CARGOTEC

Financial review 2017

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BOARD OF DIRECTORS' REPORT

Operating environment in 2017

The number of containers handled at ports globally is estimated to have grown by six percent during 2017 compared to the previous year (Drewry). Interest in Kalmar's efficiency-boosting port automation solutions continued to be high, but due to the uncertainty caused by the strong consolidation of shipping companies, customers are careful with their decisions concerning projects and automation solutions. Customers' investments are targeted to smaller projects. The demand for mobile equipment and services was at last year's level.

The demand for Hiab's load handling equipment was supported in the United States and Europe by the construction activity, which remained at a good level during 2017. The demand continued to be strong in the US and accelerated in Europe during the second half of the year. The demand for services improved from last year.

Merchant ship contracting improved during 2017 compared to the previous year, but remained at a very low level. The risk for order postponements and cancellations is still high. Contracting in the offshore sector declined compared to the previous year. The demand for MacGregor's services declined in the offshore sector, but improved slightly in the merchant ship sector.

Orders received and order book

Orders received in 2017 decreased by three percent from the comparison period and totalled EUR 3,190 (3,283) million. Compared to the comparison period, currency rate changes had a one percentage point negative impact on orders received. 49 percent of the orders in 2017 were received by Kalmar, 35 percent by Hiab and 16 percent by MacGregor. Orders received grew in Hiab and decreased in Kalmar and MacGregor. In geographical terms, the share of orders received increased to 48 (47) percent in EMEA and to 33 (30) percent in Americas. Asia-Pacific's share decreased to 19 (23) percent. Service orders received decreased by three percent and totalled EUR 864 (889) million. The decline was mainly caused by the weak market situation in MacGregor's offshore business.

The order book decreased by 13 percent from the end of 2016, and at the end of 2017 it totalled EUR 1,550 (31 Dec 2016: 1,783) million. Kalmar's order book totalled EUR 765 (900) million, representing 49 (50) percent, Hiab's EUR 299 (286) million or 19 (16) percent and that of MacGregor EUR 487 (598) million or 32 (34) percent of the consolidated order book.

Sales

Sales in 2017 decreased by seven percent from the comparison period, to EUR 3,280 (3,514) million. Compared to the comparison period, currency rate changes had a one percentage point negative impact on sales. Sales grew from the comparison period in Hiab and declined in Kalmar and MacGregor. In geographic terms, sales declined in all geographical areas. EMEA's share of consolidated sales was 44 (42) percent, Americas' 32 (31) percent and Asia-Pacific's 24 (27) percent. Service sales totalled EUR 874 (872) million, representing 27 (25) percent of consolidated sales. Software sales increased by seven percent and amounted to EUR 159 (148) million. Service and software sales amounted to EUR 1,033 (1,020) million, representing 31 (29) percent of consolidated sales.

Financial result

Operating profit for year 2017 totalled EUR 226.7 (197.7) million. Operating profit includes EUR 36.5 (52.5) million in restructuring costs. EUR 6.4 (19.7) million of the restructuring costs were related to Kalmar, EUR 0.2 (1.2) million to Hiab, EUR 15.8 (31.6) million to MacGregor and EUR 14.1 (0.0) million to corporate administration and support functions.

Operating profit, excluding restructuring costs, for year 2017 was EUR 263.2 (250.2) million, representing 8.0 (7.1) percent of sales. Excluding restructuring costs, operating profit for Kalmar amounted to EUR 136.6 (135.3) million, Hiab EUR 157.3 (140.0) million, and MacGregor EUR 11.5 (17.9) million. Kalmar's operating profit, excluding restructuring costs, improved slightly from the comparison period's level despite the lower sales. Hiab's profitability improvement was driven by higher volumes as well as new products. MacGregor's operating profit, excluding restructuring costs, declined as a consequence of lower volumes driven by the difficult market situation, but remained positive due to cost savings as well as higher share of service business.

Net interest expenses for interest-bearing debt and assets in 2017 totalled EUR 16.2 (20.4) million. Net financing expenses totalled EUR 32.9 (28.6) million. Net financing expenses increased due to higher foreign exchange hedging costs. Net income for year 2017 was EUR 136.3 (125.3) million, and earnings per share EUR 2.11 (1.95).

Balance sheet, cash flow and financing

The consolidated balance sheet total was EUR 3,557 (31 Dec 2016: 3,736) million at the end of the year 2017. Equity attributable to the equity holders of the parent was EUR 1,425 (1,395) million, representing EUR 22.10 (21.65) per share. Property, plant and equipment on the balance sheet amounted to EUR 311 (309) million and intangible assets to EUR 1,247 (1,315) million.

Return on equity (ROE, annualised) in 2017 was 9.7 (9.1) percent, and return on capital employed (ROCE, annualised) was 9.8 (8.8) percent. Cargotec's financial target is to reach 15 percent return on capital employed in the next 3–5 years.

Cash flow from operating activities in 2017, before financial items and taxes, totalled EUR 253.5 (373.0) million. Cash flow was burdened by lower advance payments as well as higher working capital needs in certain product categories in Kalmar and Hiab. At the end of the year 2017, net working capital increased to EUR 118 million from the level of EUR 57 million at the end of 2016.

Cargotec's liquidity position is healthy. During the first quarter, Cargotec issued two bonds in a total aggregate amount of EUR 250 million. The maturities of the bonds are five and seven years. During the second quarter, Cargotec refinanced a EUR 300 million revolving credit facility. The facility carries a tenor of five years including two one-year extension options. At the end of the year 2017, interest-bearing net debt totalled EUR 472 (31 Dec 2016: 503) million. Interest-bearing debt amounted to EUR 788 (782) million, of which EUR 121 (142) million was current and EUR 667 (640) million non-current debt. On 31 December 2017, the average interest rate on the loan portfolio was 2.3 (31 December 2016: 2.3) percent. Cash and cash equivalents, loans receivable, and other interest-bearing assets totalled EUR 317 (31 Dec 2016: 278) million.

At the end of the year 2017, Cargotec's total equity/total assets ratio was 41.5 (31 Dec 2016: 39.1) percent. Gearing was 33.0 (36.0) percent. Profit distribution in 2017 totalled EUR 62.2 (52.8) million.

More information on loans is available in Note 27 to the consolidated financial statements, Interest-bearing liabilities.

Key figures on financial performance, including comparison data, are shown under the section Key figures in the consolidated financial statements.

Research and development

Research and product development expenditure in 2017 totalled EUR 92.5 (90.8) million, representing 2.8 (2.6) percent of sales. EUR 0.5 (2.3) million was capitalised. Research and development investments were focused on digitalisation as well as projects that aim to improve the competitiveness and cost efficiency of products.

Kalmar

In January, Kalmar launched a new range of light diesel forklifts. The Kalmar DCG50-90 range, comprising seven models, was updated to provide better uptime, productivity and fuel savings to customers.

In March, Kalmar and Cargotec's joint venture Rainbow-Cargotec Industries (RCI) opened a new jetty in China. The new jetty will support Kalmar's business growth in the Asia-Pacific region by enabling the deliveries of fully erect Kalmar yard cranes from RCI. The jetty can berth vessels of up to 50,000 DWT capacities.

In May, Kalmar launched its revised vision for Port 2060 with a video to depict how the sustainable future of cargo handling will look like in the year 2060. According to the Port 2060 vision, the utilisation of data has fundamentally changed the way the world trade operates, making it more efficient, safe and sustainable.

In June, Kalmar launched a new range of mid-sized forklifts, The Kalmar Essential Range, to customers in the Americas and in Europe. The Essential range provides customers with the build quality, high availability and excellent safety at a highly competitive price.

In September, Kalmar introduced two new products: Kalmar Key, which is the industry's first automation platform with open interfaces, and Kalmar Rail-Mounted Gantry Crane (RMG). Kalmar Key provides a common system architecture for building an end-to end, customised automation platform using Kalmar Terminal Logistics System (TLS) as a basis. Kalmar RMG is a highly adaptable, automation ready crane solution suitable for both intermodal and container terminal operations.

In the third quarter, Kalmar announced also two important development efforts with customers. Firstly, Kalmar announced the delivery of the first integrated automation solution to International Container Terminal Services Incorporated (ICTSI) at the Port of Melbourne, Australia. The Kalmar OneTerminal deployment was completed ahead of schedule, and it has made Victoria International Container Terminal (VICT) the world's first fully automated international container handling facility.

In addition, in September, Kalmar announced a joint pilot of the port industry's first fast charging shuttle carrier solution at DP World London Gateway Port in the UK. The pilot project of the fully electric powered Kalmar FastCharge™ Shuttle Carrier will start during the first quarter of 2018.

In October, Kalmar launched a fully electric medium-range forklift that will help customers reduce the environmental impact of their operations. Kalmar is the first leading manufacturer to offer electric forklifts in this capacity range. In November, Kalmar introduced the Essential range of reachstackers, empty container handlers and forklifts and the TL2 terminal tractor in Asia-Pacific.

Hiab

During the first quarter of the year, Hiab brought to market a new ZEPRO tail lift which is lighter than the previous model and easier as well as faster to install.

In March, Hiab delivered the first forestry crane equipped with the camera-based HiVision™ control system to its customer in Sweden. HiVision moves the crane operation to the truck cabin. It has four cameras on top of the forestry crane that provide the operator with a realistic 270-degree view. This enables the crane operator to see the working area and operate the crane from the truck cabin using virtual reality goggles.

Hiab also continued to invest in digitalisation and services by developing connectivity in its products to ensure that by the end of 2018 Hiab equipment are connected and able to communicate with other systems and devices.

During the second quarter, Hiab brought to market a new DEL tail lift model with Power Closure opening feature, which enables the opening and closing of the heavy-duty, steel column lift platform without manual effort, and a new robust ZEPRO folding lift for flexible distribution.

In April, Hiab put its new 4,000m2 regional distribution centre for Hiab spare parts outside of Indianapolis, United States, into operation.

During the second quarter, Hiab launched the semi-automatic folding (SAF) feature for folding and unfolding the crane with a single control level. The new feature makes the crane operation fast and easy for operators when parking the crane in a safe and controlled way.

In demountables, Hiab introduced a new visual service indicator that is specifically designed to monitor MULTILIFT equipment movements and the time spent in operation. The service indicator alerts the operator proactively when it is time for regular maintenance. In addition, a renewed SkipTop™ automatic load coverage was introduced for MULTILIFT Futura skiploaders.

During the third quarter, Hiab launched its HiConnect™ solution. HiConnect is a new connected service offering, which enhances the productivity of Hiab equipment for fleet operators by enabling real-time insights via web-based dashboards showing the utilisation, condition, and operation of their connected Hiab equipment. These insights will allow customers to reduce unnecessary downtime, optimise performance, and actively manage service and safe operation.

During the third quarter, Hiab introduced continuous slewing on its 30 to 40 metric tonne range of loader cranes. Continuous slewing has previously been available for the biggest HIAB loader cranes with capacity of over 50 tonne metres. Continuous slewing makes the work in construction and transport faster, smarter and safer especially in risky positions.

During the quarter Hiab also organised an open innovation challenge called CargoHack 3 in its Test and Innovation Center in Hudiksvall, Sweden. The participating teams selected from three different challenges to work with: easier and safer load handling, securing the availability of equipment and taking the lead in intelligent load handling solutions.

During the fourth quarter of the year, Hiab brought to market the world's first electric powered MULTILIFT Futura skiploader in partnership with the Dutch electric vehicle manufacturer EMOSS. The equipment operate silently and with no emissions. The ePTO solution that ensures the electric power take-off was also expanded to cover more loader crane models.

In addition, the new MULTILIFT Futura 18 skiploader was launched at the end of the fourth quarter. It has the capacity of 18 tonnes and offers the operator increased productivity with decreased fuel consumption as fewer trips are needed to haul the same load. This launch completes the Futura product range where the previous models launched had capacities of 8 and 12 tonnes.

In November, Hiab strengthened the ZEPRO tail lift offering on the French market by bringing to the market three tail lift models. Common for all of them is the short installation time, the combination of low weight and high strength in the steel structures, and components with long-term reliability.

During the fourth quarter, Hiab launched a new oil tank using cyclone technology which reduces oil usage, weight, need for space and running costs. This patented technology is the first of its kind in the industry and works with most Hiab crane models.

The roll-out of the new Hiab Webshop, launched in 2016 for ordering original Hiab spare parts online, continued the expansion to new markets during 2017. By the end of the year, customers and dealers from close to 40 different countries have bought spare parts through the Hiab Webshop.

By the year end, the deliveries of forestry and recycling cranes equipped with HiVision™ control system were rolled out to ten countries.

MacGregor

During the first quarter, MacGregor won Offshore Support Journal's innovation of the Year award for its retrofit device, a 3D motion compensator. MacGregor launched a new crane compensation system for offshore ship-to-ship load transfers. During the quarter, MacGregor and Rolls-Royce signed a Memorandum of Understanding to collaborate on research and development in autonomous cargo ship navigation and cargo systems on board container ships. MacGregor opened a new virtual reality training facility in Arendal, Norway.

During the second quarter, MacGregor and ESL Shipping agreed to jointly develop and test autonomous discharging feature on bulk handling cranes. MacGregor also acquired the rights for a software to increase the efficiency of RoRo operations.

During the third quarter, MacGregor started a joint research project with the Technical University in Hamburg to develop an augmented reality-based system to support maintenance and service activities on ships. MacGregor is also participating in another collaboration project in Germany to work together with industry partners to enable remote-controlled harbour tug operations by 2020.

During the fourth quarter, MacGregor started piloting a customer interaction platform in order to establish a channel to provide a better access to relevant documentation and equipment insights as well as recommended actions to the customers. The platform will eventually serve as a tool for future MacGregor digital service offering.

Capital expenditure

Capital expenditure in 2017, excluding acquisitions and customer financing, totalled EUR 47.2 (40.1) million. Investments in customer financing were EUR 37.1 (40.4) million. Of the capital expenditure, EUR 9.0 (10.5) million concerned intangible assets, such as global systems that in future enable higher efficiency in operational activities as well as in support functions. Depreciation, amortisation and impairment amounted to EUR 72.0 (84.8) million.

In March 2016, as part of plans to consolidate its assembly operations in Europe, Kalmar announced plans to invest approximately EUR 9 million in 2016–2017 in the expansion of the assembly unit in Stargard, Poland. The related investments amounted to around EUR 6 million in 2017.

Acquisitions

In December 2017, MacGregor signed an agreement to acquire Rapp Marine Group (RMG) in order to strengthen its offering for the fishery and research vessel segment. MacGregor's existing portfolio includes already various deck handling equipment, such as cranes and booms, but with RMG, MacGregor is able to offer complete solutions with advanced winches and related control systems. The enterprise value of the acquisition was approximately EUR 16 million. The results of RMG business will be consolidated in MacGregor business area results once the transaction has been completed which is expected to happen during February 2018. RMG employs about 120 people with main locations in Norway, the USA and the United Kingdom. The sales in 2017 are estimated to be approximately EUR 40 million, of which approximately 30 percent is related to services. RMG's operating profit margin is on the same level as MacGregor's current profitability.

In December 2017, Kalmar signed an agreement to acquire the port services business of Inver Engineering in Australia. The investment in Inver Port Services supports Kalmar's strategic aim to grow in services while strengthening and broadening Kalmar's existing service capabilities throughout Australia, New Zealand and the Pacific. The acquisition was closed on 29 December 2017. The annual sales of the company is around EUR 5 million and it employs 23 people.

During the third quarter, Hiab entered into an agreement to acquire the loader crane business of one of Brazil's leading loader crane manufacturers Argos Guindastes Indústria e Comércio Ltda. The acquisition was completed in the beginning of October. The acquisition will strengthen Hiab's strategy and market leadership ambition by making a strong entrance to the Brazilian market and it will also create a solid foundation for Hiab’s business in the whole area. The sales of Argos amounted to approximately EUR 6 million in 2017. The results of Argos loader crane business have been consolidated in Hiab business area results starting from October 2017.

