

sustainability report  
2003/2004

**PALFINGER**

# sustainability report

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For better comprehension and readability, gender-neutral language has been used throughout this text.

# sustainability report

## PREFACE

Dear reader,

We are pleased to present our first sustainability report. For Palfinger as a manufacturing company, sustainability has been a prime consideration for a long time, encompassing the entire corporation, including production, corporate culture and the purpose of our products. In everything we do, we strive to contribute to a higher quality of life now and for future generations.

Sustainability is not just a matter of attitude; it is a concept to be implemented in everyday life. Sustainable development is focused on demand and utility, the efficient allocation of resources, recyclability, flexibility, error tolerance, risk provisioning and on securing work, income and the quality of life.

The Palfinger Group continuously aims to implement its professed, clearly defined economic, environmental and social guidelines. We also include our partners in implementing our sustainability guidelines. Our actions, targets and successes are appraised according to standards institutionalized throughout the corporation to ascertain regular monitoring and evaluation of progress.

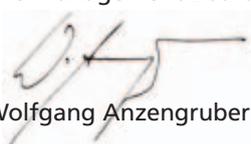
The sustainability report on hand is to provide you with a concise overview of our activities in sustainable development. It applies to the entire Palfinger Group for the period of 2003/04. The publication of environmental reports by some of our subsidiaries is independent of this corporate sustainability report.

This report is based on the 2002 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and the Austrian Guidelines for Corporate Social Responsibility (CSR). The latter have been developed by a group of experts, among others from Palfinger and other publicly listed companies, under the auspices of the Austrian Standards Institute.

We have aimed to meet the objectives to the highest possible extent. The contents of this report have not been audited. The development of an international CSR standard was recently resolved by the Social Responsibility conference of the International Standards Organization (ISO). For further information, please visit the websites [www.globalreporting.org](http://www.globalreporting.org) and [www.csr-austria.at](http://www.csr-austria.at).

We are pleased to present you this report.

The Management Board



Wolfgang Anzengruber



Eduard Schreiner



Wolfgang Pilz



Herbert Ortner

## PALFINGER AT A GLANCE

### Mission Statement

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"Palfinger stands for innovative lifting, loading and handling solutions at the interfaces of the transport chain. This is how we make our customers more successful worldwide."

***Innovation** is the result of our passion for the permanent improvement of product, process and organization.*

***Internationalization** assures our customers of market-conforming products on all five continents and provides to our company maximum independence of regional growth while at the same time opening up new potentials.*

***Diversification** assures us of independence from sector-specific fluctuations, creates additional growth potentials and guarantees our sales partners an optimized product portfolio*

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## Milestones

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### *The pioneer phase*

A company that started out as a workshop was to become the global leader in developing the loading crane.

- 1932** Richard Palfinger establishes a service station and locksmith's shop for farming machinery such as trailers, tippers and vehicle bodies.
- 1959** After designing different special-purpose machines for agricultural use, Palfinger builds his first crane.
- 1964** Hubert Palfinger, the eldest son, rings in a new era by specializing on the production of hydraulic truck loading cranes.

### *The crane era*

With series-production, Palfinger begins its ascent towards the top of the line. Numerous groundbreaking developments are patented. Palfinger becomes the technology leader.

- 1966** The first series-produced crane comes off the production line. Switzerland and France are the first export countries.
- 1989** The share of exports passes the 90 percent mark, Palfinger is present in more than 70 countries, and the trend is upward.

### *The repositioning*

The Group's original core competence is expanded with product innovations including Crayler, Mobiler, Palift and Palgate. The new products optimize processes in transportation technology and reinforce Palfinger's position as technology leader.

- 1996** The province of Salzburg awards Palfinger its Innovation Prize for COSSAN, the computer-based method for analyzing and optimizing welded structures.
- 1997** After Palift hook loaders Palfinger introduces the Crayler transportable forklift and Mobiler container transfer systems to the market.
- 1999** In June Palfinger is listed on the stock exchange for the first time, marking another milestone in company history.  
Palfinger acquires the French company Guima S.A., the world's second biggest manufacturer of hook loaders.
- 2001** A capital increase secures continuation of the sustainable growth strategy of the Palfinger Group.  
Acquisition of Tiffin Loader Cranes and establishment of Palfinger USA, Inc.  
Takeover of the Brazilian company Madal S.A. and establishment of Madal Palfinger.

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- 2002** Palfinger increases its competitive ability through the implementation of the "Rapid Process" project (RAP). Shortened and fixed delivery times for products become standard.
- 2003** Access tilting platforms made by Palfinger are added to the product range.
- 2004** A state-of-the-art service and demo center is opened at the Salzburg location. The new central warehouse for spare parts ensures Palfinger customers worldwide are supplied with their order within 24 hours, or 48 hours respectively.

## *The vision – 2010*

With innovative products and groundbreaking developments in electronics, materials, processing and service Palfinger is going to further strengthen its position as technological leader.

## THE COMPANY

### Corporate profile

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The company was founded in 1932 and has been among the international leaders in the development and production of hydraulic lifting, loading and handling solutions for several years. Palfinger is a multinational corporation with headquarters in Salzburg, Austria and consists of 29 subsidiaries all over the world and production and assembly sites in Europe as well as in North and South America. Innovation, further internationalization and product diversification constitute the three pillars of Palfinger corporate strategy. Palfinger stands for innovative solutions at the interfaces of the transport chain. Our guiding principle is to make our customers worldwide more successful.

The Group's core product is the truck-mounted knuckle boom crane. Palfinger is world market leader in this segment with almost 150 models and a market share of about 30 percent. In hook loaders (Palift und Guima), Palfinger is the world's second biggest manufacturer. Over the years the product portfolio has been expanded with products such as the Crayler mounted forklift, the Palgate tail-lift, the Mobiler container transfer system or the truck-mounted tilting platform Access. In addition, the company develops innovative solutions for railway applications, bridge inspection and recycling. Cranes for use in agriculture and forestry and other off-road applications complete the product range.

On the global market for hydraulic knuckle-boom cranes, the Palfinger Group is not just considered market leader but also technology leader. Continuous innovations impressively prove this position. To maintain leadership in the future, almost 3 percent of revenue is invested in research and development. About 97 percent of the products are exported all over the world.

With more than 1,500 sales and service outlets in more than 80 countries on all five continents, Palfinger is always in close proximity to its customers. Our global presence enables us to offer pre- and after-sales-services custom-tailored to the needs of the individual markets.

A global business, however, also requires a global structure. From the beginning of 2004, the Palfinger Group has been operating within a new organizational structure which supports the strategy of controlled growth. The new Global Palfinger Structure defines optimal operation of the enterprise in the various geographical markets as the main goal.

