGER also operates in the transport and haulage industries, railway infrastructure, timber and agriculture, as well as the recycling industry. In 2010 wind energy and marine systems were added to the relevant customer industries as well.

CONSTRUCTION INDUSTRY

In the third year of the economic crisis PALFINGER's original market in Europe developed heterogeneously. After European construction volumes had fallen by 8.4 percent in 2009 according to Euroconstruct, markets such as Spain, Great Britain, and Ireland showed only meagre recovery tendencies, and public sector investment remained limited to a minimum. In contrast, the situation had already become clearly positive in the Scandinavian countries as well as in Germany, Austria, Switzerland, and some Eastern European countries. Euroconstruct estimates that the low point has been overcome; for 2011 moderate growth in the construction industry is expected, and from 2012 onwards recovery in the European construction industry is to continue to gather way.

THE PERFORMANCE OF THE RELEVANT INDUSTRIES STILL HAD UPS AND DOWNS IN 2010, BUT POSITIVE TRENDS ARE INCREASINGLY NOTICEABLE

In the US, the construction industry continues to have its ups and downs, and the situation is heterogeneous as well: While the public sector initiated some growth in 2010 by means of infrastructure investment, according to the National Association of Home Builders investment in new homes by private individuals decreased slightly or remained at a low level. This was caused not only by the existing oversupply but also by the expiry of a support programme for the acquisition of real estate by private individuals. Accordingly the number of persons employed in the construction business continued to decline, as compared to the reporting period 2009, almost all over the country. Additional insecurity was caused by the shift in political power in the US and the related uncertainty regarding future state investment and tax models as was reported by Associated Contractors of America.

Asia is deemed to be the market for building material with the highest growth rate, which supports a robust development of the construction industry. The main growth drivers are India and China with their investments in public infrastructure and buildings. The governments of some countries launched incentive programmes to stimulate the construction industry. Singapore, for instance, provided around SGD 250 million for investments in the construction industry. In China, on the other hand, the government has meanwhile started to deliberately curb the booming economy by raising interest rates.

TRANSPORT AND HAULAGE

Parallel with the growing passenger car sales market, truck sales in the European Union started to recover in 2010 as well. According to data provided by the European Automobile Manufacturers' Association (ACEA) large EU economies such as France, Germany, but also Great Britain, Italy, and Spain recorded two-digit percent growth rates. Sales of heavy commercial vehicles in Italy and France were stepped up by approximately 50 percent and 40 percent respectively as compared to the previous year. When it comes to smaller trucks, France, Italy, and Germany recorded growth rates between 30 and 40 percent.

The German Association of the Automotive Industry (Verband Deutscher Automobilhersteller; VDA), apart from an increase in domestic demand, expects the export share of German commercial vehicle manufacturers to increase with orders rising by up to 100 percent as compared to the previous year in individual product segments. In line with this development, the Centre for European Economic Research (Zentrum für Europäische Wirtschaftsforschung; ZEW) also forecast an augmentation of transport quantities in road freight traffic.

For China the VDA predicted around 6 million new commercial vehicles in 2010, around one million of which heavy commercial vehicles. This is five times as many vehicles as in Western Europe or the US.

A growth in transport business was also in the offing for the US in 2010. With demand slowly on the rise again, goods transport picked up as well, which allowed freight forwarding companies to invest in new vehicles. The infrastructure support measures taken by the government caused an additional boost. Large vehicle manufacturers such as Daimler benefited from this development and stepped up their production capacities accordingly in 2010.

RAILWAY INFRASTRUCTURE

The most important producers of railway service vehicle equipment are based in Europe. In 2010, in spite of the weak economy, their capacity utilisation was good, which was caused, among other factors, by the long-term nature of such infrastructure projects. A positive influence came from the EU's commitment to shift transport from road to rail; Siim Kallas, EU Commissioner for Transport, advocates a single European railway area and indirectly also a privatisation of the railway companies.

In Russia vehicle manufacturers also started to increase their demand for railway service equipment meeting Western technology standards in order to maintain their ample railway system.

China with its high-speed railway system of around 15,000 kilometres is another extremely attractive target market; apart from the servicing requirements for high-speed routes the electrification of the existing railway network of 80,000 kilometres is rapidly being pushed ahead.

In the US, the government is committed to expanding the railway system. First achievements are also reflected in investments such as the fleet renewal started by the American railway operator Amtrak.

TIMBER INDUSTRY AND AGRICULTURE

According to the United Nations Food and Agriculture Organisation, global deforestation will accelerate in the long run as population figures and incomes are on the rise. In turn, this will lead to an increase in demand and higher consumption of timber products. This fundamental trend is going to continue in the decades to come, with timber being supplied increasingly from timber plantations. Consequently, the timber industry is expected to grow in particular in those countries of Asia, Latin America, and Oceania that have set up many plantations and are thus developing into timber exporters.

The global financial crisis and the resulting collapse of the construction sector also had effects on the European timber industry. After three difficult years, 2010 brought clear signs of a reversal in trend. In numerous European countries, from spring onwards business picked up, which was partly also accompanied by increases in prices.

A look at the situation of manufacturers of wood processing machinery reveals that the mood was thoroughly positive in Germany and thus revenue forecasts have been revised upwards. However, the sentiment prevailing among Italian producers was not as enthusiastic. After two quarters marked by strong growth, according to the Federation Acimall, the situation exacerbated slightly in the second half 2010 with around one third of the producers suffering production losses in this period.

According to reports by the Globalwood international platform for timber products, timber consumption in China is consistently on the increase. In 2010 around 30 percent of the timber consumed was imported. On the basis of the forecast increase in demand for timber, the State Forestry Administration regards it a necessity to promote additional areas for growing wood and to increase the country's forestry areas.

In the US the low level of growth in the private housing sector is reflected in the performance of the timber industry. The sector has hardly recovered from the massive market slumps in 2008 and 2009. As a reaction to the low rate of new buildings many providers focus on product segments in connection with refurbishments according to Globalwood.

Agriculture is a diminishing economic sector for the DACH region – Germany, Austria, Switzerland – a region of relevance for PALFINGER. In spite of funding by the European Union the number of farmers is dwindling.

RECYCLING

The steel sector benefited considerably from the global economic recovery in 2010. An increase in global steel production of around 20 percent seems to be realistic. In line with this development, demand for steel scrap rose as well. Led by India, which stepped up imports by around 32 percent, other industrialised nations are promoting scrap metal imports as well. Russia imposed an export duty on steel scrap to be able to better meet domestic demand.

Demand for steel scrap also rose considerably in the countries of the Middle East and Turkey. In recent years, Turkey has developed into one of the world's largest scrap importers. According to the German Federal Association for Secondary Raw Materials and Disposal (Bundesverband Sekundärrohstoffe und Entsorgung; bvse) Turkish steel mills imported a total of 15 million scrap in 2009, 7 million tonnes thereof from the EU. Consumption in 2010 was calculated to have amounted to around 25 million tonnes, of which around 18 million tonnes were imported.

Due to the large demand for scrap, the US steel industry was faced with rising raw material prices. At the same time, the traditional steel-processing industry, which accounts for around 50 percent of the scrap production, remained at a low level in the US. This resulted in an overall increase in demand.

The World Steel Association expects demand for steel to continue to grow on a global level. The main drivers of growth include primarily South America, India, and China. China alone is expected to need 45 percent of the global steel production for itself in 2011.

The quantities of communal waste in the EU remained unchanged and came to an average of 525 kilograms per person. The countries with the highest per-capita volumes are Denmark, Ireland, Cyprus, and Luxembourg. The highest recycling rates are recorded in Germany, Belgium, and Sweden, where 35 to 50 percent of the waste is recycled.

WIND ENERGY

The wind energy industry is gaining increasing importance and is marked by strong growth. In particular the sub-division of offshore wind energy plants is of relevance for PALFINGER as the Company has become a market leader in cranes for such plants following the acquisition carried out in October 2010.

According to MAKE Consulting, a research company specialised in wind energy, annual growth rates of more than 40 percent in the field of offshore wind energy are expected for the years 2010 to 2015. In the first half 2010 alone 16 offshore wind farms were being built. Although the economic crisis resulted in financing bottlenecks with a dampening effect on projects of independent developers, projects of supply companies were hardly affected.

Currently, the main market is Europe, with Great Britain, Germany, and Denmark being particularly noteworthy. China is regarded a growth market, while in both Americas wind energy in general still plays a minor role only – among other things for political reasons.

Incentives such as subsidies and binding targets for renewable energies contribute to a swift market development in the same manner as the growing experience and improvements in the supply chain. At the same time MAKE Consulting expects the strong growth to increase the price pressure in the value-creation chain.

SINCE 2010 MARINE SYSTEMS AND WIND ENERGY HAVE BEEN AMONG THE RELEVANT CUSTOMER SEGMENTS

MARINE SYSTEMS

With the creation of the new business unit Marine Systems a new customer segment opened up for PALFINGER. There are two different fields of application for PALFINGER marine cranes: There are working cranes used to load cargo on the one hand and cranes are needed for rescue boats on the other. This refers primarily to ships with equipment that under the security provisions of the IMO (International Maritime Organisation) are obliged to install certain security equipment and to service it on a regular basis. Consequently, fleet growth is not the only important factor for PALFINGER, as the number of ships with rescue equipment requiring regular servicing counts as well.

The global economic crisis had a considerable negative impact on the shipping industry in general. The International Shipping Federation sums up that nearly all areas were affected by low demand and excess capacities.

COMPETITIVE ENVIRONMENT

The PALFINGER Group sells eleven different product groups whose markets are characterised by diverse competitive environments.

Around 50 percent of PALFINGER's revenue is generated in the crane area. In the market for truck-mounted knuckle boom cranes, the Company's main product, primarily small providers are still struggling with the aftermath of the economic crisis. However, all in all, the economic situation seems to be stabilising for most of the market participants. The major competitors are still HIAB, a company of the Finnish Cargotec Group, and Fassi from Italy. Both companies are represented in the market with a broad crane product range. HIAB is also among PALFINGER's competitors in other product areas such as container handling systems, transportable forklifts, or tail lifts.

TECHNOLOGICAL PROGRESS AND TOP QUALITY ARE CHARACTERISTIC FEATURES OF PALFINGER

The other product areas in which PALFINGER operates are marked by a multitude of smaller competitors. PALFINGER stands out from these competitors primarily through its technological progress and top quality.

PALFINGER also promotes market development outside its core markets – in particular in Asia, South America, and parts of Africa. Given the high quality of the products and the related price strategy, the competitive situation is difficult for PALFINGER, in particular in Asia and Africa so that sales are focused on individual regions.

PALFINGER's new business unit Marine Systems caters to the needs of shipping companies, shipyards, and wind farm operators. PALFINGER has a strong competitive position in this attractive and highly specialised market. Competitors of relevance include HMF, HS Marine, or Hydramarine in the crane area and HMF and Acta when it comes to wind energy.

While its competitors clearly limited their presence at trade fairs in times of economic crisis, PALFINGER presented its innovations and services at almost 100 fairs all around the world in 2010. These included important international fairs such as BAUMA in Munich, IAA commercial vehicles show in Hannover, Interforst in Munich, SAIE in Bologna, or BAUMA in Shanghai. As new standards had come into force, safety and reliability of the products were the centre of attention.

An essential component in building the success of the PALFINGER Group is the worldwide service and dealer network, which was also intensively catered to and expanded during the economic crisis. The suppliers' knowledge of local specialties and customer needs as well as the stable relationships between PALFINGER and those partners are an important competitive advantage – the same is true for a highly qualified staff on both sides.

PALFINGER's financial strength thus contributed – in particular during the economic crisis – to the further expansion of the strong market position. It guarantees the business partners a solid partnership and enables PALFINGER to carry out targeted activities in order to further expand its market shares.

PALFINGER brands

As a consequence of the acquisitions made in recent years, the PALFINGER Group currently includes a multitude of brands. New brand architecture is now to help reduce them to a minimum without destroying existing brand values. The global implementation of this strategy is planned for 2011.

CUSTOMERS AND SUPPLIERS

CUSTOMER AND DEALER NETWORK

PALFINGER products are distributed in more than 130 countries all over the world primarily through around 200 independent dealers and the Group's distributing companies. Together with more than 4,500 service centres this forms a comprehensive network for the end customers.

Dealers, who are the link to most of the Group's end customers, are thus PALFINGER's most important group of customers. On the occasion of annual dealer conferences the mutual exchange of experience and information is promoted and contacts are intensified to ensure the best possible service for end customers.

INTENSIVE EXCHANGE OF INFORMATION AND EXPERIENCE FACILITATES THE BEST POSSIBLE SERVICE FOR END CUSTOMERS

In the first half 2010 an extensive dealer survey focusing on service was carried out. On the basis of the results, PALFINGER has initiated several measures of improvement such as more practical relevance of training events or higher quality of packaging of spare parts. In the second half dealers were surveyed on the field of marketing. The results of that survey will be available in the first quarter 2011.

In 2010 PALFINGER also carried out surveys assessing the satisfaction of end customers with the products of individual product groups. Based on the results, improvements in the fields of service and products will be developed in the respective countries.

Innovative sales angle

PALFINGER products are considered to be of the highest quality and the most innovative products in the market, but also are considered to be sold at a high price. PALFINGER now furnishes a "best price proof": In a pilot project carried out in Germany with potential customers, an approach encompassing the entire transaction – from acquisition costs to actual and potential costs of use and maintenance up to the resale value – was selected for the sales process.

From this point of view PALFINGER products scored extremely well in terms of their cost structure. Technical details and innovations, such as the maintenance-free extension system, the serial return oil utilisation recovery or the weight-optimised lightweight construction mode, keep costs of operation much lower than those incurred with the competitors' products. Moreover, high resale prices are obtained in the market for used equipment thanks to the extremely stable value of PALFINGER products, which among other factors is achieved by CDP coating. Investing in high-value PALFINGER products thus contributes to a reduction of costs and an increase in profitability in the medium and long term.

After the successful launch of the "best price proof" project for knuckle boom cranes and transportable forklifts in Germany, this innovative sales argument will be used in other countries and for other product groups as well.

With a view to directing the focus of purchase decisions to the high-quality production processes, guided tours at the service and demo centre and at the production sites in Austria have been made more professional. Since the beginning of the second half 2010, more than 250 tours with almost 2,000 interested people have already been carried out.

PURCHASING

Supplier management is a material aspect of PALFINGER's success. On the one hand, the supply of the PALFINGER Group is essential for its positive business performance and, on the other hand, expenditure for materials and external services is the largest cost item of the Group.

Essential procurement factors for the PALFINGER Group include advanced technologies and innovation, primarily in the fields of hydraulics, electronics, and high-tension steel. Therefore procurement focuses primarily on the EU market, where these issues are strongly promoted. PALFINGER's most important Eastern European procurement markets are Slovenia, Bulgaria, Romania, and Croatia; due to the price pressure in the Central European sales markets they are gaining further importance.

STRATEGIC SUPPLIERS ARE SEEN AS LONG-TERM PARTNERS

PALFINGER maintains long-term relationships with its strategic suppliers. They are involved in the research and development processes at an early stage and thus contribute to continuously enhancing the quality and consequently also the competitiveness of PALFINGER. This objective is supported by quality assurance agreements entered into with around 130 main suppliers. Regular audits and evaluations identify possible deviations and risks and, if required, the suppliers are provided with the necessary assistance in the optimisation process.

Every second year an international supplier meeting is held to continue to improve supplier involvement. Both the current economic situation and planned developments of the PALFINGER Group are presented at these meetings.

Suppliers of strategic importance are subjected to a risk analysis in order to identify potential economic difficulties at an early stage. PALFINGER reduced its supplier portfolio by approximately 200 suppliers in the course of 2009 and 2010 in order to provide additional support to strategically important suppliers. In addition, in line with the increased insourcing strategy, the Group put special emphasis on avoiding any additional burden to be caused for such partners by a reduction of the parts spectrum.

This consistent supplier management contributed to the fact that PALFINGER was able to rely on a stable supplier portfolio in 2010 as well. In addition, the positive development of output figures resulted in a significant easing of the economic situation for external suppliers.

Delivery performance to PALFINGER was further improved in 2010. At the same time, flexibility was a major focus. Following the principle of order-based manufacturing in the course of annual planning, purchase commitments are only made upon short notice and high-value parts are delivered just in time. In order to structure the flow of information as efficiently as possible PALFINGER increasingly deploys special software solutions. In the future, the development of products under the principle of order-based manufacturing by suppliers will be of great importance.

Supply in the field of electronics proved to be more and more difficult in 2010. For instance, repurchasing times for semi-conductors rose from 12 to up to 60 weeks. Suppliers and sub-suppliers were hardly able to meet the increased demand within the agreed deadlines. The situation is not expected to ease off before mid-2011.

As a rule, in order to secure the expected future demand, PALFINGER enters into long-term agreements with its main suppliers, which provide for variable annual purchase quantities.

The decline in demand experienced in recent years resulted in lower prices for raw materials. While PALFINGER was hardly in a position to benefit from this price advantage in 2009 due to its high level of inventories, thanks to the reduction of inventories as planned, the lower prices, in particular for steel, were also reflected in the Group's earnings in 2010.

Revenue + 29 percent, exceptionally high increase in earnings achieved in 2010

Market expansion in the non-European areas; new business unit Marine Systems

Innovations made in 2010 confirm technology leadership

Value-creation strategy ensures further process enhancements

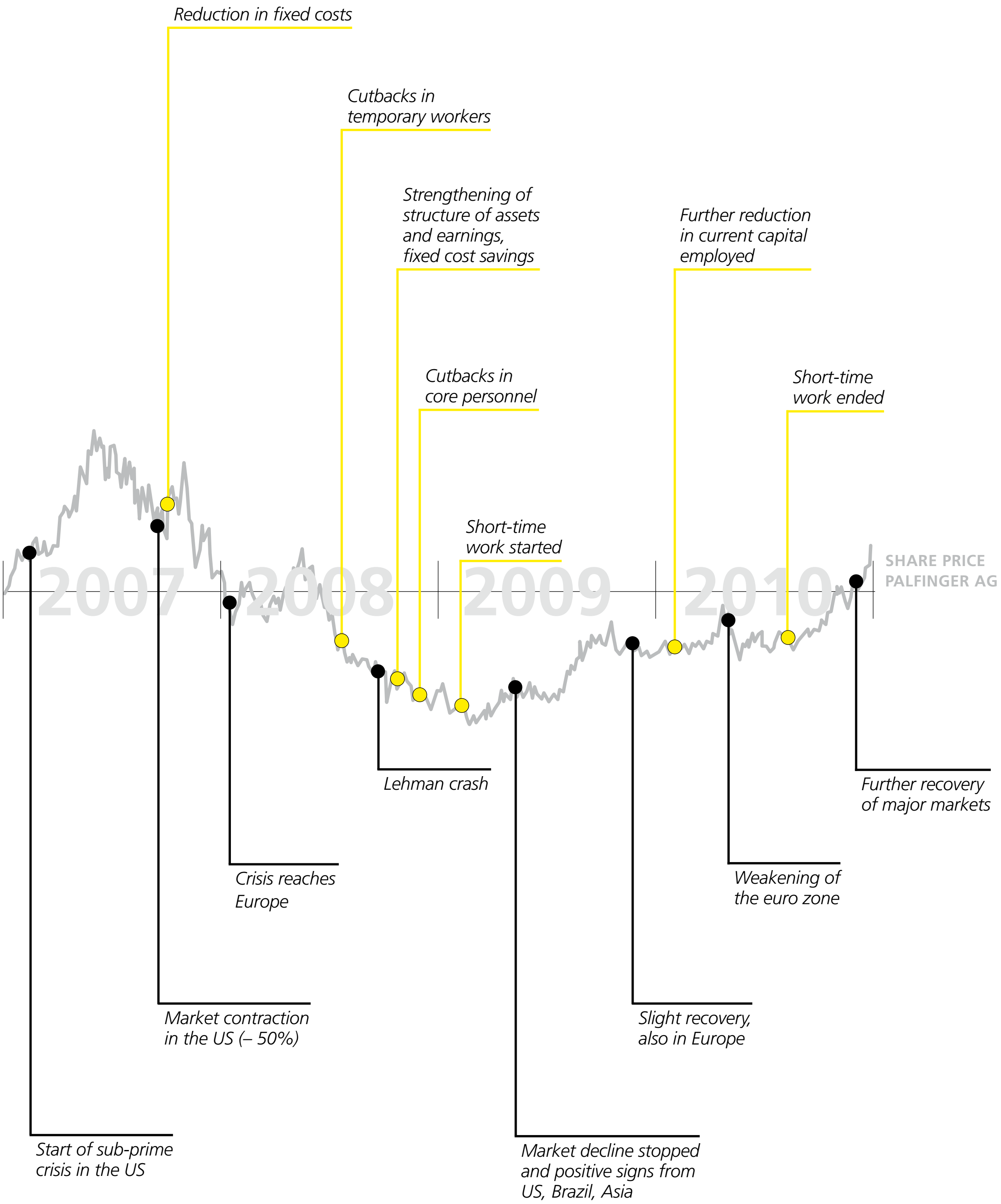
Dividend of EUR 0.22 per share proposed

PERFORMANCE OF PALFINGER

36–72

PERFORMANCE OF PALFINGER

2007–2010 IN FAST MOTION



PALFINGER HAS MANAGED TO GROW FROM CRISIS

In retrospect the price performance of the PALFINGER AG share reflected the essential events of the previous years even before their scope became predictable: The subprime crisis in the US caused the North American market to collapse by 50 percent in the second half 2007. In early 2008 the crisis expanded to include Europe, where losses of up to 80 percent were recorded. Spain, Great Britain, France, and other major core markets of PALFINGER were hit particularly hard.

In early 2008 PALFINGER still had a high volume of orders on hand resulting from the long delivery periods during the phase of overheated demand at the end of 2007. Consequently, PALFINGER still continued to post record results at good capacity utilisation. Then the crisis spilt over to Europe, causing the number of cancellations on the part of customers to rise in the course of 2008. The decline in incoming orders experienced by customers was not yet that strong, but they were able to use the PALFINGER products on stock that they had built up due to the long delivery periods.

PALFINGER quickly responded to changed expectations for 2008 and took first measures to reduce capacities and primarily to reduce fixed costs. The majority of temporary workers was laid off, a multitude of cost-cutting measures were implemented effectively in cooperation with the Group's staff.

The destocking process carried out by dealers was continued and in the course of 2009 resulted in a synchronisation of the revenue generated by PALFINGER and its dealers. The year 2009 was marked by low capacity utilisation, short-time work, salary waivers, and a hiring freeze or downsizing of the core team. Management deliberately renounced short-term optimisation of earnings and, to the extent possible, retained its qualified personnel. Nevertheless, in particular in countries with little flexibility regarding necessary capacity adjustments, staff layoffs were inevitable. "We saved wherever we could" was not only the motto of the 2009 Annual Report but also the principle applied to material costs and investments.

Following stabilisation at a low level a slight recovery was noticed first in the US and at the end of 2009 in Europe as well. While the US economy remained at a low level, in Latin America and Asia the upward trend continued, forming the driving force for growth in the European area as well. The continuous recovery of the markets, primarily in Europe and Brazil, in combination with the higher capacity utilisation and the efficient cost structure that had been introduced formed the basis for the 2010 results of the PALFINGER Group.

ECONOMIC BACKGROUND 2010
PAGE 28

In keeping with its technology and innovation leadership, PALFINGER focused its investments on product development but at the same time seized market opportunities for acquisitions in order to further consolidate its position in the market.

BUSINESS DEVELOPMENT IN 2010

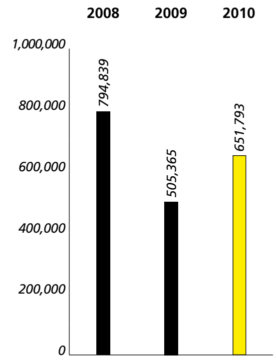
In the 2010 financial year the PALFINGER Group recorded a continuous upward trend. After 2009, a year that was more than difficult, market recovery was reflected in organic growth, improving results, and more visibility in the course of the year. The measures implemented by PALFINGER to improve process and cost structures and to continue with the market expansion contributed to the successes achieved as well.

Revenue generated by the PALFINGER Group in the 2010 financial year came to EUR 651.8 million, which is 29.0 percent higher than the previous year's figure of EUR 505.4 million. This increase was supported primarily by the non-European regions, in particular North and South America. The European units experienced a strengthening of the crane business, but also distinct declines in the fields of access platforms and hookloaders. The acquisitions made contributed EUR 43.8 million or approximately 30 percent to this plus in revenue.

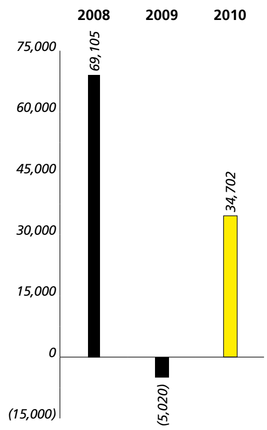
In the period under review EBIT came to EUR 34.7 million and, after EUR – 5.0 million in 2009, showed a significantly larger increase relative to revenue. This development was caused primarily by the increased flexibility of the cost structure, which has a positive impact even when revenue is rising. In this context, the expansion of order-based manufacturing made the desired increases in productivity possible while at the same time enhancing financial flexibility.

EBITDA more than trebled, amounting to EUR 57.4 million after EUR 16.4 million in 2009. This increase of approximately EUR 41 million was also matched by a pleasing development of EBIT as compared to the previous year. On such basis, PALFINGER posted a consolidated net result for the period 2010 of EUR 24.2 million after EUR – 7.8 million in the previous year.

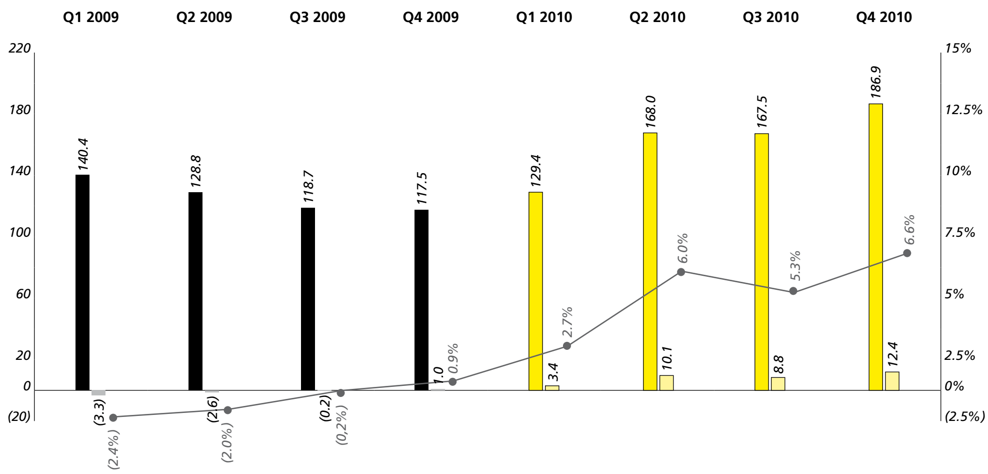
A look at the performance of the individual quarters of 2010 shows the continuous upward trend even though the second half of the year was affected by the summer company holidays and the Christmas holidays. Revenue (Q1: EUR 129.4 million; Q2: EUR 168.0 million; Q3: EUR 167.5 million; Q4: EUR 186.9 million) in the fourth quarter 2010 exceeded the previous year's figure by 59.1 percent, and the success achieved was also reflected in EBIT (Q1: EUR 3.4 million; Q2: EUR 10.1 million; Q3: EUR 8.8 million; Q4: EUR 12.4 million). In the fourth quarter 2010 the EBIT margin was raised to 6.6 percent as compared to 0.9 percent in the same period of the previous year.



DEVELOPMENT OF REVENUE (TEUR)



DEVELOPMENT OF EBIT (TEUR)

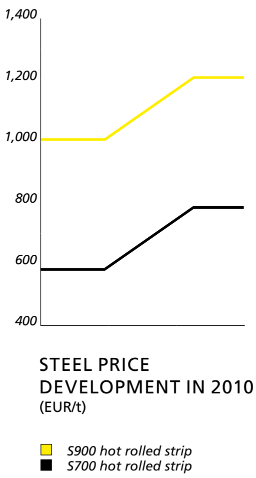


DEVELOPMENT OF REVENUE AND EBIT (EUR million)

GROWTH IS REFLECTED IN A PLUS IN REVENUE AND AN EXCEPTIONALLY HIGH INCREASE IN EARNINGS

In many European core markets business performance has strengthened since the beginning of 2010, which was particularly evident in crane products and tail lifts. In Spain, Great Britain, Ireland, Greece, and Portugal – all of which were hit particularly hard by the crisis – as well as in Eastern Europe business was still weak during the period under review. The destocking process carried out by dealers in 2008 and 2009 played a significant role in the immediate effect the market situation had on order intake and thus on revenue recorded. The majority interest in Ned-Deck Marine B.V. (NDM), acquired in July 2010, was for the first time included in the interim consolidated statements of the third quarter and, together with the marine and wind energy business taken over from Palfinger systems GmbH in October 2010, is reported under the EUROPEAN UNITS segment.

Of the areas outside Europe, it was in particular South America that recorded a plus from the second quarter onwards, with the strengthening of the Brazilian currency against the euro partly responsible for the increase in revenue. In North America, PALFINGER benefited, among other things, from the acquisition of the AWE (Automated Waste Equipment) business in the summer of 2009 and the initial consolidation of ETI (Equipment Technology, LLC) in the second quarter 2010. Revenue in Asia was stepped up significantly as well, even though at a low level. The rise in order intake recorded in these areas was increasingly reflected in revenue. Moreover, the measures initiated to increase earnings, including the introduction of order-based manufacturing in South America, have contributed to an improvement of earnings since the third quarter 2010.



STEEL PRICE DEVELOPMENT IN 2010
(EUR/t)

The growing rate of utilisation prompted PALFINGER to end short-time work at the Austrian sites early, i.e. at the end of August.

Prices of raw materials of relevance for PALFINGER – this is primarily steel – were volatile in 2010. After dramatic declines beyond the level of 2005 and 2006 were recorded during the first half 2009, prices were on a continuous rise and in 2010, following a brief period of stabilisation in the first quarter, reached a record high at half-year. This was followed by a reversal in trend that caused prices to drop back to the average level achieved in 2007. Volatility of steel prices has increased in general; this is mainly due to the fact that ore suppliers changed from annual agreements to quarterly contracts with their steel customers. This also resulted in steel producers entering into shorter-term price arrangements with their customers.

SIGNIFICANT CHANGES

FURTHER DEVELOPMENT OF CORPORATE STRATEGY

The experience gained from the largest global economic crisis in recent decades and having attained the diversification goals resulted in a further development of PALFINGER's strategy in the course of the Group's strategic corporate planning. The increasing volatility of the markets and the shortening of periods for which corporate developments may be predicted lend more importance to the issue of flexibility. The strategic pillars to be increasingly promoted within the PALFINGER Group in the future are thus internationalisation, innovation, and flexibility.