More information on acquisitions is available in Note 5 to the consolidated financial statements, Acquisitions and disposals.

Operational restructurings

MacGregor announced on 9 November 2017 planned measures to achieve annual cost savings of approximately EUR 13 million by reorganising its operations and began statutory cooperation negotiations. The statutory cooperation negotiations were finalised in December, resulting in restructuring of operations and reducing approximately 170 full-time equivalents globally. The planned savings are estimated to be reached in 2018.

In May 2017, Cargotec announced it will target EUR 50 million savings by reducing indirect purchasing spend, streamlining processes and planning Cargotec Business Services operations. Cargotec targets annual cost savings of EUR 50 million from 2020 and onwards. Approximately 2/3 of the savings will come from reductions in global indirect purchasing spend like logistics, external services and facilities. The remaining part of the savings will come from applying new technologies, like automation, in support processes and from the new Cargotec Business Services operations that has started its activities in Sofia, Bulgaria. During 2017, the realised savings from the programme amounted to around EUR 10 million. The estimated restructuring costs related to the programme are around EUR 30 million in 2018.

Related to the savings targets and as a result of cooperation negotiations, Cargotec will reduce 45 positions in Finland. In addition, Cargotec and Tieto entered into a partnership in IT Service Management and Solution Expertise Services under which Tieto took over Cargotec’s overall IT service management and a major part of Cargotec’s solution expertise services. As part of the deal, a total of 50 employees from Cargotec in Finland, Sweden and USA were transferred to Tieto on 1 November, 2017.

In October 2016, Cargotec announced that it will launch a programme to achieve cost savings of approximately EUR 25 million in MacGregor. The global employee co-operation negotiations resulted in the decision to reduce 230 person-years. The measures affected particularly operations in China, Finland, Norway, Singapore and Sweden. MacGregor realised the targeted savings from the programme during 2017.

In September 2016, Cargotec announced plans to re-organise the maritime software company INTERSCHALT operations in Germany, USA and China. Re-organisations affected tens of employees. The savings resulting from these activities amounted to approximately EUR 2 million in 2017.

In July 2016, Kalmar completed the employee cooperation negotiations in Lidhult, Sweden, announced in March 2016. As a result, Kalmar has transferred the production of forklift trucks from Sweden to Poland. At the same time, Kalmar invests in new, state of the art premises in Sweden and transforms the operations in Southern Sweden into a Business, Innovation and Technology Centre. The change in Lidhult will lead to a permanent reduction of 160 employees and gradual operational closing. The total benefits of the

activities are expected to amount to approximately EUR 13 million annually from 2018 onwards.

Personnel

Cargotec employed 11,251 (31 Dec 2016: 11,184) people at the end of 2017. Kalmar employed 5,819 (5,702) people, Hiab 3,370 (2,997), MacGregor 1,859 (2,256), and corporate administration and support functions 203 (230). The average number of employees in 2017 was 11,128 (11,193).

At the end of the year 2017, 11 (31 Dec 2016: 11) percent of the employees were located in Sweden, 8 (9) percent in Finland, and 43 (40) percent in the rest of Europe. Asia-Pacific personnel represented 21 (24) percent, North and South America 15 (14) percent, and the rest of the world 2 (2) percent of total employees.

Salaries and remunerations to employees totalled EUR 570 (572) million in 2017.

The annual Compass Employee Engagement survey provides valuable information on our employees' work-related feelings and thoughts. The Compass 2017 survey had a participation rate of 86 (2016: 88) percent. According to the results, our people take pride in the work they do and evaluate both our team collaboration and team performance positively. The biggest increase was seen in the customer mindset related question concerning the use of customer feedback to improve work processes. This is an especially pleasing result as it indicates progress in our strategic pursuit to offer world-class services.

Despite the positive feedback, we have also identified improvement areas. The results show that we need to concentrate on being clear enough when communicating direction and on creating confidence for the future. Further investments in development and training are also needed to ensure the necessary skills and motivation to take us to a top position in the intelligent cargo handling industry.

Disclosure on non-financial issues

Cargotec operates in more than 100 countries. Its business areas are Kalmar, Hiab and MacGregor. Kalmar's offering comprises cargo handling equipment and automated terminal solutions, software, and services that are used in ports, terminals, distribution centres and various industries. Hiab is the global market leader in on-road load handling solutions; its customers operate in on-land transport and delivery industries. MacGregor provides engineering solutions and services for marine cargo and offshore load handling.

Cargotec´s business model is based on an asset-light and assembly-only production footprint and supply chain expertise. The outputs of its business model are the products, solutions and services of its business areas, which create added efficiency, safety and environmental value to customers.

Cargotec creates economic value to the society through income taxes and sales, employee salaries and remunerations, as well as interests, purchases and payments to suppliers and partners. Cargotec shareholders benefit from the company dividends and the expected market value growth.

Core policies and commitments supporting non-financial management

Cargotec is committed to the principles of the UN Global Compact, OECD´s guidelines on multinational enterprises, the UN Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. The internal policies and practices support the implementation of these commitments.

The Cargotec Code of Conduct describes the ethical principles and defines our way of working. The Code of Conduct defines how Cargotec behaves in relation to, for example, environmental issues, labour practices, human rights and anti-corruption. Practical implementation is ensured through topic area-specific policies, trainings and processes.

Management of non-financial matters

The Cargotec Board of Directors has the overall responsibility on non-financial matters. The Cargotec Executive Board and the business area management teams review the non-financial matters according to specific reporting schedules set for each specific non-financial theme. The main functions supporting the target setting and implementation of the targets of non-financial issues are corporate responsibility, HR, ethics and compliance, legal, sourcing, R&D, communications and strategy. More details on the management principles of non-financial matters can be found in the Corporate Governance Statement and in the Cargotec Annual Report.

Reporting framework

Cargotec's disclosure on non-financial issues contains the most relevant information on environmental, social and employee matters, respect to human rights and anti-corruption necessary to understand the performance, development, position and impacts of Cargotec's activities in the value chain. The disclosure is based on the materiality principle and aims to give a fair and balanced view on non-financial matters in Cargotec's business. More detailed information on managing non-financial disclosure matters can be found in the Cargotec Annual Review 2017.

Environmental matters

Cargotec's environmental and health and safety (EHS) policy defines the principles for environmental management. Business areas and sites may provide additional guidance to cover specific operational environmental management aspects in detail. Cargotec's supplier criteria and processes define management practices for suppliers. Environmental risks relate mostly to the local environmental impacts of local operations or to the potential environmental liabilities during business acquisitions or divestments. Cargotec's assembly sites have specific quality and environmental management systems that ensure site-based environmental risk assessments and needed mitigation

actions. During acquisition and divestment cases Cargotec conducts an environmental due diligence process to ensure that potential environmental risks are accounted for.

The biggest environmental impact and mitigation potential lies within the solutions Cargotec provides to its customers. Sustainability is identified as one of the megatrends impacting the industry, and it can also be seen as a business opportunity.

The main environmental target in 2017 – which was successfully achieved – was to define criteria for the new eco-efficiency offering. The offering features solutions that can enhance the sustainability of Cargotec's customers' operations by decreasing their operational emissions or extending product lifetimes. The sales of the eco-efficiency product group during the reporting period was about 19 (2016: 20) percent of the total sales. The decline was due to fluctuations in one of Kalmar's product, RTG, markets and MacGregor's weak market situation.

Labour and employment matters

The Cargotec EHS policy defines safety management principles, while additional guidance is given in the business area or site-based safety instructions. Cargotec's HR policies define the principles for an equal and transparent HR practice. Health and safety related risks are identified at the operational sites, and safety programmes with clear KPIs have been developed to mitigate the risks. The management's leadership capabilities as well as engaged and motivated employees have been identified as the key employment- and labour-related factors to support the company's strategy implementation, and they are essential elements in realising the role of a responsible employer. Leadership excellence programmes have been developed to support Cargotec leaders in their strategy implementation work and to further expand their management capabilities. The Cargotec Compass annual employee satisfaction survey gives information on specific employee management issues to evaluate and follow up and on any potential risks in labour-related issues.

Cargotec's assembly sites use safety management systems, wherein safety risks, safety compliance and related mitigation actions are defined. When monitoring safety issues, the industrial injury frequency trend (IIFR) is used as the main KPI. The assembly site IIFR target for 2017 was 5, and the rate achieved was 6.1 (5.7). The central incident monitoring system has only recently been implemented to service sites, which is why the service site IIFR will be reported externally as of 2018.

The annual Compass Employee Engagement 2017 survey had a participation rate of 86 (2016: 88) percent. The leadership index in 2017 was 71 (68) percent, while the team climate index was 76 (70) percent and the employee engagement index 69 (69) percent. The target is to use the Compass results in developing HR strategies and targets for the next year, and when planning actions to increase performance in areas that score below the average.

With the social responsibility index Cargotec gets insight on employees' views about social responsibility. The social responsibility index in 2017 was 79 (2016: 79) percent.

Respect for human rights

Cargotec´s operations are systematically being monitored with safety and HR policies, processes and follow-up tools that aim to mitigate the risk of non-compliance in Cargotec´s own operations with regards to international human rights. Main policies and processes to support the respect for human rights in company's sphere of interest are sourcing criteria and processes as well as agent screening processes. The target for 2017 was to ensure that all employees have completed the Code of Conduct e-learning programme, in particular the questions that related to human rights.

The majority of the human rights risks appear in company's sphere of interest, such as in the supply chain and agent partners. Based on the sustainability risk assessment, Cargotec developed its sourcing activities to include more sustainability-related risk management actions in 2017, with human rights as one of the focus areas. In addition, the Supplier Code of Conduct was created and sent to all strategic suppliers, and the personnel training on human rights issues was added to the Code of Conduct e-learning programme.

Ethics and Compliance

The Cargotec Code of Conduct, the Cargotec Anti-Corruption policy, Gift and Hospitality Instruction, Instruction for Engaging Agents, as well as the Instruction for Speak-Up and Non-Retaliation guide the work against possible unethical or corrupt business practices. The practical implementation of these policies, and related instructions, is guided by the Ethics and Compliance framework, which is based on the main principles to prevent, detect and respond to potential misconduct.

The target for 2017 was to ensure that all employees have completed the Code of Conduct e-learning programme, that persons in key risk functions – such as finance, legal, sales and procurement – have participated in face-to-face training workshops, and that the process for managing risks related to sales agents was consistently implemented.

The targets were largely accomplished. Between the end of 2016 and the end of 2017, over 1,500 employees have participated in trainings that aim to ensure awareness of and capability to act on these issues. Risk assessments and site visits have been performed to identify risk exposure and improvement areas, and a set of compliance-related internal controls have been put in place. Due diligence has been conducted on the critical sales agents and work to further strengthen the process has been initiated. The work is managed by the Ethics and Compliance organisation consisting of team members in each business area and from high risk markets.

To ensure that suppliers are aware of Cargotec's expectations on ethics and compliance, a supplier Code of

Conduct was launched in 2017. In addition, targeted suppliers in high risk jurisdictions received information about Cargotec's views on anti-corruption and about the company standards and expectation on ethical business conduct.

Cargotec periodically trains its own employees on the principles of the Cargotec Code of Conduct. The e-learning training completion rate in 2017 was 82 percent. A further 780 persons participated in face-to-face trainings (2016: 829).

Reporting on possible non-compliances around non-financial matters

The Cargotec SpeakUp Line is an externally hosted reporting tool for reporting possible Code of Conduct violations. It enables anonymous reporting and can be accessed by both internal and external parties. All reported cases are evaluated confidentially, and they are investigated according to the Code of Conduct response process. The Cargotec Code of Conduct panel, a subset of the Extended Executive Board, decides on any disciplinary or remedial measures as needed. The number of CoC cases in 2017 was 57.

Internal control and risk management

The objective of Cargotec's internal control is to ensure that its operations are efficient and profitable, that risk management is adequate and appropriate, and that financial and other information produced is reliable. Cargotec's internal control is based on the company's Code of Conduct and internal controls. With respect to the financial reporting process, these are supported by Cargotec's policies and guidelines, as well as its internal financial reporting process and communication. Cargotec's internal control policy, which is approved by the Board of Directors, specifies the applicable control principles, procedures and responsibilities. The company SpeakUp Line gives an opportunity to confidentially and anonymously raise concerns of possible misconduct or other matters that may not be in line with company values and policies.

Similarly to other Cargotec operations, responsibility for internal control is divided into three tiers. The line management is principally responsible for internal control. This is backed by corporate support functions, which define instructions applicable across the company and supervise risk management. Internal and external audits form the third tier, their task being to ensure that the first two tiers function effectively.

Cargotec's Corporate Audit is an assurance and consulting function that operates separately from the operative organisation and reports to the Board Audit and Risk Management Committee and, administratively, to the CEO. Corporate Audit takes account of the major risks identified in the company's risk map when developing the audit plan and monitors the mitigation of selected risks. The audits of the operations of subsidiaries and business units assess the effectiveness of internal control and risk management, as well as compliance with operating principles and guidelines. Furthermore, Corporate Audit audits and assesses financial reporting processes and compliance with the related control measures in Cargotec units. It regularly reports on its findings and audit activities to the company management and the Board Audit and Risk Management Committee.

At Cargotec, risk management forms part of the internal control operations. Approved by the Board of Directors and based on Cargotec's values, the risk management policy specifies the objectives and principles of the risk management as well as the responsibilities involved. A core principle is continuous, systematic and preventive action taken to identify risks, define the company's risk appetite, assess and handle risks and, if they materialise, deal with them effectively. The CEO and the Executive Board are responsible for the methods, implementation and supervision of risk management, and report on these to the Board of Directors. Cargotec's risk management is spread across units and corporate support functions that assign responsibility for risk management and that are in charge of identifying, managing and reporting risks. Financial risks are managed centrally by the Corporate Treasury, and reported on for corporate management and the Board of Directors on a regular basis.

The main strategic risks that were identified in 2017 were related to the changes in corporate structure as well as efficient implementation of the strategy. Operational risks were related to supply chain issues, legality, ethical code of conduct, contract risks, as well as information security and product liability. Employee, customer and third-party health, safety and environmental risks are carefully considered and continuously monitored as top priorities in Cargotec's risk evaluation and management processes.

Executive Board

On 31 December 2017, Cargotec's Executive Board consisted of Mika Vehviläinen, CEO; Mikko Puolakka, Executive Vice President, CFO; Mikko Pelkonen, Senior Vice President, Human Resources; Mikael Laine, Senior Vice President, Strategy; and business area presidents Antti Kaunonen (Kalmar), Roland Sundén (Hiab), and Michel van Roozendaal (MacGregor). Outi Aaltonen, Senior Vice President, General Counsel, acts as Secretary to the Executive Board.

Reporting segments

Kalmar

Orders received in 2017 decreased by 10 percent and totalled EUR 1,555 (1,721) million. The orders received declined especially in the project business. Kalmar's order book decreased by 15 percent from the 2016 year-end, and at the end of the year it totalled EUR 765 (31 Dec 2016: 900) million.

Sales in 2017 decreased by five percent and totalled EUR 1,623 (1,700) million. Service sales increased by two percent to EUR 445 (436) million, despite lower sales in crane modernisation business. Service sales represented 27 (26) percent of sales.

Operating profit for 2017 totalled EUR 130.2 (115.6). Operating profit includes EUR 6.4 (19.7) million in restructuring costs. Operating profit, excluding restructuring costs, amounted to EUR 136.6 (135.3) million, representing 8.4 (8.0) percent of sales. Kalmar's operating profit, excluding restructuring costs, improved slightly from the comparison period's level despite the lower sales.

Hiab

Hiab's orders received in 2017 increased by 10 percent from the comparison period and totalled EUR 1,116 (1,016) million. The order book totalled EUR 299 (31 Dec 2016: 286) million at the end of year 2017.

Sales in 2017 grew five percent from the comparison period and totalled EUR 1,084 (1,036) million. Service sales grew by four percent and amounted to EUR 242 (233) million, representing 22 (22) percent of sales.