In operational terms, Palfinger is run in Area Sales Divisions and Product Divisions: initially Europe, North America and South America are defined as the independent market areas. All other areas are managed from our European offices. A special division is responsible for European production. This new structure will ensure that decision-making is flexible, speedy

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and decentralized at local levels, making Palfinger dealers, customers and ultimately our staff more efficient and effective.

With a staff of 2,293 the company in 2003 generated total sales revenue of EUR 334 million and EBIT of EUR 25.7 million.

## *Ownership Structure*

Around 64 percent of the Palfinger Group is owned by the Palfinger family, and around 5 percent by the PALFINGER AG. About 31 percent is free float.

PALFINGER AG has been listed on the official market of the Vienna Stock Exchange since June 4, 1999. Since June 2000, the shares of PALFINGER AG have also been traded on the OTC market of the Berlin, Düsseldorf, Frankfurt, and Stuttgart stock exchanges. An ADR listing in New York is going to take place later this year.

## **Sustainable development**

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### *The Philosophy*

As a result of a long-term controlled growth strategy, the Palfinger Group today has a solid equity ratio of 51.2 percent and is on its way to becoming a global group of companies. We view our quest for sustainable value-added as an opportunity for future performance. We strive to operate in an efficient and resource-friendly way to ensure sustainable development for the generations ahead.

**As members of society we bear responsibility towards  
the environment, society, our customers and our employees.**

As Corporate Citizen, Palfinger is part of society. Being a corporation operating around the globe, we are confronted with different social conditions and expectations in different nations and cultural spheres, and participate in social development in those places. Palfinger not only views the concept of sustainability as an instrument for fulfilling ethic expectations placed on companies by society, but also as a significant contribution towards securing and increasing the global competitive ability of the entire corporation. The importance of long-term integration of ecological and social targets in the achievement of economic success is increasing.

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A well-defined corporate organizational structure with clearly allotted tasks, accountabilities and responsibilities is the foundation. Palfinger's process-oriented quality management system is transparent and documented in a comprehensible manner.

**Everyone has the right and the duty to insist on the termination of conditions adverse to providing the quality demanded by customers.**

Our suppliers play an important role in contributing to product quality. All of our suppliers are required to prove their ability to deliver high-quality products before we enter into relationships with them.

The management board of PALFINGER AG has professed to manufacture high-quality products in an economic way and to support the maintenance and further development of management systems according to ISO 9001:2000, ISO 14001:1986 EMAS-II respectively, financially as well as in non-material ways.

The management board invites all staff members to actively participate in the management system and in the ongoing process of improvement.

Thus the guiding principle of sustainable development is a focus of the Palfinger strategy. By means of environmentally sound manufacturing and innovative transportation solutions, Palfinger leads the way in efficient use of energy resources and sustainable mobility.

Beyond the basic concept of ecological efficacy we are responsible for improving the quality of human life through innovative solutions. We work at the interfaces of ecology and economy and, in our business undertakings, endeavor to transmit our values and to let society be part of our success, and to thus increase the quality of life for all.

The managing directors of our manufacturing and assembly locations are responsible for the management system and product quality.

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Our business is based on the following principles:

- We want to meet the needs and expectations of our customers with high-quality products and to ensure maximum customer satisfaction.
- We want to create a work environment for our staff which motivates them to continuously strive towards the improvement of quality and productivity.
- We want to ensure high productivity and our competitive ability through innovations of new products and technologies, through focus on our core competences and through transparent, clearly structured processes.
- We want to join forces with suppliers and customers to strengthen and expand our relationships through intensive communication and by setting targets together.
- By using all resources efficiently we want to reduce the burden on the environment as much as possible.

**It is our target to continuously decrease the burden on humans and the environment in production, storage, transport, distribution, use and disposal of our products.**

## Assessment of future risks

In 2003 Palfinger decided to introduce risk management in the entire Group in order to structure, evaluate, document and supervise business activities. Planning and controlling instruments have further been refined through the implementation of appropriate software. In July 2004 the task of risk management was allotted to a risk manager exclusively in charge of this area.

In the operative divisions, potential weaknesses in internal control systems were analyzed and addressed by means of special action plans. All significant suppliers are evaluated by the company according to pre-set parameters and are audited on an ongoing basis.

Market, industry and geographical regions are continuously monitored and analyzed by a strategic committee set up specifically for this purpose. Appropriate decisions are made by this committee.

A crisis communications manual outlining proper conduct in emergency situations has been conceived to ensure smooth business operation in case of a crisis affecting the Palfinger Group.

## The QSU management system

The "Qualität-Sicherheit-Umwelt (QSU)" management system lays down organizational structure, accountabilities and responsibilities, conduct and formal procedures, processes and means for the designation and implementation of corporate policy within Palfinger Produktionstechnik, which encompasses the production and assembly plants of the Palfinger Group.

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The management system ensures systematic consideration of quality and environmental concerns in all phases of product development, production and in the utilization phase.

This customer-oriented management system comprises the entire process of production and long-term quality assurance. The system's objective is to ensure customer satisfaction with due consideration of economic and ecological aspects.

By means of standard operating procedures, the writing, validation, release, distribution, revision and storage has been regulated of all documents relevant to quality and the environment.

Besides external norms, the Palfinger plant norm and the management manual including process procedures and works sheets, technical instructions such as drawings, parts lists, and order specifications, as well as records on materials, staff processes and test results are also included in the QSU management system.

The management system is subject to ongoing evaluations (internal and external audits) regarding completeness, effectiveness and usefulness. Compliance with instructions is monitored; possible flaws are registered, traced back to their origin and corrected. In addition the management system is subject to a management review by the management at least once a year.

The documentation of the management system is available for viewing by all staff members in an intranet, including technical instructions, audit plans and various monthly reports concerning process and environmental performance.

## ECONOMY

The foundation of economically sustainable development of the Group is continuous and extensive communication with all stakeholders, with respect to the key interests of each group.

### Stakeholders

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#### *Shareholders*

Today the Palfinger Group has a solid equity base and is in the process of developing into a global group of companies. Long-term planning is oriented toward predictable volumes and returns.

#### *Staff*

Palfinger has realized early on that the productivity and creativity of staff is a decisive competitive advantage. We aim to enter into sustainable long-term relationships with our employees and offer perspectives for their career-planning.

In this context sustainability also encompasses the aspects of meeting workplace safety and health requirements and offering our employees the opportunity to actively part-take in corporate success.