STRATEGY AND VALUE MANAGEMENT PAGE 19

Under its Group-wide project to reduce inventories, receivables, and trade payables by the name of CC-Top (for: current capital) PALFINGER placed a stronger focus in 2010 on current capital employed. As a result, net working capital has already been reduced considerably in proportion to revenue. The capital released was used for investments, which did not significantly augment PALFINGER's net debt.

CONTINUATION OF MARKET EXPANSION

In early April 2010 PALFINGER acquired an 80-percent shareholding in ETI (Equipment Technology, LLC), an access-platform producing company based in North America. This acquisition was a major step for PALFINGER, as the Group had not been present in the North American market with access platforms before. Together with the business of AWE (Automated Waste Equipment), which operates in the hookloader market and was taken over in 2009, this supplements the product portfolio in the area North America and contributes to the localisation of value creation.

In India, intensive efforts went into establishing an assembly site and introducing newly developed crane products to the market. The assembly facilities started operations at the end of the year and now enable PALFINGER to develop the market with an adequate cost structure. The organisational and management structure of the company, which was founded in 2009, has been adjusted to future challenges. The minority interest in the sales cooperation venture Star Palfinger Equipment India Pvt. Ltd. was sold to the majority shareholder in the first half 2010; the cooperation was discontinued.

ACQUISITIONS AND OWN INITIATIVES CONTRIBUTED TO THE ONGOING MARKET EXPANSION

On 16 July 2010 the PALFINGER Group took another step towards growth by acquiring a 75-percent interest in the Dutch company Ned-Deck Marine B.V. (NDM). With this strategic partnership, PALFINGER has entered the market of ship-mounted cranes, thus expanding its previous truck-related product range. With its rescue boat davits, NDM primarily operates on the market of ships with equipment fulfilling the requirements of the UN Convention for the Safety of Life at Sea (SOLAS).

The acquisition of the marine and wind energy business of Palfinger systems GmbH in October 2010 turned PALFINGER into one of the leading marine crane providers and also opened the door to the promising market of offshore wind energy plants for the Group. The new business unit Marine Systems, which comprises the areas NDM, marine cranes, and wind energy, starts with potential annual revenue of around EUR 50 million and thus forms an additional basis for continued growth of revenue and earnings of the PALFINGER Group.

In early November 2010 PALFINGER agreed on the takeover of the service business for commercial tail lifts from its former competitor Ross & Bonnyman Limited in Scotland. Subject to the approval of the anti-trust authorities, PALFINGER will thus gain access to a major customer base in Great Britain.

ORGANISATIONAL STRUCTURE

With effect as of 1 November 2010, the PALFINGER organisational structure, implemented in 2010, was completed by the area management for the EMEA (Europe, Middle East, Africa and Australia) region, which will manage the European business units. The area EMEA comprises the business units Knuckle Boom Cranes, Timber and Recycling Cranes, Tail Lifts, Access Platforms, Hookloaders, Transportable Forklifts, Railway Systems, and Production as well as the distribution company Palfinger Deutschland, all of which are going to report to the area management in future. This enables the Management Board to sharpen its focus on the areas outside EMEA and the new business unit Marine Systems.

ACQUISITIONS ALSO PULLED UP REVENUE

Martin Binder
Head of Legal Department

LEGAL CHANGES WITHIN THE PALFINGER GROUP

In order to simplify the Group's structure, FTEC, Inc., USA, and Tiffin Loader Crane, Co., USA, were merged into Paltec Truck Equipment, Co., USA, as the absorbing company with effect as of 1 January 2010. In the first quarter 2010 the company's name was changed to Palfleet Truck Equipment, Co.

With effect as of 22 February 2010, 20 percent of Guima Palfinger S.A.S., France, was transferred to Compagnie Générale Vincent, France, for a purchase price of EUR 1.00.

The sales cooperation venture in India was terminated in the first quarter and the shares in Star Palfinger Equipment India Pvt. Ltd. were transferred to the former cooperation partner.

With effect as of 9 April 2010 the acquisition, which had been agreed upon on 27 March 2010, of 80 percent in Equipment Technology, LLC, which held a 60-percent interest in Ideal Crane, LLC, USA, as well as a 56.75-percent interest in Composite Works, LLC, USA, was closed. At the end of November Equipment Technology, LLC acquired the remaining 40-percent share in Ideal Crane, LLC from its former co-owner. Subsequently, the assets of Ideal Crane, LLC were transferred to Equipment Technology, LLC; Ideal Crane, LLC was wound up.

On 16 July 2010 Palfinger Service- und Beteiligungs-GmbH acquired a 75-percent interest in the Dutch company Ned-Deck Marine B.V. (NDM). At the end of October, Palfinger Service- und Beteiligungs-GmbH's name was changed to Palfinger Marine- und Beteiligungs-GmbH.

On 27 October 2010 Palfinger GmbH took over the entire Hamburg-based company Schomäcker Fahrzeugbau GmbH. Schomäcker Fahrzeugbau GmbH was not consolidated due to its negligible importance and as it is planned to merge this newly acquired company into Palfinger GmbH as of 1 January 2011.

With effect as of 28 October 2010 in the form of an asset deal, Palfinger Marine- und Beteiligungs-GmbH, acquired the marine and wind energy business from Palfinger systems GmbH, which is controlled by the Palfinger family. In addition to a business in Salzburg, all shares in the production companies in Slovenia (Palfinger Marine d.o.o., Maribor) and Croatia (Palfinger Marine d.o.o.) and 60 percent of the distribution joint venture in Singapore (Palfinger systems Pte. Ltd.) were taken over.

INFORMATION ACCORDING TO SEC. 243A OF THE BUSINESS CODE (UGB)

As of 31 December 2010, the issued share capital of PALFINGER AG was EUR 35.7 million, divided into 35,730,000 no-par-value bearer shares. Each PALFINGER share entitles its holder to one vote.

As of 31 December 2010, PALFINGER AG held 328,000 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.

As of 31 December 2010, the Palfinger family directly or indirectly held around 65 percent of the shares in PALFINGER AG. More than 5 percent of the shares were held by Aviva plc and its subsidiary Delta Lloyd Asset Management NV. Around 29 percent of the PALFINGER shares were in free float.

There are no PALFINGER shares with special rights of control.

Within the PALFINGER Group there are no employee stock option programmes under which the shares in PALFINGER AG are not directly held by employees participating in the stock option programme.

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.

As of 31 December 2010, the Management Board of PALFINGER AG was not authorised to issue and repurchase shares of PALFINGER AG beyond the scope of the respective statutory provisions.

No agreements have been entered into that would become effective, be changed, or terminated upon a change in management control.

No agreement on compensation in the event of a public takeover bid has been entered into between PALFINGER AG and the members of the Management Board and the Supervisory Board.

FINANCIAL POSITION, CASH FLOWS, AND RESULT OF OPERATIONS

FINANCIAL POSITION

Total assets increased by 15.2 percent as compared to the previous year and amounted to EUR 677.4 million (previous year: EUR 588.0 million) as of 31 December 2010. This was caused primarily by the acquisitions made.

This increase was reflected in particular in the fact that **non-current assets** were stepped up by EUR 68.1 million or 21.8 percent to EUR 380.9 million (previous year: EUR 312.8 million), with the acquisitions made contributing EUR 63.3 million. As a result of the efficient management of current capital employed, the increase of EUR 21.3 million or 7.7 percent in **current assets**, from EUR 275.2 million to EUR 296.5 million, was moderate in spite of the acquisitions, which accounted for EUR 43.8 million, and a markedly higher operating performance.

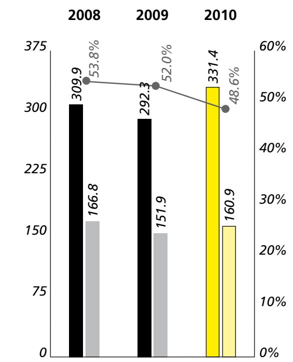
It was due to the Group-wide CC-Top project, which pays special attention to inventories, accounts receivable, and accounts payable, that **net working capital** was lowered, on an annual average, from 30.0 percent to 18.9 percent relative to revenue.

Equity increased by 13.4 percent, from EUR 292.3 million to EUR 331.4 million. This was primarily due to the positive consolidated net result for the period of EUR 24.2 million, the increase in minority interests from acquisitions, and the exchange rate changes in connection with the conversion of balance sheets prepared in foreign currencies.

Non-current liabilities increased from EUR 163.3 million to EUR 183.8 million. The main reason for this growth was the residual purchase price liability in the amount of EUR 19.1 million resulting from the acquisition of the marine and wind energy business of Palfinger systems GmbH. **Current liabilities** not only reflect the acquisition-related increase in trade payables but also the augmentation of the operating performance within the Group. While equity increased, net debt remained nearly unchanged as compared to the previous year, which facilitated a reduction of the **gearing ratio** from 52.0 percent at the end of 2009 to 48.6 percent as of 31 December 2010.

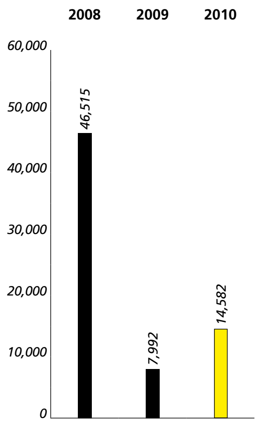
ABBREVIATED CONSOLIDATED BALANCE SHEET

million EUR	31 Dec 2010	31 Dec 2009	31 Dec 2008
Non-current assets	380.9	312.8	307.7
Current assets	296.5	275.2	333.6
Total assets	**677.4**	**588.0**	**641.3**
Equity	331.4	292.3	309.9
Non-current liabilities	183.8	163.3	82.1
Current liabilities	162.2	132.4	249.4
Total equity and liabilities	**677.4**	**588.0**	**641.3**



EQUITY AND NET DEBT
(million EUR)

Equity
Net debt
Gearing (in percent)



INVESTMENT IN PROPERTY, PLANT, AND EQUIPMENT
(TEUR)

CASH FLOWS

The funds reported in the statement of cash flows correspond to the balance sheet item cash and cash equivalents.

In the 2010 financial year **cash flows from operating activities** amounted to EUR 49.1 million, compared to EUR 50.0 million in the previous year. Although the figures of the two years were similar, the reasons behind them differed: in 2010 the clearly positive result before income tax posted was the main reason, whereas the 2009 figure was mainly due to the cutbacks on working capital.

Cash outflows for investing activities came to EUR 54.1 million, which is 240.9 percent above the previous year's figure of EUR 15.9 million. Apart from significantly higher investments in acquisitions of companies in the amount of EUR 36.3 million, replacement investments were made as well.

Operating cash flows which remained nearly the same as in 2009 and high outflows for investment in subsidiaries resulted in a clearly lower **free cash flow** in the amount of EUR 4.2 million in 2010, after EUR 42.0 million in the 2009 financial year.

Cash outflows for financing activities of EUR 12.6 million remained more or less the same, after cash outflows of EUR 10.4 million in 2009.

FREE CASH FLOW

million EUR	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2008
Cash flows from operating activities	49.1	50.0	32.6
Cash flows from investing activities	(54.1)	(15.9)	(77.1)
	(5.0)	**34.2**	**(44.5)**
Adjusted interest on borrowings after tax	9.2	7.8	5.0
Free cash flow	**4.2**	**42.0**	**(39.5)**

RESULT OF OPERATIONS

In the 2010 financial year **revenue** increased by 29.0 percent to EUR 651.8 million (previous year: EUR 505.4 million). With a share of 73.5 percent (previous year: 80.1) the EUROPEAN UNITS segment was the main contributor to sales revenue. The new business unit Marine Systems, which was set up in August 2010, contributed around 2.8 percent. With a share of 64.3 percent in the Group's revenue (previous year: 73.0 percent) the European Union remained the most important sales market. North America's share increased from 11.8 percent in 2009 to 16.1 percent, which was not least due to the acquisition of ETI in 2010. Central and South America contributed 7.8 percent to the Group's revenue in 2010, after 6.0 percent in the previous year.

As a consequence of the higher production volume, **expenditures for materials and external services** increased from EUR 262.6 million to EUR 337.3 million.

The increase in **employee benefits expenses** from EUR 149.2 million to EUR 178.7 million reflected the acquisitions carried out, on the one hand, and the general recovery of the markets and the stepping up of resources that became necessary in this connection, on the other. In addition, the discontinuation of short-time work, the cancellation of the salary waivers, and the balance-sheet inclusion of bonus payments impacted this figure.

EBIT for the 2010 financial year in the amount of EUR 34.7 million (previous year: EUR – 5.0 million) reflected the positive effect of the implemented measures, the recovery of the market, and the successful acquisitions.

Income tax expense did not change in line with the development of business. This was primarily due to the consequences of the measurement of existing loss carry forwards of foreign subsidiaries. The success achieved with the turnaround projects allowed for an additional capitalisation of loss carry forwards. The effective tax rate sank from 43.1 percent to 8.6 percent.

In line with PALFINGER's dividend policy and on the basis of the current earnings situation the Management Board is going to propose to the Annual General Meeting to distribute a **dividend** of EUR 0.22 per share (previous year: no dividend paid).

ABBREVIATED CONSOLIDATED INCOME STATEMENT

million EUR	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2008
Revenue	651.8	505.4	794.8
EBITDA	57.4	16.4	97.8
EBITDA margin	8.8%	3.3%	12.3%
EBIT	34.7	(5.0)	69.1
EBIT margin	5.3%	(1.0%)	8.7%
Consolidated net result for the period	24.2	(7.8)	43.9
Earnings per share (EUR)	0.68	(0.22)	1.24
Dividend per share (EUR)	0.22*	0.00	0.39

* Proposal of the Management Board to the Supervisory Board for presentation to the Annual General Meeting for resolution.

Due to the earnings situation, the **return on capital employed (ROCE)** increased from 0.0 percent in the previous year to 6.9 percent.

CALCULATION OF ROCE

million EUR	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2008
EBIT	34.7	(5.0)	69.1
Income from associated companies	2.4	2.0	4.7
Adjusted income tax expense	(4.6)	2.9	(18.2)
NOPLAT	**32.5**	**(0.1)**	**55.6**
Non-current assets	346.9	310.2	275.1
Non-current financial assets	(2.3)	(1.6)	(1.0)
Non-current operating assets*	**344.6**	**308.6**	**274.1**
Inventories*	154.2	167.3	168.9
Current receivables and other current assets (excluding securities)	106.3	114.7	135.0
Tax receivables	0.8	1.3	1.3
Non-current and current provisions	(43.6)	(38.3)	(38.4)
Deferred tax liabilities*	(13.3)	(12.1)	(11.0)
Tax liabilities	(3.1)	(1.8)	(6.0)
Other non-current and current liabilities	(78.0)	(79.4)	(99.0)
Net working capital*	**123.3**	**151.7**	**150.8**
Capital employed*	**467.9**	**460.3**	**424.9**
ROCE	**6.9%**	**0.0%**	**13.1%**

* Annual average.

TREASURY

The main target of the corporate treasury department is to minimise the Group's financial expenditures while at the same time ensuring that sufficient liquidity reserves are available so as to be able to meet payment obligations of the Group at any time.

Cash inflows from operating activities form the most important source of funding. Corporate treasury uses the excess funds of individual Group companies to meet the liquidity needs of other companies. This reduces the need for external financing and optimises the Group's net interest expense. In addition, by balancing Group-internal transactions via clearing accounts, external bank transactions and banking charges are reduced. In addition, the principal corporate treasury responsibilities include the continuous optimisation of interest rates, global insurance solutions, as well as the effective management of liquidity, foreign exchange, and interest risks.

RISK REPORT, LIQUIDITY, FOREIGN CURRENCY, AND INTEREST RATE RISKS
PAGE 53

All processes are transparent and traceable; every single measure is documented and supported by state-of-the-art IT infrastructure.

CASH AND LIQUIDITY MANAGEMENT

In 2010 the situation in the money and capital markets eased off a bit. However, ensuring its liquidity supply and increasing financial flexibility through additional financing sources remained PALFINGER's utmost priorities.

Solvency of the PALFINGER Group at any time was guaranteed by maintaining liquidity reserves, agreeing on long-term loans, and extending approved credit lines.

When it comes to funding, increased attention is paid to the long-term availability of liquidity. The credit volume is distributed among several banking partners in order to spread the risk and maintain independent from individual lenders.

In order to finance investments and acquisitions, long-term loans were entered into with several banking partners in the past financial year.

RISK REPORT

PALFINGER is aware of the fact that a functioning opportunities and risk management system is an important contribution to maintaining and expanding 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 proactively respond to changing framework conditions.

THE IDENTIFICATION OF OPPORTUNITIES AND RISKS AT AN EARLY STAGE IS A COMPETITIVE ADVANTAGE FOR PALFINGER

The basic components of the risk management set-up by the PALFINGER Group are standardised Group-wide planning and controlling processes and inter-company standards 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 scrutinised in regular intervals.

The direct responsibility for risk management is with the head of each operating unit. This is the level on which any issues pertaining to risks are regularly gathered and evaluated. Corporate risk management reports directly to the Management Board, which bears overall responsibility.

RISK MANAGEMENT

The management of the individual corporate areas and divisions periodically identifies and evaluates the most important opportunities and risks along the process chain, taking external factors into consideration. This evaluation is carried out with a view to their possible impacts on the results and their probability of occurrence and uses a clearly structured and 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. The corporate risk management department also carries out periodic checks in order to make sure that the planned measures are implemented within the deadlines set.

The internal auditing department monitors adherence to the relevant statutory provisions and the Group's internal guidelines. It also examines the general functionality of the risk management system with respect to the early identification of risks that might jeopardise the continued existence of the Company. Short-term risk issues are covered by the monthly reporting in controlling and by periodic meetings of the steering committees of the business divisions.

RISKS

The current risk exposure of the PALFINGER Group is strongly influenced by developments in the market. In the 2010 financial year, market demand was on the increase. However, it remained well below the levels of 2008 and before that. PALFINGER was able to utilise a large part of existing capacities but continued to deliberately retain overcapacities so as to be able to respond quickly and efficiently in case of a further market recovery. In case of another slump in market demand, fixed costs will have to be brought down even more.

Under its Group-wide risk management system, PALFINGER AG divides its risk areas into four main categories:

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

External risks

ECONOMIC DEVELOPMENTS

After 2009, a very weak year, a positive market trend was felt in 2010. Even though the results have not yet reached pre-crisis record levels, they are more than satisfactory to PALFINGER.

Cooperating with strategic partners is of great significance to PALFINGER. The improvement of the market environment has made it also possible for PALFINGER's business partners to recover. In case of a continued speedy recovery of the markets another crucial question will be how to fund the growth recorded by dealers and suppliers.

In some markets the end customers of the PALFINGER Group, however, continue to be confronted with the reduced demand in the logistics and construction industries and hence also the low market volume for the products distributed by PALFINGER. As this development also affects competitors, an aggravated price pressure may evolve should stagnation continue.

Nevertheless PALFINGER decided, for strategic reasons, to introduce new products to sales markets recording currently low volumes in order to derive maximum benefit from an upswing. Even though PALFINGER occupies an excellent market position, a potential development to the contrary poses a risk. It may become necessary to write down development costs that have been capitalised or investments may turn out not to amortise as planned.

POLITICAL DEVELOPMENTS

In some markets relevant to PALFINGER such as the US, Brazil, Russia, and China, an increased trend towards protectionism has been noticeable. PALFINGER sees these developments as an opportunity that it tries to exploit by expanding its local manufacturing capacities. Political turmoil in some countries would put PALFINGER at greater risk of losing some of its sales markets and having to amortise capital that has already been tied up.

Strategic risks

STRATEGY

The strategic guidelines innovation, internationalisation, and diversification were further developed in 2010. To meet the increased need for a quick adjustment to market conditions, diversification was replaced with flexibility. PALFINGER continues to make use of market opportunities in order to take over appealing acquisition targets after making an in-depth review.

The development of the financial year ended confirms this realignment in strategy. Innovations, product groups with little dependence on the construction industry, as well as overseas markets have, for example, contributed to the stabilisation of revenue and earnings.

PRODUCT PORTFOLIO

The continuation of the ongoing integration projects in the relevant product divisions is of crucial importance for the successful development of the Group. The identified potential synergies must be exploited.

With its entry in the marine crane business, PALFINGER has firmly established itself in a promising customer segment with great future potential that also supports further internationalisation and profitability enhancement.

Another important factor of success is the consistent continuation of turnaround projects with effective control mechanisms. Professional project management as well as support through risk management are to ensure that the targets set will be reached. In the event that market conditions deteriorate again, there is also the principal balance-sheet risk of having to further adjust individual capitalised intangible assets to the changed valuations (impairment).

ORGANISATION AND CORPORATE CULTURE

Within PALFINGER's areas, the strengthening of the individual product fields is to bring about flexibility in meeting various customer demands. At the same time Group-wide standards have been defined in particular in supporting areas to allow for the use of synergies. These steps constitute a challenge to the entire organisation.

Internal risks relating to value creation

DEVELOPMENT

PALFINGER is faced with the challenge of regularly proving its technology leadership within its industry and of adjusting new developments to the needs of the different markets. Customised solutions offered by PALFINGER's competitors may generate a market advantage for them, while resulting in a loss of market shares for PALFINGER.

Close cooperation between the development and distribution departments and a strong regional approach of the development projects are in place to ensure that PALFINGER maintains its status as innovation leader in line with its strategic goals.

Development work has fundamental consequences for the cost structure of future serial manufacturing. Highly complex products also mean a high level of complexity in value creation and consequently also high costs. This process is optimised by the cooperation of the development department with the departments dealing with the subsequent value creation phases – procurement and production. Important innovations have been secured by patents, and all the confidential information within the Company is protected against unauthorised access.

PROCUREMENT

The market upturn of 2010 has also left its impact on suppliers. Delivery times of strategic partners have become longer due to capacity bottlenecks on their side. In case of a continued speedy recovery of the markets, it may become more necessary to increase the safety and buffer stock levels of material in order to be able to observe delivery periods agreed with dealers.

In procurement PALFINGER continues to increase its focus on quality, price, and delivery reliability. Suppliers are actively being supported in order to provide an even better service in the future. PALFINGER has implemented special supplier selection procedures, risk management, and supplier management systems to monitor its suppliers' performances.

PRODUCTION

For PALFINGER the most important value-creation phases are manufacturing and assembly of its products. The risk of an interruption of operations and the related direct impact on the Company's results was identified in a risk analysis. This risk has been constantly minimised by these analyses and the measures derived, such as the renewal of machinery, the introduction of Total Productive Maintenance (TPM) processes, and the optimisation of the PALFINGER ProductionSystem.

PALFINGER promotes its position as market leader by upholding the top-notch quality of products and services. PALFINGER has implemented an ISO 9001 certified quality management system. In spite of this systematic approach within PALFINGER it is not possible to fully exclude the risk of product liability. In principle, any defects in quality are remedied in line with customer requests. Although the Company has insurance cover to cover potential losses, the related damage to PALFINGER's image would be considerable.

The Company has taken out adequate insurance cover for losses caused by energy supply failure, technical failure, fire, explosions, and other possible disruptions.

Internal risks relating to supporting processes

ACCOUNTING AND FINANCE

The objective of the existing accounts receivable management is to reduce credit risks in advance. This becomes increasingly significant through the recovery of the markets, which in turn is pushing up the number of accounts receivable. Terms of payment are agreed upon on the basis of financial information about the buyers. Only financially sound companies and long-standing partners are granted terms and conditions that involve an increased risk for PALFINGER. The risk of losses on doubtful receivables is further limited by means of bad debt insurance cover for the individual accounts receivable.

LIQUIDITY, INTEREST RATE, AND FOREIGN CURRENCY RISKS are controlled by the treasury department, where all relevant information from the entire Group comes together. These risks are very complex, in particular because PALFINGER is engaged in international operations.

LIQUIDITY RISK

Group-wide cash reporting guarantees the transparency required to be able to control funds in a targeted manner. Thanks to medium to long-term planning, potential finance requirements can be coordinated with the partners at an early stage. A Group-wide project was launched in the 2009 financial year to sustainably reduce the capital employed in order to counteract this risk. This project was successfully continued in 2010 and has made a substantial contribution to optimising capital employed.

The determination of credit limits and the amount of refinancing costs of credit institutions and banks depend on their assessment of PALFINGER's future perspective. Banking contacts have been stepped up in order to give a comprehensive picture of the present situation.

FOREIGN CURRENCY RISK

Through local value creation at PALFINGER's sites the Group only has a limited number of foreign exchange positions. 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.

The supply of finished products and components from Europe to North America creates a risk position in US dollars that is not covered by natural hedges. On the basis of the ongoing analyses of this position a hedging strategy that is evaluated in regular meetings is established.

PALFINGER bases all of its hedging transactions on the underlying operating 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 foreign exchange forwards.

INTEREST RATE RISK

The greater financing need has increased the impact that changes 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. This hedging applies to the floating-rate part of the financing instruments. The interest rate exposure of these loans was in part hedged by interest rate swaps and in part by interest rate caps. In the case of an interest rate swap the floating rate is converted into a fixed rate, thus fixing the cost of interest for the term of the swap. The interest rate cap puts an upper limit on interest payments. Until the interest rate cap is reached, the market interest rate is used for calculating interest payments. If the market interest rate exceeds the cap determined, PALFINGER will receive a payment from its counterparty.

RISKS RELATING TO THE FINANCIAL STATEMENT CLOSING PROCESS

The short time period appropriated for financial reporting after the end of accounting periods may mean that any events relating to the previous period may only be reported in the following period. 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 have a direct impact on the presentation of the Group's assets and earnings.

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-eye principle, have already been introduced. Audits carried out by the internal auditing department and the auditor make sure that processes are continuously improved and optimised.

HUMAN RESOURCES

PALFINGER regards its employees as a major factor for succeeding in reaching its objectives. Special planning and ongoing staff reviews ensure the training of future junior management. In addition the availability of skilled labour must be ensured, in particular at Eastern European sites, in order to have the necessary capacities in case of a continued upward trend in following periods. In this connection flexible working time schemes continue to remain a significant issue and will even gain higher importance in the future.

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 run. Internal and external experts maintain and further optimise the IT infrastructure across the entire Group. PALFINGER also has in place a range of technical security and protective measures to minimise the risks of misuse of data and data loss.

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

IMPORTANT FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH A VIEW TO ACCOUNTING

The internal control system constitutes an integral part of the Group-wide risk management process in place at PALFINGER.

Control environment

PALFINGER's internal control system is based on the Group guidelines valid for the entire Group. Certain standards that have to be implemented and observed by all units in the Group are defined for the relevant corporate processes. Each guideline is allocated to one process manager. The Management Board, local management, the process managers, and the internal auditing department have collective responsibility for ensuring that each relevant unit checks observance of the Group guidelines in periodic intervals.

RISK REPORT
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Risk evaluation

The topic of risk evaluation is contained in the risk report.

Controls

The Group guidelines not only define the substance of these parameters but also the internal controls to be implemented from a Group perspective in local processes. Local management must lay down additional controls should the need arise. Documentation of the implementation of the controls is carried out via a centralised data base system where each control is assigned to one individual.

Information and communication

With regard to the accounting process, the major accounting and valuation methods are laid down in a Group manual, which is regularly updated, and these methods have to be mandatorily implemented by the local units. A Group-wide standardised monthly reporting system with an automatic SAP interface 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

Quarterly statements are consolidated and reviewed by the auditor. The 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 with results, creating a system of mutual control and coordination. The information of internal and external accounting is based on the same stock of data and is reconciled with accounting on a monthly basis.

It has been agreed with the Audit Committee of the Supervisory Board that the internal control system of PALFINGER AG is adequate. However, continuous efforts are taken to raise 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 the internal auditing department, which closely cooperates with the responsible Management Board members and managing directors.

RESEARCH, DEVELOPMENT, AND INNOVATION

The PALFINGER brand stands for innovation, quality, and reliability. PALFINGER regularly invests in the enhancement of existing products and the development of new products to maintain or expand its leadership in the field of technology and service. PALFINGER's target is to make its customers more successful in their jobs.

THE TARGET IS TO MAKE CUSTOMERS MORE SUCCESSFUL IN THEIR JOBS – THROUGH INNOVATION, TOP QUALITY, AND RELIABILITY

PALFINGER's research and development centre, which accommodates numerous centres of excellence, is located at the Austrian business location in Köstendorf. Additional R&D departments with their own centres of competence have been established at various international sites. The targeted strategic orientation of the centres of competence and the R&D focuses within the PALFINGER Group guarantee the best-possible use of synergies and the development of modular sub-assemblies and system components.

In 2010 PALFINGER focused increasingly on product development during the production phase (simultaneous engineering). This allowed for more efficient development processes and lower complexity costs.

In the course of developing the organisation for the business unit Access Platforms, a centre of excellence was set up for this product group. With the integration of Ned-Deck Marine B.V. and the marine and wind energy business of Palfinger systems GmbH, PALFINGER acquired development expertise in the field of marine systems as well.

In 2010 PALFINGER invested EUR 16.1 million in research and development, which corresponds to 2.6 percent of its total revenue.

Patents and ideas

The PALFINGER Group currently holds 62 active patents, utility models, and special registered designs for the protection of functional design elements.

DEVELOPMENTS IN 2010

Truck-mounted knuckle boom cranes

The past three years were marked by the gradual market launch of the new *High Performance* crane series, which in 2010 was expanded to include seven EH models in the 20 to 60 metre tonne range. In addition, following a two-year field-testing phase, the first five models of the new SH series were placed on the market. They feature improved controllability and functionality as well as unrivalled working comfort. All data and parameters are administered centrally using a new crane electronics system, and the new radio remote control for the crane with its large graphics display makes crane operation even easier. The PALFINGER diagnostic software for the parameterisation and servicing of the cranes is now integrated in the overall system.

In response to the rising demand in the field of waste and recyclables collection, PALFINGER introduced a new special crane model to the market.

Following the entry into force of the new Machinery Directive 2006/42/EC and the crane standard EN12999:2010 the focus is on the topic of safety. With the ISC stability control system being ready to go into serial production and additional features for the safe use of loader cranes in compliance with the standard, PALFINGER underlines its expertise in this field. In addition to the integrated stability control system, the crane's transport position has been integrated in the control system as well: The system recognises whether the crane is in the preset transport position when the truck is in motion and whether the locking system for the outriggers has been activated. Should this not be the case, a warning is displayed in the operator's cab.

UNSTOPPABLE MODEL DEVELOPMENT EVEN DURING MARKET VOLATILITY

Walter Haberl
Head of Construction, Cranes

New products in the field of equipment and crane accessories were developed and placed on the market as well: Based on PALFINGER's long-standing experience in steel and cylinder construction a new additional stabiliser support series was developed in close cooperation with customers. Increased stability at roughly the same dead weight and the expansion of the application spectrum were major components of the Group's development strategy. The result is an absolute novelty in terms of functionality and ease of assembly and maintenance.