Operating profit for 2017 improved from the comparison period and totalled EUR 157.1 (138.8) million. Operating profit includes EUR 0.2 (1.2) million in restructuring costs. Operating profit, excluding restructuring costs, increased by 12 percent to EUR 157.3 (140.0) million, representing 14.5 (13.5) percent of sales. Hiab's profitability improvement was driven by higher volumes as well as new products.

MacGregor

MacGregor's orders received in 2017 decreased by five percent to EUR 521 (546) million. Order book decreased by 19 percent from the 2016 year-end, totalling EUR 487 (31 Dec 2016: 598) million at the end of year 2017. Around three quarters of the order book is merchant ship-related and one quarter is offshore vessel-related.

Sales in 2017 decreased by 26 percent from the comparison period to EUR 576 (778) million. The share of service sales was 33 (26) percent or EUR 188 (204) million. Service sales decreased in the offshore sector but grew in the merchant ship sector.

Operating profit for 2017 totalled EUR -4.3 (-13.7) million. Operating profit includes EUR 15.8 (31.6) million in restructuring costs. Operating profit, excluding restructuring costs, totalled EUR 11.5 (17.9) million, representing 2.0 (2.3) percent of sales. MacGregor's operating profit excluding restructuring costs declined as a consequence of lower volumes driven by the difficult market situation, but remained positive due to cost savings as well as a higher share of service business.

Decisions taken at the Annual General Meeting

Cargotec Corporation's Annual General Meeting (AGM), held on 21 March 2017, adopted the financial statements and consolidated financial statements of year 2016. The meeting granted discharge from liability for the CEO and the members of the Board of Directors for the accounting period 1 January–31 December 2016.The AGM approved a dividend of EUR 0.94 to be paid for each class A share and a dividend of EUR 0.95 be paid for each class B share outstanding. The dividend payment date was 30 March 2017.

The AGM approved that the Articles of Association of the company be changed regarding the number of regular and deputy members of the Board of Directors. The minimum number of members is changed to six (6), the maximum to twelve (12), and there will be no deputy members. The AGM authorised the Board to decide on the repurchase of Cargotec's shares with non-restricted equity. The number of the Board members was confirmed at ten. Kimmo Alkio, Jorma Eloranta, Tapio Hakakari, Ilkka Herlin, Peter Immonen, Kaisa Olkkonen, Teuvo Salminen and Heikki Soljama were re-elected to the Board of Directors, and Teresa Kemppi-Vasama and Johanna Lamminen were elected as new members. The AGM elected accounting firm PricewaterhouseCoopers Oy and authorised public accountant Tomi Hyryläinen as auditors. The auditors' fees were decided to be paid according to invoice approved by the company.

Cargotec published stock exchange releases on the decisions taken at the AGM as well as the Board of Directors' organising meeting on 21 March 2017. The stock exchange releases and presentations of the members of the Board of Directors are available on Cargotec's website at www.cargotec.com.

Organisation of the Board of Directors

On 21 March 2017, Cargotec Corporation's Board of Directors elected by the Annual General Meeting elected at its organising meeting Ilkka Herlin to continue as Chairman of the Board. Tapio Hakakari was elected to continue as Vice Chairman. Outi Aaltonen, Senior Vice President, General Counsel, will continue as Secretary to the Board.

The Board of Directors elected among its members Ilkka Herlin, Kaisa Olkkonen and Teuvo Salminen as members of the Audit and Risk Management Committee. Teuvo Salminen was re-elected as Chairman of the Committee.

Board members Jorma Eloranta, Tapio Hakakari, Ilkka Herlin and Peter Immonen were elected to the Nomination and Compensation Committee. Ilkka Herlin was re-elected as Chairman of the Committee.

The Board of Directors decided to continue the practice that the members are to keep the Cargotec shares they have obtained in remuneration under their ownership for at least two years from the day they obtained them.

Shares and trading

Share capital, own shares and share issue

Cargotec Corporation's share capital totalled EUR 64,304,880 at the end of 2017. The number of class B shares was 55,182,079, while the number of class A shares totalled 9,526,089.

On 21 March 2017, the Board of Directors of Cargotec Corporation decided on a directed share issue related to the reward payments for share-based incentive

programmes. The share reward payments are related to Cargotec's share-based incentive programme 2014, 2016 allocation of restricted shares programme 2014–2016 under the share-based incentive programme 2014, and 2016 allocation of restricted shares programme 2016–2018 under the share-based incentive programme 2016. In the share issue, 56,709 own class B shares held by the company have been transferred without consideration to the key employees participating in the share based incentive programmes in accordance with the programme specific terms and conditions. The decision on the directed share issue is based on the authorisation granted to the Board of Directors by the Annual General Meeting on 18 March 2014. According to the authorisation, the Board of Directors can decide on a share issue amounting to a maximum of 952,000 class A shares and 5,448,000 class B shares. Previously, in accordance with the authorisation, 26,684 own class B shares were transferred in March 2014, 28,030 class B shares in March 2015 and 27,601 class B shares in March 2016. More detailed information about the launch and the terms and conditions of the programmes is available in stock exchange releases published on 4 February 2014 and on 10 February 2016.

After the transfer of shares, Cargotec holds a total of 208,390 own class B shares, accounting for 0.32 percent of the total number of shares and 0.14 percent of the total number of votes. At the end of 2017, the number of outstanding class B shares totalled 54,973,689.

For more detailed description on the amount of shares, shareholders, market capitalisation and trading, see the Shares and shareholders section in the consolidated financial statements.

Share-based incentive programmes
In February 2017, The Board of Directors of Cargotec Corporation has resolved to establish a new share-based incentive programme directed to the key employees of Cargotec. The performance share programme includes three performance periods, calendar years 2017–2018, 2018–2019 and 2019–2020. Each performance period includes two measuring periods, both lasting for one calendar year. For measuring periods, the Board of Directors will annually resolve on the performance criteria and on the required performance levels for each criterion. During the performance period 2017–2018, the programme is directed to approximately 100 key employees, including the members of the Executive Board. The incentive programme supports increasing growth of the service and software business according to Cargotec's strategy.

For the key employees of the business areas Kalmar, Hiab, and MacGregor, the potential reward of the programme from the measuring period 2017 will be based on the business areas' service gross profit and return on capital employed (ROCE %, excluding restructuring costs), and for Navis software divisions' key employees, on Navis' sales and on strategic targets of Xvela business. For the Cargotec corporate key employees, the performance criteria are Cargotec's service gross profit and return on capital employed (ROCE %, excluding restructuring costs). The rewards to be paid on the basis of the performance period 2017–2018 will amount up to an approximate maximum total of 200,000 Cargotec's class B shares. In addition, the rewards include cash proportions that are intended to cover taxes and tax-related costs arising from the reward to the key employees.

After the end of the performance period, the Board of Directors will confirm the cumulative amount of rewards earned from the measuring periods 2017 and 2018, and potential rewards from the performance period 2017–2018 will be paid partly in Cargotec's class B shares and partly in cash in 2019. As a rule, no reward will be paid, if a key employee's employment or service ends before the reward payment. The shares paid as reward may not be transferred during an approximate one-year ownership and value creation period established for the shares.

For a more detailed description on the share-based incentive programmes, see Note 25 Share-based payments, in the consolidated financial statements.

Market capitalisation and trading
At the end of 2017, the total market value of class B shares was EUR 2,595 (2,355) million, excluding own shares held by the company. The period-end market capitalisation, in which unlisted class A shares are valued at the average price of class B shares on the last trading day of the period, was EUR 3,047 (2,762) million, excluding own shares held by the company.

The class B share closed at EUR 47.20 (42.89) on the last trading day of December on Nasdaq Helsinki. The volume-weighted average share price for the financial period was EUR 49.85 (34.31), the highest quotation being EUR 59.25 (43.35) and the lowest EUR 40.26 (24.30). During the period, a total of 33 (43) million class B shares were traded on Nasdaq Helsinki, corresponding to a turnover of EUR 1,665 (1,456) million. In addition, according to Fidessa, a total of 48 (68) million class B shares were traded in several alternative marketplaces, such as Cboe OTC and Cboe CXE, corresponding to a turnover of EUR 2,428 (2,334) million.

Loans, liabilities and commitments to related parties
Cargotec had no loans, liabilities and commitments to related parties on 31 December 2017.

Board of Directors and CEO
The election of the members of the Board of Directors and the auditor and their remunerations as well as changes on the Articles of Association, are decided by the Annual General Meeting of Shareholders. The Board of Directors elects Cargotec’s CEO and determines the terms of his/her employment.

Short-term risks and uncertainties
Developments in the global economy and cargo flows have a direct effect on Cargotec’s business environment and customers’ willingness to invest. A slowdown in global

economic growth could reduce the growth in container traffic. Furthermore, the consolidation of ship companies may change port volumes in the future and affect customers' decision making. Project executions may face risks related to schedule, cost and delivery guarantees. Furthermore, potential bottlenecks in the supply chain could postpone deliveries and have a negative impact on sales and results. Uncertainty may be increased by risks stemming from political instability, volatility on the currency and raw material markets, or from the financing sector. Hiab's demand is impacted by the development of the construction market. A significant share of Hiab's orders are from the United States. Even though the cash flows are hedged for the existing order book, the weakening of the US dollar in the longer term could weaken Hiab's results. Greater difficulty in obtaining financing would weaken customers' liquidity and investments.

MacGregor's market situation still involves uncertainties. It is anticipated that the oversupply in the merchant ship market will take longer to balance out, since capacity will continue to increase while demand is expected to grow very moderately. At the same time, the low oil price and uncertainty regarding its development has led to an intense fall in investments by the oil industry and created oversupply in the offshore market. The concurrent deterioration in both markets has a negative impact on the financial situation of shipyards and ship owners, as well as ship operators. In the challenging market situation, customers may also try to postpone or cancel orders. In some cases the financial situation of customers may deteriorate significantly or even lead to customer insolvency.

Cargotec is involved in certain legal disputes and trials. The interpretation of international agreements and legislation may weaken the predictability of the end results of legal disputes and trials.

There are also ethical risks related to the industries and the geographical scope where Cargotec operates in. Cargotec has increased its investments to develop ethical business practices and the related internal processes are continuously being developed further.

More information on risks is available at www.cargotec.com, under Investors > Governance > Internal control and risk management.

Events after the review period

On 5 February 2018, MacGregor completed the acquisition of Rapp Marine Group (RMG) to strengthen its offering for the fishery and research segment. MacGregor announced to acquire Rapp Marine in December 2017 for an enterprise value of approximately EUR 16 million.

Board of Directors' proposal on the distribution of profit

The parent company's distributable equity on 31 December 2017 was EUR 1,271,421,418.57 of which net income for the period was EUR 83,536,297.91. The Board of Directors proposes to the Annual General Meeting convening on 20 March 2018 that of the distributable profit, a dividend of EUR 1.04 for each of the 9,526,089 class A shares and EUR 1.05 for each of the 54,973,689 outstanding class B shares be paid, totalling EUR 67,629,506.01. The remaining distributable equity, EUR 1,203,791,912.56, will be retained and carried forward.

The Board of Directors also proposes that the dividend shall be paid in two instalments, in March and in September 2018. The first instalment of EUR 0.52 per each of class A shares and EUR 0.53 per each of class B shares outstanding shall be paid to shareholders who on the record date for dividend distribution, 22 March 2018, are registered as shareholders in the company's shareholder register. The dividend payment date proposed by the Board of Directors is 29 March 2018.

The second instalment of EUR 0.52 per each of class A shares and EUR 0.52 per each of class B shares outstanding shall be paid in September 2018. The second instalment shall be paid to shareholders who are registered as shareholders in the company's shareholder register on the dividend record date, which, together with the payment date, shall be confirmed by the Board of Directors in its meeting scheduled for 18 September 2018. The dividend record date for the second instalment as per the current rules of the Finnish book-entry system would be 20 September 2018 and the dividend payment date 27 September 2018, unless the renewal of the securities processing infrastructure by Euroclear Finland Ltd brings the dividend payment date a few days earlier.

No significant changes have occurred in Cargotec's financial position after the end of the financial year. Liquidity is at a healthy level and the proposed distribution of dividend poses no risk on the company's financial standing.

Outlook for 2018

Cargotec's operating profit excluding restructuring costs for 2018 is expected to improve from 2017 (EUR 263.2 million).

As a result of the adoption of the IFRS 15 standard effective from January 1, 2018, Cargotec's revenue recognition for certain products and customer contracts will change in 2018. The IFRS 15 restated figures for 2017 will be published in March 2018 the latest. The change in accounting principles is not expected to have a material impact on annual operating profit.

Annual General Meeting 2018

The Annual General Meeting of Cargotec Corporation will be held at the Marina Congress Center in Helsinki on Tuesday, 20 March 2018 at 1.00 p.m. EET.

Helsinki, 7 February 2018
Cargotec Corporation
Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated statement of income

MEUR	Note	1 Jan–31 Dec 2017	%	1 Jan–31 Dec 2016	%
Sales	4, 6	**3,280.1**		**3,513.7**	
Cost of goods sold		-2,423.4		-2,674.0	
Gross profit		**856.7**	**26.1**	**839.7**	**23.9**
Other operating income	7	35.8		38.1	
Selling and marketing expenses		-221.8		-221.1	
Research and development expenses		-98.2		-94.1	
Administration expenses		-273.6		-277.0	
Restructuring costs	8	-36.5		-52.5	
Other operating expenses	7	-36.7		-37.8	
Share of associated companies' and joint ventures' net income	17	0.9		2.5	
Operating profit	4, 7, 8, 9, 10	**226.7**	**6.9**	**197.7**	**5.6**
Financing income	11	3.3		1.8	
Financing expenses	11	-36.2		-30.5	
Income before taxes		**193.8**	**5.9**	**169.1**	**4.8**
Income taxes	12	-57.5		-43.8	
Net income for the period		**136.3**	**4.2**	**125.3**	**3.6**
Net income for the period attributable to:					
Equity holders of the parent		136.1		126.0	
Non-controlling interest		0.2		-0.7	
Total		**136.3**		**125.3**	
Earnings per share for profit attributable to the equity holders of the parent:	13				
Basic earnings per share, EUR		2.11		1.95	
Diluted earnings per share, EUR		2.10		1.94	

The notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net income for the period		136.3	125.3
Items that cannot be reclassified to statement of income:			
Actuarial gains (+) / losses (-) from defined benefit plans	26	-5.0	-6.9
Taxes relating to items that cannot be reclassified to statement of income	12	1.1	1.5
Total		**-3.9**	**-5.4**
Items that can be reclassified to statement of income:			
Gains (+) / losses (-) on cash flow hedges		50.2	1.7
Gains (+) / losses (-) on cash flow hedges transferred to statement of income		-16.2	1.4
Gains (+) / losses (-) on net investment hedges		10.9	22.4
Translation differences		-81.9	-34.8
Taxes relating to items that can be reclassified to statement of income	12	-4.8	1.0
Total		**-41.8**	**-8.3**
Comprehensive income for the period		**90.6**	**111.6**
Comprehensive income for the period attributable to:			
Equity holders of the parent		90.4	112.2
Non-controlling interest		0.2	-0.7
Total		**90.6**	**111.6**

The notes are an integral part of the consolidated financial statements.

Consolidated balance sheet

MEUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Goodwill	14	986.7	1,024.5
Other intangible assets	15	260.8	290.2
Property, plant and equipment	16	310.8	308.6
Investments in associated companies and joint ventures	17	109.8	123.4
Available-for-sale investments	20	0.2	3.8
Loans receivable and other interest-bearing assets*	20	5.0	3.0
Deferred tax assets	18	149.9	185.0
Derivative assets	20, 21	6.1	16.9
Other non-interest-bearing assets	20, 22	8.5	7.9
Total non-current assets		**1,837.8**	**1,963.4**
Current assets			
Inventories	19	607.0	647.0
Loans receivable and other interest-bearing assets*	20	2.5	1.9
Income tax receivables		36.4	26.1
Derivative assets	20, 21	13.3	45.8
Accounts receivable and other non-interest-bearing assets	20, 22	751.3	778.9
Cash and cash equivalents*	20, 23	309.1	273.2
Total current assets		**1,719.6**	**1,773.0**
Total assets		**3,557.5**	**3,736.3**

*Included in interest-bearing net debt.