#### *Customers*

Palfinger operates through a global network of re-sellers and service partners. We work together with highly qualified, financially sound experts in an environment marked by high market penetration. Our network of partners constitutes the principal customer base of the Palfinger Group.

#### *Suppliers and Partners*

Relationships with our suppliers are marked by their active involvement in the on-going process of improvement. They significantly contribute to the quality of our products and services, and to our competitive ability.

#### *Sustainability at the local level*

We aim to be a reliable partner to others in our social sphere by acting responsibly and to be an employer of choice. We want to make a sustainable contribution to social development through our economic activities and by becoming actively involved in social and cultural issues.

**To Palfinger sustainability does not only imply long-term economic success, but also sustainable long-term relationships with customers, partners, staff, suppliers and our entire sphere of business activity.**

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## Business developments

In spite of difficult economic conditions Palfinger increased revenue and earnings in the 2003 business year. This course is expected to continue in 2004.

EUR'000	2003	2002	2001	2000	1999
<b>Income Statement</b>					
Revenue	<b>334,111</b>	306,482	332,097	314,999	243,201
EBITDA	<b>37,527</b>	35,353	52,058	54,521	36,185
EBITDA margin	<b>11.2 %</b>	11.5 %	15.7 %	17.3 %	14.9 %
Profit from operations (EBIT)	<b>25,712</b>	23,364	38,067	44,742	26,991
EBIT margin	<b>7.7 %</b>	7.6 %	11.5 %	14.2 %	11.1 %
Profit before tax	<b>23,972</b>	19,706	34,631	41,937	24,037
Consolidated net profit for the year	<b>15,283</b>	13,182	22,292	27,864	16,757
<b>Balance sheet</b>					
Total assets	<b>267,831</b>	268,244	294,652	269,443	225,237
Non-current assets	<b>117,766</b>	118,166	132,479	104,165	88,058
Liabilities	<b>128,895</b>	138,497	166,022	179,872	158,465
Gearing <sup>1)</sup>	<b>25.0 %</b>	40.2 %	56.9 %	67.7 %	104.8 %
Capital and reserves	<b>137,174</b>	128,769	128,262	89,407	67,303
Equity ratio	<b>51.2 %</b>	48.0 %	43.5 %	33.2 %	29.9 %
Issued capital	<b>18,568</b>	18,568	18,414	16,740	16,740
<b>Cash flow and investment</b>					
Cash flows from					
operating activities	<b>39,027</b>	31,655	10,701	28,695	24,434
Free cash flow	<b>27,601</b>	33,732	(23,894)	10,509	(10,590)
Investment in property, plant and equipment	<b>15,457</b>	11,160	32,220	17,575	9,331
Depreciation and amortization	<b>11,815</b>	11,989	13,990	9,779	9,194
<b>Payroll</b>					
Average annual payroll <sup>2)</sup>	<b>2,293</b>	2,269	2,072	1,759	1,424
<b>Value<sup>1)</sup></b>					
Return on Sales	<b>8.4 %</b>	8.4 %	12.3 %	14.9 %	11.5 %
Working Capital	<b>76,534</b>	86,984	96,077	69,736	63,841
Capital Employed (at balance sheet date)	<b>164,667</b>	170,169	189,127	138,348	119,930
ROCE	<b>12.4 %</b>	10.6 %	16.5 %	24.5 %	16.0 %
ROE	<b>12.5 %</b>	11.1 %	22.3 %	37.8 %	32.5 %
EVA	<b>8,390</b>	8,352	16,086	23,677	12,235
WACC	<b>7.42 %</b>	5.96 %	6.69 %	6.13 %	5.52 %

1) The financial performance ratios were modified in 2000; figures for 1999 have been adjusted to new definitions.

2) Staff of consolidated Group companies excluding investments consolidated at equity, as well as apprentices, loaned personnel and parttime employees.

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The high level of earnings achieved by the Palfinger Group in comparison to other industry players was the result of our permanent endeavors to improve further, to develop our structures and processes. Palfinger had begun to modify its organization early on to ensure smooth development of the company into a global player.

## **Rapid Process**

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In the course of implementation of the Rapid Process project from 1999 to 2002, Palfinger managed to cut delivery times for standard cranes by up to 12 weeks. Palfinger is able to supply these cranes within 15 days of receiving an order.

Through flexible procurement and production, Palfinger has completed the move from a branch-typical series producer to a manufacturer geared 100 percent to customer demand.

This changeover has brought enormous advantages to customers, dealers and the Group itself through cuts in inventory levels, the redundancy of modification costs of series-produced cranes, and potential additional sales created by shorter delivery times.

## **Location Optimization Program**

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Continuous growth of the Palfinger Group had led to the acquisition of locations and rental of sites, in which adjoining areas of the company were handled separately. Thus in spring 2002, Palfinger entered into its extensive Location Optimization Program. Areas belonging together were joined to ensure optimal utilization of existing infrastructure.

The Group will be able to make notable cost cuts from 2004 onwards through better use of its real estate and optimal production processes.

At the same time a modern service and demo center was established in response to customer demands. Palfinger is setting new standards in further education with state-of-the-art training facilities and an extensive demonstration area. The demo center is also available as a venue for field trips of technical schools and further education courses.

## **Global Palfinger Structure**

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The Global Palfinger Structure was introduced in 2004 and is to contribute to the implementation of the diversification strategy and the optimal adaptation of the marketing mix to regional conditions and thus to the best possible results for all product groups. The new structure will allow the Group to expand and to grow further.

Segmentation according to IFRS was altered according to the new Global Palfinger Structure and changes in operational procedures. Since 2004 Palfinger has been reporting primary seg-

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mentation according to regions and secondary segmentation according to main product groups. Data from 2003 has been re-calculated accordingly in order to ensure comparability from the beginning.

## Primary segmentation 2003

EUR'000	Europe/Rest of the World	North and South America
Revenue	293,532	40,579
EBIT	25,240	472

## Secondary segmentation 2003

EUR'000	Cranes	Hydraulic Systems/Services
Revenue	245,407	88,705
EBIT	33,476	(7,764)

## Research and Development

The distinguishing features of Palfinger cranes include great lifting capacity combined with low weight, extensive reach with high operating speed, and maximum working safety with superb operating convenience.

Our position as technology leader in loading cranes is the result of decades of research and development in motion geometry, electronics, paint technology, material and processing technology, and production technology.

In 2003, the Palfinger Group invested EUR 7.5m in research and development. This amount is equivalent to 2.2 percent of total revenue. About 50 employees in different business divisions are in charge of a wide variety of improvements and new developments.