A new workman basket with automatic set-up levelling, which is perfectly suitable for installation on PALFINGER cranes and is a lightweight steel and aluminium construction, has reached the maturity phase. The new attachment features generous dimensions and is equipped with functional design elements; it adds to considerably enhancing working comfort.

Timber and recycling cranes
The new S class supplemented the EPSILON on-road crane portfolio by adding the performance class for handling heavy duty tree length application and/or scrap metal manipulation. In addition, a crane model with a dead weight of approximately 200 kilograms less than traditional cranes was presented in the tree length product portfolio. The new series was completed by the QS200L, a loader crane for heavy scrap metal use with an outreach of 10.7 metres. With an overhead knuckle boom cylinder – a feature of the long-established Q series – the crane can also be folded down within the loading area of semi-trailers. The strong base frame is taken from the new S series.

The EPSOLUTION timber grapple series was completely renewed with a total of seven new models.

Transportable forklifts
The commercial launch of the new CRAYLER F3 203 GT-S 4W model in 2010 closed the final gap in the four-way-forklift area. The new forklift is characterised by a particularly low dead weight, which makes it especially attractive for customers with light to medium-heavy uses for whom the total weight of the road train is of great importance.

The construction design of the CR series was reviewed, and the models were equipped with new features such as a ground control system. Moreover, the working comfort was increased through optional accessories such as a new design of the operator's cab.

Additional quality optimisations include the new triple-layer CDP coating, the enhanced painting of propulsion engines and pumps, as well as double chrome plated piston rods and contribute substantially to increasing product reliability and, as the number of failures and repairs goes down, also to lowering cost.

Hookloaders
The hookloader models of the TELESCOPIC and POWER series were modified in 2010 in order to increase reliability and ensure long product life cycles. They are now characterised by pre-painted individual components, assembly construction sets for cost-efficient installation to new vehicles, additional protection equipment as well as additional enhancements. The newly developed rear underrun protection model range is in compliance with the new Directive 70/221/EEC.

For the new markets, special local products were developed: A new telescopic device, for instance, caters to the demands of the strongly growing Eastern European hookloader market. In Southern Europe, a universally useable skiploader model was launched on the market.

With its new roll-off model, PALFINGER meets the local requirements in North America.

Telescopic cranes
In North America, PALFINGER also developed a telescopic crane series for installation on service vehicles, which was presented to the market in 2010. The perfectly coordinated combination of crane, vehicle, and air compressor is distributed under the name of PAL PRO (PALFINGER Professional).

Another telescopic loader crane for installation on small and medium-sized trucks was tailor-made specifically for the Asian market. This crane is the first model in a completely new model range which responds to the call for extremely simple operation not requiring any special training and for a high level of robustness – a loader crane concept preferred in many Asian countries. As the list of optional features is short and focused, it is possible to use a narrow distribution channel.

Tail lifts and passenger lifts

Numerous new developments were also made in the field of tail lifts. A novel temperature-insulated platform that allows for the replacement of rear-end doors with tail lifts, also with temperature-controlled truck bodies, deserves special mention. It saves weight, shortens unloading times, and thus increases efficiency.

A new vertical lift for double deck trailers was developed for the growing market of transports between storage places.

A new light tail lift for vehicles of the sprinter class from 3.5 tonnes upwards includes a rotatable power pack that makes it easier to find a suitable assembly position. This is particularly helpful when using small vehicles with short overhangs.

The prototype of the all-electric tail lift, which was presented in 2008, passed the field test in daily distribution transport and thus was ready for serial production in 2010. The electric access platform comes with considerable advantages, in particular on cold winter days, as no hydraulic oil, which turns viscose when cold, is used. This feature already attracted a lot of attention when it was first presented. The market launch is scheduled to take place in the first quarter 2011.

As more and more means of public transport are equipped with PALFINGER access systems, a new modular ramp was developed in order to counteract the growing multitude of individual solutions.

At RATCLIFF PALFINGER the focus in 2010 was on the new RTP type series (**R**atcliff **T**win **P**illar Lift) for the individual transport of people with reduced mobility. These lifts are characterised by increased capacity and a new platform splitting concept. As the first model of this series, the RTP50V lift with vertically split platform was presented and launched in early 2010.

Access platforms

The spectrum of applications was broadened by two newly developed access platforms. A platform with a working height of 32 metres was designed as a niche product primarily for inner-city use. Its highlight is a newly designed control panel with an ergonomic and appealing design. In keeping with the overall design, the materials for the control panel were chosen with a view to high stability and weight optimisation. The newly designed display guarantees the highest level of user friendliness in terms of interface design and user guidance. The operator is provided with all-important information on the operating modes of the platform and the truck; intuitive menu navigation using symbols makes the operation easier. In addition, the panel is prepared for future-oriented extensions such as voice response, camera insertion, etc.

A new access platform of the premium class with a working height of 18 metres and an outreach of 12.5 metres may be used primarily in difficult terrains, as it allows for a mounting angle of 5 degrees. An intelligent automatic stabiliser system and an array of comfort features, which are usually only found in heavy-load platforms, make the operator's life a whole lot easier. When activated, the automatic stabiliser system automatically identifies the direction of the road's gradient. A computer-assisted stabilisation sequence ensures maximum safety while working.

The North American access platform manufacturer ETI, which has been part of the PALFINGER Group since April 2010, developed two new models in the segment of light access platforms of up to 45 feet (13.5 metres) in working height.

Railway systems

A new crane model, which is mounted on the vehicle's centre, may be swivelled in all directions within the vehicle's loading gauge. Therefore it may also be used in extremely limited space, for instance without interfering with neighbouring rail tracks.

Marine systems

The integration of the two new acquisitions in the marine sector under the new business unit Marine Systems facilitates the development and implementation of a broader spectrum of products. For instance, an innovative knuckle boom crane, which can be used both for rescues and load handling, has already been developed. This saves the customer space and weight and consequently also reduces the costs of ownership.

With the newly developed Palfinger Heavy Duty Foldable Marine Crane (PFM) series, PALFINGER entered the market for large marine cranes with a lifting moment of up to 350 metre tonnes in 2010. The boom system features a knuckle boom and telescopic outreaches of up to 21 metres with a novel extension boom profile. The crane may be combined with various marine-specific hoists; certification by international classification companies is possible. The first of these large marine cranes was delivered to a Japanese customer at the end of 2010.

Service

Outstanding service has always been of paramount importance for PALFINGER and provides the Group with an essential competitive edge. Customers all over the world receive support in the form of comprehensive services, which are enhanced and extended on a regular basis.

In connection with the new crane standard EN12999:2010 the PACWIN.NET and PAF software for PALFINGER dealers was adjusted to the new criteria laid down in that standard and further developed. Suppliers are now able to ensure the best possible vehicle design, to calculate axle loads, stability, and supporting frame, and last but not least to visualise the assembly structure prior to selling the product. Modern software design, a complete international vehicle database, and optimum functionality make these programmes the new benchmark for all customer inquiries.

Sophisticated diagnostic tools keep stays at repair shops as short and cost-effective as possible. In 2010, several wizards that guide the operator through the setting and parameterisation processes were added to the internal diagnostic programme PALDIAG.NET, virtually excluding any incorrect operation. In addition, the PALREMOTE software makes it possible to provide support via the Internet from any location in the world.

COOPERATION PROJECTS

Cooperation projects with academic and non-academic research and development partners in the fields of ergonomics, user comfort, and sensor technology support new developments and enhancements across the Group's entire product portfolio.

COOPERATING WITH OTHER COMPANIES AND EXCHANGING IDEAS WITH THEM SUPPORT FURTHER DEVELOPMENT

An intensive exchange of experience, information, and technology is maintained with other industrial companies in the field of process enhancement and development along the value-creation chain. This strongly supports the optimisation of the entire value-creation process.

The attendance of technology days and technology workshops organised by partner companies and strategic suppliers as well as intensive networking in the fields of mechatronics and complex hydraulic control and regulation systems boosts the further development of processes and products.

IN 2010 WE KEPT TURNING THE SCREWS ON COSTS

Michael Gruböck
Head of Quality Management

VALUE CREATION

In 2010 PALFINGER defined a holistic value-creation strategy combining the contents of the PALFINGER ProductionSystem with the concept of order-based manufacturing. This strategy focuses on continuously optimising and increasing the flexibility of value creation, improving the global value-creation structure and material flows, boosting the flexibility of capacities, further developing the strategic procurement, as well as the continuous focus on product and process quality.

PALFINGER'S VALUE-CREATION STRATEGY FOCUSES ON CONTINUOUSLY OPTIMISING AND INCREASING THE FLEXIBILITY OF VALUE CREATION

All process-enhancing functions have been combined with an emphasis on a close interaction of value creation and market and product development. Focus has been placed on cooperation at the earliest possible stage and the standardisation and modularisation of products and parts to enable PALFINGER to exploit additional potential. This makes it possible to move the freeze-point as part of the postponement strategy as late as possible in the process and provides the opportunity to procure the relevant components via consumption-based (Kanban) processes. Consequently, inventories are reduced, and the entire value-creation chain becomes more flexible.

In 2011 the main focuses will be on the value-creation processes of the business unit Access Platforms and the further development of the value-creation strategy for the area North America.

QUALITY MANAGEMENT

Meeting customer requirements is a top priority for PALFINGER and its staff. A deep understanding of quality throughout all processes has thus become a fixed component of the corporate culture. The internal and external audits carried out in 2010 verified the high level of maturity of the entire organisation. In 2010 all plants of the business unit Production were certified by Germanischer Lloyd in accordance with the GL regulation for welding. This marked another important milestone in the quality campaign launched in 2005.

In order to take into account the increased complexity, additional mechatronics expertise was built up in quality management. In this context, special emphasis was placed on product development and series delivery quality of external supplies. Emphasis has been placed on supplier audits and development workshops as well as corresponding measures to ensure that the high quality standards expected by PALFINGER can be met.

The acquisitions carried out in the marine area in 2010 also show first effects on quality management. In future, for instance, the special criteria for offshore products will have to be taken into consideration at all stages of the value-creation chain and the existing integrated management systems will have to be adjusted to the new challenges.

MANUFACTURING FOR THIRD PARTIES

In 2010 the medium to long-term strategy to reserve a fixed share of the production capacities for external customers was consistently continued and expanded. Experience gained so far has confirmed that opening up the production plants for the external market has a positive effect on the maintenance and strengthening of competitiveness on the one hand and contributes to increasing customer orientation on the other.

In 2010 PALFINGER succeeded both in consolidating existing business relationships as well as advancing from prototype manufacturing, which started in the previous year, to serial deliveries. This underlines PALFINGER's competence and competitiveness in the production of sophisticated and safety-relevant steel construction components. In the field of hydraulic cylinders a separate centre of excellence was set up where manufacturing-specific and construction-engineering know-how is pooled and combined. This makes it possible to cater to specific customer requirements even better.

Another emphasis in 2010 was on expanding the business contact base in order to be able to extend the customer structure in the medium term. On this basis, manufacturing for third parties is to be further developed in the future and to be established as a factor contributing to the Group's performance.

ORDER-BASED MANUFACTURING

In 2010, order-based manufacturing for specified main components at the production plants, which was introduced in 2009, facilitated a significant reduction of inventories as well as increases in productivity. Order-based manufacturing was extended to include Madal Palfinger in South America in 2010, which made it possible to directly respond to the stepped up demand without producing any inventory. At the same time quality and productivity were raised considerably, and throughput times were shortened substantially. Another focus at Madal Palfinger was on continuous enhancements through systematic problem solving and staff training.

The concept of order-based manufacturing in combination with measures to render capacities more flexible was also implemented in the business unit Hookloaders, where it contributed considerably to improving productivity. In the business unit Access Platforms order-based assembly was introduced as well. In this area, the focus for 2011 will be on optimising the order processing as well as shortening throughput times even more.

Further improving compliance with delivery dates was defined as the Group-wide target for 2011. As a first step towards meeting this goal all systems and information flows of all companies integrated in the production and logistics network as well as of all sub-suppliers must be coordinated.

INFORMATION SERVICES

In the field of information services the standardisation and centralisation process started in 2008 was continued. As a consequence, costs for system operation were reduced by another 15 percent in 2010.

At the same time, services were expanded to include additional business units. Apart from the area South America, the European units Ratcliff, MBB, and Guima were added in 2010. In the area North America, the consolidation of all information service structures was embarked on as well in order to ensure future interoperability of all business units. The integration process, which also avails itself of services from the central data centre in Salzburg, will be completed in 2011.

The existing outsourcing contract was extended, and PALFINGER paid attention to ensuring extensive flexibility.

As in production, PALFINGER relies on the potential of lean management in the field of information services as well; the process-oriented ERP introduction and the development of lean software have provided the Group with valuable experience. The operating model of information services is being adapted gradually. The first step was the allocation of more importance and capacities to the respective personnel in charge of operations. Project employees should not have to deal with daily tasks so that in future projects can be processed more quickly. The exchange of knowledge and information is to be ensured by means of a rotation principle.

The approach chosen will be continued in 2011 with priority given to the continuous enhancement of information services and their use in the respective business units.

SHORT-TIME WORK WAS LEANING TOWARDS AN EARLY END

Eva Göschl
Apprentice Production Engineering

HUMAN RESOURCES

FOR DETAILED INFORMATION ON HUMAN RESOURCES
SEE SUSTAINABILITY REPORT 08/09

As of 31 December 2010, the PALFINGER Group employed a total of 5,045 staff members (excluding temporary workers) in its 37 fully consolidated Group companies. On an annual average, 4,671 staff members, including 53 apprentices in Austria, were employed mainly as mechanical, production, mechatronic, and construction engineers, welders, and industrial business management assistants. In addition, 120 temporary workers were employed to cover capacity bottlenecks.

Group-wide, the percentage of women employed is around 10 percent. The majority of the female staff is active in the commercial area, with a higher-than-average share of women working at the Group's headquarters, where administrative tasks are taken care of. PALFINGER creates the required framework conditions for employees with disabilities and integrates them in the work process according to their abilities.

PRINCIPLES OF PERFORMANCE AND REMUNERATION

Since 2004 the methods and principles of lean management have been applied at nearly all manufacturing and assembly plants. Employees undergo intensive training in various methods to enhance value creation and productivity. Employees work in teams that are largely self-controlled. The opportunity to take responsibility for structuring and improving important components of their work is the prerequisite for the strong commitment of PALFINGER's employees – one of the core success factors. This opportunity is reflected in above-average motivation and high loyalty to the Company. Oftentimes PALFINGER's employees recommend the Company as an employer.

PALFINGER's pay system provides for base salaries in line with market standards plus a variable-pay component that is determined for each level by an individual mix of organisational performance and the fulfilment of an employee's performance targets. Modern working time regulations based on flexitime and bandwidths are also standard at the PALFINGER Group. These regulations, which are agreed with the Works Council, are increasingly also applied at international sites. The goal is to maintain a constant level of productivity by means of flexible working time schedules in case of fluctuating demand.

Regular meetings of management teams ensure efficient flows of information and decision-making processes within the Group. Once a year a brief staff survey is performed at all PALFINGER locations. In most cases, questions are answered via the Internet. The results are discussed with the employees and at management meetings and serve the purpose of continuously enhancing organisational processes.

CURRENT DEVELOPMENTS

In previous years the Group-wide heavy drop in demand as compared to the peak of 2008 had to be accounted for in human resources as well. In addition to the reduction of overtime accrued and untaken holiday, the instrument of Company-sponsored short-time work was introduced at the beginning of 2009 in order to offset the capacity surplus and to retain highly qualified staff at PALFINGER. As demand picked up in 2010, management was prompted to end short-time work early in Austria at the end of August.

In 2010 the staff turnover rate, also including natural fluctuation, for example due to retirement, went down to 8.5 percent after its increase to approximately 20 percent in 2009 caused by layoffs.

STAFF AND ORGANISATIONAL DEVELOPMENT

In order to allow PALFINGER to adjust to changes in the markets and ever-faster technological changes, it is vital that employees are always familiar with current and future trends. This is why education and further training of its employees are of great importance to PALFINGER. On the basis of annual appraisal interviews, individual development plans are made.

EMPLOYEES ARE A CORE SUCCESS FACTOR, WHICH IS WHY PALFINGER SUPPORTS THEIR EDUCATION AND FURTHER TRAINING

In the previous year, 273 Austrian staff members attended a total of 1,498 training days, roughly the same number of days as in 2009. At the international locations, teaching and training skilled labour was the dominant issue. In its Bulgarian plants PALFINGER has been offering government-certified training programmes similar to the Austrian system of apprenticeship for four years. These programmes are carried out in cooperation with a technical college where theoretical know-how is taught at school while at the same time practical training lasting several months is provided at the plant. In Slovenia there are similar cooperation projects available with local schools.

In addition to its presence at job fairs, PALFINGER is engaged in active personnel marketing activities through offering high school graduation projects, traineeships, and diploma theses. In Austria, Slovenia, and Bulgaria an inter-company trainee programme was started with a total of seven participants who were selected in cooperation with universities.

Another successful project was initiated by PALFINGER's subsidiary MBB: For approximately 15 years students of engineering management, an interdisciplinary programme in Hamburg, have been involved in the company by means of internships, seminar papers, and diploma theses. The focus is on manufacturing organisation, optimising manufacturing processes and layout, as well as on the area of process optimisation and workflow organisation. In addition, MBB also cooperates with universities in Wilhelmshaven and Bremen in construction and development. In 2005 the students' programme was expanded to include internships in the North American subsidiaries. All in all, since the start of the project, a total of approximately 90 students have participated in this programme at MBB, and numerous graduates subsequently went to work for the MBB Group.

To guarantee the availability of well-trained employees over the longer term and to boost their identification with PALFINGER, employee retention programmes were introduced at individual sites, such as, for instance, a work-life-balance programme.

Since 2009 a Web-based HR information system named PeopleNet has been in place at the sites in Austria that provides for time savings in work flows and structures the talent and skills management within the Company.

In order to prevent a future shortage of highly qualified managers within the PALFINGER Group, the demand necessitated for strategic purposes of the Company is evaluated on an annual basis. Internal management development programmes, carried out with participants from various areas of the PALFINGER Group, have been set up to meet the demand for skilled labour. In 2010 another leadership programme with a strong focus on the transfer of practical management know-how into daily practice, composed of four modules over twelve months, was initiated for 14 international participants. The increasing internationalisation is also reflected in the number of employees posted abroad: In 2010 up to 30 employees were assigned to international locations, making an important contribution to knowledge transfer as well as cultural networking within the PALFINGER Group.

The three key elements of the PALFINGER value system – entrepreneurship, respect, and learning – were defined in 2008 in the course of a value-oriented project and have been regularly reflected on and integrated into the day-to-day business. They are designed to root the strengths of PALFINGER even more strongly and make them better known on an international level.

INVESTOR RELATIONS

International stock markets

The development of share prices in 2010 was marked by pronounced differences between individual markets and also between different industries. The general recovery of the market that set in at the end of the first quarter 2009 was only continued on a selective basis. The varying performance of the markets is the reflection of the complex environment during the stock exchange year 2010: The unexpectedly marked recovery of the economy, the continued low-interest policy pursued by central banks, and in particular the enhanced earnings situation of companies, which by far surpassed the expectations of analysts, had a positive effect on the mood on the stock exchanges. Performance was essentially stifled by the debt crisis prevailing in several euro-zone countries, which resulted in price declines in particular in countries directly affected by the crisis as well as in case of international financial stock.

The US stock market index Dow Jones Industrial (DJI) once again showed an excellent performance in 2010, climbing by a total of 11.0 percent. The development of European stock exchanges in 2010 mirrors the inconsistent environment: While the German stock index DAX gained 16.1 percent thanks to an excellent export economy and a sound plus in earnings recorded by industrial companies, the stock markets that were directly hit by the debt crisis saw falling share prices. Due to the weak performance of its financial stock, the EuroStoxx 50, the index of euro-zone stocks, lost 5.8 percent from 2009 to 2010. The Japanese stock market index Nikkei 225 also ended 2010 at 3.0 percent below the level of 2009; share prices were dampened by the appreciation of the yen and the diminished opportunities on export markets in that connection.

Vienna Stock Exchange

After recording a plus of 42.5 percent in 2009, the Austrian Traded Index ATX continued its upward trend and managed to gain 16.4 percent in 2010. Price levels of Austrian stock still remain well below the highest prices achieved in previous years. The market capitalisation amounted to EUR 91.9 billion as of 31 December 2010; the average monthly stock turnover amounted to EUR 3.1 billion in 2010 (single count).

THE PALFINGER SHARE

WITH A PLUS OF 85 PERCENT, PALFINGER PERFORMED CLEARLY BETTER THAN RELEVANT INDICES IN 2010

The shares of PALFINGER AG are listed in the Prime Market on the Vienna Stock Exchange and in the ViDX – the index of shares with a growth and technology orientation. Since 2005 PALFINGER stock has also been a constituent of the Austrian VÖNIX sustainability index. In Germany, it is 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.

In 2010 the development of the price of the PALFINGER share was highly satisfactory. In comparison with a price of EUR 15.58 as of the end of 2009, the share price throughout the year went up by 84.5 percent and was at EUR 28.75 as of the end of 2010. This development made PALFINGER one of the top performers in the Vienna Prime Market. The average daily turnover at the Vienna Stock Exchange was approximately EUR 1,110,000 (double count).

In 2010 the Management Board and the IR team of PALFINGER AG attended investors conferences in Austria and abroad, engaged in numerous personal conversations with investors, for example at roadshows. Analysts and investors were given the opportunity to pay a visit to PALFINGER's headquarters and to get a first-hand impression of the Company's products as well as production sites. At investors fairs in Vienna and Stuttgart as well as stock exchange days held in Hamburg and Munich PALFINGER was also available for its small shareholders.

For many years PALFINGER has attached great importance to the continuous and transparent information of its investors, for which it has won many prizes. In 2010 PALFINGER AG received several Austrian and international awards for its Annual Report 2009 and its Sustainability Report 2008/2009.

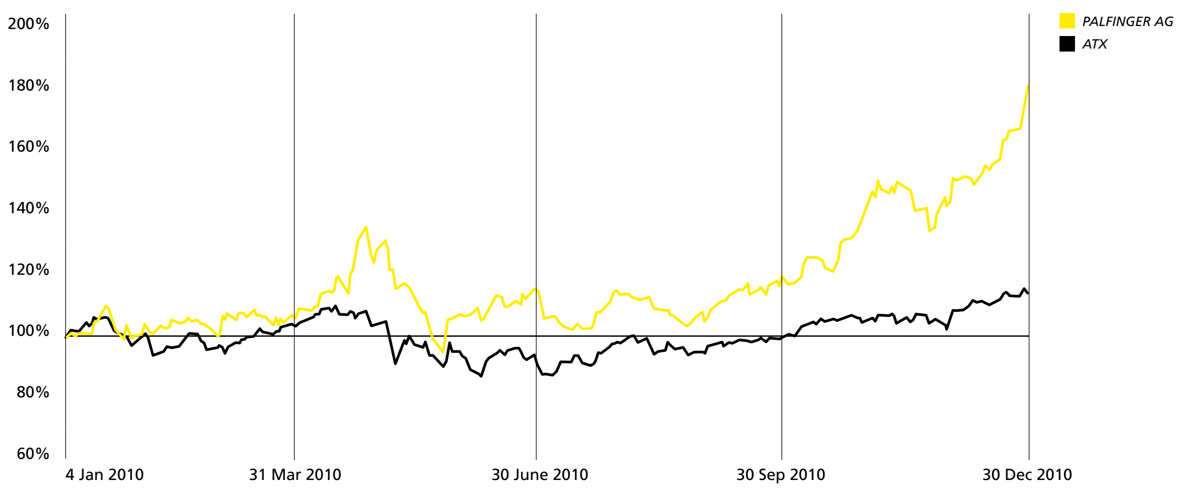
Shareholder information

ISIN	AT0000758305
Number of shares issued	35,730,000
Own shares	328,000
Shares outstanding	35,402,000
Listing on the Vienna Stock Exchange	Prime Market
OTC listings	New York, Frankfurt, Stuttgart, Berlin, Munich, Dusseldorf
Ticker symbols	Reuters: PALF.VIE Bloomberg: PALF.AC Vienna Stock Exchange: PAL

EUR	2010	2009
Low	14.92	7.32
High	28.75	19.35
Average price	18.59	12.55
Price as of 31 December	28.75	15.58
Earnings per share*	0.68	(0.22)
Operating cash flows per share*	1.39	1.41
Proposed dividend per share	0.22	0.00
Dividend yield relating to the average share price	1.2%	–
Market capitalisation as of 31 December (million EUR)	1,027.24	556.67

* Calculated using the weighted average number of shares outstanding.

Share price development 2010

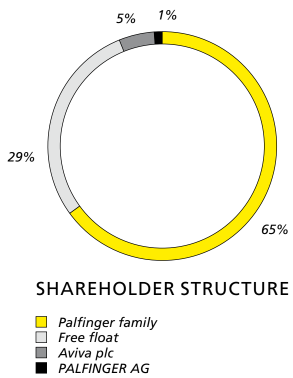


Research Reports
- Berenberg Bank
- Cheuvreux
- Deutsche Bank
- Erste Group
- Goldman Sachs
- Hauck & Aufhäuser
- HSBC
- Raiffeisen Centrobank
- UBS
- UniCredit

DIVIDEND

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 2010 amounted to EUR 163.5 million; the Management Board will propose to the Annual General Meeting to distribute a dividend of EUR 0.22 per share for 2010.

OWNERSHIP STRUCTURE



SHAREHOLDER STRUCTURE

The Palfinger family, who either directly or indirectly owns 65 percent of PALFINGER AG, is a reliable core shareholder. The Company holds around 1 percent of the shares from the share repurchase scheme, which ended in 2003. Approximately 5 percent of the shares are held by Aviva plc and its subsidiary Delta Lloyd. The remaining 29 percent of the shares are in free float.

According to information available to PALFINGER AG approximately 40 percent of the free float is held by private shareholders; the rest is held by institutional investors, primarily from Continental Europe.

INVESTOR RELATIONS

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OUR STOCK SAW A SIGNIFICANT RISE ONCE AGAIN

Claudia Rendl, Hannes Roither, Tanja Kilga, Daniela Werdecker
PALFINGER Investor Relations

SUSTAINABILITY

SUSTAINABILITY MANAGEMENT AND SUSTAINABILITY REPORT

In 2010, despite the challenging environment, the economic trend for PALFINGER turned out to be positive. All efforts taken by the Group now go into ensuring that such development is continued and accelerated.

Measures relating to environmental protection and social responsibility are part of the process and have been firmly included in the corporate strategy. The common goal of all efforts taken is to take into account the economic benefit in the medium term. That is why PALFINGER has adhered to its sustainability strategy in recent years as well.

IN 2010 PALFINGER RECEIVED NUMEROUS AWARDS FOR ITS SUSTAINABILITY INITIATIVES AND THEIR DOCUMENTATION

Recently, the increasing importance of this issue has also been felt by PALFINGER in the capital market: CSR measures and their documentation in the form of reports support interest in a company's shares. Investors are paying more attention to eco-efficiency and wise handling of human resources on the one hand, and investments based on sustainability criteria are on the rise on the other. PALFINGER has been included in the Austrian Sustainability Index (VÖNIX) of the Vienna Stock Exchange since 2005.

Every two years PALFINGER publishes a sustainability report to document and describe the individual steps in the development of the Group. The Sustainability Report 2008/09 was published in the first half-year 2010. It won first place at the Austrian Annual Report Award (AAA) of the Austrian monthly magazine "trend" and, once again, at the Austrian Sustainability Reporting Award (ASRA). Such recognition confirms that PALFINGER is on the right track and boosts employee motivation to continue with sustainable development.

In 2008, PALFINGER agreed on numerous environmental and social measures whose implementation has now been evaluated. Due to the difficult economic environment, the deadlines of some of these projects had to be extended and others had to be cancelled altogether. Nevertheless, 25 sustainability initiatives were implemented according to plan. Twenty-six measures are still being worked on and included in the 2010 sustainability programme. In four cases, measures had to be stopped as framework conditions had changed.

SUSTAINABILITY REPORT 08/09
AVAILABLE FOR DOWNLOAD AT
WWW.PALFINGER.COM
➔ INVESTOR RELATIONS
➔ REPORTS
➔ SUSTAINABILITY REPORT

TO ORDER A HARDCOPY GO TO
WWW.PALFINGER.COM
➔ INVESTOR RELATIONS
➔ INFO SERVICE

The current PALFINGER sustainability programme for 2010 to 2012 focuses on eco-efficient production, sustainable products, and personnel development.

THE ENVIRONMENT

PALFINGER understands its ecological responsibility as more than simply complying with standards and is committed to sustainable innovations. The Company also expects this to bring about a competitive advantage.

In previous years, PALFINGER has stepped up its investments in the greening of its production processes. As greenhouse gas emissions were reduced, all Austrian plants qualified as Climate Alliance businesses. Energy consumption in the individual plants will be further reduced considerably by means of a facility-management project, and in addition it is planned to introduce Group-wide environmental minimum standards by 2012.

Newly developed products and equipment details contribute to optimising product use at the customer's as well by reducing energy consumption, emissions, noise levels, and last but not least costs.

With load sensing for cranes, for instance, fuel consumption during the loading process may be reduced by up to 20 percent. More than 11 percent of the PALFINGER products come with biodegradable hydraulic oil, with a tendency to rise strongly. PALFINGER also supports the eco-energy market with product solutions used in the field of wood chips production.

SOCIETY

PALFINGER is successful as a team. In particular in times of personal challenges for each and everyone, the Group sets priorities in order to support its staff and provide its members with orientation.

This also refers to further training. In 2009 the training hours per staff member were raised to 15.8 hours (2008: 8.4 hours). The junior executives programme currently focuses on the promotion of women.

When it comes to health and safety, PALFINGER is successfully committed to prevention: This made it possible to reduce staff absence caused by industrial accidents. Although the planned roll-out of the PALfit health promotion programme to the Eastern European sites was delayed by the economic crisis, basic programmes on industrial safety have been implemented.

WWW.PALFINGER.COM
➔ CSR

Further information is also available in the PALFINGER website's CSR section.

EUROPEAN UNITS developed heterogeneously – specific to regions and products

AREA UNITS expanded considerably, already 27-percent share in revenue

VENTURES: Internal and market-oriented projects for the future promoted

PERFORMANCE BY SEGMENT

74–81

PERFORMANCE BY SEGMENT

In 2009 the PALFINGER Group agreed on an adaptation of its organisational structure in order to give due consideration to the growth achieved in previous years on the one hand and to cope with future challenges on the other. Having achieved the diversification aimed at, PALFINGER is now paying more attention to increasing the flexibility of all processes. With a view to ensuring a well-balanced diversification on a regional level as well, internationalisation continues to play an important role.