The notes are an integral part of the consolidated financial statements.

MEUR	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Share capital		64.3	64.3
Share premium account		98.0	98.0
Translation differences		-31.2	37.3
Fair value reserves		2.1	-24.7
Reserve for invested non-restricted equity		69.0	69.0
Retained earnings		1,223.0	1,151.1
Total equity attributable to the equity holders of the parent	24, 25	**1,425.2**	**1,395.0**
Non-controlling interest		2.3	2.2
Total equity		**1,427.5**	**1,397.2**
Non-current liabilities			
Interest-bearing liabilities*	20, 27, 30	673.8	656.8
Deferred tax liabilities	18	13.2	73.1
Pension obligations	26	87.5	81.4
Provisions	29	17.1	37.6
Other non-interest-bearing liabilities	20, 28	61.5	49.4
Total non-current liabilities		**853.1**	**898.2**
Current liabilities			
Current portion of interest-bearing liabilities*	20, 27, 30	83.8	119.4
Other interest-bearing liabilities*	20, 27	37.6	45.8
Provisions	29	103.5	112.8
Advances received		116.2	160.6
Income tax payables		49.1	32.0
Derivative liabilities	20, 21	6.4	34.1
Accounts payable and other non-interest-bearing liabilities	20, 28	880.3	936.2
Total current liabilities		**1,276.9**	**1,440.8**
Total equity and liabilities		**3,557.5**	**3,736.3**

*Included in interest-bearing net debt.

The notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

MEUR	Note	Attributable to the equity holders of the parent							Non-controlling interest	Total equity
		Share capital	Share premium account	Translation differences	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total		
Equity 1 Jan 2017		64.3	98.0	37.3	-24.7	69.0	1,151.1	1,395.0	2.2	1,397.3
Net income for the period							136.1	136.1	0.2	136.3
Cash flow hedges					26.8			26.8		26.8
Net investment hedges				8.7				8.7		8.7
Translation differences				-77.3				-77.3	0.0	-77.3
Actuarial gains (+) / losses (-) from defined benefit plans	12, 26						-3.9	-3.9		-3.9
Comprehensive income for the period*				**-68.6**	**26.8**	**-**	**132.2**	**90.4**	**0.2**	**90.6**
Profit distribution	24						-61.1	-61.1	-1.0	-62.2
Treasury shares acquired						-		-		-
Proceeds from share subscriptions	25					-		-		-
Share-based payments*	25						3.2	3.2		3.2
Transactions with owners of the company						**-**	**-58.0**	**-58.0**	**-1.0**	**-59.0**
Transactions with non-controlling interests							-2.3	-2.3	0.9	-1.4
Equity 31 Dec 2017		**64.3**	**98.0**	**-31.2**	**2.1**	**69.0**	**1,223.0**	**1,425.2**	**2.3**	**1,427.5**
Equity 1 Jan 2016		64.3	98.0	47.7	-26.7	76.1	1,079.9	1,339.3	2.4	1,341.8
Net income for the period							126.0	126.0	-0.7	125.3
Cash flow hedges					2.0			2.0		2.0
Net investment hedges				17.9				17.9		17.9
Translation differences				-28.2				-28.2	0.1	-28.2
Actuarial gains (+) / losses (-) from defined benefit plans	12, 26						-5.4	-5.4		-5.4
Comprehensive income for the period*				**-10.3**	**2.0**	**-**	**120.6**	**112.2**	**-0.7**	**111.6**
Profit distribution	24						-52.2	-52.2	-0.6	-52.8
Treasury shares acquired						-7.6		-7.6		-7.6
Proceeds from share subscriptions	25					0.5		0.5		0.5
Share-based payments*	25						2.8	2.8		2.8
Transactions with owners of the company						**-7.1**	**-49.4**	**-56.5**	**-0.6**	**-57.2**
Transactions with non-controlling interests							-	-	1.1	1.1
Equity 31 Dec 2016		**64.3**	**98.0**	**37.3**	**-24.7**	**69.0**	**1,151.1**	**1,395.0**	**2.2**	**1,397.2**

*Net of tax.

The notes are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net income for the financial period		136.3	125.3
Depreciation, amortisation and impairment	10	72.0	84.8
Financing items	11	32.9	28.6
Taxes	12	57.5	43.8
Change in receivables		-13.8	10.3
Change in payables		-51.4	66.9
Change in inventories		17.0	13.3
Other adjustments		2.9	0.0
Cash flow from operations before financing items and taxes		**253.5**	**373.0**
Interest received		4.8	1.1
Interest paid		-20.1	-21.9
Dividends received		5.5	0.3
Other financing items		14.6	10.4
Income taxes paid		-77.5	-49.4
Net cash flow from operating activities		**180.9**	**313.5**
Acquisitions of businesses, net of cash acquired	5	-14.4	-66.8
Disposals of businesses, net of cash sold	5	-1.2	-
Investments in associated companies and joint ventures	17	-4.7	-2.7
Investments in fixed assets	15,16	-84.3	-80.5
Disposals of fixed assets	7,15,16	13.7	17.6
Cash flow from investing activities, other items		1.3	0.9
Net cash flow from investing activities		**-89.7**	**-131.5**
Proceeds from share subscriptions	25	-	0.5
Treasury shares acquired		-	-7.6
Acquisition of non-controlling interest		-0.4	-
Proceeds from long-term borrowings	27	253.2	-
Repayments of long-term borrowings	27	-243.1	-3.2
Proceeds from short-term borrowings	27	7.6	38.2
Repayments of short-term borrowings	27	-17.7	-58.9
Profit distribution	24	-62.2	-52.8
Net cash flow from financing activities		**-62.6**	**-83.9**
Change in cash and cash equivalents		**28.6**	**98.1**
Cash and cash equivalents, and bank overdrafts 1 Jan	23	260.8	164.9
Effect of exchange rate changes		-4.6	-2.2
Cash and cash equivalents, and bank overdrafts 31 Dec	23	**284.7**	**260.8**
Bank overdrafts 31 Dec	23	24.4	12.4
Cash and cash equivalents 31 Dec		**309.1**	**273.2**

The notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements (IFRS)

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1. Accounting principles for the consolidated financial statements

General information

Cargotec Corporation is a limited liability company domiciled in Helsinki, Finland. The registered address is Porkkalankatu 5, 00180 Helsinki, Finland. Cargotec Corporation and its subsidiaries form the Cargotec Group (later referred to as Cargotec or company). Cargotec Corporation B shares are listed on the Nasdaq Helsinki Ltd since 1 June 2005.

Cargotec is a leading provider of cargo handling solutions, whose business areas Kalmar, Hiab and MacGregor are recognised leaders in cargo and load handling solutions around the world. Their global network is positioned close to customers, offering extensive services to ensure a continuous, reliable and sustainable performance according to customer needs.

Kalmar's offering – cargo handling equipment, automation, software and services – is used in ports, terminals, distribution centres and industries. Hiab offers equipment, service and spare parts that are used in on-road transport and delivery. MacGregor provides value-creating services and solutions for handling marine cargoes, vessel operations, offshore loads, crude/LNG transfer and offshore mooring.

These consolidated financial statements were approved for publishing by the Board of Directors on 7 February 2018. Pursuant to the Finnish Limited-Liability Companies Act, the shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after their publication. The Annual General Meeting also has the right to amend the financial statements. A copy of the financial statements is available at www.cargotec.com or from Cargotec Corporation, Investor relations, P.O. Box 61, 00501 Helsinki, Finland.

Accounting principles and new accounting standards

Cargotec Corporation's consolidated financial statements have been prepared according to the International Financial Reporting Standards (IFRS) as adopted by the European Union. The IAS and IFRS standards as well as SIC and IFRIC interpretations valid on 31 December 2017 have been used in preparation of the financial statements.

The consolidated financial statements are prepared under the historical cost convention except for certain classes of financial instruments, cash-settled components of share-based payments, and funds invested in post-employment defined benefit plans that are measured at fair value.

The consolidated financial statements are presented in euros, which is the functional and reporting currency of the parent company. Financial information is presented in millions of euros and business transactions are based on historical cost convention unless otherwise stated. All figures presented have been rounded and the sum of individual figures may therefore deviate from the presented sum total.

Starting from 1 January 2017, Cargotec has adopted the following new standards and amendments:

Amendments to IAS 7 Disclosure Initiative. As a result of this amendment, Cargotec will present the changes in its liabilities arising from financing activities including changes arising from cash flows and non-cash changes, such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Additional information regarding changes in interest-bearing liabilities is presented in note 27, Interest-bearing liabilities.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. Amendments clarify accounting for deferred tax in a situation where an asset is measured at fair value and that carrying value is less than the asset's tax base. In accordance with the amended standard, deferred tax asset is recognised in a situation where the carrying amount of an asset is less than its tax base, it is expected that the asset is recovered for more than its carrying amount, the recoverability of the deferred tax asset can only be assessed in combination with the other deferred tax assets of the same type, and where tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

These amendments and clarifications had no material impact on Cargotec's consolidated financial statements.

Consolidation principles

The consolidated financial statements include the parent company Cargotec Corporation and those subsidiaries in which the parent exercises control, as well as joint ventures and associated companies. Control is achieved when Cargotec is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries have been listed in note 33 Subsidiaries.

Subsidiaries are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. If contingent consideration is classified as a financial liability, it is measured at fair value on each reporting date, and the changes in the fair value are recognised in the statement of income. Contingent consideration classified as equity is not revalued.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their acquisition date fair values. The share of non-controlling

interest in the acquiree is recognised on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsidiaries acquired during the financial period are included in the consolidated financial statements from the date of control, and divested subsidiaries until the date control ceases.

If a business combination is achieved in stages, the previously held equity interest is revalued at fair value at the acquisition date. Any gains or losses arising from remeasurement are recognised in profit and loss. Acquisition-related costs are expensed as incurred. Transactions with non-controlling interests that do not result in a change of control are treated as equity transactions. In acquiring non-controlling interests' shares in subsidiaries, the difference between any consideration paid and the share of net assets acquired in the subsidiary is recorded in equity. Gains and losses realised on disposals to non-controlling interests are also recorded in equity. Distribution of net income for the period to the equity holders of the parent company and to non-controlling interests is presented in the statement of income. Equity attributable to non-controlling interest is disclosed as a separate item in the balance sheet.

All intercompany transactions, receivables, liabilities, unrealised profits and distribution of profits within Cargotec are eliminated in the consolidated financial statements. Accounting principles of subsidiaries have been changed, where necessary, to ensure consistency with the principles adopted by Cargotec Corporation.

Investments in associated companies over which Cargotec exercises significant influence, but not control or joint control, and joint ventures in which Cargotec exercises joint control and has a right to joint venture's net assets with the other owners, are accounted for in the consolidated financial statements under the equity method. Investments in the associated companies and joint ventures are initially recognised on the balance sheet at the acquisition cost that includes the goodwill identified on acquisition as well as the costs for acquiring or establishing the associated company or joint venture.

Cargotec's share of the associated company's or joint venture's profit for the financial period is presented as a separate item before the operating result in the consolidated statement of income. The results of associated companies and joint ventures are equity accounted for based on their most recent financial statements. The carrying amount of investments in associated companies and joint ventures is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified. If Cargotec's share of the associated company's or joint venture's losses exceeds its interest in the company, the carrying amount is written down to zero. After this, losses are only reported if Cargotec is committed to fulfilling the obligations of the associated company or joint venture.

Business transactions between the group and associated companies or joint ventures are recognised in the group's financial statements only to the extent of unrelated investor's interest in the associated company or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting principles of the associated companies and joint ventures have been changed where necessary to ensure consistency with the principles adopted by Cargotec Corporation.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Open foreign currency-denominated receivables and liabilities at the end of the financial period, both intercompany and external, are translated using the exchange rate of the balance sheet date and the resulting foreign exchange gains and losses are recognised in the statement of income except when hedge accounting is applied. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales or costs. Exchange rate differences on derivative instruments designated as cash flow hedges of future cash flows are recorded in the statement of comprehensive income, until transferred to the statement of income simultaneously with the underlying cash flow. Exchange rate differences on other hedges relating to business operations are recorded in other operating income and expenses. Foreign exchange gains and losses associated with financing are included in financial income and expenses.

Foreign subsidiaries

Items of each subsidiary included in the consolidated financial statements are reported using the currency that best reflects the operational environment of that subsidiary ("the functional currency"). The statements of income and cash flow of subsidiaries whose functional currency is other than the euro are translated into euros using the average exchange rate of the financial period. Assets and liabilities on balance sheets are translated into euros at the balance sheet date exchange rate. Translation differences caused by different exchange rates are recognised through the statement of comprehensive income in the cumulative translation differences in equity. Some intercompany loan agreements form a part of net investment as their settlement is neither planned nor probable in the foreseeable future, and thus the exchange rate gains and losses of these contracts are also recognised as translation differences in equity. When applying hedge accounting for a hedge of a net investment in a foreign operation, exchange rate differences on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income, and any ineffective portion is recognised immediately in the statement of income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation differences arising are recognised in equity.

Translation differences from acquisition cost eliminations and post-acquisition profits and losses of subsidiaries, associated companies and joint ventures outside the euro area are recognised in the statement of comprehensive income. When a foreign entity or part of it is disposed, accumulated translation differences previously recognised in other comprehensive income are reclassified to the statement of income as a part of the gain or loss on sale.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Cargotec's Board of Directors together with the CEO. Operating segments are not aggregated to form the reporting segments.

Cargotec has three reporting segments: Kalmar, Hiab and MacGregor.

Revenue recognition

Sales include revenues from products and services sold net of sales taxes, discounts and translation differences from foreign currency denominated revenues. The revenue recognition criteria are usually applied separately to each contract unless multiple contracts entered into effectively form a single transaction, and within contracts, revenue recognition is determined separately for each distinct product or service. A product or service is a distinct performance obligation if it is separable from other contractual promises to the customer, and if the customer can benefit from it on its own or together with other resources that are readily available. Therefore, a single agreement including multiple deliverable elements may include one or more distinct items of revenue. The allocation of a transaction price to distinct promised goods or services is based on the amount Cargotec expects to receive from the sale by taking into account the agreed contractual transaction price, and the assessment of impact of any related variable price elements, such as performance bonuses or late delivery penalties. The revenue is recognised separately for each distinct product or service either on an overtime basis or at a certain point-in-time based on how the control of the product or service is transferred to the customer.

Revenue from sales of machines and equipment that are either manufactured in large quantities or their manufacturing requires no significant amount of design work is recognised when the significant risks and rewards have been transferred to the buyer and the company no longer has the authority or control over the goods. When these products are sold without a delivery or installation, revenue is recognised when the product is handed over or otherwise made available to the customer. If standard products are sold with a delivery but without installation, the timing of revenue recognition is stipulated by the applied Incoterm. If standard products are sold together with an installation service, the timing of revenue recognition is determined based on the complexity of the installation work. Complex installation services are considered as performance obligations closely related to the installed products, and, therefore, the revenue from both is recognised only after the installation is completed. On the contrary, the non-complex installation services that are typically of short duration and low in value do not determine the timing of the product's revenue recognition.

Revenue from sales of machines and equipment, the manufacturing of which requires significant amount of design work, is recognised on an overtime basis by using the percentage of completion method when the outcome of the project can be reliably estimated. The percentage of completion is determined either by reference to the individual contract costs incurred to date as a percentage of the total estimated contract costs (cost-to-cost method) or by completion of a certain physical milestone (milestone method). If it is not possible to reliably estimate the outcome of a project, costs are recognised as incurred and revenues only to an extent the corresponding costs are expected to be recovered. Expected contract losses are recognised as an expense immediately.