The focus of development in the knuckle-boom crane segment, including special applications in the forestry crane and railway segments is on further improvement of products despite Palfinger's technological and global market leadership in these areas. In the last few years innovation had been geared towards mechanics (for example, ever lighter and stronger materials, toggle levers, etc.). Now the focus has shifted towards cinematics and electronics (AOS vibration reduction systems, etc.) Thus the early integration of suppliers of these technologies into the innovative process to fit Palfinger's needs has become of increasing importance.

A further significant R&D issue is bringing innovations into areas that Palfinger has only entered in recent years. These developments encompass pragmatic solutions in the transfer of core competences into new product areas, such as the implementation of railway know-how in the Access tilting platform in 2003 to visionary overall concepts such as the Mobiler

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container transfer system, which is rightly considered one of the "future options of the Group" because of its positive potential in environmental developments.

Palfinger is a regular partner in cooperations with specialized colleges and universities. At present Palfinger is involved in a three-year research project on "production optimization" carried out in the degree course of Production and Management at the Steyr School of Management in Austria. Palfinger is one of four partner companies applying parts of the models created in pilot projects.

## *Innovations and Patents*

Thanks to continuous innovations Palfinger is able to provide customers with strong crane systems offering maximum efficiency and operating safety like no other manufacturer. The most significant product innovations of the past years include the AOS vibration reduction system, the inclusive processing of used oil, the patented crane securing device Palfinger Interlock System, the over-extendable knuckle boom Power Link Plus or the application of a painting technology new to the industry in all product groups.

### *Cataphoresis dip unit*

*A second cataphoresis dip unit was introduced at the Lengau site in 2003 after the first one had gone into operation in Maribor, Slovenia in 2002. With this painting technology, which is already well established in the automotive industry, Palfinger is setting new standards in the crane industry in terms of quality and the lifespan of products while decreasing the environmental impact of production processes. Exact apportioning and recirculation of paint residues have resulted in a reduction of up to 35 percent of the amounts required for coating. The painting process takes place in a closed system without discharge of waste water.*

Last year, Palfinger applied for patents for three new developments that improve occupational safety and simplify procedures. Palfinger holds a total of 37 patents.

In 2003 Palfinger again put to proof its innovative strength. The Group received the Innovation Prize of the province of Salzburg for its innovative loading terminal "IUT – Innovativer Umladeterminal", a joint project with the Austrian Federal Railways (ÖBB).

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## *IUT*

Standard terminals are not suitable for use in residential areas because of the noise made by lifting equipment. On the other hand, freight should be transported as close as possible to the center of cities and other locations. Palfinger has solved this problem through a fully automatic horizontal moving device which moves almost noiselessly on plastic rollers. To achieve this, numerous innovative plastic grips were created originating from the aerospace industry, among other branches. The result of this innovation, a fast and noiseless telescope device, is a global first, allowing railway companies such as ÖBB to implement their logistics concepts, also in densely populated areas, with significantly lower noise levels.

## **Resource management**

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Palfinger aims to employ its resources in a value-enhancing way and has created structures regulating resource management to ensure these targets are met.

### *Capital*

The Palfinger Group aims towards controlled growth strong in earnings power. All Areas and Product Divisions as well as strategic projects are evaluated according to the criteria of sustainable earnings growth with minimum risk and capital tied-up and resultant long-term free cash flow.

### *Staff*

New staff members receive introductory training according to a preset program. Further development and training measures are delineated in regular employee appraisals with supervisors. Training and development programs have been implemented for all staff members in their respective fields.

### *Infrastructure and Work Environment*

Purchasing, servicing and maintenance of production installations are regulated by the individual profit centers. Investment plans are created and released on a yearly basis.

### *Product realization*

Product realization takes place according to appropriate instructions regarding quality and environmental guidelines. A specific QM plan can be created for special projects upon customer request. Evaluations and releases during the product realization process ensure that customer specifications are met.

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## *Customer-related processes*

Product requirements for standard products are defined in brochures, specification sheets, price lists, building specifications and service literature. All oral and written orders received are subject to contract evaluation including the completeness and unequivocal nature of the order as well as technological feasibility and whether it can be delivered on schedule.

## *Purchasing*

We ensure in pre-defined processes that the procured building materials meet preset criteria. Samples of the first batches are taken and evaluated after the new construction of parts, and following changes of suppliers. Further deliveries are tested upon arrival through evaluation reports or random testing of delivered goods.

## *Development and construction*

A pre-set development process ensures systematic, documented product development. The development process is divided according to milestones, enabling systematic processing and monitoring of product development and advancement and evaluation of remaining risks and requirements.

## *Service and Customer Service*

To ensure product servicing with regards to functionality and safety on the customer side, Palfinger attaches great importance to effective customer service.

Through intensive contact with representatives, problems are analyzed without delay and solved in cooperation with the respective department (warranty handling).

Product maintenance is carried out with our area representatives, at Railway and Mobiler also by the profit centers' own customer service. To ensure effective handling of repairs, employees of area representatives are continuously educated and trained by Palfinger.

To receive objective feedback on the type and frequency of defective products, all warranty cases are documented and evaluated in a central warranty data base. Regular warranty meetings take place in the profit centers to discuss and plan the implementation of corrective measures.

## *Monitoring and Measurement*

Testing during the production process at individual assembly stages takes place according to pre-set evaluation criteria with the aim of avoiding flaws early on in the process and to correct existing flaws without delay. Only staff members with appropriate training are employed to perform test bed procedures and final inspection.

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Before delivery, the finished crane is subject to evaluation by quality assurance and marked by a release seal and a test badge on its nameplate. By adhering to our strict internal guidelines, we ensure that only flawless parts and products are in the assembly flow or released for delivery.

## *Evaluation of the management system*

The monthly quality reports of the profit centers are the foundation of continuous evaluation of the management system and processes. At regular intervals measures to improve relevant performance ratios are set at meetings in the profit centers.

## *Change Management*

Change management projects enable the company to adjust to new market conditions by continuous improvement. Processes and work methods which may cause errors or unnecessary costs can be optimized, resulting in cost cuts and improved quality, and ultimately, in a high level of customer satisfaction.

## **Corporate Governance**

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For the purposes of achieving transparent communication with investors and partners and as foundation for responsible and effective management and control mechanisms within the Group, the Palfinger Group has welcomed the development of Corporate Governance principles ever since discussions on Corporate Governance began.

As the representative of a publicly listed company, the company spokesman is part of the Austrian Working Group for Corporate Governance. Effective from the 2003 business year, PALFINGER AG has agreed to comply with the regulations of the Austrian Corporate Governance Code and has met the terms of almost all of the Code's clauses.