Therefore increased independence of the European business units and the areas outside Europe has been introduced with the goal of helping the Group to be even more successful in meeting the requirements of its respective markets.

The new PALFINGER organisational structure was implemented as of the beginning of 2010. Since then, the segment figures reported have been broken down into the segments of EUROPEAN UNITS, AREA UNITS, and VENTURES. In order to make comparisons possible, the figures from the previous year were adjusted accordingly.

To ensure the best possible use of synergies and process optimisations across the European business units, such units – except for the new business unit Marine Systems – were combined in the area EMEA in the fourth quarter 2010. In addition, this enables the Management Board to sharpen its focus on the areas outside EMEA and the new business unit Marine Systems. This structural completion had no impact on reporting.

SEGMENTS 2010

	Revenue TEUR	**Revenue** in %	**Result** TEUR	**Result** in %
EUROPEAN UNITS	479,180	73.5%	52,710	141.9%
AREA UNITS	172,613	26.5%	(7,612)	(20.5%)
VENTURES	–	–	(7,746)	(20.9%)
Consolidation	–	–	(204)	(0.5%)
PALFINGER Group	**651,793**	**100.0%**	**37,148**	**100.0%**

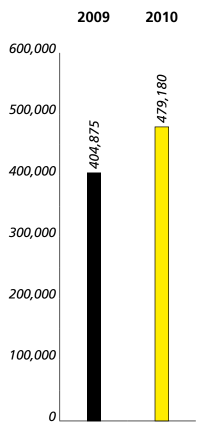
EUROPEAN UNITS

The EUROPEAN UNITS segment comprises the European business units Knuckle Boom Cranes, Timber and Recycling Cranes, Tail Lifts, Access Platforms, Hookloaders, Transportable Forklifts, Railway Systems, the business unit Production, and the distribution company in Germany, as well as the associated subsidiaries as a part of the area EMEA and, since the third quarter 2010, also the business unit Marine Systems.

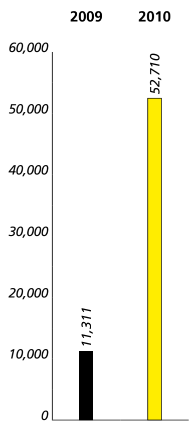
DEVELOPMENT OF BUSINESS IN 2010

In the 2010 financial year the EUROPEAN UNITS segment posted revenue of EUR 479.2 million, which was 18.4 percent higher than the previous year's figure of EUR 404.9 million. The new business unit Marine Systems contributed around EUR 18 million to the growth of EUR 74.3 million achieved, including revenue generated by NDM during six months and those of the marine and wind energy business taken over from Palfinger systems GmbH during a two-month period. Not taking into account the contributions made by the acquisitions, revenue grew by around 14 percent.

DUE TO SAVINGS MEASURES IMPLEMENTED IN EUROPEAN UNITS, AN EXCELLENT SEG-MENT RESULT WAS ACHIEVED



DEVELOPMENT OF SEGMENT REVENUE (TEUR)



DEVELOPMENT OF SEGMENT RESULT (TEUR)

Strong declines in the second half 2009 were followed by a clear upward trend in 2010, which was felt primarily in the business units Knuckle Boom Cranes and Timber and Recycling Cranes as well as in the distribution company in Germany. These areas also posted increases as compared to the previous year, which compensated the declines in Access Platforms and Hookloaders. In the fourth quarter 2010, which after the weak summer months was another confirmation of the economic upswing, revenue of EUR 141.1 million was recorded, corresponding to a plus of more than 50 percent as compared to the fourth quarter 2009.

At EUR 52.7 million the segment result was clearly above the previous year's figure of EUR 11.3 million. This enormous improvement was a result of the savings measures implemented in 2009 on the one hand and the improved performance of cranes and the business units Railway Systems, Tail Lifts, and Production on the other; the distribution company in Germany also showed a positive performance. In addition, the increase in revenue contributed a great deal to this pleasing development of earnings.

TEUR	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Segment revenue	116,241	105,825	90,814	91,995	98,824	126,597	112,658	141,101
Segment result	775	2,044	3,267	5,225	9,008	15,501	10,023	18,178

Knuckle Boom Cranes

In the 2010 financial year the bottoming-out in major sales markets, which had started at the end of 2009, was increasingly reflected in a rise in revenue over the year. The most successful sales markets included Germany, France, Austria, Belgium, and Sweden. Market developments in the Middle East, Russia, and South Africa were positive as well. Spain, Great Britain, Ireland, Italy, Romania, and Ukraine continued to be weak markets.

Timber and Recycling Cranes

After a distinct decline in the course of 2009, revenue in the Timber and Recycling Cranes unit was on the rise again in the period under review thanks to the onset of recovery in the timber industry. As the order situation continued to improve, revenue was clearly above the figure reported for 2009, but still failed to match the outstanding results achieved in the years before 2009. Earnings reached a very good level.

Tail Lifts

In the Tail Lifts unit, revenue increased continuously after a weak first quarter 2010, resulting in a further improvement of earnings. In recent months, the performance of markets in Great Britain and Germany was particularly satisfying. The takeover of the service business of Ross & Bonnyman – subject to the approval of the anti-trust authority – is going to facilitate a markedly more intensive development of the British market in future.

Access Platforms

In 2009 the Access Platforms unit still profited from the orders on hand which stemmed from economically better times and were taken over in the course of the acquisition of WUMAG ELEVANT. However, the market continued to be weak in this late-cycle area during 2010, although a positive trend was noticeable in the fourth quarter. The restructuring measures currently underway are expected to contribute to a distinct improvement of earnings in the course of 2011 after the considerable reduction of earnings experienced in 2010.

Hookloaders

Business performance in the Hookloaders unit continued to be marked by the weak recycling industry. France, the main market, faced a drop in revenue of nearly 40 percent as compared to the previous year. The operational management of this unit in France was reinforced by the participation of the Vincent Group, a long-standing partner and successful local player. The measures taken in this connection have become effective and give reason to expect positive earnings as the market recovers in 2011.

Transportable Forklifts

The Transportable Forklifts unit continued its success in the key account business, in particular in Germany. All in all, earnings improved considerably in 2010. The focus will now be on broadening the customer base in order to balance the potential volatility of individual geographical markets.

Railway Systems

The Railway Systems unit was at full capacity utilisation in 2010 and continued to be a reliable contributor to revenue and earnings. PALFINGER's technological head start makes a continuation of focused project work possible, although decision periods for placing orders in the railway business are rather likely to lead to volatile fluctuations.

Production

In the business unit Production, the consistent structural and cost-related measures taken in the previous year continued to have a positive effect on performance in the reporting period. Third-party manufacturing was further expanded; the overall increase in capacity utilisation as well as far-reaching process enhancements facilitated consistently positive contributions to earnings.

Marine Systems

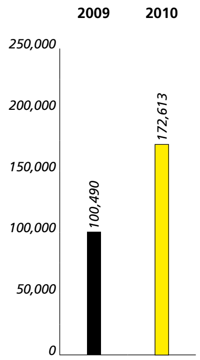
The new Marine Systems unit generated the operating results expected upon acquisition but will still be affected by the impacts of the purchase price allocation for several quarters. The new organisation will focus on the professional development of potential opportunities in the offshore wind energy sector.

SHARE IN THE CONSOLIDATED NET RESULT FOR THE PERIOD

	in % of Group	2010 TEUR	2009 TEUR
External revenue	73.5%	479,180	404,875
EBITDA	116.9%	67,150	25,946
Depreciation, amortisation, and impairment	76.4%	17,371	17,088
EBIT	143.4%	49,779	8,858
Segment result	141.9%	52,710	11,311
Segment assets	75.1%	508,945	444,595
Segment liabilities	37.8%	130,911	83,201
Investment in property, plant, and equipment, intangible assets	73.2%	13,936	10,749
EBIT margin		**10.4%**	**2.2%**
Average payroll during reporting period*	72.1%	3,366	3,480

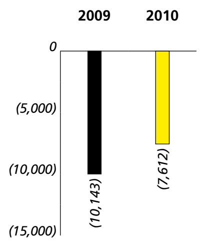
* Consolidated Group companies excluding equity shareholdings, as well as excluding temporary workers and workers employed for only very short periods.

AREA UNITS



DEVELOPMENT OF SEGMENT REVENUE
(TEUR)

THE AREA UNITS SEGMENT, WHICH IS STILL BEING DEVELOPED, HAS BEEN INCREASINGLY GAINING IMPORTANCE



DEVELOPMENT OF SEGMENT RESULT
(TEUR)

The AREA UNITS segment comprises the areas North America, South America, Asia and Pacific, and India with their regional business units as well as the associated Russian distribution company, which was founded in 2009.

The areas outside Europe are still being developed, which was reinforced by the recent acquisitions in North America and the initiatives started in China, India, and Russia. As these areas are at the development stage and, in addition, the US market is still weak, this segment is posting negative results. By integrating and/or further expanding its strategic initiatives, PALFINGER aims to quickly enter the profit zone in the AREA UNITS on the basis of continued growth.

DEVELOPMENT OF BUSINESS IN 2010

In the reporting period revenue generated by this segment was increased by 71.8 percent, from EUR 100.5 million in the 2009 financial year to EUR 172.6 million. Consequently, the share of the areas outside Europe in the consolidated revenue increased from 19.9 percent in the previous year to 26.5 percent in 2010, reflecting the consistent implementation of the Group's internationalisation strategy. In the fourth quarter 2010, revenue came to EUR 45.8 million, which is more than twice as high as in the same quarter of the previous year. While in North America revenue was boosted primarily by the consolidation of ETI, in South America the good operating business and the strong Brazilian currency were the factors contributing the most.

At EUR – 7.6 million the segment's result for 2010 was clearly better than the figure of EUR – 10.1 million recorded for 2009. This was also caused by the release of the residual purchase price liability in connection with the acquisition of the Omaha Standard Group, which contributed EUR 3.3 million to a one-time positive segment result in the third quarter. In addition, the transition to order-based manufacturing in South America, from the third quarter onwards showed very favourable results. The main burdens were the market development expenses for new regions and products in North and South America and the integration costs incurred in connection with acquisitions.

TEUR	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Segment revenue	24,151	22,952	27,920	25,467	30,601	41,380	54,856	45,776
Segment result	(2,726)	(2,760)	(1,673)	(2,984)	(3,865)	(2,653)	839	(1,933)

Area North America

In the area North America the local product programme was completed with the acquisition of ETI. Since its initial consolidation in April 2010, ETI has contributed EUR 25.9 million to the Group's revenue. The local dealer structure was streamlined and realigned due to the merger of the former PALFINGER dealer in Tiffin with the dealer network acquired in the course of the takeover of Omaha Standard. This area's earnings were weakened substantially in 2010, primarily due to the lack of recovery, which also affected the dealers.

In the first quarter 2010 PALFINGER presented its first service crane. The new product has been received well by the market. This meant another milestone in the development of the still volatile US market, from which PALFINGER expects a positive impetus for 2011.

Area South America
The area South America has recorded a continuous increase in demand for PALFINGER crane products since the beginning of the year. EPSILON cranes were put on the market and the first models were sold. In the field of telescopic cranes, the current market situation has proved to be difficult. The distribution structures in São Paulo are being further expanded, which results in upfront investment costs.

Area Asia and Pacific
In the area Asia and Pacific PALFINGER achieved strong growth even though at a low level. In the 2010 financial year successes were recorded in particular in the field of market development for PALFINGER hookloaders. Crane sales in this region were stepped up as well.

Area India
In 2010 an assembly facility for the area India was set up in Chennai. The area management team was completed by a local industry specialist and an experienced PALFINGER employee specialised in value creation. In November PALFINGER successfully presented the first local products at the BAUMA fair in Shanghai. Crane production was started at the end of 2010. This makes it possible to develop the market with a corresponding cost structure in future.

Area CIS
In the reporting period, the CIS area profited more and more from the implementation of the local distribution organisation in 2009. The number of PALFINGER dealers was increased on both sides of the Ural to a total of 50, and the search for additional local partners is progressing well.

SHARE IN THE CONSOLIDATED NET RESULT FOR THE PERIOD

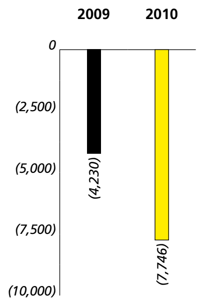
	in % of Group	**2010** TEUR	**2009** TEUR
External revenue	26.5%	172,613	100,490
EBITDA	(3.1%)	(1,759)	(5,349)
Depreciation, amortisation, and impairment	23.6%	5,368	4,378
EBIT	(20.5%)	(7,127)	(9,727)
Segment result	(20.5%)	(7,612)	(10,143)
Segment assets	26.9%	182,302	136,533
Segment liability	19.8%	68,522	55,094
Investment in property, plant, and equipment, intangible assets	26.8%	5,111	3,128
EBIT margin		**(4.1%)**	**(9.6%)**
Average payroll during reporting period*	27.4%	1,281	1,023

* Consolidated Group companies excluding equity shareholdings, as well as excluding temporary workers and workers employed for only very short periods.

VENTURES

The VENTURES segment is still composed of all major strategic projects for the future pursued by the PALFINGER Group up to their operational maturity, and the costs of such projects are reported in this segment.

DEVELOPMENT OF BUSINESS IN 2010



DEVELOPMENT OF SEGMENT RESULT
(TEUR)

VENTURES – THE MOST RELEVANT SEGMENT FOR PALFINGER'S FUTURE – IS WHERE STRATEGIC PROJECTS ARE BEING PROMOTED

In 2010 the Group-wide priority project for reducing current capital employed, CC-Top, was promoted in this segment with success and the corporate planning objectives for 2011–2015 were set, on the one hand, and numerous strategic projects, in particular for the areas outside Europe, were coordinated, on the other.

The acquisition of the majority interests in ETI and Ned-Deck Marine (NDM) as well as the takeover of the marine and wind energy business of Palfinger systems GmbH marked the completion of major growth projects for the PALFINGER Group. The takeover of the Hamburg-based dealer Schomäcker forms the basis for advancing business in North Germany.

The projects included in the VENTURES segment do not generate revenue. The segment's result for 2010 amounted to EUR – 7.7 million as compared to EUR – 4.2 million in 2009. The year-over-year increase in expenses reflects the fact that the PALFINGER Group consistently promotes its projects for the future. Moreover, this segment was affected by the change in balance-sheet treatment of acquisition costs as compared to the previous year, which resulted in higher costs in 2010.

TEUR	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Segment result	(766)	(764)	(1,323)	(1,377)	(1,584)	(1,861)	(1,744)	(2,557)

SHARE IN THE CONSOLIDATED NET RESULT FOR THE PERIOD

	in % of Group	2010 TEUR	2009 TEUR
EBITDA	(13.5%)	(7,746)	(4,230)
Depreciation, amortisation, and impairment	0.0%	0	0
EBIT	(22.3%)	(7,746)	(4,230)
Segment result	(20.9%)	(7,746)	(4,230)
Average payroll during reporting period*		24	14

* Consolidated Group companies excluding equity shareholdings, as well as excluding temporary workers and workers employed for only very short periods.

KEY EVENTS AFTER THE BALANCE SHEET DATE

After the end of the 2010 financial year there have been no relevant post-reporting events.

OUTLOOK

82–83

Focus on internationalisation – next steps in growth strategy in young markets with huge potential

Business unit Marine Systems will contribute to increase in revenue and earnings

Focus on flexibility in line with volatile market development

20-percent plus in revenue expected for 2011

OUTLOOK

After 2009, when the market was extremely weak, the PALFINGER Group started off 2010 with a positive market trend that was continuously perpetuated throughout the year. In addition, acquisitions contributed to higher revenue. Market opportunities were seized, and strategic activities were continued in a targeted manner. Together with the consistently implemented structure and process-related measures, the PALFINGER Group managed to achieve a very strong plus in earnings. Even though the results recorded in the 2010 financial year did not reach pre-crisis record levels, management is still satisfied with the development and the milestones reached.

With the acquisition of ETI, a manufacturer of access platforms, PALFINGER has, for the time being, completed its strategic acquisition-driven growth in North America and now has its local focus on paving the ground for further organic growth. The next regional steps in the Company's growth strategy are going to be taken primarily in other markets which promise a huge potential.

With two acquisitions carried out in 2010, PALFINGER entered the market of ship-mounted cranes and deck equipment, firmly establishing itself in two promising customer segments – marine and offshore wind energy – with great future potential that also support the further internationalisation. Moreover, numerous synergies present themselves with the existing business of the Group.

The high level of public debt of some European countries is one of the reasons why the performance of the international economy remains uncertain. PALFINGER has become sufficiently flexible in all fields to handle a double dip recession as well as a steep increase in demand. The measures initiated for increasing the flexibility of the PALFINGER Group will be continued in a targeted manner and further improve the position of the Group.

Management is optimistic for 2011 and reckons with organic growth in revenue of approximately 20 percent should the economic environment not change.

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A 29-PERCENT RISE IN REVENUE LEVELS

CONSOLIDATED BALANCE SHEET

TEUR	Note	31 Dec 2010	31 Dec 2009
Non-current assets			
Intangible assets	1, 13, 16, 21	127,972	74,013
Property, plant, and equipment	2, 22	200,151	191,977
Investment property	3, 23	419	1,096
Investments in associated companies	24	15,459	15,726
Deferred tax assets	10, 14, 25	31,858	25,535
Non-current financial assets	6, 26	2,794	1,821
Other non-current assets	27	2,242	2,587
		380,895	**312,755**
Current assets			
Inventories	4, 19, 28	159,754	148,705
Trade receivables	5, 6, 18, 29	110,511	80,196
Other current assets	30	9,893	12,117
Tax receivables	10	513	1,127
Cash and cash equivalents	6, 31	15,865	33,073
		296,536	**275,218**
Total assets		**677,431**	**587,973**
Equity			
Share capital	32	35,730	35,730
Additional paid-in capital	7, 33	30,423	30,363
Treasury stock	34	(1,509)	(1,509)
Retained earnings	35	254,395	231,453
Valuation reserves pursuant to IAS 39	36	(444)	(363)
Foreign currency translation reserve		(1,236)	(7,287)
		317,359	**288,387**
Non-controlling interests		14,001	3,890
		331,360	**292,277**
Non-current liabilities			
Non-current financial liabilities	6, 37	123,562	127,420
Non-current provisions	8, 9, 15, 38	40,637	21,965
Deferred tax liabilities	10, 25	15,178	11,370
Other non-current liabilities	39	4,461	2,566
		183,838	**163,321**
Current liabilities			
Current financial liabilities	6	55,947	59,078
Current provisions	9, 17, 40	11,668	12,926
Tax liabilities	10	4,352	1,626
Trade payables and other current liabilities	6, 41	90,266	58,745
		162,233	**132,375**
Total equity and liabilities		**677,431**	**587,973**

CONSOLIDATED INCOME STATEMENT

TEUR	Note	Jan–Dec 2010	Jan–Dec 2009
Revenue	42	**651,793**	**505,365**
Changes in inventory and own work capitalised	43	342	(6,486)
Other operating income	44	14,267	12,515
Materials and external services	28, 45	(337,284)	(262,648)
Employee benefits expenses	46	(178,722)	(149,177)
Depreciation, amortisation, and impairment expenses	21, 22, 47	(22,739)	(21,466)
Other operating expenses	48	(92,955)	(83,123)
Earnings before interest and taxes – EBIT (before associated companies)		**34,702**	**(5,020)**
Income from associated companies	24	**2,446**	**2,037**
Interest income		518	676
Interest expenses	49	(10,896)	(11,441)
Exchange rate differences		3,028	1,748
Other financial income		35	140
Net financial result		**(7,315)**	**(8,877)**
Result before income tax		**29,833**	**(11,860)**
Income tax expense	10, 50	(2,556)	5,107
Result after income tax		**27,277**	**(6,753)**
attributable to			
shareholders of PALFINGER AG (consolidated net result for the period)		**24,225**	**(7,823)**
non-controlling interests		**3,052**	**1,070**
EUR			
Earnings per share (undiluted and diluted)	35	0.68	(0.22)
Dividend per share	35	0.22*	0.00

* Proposal of the Management Board to the Supervisory Board for presentation to the Annual General Meeting for resolution.

STATEMENT OF COMPREHENSIVE INCOME

TEUR	Note	Jan–Dec 2010	Jan–Dec 2009
Result after income tax		**27,277**	**(6,753)**
Unrealised profits (+)/losses (–) from foreign currency translation		6,124	4,817
Unrealised profits (+)/losses (–) from AFS securities	36		
Changes in unrealised profits (+)/losses (–)		(10)	0
Deferred taxes thereon		3	0
Actuarial gains (+)/losses (–) pursuant to IAS 19	35, 38	(1,759)	1,622
Deferred taxes thereon		447	(394)
Unrealised profits (+)/losses (–) from cash flow hedge	36		
Changes in unrealised profits (+)/losses (–)		(673)	(639)
Deferred taxes thereon		111	149
Effective taxes thereon		85	(6)
Realised profits (–)/losses (+)		532	315
Deferred taxes thereon		(154)	(131)
Effective taxes thereon		25	73
Other comprehensive income after income tax		**4,731**	**5,806**
Total comprehensive income		**32,008**	**(947)**
attributable to			
shareholders of PALFINGER AG		**28,890**	**(2,017)**
non-controlling interests		**3,118**	**1,070**

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CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to the shareholders of PALFINGER AG						Equity attributable to the shareholders of PALFINGER AG			
TEUR	Note	Share capital	Additional paid-in capital	Treasury stock	Retained earnings	Revaluation reserve	Valuation reserves pursuant to IAS 39	Foreign currency translation reserve	Total	Non-controlling interests	Equity
At 1 Jan 2009		**35,730**	**30,177**	**(1,730)**	**251,636**	**(112)**	**(124)**	**(12,104)**	**303,473**	**6,412**	**309,885**
Total comprehensive income											
Result after income tax		0	0	0	(7,823)	0	0	0	**(7,823)**	1,070	**(6,753)**
Other comprehensive income after income tax											
Unrealised profits (+)/losses (–) from foreign currency translation		0	0	0	0	0	0	4,817	**4,817**	0	**4,817**
Actuarial profits (+)/losses (–) pursuant to IAS 19	35, 38	0	0	0	1,228	0	0	0	**1,228**	0	**1,228**
Unrealised profits (+)/losses (–) from cash flow hedge	36	0	0	0	0	0	(239)	0	**(239)**	0	**(239)**
		0	0	0	1,228	0	(239)	4,817	**5,806**	0	**5,806**
		0	**0**	**0**	**(6,595)**	**0**	**(239)**	**4,817**	**(2,017)**	**1,070**	**(947)**
Transactions with shareholders											
Dividends		0	0	0	(13,788)	0	0	0	**(13,788)**	(3,500)	**(17,288)**
Other changes	7, 33	0	186	221	200	112	0	0	**719**	(92)	**627**
		0	**186**	**221**	**(13,588)**	**112**	**0**	**0**	**(13,069)**	**(3,592)**	**(16,661)**
At 31 Dec 2009		**35,730**	**30,363**	**(1,509)**	**231,453**	**0**	**(363)**	**(7,287)**	**288,387**	**3,890**	**292,277**
At 1 Jan 2010		**35,730**	**30,363**	**(1,509)**	**231,453**	**0**	**(363)**	**(7,287)**	**288,387**	**3,890**	**292,277**
Total comprehensive income											
Result after income tax		0	0	0	24,225	0	0	0	**24,225**	3,052	**27,277**
Other comprehensive income after income tax											
Unrealised profits (+)/losses (–) from foreign currency translation		0	0	0	0	0	0	6,051	**6,051**	73	**6,124**
Unrealised profits (+)/losses (–) from AFS securities	36	0	0	0	0	0	(7)	0	**(7)**	0	**(7)**
Actuarial profits (+)/losses (–) pursuant to IAS 19	35, 38	0	0	0	(1,305)	0	0	0	**(1,305)**	(7)	**(1,312)**
Unrealised profits (+)/losses (–) from cash flow hedge	36	0	0	0	0	0	(74)	0	**(74)**	0	**(74)**
		0	0	0	(1,305)	0	(81)	6,051	**4,665**	66	**4,731**
		0	**0**	**0**	**22,920**	**0**	**(81)**	**6,051**	**28,890**	**3,118**	**32,008**
Transactions with shareholders											
Dividends	35	0	0	0	0	0	0	0	**0**	(1,085)	**(1,085)**
Acquisitions		0	0	0	0	0	0	0	**0**	8,101	**8,101**
Other changes	7, 33	0	60	0	22	0	0	0	**82**	(23)	**59**
		0	**60**	**0**	**22**	**0**	**0**	**0**	**82**	**6,993**	**7,075**
At 31 Dec 2010		**35,730**	**30,423**	**(1,509)**	**254,395**	**0**	**(444)**	**(1,236)**	**317,359**	**14,001**	**331,360**

CONSOLIDATED STATEMENT OF CASH FLOWS

TEUR	Jan–Dec 2010	Jan–Dec 2009
Result before income tax	**29,833**	**(11,860)**
Write-downs (+)/write-ups (–) of non-current assets	22,739	21,466
Gains (–)/losses (+) on the disposal of non-current assets	(104)	134
Interest income (–)/interest expenses (+)	10,378	10,765
Income from associated companies	(2,446)	(2,037)
Expense for stock option programme	60	41
Other non-cash income (–)/expenses (+)	3,986	(766)
Increase (–)/decrease (+) in assets	(15,876)	84,159
Increase (+)/decrease (–) in provisions	(5,604)	(6,304)
Increase (+)/decrease (–) in liabilities	15,467	(36,800)
Cash flows generated from operations	**58,433**	**58,798**
Interest received	518	676
Interest paid	(9,987)	(10,362)
Dividends received from associated companies	3,981	3,025
Income tax paid	(3,827)	(2,093)
Cash flows from operating activities	**49,118**	**50,044**
Cash receipts from the sale of intangible assets and property, plant, and equipment	1,564	486
Cash payments for the acquisition of intangible assets and property, plant, and equipment	(18,917)	(14,264)
Cash payments for the acquisition of subsidiaries net of cash acquired[1]	(36,334)	20
Cash payments for investments in associated companies	(1,026)	(2,996)
Cash payments for the acquisition of non-controlling interests	(8)	(11)
Cash receipts from the sale of securities	34	252
Increase (–)/decrease (+) in other non-current assets	604	646
Cash flows from investing activities	**(54,083)**	**(15,867)**
Dividends to shareholders of PALFINGER AG	0	(13,788)
Dividends to non-controlling shareholders	(1,085)	(3,500)
Transfer of treasury stock under the stock option programme	0	277
Increase (+)/decrease (–) in non-current financial liabilities	(3,858)	82,454
Increase (+)/decrease (–) in current financial liabilities	(7,701)	(75,797)
Cash flows from financing activities	**(12,644)**	**(10,354)**
Total cash flows	**(17,609)**	**23,823**

TEUR	2010	2009
Funds at 1 Jan [2]	**33,073**	**9,096**
Effects of foreign exchange differences	401	154
Total cash flows	(17,609)	23,823
Funds at 31 Dec	**15,865**	**33,073**

1) See Scope of consolidation.
2) See Note (31) Cash and cash equivalents.

OPERATING SEGMENTS

In the course of the adaptation of the organisational structure, segment reporting was adjusted to the new management and control structures with effect as of 1 January 2010. The figures from the previous reporting period were adapted accordingly.

A major target of the adjustment of the organisational structure was to strengthen the independence of the areas and business units in order to be in a better position to satisfy the requirements of the respective markets with local products and products adjusted to local needs.

The management of the European business is, to a large extent, carried out via the area EMEA, which is directly responsible for the business units. At the same time the areas outside Europe – North America, South America, Asia and Pacific, India, and CIS – are to be strengthened. Regarding the Group-wide corporate functions a distinction is made between requirement-setting functions and service functions.

The Management Board of PALFINGER AG manages the Group by dividing it into the segments EUROPEAN UNITS, AREA UNITS, as well as VENTURES.

EUROPEAN UNITS

The EUROPEAN UNITS segment comprises the following cash-generating units:
- Area EMEA
- Business unit Marine Systems

AREA UNITS

The AREA UNITS segment comprises the following cash-generating units:
- Area North America (excl. ETI)
- ETI*
- Area South America
- Area Asia and Pacific
- Area India
- Area CIS

* ETI = Equipment Technology, LLC, Oklahoma City (US).

VENTURES

In the VENTURES segment PALFINGER bundles all future projects at their development stage. The aim of separating this area from the operating business is to guarantee a targeted focus on building up new fields of business and continuing market development.

TRANSFER PRICING

Transfer pricing between the manufacturing plants, the assembly plants, and distribution companies is carried out at production cost based on standard capacity utilisation plus a markup derived from a standardised functional and risk analysis.

GROUP FINANCING

The financing of the Group (including financial expenses and income) as well as income taxes are controlled on a Group-wide basis and not allocated to the individual segments.

TEUR	EUROPEAN UNITS Jan–Dec 2009	AREA UNITS Jan–Dec 2009	VENTURES Jan–Dec 2009	Consolidation Jan–Dec 2009	Unallocated amounts Jan–Dec 2009	Total Jan–Dec 2009
External revenue	404,875	100,490	0	0	0	**505,365**
Intra-group revenue	18,908	11	0	(18,919)	0	**0**
Depreciation, amortisation, and impairment	(17,088)	(4,378)	0	0	0	**(21,466)**
thereof impairment	(817)	0	0	0	0	**(817)**
EBIT	8,858	(9,727)	(4,230)	79	0	**(5,020)**
Income from associated companies	2,453	(416)	0	0	0	**2,037**
Segment result	11,311	(10,143)	(4,230)	79	0	**(2,983)**
Segment assets	444,595	136,533	0	(29,097)	35,942	**587,973**
thereof investments in associated companies	13,608	2,118	0	0	0	**15,726**
Segment liabilities	83,201	55,094	0	(29,097)	186,498	**295,696**
Investments in intangible assets and property, plant, and equipment	10,749	3,128	0	0	0	**13,877**

TEUR	EUROPEAN UNITS Jan–Dec 2010	AREA UNITS Jan–Dec 2010	VENTURES Jan–Dec 2010	Consolidation Jan–Dec 2010	Unallocated amounts Jan–Dec 2010	Total Jan–Dec 2010
External revenue	479,180	172,613	0	0	0	**651,793**
Intra-group revenue	35,479	634	0	(36,113)	0	**0**
Depreciation, amortisation, and impairment	(17,371)	(5,368)	0	0	0	**(22,739)**
thereof impairment	0	0	0	0	0	**0**
EBIT	49,779	(7,127)	(7,746)	(204)	0	**34,702**
Income from associated companies	2,931	(485)	0	0	0	**2,446**
Segment result	52,710	(7,612)	(7,746)	(204)	0	**37,148**
Segment assets	508,945	182,302	0	(32,871)	19,055	**677,431**
thereof investments in associated companies	12,067	3,392	0	0	0	**15,459**
Segment liabilities	130,911	68,522	0	(32,871)	179,509	**346,071**
Investments in intangible assets and property, plant, and equipment	13,936	5,111	0	0	0	**19,047**

INFORMATION ON GEOGRAPHICAL AREAS

Non-current assets were as follows:

TEUR	31 Dec 2010	31 Dec 2009
Intangible assets		
Austria	36,651	5,365
Germany	35,390	36,284
France	16,880	16,631
USA	22,700	9,345
Other foreign countries	16,351	6,388
	127,972	**74,013**
Property, plant, and equipment		
Austria	69,236	73,099
Bulgaria	24,762	25,941
Germany	20,797	18,555
Slovenia	27,950	28,943
USA	26,186	18,524
Other foreign countries	31,220	26,915
	200,151	**191,977**
Investment property		
Austria	53	54
Germany	366	379
Croatia	0	663
	419	**1,096**
Deferred tax assets		
Domestic	9,842	12,324
Foreign	22,016	13,211
	31,858	**25,535**
Other non-current assets		
Austria	1,086	1,215
Brazil	326	711
USA	536	416
Other foreign countries	294	245
	2,242	**2,587**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

PALFINGER AG is a public listed company headquartered in 5020 Salzburg, Austria, Franz-Wolfram-Scherer-Strasse 24, whose main business activities are the production and the sale of innovative lifting, loading, and handling solutions for commercial vehicles.