Revenue from sales related to software that is ready to use is recognised when delivered or otherwise made available to the customer. Revenue can be recognised at a point-in-time if the customer obtains a perpetual right to use it as it exists at the point in time at which the licence is granted. When the sold software with perpetual licence requires significant customer-specific customisation, the software licence and the customisation work are considered as a combined performance obligation, and the related revenue is recognised by reference to the stage of completion based on the amount of work performed, provided that the outcome can be measured reliably. If a software licence is sold for a defined period of time or as a service, the related revenue is recognised over the licence or service period respectively.

Revenue from sales related to service contracts is recognised in accordance with the percentage of completion method when the outcome of the project can be reliably estimated. The stage of completion is determined by reference to the individual contract costs incurred to date as a percentage of the total estimated contract costs (cost-to-cost method) or by reference to the amount of service work performed from the expected total amount of service work to be performed (milestone method). The percentage of completion related to long-term and low value service contracts is not assessed on an individual contract level based on the costs incurred, or based on amount of work performed, but based on an estimate of how the costs are generally incurred and services performed over a contract period with a similar length. When the services are delivered evenly over time such as software maintenance and support services and extended warranties, or require an undefined number of acts, the revenue is recognised on a straight-line basis over the contract period. If the conditions for the percentage of completion method are not met, then costs are recognised

as incurred and revenues only to the extent that the corresponding costs are expected to be recovered. Possible contract losses are recognised as an expense immediately. Revenue from short-term service orders is recognised when the service has been rendered.

Cargotec offers customer finance services to certain customer segments and distribution channels. In these transactions, Cargotec is involved in arranging financing to the customer or dealer either directly by itself, or in cooperation with a financing partner. It is typical that in these arrangements Cargotec continues to carry some level of residual value risk related to the sold product, or credit risk related to the customer. Depending on the type and level of risk retained, Cargotec accounts for its sales under customer finance arrangements as normal sales, operating or finance leases, or loans in accordance with the true nature of the transaction.

Government grants

An unconditional government grant is recognised in the statement of income when the grant becomes receivable. Other government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and Cargotec will comply with the conditions associated with the grant, and are then recognised in the statement of income on a systematic basis over the period during which the costs related to grant are incurred.

Financing costs

Financing costs are charged to the statement of income during the financial period in which they incur, with the exception that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as a part of the cost of the respective asset.

Income taxes

Tax expenses in the statement of income include taxes of the group companies based on the taxable income of the period, tax adjustments for previous financial periods and the changes in deferred taxes. The statement of comprehensive income includes taxes on items presented in the statement of comprehensive income. Income tax receivables and payables are recognised at the amounts expected to be paid or recovered. Deferred tax assets or liabilities are calculated based on temporary differences between financial reporting and the taxation calculated with enacted or substantively enacted tax rates. Temporary differences arise, for example, from defined benefit plans, provisions, elimination of intercompany inventory profits, depreciation differences on fixed assets, tax losses carried forward and fair value adjustments of assets and liabilities of acquired companies. Deferred tax liabilities are recognised in full and deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the fair value of previously owned interest and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of income. Goodwill is not amortised but tested for impairment at least annually. The impairment testing is described in detail in the section Impairments. Goodwill is measured at cost less impairment. Impairment losses are recognised in the statement of income.

Other intangible assets

Other intangible assets include patents, trademarks, licences, software, capitalised development costs, technologies, acquired order book, and customer relationships. These assets are recognised on the balance sheet at their original cost less cumulative amortisations and impairment losses, if any, except for intangible assets acquired in a business combination which are measured at fair value at acquisition date.

Intangible assets with definite useful lives are amortised on a straight-line basis over their useful lives as follows:

- Developed and acquired technologies 3–10 years
- Customer relationships and trademarks 3–15 years

The assets' useful lives are reviewed, and adjusted if necessary, on each balance sheet date. Trademarks with indefinite useful lives or intangible assets under development are not amortised, but tested for impairment at least annually. The impairment testing is described in detail in the section Impairments.

Research and development costs

Research and development costs are primarily expensed when incurred. However, development costs are capitalised when certain criteria related to economic and technical feasibility are met, and it is expected that the product will generate future economic benefits. Capitalised development costs include mainly materials, supplies and direct labour costs. The development costs that are once expensed are not subsequently capitalised. Capitalised development costs are included as part of an intangible assets and are amortised on a straight-line basis over their useful economic life. Unfinished development projects are tested for impairment annually.

Property, plant and equipment

Property, plant and equipment are recognised on the balance sheet at cost less accumulated depreciations and impairment losses, if any. Depreciation is recognised on a straight-line basis to write off the cost less the estimated residual value over the estimated economic useful life of assets as follows:

- Machinery and equipment 2–10 years
- Buildings 5–40 years
- Land and water areas are not depreciated

The assets' residual values and useful lives are reviewed, and adjusted if necessary, on each balance sheet date. The cost of major renovations is included either in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be distinguished from ordinary maintenance and repair costs. Gains and losses on sales of property, plant and equipment are included in the operating profit.

Impairments

The book values of property, plant and equipment, intangible assets and other assets are reviewed for potential impairment on each balance sheet date. Should any indication arise, the asset is tested for impairment. Impairment testing determines the recoverable amount of an asset. The recoverable amount is the fair value less costs to sell, or the higher cash flow-based value in use. If the recoverable amount of a single asset cannot be reliably determined, the need for impairment is assessed on the lowest level of the cash generating unit (CGU) that is mainly independent of the other units, and whose cash flows are separately identifiable from the cash flows of the other units.

An impairment loss is recognised in the statement of income when the carrying amount of an asset exceeds its recoverable amount. A previously recognised impairment loss is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, however, impairment loss can be reversed only to an extent that the carrying value of an asset is returned to a level where it would have been without the recognised impairment loss.

Goodwill and intangible assets with indefinite useful lives are not amortised, but are tested for impairment when any indication of impairment exists, but at least annually. Impairment testing is performed on the level of the CGU. Goodwill is allocated to those units or groups of units, identified in accordance with the operating segments, that are expected to benefit from the business combination. The testing of other intangible assets with indefinite useful life is either performed as part of a CGU, or on an individual asset level if it is possible to determine independent cash flows for it. The determined recoverable amount of a CGU is based on value-in-use calculations. Value-in-use is determined by calculating the present value of the estimated future net cash flows. The discount rate applied is the weighted average pre-tax cost of capital that reflects the current market view of the time value of money and risks related to the tested unit.

An impairment loss is recognised in the statement of income when the carrying amount of the CGU exceeds its recoverable amount. Impairment loss is first allocated to goodwill and then to other assets on a pro rata basis. Impairment losses recognised for goodwill cannot be subsequently reversed.

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction instead of normal use and a sale is considered highly probable. Non-current assets held for sale are measured immediately before reclassification in accordance with the normal measurement principles after which they are measured at the lower of carrying amount and fair value less cost to sell. Impairment losses or gains are recognised in the statement of income. Non-current assets held for sale are not depreciated or amortised.

Leases, Cargotec as lessee

Cargotec has rented property, plant and equipment. Lease agreements, in which substantially all of the risks and rewards incidental to ownership are not transferred to Cargotec, are classified as operating leases. The lease obligations related to operating leases are not recognised on the balance sheet and the related lease expenses are recognised in the statement of income on a straight-line basis over the lease period.

Lease agreements, in which the company has substantially all the ownership risks and rewards, are classified as finance leases. Finance lease agreements are recognised in the balance sheet as assets and liabilities at the inception of the lease period at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Assets acquired under finance lease agreements are depreciated over the shorter of the useful life of the asset or the lease period. Lease payments are allocated between repayments of the lease liability and finance charges, so that a constant interest rate on outstanding balance is obtained. Lease obligations, net of finance charges, are included in the interest-bearing liabilities.

Leases, Cargotec as lessor

Cargotec rents out equipment under operating leases with varying terms and renewal rights. In an operating lease the risks and rewards incidental to ownership of an asset remain with the lessor. The leased asset is recognised in the balance sheet according to the nature of the asset. Income from operating leases is recognised on a straight-line basis over the lease term. The depreciation of the leased asset is consistent with the normal depreciation policy of similar assets in own use.

In a finance lease the risks and rewards of ownership are transferred to the lessee. The sales profit is recognised similarly to profit from an outright sale. Finance lease receivables are recognised in balance sheet at present value. The financial income relating to the finance lease contract is recognised in the statement of income over the lease term so as to achieve a constant interest rate on outstanding balance.

Inventories

Inventories are measured at the lower of cost and estimated net realisable value. Cost is primarily determined using the weighted average method. The cost of inventory

includes purchase cost as well as transportation and processing costs. The cost of self-manufactured finished goods and work in progress includes raw materials, direct labour, other direct costs and a proportion of both indirect costs related to manufacturing and overheads. An allowance is recorded for obsolete items. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale.

Construction contracts

Construction contracts in progress represent the gross amount expected to be collected from customers for contract work performed to date. It is measured at costs incurred plus profits recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads that are attributable to contract activity in general.

Construction contracts in progress are presented as part of accounts receivable and other non-interest bearing assets in the balance sheet for all contracts in which costs incurred plus recognised profits exceed progress billings and recognised losses. If progress billings and recognised losses exceed costs incurred plus recognised profits, then the difference is presented as a liability in the balance sheet as part of accounts payable and other non-interest-bearing liabilities. Customer advances are presented as liabilities in the balance sheet.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables at amortised cost, and available-for-sale financial assets. Financial assets are classified at the initial recognition in accordance with the features and planned use of the asset. Financial assets are presented as non-current when their maturity exceeds one year.

Financial assets recognised at fair value through profit or loss includes derivative instruments unless hedge accounting is applied. The transaction costs and subsequent fair value changes of financial assets recognised at fair value through profit or loss are recognised directly in the statement of income. Fair value changes related to derivatives under hedge accounting are recognised in the statement of comprehensive income and subsequently, recycled to the income statement when hedge accounting is ceased.

Loans and receivables at amortised cost mainly include accounts receivable, and cash and cash equivalents that are not quoted in an active market and that are not kept for trading purposes. Loans receivable are measured initially at fair value plus transaction costs, and subsequently at amortised cost using the effective interest method. An impairment loss is recognised in the statement of income if the book value of the loan receivable is higher than the estimated recoverable amount.

Accounts receivable are initially recognised at fair value, and subsequently at amortised cost less impairment. Impairments recognised to individual receivables are based on a regular review of accounts receivable, and Cargotec's best knowledge of customer's ability to pay. Additionally, an allowance is recognised for overdue receivables based on an estimate of incurred credit losses for which Cargotec has no knowledge yet. Impairments and allowances are recognised in the statement of income under selling, general and administrative expenses. Bad debts are written off when official announcement of liquidation or bankruptcy is received confirming that the receivable will not be collected.

Financial assets available-for-sale mainly consist of shares not quoted in an active market and which are carried at cost, as the fair value of these assets cannot be measured reliably or the fair value would not significantly differ from the acquisition cost. Available-for-sale assets also include other investments that are initially recognised at fair value plus transaction costs and subsequently at fair value through the statement of comprehensive income. If there is objective evidence that the fair value has decreased, an impairment loss is recognised in the statement of income. Impairment on investments in shares cannot be subsequently reversed.

Purchases and sales of derivative instruments are recognised on the trade date, while transactions in the other financial asset categories are recognised on the settlement date.

A financial asset is derecognised when the contractual rights to cash flow from the asset expire or are transferred, and when material risks and rewards of ownership have been transferred to another party.

Cash and cash equivalents

Cash and cash equivalents include cash balances, short-term bank deposits and other short-term liquid investments with maturities up to three months. Bank overdrafts are included in other current liabilities. In the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents.

Financial liabilities

Financial liabilities are classified as financial liabilities recognised at amortised cost and as financial liabilities recognised at fair value through profit or loss. Financial liabilities are presented as non-current when their maturity exceeds one year.

Financial liabilities recognised at fair value through profit or loss include derivative instruments unless hedge accounting is applied. The transaction costs and subsequent fair value changes of financial liabilities recognised at fair value through profit or loss are recognised directly in the statement of income. Fair value changes related to derivatives under hedge accounting are recognised in the statement of comprehensive income and, subsequently,

recycled to the income statement when hedge accounting is ceased.

Financial liabilities recognised at amortised cost include mainly interest-bearing liabilities and trade payables. Financial liabilities recognised at amortised cost are initially recognised at fair value less transaction costs, and subsequently, at amortised cost using the effective interest method.

Bought and sold derivative instruments are recognised on the trade date while transactions with the other financial liabilities are recognised on the settlement date.

A financial liability is derecognised when the related obligation is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income.

Derivative financial instruments and hedge accounting

Cargotec uses mainly currency forwards, and cross-currency and interest rate swaps to hedge from the identified significant market risks. Derivative instruments are initially recognised on the balance sheet at cost, which equals the fair value, and are subsequently measured at fair value on each balance sheet date. Derivatives are classified at the inception either as hedges of binding agreements and future cash flows, in which case cash flow hedge accounting is applied to them, or as derivatives at fair value through profit or loss, when the preconditions for hedge accounting are not fully met.

Fair values of foreign currency forward contracts are based on quoted market rates on the balance sheet date. The fair values of cross-currency and interest rate swaps are calculated as the present value of the estimated future cash flows. Derivative instruments are presented as non-current when their maturity exceeds one year.

Cash flow hedge accounting is mainly applied to hedges of operative cash flows. In addition, hedge accounting is applied to hedges of certain foreign currency denominated borrowings. To qualify for hedge accounting, the company documents the hedge relationship of the derivative instruments and the underlying items, group's risk management targets and the strategy of applying hedge accounting. When starting hedge accounting and at least in every interim and annual closing, the company documents and estimates the effectiveness of the hedge by measuring the ability of the hedging instrument to offset changes in fair value of the underlying cash flow.

Fair value changes of hedging instruments under effective cash flow hedge relationship are recognised via statement of comprehensive income in the fair value reserve of equity, and under effective net investment hedges via statement of comprehensive income in the translation differences of equity. However, only the exchange rate difference of foreign currency forward agreements is recognised in other comprehensive income whereas the changes in forward points are recognised as financial income or expense in the statement of income. Cumulative gain or loss on the hedge recognized via statement of comprehensive income in fair value reserve or translation differences is recognised in the statement of income as adjustment to the underlying cash flow when the underlying cash flow is recognised. The effective portion of foreign currency forwards hedging sales and purchases is recognised in sales and cost of goods sold, respectively. If the hedged cash flow is no longer expected to materialise, the deferred gain or loss is immediately recognised in the statement of income. If the hedging instrument is sold, expires, is revoked or exercised, or the relation of the hedging instrument and the underlying item is revoked, the cumulative change in the fair value of the hedging instrument remains to be recognised in the fair value reserve and is recycled to the statement of income when the underlying operative item materialises. If effectiveness testing results in ineffectiveness, the ineffective portion of the hedges is recognised immediately in the statement of income.

Changes in the fair values of hedges, for which hedge accounting is not applied, are recognised in the statement of income, either in other operating income and expenses, or financial income and expenses depending on the underlying exposure.

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Pension obligations

Cargotec operates various pension plans in accordance with local conditions and practices. The plans are classified either as defined contribution plans or defined benefit plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity with no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate.

A defined benefit plan is a pension plan under which the group itself has the obligation to pay retirement benefits and bears the risk of change in the value of plan liability and assets. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present

value of the defined benefit obligation at the end of reporting period less fair value of plan assets. The defined benefit obligation regarding each significant plan is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate or government bonds with approximating terms to maturity and that are denominated in the currency in which the benefits are expected to be paid. The applied discount rates are determined in each country by an external actuary. If an asset is recognised in the balance sheet based on the calculation, the recognition is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Actuarial gains and losses related to remeasurements of a defined benefit plan and the effect of the asset ceiling, if any, are recognised directly in the statement of comprehensive income. Interest and all other expenses related to defined benefit plans are recognised directly in the statement of income.

If a plan is changed or curtailed, the portion of the changed benefit related to past service by the employees, or the gain or loss on curtailment, is recognised directly in the statement of income when the plan amendment or curtailment occurs.