Only two Comply or Explain rules, namely no. 42 (Strategy committee within the Supervisory Board) and no. 51 (Representative of minority interests on the Supervisory Board) were not complied with at PALFINGER AG in 2003 for the following reasons:

It is intended that the Supervisory Board of PALFINGER AG should remain a small and powerful body which equitably represents all the shareholders. Therefore there are no plans to include additional members on this committee. It is intended that in the future all Supervisory Board members are to be included in decisions on strategic topics, so that a separate committee in this respect has been deemed unnecessary. The structure of the Supervisory Board has been proven, tried and tested in the past; the efforts and achievements of its members constitute a significant base for the success of the Palfinger Group.

The auditors of PALFINGER AG review compliance with the Corporate Governance Code at least once a year. Current evaluation reports are published on the Group's homepage.

## THE ENVIRONMENT

### Our environmental creed

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All our activities are founded on compliance with legal regulations and state-of-the-art technical means in interrelation with the environment. We feel obliged to continuously improve our environmental performance. We aim to steward the resources entrusted to us in a responsible manner, to help contribute to sustainable environmental development for generations to come.

Our aim is to reduce environmental burden in an economically feasible way and by employing the best available technology. We consider compliance with legal environmental regulations a way of life.

#### *Staff*

All staff members are obliged to comply with environmental policy. The executive team motivates staff members of all levels to hone their sense of responsibility for the environment through regular information and training measures.

#### *Planning*

Possible effects on the environment in all product life cycle phases are evaluated during the planning process of each new product and process, and when changes have to be made.

#### *Resource protection and reduction of emissions*

Our aim is to avoid affecting the environment and, where environmental impacts are inevitable, reduce these through control at their source. Prophylactic measures have been taken to avoid or minimize accident-related emissions.

#### *Customers and supplying partners*

We advise our customers on environmental issues concerning the utilization and handling of our products.

Supplying partners carrying out their business on our production locations are integrated into our management system. We expect our customers' and suppliers' methods of operation to comply with our environmental regulations and to continuously improve their environmental standards.

#### *Public*

We pursue an open and factual dialogue with the public about the effects of our activities on the environment and the environmental technology employed by our company.

# sustainability report

## *Emergency response*

In the event of environmental accidents and emergencies, defined emergency procedures are in place to be implemented together with rescue services and authorities. These procedures are subject to constant review and necessary adjustments to minimize the consequences of such accidents.

## *Monitoring*

We define environmental goals and monitor our progress in reaching these goals to ensure a transparent process of continuous improvement, a process which is outlined in an environmental program indicating appropriate measures, responsibilities and accountabilities. New legal stipulations and other requirements, findings from the corporate environmental balance, from audit results, management reviews and special events are systematically integrated into this program.

We monitor compliance with our environmental targets in the context of our management system. The data of necessary investigations and evaluations are recorded and kept up-to-date. In case of deviations from environmental policy and targets, we utilize pre-set guidelines to install necessary corrective measures.

**To meet the economic, ecological and social needs of today's society without prejudicing the development of generations to come is a balance we want to maintain. It is the foundation of sustainable, future-oriented development of the Palfinger Group.**

## **Environmental protection at the production sites**

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Palfinger produces its products all over the world, with conditions varying from country to country. This means there is no such thing as a uniform resolution for environmental protection. For this reason we are pursuing a strategy of implementing state-of-the-art technology in as many of our plants as quickly as possible. Global responsibility also entails the consistent introduction of environmental standards.

## *Transportation*

Palfinger bases its decisions on a "total cost view". In 2004 the aim is to improve further in this sector, resulting in further expenditure cuts in logistics.

## *Energy and Power Engineering*

Targeted protected resources are ensured through optimal utilization of primary energy, a high degree of facility utilization and a high occupational safety level. In case of local power failure, facilities of importance concerning safety regulations are supplied with domestic energy, ensuring uninterrupted operation.

# sustainability report

## *Emissions*

Already in the early 1990s the heating method at all locations was changed to natural gas from wood chips, thus greatly reducing emissions.

## *Waste disposal*

As a production company Palfinger attaches great importance to controlling the amount of waste disposal on an ongoing basis and to keeping it as low as possible. Data in the table below apply to all sites in Austria, for which all values are available. The largest plant of the Group is also located in Austria. Employment of a uniform method for appraising data of all international production sites is intended in the future.

<b>in tons</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Bulky waste	4.08	0.35	0.5
Cable leftovers	0.071	0	0.397
Cardboard	30.139	15.824	34.95
Dispersion paint	0.04	0	0
Emptying of grit chamber	18.49		
Emulsion mixture	2.9		
Grease collector	4.67	0	4.43
Hydraulic hoses	2.921	4.28	2.542
Industrial waste	27.88	31.2	15.46
Mixed waste/residual waste	77.35	68.56	132.5
Oil separator contents	121.69	32.58	67.47
Oil-water-sludge		12.735	3.22
Paint cans	0.071	0.185	0.168
Paint dust	16.793	10.857	2.467
Paint sludge	19.344	17.743	10.461
Phosphating sludge	5.88	11.52	5.94
Rubbish	16.42	0	18.9
Sandblasting waste	6.133	13.391	28.53
Scrap electronics	1.146	1.087	2.731
Shop waste	10.641	5.06	7.804
Solvents	0.045	0.032	2
Styrofoam	100	60	40
Sweep/Oil-containing shop waste	6.2	8.22	7.44
Synthetic waste	10.99	8.946	10.214
Toner	0.137	0.224	0.277

# sustainability report

<b>in tons</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Wash water/rinse water	28.513	56.98	89.21
Waste oil	48.03	68.63	48.999
Waste oil/water mixture	25.39	51.62	42.4
Waste paints/adsorption mats	29.54	28.96	29.046
Waste paper	48.16	38.94	63.84
Water-soluble waste paint	8.858	4.546	6.808
Wood	162.3	142.43	196.49

### *Environmentally friendly cataphoresis dip units at two production locations*

At the production locations Maribor, Slovenia and Lengau, Upper Austria cataphoresis dip facilities have been operating since 2002, 2003 respectively. These new painting facilities generate a mere 6,000 cubic meters of exhaust air in their ovens, the painting booth and the flash-off zone. This exhaust air is thermally incinerated and the heat is recycled into the system. Redundant heat is fed into the warm water and heating system. Contents of the dip tanks are also processed for reuse. Waste water is recycled in a vacuum distillation procedure and fed back into the system, making it is completely waste water-free. There are no toxic substances involved in the process at all. By changing over to water-based lacquer from solvent-based lacquer, solvent emission was reduced by about 90 percent. The purchase and installation of these dip units are among the Group's largest investments into environmental sustainability in the past years.