The consolidated financial statements of PALFINGER AG as of 31 December 2010 were prepared in line with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU). IFRS and IFRIC interpretations whose application is not mandatory for financial years starting on or after 1 January 2010 were not applied ahead of time. As these consolidated financial statements meet the criteria laid down in sec. 245a of the (Austrian) Business Code (UGB), the Company is not obligated to prepare financial statements according to the provisions of the Code.

These consolidated financial statements were prepared as of the reporting date of the parent company PALFINGER AG. The financial year corresponds to the calendar year. With the exception of Palfinger Cranes India Pvt. Ltd., India, the financial statements of the individual Austrian and foreign companies included in the consolidated financial statements were prepared as of the reporting date of the consolidated financial statements. An interim financial statement as of 31 December was prepared for Palfinger Cranes India Pvt. Ltd., India.

Uniform accounting and valuation criteria were applied within the Group. The consolidated financial statements were prepared on the assumption that the Company will 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. In general, when preparing these consolidated financial statements, the historical cost system was applied. Exceptions were made for derivate financial instruments and financial assets available for sale. These items were valued at fair value.

The consolidated balance sheet was structured according to IAS 1, separating current from non-current assets and liabilities. Assets and liabilities are classified as current if they are likely to be realised or balanced within twelve months of the balance sheet date. The consolidated income statement was prepared according to the nature of expense method.

For the sake of clarity and comparability, all figures in the consolidated financial statements are, in principle, expressed in thousands of euros (TEUR). Minimal arithmetic differences may arise from the application of commercial rounding to individual items and percentages.

The consolidated financial statements and the individual financial statements of the companies included were published in accordance with statutory requirements. The consolidated financial statements of PALFINGER AG as of 31 December 2010 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Salzburg, Austria. The consolidated financial statements of PALFINGER AG as of 31 December 2010 were released for submission to the Supervisory Board on 25 January 2011 by the Group's Management Board. It is the Supervisory Board's task to review the consolidated financial statements and state whether it approves the consolidated financial statements as of 31 December 2010.

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 of 31 December of each year. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

Associated companies were 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 percent of the voting power.

As of 31 December 2010, the scope of consolidation, including PALFINGER AG as the parent company, comprised 37 fully consolidated companies and six companies consolidated using the equity method, whose names are disclosed in the statement of investments.

Company, headquarters	Controlling company[1]	Direct interest[2] in percent	Indirect interest[3] in percent	Curr.[4]
Fully consolidated companies				
PALFINGER AG, Salzburg (AT)				EUR
Composite Works, LLC, Oklahoma City (US) (Initial consolidation: 9 April 2010)	ETI	56.75	45.40	USD
EPSILON Kran GmbH, Salzburg (AT)	PEU	65.00	65.00	EUR
Equipment Technology, LLC, Oklahoma City (US) (Initial consolidation: 9 April 2010)	PUSA	80.00	80.00	USD
Fast RSQ B.V., Barneveld (NL) (Initial consolidation: 16 July 2010)	NDM	100.00	75.00	EUR
Guima France S.A.S., Caussade (FR)	GP	100.00	80.00	EUR
Guima Palfinger S.A.S., Caussade (FR)	PMB	80.00	80.00	EUR
Interlift, Inc., Cerritos (US)	MBB	100.00	100.00	USD
Madal Palfinger S.A., Caxias do Sul (BR)	PMB	99.14	99.14	BRL
MBB Hubfix s.r.o., Bratislava (SK)	MBB	100.00	100.00	EUR
MBB Inter S.A.S., Silly en Gouffern (FR)	MBB	100.00	100.00	EUR
MBB Interlift N.V., Erembodegem (BE)	MBB	100.00	100.00	EUR
MBB Liftsystems Ltd. in liquidation, Cobham (UK)	MBB	100.00	100.00	GBP
MBB Palfinger GmbH, Ganderkesee (DE)	PEU	100.00	100.00	EUR
NDM Romania S.r.l., Cluij-Napoca (RO) (Initial consolidation: 16 July 2010)	NDM	100.00	75.00	RON
Ned-Deck Marine B.V., Barneveld (NL) (Initial consolidation: 16 July 2010)	PMB	75.00	75.00	EUR
Ned-Deck Marine Vietnam Co. Ltd., Hanoi (VN) (Initial consolidation: 16 July 2010)	NDM	100.00	75.00	USD
Omaha Standard, Inc., Council Bluffs (US)	PUSA	100.00	100.00	USD
Palfinger Asia Pacific Pte. Ltd., Singapore (SG)	PMB	100.00	100.00	EUR
Palfinger Cranes India Pvt. Ltd., Chennai (IN)	PMB/PAP	100.00	100.00	INR
Palfinger Europe GmbH, Salzburg (AT)	PMB	100.00	100.00	EUR
Palfinger Finanzierungs-GmbH, Ainring (DE)	PAG	100.00	100.00	EUR
Palfinger GmbH, Ainring (DE)	PEU/PMB	100.00	100.00	EUR
Palfinger Gru Idrauliche S.r.l., Bolzano (IT)	PEU	100.00	100.00	EUR
Palfinger, Inc., Niagara Falls (CA)	PMB	100.00	100.00	CAD
Palfinger Marine- und Beteiligungs-GmbH, Salzburg (AT)	PAG	100.00	100.00	EUR
Palfinger Marine d.o.o., Maribor, Maribor (SI) (Initial consolidation: 1 November 2010)	PMB	100.00	100.00	EUR
Palfinger Marine d.o.o., Skrljevo (HR) (Initial consolidation: 1 November 2010)	PMB	100.00	100.00	HRK
Palfinger Platforms GmbH, Krefeld (DE)	PEU	100.00	100.00	EUR
Palfinger Produktionstechnik Bulgaria EOOD, Cherven Brjag (BG)	PMB	100.00	100.00	BGN
Palfinger Proizvodnja d.o.o., Maribor (SI)	PMB	100.00	100.00	EUR
Palfinger Proizvodna Tehnologija Hrvatska d.o.o., Delnice (HR)	PMB	100.00	100.00	HRK
Palfinger (Shenzhen) Ltd., Shenzhen (CN)	PAP	100.00	100.00	CNY
Palfinger systems (SEA) Pte. Ltd., Singapore (SG) (Initial consolidation: 1 November 2010)	PMB	60.00	60.00	SGD
Palfinger USA, Inc., Tiffin (US)	PMB	100.00	100.00	USD
Palfleet Truck Equipment, Co., Birmingham (US) (Formerly Paltec Truck Equipment, Co.)	OSI	100.00	100.00	USD
Ratcliff Palfinger Ltd., Welwyn Garden City (UK)	PMB	100.00	100.00	GBP

1) Controlling company:
ETI = Equipment Technology, LLC, Oklahoma City (US)
GP = Guima Palfinger S.A.S., Caussade (FR)
MBB = MBB Palfinger GmbH, Ganderkesee (DE)
MP = Madal Palfinger S.A., Caxias do Sul (BR)
NDM = Ned-Deck Marine B.V., Barneveld (NL)
OSI = Omaha Standard, Inc., Council Bluffs (US)
PAG = PALFINGER AG, Salzburg (AT)
PAP = Palfinger Asia Pacific Pte. Ltd., Singapore (SG)
PEU = Palfinger Europe GmbH, Salzburg (AT)
PMB = Palfinger Marine- und Beteiligungs-GmbH, Salzburg (AT)
PPT = Palfinger Produktionstechnik Bulgaria EOOD, Cherven Brjag (BG)
PUSA = Palfinger USA, Inc., Tiffin (US)

2) From the point of view of the controlling company.
3) From the point of view of PALFINGER AG.
4) Curr. = functional currency.

Company, headquarters	Controlling company[1]	Direct interest[2] in percent	Indirect interest[3] in percent	Curr.[4]
Companies consolidated using the equity method				
Kraftinvest Palfinger Beteiligungs-GmbH, Salzburg (AT)	PMB	49.00	49.00	EUR
Nimet Srl, Lazuri (RO)	PPT	40.00	40.00	RON
Palfinger Argentina S.A., Buenos Aires (AR)*	MP	100.00	100.00	ARS
Palfinger France S.A., Étoile sur Rhône (FR)	PEU	49.00	49.00	EUR
Palfinger Southern Africa (Pty.) Ltd., Edenvale (ZA)	PEU	36.00	36.00	ZAR
STEPA Farmkran Gesellschaft m.b.H., Elsbethen (AT)	PEU	45.00	45.00	EUR

* Company not fully consolidated due to negligible importance.

Mergers

In order to simplify the Group's structure, FTEC, Inc., USA, and Tiffin Loader Crane, Co., USA, were merged into Paltec Truck Equipment, Co., USA, as the absorbing company with effect as of 1 January 2010. In the first quarter 2010 the company's name was changed to Palfleet Truck Equipment, Co. As of 30 November 2010 the remaining 40 percent of the shares in Ideal Crane LLC were taken over by Equipment Technology LLC. Subsequently, the assets of Ideal Crane, LLC were transferred to Equipment Technology, LLC; Ideal Crane, LLC was wound up.

Acquisitions made in 2010

ETI GROUP

On 9 April 2010 the acquisition, which had been agreed upon on 27 March 2010, of 80 percent in Equipment Technology, LLC, which held a 60-percent interest in Ideal Crane, LLC, USA, as well as a 56.75-percent interest in Composite Works, LLC, USA, was closed. The purchase price in the amount of USD 24.5 million was paid in cash. The US group of companies headquartered in Oklahoma employs a staff of around 190 and primarily produces and distributes access platforms of up to 45 ft. (approx. 15 metres). The ETI Group allows PALFINGER to realise its North America strategy of becoming a local player in another of the Group's strategic core segments. The access platform business accounts for the majority of the revenues generated by the ETI Group, which also manufactures service cranes. The products are distributed via direct sales forces and supported by a nationwide network of independent service outlets and field service employees. In 2009 the ETI Group generated revenues of approximately USD 45 million making it one of the top players in the field of access platforms in the North American market. The existing management team will stay in place to ensure the continued success of the company.

For the remaining 20 percent a put-option as well as a call-option was agreed. In contrast to the call-option, the put-option will increase in value each year. The exercise price of the options is governed by the average EBIT over the three years preceding the exercise of the option on the basis of a market-based multiple.

Non-controlling interests were valued at fair value at the time of acquisition. At the time of acquisition, the purchase price was allocated on the basis of the final fair values as follows:

TEUR	2010
Purchase price paid in cash	18,210
Fair value of non-controlling interests	4,503
Net assets	(17,252)
Goodwill	**5,461**

Goodwill may be used for tax purposes.

At the time of acquisition, net assets acquired were broken down on the basis of the fair values as follows:

TEUR	Fair value
Non-current assets	
Intangible assets	7,635
Property, plant, and equipment	4,485
Deferred tax assets	440
Non-current financial assets	743
	13,303
Current assets	
Inventories	5,758
Trade receivables	1,684
Other current assets	204
Cash and cash equivalents	2,202
	9,848
Non-current liabilities	
Non-current financial liabilities	809
Other non-current liabilities	1,089
	1,898
Current liabilities	
Current financial liabilities	281
Current provisions	423
Tax liabilities	50
Trade payables and other current liabilities	3,247
	4,001
Net assets	**17,252**

Goodwill generated in the course of the acquisition primarily reflects the benefit expected from the entry into the US access platform market.

Net cash flows from the acquisition were as follows:

TEUR	2010
Cash flows from operating activities	
Transaction costs	(386)
Cash flows from investing activities	
Purchase price paid in cash	(18,210)
Cash and cash equivalents	2,202
Net cash flows from the acquisition	**(16,394)**

NDM GROUP

On 16 July 2010 the contracts governing the acquisition of a 75-percent interest in the Dutch company Ned-Deck Marine B.V., including the 100-percent interests in Ned-Deck Marine Vietnam Co. Ltd., Vietnam, and Fast RSQ B.V., Netherlands, as well as the 95-percent interest in NDM Romania S.r.l., Romania, were signed and closed. The purchase price of EUR 10.5 million was paid in cash. The NDM Group is one of the leading manufacturers of rescue boat davits, a special application of marine cranes. The group is among the world market leaders in the standard segment of davit systems (A-frame davits and liferaft davits) and posts steep growth in special applications for the Navy and Coast Guard. The existing management team will stay in place to ensure the continued success of the company.

With this transaction, PALFINGER entered the market of ship-mounted cranes, thus expanding its previous truck-related product range. With its davit systems the NDM Group primarily operates on the market of ships with equipment fulfilling the requirements of the UN Convention for the Safety of Life at Sea (SOLAS). The obligatory annual servicing of the safety equipment by the manufacturer or a party certified by the manufacturer makes after-sales services a substantial part of total business operations.

With a staff of approximately 100, the NDM Group generated revenues of almost EUR 18 million in 2009.

For the remaining 25 percent a put-option as well as a call-option was agreed. In contrast to the call-option, the put-option will increase in value each year. The exercise price of the options is governed by the average EBIT over the three years preceding the exercise of the option on the basis of a marked-based multiple.

The difference was calculated using the estimated fair values at the date of acquisition; its final adjustment was then made in the fourth quarter. Non-controlling interests were also valued using the estimated fair values at the time of acquisition.

At the time of acquisition, the purchase price was allocated on the basis of the fair values as follows:

TEUR	Q3	Q4
Purchase price paid in cash	10,500	10,500
Fair value of non-controlling interests	3,500	3,500
Net assets	(9,783)	(11,847)
Goodwill	**4,217**	**2,153**

Goodwill may not be used for tax purposes.

Net assets acquired on the basis of their estimated fair value and the fair values calculated in the fourth quarter after the subsequent adjustments were made were broken down as follows:

TEUR	Estimated fair value	Fair value adjusted in Q4
Non-current assets		
Intangible assets	7,459	9,324
Property, plant, and equipment	925	1,830
Deferred tax assets	55	55
	8,439	**11,209**
Current assets		
Inventories	3,546	3,546
Trade receivables	3,485	3,485
Other current assets	336	336
Cash and cash equivalents	5,001	5,001
	12,368	**12,368**
Non-current liabilities		
Deferred tax liabilities	1,810	2,516
	1,810	**2,516**
Current liabilities		
Current provisions	270	270
Tax liabilities	633	633
Trade payables and other current liabilities	8,311	8,311
	9,214	**9,214**
Net assets	**9,783**	**11,847**

Goodwill generated in the course of the acquisition primarily reflects the benefit expected from the entry into the market of ship-mounted cranes.

Net cash flows from the acquisition were as follows:

TEUR	2010
Cash flows from operating activities	
Transaction costs	(224)
Cash flows from investing activities	
Purchase price paid in cash	(10,500)
Cash and cash equivalents	5,001
Net cash flows from the acquisition	**(5,723)**

PALFINGER MARINE GROUP

With effect as of 28 October 2010 the PALFINGER Group acquired the marine and windmill crane division of Palfinger systems GmbH, thereby expanding its marine portfolio and positioning it among the leading providers in the marine crane sector. Palfinger systems GmbH, which is controlled by the Palfinger family, is the world market leader in cranes for offshore wind energy plants. In addition to the marine division, PALFINGER also acquired the manufacturing sites in Slovenia and Croatia and the distribution company in Singapore. The businesses in Slovenia and Croatia, which will be 100 percent integrated in the PALFINGER Group, and the company in Singapore, which will have an integration level of 60 percent, were acquired by means of a share deal. The marine business of Palfinger systems GmbH was transferred through an asset deal.

Through the takeover of Palfinger systems GmbH, PALFINGER expects synergies on the basis of the cooperation with the NDM Group, a Dutch manufacturer of davits and deck equipment which has been part of the Palfinger Group since July 2010 and reflects PALFINGER's intensified internationalisation and diversification efforts. Through this acquisition the PALFINGER Group is now firmly rooted in two additional promising segments with great future potential – the marine crane and offshore wind energy segments.

In 2009 Palfinger systems GmbH generated revenue of almost EUR 30 million.

The purchase price to be expected from today's point of view of EUR 33.8 million is governed by the value of the assets taken over and was also tied to (clear) economic criteria. Apart from a down payment already made, corresponding to the minimum purchase price, Palfinger systems GmbH will be entitled to a profit-based payment in 2016, based on the average results generated by the acquired division during the past three years multiplied by a market-based factor. An external expert opinion was obtained confirming the plausibility of the purchase price.

Non-controlling interests were valued on the basis of the prorated net assets at the time of acquisition. At the time of acquisition, the purchase price was allocated on the basis of the estimated fair values as follows:

TEUR	2010
Purchase price paid in cash	15,250
Share of purchase price not yet due	18,550
Fair value of non-controlling interests	98
Net assets	(5,960)
Goodwill	**27,938**

Goodwill in the amount of TEUR 21,516 may be used for tax purposes.

At the time of acquisition, net assets acquired were broken down on the basis of the estimated fair values as follows:

TEUR	Estimated fair value
Non-current assets	
Intangible assets	1,399
Property, plant, and equipment	2,254
Non-current financial assets	52
Deferred tax assets	171
Other non-current assets	17
	3,893
Current assets	
Inventories	3,602
Other current assets	5,026
Cash and cash equivalents	424
	9,052
Non-current liabilities	
Non-current provisions	236
Deferred tax liabilities	299
Other non-current liabilities	65
	600
Current liabilities	
Current financial liabilities	503
Current provisions	871
Trade payables and other current liabilities	5,012
	6,386
Net assets	**5,960**

Goodwill generated in the course of the acquisition primarily reflects the benefit expected from the synergies in the market for ship-mounted cranes and the Group's entry into the wind energy market.

Net cash flows from the acquisition were as follows:

TEUR	2010
Cash flows from operating activities	
Transaction costs	(234)
Cash flows from investing activities	
Purchase price paid in cash	(15,250)
Cash and cash equivalents	424
Net cash flows from the acquisition	**(15,060)**

PRO FORMA DISCLOSURES

Starting with the time of initial consolidation, the ETI Group contributed TEUR 25,901, the NDM Group TEUR 11,017, and the Palfinger Marine Group TEUR 6,896 to the consolidated revenue of PALFINGER AG. The ETI Group contributed TEUR 702, the NDM Group TEUR 1,597, and the Palfinger Marine Group TEUR 1,643 to PALFINGER's consolidated net result for the period.

If the transactions had been made with effect as of 1 January 2010, the consolidated net result for the period of PALFINGER AG would have been as follows:

TEUR	Jan–Dec 2010 stated	Jan–Dec 2010 pro forma
Revenue	651,793	692,600
Consolidated net result for the period	24,225	25,814
Earnings per share in EUR	0.68	0.73

Acquisitions made in 2009

PALFINGER FINANZIERUNGS-GMBH

On 24 February 2009, 100 percent in Palfinger Finanzierungs-GmbH, Germany, was acquired. The purchase price in the amount of TEUR 25 was paid in cash and reflects the fair values of the assets at the date of acquisition. At the time of acquisition, the assets were composed primarily of cash and cash equivalents.

PALFINGER CRANES INDIA PVT. LTD.

On 30 April 2009, 100 percent in Palfinger Cranes India Pvt. Ltd., India, was acquired. The purchase price in the amount of INR 2 million (approx. TEUR 30) was paid in cash and reflects the fair values of the assets at the date of acquisition. At the time of acquisition, the assets were composed primarily of cash and cash equivalents.

AUTOMATED WASTE EQUIPMENT CO.

On 7 July 2009 the contracts on the acquisition, by way of an asset deal, of the US producer of container handling systems Automated Waste Equipment Co. were signed. The producer of container handling systems with one manufacturing and one assembly site in Trenton, New Jersey, was established by Eric Fisher in 1972 and has its strongest presence in the Northeast of the US, holding a market share of up to 70 percent in some states. It is the second largest manufacturer of cable hoists in the US. With its three product lines, marketed under the renowned brands

- **American Roll-off** (cable hoists),
- **Hook-all Hooklifts** (similar to PALIFT container handling systems), and
- **American Hawk** (bulk waste cranes)

and its approximately 60 service and sales centres and a staff of almost 40, the company generated revenues of approximately USD 13 million in 2008.

At the time of acquisition, the purchase price was allocated on the basis of the fair values as follows:

TEUR	2009
Purchase price	0
Net assets	(1,026)
Negative difference	**(1,026)**

The negative difference was recorded under other operating income.

At the time of acquisition, net assets acquired were broken down on the basis of the fair values as follows:

TEUR	Fair value
Non-current assets	
Intangible assets	1,004
Property, plant, and equipment	385
Other non-current assets	144
	1,533
Current assets	
Inventories	2,029
Trade receivables	532
Other current assets	25
Tax receivables	42
Cash and cash equivalents	20
	2,648
Non-current liabilities	
Non-current financial liabilities	5
Deferred tax liabilities	221
	226
Current liabilities	
Current financial liabilities	2,136
Current provisions	53
Tax liabilities	9
Trade payables and other current liabilities	731
	2,929
Net assets	**1,026**

In the course of the purchase price allocation an amount of TEUR 927 was allocated to intangible assets; they pertained mainly to the orders on hand and product developments as well as the brand American Roll-off.

Net cash flows from the acquisition were as follows:

TEUR	2009
Cash flows from operating activities	
Transaction costs	(165)
Cash flows from investing activities	
Purchase price paid in cash	0
Cash and cash equivalents	20
Net cash flows from the acquisition	**(145)**

PRO FORMA DISCLOSURES

Between the time of initial consolidation and 31 December 2009, the Automated Waste Equipment unit contributed TEUR 2,175 to the consolidated revenue of PALFINGER AG and TEUR 468 to its consolidated net result for the period, taking into consideration the negative difference.

If the transaction had been made with effect as of 1 January 2009, the consolidated net result of PALFINGER AG for 2009 would have been as follows:

TEUR	Jan–Dec 2009 stated	Jan–Dec 2009 pro forma
Revenue	505,365	508,049
Consolidated net result for the period	(7,823)	(8,596)
Earnings per share in EUR	(0.22)	(0.24)

Non-controlling interests

With effect as of 22 February 2010, 20 percent of Guima Palfinger S.A.S., France, was transferred to Compagnie Générale Vincent, France, for a purchase price of EUR 1.00. In addition, Palfinger France S.A. was granted a purchase option for 100 percent in Guima France S.A.S., France. The exercise of this purchase option is conditional on a sustainable turnaround of the Guima Group. The purchase price will be based on the equity of Guima France S.A.S.

Liquidations

In the first half 2009 the liquidation of MBB LIFTSYSTEMS Ltd., Great Britain, was initiated.

Associated companies

STAR PALFINGER EQUIPMENT INDIA PVT. LTD.

With effect as of 15 February 2010 the distribution partnership with Mr Hameed Salahuddin and Western Auto L.L.C. was terminated and the 26-percent share in Star Palfinger Equipment India Pvt. Ltd., India, was transferred to Mr Hameed Salahuddin.

CONSOLIDATION METHOD

Business combinations are accounted for using the acquisition method. The acquisition cost of a business combination is measured as the total 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 have been expensed since 1 January 2010.

When PALFINGER AG 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 remeasured at its fair value at the time of the transaction and the resulting gain or loss recognised in the income statement.

The agreed consideration is recognised at its fair value at the time of transaction. Subsequent changes in the fair value of conditional consideration representing an asset or liability are recognised either through the income statement or under total comprehensive income in accordance with IAS 39. Conditional consideration that is classified as equity is not remeasured, but is recognised in equity at the point in time that it is made.

Goodwill is initially measured at cost, this being the excess of the consideration transferred plus 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 recognised 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 forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the goodwill 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 are included in the consolidated financial statements applying the equity method. Investments in associated companies are reported in the balance sheet at cost after adjustment to changes in the Group's share of net assets after acquisition and impairment losses. Losses exceeding the Group's investment in associated companies are not recognised unless the Group bears the economic risk. The goodwill relating to the associated company is included in the carrying amount of this share and is neither amortised 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 accounted for 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 recognised 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 calculation 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 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 recognised directly in equity. In the event of the deconsolidation of a foreign company, these exchange rate differences are recognised in the income statement. Exchange rate differences attributable to non-controlling interests are offset against the interests of other shareholders.

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

	Exchange rate as of		Average exchange rate	
1 euro equals	31 Dec 2010	31 Dec 2009	Jan–Dec 2010	Jan–Dec 2009
BRL	2.2108	2.4966	2.3403	2.7991
CAD	1.3253	1.5039	1.3750	1.5907
GBP	0.8567	0.9000	0.8591	0.8977
USD	1.3252	1.4333	1.3288	1.3951

The functional currency of Palfinger Asia Pacific Pte. Ltd., Singapore, was changed from SGD to EUR with effect as of 1 January 2010. The differences from exchange rate translation accrued up to that point in time in the amount of TEUR 3 will be carried forward until the company is deconsolidated.

The effects of exchange rate movements on the calculation of the financial statements of the consolidated subsidiaries resulted in a change in equity of about TEUR 6,051 (previous year: TEUR 4,817) booked through the balance sheet. This figure is reported under foreign currency translation reserve in the statement of changes in equity.

MANAGING CAPITAL

As far as net debt is concerned, the capital management of PALFINGER is controlled either centrally or in agreement with corporate treasury. In addition, the Group-wide net working capital project facilitates the release of cash and cash equivalents to seize market opportunities without incurring additional new debt.

The objectives of pure capital management include long-term guaranteed liquidity in support of business operations, an efficient use of banking and financial services, and limiting financial risks while optimising revenue and costs. Central synergy effects and local opportunities are taken into consideration as well. While in 2009 the focus was on the systematic creation of a strategic liquidity reserve under cash and cash equivalents, this deliberate liquidity reserve has been superseded by strict net working capital management in the operating sector.

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 2009 the financing structure was increasingly based on longer-term debts. This basic approach was also maintained in 2010. In order to keep this capital structure, a consistent dividend policy is being pursued that is based on the consolidated net result for the previous year. In case of a positive net result for the period, a distribution rate of approximately one third of the net profit for the period is proposed.

While in 2009 the successful placement of a promissory note loan with maturities of three and five years as well as longer-term investment financing was carried out, in 2010 the Group-wide net working capital project made it possible to release funds to finance investments and growth. Long-term investment financing is still used consistently. When these credit lines were agreed upon, special attention was paid to their long-term availability. The aim of these credit lines is to guarantee a flexible utilisation and repayment of loans.

PALFINGER monitors its capital using the gearing ratio, which corresponds to the ratio of net debt and equity, as well as the equity ratio. In the long run, an equity rate of more than 50 percent and a gearing ratio below 50 percent are desirable. Net debt includes non-current and current financial assets and the cash holdings as well as non-current and current financial liabilities. Equity corresponds to the equity reported according to IFRS.

ACCOUNTING AND VALUATION METHODS

(1) INTANGIBLE ASSETS

Purchased intangible assets are capitalised at acquisition cost. Internally generated intangible assets are capitalised at manufacturing cost if the preconditions set out in IAS 38 regarding the capitalisation of internally generated intangible assets are satisfied.

Intangible assets are subject to amortisation over their relevant useful lives. With the exception of goodwill and intangible assets with indefinite useful lives, amortisation is performed on a straight-line basis over a timeframe between two and fifteen years or in line with the products' life cycles in the case of development expenses and is recorded in depreciation, amortisation, and impairment expenses. Customer relationships capitalised as part of corporate acquisitions are amortised over a useful life of five to ten years. At the end of every financial year the residual values, the useful lives, and the methods of amortisation of these assets are reviewed and, if necessary, adjusted prospectively. Changes in the method or period of amortisation that become necessary as a consequence of modifications of the anticipated useful lives or the expected consumption of the future economic benefits of the assets are treated as changes in estimates.

In the case of intangible assets of indefinite useful lives, each asset is tested for impairment at least once a year. These intangible assets are not amortised over their useful lives on a systematic basis. Once a year, the useful lives of all intangible assets with indefinite useful lives are checked as to whether the estimations of the indefinite useful lives are still justified. If this is not the case, the estimates are changed prospectively from an indefinite useful life into a finite useful life.

Impairments are recognised in the year in which the event giving rise to the impairment occurs and are recorded in depreciation, amortisation, and impairment expenses. If the reasons for the impairment cease to exist, corresponding reversals of the impairment loss are performed until the level of amortised cost is reached. Such reversals are recorded as other operating income.

Goodwill

According to IFRS 3 goodwill is not amortised but is instead tested for impairment annually as well as whenever there are indications that impairment has occurred.

In order to perform impairment tests, goodwill is allocated to cash-generating units. The essential standard applied for determining whether a 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 amortised carrying amount (including the allocated goodwill) to the higher of either the net realisable value or the value in use. The value in use is calculated as the present value of relevant future cash inflows and outflows on the basis of the data obtained from the internal medium-term corporate planning. The discount rate is derived from the weighted cost of capital of the Company. 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 carrying amount of the goodwill. Any additional impairment loss is then to be allocated to the remaining assets of the cash-generating units in proportion to their carrying amounts.

The impairment test is applied to the entire goodwill capitalised. 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 results of the subsidiary at hand among the shareholders, provided that the subsidiary under review is a cash-generating unit to which goodwill is allocated.

According to IFRS 3 goodwill once written down for impairment can no longer be recovered.

Research and development

Research expenses are reported in the income statement when incurred.

Development expenses made with a view to a significant further development of a product or a process are capitalised 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 recognised in the income statement when incurred.

Capitalised development expenses of closed projects are reported at cost less accumulated amortisation. As long as a development project is not yet completed, an impairment test of the capitalised amounts accrued is carried out annually or more frequently if circumstances indicate that an impairment loss might have occurred.

Expenses incurred for the supervision of series production are allocated to the products on a pro rata basis using overhead calculation logistics.