Provisions

Provisions are recognised when Cargotec has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are accounted for using the best estimate for the costs required to settle the obligation on the balance sheet date. In case the time value of money is significant the provision is stated at present value.

Provisions for warranties cover the estimated costs to repair or replace products still under warranty on the balance sheet date. Provision for warranty is calculated based on historical experience of levels of repairs and replacements.

Provisions for product claims consist of expected costs arising from settling customer claims for which the value, probability and realisation can be estimated.

A provision is recorded for a loss-making contract when the unavoidable costs required to fulfil the commitment exceed the gain to be received from the contract.

A restructuring provision is recorded when Cargotec has prepared a detailed restructuring plan and started the implementation of the plan or communicated the plan. A restructuring plan shall include the following information: business which is affected, the main units and personnel affected by the restructuring, as well as the costs to be incurred and the timetable of the plan. A restructuring provision and other restructuring related expenses are booked to the function costs to which they by nature belong. However, in case of a significant restructuring programme of Cargotec or its business area, restructuring costs are presented separately in the statement of income.

Profit distribution

Profit distribution includes dividends and donations decided by the Shareholders' Meeting. The distribution of profits proposed by the Board of Directors is not recognised in the financial statements until approved by Cargotec Corporation's shareholders at the Annual General Meeting.

Treasury shares

When the parent company or its subsidiaries purchase shares of Cargotec Corporation, the consideration paid and directly attributable costs are recognised as a deduction in equity. When such shares are sold, the consideration received, net of directly attributable transaction costs and income tax effect, is included in equity.

Share-based payments

Cargotec Corporation has share-based incentive plans which include incentives paid as shares or in cash. The benefits granted in accordance with the incentive plan are valued at fair value at the grant date and are expensed on a straight-line basis over the vesting period. The fair value of the equity-settled incentives is the market value at the grant date. The share-based payments settled with equity instruments are not revalued subsequently, and cost from these arrangements is recognised as an increase in equity. The cash-settled share-based incentives are valued at fair value at each closing until the settlement date and recognised as a liability.

The expensed amount of the benefits is based on the group's estimate of the amount of benefits to be paid at the end of the vesting period. Market conditions and non-vesting conditions are considered in determining the fair value of the benefit. Instead, the non-market criteria, like profitability or increase in sales, are not considered in measuring the fair value of the benefit but taken into account when estimating the final amount of benefits. The estimate is updated at every closing and changes in estimates are recorded through the statement of income.

Adoption of new or amended IFRS standards and interpretations

In 2018, Cargotec will adopt the following new and amended standards and interpretations by the IASB:

IFRS 15 Revenue from contracts with customers with additional clarifications, and associated amendments to various other standards (effective from 1 January 2018). IFRS 15 replaces the existing revenue recognition guidance in IAS 18 Revenue and IAS 11 Construction contracts as well as the related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue can be recognised. The impact of

IFRS 15 has been assessed separately for each main product and contract type. During this assessment, business practices, contracts, and underlying performance obligations have been analysed under the IFRS 15 framework in order to identify areas of change.

Based on the impact assessment, the new standard will mainly change revenue recognition because of the more detailed guidance on allocation and recognition of revenue separately to each distinct performance obligation. This requirement is especially relevant in a sales transaction where a combination of deliverables sold together does not form a single distinct performance obligation. This is typical in a situation where the components sold together do not form a complete functioning product. This has an impact on revenue recognition of the MacGregor business area in situations where a customer receives elements of a product at different times and MacGregor doesn't deliver product installation. By moving from contract-level revenue recognition to performance obligation-level revenue recognition MacGregor will recognise revenue under IFRS 15 in steps and earlier than currently.

The second main area of impact for Cargotec relates to IFRS 15 criteria on overtime revenue recognition. Cargotec is especially impacted by the new overtime revenue recognition rule based on the product-level "alternative use" assessment and the contract-level "right to margin" assessment. The alternative use assessment has been performed for all Cargotec product types, and the outcome of this assessment is that the revenue model of certain MacGregor products will change to overtime model under IFRS 15. However, the final revenue model related to all products with no alternative use will always depend on what related contracts stipulate about Cargotec's right to a margin. In these situations, the overtime revenue model is applicable only when Cargotec has a right to margin at all times during the contract period. Both MacGregor and Kalmar have identified certain contracts lacking this right and, therefore, it is not possible to recognise revenue from these contracts based on the overtime model.

No material impact has been identified with respect to other steps in the new revenue recognition model including identification of a contract, identification of a transaction price, and allocation of a transaction price to distinct performance obligations because the current accounting principles and practices are mostly in compliance with the principles of IFRS 15. In addition to impacts described above, the standard's more detailed guidance regarding rights and obligations related to sales contracts, and based on which sold products may subsequently return to Cargotec, increases complexity of the accounting instructions related to Cargotec's customer finance arrangements. However, it does not have a material impact on the revenue recognition of the customer finance arrangements currently in use.

Overall, IFRS 15 has an impact on the revenue recognition of the MacGregor and Kalmar business areas but has no material impact on the Hiab business area. Cargotec adopts the standard retrospectively by using the allowed reliefs in the transition. The impact of IFRS 15 on the opening balance sheet of the comparative period is not significant. The combined effect of contracts with changed revenue recognition method results an increase of approximately two million euros in retained earnings in the beginning of the comparative period, and a decrease of approximately two million euros in retained earnings on the date of transition 1 January 2018.

IFRS 9 Financial Instruments and subsequent amendments (effective from 1 January 2018). IFRS 9 will replace the existing guidance in IAS 39 Financial instruments: Recognition and measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements.

The new classification and measurement guidance has no significant impact on Cargotec's financial reporting. The new guidance is adopted on 1 January 2018 by using the transitional relief allowing not to restate the comparative period. The new guidance for measuring impairment of financial assets changes Cargotec's credit loss measurement from the current incurred credit loss model to the new expected credit loss model. As a result of this change, Cargotec adopts the simplified credit loss model for its customer receivables and the generic expected credit loss model for its other receivables. The new credit loss model for trade receivables consists of two credit loss components from which the first component is calculated based on quantitative rules-based ageing analysis of customer receivables in which the risk-weights are derived from historical credit losses. The second component involves an asset level or asset group level forward-looking qualitative assessment based on which an additional impairment can be recognised to a receivable or group of receivables in excess of the level of the first credit loss component. Despite the requirement to recognise impairments due to credit losses also for the not overdue receivables, and to be more forward-looking in the risk analysis performed, the overall increase of the credit loss allowance due to the new model is not expected to be large. The increase of credit loss allowance mainly relates to the non-overdue or less than 90 days overdue receivables, and amounts to approximately two million euros. The impact of the generic expected credit loss model applied to other receivables is not significant. The new guidance for measuring impairment of financial assets is adopted on 1 January 2018 by using the transitional relief allowing not to restate the comparative period. The changes in the hedge accounting guidance do not affect Cargotec's current hedge accounting model. Cargotec applies the hedge accounting guidance of IFRS 9 to new hedge accounted items from 1 January 2018.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions* (effective from 1 January 2018). Amendments provide clarification on situations where the classification of a share-based payment scheme changes from cash-settled to equity-set-

tled. Additionally, amendments provide new guidance regarding plans in which the gross reward earned is settled partly in shares and partly in cash due to an obligation to withhold income taxes from the participants. Due to the amendment, a share-based payment scheme is treated as an equity-settled scheme in full if the earned reward would not be settled partly in cash if Cargotec had no obligation to withhold related income taxes. As a result, Cargotec's restricted incentive programmes, and the long-term incentive schemes that have been granted before the year 2017 will be treated going forward in full as equity-settled. On the date of transition, the accumulated liability related to cash-settled components of these arrangements will be reclassified into equity. This change has no material impact on Cargotec's balance sheet.

IFRIC 22 Foreign Currency Transactions and Advance Consideration* (effective from 1 January 2018). The interpretation provides guidance on accounting of advance payments received in foreign currency by clarifying which transaction date's spot rate should be used when converting foreign currency item into functional currency when there is a timing difference between the advance payment received in foreign currency that is accounted for as a non-monetary item, and the actual transaction it relates to. The impact of the interpretation on Cargotec has not yet been assessed.

The following standards, interpretations and amendments will be applied in 2019 or later:

IFRS 16 Leases (effective from 1 January 2019). IFRS 16 replaces the existing lease standard IAS 17 and the related interpretations. IFRS 16 will mainly affect the accounting by lessees by removing the current distinction between the operating and finance leases and requiring recognition of a right-of-use asset and a financial liability to pay rentals for all lease contracts except for low-value and short-term leases. In addition to the effect on the balance sheet, the change will result in more interest expenses paid for the leases, more depreciation related to leased assets, and more financing cash flows in the statement of cash flows as a result of cash payments relating to a principal portion of the lease liability. For lessors, the standard will cause no changes as both the current operating lease and finance lease models remain unchanged.

The impact of IFRS 16 is expected to be significant. As disclosed in note 30, Leases, the gross amount of non-cancellable operating lease payables at the year-end amounted to EUR 189.4 million. The present value of the non-cancellable operating lease payables is less than this, but considering the IFRS 16 requirements regarding options to buy leased assets and options to extend the lease term, the amount of the non-cancellable operating lease payables serves as a good estimate of the increase of lease liabilities and assets upon adoption of IFRS 16. Assuming that the change in Cargotec's interest-bearing liabilities would correspond to the existing non-cancellable operating lease payments on the reporting date, Cargotec's gearing would increase from the reporting date's 33 percent to 46 percent. Notwithstanding the change, Cargotec would continue to meet all the covenant terms related to its loans.

Amendments to IFRS 9 Prepayment Features with Negative Compensation* (effective from 1 January 2019). The amendment clarifies the classification and measurement of an asset with a prepayment feature allowing the borrower to prepay the instrument at a higher or lower amount than the unpaid amounts of principal and interest. The amendment clarifies that such an instrument can be measured at amortised cost or at fair value through other comprehensive income despite the fact that its cash flows may differ from pure principal and interest as long as the use of the prepayment option is within the discretion of one of the parties to the instrument. The amendment is not expected to have an impact on Cargotec.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures* (effective from 1 January 2019). The amendment clarifies that long-term interests in an associate or joint venture such as preference shares or loans that, in substance, form part of the net investment in the entity are accounted for in accordance with IFRS 9 because equity accounting is not applied to these amounts. The amendment is not expected to have an impact on Cargotec.

IFRIC 23 Uncertainty over Income Tax Treatments* (effective from 1 January 2019). The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit, tax bases, unused tax losses, unused tax credits and tax rates determined in applying this interpretation. The impact of the interpretation on Cargotec has not yet been assessed.

Annual improvements to IFRS Standards 2015–2017* (effective from 1 January 2019) clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, the change is accounted for as a business combination. It also clarifies that when an equity accounted investee becomes a joint operation or vice versa, the change is not accounted for as a business combination. Additionally, amendments provide guidance on tax consequences of dividends paid on financial instruments classified as equity, and capitalization of borrowing costs. These amendments are not expected to have an impact on Cargotec.

*The standards, interpretations or amendments in question have not yet been endorsed in the EU.

2. Estimates and assumptions requiring management judgement

When preparing the consolidated financial statements, the management makes estimates and assumptions which have an impact on reported assets and liabilities, presentation of the contingent assets and liabilities in notes and reported income and expenses of the financial year. In addition, management judgement may be required in applying the accounting principles.

Estimates and assumptions requiring management judgement are based on the management's historical experience, best knowledge about the events and other factors, such as expectations on future events, which can be considered reasonable. The actual amounts may differ significantly from the estimates used in the financial statements. Cargotec follows the changes in estimates, assumptions and the factors affecting them by using multiple internal and external sources of information. Possible changes in estimates and assumptions are recognised in the financial period the estimate or assumption is changed. The most important items in the consolidated statements, which require the management's estimates and which may include uncertainty, comprise the following:

Impairment testing

Intangible assets and property, plant and equipment are tested for impairment always, when there is any indication of impairment. In assessing impairment both external and internal sources of information are considered. External sources include a significant decline in market value that is not the result of the passage of time, normal use of the assets or increase in interest rate. Internal sources of information include evidence of obsolescence of, or physical damage to, an asset. When the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognised as an expense immediately, and the carrying amount is reduced to the asset's recoverable amount.

Goodwill and other intangible assets with indefinite life are tested for impairment at least annually. For impairment testing, goodwill and other intangible assets with indefinite life are allocated to cash generating units (CGU). The recoverable amounts of cash generating units are based on value-in-use calculations. These calculations require the use of estimates. On 31 December 2017, Cargotec had goodwill amounting to EUR 986.7 (31 Dec 2016: 1,024.5) million and other intangible assets with indefinite life totalling EUR 40.8 (31 Dec 2016: 40.9) million. Additional information on the sensitivity of the recoverable amount to assumptions used is given in note 14, Goodwill.

Taxes

Determination of income taxes and deferred tax assets and liabilities and the amount of deferred tax asset to be recognised requires management judgement. On 31 December 2017, Cargotec's balance sheet includes EUR 35.7 (31 Dec 2016: 58.2) million deferred tax assets resulting from tax losses carried forward.

Cargotec is subject to income tax in numerous jurisdictions where the interpretation of tax legislation may require management judgment, and the applied interpretations may include uncertainty. Cargotec recognises liabilities for known uncertain tax positions if it is estimated likely that the tax authorities will challenge the taken position. The amount of liability is based on an estimate of the final tax expense. More information regarding taxes is presented in note 12, Income taxes, and in note 18, Deferred taxes.

Business combinations

Net assets acquired through business combinations are measured at fair value. The consideration exceeding the value of net assets acquired is recognised as goodwill according to the accounting principles. The measurement of fair value of the acquired net assets is based on market value of similar assets (property, plant and equipment), or an estimate of expected cash flows (intangible assets). The valuation, which is based on prevailing repurchase value, expected cash flows or estimated sales price, requires management judgement and assumptions. The management trusts that the applied estimates and assumptions are sufficiently reliable for determining fair values. More information on the measurement of fair value of the assets acquired through business combinations is presented in note 5, Acquisitions and disposals.

Defined benefit plans

The present value of pension obligations depends on a number of factors determined on an actuarial basis by using a number of financial and demographic assumptions, and changes in these assumptions impact the carrying amount of pension obligations. The key financial assumption used in determining the net cost (income) for pensions is the discount rate. The appropriate discount rate is determined at the end of each year and is used in calculating the present value of estimated cash outflows to settle the pension obligation. In determining the appropriate discount rate, Cargotec considers the yields of high-quality corporate or government bonds, depending on the country, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions related to pension obligations include financial assumptions such as estimated increases in salaries and pensions, and demographic assumptions such as mortality rates. Additional information on these assumptions and uncertainties related to them is disclosed in note 26, Post-employment benefits.

Revenue recognition

The percentage of completion method is applied to separately identified construction contracts and service contracts. Application of the percentage of completion method requires either an estimate of the actual costs incurred in proportion of the estimated total costs or an estimate of the construction contract's physical stage of

completion. Additionally, if the estimate of the final outcome of the contract changes, the recognition of revenue and profit is adjusted in the period the change has come to attention and can be estimated. The expected loss from the construction contract is expensed immediately. In 2017, approximately 6.9 (2016: 8.6) percent of sales were recognised in accordance with the percentage of completion methods. Additional information is disclosed in note 6, Long-term construction contracts.

Provisions

A provision is recognised when Cargotec has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation. A provision may be recognised only when the amount can be reliably estimated. The amount to be recorded is the best estimate of the cost required to settle the obligation at the reporting date. The estimate of the financial impact of the past event requires management judgement, which is based on similar events occurred in the past, and where applicable, external experts' opinion. Provisions are reviewed on a regular basis, and when necessary, adjusted to reflect the current best estimate. The actual costs may differ from the estimated costs. The most significant provisions are warranty provisions, which include the cost of repairing or replacing products during the warranty period. Restructuring provision is recognised when Cargotec has prepared a detailed restructuring plan and started the implementation of the plan or communicated the plan. Restructuring costs are the expected costs directly related to restructuring provisions, and other incurred costs that the management considers as related to restructuring programmes, although not provided for. On 31 December 2017, provisions totalled EUR 120.6 (31 Dec 2016: 150.4) million, of which EUR 30.3 (31 Dec 2016: 38.1) million were restructuring provisions. Additional information about provisions is disclosed in note 29, Provisions.