## **Products contributing to the environment**

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Palfinger is making a valuable contribution to the environment by simplifying rail-road cargo handling through supporting combined transport decisions. Continuous innovations aiming to provide state-of-the-art solutions at the interfaces of the transport chain keep bringing forth further improvements.

### *Combined traffic system*

The revolutionary technology of the Mobiler container transfer system has enabled a new successful conjunction between road and rail. It reduces the costs of railway transportation and opens up new perspectives for future-oriented logistics: not "either road or rail" but "road as well as rail".

The need to shift traffic from road to rail is momentous. However, so far, all efforts to transfer substantial volumes of mid-distance transportation from road to rail have failed.

# sustainability report

The Mobiler is a truck-mounted hydraulic system which serves the purpose of transferring containers between rail cars and trucks within just a few minutes without requiring further equipment. The transfer process can be carried out wherever railroad tracks and a road are next to each other, making combined traffic profitable also for short distances, fulfilling the technological and economic prerequisite for transferring higher transportation volumes toward rail while maintaining the advantages of fast and flexible truck delivery on location. In 2003 Palfinger received the Intermodal Award for this product.

Currently about 50 Mobilers are in service in Austria, Germany and Switzerland, a unit involved in international transportation to Italy has been operating since the end of 2003.

## *Recycling*

The application of container transfer systems and special truck cranes with appropriate load attachments has also been proven in disposal and recycling operations. Over the past years, these industries have become an increasingly important customer group for the company.

## **Certification**

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All production and assembly sites within the Palfinger Group operate quality management systems in accordance with ISO 9001. The integration of environmental policy and occupational safety is an ongoing process.

### *Palfinger Produktionstechnik leader in ISO 14001 and EMAS*

Palfinger Produktionstechnik in Lengau was one of the first enterprises in the Group to implement environmental management systems in accordance with ISO 14001 and EMAS II, thus playing a leading role in environmental protection in the Palfinger Group.

An environmental policy based on the guiding principles of PALFINGER AG was developed according to the properties of the individual locations. During the first environmental audit at the Lengau location, all activities of relevance to the environment were evaluated in technological and organizational detail. Palfinger Produktionstechnik GmbH then developed an environmental policy based on new ideas for further improvements at the Lengau location.

# sustainability report

The performance of all components of environmental management is evaluated regularly to ensure continuous improvement. Plans are underway to publish an environmental statement of Palfinger Produktionstechnik GmbH about activities at the Lengau location every three years. The last report was published in December 2003.

**The introduction of the ISO 14001 environmental management system at the Lengau location is a classic example of a vision come to life.**

## *EMAS – Eco Management and Audit Scheme*

EMAS is based on regulation 761/2001 passed by the European Parliament and the Council on 19 March 2001 establishing a voluntary initiative designed to continually improve companies' environmental performance beyond minimum legal compliance in a way visible for customers. In addition, it is a requirement of the scheme that participating organizations regularly produce public environmental statements reporting on their environmental performance.

Organizations registering with EMAS have to produce a statement on their corporate environmental policy and measures as well as validated information on emissions and environmental impact of the company.

# sustainability report

## SOCIETY

Everything we do at Palfinger has an impact on society – on regional, national and global levels. Part of our success is based on the underlying social conditions. For this reason sustainable development of the social aspect of our activities has the same priority as economic and ecological sustainability. We see and we realize that our social activities also help to ensure the success of our company.

**We don't think economic activity and social responsibility contradict each other; on the contrary, they open up new insights and opportunities**

### Staff

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Over the past years the Palfinger Group introduced a number of innovative products and state-of-the-art solutions at the interfaces of the transport chain. The creativity and productivity of our staff help us to stay ahead of the competition as the experience and the know-how of staff members are decisive factors in the optimization of work processes.

We believe that work should not just be about earning a living but should also open up possibilities for personal growth. Self-fulfillment, acceptance and responsibility, in other words active participation in reaching a common goal constitute the foundation for this growth process.

**It is our employees who create our products and services based on the principles of trust, fairness and integrity. For this reason we foster their personal development, creativity and self-initiative.**

At the end of 2003 the Palfinger Group employed 2,331 workers in fully consolidated businesses. In addition, 32 apprentices were trained during the reporting period. An average staff of 2,293 workers was employed in 2003 (excluding apprentices and loaned personnel) and 164 loaned personnel were employed to cover staff shortages.

# sustainability report

## Staff number according to countries

		2001	2002	2003
<b>Europe</b>	Austria	821	796	787
	France	351	336	318
	Slovenia	272	277	286
	Bulgaria	217	234	331
	Rest	220	192	175
<b>North America</b>	Canada and USA	69	74	81
<b>South America</b>	Brazil	335	348	353
<b>Total</b>		<b>2,285</b>	<b>2,257</b>	<b>2,331</b>
Leased staff		49	85	194
Employees with minimal contracts		31	22	23
<b>TOTAL</b>		<b>2,419</b>	<b>2,403</b>	<b>2,580</b>

As of December of each year

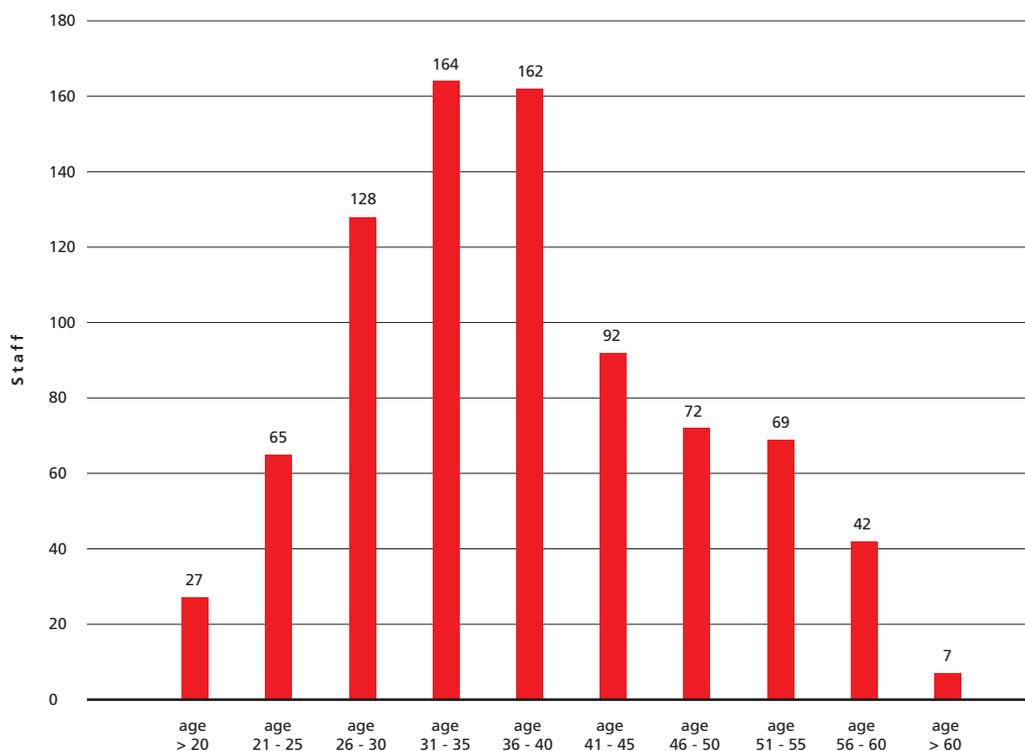
Staff has a great deal of personal responsibility at Palfinger. Our employees act as "entrepreneurs in the company". We thus encourage the entrepreneurial and creative potential of each staff member.