(2) PROPERTY, PLANT, AND EQUIPMENT

Items of property, plant, and equipment are reported at cost, adjusted for straight-line depreciation. 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 capitalised.

Assets are depreciated as soon as they are available for use. Depreciation is performed on a straight-line basis over the prospective useful lives of the relevant assets and is shown in depreciation, amortisation, and impairment expenses. The anticipated economic or technical useful life is used to determine the expected useful life of property, plant, and equipment. If property, plant, and equipment is composed of major identifiable components with different useful lives, these components are disclosed separately and depreciated over their respective useful lives.

	Years
Own buildings and investments in third-party buildings	20–50
Plants and machinery	3–15
Fixtures, fittings, and equipment	3–10

At the end of every financial year the residual values, the useful lives, and the methods of depreciation of these assets are reviewed and, if necessary, adjusted prospectively. Changes in the method or period of depreciation that become necessary as a consequence of modifications of the anticipated useful lives or the expected consumption of the future economic benefits of the assets are treated as changes in estimates.

When major inspections are performed, their costs are recognised in the carrying amount of the item of property, plant, or equipment as a replacement if the recognition criteria are satisfied. Replacement investments and value-increasing investments are capitalised and depreciated over either the new or the original useful life. All other expenses for maintenance and repair work are recognised in the income statement when incurred.

In the case of asset disposals, the difference between the carrying amounts and the net realisable value is recognised in the income statement in either other operating income (realisable value higher than carrying amount) or other operating expenses (realisable value lower than carrying amount).

Government grants

According to IAS 20 government grants for property, plant, and equipment are presented as reductions of the acquisition and/or manufacturing costs and reduce amortisation on a systematic basis accordingly in the following periods.

PALFINGER receives grants for research and further training in various countries. These are recognised as other operating income in the time periods in which the expense which is to be compensated for by the grant is incurred.

A government grant is not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to it and that the grant will be received.

Leases

In line with IAS 17, 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.

Assets obtained through finance leases are capitalised at the fair value or lower present value of the minimum lease payments at the acquisition date from the viewpoint of the lessee, and depreciated over their useful lives. The capitalised value of assets corresponds to the present value of the lease payments outstanding at the balance sheet date.

Assets obtained through operating leases are allocated to the lessor. The lessee recognises the lease payments as an expense in equal instalments over the term of the lease.

Borrowing costs

Borrowing costs that are attributable to the acquisition or production of a qualifying asset are capitalised as part of the cost of the asset.

(3) INVESTMENT PROPERTY

Investment property includes land or buildings held to earn rentals or for capital appreciation rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Property held as investment property is measured at cost less accumulated depreciation. Depreciation on buildings is performed on a straight line basis over a period ranging from 20 to 50 years. The fair value of property held as investment property is determined by expert opinions that are prepared internally and using an income-cost approach.

(4) INVENTORIES

Inventories are assets held for sale as part of the normal operating business (finished goods and goods for resale), assets that are still in the process of production (work in progress) or that are consumed as part of the manufacturing of products or the rendering of services (materials and production supplies).

Inventories are valued at acquisition or production cost or the lower net realisable value at the balance sheet date. The valuation of materials and production supplies as well as goods for resale is carried out in accordance with the moving average cost method. Write-downs are made where the net realisable value is lower than the carrying value. The production costs of work in progress and finished goods are determined on the basis of standard production costs and, besides direct materials and manufacturing costs, also contain appropriate shares of materials and manufacturing overheads as well as administrative expenses relating to manufacturing. The standard production costs are reviewed regularly and adjusted to the current conditions if necessary.

(5) CONTRACT MANUFACTURING

Receivables from projects and sales in this connection are recognised in accordance with the percentage of completion. Projects are characterised by the fact that they are agreed on the basis of individual contractual terms with fixed prices. The percentage of completion is determined by means of the cost-to-cost method. Reliable estimates of the total costs of the contracts, the selling prices, and the actual costs incurred are available on a monthly basis. The estimated profits from the contracts are realised in proportion to calculated sales. When applying the cost-to-cost method, sales and contract revenue are recognised in proportion of the manufacturing costs actually incurred to the expected total costs. Changes in the total estimated contract costs and losses that might arise from such costs are booked through the income statement in the period in which they accrue. 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 resulting from the measurement of projects not yet invoiced are immediately recorded as expenses. Imminent losses are realised if total contract costs are likely to exceed the contract revenue.

(6) FINANCIAL INSTRUMENTS

According to IAS 39 financial assets are classified either as held for trading, loans and receivables, available for sale, or hedging derivatives. PALFINGER determines the designation of its financial assets upon initial recognition.

When they are recognised initially, financial assets are measured at fair value. In the case of financial investments that are not recognised at fair value through the income statement, transaction costs are recognised as well. These costs are directly allocable to the acquisition of the assets.

Acquisitions or sales of financial assets are recognised at the trade date.

The fair value of financial instruments is the amount for which a financial instrument could be exchanged between knowledgeable, willing, and independent parties in an arm's length transaction. The fair value is frequently identical to the market price, and therefore its calculation is based on market information available at the balance sheet date. The values listed may diverge from values realised later due to varying determinants.

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.

Securities and other shareholdings

Securities and other shareholdings are classified as available for sale pursuant to IAS 39. They are measured at fair value provided that a reliable fair value can be determined. Unrealised profits and losses are recognised in equity. In the case of sales, the unrealised profit and/or loss that up to that point had been reported as equity in the balance sheet will be reported in the income statement under other financial expenses. Impairment losses are recorded in the income statement. Impairment losses recorded for equity instruments are reversed in the balance sheet, impairment losses recorded for debt instruments in the income statement.

Loans

Interest-bearing loans are classified as loans and receivables pursuant to IAS 39. To the extent that no impairment losses are required, they are reported at amortised cost; non-interest bearing loans and interest-bearing loans with low rates of interest are discounted accordingly. Impairment losses are reversed through the income statement.

Receivables

Receivables are classified as loans and receivables pursuant to IAS 39 and are reported at amortised cost, if necessary less impairment losses. Foreign currency receivables are valued at the foreign currency bid price at the balance sheet date. Impairment losses are recorded in allowance accounts; the receivable is only derecognised in case of insolvency or failure to assert the claim in court. Impairment losses are reversed through the income statement.

Cash and cash equivalents

Current financial assets are composed of cash in hand, cheques, and cash at banks with an initial remaining time to maturity of a maximum of three months and are reported under cash and cash equivalents. They are measured mark to market as of the balance sheet date.

Liabilities

Liabilities are shown at amortised cost.

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 pursuant to IAS 39 and recognised at their fair values through the income statement.

Cash flow hedge

In order to minimise the risk of fluctuations with respect to payments received in the future, expected foreign currency income in US dollars for the following financial year is hedged in the PALFINGER Group by means of forward currency contracts. 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 instrument in the income statement. The market value of forward contracts arising from the valuation of forward contracts at the balance sheet date after deduction of deferred taxes is reported in equity in the balance sheet as a reserve according to IAS 39. The reserve will be reversed to income in line with future proceeds generated in the relevant financial year.

(7) STOCK OPTION PROGRAMME

The Annual General Meeting on 25 March 2009 resolved to set up a stock option programme in the form of an equity-settled plan for members of the Supervisory and Management Boards and to grant 250,000 stock options under this programme to Alexander Exner, Chairman of the Supervisory Board (since 13 December 2010 member of the Supervisory Board), Alexander Doujak, member of the Supervisory Board (since 13 December 2010 Chairman of the Supervisory Board), and to Management Board members Herbert Ortner, Wolfgang Pilz, and Martin Zehnder.

The objective of the programme is to link the amount of remuneration directly to operating performance. Thus management should be more willing to align its objectives with those of the shareholders of the Company but also have a share in the success of the Company.

Each stock option may be exercised in exchange for one share at an exercise price of EUR 10.12. The stock options may be exercised (one half each) at two exercise dates. In order to be able to exercise stock options, the average ratio of earnings before taxes (EBT) to revenue as reported in the consolidated financial statements of PALFINGER AG must have been at least three percent (exercise date 1 in 2012) or five percent (exercise date 2 in 2014) for each of the three balance sheet dates preceding the date the option is exercised.

The maximum number of shares available for subscription is equivalent to the number of options issued. If the EBT ratio is less than three or five percent, no options may be exercised and there is no entitlement to subscription. If the EBT ratio is three or five percent, the entitled person enjoys the right to exercise 25 percent of his stock options at the relevant exercise date. If the EBT ratio exceeds three or five percent, the number of stock options that may be exercised by a person at the relevant exercise date rises in linear progression up to an EBT ratio of seven or eleven percent.

The Annual General Meeting on 31 March 2010 resolved to grant 50,000 stock options to Christoph Kaml, member of the Management Board.

Each stock option may be exercised in exchange for one share at an exercise price of EUR 16.57. The stock options may be exercised (one half each) at two exercise dates. In order to be able to exercise stock options, the average ratio of earnings before taxes (EBT) to revenue as reported in the consolidated financial statements of PALFINGER AG must have been at least four percent (exercise date 1 in 2013) or five percent (exercise date 2 in 2015) for each of the three balance sheet dates preceding the date the option is exercised.

The maximum number of shares available for subscription is equivalent to the number of options issued. If the EBT ratio is less than four or five percent, no options may be exercised and there is no entitlement to subscription. If the EBT ratio is four or five percent, the entitled person enjoys the right to exercise 25 percent of his stock options at the relevant exercise date. If the EBT ratio exceeds four or five percent, the number of stock options that may be exercised by a person at the relevant exercise date rises in linear progression up to an EBT ratio of nine or eleven percent.

The fair value of the options granted is recognised as employee benefits expense and offset against additional paid-in capital in equity. The fair value is determined at the date the option is granted and expensed over a period during which the employees acquire the unconditional entitlement to the options granted (vesting period).
A Monte Carlo simulation is used to determine the fair value of options, taking into account the terms and conditions on which the options were granted. The amount, which is to be reported as an expense, is adjusted to take into account the effect of anticipated staff turnover in order to reflect the expected actual number of options that may be exercised in the future.

	Herbert Ortner		**Christoph Kaml**		**Wolfgang Pilz**		**Martin Zehnder**		**Alexander Exner**		**Alexander Doujak**	
Number of stock options	40,000	40,000	25,000	25,000	25,000	25,000	25,000	25,000	20,000	20,000	15,000	15,000
Exercise price in EUR	10.12	10.12	16.57	16.57	10.12	10.12	10.12	10.12	10.12	10.12	10.12	10.12
Exercise period within 12 weeks after the AGM	2012	2014	2013	2015	2012	2014	2012	2014	2012	2014	2012	2014
Fair value of option in EUR at valuation date*	2.58	2.56	4.73	5.77	2.58	2.56	2.58	2.56	2.58	2.56	2.58	2.56
Underlying volatility	50.0%	40.0%	45.0%	45.0%	50.0%	40.0%	50.0%	40.0%	50.0%	40.0%	50.0%	40.0%
Valuation date	25 Mar 2009		31 Mar 2010		25 Mar 2009		25 Mar 2009		25 Mar 2009		25 Mar 2009	
Price in EUR at valuation date	9.29		16.81		16.81		9.29		9.29		9.29	

* Valuation model used: Monte Carlo simulation.

(8) LONG-TERM EMPLOYMENT BENEFITS

Defined benefit plans

Defined benefit plans apply to pension commitments in Austria and Germany as well as severance pay obligations in Austria, Slovenia, and Bulgaria.

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.

Provisions for pensions and other post-retirement benefits as well as for severance payments and anniversary bonuses are valued using the projected unit credit method. Under this method anticipated benefits are distributed over the working lifespan of the employees until retirement. Anticipated future salary increases are taken into account. The amounts of the provisions are determined on the basis of an actuarial opinion prepared by an actuary as of the balance sheet date.

According to IAS 19 actuarial gains and losses are recognised directly in equity as retained earnings if they relate to provisions for pensions and other post-retirement benefits or for severance payments and as pension costs in the income statement if they relate to provisions for anniversary bonuses.

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 to such defined contribution plans are recognised as expenses in the period for which they are paid.

Other long-term employment benefits

Other long-term employment benefits referred primarily to collective bargaining commitments for payment of anniversary bonuses depending on the years of service for the employees of Austrian and Slovenian companies.

(9) OTHER PROVISIONS

Other provisions were formed to reflect the level of uncertain liabilities, recognising the amount associated with the highest level of probability of occurrence of individual obligations as the best estimate. Where the provision being measured involved a large population of items, the expected-value method of estimation was applied.

(10) INCOME TAX

Tax receivables and tax liabilities are offset when they relate to the same tax authority and the Company has a right to offset the items.

According to the liability method, deferred tax is reported on temporary differences between the amounts recognised under IFRS and those recognised in the tax balance sheet as well as on tax-loss carry forwards. Temporary differences are reported whenever they give rise to deferred tax liabilities. Deferred tax assets are only recognised if it is probable that the relevant tax benefits will actually be realised.

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 gains. Taxes on items reported in other comprehensive income are reported in other comprehensive income. Taxes on items directly reported in equity are directly recognised in equity.

(11) RECOGNITION OF REVENUES AND EXPENSES

Revenues arising from the provision of goods and services are realised when all major risks and opportunities arising from the delivered object have been transferred to the buyer. Revenues from the provision of services refer to short-term services which are recognised when the service is rendered.

Operating expenses are recognised when the service is rendered or a delivery is received, or at the time the expenses are incurred. Interest is recognised using the effective interest method. For information on contract manufacturing see Note (5).

(12) CHANGES IN ACCOUNTING AND VALUATION METHODS

The following new, revised, and/or supplemented IASB standards and IFRIC interpretations, whose application was mandatory for the first time in the 2010 financial year, resulted in changes in the consolidated financial statements of PALFINGER AG and/or clarifications of facts relevant for the Group. These changes did not have any significant impact on the Group's assets, finances, and earnings during this or previous reporting periods. No material changes in accounting and valuation methods other than those mentioned herein were made.

The amendment to **IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items** specifies the application of the basic principles of hedge accounting in two particular situations – the designation of inflation risks in a financial hedged item and the designation of a one-sided risk in a hedged item. The first application of this amendment did not have any material impact on the Group's assets, finances, and earnings during this or previous reporting periods.

The first application of **IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements** in their revised versions did not have any material impact on the Group's assets, finances, and earnings during this or previous reporting periods as they refer exclusively to future acquisitions of companies on the one hand and as PALFINGER has already recognised acquisitions of non-controlling interests in the balance sheet before on the other. The major change concerns the recognition of acquisitions of less than 100 percent of the shares in a company. The option to recognise the goodwill from an acquisition under the full goodwill method, i.e. including the amount of the share allocable to the non-controlling shareholders, was introduced. In addition, acquisitions and/or partial sales of shares without loss of control are to be reported in the balance sheet as transactions between shareholders. The full incidental acquisition costs are to be reported as expenses.

The amendments of the collective standard **Improvements to IFRS** in the course of the Annual Improvements Process Project 2009, which had to be applied to these interim consolidated financial statements for the first time, did not have any material impact on the Group's assets, finances, and earnings during this or previous reporting periods.

The following new, revised, and/or supplemented IASB standards and IFRIC interpretations are of no relevance for the consolidated financial statements of PALFINGER AG:

Standards/Interpretations	Mandatory application	Endorsement status
IAS 24 Related Party Disclosures (published in: November 2009)	1 January 2011	endorsed in July 2010
IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (published in: October 2009)	1 February 2010	endorsed in December 2009
IFRS 1 First Time Adoption of IFRS (published in: November 2008)	1 January 2010	endorsed in November 2009
IFRS 1 Additional Exemptions for First-time Adopters (published in: July 2009)	1 January 2010	endorsed in June 2010
IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (published in: June 2009)	1 January 2010	endorsed in March 2010
IFRIC 9 und IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives (published in: March 2009)	1 July 2009	endorsed in November 2009
IFRIC 14 Prepayments of a Minimum Funding Requirement (published in: November 2009)	1 January 2011	endorsed in July 2010
IFRIC 16 Hedges of a Net Investment in a Foreign Operation (published in: April 2009)	1 July 2009	endorsed in June 2009
IFRIC 17 Distributions of Non-cash Assets to Owners (published in: November 2008)	1 July 2009	endorsed in November 2009
IFRIC 18 Transfers of Assets from Customers (published in: January 2009)	1 July 2009	endorsed in November 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (published in: November 2009)	1 July 2010	endorsed in July 2010

The following new, revised, and/or supplemented IASB standards and IFRIC interpretations that might be of relevance for PALFINGER have been issued but not yet endorsed by the European Commission. For this reason, they are not relevant for these consolidated financial statements.

In November 2009 the IASB issued **IFRS 9 Financial Instruments – Classification and Measurement.** The new standard replaces the measurement categories of IAS 39 by the categories of amortised cost and fair value. Whether an instrument is to be allocated to the category of amortised cost depends on the business model applied by the company on the one hand and on the product features of the individual instrument on the other. Instruments that do not satisfy the definition criteria of the category of amortised cost have to be measured at fair value in the income statement. Measurement at fair value through the balance sheet is admissible for selected equity instruments. The new standard must be applied for financial years starting on or after 1 January 2013.

In October 2010 the IASB issued amendments to **IFRS 7 Financial Instruments: Disclosures.** The amendments broadly align the relevant disclosure requirements of IFRS and US generally accepted accounting principles (GAAP).The amendments to IFRS 7 require additional disclosures for transfer transactions of financial assets and will allow users of financial statements to improve their understanding of the effects of any risks that may remain with the entity that transferred the assets.

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 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.

(13) IMPAIRMENT OF NON-FINANCIAL ASSETS

The impairment tests performed by PALFINGER regarding goodwill, intangible assets with indefinite useful lives, and uncompleted capitalised 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.

Further details on the impairment of non-financial assets are presented in Note (21) Intangible assets.

(14) 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 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 capitalised, material judgements by 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.

PALFINGER reported as assets tax-loss carry forwards in the amount of TEUR 50,000 (previous year: TEUR 34,756). Capitalised tax-loss carry forwards of TEUR 30,438 (previous year: TEUR 18,609) are not subject to expiry.

Further details on deferred taxes are disclosed in Note (25) Deferred tax assets and liabilities.

(15) PENSIONS, SEVERANCE PAYMENTS, AND ANNIVERSARY BONUSES

The expenses for defined benefit plans and statutory obligations upon termination of employment and periods of employment entitling employees to anniversary bonuses are determined on the basis of actuarial calculations. The actuarial assessment is based on assumptions on discount rates, expected income from plan assets, future increases in wages and salaries, mortality, and future increases in pension payments. At every reporting day, these assumptions are reviewed. For the purpose of determining the adequate discount rate, 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 (38) Non-current provisions.

(16) DEVELOPMENT EXPENDITURE

Development expenses are capitalised in accordance with the accounting and valuation method presented. The initial capitalisation 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 capitalised 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. At 31 December 2010 the carrying amount of the capitalised development expenditure was TEUR 9,458 (previous year: TEUR 6,807) and included primarily development services in the knuckle boom crane, access platform, services, and railway business as well as local product developments. The impairment test is geared to the benefit of the individual assets, irrespective of the profit expectations of the entire area.

(17) PROVISIONS FOR GUARANTEE AND WARRANTY EXPENSES

When forming provisions for guarantee and warranty expenses, guarantee and warranty obligations are taken into consideration using a standardised method. This method is influenced considerably by the time of occurrence of the warranty claim, specific product replacement campaigns, refund quotas of suppliers, developments of the revenue subject to warranty, and assumptions of gross profit margins on the basis of the implemented warranty process.

In the 2010 financial year the provisions for guarantee and warranty expenses amounted to TEUR 10,614 (previous year: TEUR 11,904).

(18) MEASUREMENT OF RECEIVABLES

Besides standardised 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, is taken into account.

In the 2010 financial year bad-debt allowances in the amount of TEUR 6,972 (previous year: TEUR 7,762) were reported.

(19) MEASUREMENT OF INVENTORIES

A standardised obsoleteness measurement method was implemented in order to allow for the risk of obsoleteness. This method does not only consider actual and planned consumption, minimum inventories, and determinations of days stock on hand, but also alternative uses of materials. In addition, on a case-by-case basis, the commercial benefit of the existing inventories is reviewed 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 characterised by the expected sales prices, currency developments, the time of selling, and the costs yet to be expected.

Further details on impairment losses recognised for inventories are presented in Note (28) Inventories.

(20) CHANGES IN ESTIMATES

No major changes in estimates were made in the 2010 financial year.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED BALANCE SHEET

(21) INTANGIBLE ASSETS

The changes in intangible assets were as follows:

TEUR	Goodwill	Intangible assets with indefinite useful lives	Development expenditure	Brand, customer base, and orders on hand	Other intangible assets	Prepayments	Total
Acquisition cost							
At 1 Jan 2009	**41,850**	**13,181**	**2,111**	**24,505**	**11,463**	**35**	**93,145**
Change in scope of consolidation	0	491	326	111	76	0	**1,004**
Additions	0	0	4,804	0	1,073	8	**5,885**
Government grants	0	0	(227)	0	0	0	**(227)**
Disposals	0	0	(76)	(419)	(563)	0	**(1,058)**
Reclassifications	0	0	0	0	977	(19)	**958**
Foreign currency translation	5	(132)	(7)	2,045	(108)	(2)	**1,801**
At 31 Dec 2009	**41,855**	**13,540**	**6,931**	**26,242**	**12,918**	**22**	**101,508**
At 1 Jan 2010	**41,855**	**13,540**	**6,931**	**26,242**	**12,918**	**22**	**101,508**
Change in scope of consolidation	35,553	4,233	100	13,793	279	0	**53,958**
Additions	0	0	3,596	0	793	76	**4,465**
Additional capitalisation	0	0	0	0	74	0	**74**
Government grants	0	0	(130)	0	0	0	**(130)**
Disposals	0	0	(105)	0	(378)	(8)	**(491)**
Reclassifications	0	0	0	0	31	0	**31**
Foreign currency translation	68	693	68	1,258	342	0	**2,429**
At 31 Dec 2010	**77,476**	**18,466**	**10,460**	**41,293**	**14,059**	**90**	**161,844**
Accumulated amortisation and impairment							
At 1 Jan 2009	**0**	**0**	**0**	**13,338**	**7,978**	**0**	**21,316**
Amortisation	0	0	124	2,919	1,612	0	**4,655**
Impairment	0	0	0	817	0	0	**817**
Disposals	0	0	0	(419)	(563)	0	**(982)**
Foreign currency translation	0	0	0	1,553	136	0	**1,689**
At 31 Dec 2009	**0**	**0**	**124**	**18,208**	**9,163**	**0**	**27,495**
At 1 Jan 2010	**0**	**0**	**124**	**18,208**	**9,163**	**0**	**27,495**
Change in scope of consolidation	0	0	15	0	32	0	**47**
Amortisation	0	0	872	3,080	1,492	0	**5,444**
Additional capitalisation	0	0	0	0	74	0	**74**
Disposals	0	0	0	0	(344)	0	**(344)**
Reclassifications	0	0	(9)	49	(38)	0	**2**
Foreign currency translation	0	0	0	1,006	148	0	**1,154**
At 31 Dec 2010	**0**	**0**	**1,002**	**22,343**	**10,527**	**0**	**33,872**
Carrying amounts at 31 Dec 2009	**41,855**	**13,540**	**6,807**	**8,034**	**3,755**	**22**	**74,013**
Carrying amounts at 31 Dec 2010	**77,476**	**18,466**	**9,458**	**18,950**	**3,532**	**90**	**127,972**

Goodwill

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

TEUR	31 Dec 2010	31 Dec 2009
Area EMEA cash-generating unit	41,841	41,855
Business unit Marine Systems cash-generating unit	30,091	0
ETI cash-generating unit	5,544	0
Total	**77,476**	**41,855**

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives resulted from business combinations and were as follows:

in TEUR	31 Dec 2010	31 Dec 2009
Area EMEA cash-generating unit		
MBB brand	5,840	5,840
Area North America (excl. ETI) cash-generating unit		
Dealer network	6,135	5,672
OMAHA STANDARD brand	1,673	1,547
American Roll-off brand	520	481
ETI cash-generating unit		
ETI brand	4,298	0
Total	**18,466**	**13,540**

No need for impairment was determined when testing intangible assets with indefinite useful lives for impairment.

AREA EMEA CASH-GENERATING UNIT

The recoverable amount of the area EMEA cash-generating unit was determined by calculating a value in use on the basis of an estimate of the future cash flows. Cash flow projections were based on the financial budgets prepared by management for a period of five years in line with strategic planning. The pre-tax discount rate applied to the future cash flows was 10.3 percent (previous year: 9.9 percent). As a result of the market position held for several years, the pre-tax discount rate used was (with the exception of the cash-generating units acquired in 2010) above that of the other cash-generating units. The cash flows generated after this five-year period were extrapolated at a constant rate.

The break-even interest rate of the area EMEA cash-generating unit is at 29.7 percent (previous year: 17.5 percent).

BUSINESS UNIT MARINE SYSTEMS CASH-GENERATING UNIT

The recoverable amount of the business unit Marine Systems cash-generating unit was also determined by calculating a value in use on the basis of an estimate of the future cash flows, made by management for a period of five years according to the principles mentioned above. The pre-tax discount rate applied to cash flow projections was 11.3 percent.

When performing the annual impairment test on the basis of medium-term planning by taking into account deduction for risk, no need for impairment was determined. The break-even interest rate of the business unit Marine Systems cash-generating unit is at 33.7 percent. This cash-generating unit was only created by acquisitions made in 2010, which means that no comparative data for the previous year are available.

AREA NORTH AMERICA (EXCL. ETI) CASH-GENERATING UNIT

The recoverable amount of the area North America (excl. ETI) cash-generating unit was also determined by calculating a value in use on the basis of an estimate of the future cash flows, made by management for a period of five years according to the principles mentioned above. The pre-tax discount rate applied to cash flow projections was 6.7 percent.

When performing the annual impairment test on the basis of medium-term planning by taking into account deduction for risk, no need for impairment was determined. The break-even interest rate of the area North America (excl. ETI) cash-generating unit is at 8.1 percent (previous year: 6.5 percent).

ETI CASH-GENERATING UNIT

The recoverable amount of the ETI cash-generating unit was also determined by calculating a value in use on the basis of an estimate of the future cash flows, made by management for a period of five years according to the principles mentioned above. The pre-tax discount rate applied to cash flow projections was 11.3 percent.

When performing the annual impairment test on the basis of medium-term planning by taking into account deduction for risk, no need for impairment was determined. The break-even interest rate of the ETI cash-generating unit is at 12.5 percent. This cash-generating unit was only created by the acquisition made in 2010, which means that no comparative data for the previous year are available.

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 wave planning based on the experience of the current year and the due-diligence reviews carried out. Discount rates reflect the expected returns broken down to the individual cash-generating units, based on the WACC of the previous year and the total interest yield expectations of the Group.

Development expenditure

In the 2010 financial year PALFINGER capitalised development expenditure in the amount of TEUR 3,596 (previous year: TEUR 4,804) as internally generated intangible assets. In addition, TEUR 100 in product developments that can be capitalised were identified in the course of the purchase price allocation of the ETI Group and the NDM Group.

In the 2010 financial year research and development expenses amounted to TEUR 16,132 (previous year: TEUR 13,219), corresponding to 2.6 percent (previous year: 2.6 percent) of total revenue.

Brands, customer base, and orders on hand

In the course of the allocation of the purchase price for the ETI Group, the NDM Group, and the Palfinger Marine Group, TEUR 13,793 were capitalised in orders on hand and customer base. The ETI brand in the amount of TEUR 4,233 is an intangible asset with an indefinite useful life.

Other intangible assets

Investments in other intangible assets amounted to TEUR 793 (previous year: TEUR 1,073) for concessions, patents, and licences.

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CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(22) PROPERTY, PLANT, AND EQUIPMENT

Changes in property, plant, and equipment were as follows:

TEUR	Land and buildings	Undeveloped land	Plant and machinery	Other plant, fixtures, fittings, and equipment	Prepayments and assets under construction	Total
Acquisition cost						
At 1 Jan 2009	**131,527**	**2,850**	**110,662**	**37,639**	**7,747**	**290,425**
Change in scope of consolidation	207	0	169	9	0	**385**
Additions	766	0	2,891	2,421	1,914	**7,992**
Government grants	0	0	440	147	39	**626**
Disposals	0	0	(1,277)	(1,257)	0	**(2,534)**
Reclassifications	973	0	4,189	679	(6,799)	**(958)**
Foreign currency translation	2,344	88	3,202	1,991	441	**8,066**
At 31 Dec 2009	**135,817**	**2,938**	**120,276**	**41,629**	**3,342**	**304,002**
At 1 Jan 2010	**135,817**	**2,938**	**120,276**	**41,629**	**3,342**	**304,002**
Change in scope of consolidation	3,893	458	3,184	5,847	2	**13,384**
Additions	6,389	0	3,741	2,922	1,530	**14,582**
Additional capitalisation	0	0	99	125	0	**224**
Disposals	(15)	0	(1,176)	(2,997)	(3)	**(4,191)**
Reclassifications	928	0	2,092	247	(2,530)	**737**
Foreign currency translation	2,379	(5)	2,242	400	173	**5,189**
At 31 Dec 2010	**149,391**	**3,391**	**130,458**	**48,173**	**2,514**	**333,927**
Accumulated depreciation and impairment						
At 1 Jan 2009	**26,772**	**0**	**49,007**	**17,769**	**0**	**93,548**
Depreciation	4,307	0	7,535	4,110	0	**15,952**
Disposals	0	0	(1,172)	(858)	0	**(2,030)**
Reclassifications	0	0	10	(10)	0	**0**
Foreign currency translation	1,088	0	2,455	1,012	0	**4,555**
At 31 Dec 2009	**32,167**	**0**	**57,835**	**22,023**	**0**	**112,025**
At 1 Jan 2010	**32,167**	**0**	**57,835**	**22,023**	**0**	**112,025**
Change in scope of consolidation	663	12	1,741	2,578	0	**4,994**
Depreciation	4,522	4	8,091	4,664	0	**17,281**
Additional capitalisation	0	0	99	125	0	**224**
Disposals	(4)	0	(1,135)	(1,715)	0	**(2,854)**
Reclassifications	113	0	0	0	0	**113**
Reclassifications to held for sale	0	0	0	1	2	**3**
Foreign currency translation	509	0	1,216	265	0	**1,990**
At 31 Dec 2010	**37,970**	**16**	**67,847**	**27,941**	**2**	**133,776**
Carrying amounts at 31 Dec 2009	**103,650**	**2,938**	**62,441**	**19,606**	**3,342**	**191,977**
Carrying amounts at 31 Dec 2010	**111,421**	**3,375**	**62,611**	**20,232**	**2,512**	**200,151**

The carrying amounts reported represent carrying amounts depreciated through use, which are acquisition costs minus accumulated depreciation. The net value of property, plant, and equipment in the amount of TEUR 200,151 (previous year: TEUR 191,977) went up by TEUR 8,174 or 4.3 percent compared to 2009.