Inventories

Cargotec recognises an allowance for obsolete inventory items at the end of the reporting period based on the best knowledge. The estimate is based on a systematic and continuous monitoring of the inventory. The nature, state, age structure and volumes based on estimated need are taken into consideration when estimating the amount of allowance. The amount of allowance for obsolete items in the balance sheet on 31 December 2017 totalled EUR 93.6 (31 Dec 2016: 96.0) million. Additional information about inventories is disclosed in note 19, Inventories.

Fair value of financial assets and liabilities

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The fair value of the over-the-counter derivatives used for hedging is determined by using commonly applied valuation techniques, and by maximising the use of available market prices. In applying these techniques, judgement is used to select the applied method, and where appropriate, to make assumptions that are mainly based on existing market conditions at the reporting date.

Cargotec recognises impairments on accounts receivable at the end of the reporting period based on the best knowledge when there is objective evidence that Cargotec will not be able to collect all amounts due. Estimates are based on systematic and continuous follow-up as part of the credit risk control. The amount of impairment in the balance sheet on 31 December 2017 totalled EUR 20.7 (31 Dec 2016: 20.0) million. Additional information regarding the impairment of accounts receivable is disclosed in note 22, Accounts receivable and other non-interest-bearing receivables.

Assessment of control, joint control and significant influence

Cargotec applies judgement in determining an appropriate method to account for its ownership in the investees. The investees consolidated as subsidiaries with less than 50 percent of the voting rights are listed in note 33, Subsidiaries. In these investments, it has been assessed that Cargotec has de facto control based on shareholder agreements. Note 17 presents Cargotec's investments that are accounted for as joint ventures and as associated companies. Cargotec's investments in joint arrangements are classified as joint ventures based on shared control, rights to net assets of the arrangement, and other relevant circumstances related to the arrangements. Cargotec's investments in associated companies include an investment in which Cargotec's voting rights are less than 20 percent. Accounting for the investment as an associated company is based on the wide ownership structure of the investee, Cargotec's representation in the board of directors, and Cargotec's significance as a customer to the entity.

3. Financial risk management

Organisation of finance function and financial risk management

Cargotec's finance function and financial risk management are conducted according to the Treasury Policy, approved by the Board of Directors. Organization, responsibilities and principles of financial risk management, monitoring and reporting are defined in the Treasury Policy. Treasury Committee, appointed by the Board, is responsible for Treasury Policy compliance and for organising and monitoring the treasury function. Detailed guidelines for financing functions in accordance with Treasury Policy are defined in Treasury Instructions, approved by the Treasury Committee.

The objectives of treasury management are to secure sufficient funding for business operations, avoiding financial constraint at all times, to provide business units with financial services, to minimise the costs of financing, to manage financial risks (currency, interest rate, liquidity and funding, credit, counterparty and operational risks) and to regularly provide management with information on the

financial position and risk exposures of Cargotec and its business units.

Cargotec Treasury is responsible for funding at corporate level, for managing liquidity and financial risks, for providing efficient set up of financing operations and for monitoring business unit financial positions. Cargotec Treasury reports on these issues monthly. The business units are responsible for hedging their financial risks according to the Treasury Policy and instructions from Cargotec Treasury.

Currency risk

Cargotec operates in more than 100 countries and is, due to its global operations, exposed to risks arising from foreign exchange rate fluctuations. A significant proportion of Cargotec sales and costs are generated in foreign currencies, mostly in US dollars and Swedish krona.

The objective of currency risk management is to hedge operations against exchange rate fluctuations, thus allowing time for the business units to react and adapt to changes in exchange rates. Foreign currency positions, which include contractual cash flows, related to sales, purchases and financing, are fully hedged. Other highly probable cash flows may be hedged, if deemed necessary by Cargotec Treasury and the business unit. The business units report their risk exposures to Cargotec Treasury and hedge the positions via intercompany forward contracts. In countries where hedging is restricted, foreign currency denominated loans and deposits may be used as hedging instruments.

Cash flow hedge accounting is generally applied to qualifying foreign currency hedges. Under the Cargotec hedge accounting model, the portion of fair value change related to change in spot rate is recognised in the fair value reserve within equity until the cumulative profit or loss is recycled to the statement of income simultaneously with the hedged item. The portion of fair value change related to interest rate is excluded from hedge accounting and recognised directly in profit or loss. Hedge accounting is started when a qualifying risk exposure is identified and Cargotec enters into a hedge, and terminated when the hedged item impacts profit or loss. Hedge accounting is not applied in cases where its impact on the consolidated statement of income is deemed insignificant by Cargotec Treasury.

Cash flow hedge accounting is applied to cash flows of the USD 85.0 (2016: 205.0) million Private Placement corporate bond, funded in February 2007 and maturing in 2019. The cash flows of the bond are converted into euro flows through long-term cross-currency swap. As a result of the hedging, Cargotec effectively holds EUR 64.0 (2016: 154.2) million long-term fixed rate debt.

Cargotec is exposed to foreign currency risk arising from both on- and off-balance sheet items. The net balance sheet exposure in the table below represents the foreign currency risk arising from the on-balance sheet financial items, and the net exposure illustrates the total outstanding foreign currency risk as defined and monitored by Cargotec Treasury.

31 Dec 2017 MEUR	EUR	USD	SEK	PLN	NOK	CNY	Others
Balance sheet items	-36.5	65.1	-27.5	9.5	-23.8	-2.9	16.2
Hedges	138.4	-347.5	117.6	11.5	72.9	27.1	-20.1
Balance sheet exposure	**101.9**	**-282.4**	**90.2**	**21.0**	**49.0**	**24.1**	**-3.8**
Order book and purchases	-98.7	298.7	-97.3	-40.7	-49.2	-25.6	12.9
Net exposure	**3.2**	**16.2**	**-7.1**	**-19.7**	**-0.2**	**-1.5**	**9.1**

31 Dec 2016 MEUR	EUR	USD	SEK	PLN	NOK	CNY	Others
Balance sheet items	-5.9	86.0	-39.5	12.1	-16.6	-0.3	-35.7
Hedges	97.3	-339.1	83.9	14.0	94.6	61.3	-12.1
Balance sheet exposure	**91.4**	**-253.1**	**44.4**	**26.1**	**78.0**	**61.0**	**-47.8**
Order book and purchases	-88.3	264.6	-48.1	-33.2	-76.8	-54.7	36.6
Net exposure	**3.1**	**11.5**	**-3.7**	**-7.1**	**1.2**	**6.3**	**-11.2**

The foreign currency exposures in the table above include the most important operational currencies of Cargotec's business units. In this table, amounts are presented on a gross basis including foreign currency amounts and counter values in local currencies.

Cargotec's subsidiaries constantly monitor their foreign currency exposures and report them on a monthly basis to Cargotec Treasury which is responsible for monitoring the overall exposure and arranging hedges for identified exposures. Cargotec Treasury also monitors the translation risk arising from different currencies and, where deemed

significant, translation risk positions are hedged and net investment hedge accounting is applied.

Foreign exchange rate fluctuations have an effect on the consolidated income and equity. The effect in the statement of income arises from foreign currency denominated financial assets and liabilities in the subsidiaries' balance sheets, including derivatives for which hedge accounting is not applied. The effect in equity arises from derivatives under hedge accounting from which the fair value fluctuations related to changes in exchange rates are recognized in the fair value reserve of the other comprehensive income. Foreign exchange rate impact in the fair value reserve is expected to be offset by the corresponding opposite impact in the value of the hedged item when recognised in the statement of income. The majority of the hedges mature and hedged cash flows realise within the next year.

If the US dollar had strengthened/weakened 10 percent against the euro, the effect on income before taxes would have been EUR 0.2 million negative/positive (31 Dec 2016: 0.2 million negative/positive), and on other comprehensive income EUR 11.8 million negative/positive (31 Dec 2016: 8.4 million negative/positive).

If the Swedish krona had strengthened/weakened 10 percent against the euro, the effect on income before taxes would have been EUR 0.4 million positive/negative (31 Dec 2016: 0.7 million positive/negative), and on other comprehensive income EUR 0.7 million negative/positive (31 Dec 2016: 2.5 million positive/negative).

If the Swedish krona had strengthened/weakened 10 percent against the US dollar, the effect on income before taxes would have been EUR 0.9 million negative/positive (31 Dec 2016: 0.3 million negative/positive), and on other comprehensive income EUR 8.8 million positive/negative (31 Dec 2016: 1.8 million positive/negative).

Net investments in non-euro area subsidiaries cause translation differences, recognised in the consolidated equity (translation risk). Until May 2017, Cargotec held intercompany loans accounted for as net investments and exchange rate gains and losses arising from these loans were recorded as translation differences. In May 2017, Cargotec made a decision to change the accounting treatment of these loans and started to treat them as normal intercompany loans.

Translation risk is managed by hedging the capital structure so that the effect of foreign exchange rate fluctuations on debt and equity is in balance. Until May 2017, Cargotec hedged a part of the Swedish krona related translation risk with derivatives, and applied hedge accounting for these hedges with the aim to reduce the impact of Swedish krona related translation risk to Cargotec's gearing. After changing the accounting treatment of the SEK intercompany net investment loans, Cargotec decided to unwind the hedges. At the reporting date, the translation risk from Swedish krona amounted to EUR 579.5 (31 Dec 2016: 1,351.7) million before the hedges and EUR 579.5 (31 Dec 2016: 786.3) million after the hedges. In addition to the Swedish krona exposure, other biggest translation exposures were in the Singapore dollar EUR 723.6 (31 Dec 2016: 263.9) million and the US dollar EUR 396.1 (31 Dec 2016: 633.2) million. The impact of translation risk from currencies to Cargotec's gearing is not significant and it has not been considered necessary to hedge the translation risk.

Interest rate risk

Fluctuations in market interest rates have an effect on consolidated interest outflows and the fair values of interest-bearing loans, receivables and derivative instruments. The objective of interest rate risk management is to mitigate the impact of interest rate changes on the statement of income, balance sheet and cash flow. To manage interest rate risk, the duration of the financial portfolio is maintained within the limits set by the Treasury Committee, by balancing between fixed and floating rate debt and by using derivative instruments.

On 31 December 2017, Cargotec's consolidated interest-bearing debt totalled EUR 795.2 (31 Dec 2016: 821.9) million, of which EUR 469.3 (31 Dec 2016: 343.9) million were fixed rate corporate bonds, EUR 2.5 (31 Dec 2016: 0.0) million were other long-term fixed rate loans, EUR 10.9 (31 Dec 2016: 3.2) million were finance lease liabilities and the rest, EUR 312.5 (31 Dec 2016: 474.8) million consisted of floating rate loans, short term loans, bank overdrafts and other interest-bearing liabilities. On 31 December 2017, the average duration of interest-bearing debt, including hedges of loans, was 27 (31 Dec 2016: 12) months.

The EUR 316.6 (31 Dec 2016: 278.2) million investment portfolio consisted mainly of short-term deposits and bank account balances. Interest-bearing loan receivables totalled EUR 6.5 (31 Dec 2016: 3.9) million and customer finance related finance lease receivables EUR 0.9 (31 Dec 2016: 1.1) million. The average duration of the interest bearing assets was less than one month (31 Dec 2016: less than one month).

Based on the sensitivity analysis, one percentage point increase/decrease in the interest rates would have decreased/increased net interest cost by EUR 1.9 (31 Dec 2016: increased/decreased 1.9) million. The sensitivity in the statement of income is affected by variable rate loans, short term loans, loans receivable, deposits, bank accounts and bank overdrafts. The sensitivity is calculated as an annual effect assuming that the group's balance sheet structure remains unchanged.

With respect to all currency forward contracts, the fair value changes related to fluctuations in interest rates are recognised directly in financial income and expenses, and, hence, the changes in short-term market rates may affect financial result also via currency hedging contracts. If the interest rate difference between the euro and the US dollar had widened/narrowed one percentage point, financial net cost would have increased/decreased by EUR 4.1 (2016:

Interest fixing periods

31 Dec 2017 MEUR	0–6 mths	6–12 mths	12–24 mths	24–36 mths	Later	Total
Loans receivable and other interest-bearing assets*	315.4	1.1	-	-	-	316.5
Non-current loans from financial institutions	-192.7	-	-	-	-	-192.7
Corporate bonds	-	-	-70.9	-149.6	-248.9	-469.3
Finance lease liabilities	-0.4	-0.4	-0.9	-0.5	-8.7	-10.9
Current interest-bearing liabilities and other interest-bearing liabilities**	-117.0	-5.3	-	-	-	-122.3
Net	**5.3**	**-4.7**	**-71.8**	**-150.1**	**-257.5**	**-478.7**

31 Dec 2016 MEUR	0–6 mths	6–12 mths	12–24 mths	24–36 mths	Later	Total
Loans receivable and other interest-bearing assets*	276.5	1.7	-	-	-	278.2
Non-current loans from financial institutions	-424.7	-	-	-	-	-424.7
Corporate bonds	-113.8	-	-	-80.6	-149.5	-343.9
Finance lease liabilities	-0.6	-0.6	-1.1	-0.5	-0.5	-3.2
Current interest-bearing liabilities and other interest-bearing liabilities**	-34.3	-15.8	-	-	-	-50.1
Net	**-296.9**	**-14.7**	**-1.1**	**-81.1**	**-149.9**	**-543.7**

*Including cash and cash equivalents
**Including bank overdrafts

On 31 December 2017, the interest fixing period for corporate bonds ranged between 2 and 7 years.

increased/decreased by EUR 5.5) million. Effects from other currency pairs are deemed insignificant assuming that the current currency position remains the same and there is a similar change in all currency pairs.

In addition, Cargotec held a cross-currency and interest rate swap with a nominal value of EUR 70.9 (31 Dec 2016: 194.5) million under which fixed interest is paid for both currencies and thus a similar change in interest rate level of EUR and USD has no impact on income before taxes or on other comprehensive income with respect to this instrument.

Other market risks

In addition to the risks related to the treasury function, Cargotec is exposed to price and supply risks mainly relating to raw material and component purchases. The business units are responsible for identifying these risks and determining the required hedging measures. These risks are managed by thorough supplier selection process and long-term relationship with strategic suppliers.

Liquidity and funding risks

The objective of liquidity management is to maintain an optimal amount of liquidity to fund the business operations of Cargotec at all times while minimising interest and bank costs and avoiding financial distress (liquidity risk).

Liquidity risk is managed by retaining long-term liquidity reserves exceeding the level of short-term liquidity requirement. On 31 December 2017, the liquidity reserves, including cash and cash equivalents and long-term undrawn credit facilities, totalled EUR 609.1 (31 Dec 2016: 573.2) million. Short-term liquidity requirement covers the repayments of short- and long-term debt within the next 12 months, as well as the strategic liquidity requirement, as determined by the Treasury Committee, which covers the operative funding demand within the following 12 months. On 31 December 2017, repayments of short- and long-term interest-bearing liabilities due within the following 12 months totalled EUR 121.4 (31 Dec 2016: 165.1) million.

On 31 December 2017, Cargotec held undrawn EUR 300.0 (31 Dec 2016: 300.0) million long-term Revolving Credit Facility, which was refinanced in June 2017 and will mature in June 2022. The facility has two one-year extension options. According to the facility agreement, Cargotec has a right to withdraw funds on three business days' notice on agreed terms. Additionally, to fulfil short-term cash management requirements, Cargotec holds available short-term bank overdraft facilities of EUR 119.5 (31 Dec 2016: 129.4) million and a EUR 150.0 (31 Dec 2016: 150.0) million domestic Commercial Paper facility which on 31 December 2017 was unused (31 Dec 2016: unused). Cargotec's total liquidity position includes EUR 64.0 (31 Dec 2016: 47.4) million of cash and cash equivalents in different currencies subject to currency-related or other regulatory restrictions, and, therefore, these balances may not be utilized outside the country within a short period of

time. Nevertheless, these restricted balances are typically available for immediate use locally in these countries and therefore these balances are included in cash and cash equivalents.