A customer-oriented company like Palfinger has to foster active arrangements of flexible and innovative solutions for work hours. For this reason we have developed various models based on flexi time and the "bandwidth model" (Bandbreitenmodell) and performance-based remuneration and installed essentially self-controlling teams.

The parallel implementation of three large-scale projects in the 2003 business year greatly affected the staff at Palfinger. On the one hand, the introduction of SAP from January 1, 2004 in the distribution, production and logistics divisions was prepared for; on the other, relocation of production and assembly as part of the location optimization program posed a big challenge for all. In addition, Palfinger achieved the re-structuring of its entire organization ("Global Palfinger Structure"). Further important steps are ahead in 2004. The strong identification of staff with the goals of the company was also demonstrated by employee efforts to ensure the optimal implementation of these projects.

The new organizational structure of the Palfinger Group is going to be supported by specific measures of management development to prepare for new challenges in leadership. The inclusion of staff into corporate development is going to be increased further through innovative staff surveying instruments.

## Age structure of staff in Austria 2003

*Further development through staff training*

Palfinger places great importance on developing staff through individual training measures. To maintain and improve qualifications, investments into staff training are made on an ongoing basis.

In 2003 283 staff members in Austria alone took part in further training on 1,260 days. One third of the courses was offered by Palfinger's own training college.

*Apprentice training*

Palfinger trains apprentices for the following professions: mechanical technician, production technician, mechatronic technician, industrial electrician, technical drafter and "Industriekaufmann" (industrial trader). The level of education and training is continuously improved through ongoing updates of concepts and strategies. Apprentices are integrated into all areas and most of them are employed within the Group after completion of their apprenticeship.

**We pursue a successful long-term strategy in apprentice training based on the guiding principle "Train for the company".**

# sustainability report

In 2000 we introduced an incentive system for all those apprentices who are willing to go the extra mile.

In March 2004 Palfinger Produktionstechnik GmbH was awarded the "National Award for outstanding achievements in apprentice training". In 2003 this "quality seal" was only awarded to five companies Austria-wide, putting to proof the high level of training we pursue at Palfinger.

## *Palfinger College*

Palfinger implemented its own central training facility a number of years ago in order to train staff, area representatives and service partners in becoming experts in their fields. Besides courses with technical content, the college also offers classes in IT, languages, business administration and the development of personal skills.

The college is headquartered in Salzburg, the newly opened service and demo center is to complement currently offered training programs. Courses are geared towards the individual needs of participants and are held all over the world in the languages English and German. Experts are engaged for special training courses.

## *International transfer of know-how*

An employee exchange between Köstendorf, Lengau and Caussade in France was started in September 2002. Eight employees had the possibility to work at S.A.S. Guima Palfinger for several months to help balance utilization levels. In return, workers from France were able to learn about crane assembly in Köstendorf in January 2003. There are also Austrian expatriates at some of the company's foreign subsidiaries assisting with know-how transfer and continuing to encourage the integration of the Palfinger Group.

**Innovations and continuous investments allow rational production and highly effective production processes. This is how we meet individual customer needs. Thanks to the expertise of our staff we are able to offer services throughout the Group which extend far beyond the manufacture of components.**

## **Occupational safety and health**

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Numerous improvements in the areas of preventive medicine and emergency/first aid treatments have been implemented at the Berghheim, Köstendorf and Lengau locations in Austria over the past years.

At the beginning of 2003 the "PALFIT" project was launched under the theme "Company in motion – Staff in motion" at the Köstendorf location offering an on-site walk-in medical clinic, nutritional advice and posture exercise classes as well as workplace inspection and physiotherapy.

# sustainability report

These activities have been well received by staff, and from summer 2004, the entire spectrum of services will be implemented at all Austrian locations. This year's topic is "Healthy Eating".

All locations have been equipped with defibrillators. All first responders have been trained in using these devices. Palfinger is one among few institutions able to provide the equipment necessary to administer first aid in case of life-threatening conditions such as tachyarrhythmia, but especially if someone suffers a cardiac arrest.

## *Staff absence*

Absence times of individual staff members as a result of sickness or accidents at the workplace have declined since 2000 through continuous improvement of occupational safety and the implementation of preventive medical measures at Palfinger.

### **Hours of sick leave on account of sickness**

	2000	2001	2002	2003
Workers	51,658	56,885	40,622	39,719
Salaried employees	17,359	13,641	10,865	12,591
Total	69,017	70,526	51,487	52,310
Average per staff member	77.46	81.72	63.25	63.44

### **Hours of sick leave on account of accidents**

	2000	2001	2002	2003
Workers	9,305	5,636	4,481	4,937
Salaried employees	1,676	1,115	0	123
Total	10,981	6,751	4,481	5,060
Average per staff member	12.32	7.82	5.5	6.14

Data in the tables above are based exclusively on staff members in Austria.

## **Product responsibility**

### *Product safety*

Palfinger is the undisputed technology leader on the loading crane market. And for good reason: the company has always been highly committed to research and development thus guaranteeing products that reflect the state of the art. All the new generation cranes comply with the crane standard EN 12999 that came into effect on 1 March 2003.

Not content with simply meeting legal requirements, the company has also ensured that its range of crane safety features and acceptance procedures are well above the average displayed by competitors.

# sustainability report

The completely enclosed electronic system and inside mounted hydraulic hoses are not just for aesthetic reasons, but primarily for protecting the operator and the crane itself. Palfinger cranes are equipped with box levels on both control positions for adjusting the crane or vehicle in the horizontal plane as standard with the option of a system for transport position monitoring (audio or visual alarm) and a new extendable outrigger safety system for which a patent is pending. Other features designed to increase safety include an audio "12 meter range" alarm, overload protection when using mechanical extensions, a swivel angle-dependent lifting force limiter especially for front-mounted cranes, and a swivel range limiter for high stand controls.