In the 2010 financial year investment in property, plant, and equipment totalled TEUR 14,582 (previous year: TEUR 7,992). Additions resulted primarily from maintenance investments and real estate purchases for production facilities.

Land and buildings reflected the real estate values of developed properties amounting to TEUR 17,360 (previous year: TEUR 13,780).

Prepayments and assets under construction were reported at cost and represented assets which were under construction as of the balance sheet date, totalling TEUR 2,348 (previous year: TEUR 3,314).

As of 31 December 2010 there were no material contractual obligations regarding the acquisition of property, plant, and equipment.

No government grants (previous year: TEUR 231) according to IAS 20 were presented as reductions of cost in the 2010 financial year. Government grants are subject to certain obligations, which – at the time of giving the grants – are expected to be fulfilled. For those conditions that are probably not fulfilled, no additions (previous year: TEUR 630) were made to acquisition or production cost in the 2010 financial year.

(23) INVESTMENT PROPERTY

Investment property held by the Group was as follows:

TEUR	2010	2009
Acquisition cost		
At 1 Jan	**2,149**	**2,146**
Reclassifications	(767)	0
Foreign currency translation	(9)	3
At 31 Dec	**1,373**	**2,149**
Accumulated depreciation and impairment		
At 1 Jan	**1,053**	**1,010**
Depreciation	14	42
Reclassifications	(113)	0
Foreign currency translation	0	1
At 31 Dec	**954**	**1,053**
Carrying amounts at 31 Dec	**419**	**1,096**

As of 31 December 2010 the fair value of investment property, determined by expert opinions prepared internally, amounted to TEUR 719 (previous year: TEUR 1,555).

Rental income from the lease of investment property amounted to TEUR 65 (previous year: TEUR 138), and directly attributable operating expenses were TEUR 4 (previous year: TEUR 60).

(24) INVESTMENTS IN ASSOCIATED COMPANIES

The names of the companies included in the consolidated financial statements using the equity method are listed in the statement of investments.

TEUR	2010	2009
At 1 Jan	**15,726**	**13,633**
Additions	1,026	2,996
Share in the net result for the period	2,446	2,037
Dividends	(3,981)	(3,025)
Foreign currency translation	242	85
At 31 Dec	**15,459**	**15,726**

The tables below contain a summarised schedule of the financials for the associated companies included according to the equity method. In each case the information given refers to 100 percent and not the share held by PALFINGER in the associated companies.

TEUR	31 Dec 2010	31 Dec 2009
Non-current assets	8,173	7,971
Current assets	44,745	57,522
Non-current liabilities	1,443	1,563
Current liabilities	18,363	30,055

TEUR	Jan–Dec 2010	Jan–Dec 2009
Revenue	101,373	94,185
Result after income tax	5,984	5,333

(25) DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes comprised the following:

TEUR	31 Dec 2010	31 Dec 2009
Deferred tax assets		
Non-current assets		
Intangible assets – differences in tax measurement	83	94
Property, plant, and equipment – different useful lives	123	118
Non-current financial assets – financial asset write-downs not yet taxed	7,904	10,269
Other non-current assets	58	67
	8,168	**10,548**
Current assets		
Inventories – elimination of intercompany profits, differences in tax measurement of manufacturing costs	2,008	1,610
Trade receivables – differences in tax measurement of impairment losses	3,288	498
Other current assets – severance payments not yet taxed	602	594
	5,898	**2,702**
Non-current liabilities		
Non-current financial liabilities – lease liabilities	398	494
Non-current provisions – different recognition of employee benefits provisions IAS 19	3,489	3,089
of which deferred taxes directly recognised in equity	335	74
Other non-current liabilities	313	239
	4,200	**3,822**
Current liabilities		
Current financial liabilities – lease financing	455	498
of which deferred taxes directly recognised in equity	0	4
Current provisions – different recognition provisions for guarantee expenses	1,596	1,682
Trade payables and other current liabilities	706	638
	2,757	**2,818**
	21,023	**19,890**
Deferred tax liabilities		
Non-current assets		
Intangible assets – corporate acquisitions, development expenditure, capitalisation of goodwill	(10,713)	(8,353)
Property, plant, and equipment – different useful lives	(8,001)	(6,678)
Investment property	0	(25)
Non-current financial assets	0	(21)
of which deferred taxes directly recognised in equity	0	(21)
	(18,714)	**(15,077)**
Current assets		
Inventories – differences in tax measurement of manufacturing costs	(171)	(185)
Trade receivables – contract manufacturing (POC)	(420)	(205)
Other current assets – differences in tax measurement	(514)	(10)
of which deferred taxes directly recognised in equity	(21)	(3)
	(1,105)	**(400)**
Non-current liabilities		
Non-current financial liabilities – differences in tax measurement	(226)	(496)
Non-current provisions	(42)	(221)
of which deferred taxes directly recognised in equity	(21)	(206)
	(268)	**(717)**
Current liabilities		
Current financial liabilities	(6)	(12)
Guarantee expenses	(466)	(354)
	(472)	**(366)**
	(20,559)	**(16,560)**
Deferred tax assets on loss carry forwards	**16,216**	**10,835**
Deferred taxes	**16,680**	**14,165**
thereof		
deferred tax assets	31,858	25,535
deferred tax liabilities	(15,178)	(11,370)

Deferred tax assets amounted to TEUR 31,858 (previous year: TEUR 25,535). TEUR 16,216 (previous year: TEUR 10,835) of this amount were deferred tax assets recognised on tax-loss carry forwards, and deferred taxes directly recognised in equity amounted to TEUR 61 (previous year: TEUR – 106).

Deferred tax liabilities in the amount of TEUR 15,178 (previous year: TEUR 11,370) included TEUR – 232 (previous year: TEUR 46) of deferred taxes directly recognised in equity.

The following table presents deferred taxes broken down by country:

TEUR	31 Dec 2010	31 Dec 2009
Austria	6,151	12,324
Belgium	1	0
Brazil	2,516	2,126
Bulgaria	160	394
Canada	1,003	824
China	151	127
Croatia	(19)	(20)
France	3,664	234
Germany	1,965	2
Great Britain	(99)	(949)
Italy	16	3
Netherlands	(2,015)	0
Singapore	8	10
Slovakia	1	2
Slovenia	1,436	85
USA	1,741	(997)
Total	**16,680**	**14,165**

Tax-loss carry forwards comprised the following:

	Non-capitalised loss carry forwards		Capitalised loss carry forwards	
TEUR	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Loss carry forwards subject to expiry				
within one year	655	0	26	0
within two years	0	0	350	25
within three years	911	0	15	330
within four years	587	909	0	644
within five years	365	597	565	2,230
in more than five years	2,348	2,366	18,606	12,918
Loss carry forwards not subject to expiry	19,941	35,677	30,438	18,609
Total	**24,807**	**39,549**	**50,000**	**34,756**

In the 2010 financial year no impairment losses (previous year: TEUR 6,131) were recognised on deferred taxes on loss carry forwards.

(26) NON-CURRENT FINANCIAL ASSETS

Non-current financial assets comprised the following:

TEUR	31 Dec 2010	31 Dec 2009
Loans	1,581	550
Securities	1,093	924
Other interests	1	1
Derivative financial instruments	119	346
Total	**2,794**	**1,821**

Securities comprise shares in investment funds and bonds. The performance of securities is illustrated in Note (36) Valuation reserves pursuant to IAS 39.

(27) OTHER NON-CURRENT ASSETS

Other non-current assets were the following:

TEUR	31 Dec 2010	31 Dec 2009
Employer's pension liability insurance contributions	2,221	2,563
Deferred expenses	3	8
Other non-current assets	18	16
Total	**2,242**	**2,587**

Employer's pension liability insurance contributions pertain to repurchase rights for life insurance policies which do not meet the criteria for being offset against pension provisions in accordance with IAS 19.

(28) INVENTORIES

Inventories comprised the following:

TEUR	31 Dec 2010	31 Dec 2009
Materials and production supplies	62,645	60,101
Work in progress	42,760	43,005
Finished goods and goods for resale	53,607	44,899
Prepayments	742	700
Total	**159,754**	**148,705**

TEUR 1,126 (previous year: TEUR 957) of inventories were valued at net realisable value.

In the 2010 financial year TEUR 1,968 (previous year: TEUR 2,290) of inventories were impaired and recognised as cost of material.

(29) TRADE RECEIVABLES

Trade receivables are as follows:

TEUR	31 Dec 2010	31 Dec 2009
Receivables from contract manufacturing	1,536	0
Invoiced receivables	108,975	80,196
Total	**110,511**	**80,196**

In 2010 customised orders in the case of which the prerequisites for revenue recognition according to the percentage-of-completion method are met were carried out for the first time. The schedule of costs and profits is shown below:

TEUR	31 Dec 2010	31 Dec 2009
Costs incurred for contract manufacturing	710	0
Plus profits previously recognised	826	0
Minus losses previously recognised	0	0
Advances received	0	0
Receivables from contract manufacturing	**1,536**	**0**

Based on experience, allowances for doubtful debts were made in the amount of TEUR 6,972 (previous year: TEUR 7,762) to take into account insolvency risks. These allowances were the following:

	Specific bad-debt allowances		Standardised bad-debt allowances	
TEUR	2010	2009	2010	2009
At 1 Jan	**4,840**	**2,817**	**2,922**	**2,188**
Change in scope of consolidation	0	31	1,013	92
Allocation	1,049	2,296	568	1,434
Use	(244)	(485)	(181)	0
Reversal	(2,067)	(281)	(222)	(383)
Reclassification	198	411	(199)	(411)
Foreign currency translation	115	51	(820)	2
At 31 Dec	**3,891**	**4,840**	**3,081**	**2,922**

(30) OTHER CURRENT ASSETS

Other current assets are illustrated in the following table:

TEUR	31 Dec 2010	31 Dec 2009
Derivative financial instruments	359	0
Receivables relating to social security and other taxes	4,243	5,876
Other receivables	3,110	4,114
Deferred expenses	2,143	2,056
Securities	38	71
Total	**9,893**	**12,117**

(31) CASH AND CASH EQUIVALENTS

Cash in hand and cash at bank are included in the item funds recognised in the consolidated statement of cash flows. Cash and cash equivalents comprised the following:

TEUR	31 Dec 2010	31 Dec 2009
Cash in hand	431	642
Cash at bank	15,434	32,431
Total	**15,865**	**33,073**

As of 31 December 2010 there were no restraints on the disposal over funds.

(32) SHARE CAPITAL

The Company's share capital is divided into 35,730,000 (previous year: 35,730,000) no-par-value shares. All shares issued have been paid up in full.

The movements in shares outstanding are shown below:

Shares	2010	2009
At 1 Jan	**35,402,000**	**35,354,000**
Exercise of stock option	0	48,000
At 31 Dec	**35,402,000**	**35,402,000**

(33) ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital comprises appropriated and non-appropriated additional paid-in capital as well as reserves pursuant to IFRS 2.

Reserve pursuant to IFRS 2

The fair value of the options granted within the framework of the stock option programme is recognised as employee benefits expenses over the vesting period. The reserve pursuant to IFRS 2 reflects accumulated employee benefits expenses up to 31 December 2010. When the stock options expire, they will be set off against retained earnings.

The reserve pursuant to IFRS 2 is as follows:

TEUR	2010	2009
At 1 Jan	**39**	**83**
Allocation	60	41
Use	0	(85)
Reversal	0	0
At 31 Dec	**99**	**39**

Stock options are illustrated in the following table:

Number of stock options	2010	2009
At 1 Jan	**250,000**	**12,000**
Options granted	50,000	250,000
Options exercised	0	12,000
At 31 Dec	**300,000**	**250,000**

(34) TREASURY STOCK

As of 31 December 2010 holdings of treasury stock amounted to 328,000 shares (previous year: 328,000 shares).

(35) RETAINED EARNINGS

Retained earnings were as follows:

TEUR	31 Dec 2010	31 Dec 2009
Accumulated actuarial gains and losses pursuant to IAS 19	(894)	411
Consolidated net result for the period	24,225	(7,823)
Retained earnings from previous years	231,064	238,865
Total	**254,395**	**231,453**

Earnings per share

Pursuant 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 2010 financial year the weighted average number of shares outstanding amounted to 35,402,000 shares (previous year: 35,390,264 shares).

On the basis of the consolidated net result for the period in the amount of TEUR 24,225 (previous year: TEUR – 7,823) undiluted earnings per share were EUR 0.68 (previous year: EUR – 0.22). Due to the low dilutive effect of the stock option programme, diluted earnings per share were identical with undiluted earnings per share.

Dividend per share

In the Annual General Meeting on 30 March 2011 it will be proposed to distribute a dividend in the amount of EUR 0.22 per share or TEUR 7,788 (previous year: EUR 0.00 per share or TEUR 0).

(36) VALUATION RESERVES PURSUANT TO IAS 39

The valuation reserves pursuant to IAS 39 are illustrated in the following table:

TEUR	31 Dec 2010	31 Dec 2009
Cash flow hedging reserve	(444)	(370)
Reserve for AFS securities	0	7
Total	**(444)**	**(363)**

The cash flow hedging reserve and the reserve for securities classified as available for sale are illustrated in the statement of comprehensive income.

(37) NON-CURRENT FINANCIAL LIABILITIES

Deferred interest expenses are contained in current financial liabilities.

The average interest rate is the average interest burden in percent relating to the average carrying amount in the 2010 financial year, after interest and currency hedging have been taken into account. In 2010 this value amounted to 4.9 percent (previous year: 4.8 percent).

(38) NON-CURRENT PROVISIONS

The following table shows non-current provisions:

TEUR	31 Dec 2010	31 Dec 2009
Pension provisions	6,402	5,772
Provisions for severance payments	11,136	9,438
Anniversary bonus provisions	3,084	2,493
Other non-current provisions	20,015	4,262
Total	**40,637**	**21,965**

Pension Provisions

PALFINGER is committed by the terms of individual contracts with certain employees to provide supplementary retirement pensions payable after their retirement. The amount of these pensions is calculated on the basis of length of service and remuneration at the time of retirement.

TEUR	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Net present value of defined benefit obligation	6,402	5,772	5,160	4,675	2,641
Fair value of plan assets	0	0	(68)	(61)	0
Pension provisions	**6,402**	**5,772**	**5,092**	**4,614**	**2,641**

TEUR	2010	2009
Net present value of defined benefit obligation as of 1 Jan	**5,772**	**5,160**
Change in basis of consolidation	0	0
Current service cost	122	98
Interest cost	296	302
Actuarial gains (–)/losses (+)	575	407
Benefits paid	(364)	(195)
Net present value of defined benefit obligation as of 31 Dec	**6,402**	**5,772**

Experience adjustments of pension provisions amounted to TEUR 41 (2009: TEUR 44; 2008: TEUR 77; 2007: TEUR 78).

100 percent of plan assets were composed of employer's pension liability insurance policies for a pension plan in Germany that expired in the 2009 financial year and were paid out to the Company.

TEUR	2010	2009
Fair value of plan assets as of 1 Jan	**0**	**68**
Expected return on plan assets	0	2
Employer contributions	0	0
Pension payments	0	(70)
Fair value of plan assets as of 31 Dec	**0**	**0**

Net pension cost resulting from defined benefit plans are comprised as follows:

TEUR	Jan–Dec 2010	Jan–Dec 2009
Employee benefits expenses		
Current service cost	(122)	(98)
Interest income		
Expected return on plan assets	0	2
Interest expense		
Interest cost	(296)	(302)
Net pension cost	**(418)**	**(398)**

Valuation was based on the following parameters:
- Age of retirement: 65 years (previous year: 65 years)
- Interest rate: 4.5 percent p.a. (previous year: 5.25 percent p.a.)
- Pension increase: 1.5 percent p.a. (previous year: 1.5 percent p.a.)

The calculation of pension provisions was performed on 31 December 2010 using actuarial principles and taking into account the calculation rules under IAS 19. The obligations are valued 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 according to German social security pension insurance, using the mortality tables "Richttafeln 2005 G".

Provision 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.

TEUR	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Net present value of defined benefit obligation	11,136	9,438	11,000	13,081	10,022

TEUR	2010	2009
Net present value of defined benefit obligation as of 1 Jan	**9,438**	**11,000**
Change in basis of consolidation	0	(49)
Current service cost	567	741
Interest cost	479	649
Actuarial gains (–)/losses (+)	1,185	(2,029)
Benefits paid	(533)	(874)
Net present value of defined benefit obligation as of 31 Dec	**11,136**	**9,438**

Experience adjustments of provisions for severance payments amounted to TEUR – 58 (2009: TEUR 953; 2008: TEUR – 601; 2007: TEUR 647).

Net cost for severance payments resulting from defined benefit plans are comprised as follows:

TEUR	Jan–Dec 2010	Jan–Dec 2009
Employee benefits expenses		
Current service cost	(567)	(741)
Interest expense		
Interest cost	(479)	(649)
Net cost for severance payments	**(1,046)**	**(1,390)**

Valuation was based on the following parameters:
• Interest rate: 4.5 percent p.a. (previous year: 5.25 percent p.a.)
• Salary increases: 3.0 percent p.a. (previous year: 3.0 percent p.a.)
• Staff turnover discount: 2.0 percent p.a. (previous year: 2.0 percent p.a.)

Changes in the interest rate were based on the re-evaluation necessitated by the changed economic environment.

In the case of employees in Austria whose employment commenced after 1 January 2003 this obligation is 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 percent of the remuneration paid.

Anniversary bonus provisions

Provisions for anniversary bonuses derived from collective bargaining and/or company agreements were calculated using the same parameters as for the provision for severance payments.

The following table shows the changes in anniversary bonus provisions:

TEUR	2010	2009
At 1 Jan	**2,493**	**2,665**
Time value of money	128	157
Use	(18)	(109)
Allocation/Reversal	481	(220)
Net cost for anniversary bonuses	**591**	**(172)**
At 31 Dec	**3,084**	**2,493**

Other non-current provisions

The changes in other non-current provisions are shown in the following table:

TEUR	2010	2009
At 1 Jan	**4,262**	**3,536**
Allocation	19,087	1,042
Time value of money	0	252
Use	(220)	(652)
Reversal	(3,318)	0
Foreign currency translation	204	84
At 31 Dec	**20,015**	**4,262**

The entire allocation to these provisions made in the 2010 financial year results from the portion of the purchase price for the acquisition of the Palfinger Marine Group that has not yet fallen due. The outstanding portion of the purchase price will become due and payable 30 days after the resolution on the financial statements of PALFINGER AG for the 2015 financial year has been passed, however, no later than on 30 June 2016. Further details can be found under "Acquisitions made in 2010". The reversal made in the 2010 financial year primarily results from the reversal of the provision for the portion of the purchase price for the acquisition of Omaha Standard, Inc., USA, that has not yet fallen due.

(39) OTHER NON-CURRENT LIABILITIES

Other non-current liabilities primarily relate to severance-type obligations as well as performance-related claims by employees of foreign Group companies.

(40) CURRENT PROVISIONS

Changes in current provisions are illustrated in the following:

TEUR	2010	2009
At 1 Jan	**12,926**	**19,386**
Change in scope of consolidation	783	0
Allocation	3,677	3,317
Time value of money	0	0
Use	(5,096)	(9,316)
Reversal	(697)	(1,033)
Reclassification	709	0
Foreign currency translation	(634)	572
At 31 Dec	**11,668**	**12,926**

Current provisions cover primarily provisions for employee benefits expenses that have not yet fallen due of TEUR 79 (previous year: TEUR 94) as well as guarantees and warranties of TEUR 10,614 (previous year: TEUR 11,904).

(41) TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables and other current liabilities are broken down as follows:

TEUR	31 Dec 2010	31 Dec 2009
Trade payables	55,945	35,162
Liabilities to associated companies	634	445
Advances received on orders	5,153	1,989
Liabilities on accepted bills of exchange	4	18
Liabilities to employees	14,635	10,473
Liabilities relating to social security and other taxes	9,902	7,018
Other liabilities	3,639	3,384
Deferred income	354	256
Total	**90,266**	**58,745**

Liabilities to employees in the amount of TEUR 14,635 (previous year: TEUR 10,473) include deferrals for unused vacation time, incentive bonuses, and compensatory time off, as well as wage and salary expenditures payable.

Other liabilities totalling TEUR 3,639 (previous year: TEUR 3,384) primarily relate to deferrals for insurance premiums and performance-related bonuses.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(42) REVENUE

TEUR	Jan–Dec 2010	Jan–Dec 2009
European Union	419,220	369,031
Rest of Europe	27,390	17,818
North America	105,051	59,785
Central and South America	51,009	30,510
Middle and Near East	10,376	6,442
Far East	19,055	10,132
Oceania	11,893	7,297
Africa	7,799	4,350
Total	**651,793**	**505,365**

TEUR	Jan–Dec 2010	Jan–Dec 2009
Revenue invoiced	650,257	505,365
Revenue from contract manufacturing	1,536	0
Total	**651,793**	**505,365**

(43) CHANGES IN INVENTORIES AND OWN WORK CAPITALISED

TEUR	Jan–Dec 2010	Jan–Dec 2009
Changes in inventories	(3,329)	(11,588)
Own work capitalised		
Capitalised development expenses	3,596	4,804
Other own work capitalised	75	298
Total	**342**	**(6,486)**

Changes in inventories consist of changes in inventories of finished goods and work in progress compared to 2009.

(44) OTHER OPERATING INCOME

TEUR	Jan–Dec 2010	Jan–Dec 2009
Income from the disposal of intangible assets and property, plant, and equipment	189	40
Income from the reversal of provisions	3,309	0
Exchange rate differences	2,368	3,178
Rental income	361	324
Government research grants	745	753
Income from charges for services	3,536	2,722
Insurance income	862	313
Negative differences from initial consolidations	0	1,026
Miscellaneous other operating income	2,897	4,159
Total	**14,267**	**12,515**

(45) MATERIALS AND EXTERNAL SERVICES

TEUR	Jan–Dec 2010	Jan–Dec 2009
Cost of materials	(321,800)	(251,682)
Cost of external services	(15,484)	(10,966)
Total	**(337,284)**	**(262,648)**

For details on the impairment loss of inventories reported under cost of materials see Note (28) Inventories.

(46) EMPLOYEE BENEFITS EXPENSES

TEUR	Jan–Dec 2010	Jan–Dec 2009
Wages and salaries	(138,083)	(111,134)
Expenses for severance payments	(1,436)	(1,785)
Pension expenses	(1,526)	(1,420)
Expenses for statutory social security contributions and other pay-related contributions	(29,477)	(27,056)
Other employee benefits	(8,200)	(7,782)
Total	**(178,722)**	**(149,177)**

Expenses for severance payments include payments made to external severance pay funds for employees in the amount of TEUR 318 (previous year: TEUR 311).

Employee benefits expenses of TEUR 60 (previous year: TEUR 41) were reported in the 2010 financial year relating to the granting of stock options as part of the stock option programme and in accordance with IFRS 2.

(47) DEPRECIATION, AMORTISATION, AND IMPAIRMENT EXPENSES

TEUR	Jan–Dec 2010	Jan–Dec 2009
Depreciation and amortisation	(22,739)	(20,649)
Impairment	0	(817)
Total	**(22,739)**	**(21,466)**

Changes in depreciation, amortisation, and impairment are discussed in detail in Note (21) Intangible assets and Note (22) Property, plant, and equipment.

(48) OTHER OPERATING EXPENSES

TEUR	Jan–Dec 2010	Jan–Dec 2009
Taxes other than those on income	(2,242)	(255)
Losses on the disposal of intangible assets and property, plant, and equipment	(109)	(307)
Guarantees and warranties	(8,561)	(14,496)
Trade fairs, distribution, and marketing	(6,477)	(4,614)
Consultancy services	(8,940)	(6,733)
Rentals and leases	(8,196)	(7,537)
Repairs and maintenance	(5,616)	(4,443)
Travel and communications	(9,852)	(7,731)
Losses on receivables and impairment losses	1,341	(3,215)
Insurance	(2,573)	(2,334)
Temporary workers and other third-party services	(12,743)	(8,906)
Outgoing freight costs	(10,364)	(7,845)
Vehicle fleet	(3,181)	(2,870)
Commissions	(2,357)	(1,833)
Currency translation differences	(2,731)	(3,087)
Licences	(2,008)	(1,812)
Office supplies and computer expendables	(1,076)	(647)
Bank charges	(562)	(603)
Miscellaneous other operating expenses	(6,708)	(3,855)
Total	**(92,955)**	**(83,123)**

Fees charged by the auditor

For services provided in the 2010 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 have been recognised as expenses:

TEUR	Jan–Dec 2010	Jan–Dec 2009
Audit of the consolidated financial statements and related certification services (including reviews)	(701)	(643)
Tax advice	(39)	(33)
Other services	(67)	(38)
Total	**(807)**	**(714)**

(49) INTEREST EXPENSE

TEUR	Jan–Dec 2010	Jan–Dec 2009
Interest expense	(9,889)	(10,196)
Interest expense from finance lease	(98)	(166)
Interest component of social capital	(909)	(1,079)
Total	**(10,896)**	**(11,441)**

(50) INCOME TAX EXPENSE

The rate of corporation tax applicable to the PALFINGER AG parent company remained at 25 percent, which is the same rate as the previous year.

With the passing of the 2005 Tax Reform Act (Steuerreformgesetz 2005) the Austrian lawmaker enabled companies to establish corporate tax groups. Following the offsetting against loss carry forwards from periods prior to the formation of the groups, taxable results of the companies belonging to the individual groups are assigned to the leading corporation of each tax group. To offset passed-on taxable results, taxes are apportioned – based on the stand-alone method (fictitious treatment of group members as taxable entities) – according to the group agreements.

TEUR	Jan–Dec 2010	Jan–Dec 2009
Effective income tax expense (–)/income (+)	(6,312)	(1,642)
thereof from previous years	176	504
Deferred tax expense (–)/income (+)	3,756	6,749
thereof from previous years	0	205
thereof from the recognition of loss carry forwards from previous years	3,103	0
thereof due to tax rate changes	(38)	15
thereof from the adjustment of tax-loss carry forwards	0	(6,131)
Total	**(2,556)**	**5,107**

An income tax rate of 25 percent was employed for the calculation of tax deferrals for companies based in Austria, and respective local rates were applied for companies located abroad.

The Group's effective tax rate in relation to the result before income tax was 8.6 percent (previous year: 43.1 percent).

TEUR	Jan–Dec 2010	Jan–Dec 2009
Result before income tax	29,833	(11,860)
Income tax expense	(2,556)	5,107
Effective tax rate	**8.6%**	**43.1%**

Calculation of the Effective Tax Rate

The difference between the book income tax expense (profit before tax multiplied by the national tax rate of 25 percent) and the effective income tax expense in the 2010 financial year, as shown in the consolidated income statement, is calculated as follows:

TEUR	31 Dec 2010	31 Dec 2009
Result before income tax	**29,833**	**(11,860)**
Tax rate payable by the Group	25.0%	25.0%
Book income tax expense	**7,458**	**(2,965)**
Adjustment to foreign tax rates	(1,631)	(859)
Tax-reducing factors		
Research and education allowances	(314)	(287)
Tax rate changes	(177)	(130)
Tax-free income from investments	(859)	(788)
Other income not subject to tax	(753)	(508)
Utilisation of previously unrecognised tax losses	(3,103)	0
Income tax income from previous years	(303)	(1,012)
Valuation of investment	0	(5,779)
Tax-increasing factors		
Tax rate changes	214	115
Non-capitalised loss carry forwards	1,565	0
Non-tax-deductible expenses	302	672
Minimum taxes	29	0
Income tax expense from previous years	127	303
Impairment expenses on deferred taxes	0	6,131
Income tax expense	**2,556**	**(5,107)**

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The presentation of the statement of cash flows is based on the indirect method. The item funds corresponds to cash and cash equivalents of the balance sheet.

Income taxes paid in the amount of TEUR 3,827 (previous year: TEUR 2,093) are shown as a separate item under cash flows from operating activities. Dividends received as well as interest received and paid are also reported under cash flows from operating activities. In the 2010 financial year, cash flows from dividend payments came to TEUR 0 (previous year: TEUR 17,288).

In the 2010 financial year there were no non-cash additions of non-current assets from finance leases.

FINANCIAL INSTRUMENTS

The reconciliation of the carrying amounts for each category under IAS 39 to fair values is shown in the following table:

			Measured acc. to IAS 17	Measured acc. to IAS 39						
						At fair value				
				At amortised cost		Recognised in other comprehensive income		Recognised in the income statement		
TEUR	Carrying amount 31 Dec 2009	No financial instrument	At amortised cost	Loans and receivables	At amortised cost	Available for sale	Hedging derivatives	Held for trading	Carrying amounts of financial instruments 31 Dec 2009	Fair value of financial instruments 31 Dec 2009
Non-current assets										
Non-current financial assets	1,821	0	0	550	1	924	0	346	1,821	1,821
thereof										
Level 1 fair value							0	0		
Level 2 fair value					1	924	0	346		
Current assets										
Trade receivables	80,196	0	0	80,196	0	0	0	0	80,196	80,196
Other current assets	12,117	7,932	0	4,114	0	71	0	0	4,185	4,185
thereof										
Level 1 fair value						0	0	0		
Level 2 fair value						71	0	0		
Cash and cash equivalents	33,073	0	0	33,073	0	0	0	0	33,073	33,073
Non-current liabilities										
Non-current financial liabilities	127,420	0	7,681	0	119,739	0	0	0	127,420	128,899
Other non-current liabilities	2,566	930	0	0	1,636	0	0	0	1,636	1,636
Current liabilities										
Current financial liabilities	59,078	0	736	0	57,763	0	494	85	59,078	59,078
thereof										
Level 2 fair value							494	85		
Trade payables and other current liabilities	58,745	19,736	0	0	39,009	0	0	0	39,009	39,009

			Measured acc. to IAS 17	Measured acc. to IAS 39						
						At fair value				
				At amortised cost		Recognised in other comprehensive income		Recognised in the income statement		
TEUR	Carrying amount 31 Dec 2010	No financial instrument	At amortised cost	Loans and receivables	At amortised cost	Available for sale	Hedging derivatives	Held for trading	Carrying amounts of financial instruments 31 Dec 2010	Fair value of financial instruments 31 Dec 2010
Non-current assets										
Non-current financial assets	2,794	0	0	1,581	1	1,093	0	119	2,794	2,794
thereof										
Level 1 fair value							0	0		
Level 2 fair value					1	1,093	0	119		
Current assets										
Trade receivables	110,511	1,536	0	108,975	0	0	0	0	110,511	110,511
Other current assets	9,893	6,386	0	3,110	0	38	0	359	3,507	3,507
thereof										
Level 1 fair value						0	0	0		
Level 2 fair value						38	0	359		
Cash and cash equivalents	15,865	0	0	15,865	0	0	0	0	15,865	15,865
Non-current liabilities										
Non-current financial liabilities	123,562	0	7,315	0	116,247	0	0	0	123,562	125,045
Other non-current liabilities	4,461	4,461	0	0	0	0	0	0	0	0
Current liabilities										
Current financial liabilities	55,947	0	0	0	55,196	0	661	90	55,947	55,947
thereof										
Level 2 fair value							661	90		
Trade payables and other current liabilities	90,266	30,044	0	0	60,222	0	0	0	60,222	60,222

Level 1 fair values are based on quoted prices at the reporting date. Level 2 fair values are measured internally using acknowledged calculation models on the basis of market interest rates of identical assets with the same duration and implicit volatilities.