## *Operating instructions*

Upon delivery of a crane the customer is provided with instructions to ensure proper handling of the equipment. Instructions contain information on operation, mounting and dismounting, elimination of malfunctions, and equipment-specific operating features. Besides the manufacturer's documents, the customer is supplied with an operating manual; orderly delivery is recorded in the service manual.

In most cases instructions are delivered by the appropriate workshop, in case of specialized equipment and railway equipment products are delivered by the divisions' own customer service units.

Palfinger training courses are also available for attendance by persons outside the company. Individually tailored courses can be arranged for Palfinger service workshops and their customers upon request.

According to law, cranes may only be operated by qualified staff whose expertise has been evaluated by their employer and who have an appropriate operating permit and a written permit by the employer to operate the crane in question.

## **Sponsoring**

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### *Sponsorship of sports*

Sponsoring activities by PALFINGER AG are considered an essential part of corporate communications and follow clearly defined guidelines.

By sponsoring motor sports, strength sports and judo Palfinger has chosen to support sports based on power, technique, precision and reliability, the same attributes characteristic for Palfinger's high-tech products. The image transfer from testimonial to the product – and vice versa – is consciously encouraged.

# sustainability report

In 2004 five athletes are "powered by Palfinger":

Truck racers Lutz Bernau (2003 European champion) and Jochen Hahn have taken the interplay between man and machine into a league of its own. Heinz Ollesch, "Strong(est) man" from Germany, can handle every load, and is among the world's leading athletes. Norbert Siedler, Formula Euro 3000 driver, is among the brightest prospects for race car driving, and Christoph Stangl is among Austria's leading young talents in judo.

Palfinger places great value on the professional cooperation between company and athletes and the personal relationship with each athlete. We are always ready to listen to needs or requests of individual athletes.

**Our links with high-performance sport are rooted in the joint ideological goal of achieving top standards and setting the tone in the area of activity concerned.**

**The company stands for the symbiosis of power and intelligence. This also applies to our leading sports people who combine their power with mental ability.**

## *Corporate Cultural Responsibility*

Innovation in our age is characterized by two main parameters: aesthetics and technology. Their influence on our lives is no longer limited to the world of work but is also permeating the performing arts.

Humans are able to imitate movements of robots and machines. At the same time machines can be programmed and equipped to imitate movements of the human body. The "human" machine and the "machine" human are not necessarily opponents; they are able to enter into a mutually beneficial symbiotic relationship. Based on this approach Palfinger is an avid supporter of select cultural projects. Staff members are able to install their creativity in the further development of products and also through the implementation of ideas and technology needed for complex artistic dramatic representations with machines.

Already at the 1999 Salzburg festival a Palfinger crane was featured in the role of the strict overseer of the harem in the digital version of the opera "The abduction from the Seraglio" by Mozart. For this purpose the crane PK 11000 was equipped with radio control and polyp grab.

# sustainability report

At the 2003 season of the Salzburg festival the staging of "La vie mécanique", a cooperation between Palfinger and Szene Salzburg, depicted the similarities and differences between human and computer-controlled movement. Two PK 7501 Performance knuckle-boom cranes synchronously moved on a moving platform via automated crane controls. The position of the tips of the cranes simultaneously drew figures into space which formed the foundation of a dance choreography.

Shortly thereafter two PK 7501 cranes delivered an impressive artistic presentation embodying characters and gods of Greek mythology in the theater performance "Taurus Rubens" staged on the occasion of the opening of Red Bull's "Hangar 7" at Salzburg airport.

At the ImPulsTanz dance festival in Vienna in the summer of 2004, another four Palfinger cranes were featured in a cultural event. For the piece "Kammermusik für vier Motoren und Bedienungspersonal" (which roughly translates into "Chamber music for four engines and operating staff") the so-called musical instruments were fastened to the cranes.

## Corporate Social Responsibility

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PALFINGER AG has supported projects of AMREF Austria for almost 10 years.

AMREF (African Medical and Research Foundation) is the largest politically independent organization for health care in Africa. The NGO is working on hundreds of health projects in more than 20 African countries, helping up to 30 million people each year.

Improving the health of disadvantaged people within the context of community-based health care projects while ensuring that the benefits gained from projects are sustained after project grants have ended, greatly contributes to the fight against poverty and to building productive lives of dignity and purpose.

AMREF has its headquarters in Nairobi, Kenya and has 12 national offices in Europe, Canada, and the USA, one of which is in Salzburg.

**AMREF and the Flying Doctor Service want to provide sustainable health care solutions specifically for the people of Africa. The ongoing support provided by the partnership with PALFINGER AG, among others, has helped in the realization of numerous projects.**

# sustainability report

## *AMREF's "R" stands for "research"*

The work of the Clinical Department involves research into the diagnosis and treatment of life-threatening diseases under the most rudimentary conditions.

AMREF's laboratory program in HIV/AIDS and malaria research is internationally reputed. Over the past few years alone, thousands of Africans have been trained through AMREF in the appropriate skills and knowledge necessary to perform laboratory work and for the administration of primary health care.

## *Flying Doctor Service*

In remote rural areas of Africa, surgical procedures still pose a problem. To support health workers in outlying health facilities and to rehabilitate patients, the AMREF specialist outreach team regularly visit "bush hospitals" in an area the size of Western Europe

## *Entasopia Health Centre*

AMREF has been running a Health Centre for the Maasai native to the Entasopia region in Kenya for 15 years. Focus of the program is to involve the affected population in proactive contribution to improving basic health conditions. A groundbreaking Trachoma Control Project is being carried in out in Entasopia. Trachoma, an eye disease that causes blindness, can be prevented through educating people on the causes.

## *Primary School Health Program*

The three-year primary school health education project in Uganda aims to improve healthy behavior among teachers, adolescents and school children with an emphasis on the prevention of malaria, TBC and HIV/AIDS. In the medium term young people also convey the information provided to them to their families and the rural population. After conclusion of this project locally trained individuals are going to continue its implementation on their own, thus ensuring sustainability.

## *Child Survival Project*

This Rwanda-based project aims to improve the health condition of the weakest members of African society, the women and the children, and to improve the health condition of the population in the Kiziguro district. Adolescents who are to help in bringing about long-term improvements are specifically addressed by this project.

A main target of all AMREF projects is to increase the standard of living, which is to ultimately reduce poverty.

# sustainability report

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