In the 2010 financial year income from the disposal of securities amounted to TEUR 24 (previous year: TEUR 133).

FINANCIAL RISKS

The main focus of PALFINGER, in accordance with its own treasury guidelines, is on minimising financial risks, which are individually enumerated in the following.

1. LIQUIDITY RISK

Liquidity risk is the risk arising from the necessity to have sufficient funds available at any time in order to meet obligations when they come due. Group-wide cash reporting ensures the necessary transparency in order to be able 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.

In order to extend the maturities of the financial liabilities, the acquisitions carried out in 2010 were also refinanced through long-term loans. These facilities have a maturity of five years.

Another component to ensure liquidity was to maintain long-term credit lines with PALFINGER's banking partners. Long-term credit limits were obtained with maturities of up to four years. At present no long-term credit limits are being utilised.

The contractual remaining time to maturity of undiscounted cash flows is broken down as follows:

TEUR	31 Dec 2009	< 1 year	1–5 years	> 5 years
Financial liabilities	**202,441**	**64,820**	**132,720**	**4,901**
Trade payables and other liabilities				
Trade payables	35,312	35,162	150	0
Other liabilities	5,183	3,847	1,261	75
	40,495	**39,009**	**1,411**	**75**
Total	**242,936**	**103,829**	**134,131**	**4,976**

TEUR	31 Dec 2010	< 1 year	1–5 years	> 5 years
Financial liabilities	**192,958**	**61,905**	**124,712**	**6,341**
Trade payables and other liabilities				
Trade payables	56,108	55,945	163	0
Other liabilities	4,277	4,277	0	0
	60,385	**60,222**	**163**	**0**
Total	**253,343**	**122,127**	**124,875**	**6,341**

Liquidity that is not used for a certain period of time is held in the form of a cash reserve. These funds are invested for a short term as time deposits. The best possible credit rating of the investment banks is an important criterion; in addition, liquidity is distributed to different banks in order to spread the risk.

2. CREDIT RISK

Credit risk is the risk of loss due to a contracting party's default in payment or non-payment. The Group is countering this risk by establishing internal limits for contracting parties – determined through internal solvency analyses – and taking out adequate insurance. Credit risk is limited to the items reported in their balance sheets.

A standardised specific bad-debt allowance was recognised for all receivables overdue.

The following is a breakdown of trade receivables overdue:

TEUR	31 Dec 2010	31 Dec 2009
Receivables not due	**83,951**	**56,759**
Receivables impaired		
Overdue for less than 30 days	15,602	8,950
Overdue for more than 30 days but less than 60 days	5,035	3,527
Overdue for more than 60 days but less than 90 days	1,210	1,688
Overdue for more than 90 days but less than 120 days	651	1,497
Overdue for more than 120 days	4,062	7,775
Total	**110,511**	**80,196**

Other receivables do not include any receivables overdue. In the case of receivables not due there is no indication of bad-debt losses.

When investing funds, only investment banks with the best possible credit ratings are chosen. Credit risk is limited to the items reported in their balance sheets.

3. FOREIGN EXCHANGE RISK

Foreign exchange risk is a form of risk that arises from the change in price of one currency against another. 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 minimised through natural hedges. The resulting foreign exchange exposure is hedged using adequate hedging instruments. Cash generated from operations is hedged by means of foreign exchange forwards (cash flow hedges).

The supply of finished products and components from Europe to North America creates a risk position in US dollars 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.

The Group's foreign exchange positions and hedges are constantly monitored, analysed with regard to the risk sensitivity of the Group and subject to stress testing. An increase in value of the US dollar as of 31 December 2010 of 10 percent would have decreased equity (presentation of the cash flow hedge) by another TEUR 730 (previous year: TEUR 316); a decrease in value of 10 percent would have increased equity by TEUR 629 (previous year: TEUR 258).

Foreign exchange differences in the individual financial statements were reported in earnings before interest and taxes (EBIT) and/or the net financial result, depending on their cause.

4. INTEREST RATE RISK

Changing interest rates have an impact on the economic value of financial instruments (in particular when interest rates are fixed for a long term) and 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 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 fixed.

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 in the amount of EUR 38.5 million and by interest rate caps in the amount of EUR 50.0 million.

The sensitivity analysis is made on the basis of PALFINGER's floating-interest financial liabilities. A hypothetic increase in floating interest rates by 100 base points or one percentage point per year would raise PALFINGER's interest expenses by TEUR 601.

HEDGING

HEDGING FOR FUTURE CASH FLOWS (CASH FLOW HEDGE)

The revenue generated in North America is invoiced in US dollars. The resulting foreign exchange exposure is hedged through forward exchange forwards.

The sale of US dollars in foreign exchange forwards constitutes a hedge against the income from operations in US dollars. The result of the underlying transaction 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.

The existing interest rate swap is a 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.

	Currency	Nominal amount in transaction currency		Mark-to-market valuation	
TEUR		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Forward foreign exchange contracts	USD	9,000	6,300	17	(127)
Currency swaps	USD	0	496	0	0
Interest rate swaps		38,500	38,500	(678)	(367)
Total				**(661)**	**(494)**

The market value of hedges is reported as a cash flow hedge pursuant to IAS 39. Valuation gains or losses as of the balance sheet date are to be directly recognised in equity. As soon as the underlying transactions are carried out, the accumulated gains/losses are reversed from other comprehensive income and recognised in the income statement.

Any amounts relating to cash flow hedges that were recorded in other comprehensive income and those realised are illustrated in the statement of comprehensive income.

HEDGING OF FUNDS (HELD FOR TRADING)

Swaps which the Group uses for the hedging of funds and 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 derivative financial instruments are recognised in the income statement.

The interest rate caps entered into put an upper limit on floating-interest payments. If the market interest rate exceeds a level of six percent, PALFINGER will receive a payment from its counterparty, thus limiting interest expenses. The cap is designed as protection in a worst-case scenario of inflation.

TEUR	Currency	Nominal amount in transaction currency 31 Dec 2010	Nominal amount in transaction currency 31 Dec 2009	Mark-to-market valuation 31 Dec 2010	Mark-to-market valuation 31 Dec 2009
Currency swaps					
	USD	20,000	0	255	0
	GBP	1,980	1,678	14	(3)
Interest rate caps		50,000	50,000	119	264
Total				**388**	**261**

Valuation gains/losses from derivatives held for trading amount to TEUR 388 (previous year: TEUR 261) and are reported under exchange rate differences in the net financial result.

OTHER DISCLOSURES

DISCLOSURES OF BUSINESS TRANSACTIONS WITH RELATED PARTIES

At PALFINGER related parties are broken down into associated companies, key management, and other related parties. The associated companies 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 key management and businesses controlling associated companies.

All transactions with associated companies and with enterprises controlling associated companies were carried out for the provision of goods and services. Transactions carried out with key management and other related parties result from the delivery of goods and provision of consultancy services.

Transactions with related parties are carried out in observance of the arm's length principle.

TEUR	Associated companies 31 Dec 2010	Associated companies 31 Dec 2009	Key management 31 Dec 2010	Key management 31 Dec 2009	Other 31 Dec 2010	Other 31 Dec 2009
Receivables	5,814	5,444	0	0	125	2,376
Liabilities	634	445	21	11	854	323
Provisions	0	0	0	0	19,087	0
Revenue	39,778	29,361	0	0	3,017	3,939
Other operating income	39	176	0	0	85	115
External services	0	(2)	(124)	(88)	(1,793)	(1,346)
Materials	(4,528)	(2,976)	0	0	(5)	(517)
Interest income	14	118	0	0	30	56
Interest expenses	0	0	0	0	0	0

Receivables from associated companies included trade receivables in the amount of TEUR 4,991 (previous year: TEUR 4,894).

TEUR 631 (previous year: TEUR 337) of the liabilities due to associated companies in the amount of TEUR 634 (previous year: TEUR 445) resulted from the provision of goods and services.

The other provisions in the amount of TEUR 19,087 primarily result from the portion of the purchase price for the acquisition of the Palfinger Marine Group that has not yet fallen due. Further details can be found in "Acquisitions made in 2010".

OTHER LIABILITIES AND RISKS

OPERATING LEASE

Liabilities for the use of assets not recognised in the balance sheet will presumably amount to TEUR 2,118 (previous year: TEUR 2,760) for the 2011 financial year and TEUR 5,698 (previous year: TEUR 6,871) for the following four years.

FINANCE LEASE

The carrying amounts of property, plant, and equipment leased under finance lease agreements amounted to TEUR 10,772 (previous year: TEUR 11,603) as of the balance sheet date. The property, plant, and equipment leased are buildings and equipment as well as a company aircraft. The pertaining lease liabilities are carried under non-current or current financial liabilities in accordance with their durations.

	Minimum lease payments		Present value of finance lease liabilities	
TEUR	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Up to one year	793	849	716	736
Between one and five years	3,117	3,566	2,932	3,323
More than five years	4,392	4,403	4,383	4,358
Total	**8,302**	**8,818**	**8,031**	**8,417**
Minus any future finance costs	(271)	(401)		
Present value of finance lease liabilities	**8,031**	**8,417**		

KEY EVENTS AFTER THE BALANCE SHEET DATE

After the end of the 2010 financial year there have been no material post-reporting events that would require disclosure.

DISCLOSURES CONCERNING GOVERNING BODIES AND EMPLOYEES

EMPLOYEES

The average number of employees in the Group (including the Management Board) during the financial year was 4,671 (previous year: 4,517). At the balance sheet date there were 5,045 Group employees (previous year: 4,370).

SUPERVISORY BOARD

In the 2010 financial year the following individuals were either appointed, or delegated by the Works Council, to serve on the Supervisory Board:

- Alexander Doujak (Chairman since 13 December 2010) [1)]
- Alexander Exner (Chairman up to 13 December 2010, since then Supervisory Board member) [2)]
- Hubert Palfinger jun. (Deputy Chairman) [3) 4)]
- Hubert Palfinger [3)]
- Wolfgang Anzengruber (since 31 March 2010)
- Peter Pessenlehner (since 31 March 2010) [4)]
- Peter R. Scharler (up to 31 March 2010)
- Gerhard Gruber (Works Council)
- Johann Mair (Works Council) [4)]
- Alois Weiss (Works Council)

1) Member of the Audit, Nomination, and Remuneration Committees, since 13 December 2010.

2) Member of the Audit, Nomination, and Remuneration Committees, up to 13 December 2010.

3) Member of the Nomination and Remuneration Committees.

4) Member of the Audit Committee.

The members of the Supervisory Board received no remuneration for their services.

MANAGEMENT BOARD

- Herbert Ortner, CEO
- Christoph Kaml, CFO
- Wolfgang Pilz, CMO
- Martin Zehnder, COO

Total remuneration of the Management Board in the 2010 financial year, including ancillary costs, was TEUR 2,028 (previous year: TEUR 990) and is broken down as follows:

	Fixed salary		Stock option programme		Performance-related remuneration	
TEUR	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2010	Jan–Dec 2009
Herbert Ortner	339	314	15	13	325	46
Christoph Kaml	171	157	14	0	238	23
Wolfgang Pilz	237	224	9	9	257	22
Martin Zehnder	174	161	9	7	240	14
Total	**921**	**856**	**47**	**29**	**1,060**	**105**

Individual contracts regarding pension commitments were concluded with Alexander Exner and Wolfgang Pilz.

ADDITIONAL INFORMATION PURSUANT TO SECTION 245A OF THE BUSINESS CODE

At PALFINGER AG expenses for severance and pension payments for members of the Management Board and other executives amounted to TEUR 745 (previous year: TEUR 6), for the remaining employees to TEUR 860 (previous year: TEUR 36).

Salzburg, 25 January 2011

The Management Board of PALFINGER AG

Herbert Ortner m.p.
Chief Executive Officer

Christoph Kaml m.p.
Chief Financial Officer

Wolfgang Pilz m.p.
Chief Marketing Officer

Martin Zehnder m.p.
Chief Operating Officer

STATEMENT OF LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements as of 31 December 2010 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 as of 31 December 2010 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 as of 31 December 2010 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 as of 31 December 2010 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.

Salzburg, 25 January 2011

The Management Board of PALFINGER AG

Herbert Ortner m.p.
Chief Executive Officer

Christoph Kaml m.p.
Chief Financial Officer

Wolfgang Pilz m.p.
Chief Marketing Officer

Martin Zehnder m.p.
Chief Operating Officer

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of PALFINGER AG, Salzburg, for the financial year from 1 January to 31 December 2010. These consolidated financial statements comprise the balance sheet as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended 31 December 2010, and a summary of significant accounting and valuation policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

Our audit did not give rise to any objections.

Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the financial year from 1 January to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the EU.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the Group. Furthermore, the auditor's report needs to include a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the information disclosed according to sec. 243a UGB is correct.

In our opinion, the consolidated management report for the Group is consistent with the consolidated financial statements. The information according to sec. 243a UGB is correct.

Salzburg, 25 January 2011

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Anna Flotzinger m.p. Certified public accountant	ppa Christoph Fröhlich m.p. Certified public accountant

REPORT OF THE SUPERVISORY BOARD

In the 2010 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 23 February, 14 June, 13 September, and 13 December, and attended by the Management Board. Above and beyond this, 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 Chairman of the Management Board, 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, the Supervisory Board focused primarily on strategy in the individual business units, acquisition projects, and on major investment decisions. The Audit Committee, the Nomination Committee, and the Remuneration Committee met at regular intervals during the reporting year. The strategic orientation and further development of the Group were the focus of discussions.

PALFINGER AG's financial statements for the year ended on 31 December 2010 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, allowing an unqualified auditor's opinion to be issued for 2010. 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 on 31 December 2010 and the management report for the 2010 financial year, thereby adopting the 2010 financial statements of PALFINGER AG in accordance with sec. 96 para. 4 of the Companies Act. The Supervisory Board has approved the consolidated financial statements of the Company and the consolidated management report prepared in accordance with 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 2010 financial year.

The Supervisory Board would like to thank and acknowledge the members of the Management Board as well as all staff members of the PALFINGER Group for their outstanding commitment and achievements in the 2010 financial year.

Alexander Exner retired as Chairman of the Supervisory Board as of 13 December 2010. On behalf of the entire Supervisory Board, I would once again like to thank Mr Exner sincerely for his outstanding contribution and long-standing commitment to the PALFINGER Group because he went above and beyond his call of duties for the benefit of the Group.

Salzburg, 22 February 2011

Alexander Doujak m.p.
Chairman of the Supervisory Board

DEFINITION OF PERFORMANCE INDICATORS

CAPITAL EMPLOYED	reflects capital investment and is calculated as • intangible assets • plus property, plant, and equipment, shareholdings, and net current assets
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 value creation • ROCE minus WACC • multiplied by average capital employed
FREE CASH FLOW	is the net amount of cash available to service internal or external borrowing • Cash generated from operations • plus interest on debt • minus tax shield on debt interest payment
GEARING RATIO	is a measure relating to the Company's debt • Ratio of net financial debt and • equity in percent
NET DEBT	is calculated as • non-current and current financial liabilities minus • long-term and short-term securities • non-current loans • cash and cash equivalents
NOPLAT	(Net Operating Profit Less Adjusted Taxes) is composed of • EBIT • plus equity earnings • minus taxes on EBIT
ROCE	(Return on Capital Employed) shows the rate of return the Company generates on capital invested in the enterprise • Ratio of NOPLAT to • average capital employed in percent
ROE	(Return on Equity) is a measure of the Company's profitability that presents earnings in relation to equity capital employed • Ratio of after-tax earnings and • average equity • minus the dividends paid as a percentage
WACC	WACC (Weighted Average of 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

CORPORATE LOCATIONS

As of 31 December 2010

AUSTRIA

PALFINGER AG

- Franz-Wolfram-Scherer-Strasse 24, 5020 Salzburg

EPSILON Kran GmbH

- Christophorusstrasse 30, 5061 Elsbethen/Glasenbach
- Franz-Wolfram-Scherer-Strasse 24, 5020 Salzburg

Kraftinvest Palfinger Beteiligungs-GmbH

- Franz-Wolfram-Scherer-Strasse 24, 5020 Salzburg

Palfinger Europe GmbH

- Franz-Wolfram-Scherer-Strasse 24, 5020 Salzburg
- Moosmühlstrasse 1, 5203 Köstendorf
- Kapellenstrasse 18, 5211 Friedburg

Palfinger Marine- und Beteiligungs-GmbH

- Franz-Wolfram-Scherer-Strasse 24, 5020 Salzburg
- Moosmühlstrasse 1, 5203 Köstendorf
- Vogelweiderstrasse 40a, 5020 Salzburg

STEPA Farmkran Gesellschaft m.b.H.

- Christophorusstrasse 28, 5061 Elsbethen/Glasenbach

ARGENTINA

Palfinger Argentina S.A.

- Av. Corrientes 327, 3° Piso, Buenos Aires

BELGIUM

MBB Interlift N.V.

- Industrielaan 4, 3e Industriezone, 9320 Erembodegem

BRAZIL

Madal Palfinger S.A.

- Rua Flavio Francisco Bellini 350, CEP 95098–170, Caxias do Sul

Madal Palfinger S/A – Filial

- Estrada do Embu, 485 – Jardim São Vicente, CEP 06713–100, Cotia

BULGARIA

Palfinger Produktionstechnik Bulgaria EOOD

- 5980 Cherven Brijag
- 8672 Tenevo

CANADA

Palfinger, Inc.
- 7942 Dorchester Road, Niagara Falls, Ontario L2E 6V6

CHINA

Palfinger (Shenzhen) Ltd.
- Block 5, Northern Yongfa Technological Park, District B, Chuandong Industrial Park, Dao Yan Chuan Chaoyang Road, Song Gang Street, Bao An District, Shenzhen

CROATIA

Palfinger Marine d.o.o
- Ind. Zona R-27, 51223 Skrljevo

Palfinger Proizvodna Tehnologija Hrvatska d.o.o.
- Lučićka Cesta 1, 51300 Delnice

FRANCE

A.C.I. SARL
- Avenue Descartes, 33370 Artigues près Bordeaux

Guima France S.A.S.
- 29A, Avenue des Tourondes, 82300 Caussade

Guima Palfinger S.A.S.
- 29A, Avenue des Tourondes, 82300 Caussade

JCB Poids Lourds S.A.S.
- ZI de l'Alouette – BP 12, 62801 Lievin

MBB Inter S.A.S.
- Rue de l'Eglise, 61310 Silly en Gouffern

Mesle Equipement S.A.S.
- Za de la Longueraie, 56140 Saint Abraham

Nord Benne SARL
- Avenue Kuhlmann – BP 106, 59373 Loos Cedex

Palfinger France S.A.
- ZA Les Basseaux – BP 73, 26802 Étoile sur Rhône Cedex

Palfinger Paris Sud S.C.I.
- ZA Les Basseaux – BP 73, 26802 Étoile sur Rhône Cedex

Palfinger Service S.A.S.
- Avenue Condorcet, 91240 Saint Michel/Orge

Parthemat S.A.S.
- Avenue Kuhlmann – BP 106, 59373 Loos Cedex

Sand SARL
- ZAC des Deux Vallées, 10 Avenue des Mineurs, 54910 Valleroy

GERMANY

MBB Palfinger GmbH
- Fockestrasse 53, 27777 Ganderkesee-Hoykenkamp

Palfinger Finanzierungs-GmbH
- Feldkirchener Feld 1, 83404 Ainring

Palfinger GmbH
- Feldkirchener Feld 1, 83404 Ainring
- Rauheckstrasse 4, 74232 Abstatt
- Industriestrasse 4, 89188 Merklingen
- Düsseldorfer Strasse 100, 47809 Krefeld
- Johann-Andreas-Schubert-Strasse 6, 02730 Ebersbach
- Brachwitzer Strasse 20, 06118 Halle/Saale
- Färberstrasse 2, 85276 Pfaffenhofen a. d. Ilm

Palfinger Platforms GmbH
- Düsseldorfer Strasse 100, 47809 Krefeld
- Äussere Bautzner Strasse 47, 02708 Löbau
- Halbendorfer Strasse 4, 02782 Seifhennersdorf
- Johann-Andreas-Schubert-Strasse 6, 02730 Ebersbach

Schomäcker Fahrzeugbau GmbH
- Bullerdeich 59, 20537 Hamburg

GREAT BRITAIN

MBB Liftsystems Ltd.
- Trafalgar House, 712 London Road, West Thurrock, Essex RM20 3NE

Ratcliff Palfinger Ltd.
- Bessemer Road, Welwyn Garden City, Herts AL7 1ET

INDIA

Palfinger Cranes India Pvt. Ltd.
- 37, Varadarajapuram, Nazarathpet, Poonamallee, Chennai – 600 123

ITALY

Palfinger Gru Idrauliche S.r.l.
- Via Dante Aleghieri 50, 42023 Cadelbosco di Sopra

NETHERLANDS

Fast RSQ B.V.
- Ambachtsweg 10, 3771 MG Barneveld

Ned-Deck Marine B.V.
- Ambachtsweg 10, 3771 MG Barneveld

ROMANIA

NDM Romania S.r.l.
- Str Unirii Nr. 1, Ap. 27j, Cluj-Napoca

Nimet Srl
- 137121, Lazuri, Comisani

RUSSIA

PALFINGER AG (office)
- Ulitza Marata, 47–49, Litera A, Office 501, 191002 St. Petersburg

Palfinger Crane Rus LLC
- Parkovaya Ulitza, 7, 196084 St. Petersburg

SINGAPORE

Palfinger Asia Pacific Pte. Ltd.
- 16 Tuas Avenue 6, Singapore 639303

Palfinger systems (SEA) Pte. Ltd.
- 79 Joo Koon Circle, Singapore 629107

SLOVAKIA

MBB Hubfix s.r.o.
- Tovarenska 14, 81571 Bratislava

SLOVENIA

Palfinger Marine d.o.o., Maribor
- Špelina Ulica 22, 2000 Maribor

Palfinger Proizvodnja d.o.o.
- Jaskova 18, 2001 Maribor

SOUTH AFRICA

Palfinger Southern Africa (Pty.) Ltd.
- 1 Nguni Drive, Longmeadow West, Edenvale 1609

USA

Composite Works, LLC
- 341 NW 122nd Street, Oklahoma City, OK 73114, Oklahoma

Equipment Technology, LLC
- 341 NW 122nd Street, Oklahoma City, OK 73114, Oklahoma

Interlift, Inc.
- 15939 Piuma Avenue, Cerritos, CA 90703, California

Omaha Standard, Inc.
- 3501 South 11th Street, Council Bluffs, IA 51501, Iowa
- 572 Whitehead Road, Suite 301, Trenton, NJ 08619, New Jersey

Palfinger USA, Inc.
- 4151 West State Route 18, Tiffin, OH 44883, Ohio

Palfleet Truck Equipment, Co.
- 2490 Pinson Valley Parkway, Birmingham, AL 35217, Alabama
- 5178 Old Dixie Highway, Forest Park, Atlanta, GA 30297, Georgia
- 4101 Trailer Drive, Charlotte, NC 28269, North Carolina
- 3030 Irving Boulevard, Dallas, TX 75247, Texas
- 6700 Powerline Road, Fort Lauderdale, FL 75247, Florida
- 2770 Bluff Road, Indianapolis, IN 46225, Indiana
- 5620 Fern Valley Road, Louisville, KY 40228, Kentucky
- 2109 South 35th Street, Council Bluffs, IA 51501, Iowa
- 1801 Lebanon Pike, Nashville, TN 37210, Tennessee
- 4151 West State Route 18, Tiffin, OH 44883, Ohio

VIETNAM

Ned-Deck Marine Vietnam Co. Ltd.
- 7 Phan Huy Chu, Hoan Kiem, Hanoi
- Road D2, Area D, IZ Pho Noi A, Hung Yen

INDEX

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Scholdan & Company

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Rahofer Werbeagentur

PHOTO IMAGES
Andreas Fitzner, Vienna Paint

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Minimal arithmetical differences may arise from the application of commercial rounding to individual items and percentages in the Annual Report. The English translation of the PALFINGER Report is for convenience. Only the German text is binding.

This Annual Report contains forward-looking statements made on the basis of all information available at the date of the preparation of this Annual Report. Forward-looking statements are usually identified by the use of terminology such as “expect”, “plan”, “estimate”, “believe” etc. Actual outcomes and results may be materially different from those predicted.

Published on 23 February 2011.

FINANCIAL CALENDAR 2011

30 MARCH 2011	ANNUAL GENERAL MEETING
1 APRIL 2011	EX-DIVIDEND DAY
5 APRIL 2011	DIVIDEND PAYMENT DAY
10 MAY 2011	PUBLICATION OF RESULTS FOR THE FIRST QUARTER 2011
10 AUGUST 2011	PUBLICATION OF RESULTS FOR THE FIRST HALF 2011
10 NOVEMBER 2011	PUBLICATION OF RESULTS FOR THE FIRST THREE QUARTERS 2011

WWW.PALFINGER.COM
→ INVESTOR RELATIONS
→ FINANCIAL CALENDAR

Additional dates such as trade fairs or roadshows will be announced at the Company's website under Financial Calendar.

INFO SERVICE

WWW.PALFINGER.COM
→ INVESTOR RELATIONS
→ INFO SERVICE

Please register at the Company's website under Info Service if you want to get regular updates on the PALFINGER Group.

PALFINGER AG
Austria, Salzburg

- 100% Palfinger Finanzierungs-GmbH — Germany, Ainring
- 100% Palfinger Marine- und Beteiligungs-GmbH — Austria, Salzburg

AREA EMEA

- 100% Palfinger Europe GmbH — Austria, Salzburg
- 65% EPSILON Kran GmbH — Austria, Salzburg — 35% Steindl Krantechnik GmbH a.o.
- 45% STEPA Farmkran Gesellschaft m.b.H — Austria, Elsbethen — 55% Steindl Krantechnik GmbH
- 90.5% Palfinger GmbH — Germany, Ainring — 9.5% Palfinger Marine- und Beteiligungs-GmbH
- 100% Schomäcker Fahrzeugbau GmbH* — Germany, Hamburg
- 100% Palfinger Platforms GmbH — Germany, Krefeld
- 100% MBB Palfinger GmbH — Germany, Ganderkesee
  - 100% MBB Hubfix s.r.o. — Slovakia, Bratislava
  - 100% Interlift, Inc. — USA, Cerritos
- 100% MBB Inter S.A.S. — France, Silly en Gouffern
- 100% MBB Interlift N.V. — Belgium, Erembodegem
- 100% MBB Liftsystems Ltd. (in liq.) — Great Britain, Cobham
- 100% Palfinger Gru Idrauliche S.r.l. — Italy, Bolzano
- 49% Palfinger France S.A. — France, Étoile sur Rhône — 51% Group Vincent
- 99.99% Palfinger Paris Sud S.C.I. — France, Étoile sur Rhône — 0.01% Group Vincent
- 99.99% Palfinger Service S.A.S. — France, Saint Michel — 0.01% Group Vincent
  - 100% A.C.I. SARL — France, Artiques près Bordeaux
- 39.97% Sand SARL — France, Valleroy — 60.03% Family Sand
- 33.34% Mesle Equipement S.A.S. — France, Malestroit — 66.66% RHF SARL and O. Billon
- 60% Nord Benne SARL — France, Loos Cedex — 40% Family Parmentier
- 100% Parthemat S.A.S. — France, Loos Cedex
  - 100% JCB Poids Lourds S.A.S. — France, Lievin
- 36% Palfinger Southern Africa (Pty.) Ltd. — South Africa, Edenvale — 64% Route Management Pty. Ltd. a.o.

- 100% Ratcliff Palfinger Ltd. — Great Britain, Welwyn Garden City
- 80% Guima Palfinger S.A.S. — France, Caussade — 20% Group Vincent
- 100% Guima France S.A.S. — France, Caussade
- 100% Palfinger Produktionstechnik Bulgaria EOOD — Bulgaria, Cherven Brjag
- 40% Nimet Srl — Romania, Lazuri — 60% Samy Numan
- 100% Palfinger Proizvodnja d.o.o. — Slovenia, Maribor
- 100% Palfinger Proizvodna Tehnologija Hrvatska d.o.o. — Croatia, Delnice

OTHER AREAS

- 100% Palfinger, Inc. — Canada, Niagara Falls
- 100% Palfinger USA, Inc. — USA, Tiffin
- 100% Omaha Standard, Inc. — USA, Council Bluffs
- 100% Palfleet Truck Equipment, Co. — USA, Birmingham
- 80% Equipment Technology, LLC — USA, Oklahoma — 20% Fam. Neuberger & Glenn Smith
- 56.75% Composite Works, LLC — USA, Oklahoma — 43.25% Custom Composites, LLC a.o.
- 99.14% Madal Palfinger S.A. — Brazil, Caxias do Sul — 0.86% small shareholders
- 100% Palfinger Argentina S.A. — Argentina, Buenos Aires
- 100% Palfinger Asia Pacific Pte. Ltd. — Singapore, Singapore
- 100% Palfinger (Shenzhen) Ltd. — China, Shenzhen
- 99.99% Palfinger Cranes India Pvt. Ltd. — India, Chennai — 0.01% Palfinger Asia Pacific Pte. Ltd.
- 49% Kraftinvest Palfinger Beteiligungs-GmbH — Austria, Salzburg — 51% Kraftinvest Beteiligung GmbH
- 100% Palfinger Crane Rus LLC — Russia, St. Petersburg

BUSINESS UNIT MARINE SYSTEMS

- 75% Ned-Deck Marine B.V. — Netherlands, Barneveld — 25% O.R.J. Duijn Beheer B.V. a.o.
- 100% Fast RSQ B.V. — Netherlands, Barneveld
- 100% Ned-Deck Marine Vietnam Co. Ltd. — Vietnam, Hanoi
- 100% NDM Romania S.r.l. — Romania, Cluj-Napoca
- 100% Palfinger Marine d.o.o. — Croatia, Skrljevo
- 100% Palfinger Marine d.o.o., Maribor — Slovenia, Maribor
- 60% Palfinger systems (SEA) Pte. Ltd. — Singapore, Singapore — 40% Ascendon Engineering Pte. Ltd.

As of 31 December 2010

fully consolidated (white)

at equity (yellow)

* Not yet consolidated as of 31 December.

WWW.PALFINGER.COM

PALFINGER AG
FRANZ-WOLFRAM-SCHERER-STRASSE 24
5020 SALZBURG
AUSTRIA

PALFINGER