MEUR	31.12.2017	31.12.2016
Cash and cash equivalents	309.1	273.2
Committed long-term undrawn revolving credit facilities	300.0	300.0
Repayments of interest-bearing liabilities during next 12 months	-121.4	-165.1
Total liquidity	**487.7**	**408.1**

The objective of funding risk management is to avoid an untenably large proportion of loans or credit facilities maturing at a time when refunding is not economically or contractually feasible. The risk is minimised by balancing the repayment schedules of loans and credit facilities, as well as retaining flexible credit facility agreements. Some of Cargotec's loan agreements include a covenant restricting the corporate capital structure. According to the covenant, Cargotec's gearing must be retained below 125 percent. On 31 December 2017, gearing was 33.0 (31 Dec 2016: 36.0) percent. According to management assessment, Cargotec is in good position regarding liquidity and there are no significant concentrations of risks relating to refunding.

Maturities of financial liabilities

31 Dec 2017 MEUR	2018	2019	2020	2021	2022	Later	Total
Derivatives							
Currency forward contracts, outflow	-1,976.8	-	-	-	-	-	-1,976.8
Currency forward contracts, inflow	1,983.1	-	-	-	-	-	1,983.1
Cross-currency and interest rate swaps, outflow	-3.0	-67.0	-	-	-	-	-70.0
Cross-currency and interest rate swaps, inflow	4.0	72.9	-	-	-	-	76.9
Derivatives, net	**7.3**	**5.9**	**-**	**-**	**-**	**-**	**13.2**
Interest-bearing liabilities							
Repayments of loans from financial institutions	-119.7	-92.2	-42.2	-42.1	-16.3	-	-312.4
Repayments of corporate bonds	-	-70.9	-149.6	-	-149.5	-99.4	-469.3
Repayments of other interest-bearing liabilities	-1.7	-1.8	-1.3	-0.2	-0.1	-8.4	-13.4
Total interest charges	-16.7	-13.5	-10.8	-5.3	-4.9	-4.6	-55.8
Accounts payable and other non-interest bearing liabilities	-410.7	-26.2	-12.0	-12.7	-7.1	-3.2	-472.2
Total	**-541.5**	**-198.7**	**-215.9**	**-60.4**	**-177.9**	**-115.5**	**-1,310.0**

31 Dec 2016 MEUR	2017	2018	2019	2020	2021	Later	Total
Derivatives							
Currency forward contracts, outflow	-3,568.5	-	-	-	-	-	-3,568.5
Currency forward contracts, inflow	3,556.6	-	-	-	-	-	3,556.6
Cross-currency and interest rate swaps, outflow	-97.5	-3.0	-67.0	-	-	-	-167.6
Cross-currency and interest rate swaps, inflow	121.6	4.6	82.9	-	-	-	209.1
Derivatives, net	**12.1**	**1.5**	**15.9**	**-**	**-**	**-**	**29.6**
Interest-bearing liabilities							
Repayments of loans from financial institutions	-37.2	-232.0	-92.0	-42.1	-42.1	-16.5	-461.8
Repayments of corporate bonds	-113.8	-	-80.6	-149.4	-	-	-343.9
Repayments of other interest-bearing liabilities	-14.1	-1.1	-0.5	-0.2	-0.1	-0.1	-16.2
Total interest charges	-18.7	-13.7	-9.0	-6.0	-0.5	-0.1	-48.0
Accounts payable and other non-interest bearing liabilities	-430.4	-18.1	-9.3	-11.9	-8.0	-2.2	-479.8
Total	**-602.1**	**-263.3**	**-175.5**	**-209.6**	**-50.7**	**-19.0**	**-1,320.1**

Corporate bonds have maturities ranging from 2019 to 2024 and loans from financial institutions have maturities ranging from 2018 to 2022.

The following tables represent the maturity analysis of the company's financial liabilities and derivatives. The figures are non-discounted contractual cash flows. Cargotec Treasury reports cash flows and liquidity position regularly to the Board of Directors.

Credit and counterparty risks

The business units are responsible for managing the operational credit risks. On account of the diverse and global clientele, Cargotec is not exposed to significant credit risk concentrations. Credit risks are managed through contractual clauses including advance payments, bank guarantees or other guarantees, and by monitoring the creditworthiness of customers. Credit risks relating to large contracts are shared with financial institutions, insurance companies or export guarantee institutions, when feasible. More information on accounts receivable is presented in note 22, Accounts receivable and other non-interest-bearing receivables.

Cargotec holds no significant amounts of external loan receivables. Deposits of liquidity reserves and trading in financial instruments are only accepted with counterparties confirmed by the Treasury Committee. Derivative contracts are entered into under ISDA agreement with several counterparties. More information on counterparty risk related to derivative contracts is presented in note 20, Financial instruments by measurement category. The Treasury Committee sets counterparty limits based on their solvency and creditworthiness. Cargotec Treasury actively reviews counterparty risks and, if needed, may reject a counterparty with immediate effect. Only large financial institutions with high credit rating are accepted as counterparties. The maximum credit risk relating to cash and cash equivalents corresponds to their carrying amount. According to the management assessment no significant credit losses are anticipated on the investments of liquidity reserves.

Operational risks of the treasury function

The management of operational risks aims to eliminate losses or increased risk levels due to errors in procedures or insufficient monitoring. The risks are minimised by maintaining a high level of proficiency, identifying and documenting routine procedures and organising responsibilities.

Risks relating to transactions are minimised by conducting regular general assessments and monitoring trading limits, market valuations and daily trade confirmations.

Capital structure management

The goal of Cargotec's capital structure management is to secure operational preconditions at all times and to maintain the optimum capital cost structure. The target capital structure is determined by shareholders and it is regularly monitored by the Board of Directors.

Total capital is calculated as the sum of equity and net debt. Gearing, calculated as the ratio of net debt to equity, is the key figure monitored for capital structure management. Net debt is calculated as net of interest-bearing liabilities and assets, including cash and cash equivalents. Cargotec's target is to retain gearing below 50 percent. The elements of gearing are presented in the table below.

MEUR	31 Dec 2017	31 Dec 2016
Interest-bearing liabilities*	795.2	821.9
Loans receivable and other interest-bearing assets	-7.4	-5.0
Cash and cash equivalents	-309.1	-273.2
Interest-bearing net debt in balance sheet	**478.7**	**543.7**
Foreign currency hedge of corporate bonds*	-6.9	-40.2
Interest-bearing net debt	**471.7**	**503.5**
Equity	1427.5	1397.2
Gearing	**33.0%**	**36.0%**

*Cash flow hedge accounting is applied to the cash flows of the USD 85 (2016: 205) million Private Placement corporate bond. The cash flows of the bond are converted into euro flows through a long-term cross-currency swap. As a result of the hedging, Cargotec effectively holds a long-term euro-denominated fixed rate debt.

4. Segment information

Cargotec has three operating segments: Kalmar, Hiab and MacGregor. The operating segments are based on the management reports prepared for the Board of Directors and the CEO. These reports are prepared in accordance with IFRS. Operating segments have not been aggregated to build the reportable segments. The management considers the business from a product perspective and assesses the performance of the segment based on operating profit. The transfer pricing between segments is based on market prices.

Kalmar offers cargo handling equipment and automated terminal solutions, software and services that are used in ports, terminals, distribution centres and various industries. Hiab is the global market leader in on-road load handling solutions with customers operating in the land transport and delivery industries. MacGregor provides engineering solutions and services for marine cargo and offshore load handling.

Operating segments

Segment results

Sales of the operating segments comprise equipment, software and service sales. The financial performance of the operating segments is measured through operating profit (excluding restructuring costs) and operating profit according to IFRS. Financing income and expenses, taxes and certain corporate administration cost are not allocated to the operating segments. During the financial year and the comparison period, Cargotec has had no individual significant customers as defined in IFRS 8.

1 Jan–31 Dec 2017 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Sales						
Services	444.6	241.9	187.9	874.5	-	874.5
Software	158.7	-	-	158.7	-	158.7
Equipment	1,018.5	841.2	387.3	2,247.0	-	2,247.0
External sales total	1,621.8	1,083.1	575.3	3,280.1	-	3,280.1
Internal sales	1.0	0.9	0.5	2.3	-2.3	-
Total sales	**1,622.8**	**1,083.9**	**575.7**	**3,282.4**	**-2.3**	**3,280.1**
Depreciation and amortisation	43.9	8.3	14.2	66.4	6.5	72.8
Impairment charges	0.1	0.3	0.0	0.4	-1.2	-0.8
Share of associated companies' and joint ventures' net income	1.8	-2.1	0.3	0.0	0.9	0.9
Operating profit excluding restructuring costs	**136.6**	**157.3**	**11.5**	**305.4**	**-42.2**	**263.2**
% of sales	8.4%	14.5%	2.0%	-	-	8.0%
Restructuring costs	6.4	0.2	15.8	22.4	14.1	36.5
Operating profit	**130.2**	**157.1**	**-4.3**	**283.0**	**-56.3**	**226.7**
% of sales	8.0%	14.5%	-0.7%	-	-	6.9%
Financing items	-	-	-	-	-	-32.9
Income before taxes	**-**	**-**	**-**	**-**	**-**	**193.8**

1 Jan–31 Dec 2016 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Sales						
Services	435.5	232.8	203.9	872.2	-	872.2
Software	148.1	-	-	148.1	-	148.1
Equipment	1,116.3	802.7	574.4	2,493.4	-	2,493.4
External sales total	1,699.8	1,035.5	778.4	3,513.7	-	3,513.7
Internal sales	0.1	0.4	0.1	0.6	-0.6	-
Total sales	**1,700.0**	**1,035.9**	**778.5**	**3,514.3**	**-0.6**	**3,513.7**
Depreciation and amortisation	44.9	9.2	17.1	71.1	6.7	77.8
Impairment charges	4.3	0.0	1.5	5.7	1.2	7.0
Share of associated companies' and joint ventures' net income	8.2	-2.2	0.5	6.5	-4.0	2.5
Operating profit excluding restructuring costs	**135.3**	**140.0**	**17.9**	**293.2**	**-42.9**	**250.2**
% of sales	8.0%	13.5%	2.3%	-	-	7.1%
Restructuring costs	19.7	1.2	31.6	52.5	0.0	52.5
Operating profit	**115.6**	**138.8**	**-13.7**	**240.7**	**-42.9**	**197.7**
% of sales	6.8%	13.4%	-1.8%	-	-	5.6%
Financing items	-	-	-	-	-	-28.6
Income before taxes	**-**	**-**	**-**	**-**	**-**	**169.1**

Segment assets and liabilities

The segments' assets and liabilities comprise all business assets and liabilities that are used by the segment or can be reasonably allocated to the segment excluding the intercompany receivables and liabilities. Unallocated assets comprise loans and other interest-bearing receivables, cash and cash equivalents, income tax receivables, deferred tax assets, deferred interests and derivatives designated as hedges of future treasury transactions. Unallocated liabilities comprise loans and other interest-bearing liabilities, income tax payables, deferred tax liabilities, accrued interests and derivatives designated as hedges of future treasury transactions.

31 Dec 2017 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Non-interest-bearing assets	1,397.9	628.9	835.1	2,861.9	86.7	2,948.6
Investments in associated companies and joint ventures	44.8	9.4	1.6	55.9	54.0	109.8
Unallocated assets, interest-bearing	-	-	-	-	316.6	316.6
Unallocated assets, non-interest-bearing	-	-	-	-	182.4	182.4
Total assets	**1,442.7**	**638.4**	**836.6**	**2,917.8**	**639.7**	**3,557.5**
Non-interest-bearing liabilities	655.8	247.4	313.8	1,217.0	48.7	1,265.7
Unallocated liabilities, interest-bearing*	-	-	-	-	788.3	788.3
Unallocated liabilities, non-interest-bearing	-	-	-	-	75.9	75.9
Total liabilities	**655.8**	**247.4**	**313.8**	**1,217.0**	**913.0**	**2,130.0**
Operative capital employed	786.9	391.0	522.8	1,700.8	92.0	1,792.7
Capital expenditure	63.5	10.4	2.8	76.6	7.6	84.3

31 Dec 2016 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Non-interest-bearing assets	1,398.6	589.6	1,000.3	2,988.5	97.2	3,085.6
Investments in associated companies and joint ventures	50.8	13.6	1.7	66.0	57.3	123.4
Unallocated assets, interest-bearing	-	-	-	-	278.2	278.2
Unallocated assets, non-interest-bearing	-	-	-	-	249.1	249.1
Total assets	**1,449.4**	**603.1**	**1,002.0**	**3,054.5**	**681.8**	**3,736.3**
Non-interest-bearing liabilities	676.7	209.9	438.1	1,324.7	66.4	1,391.2
Unallocated liabilities, interest-bearing*	-	-	-	-	781.7	781.7
Unallocated liabilities, non-interest-bearing	-	-	-	-	166.2	166.2
Total liabilities	**676.7**	**209.9**	**438.1**	**1,324.7**	**1,014.4**	**2,339.1**
Operative capital employed	772.7	393.2	563.9	1,729.8	88.1	1,817.9
Capital expenditure	60.1	7.7	4.7	72.5	7.9	80.5

*The unallocated interest-bearing debt includes the hedging of cross-currency risk relating to the USD 85 (31 Dec 2016: 205) million Private Placement bond, totalling EUR -6.9 (31 Dec 2016: -40.2) million on 31 December 2017.

Orders

	Orders received		Order book	
MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016	31 Dec 2017	31 Dec 2016
Kalmar	1,554.6	1,721.0	764.6	900.0
Hiab	1,115.9	1,016.1	299.2	285.9
MacGregor	521.4	546.5	486.6	597.9
Eliminations	-2.2	-0.9	-0.8	-0.7
Total	**3,189.7**	**3,282.7**	**1,549.7**	**1,783.1**

Number of employees

	Average		At the end of year	
	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016	31 Dec 2017	31 Dec 2016
Kalmar	5,740	5,588	5,819	5,702
Hiab	3,192	2,995	3,370	2,997
MacGregor	1,965	2,390	1,859	2,256
Corporate administration and support functions	232	221	203	230
Total	**11,128**	**11,193**	**11,251**	**11,184**

Information divided by geographical area

Sales are reported by customer location, while assets and capital expenditure are reported by the location of the assets. The geographical areas are based on the main market areas.

Sales

1 Jan–31 Dec 2017 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Finland	39.5	30.9	4.4	74.7	0.0	74.7
Other EMEA (Europe, Middle East, Africa)	694.0	496.3	185.1	1,375.4	-1.7	1,373.7
China	100.8	11.0	124.4	236.1	0.0	236.1
Other Asia-Pacific	261.1	111.6	189.2	562.0	-0.4	561.6
USA	406.3	368.4	56.1	830.9	0.0	830.9
Other Americas	121.1	65.7	16.6	203.4	-0.2	203.2
Total	**1,622.8**	**1,083.9**	**575.7**	**3,282.4**	**-2.3**	**3,280.1**

1 Jan–31 Dec 2016 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Finland	27.8	28.4	6.1	62.3	0.0	62.3
Other EMEA (Europe, Middle East, Africa)	691.0	472.6	256.9	1,420.4	-0.4	1,420.0
China	108.3	9.0	219.5	336.8	0.0	336.8
Other Asia-Pacific	267.2	105.5	243.0	615.7	-0.1	615.6
USA	403.8	366.8	33.6	804.2	0.0	804.2
Other Americas	201.9	53.6	19.4	274.8	0.0	274.8
Total	**1,700.0**	**1,035.9**	**778.5**	**3,514.3**	**-0.6**	**3,513.7**

Non-current assets and goodwill*

MEUR	31 Dec 2017	31 Dec 2016
Finland	113.3	101.0
Other EMEA (Europe, Middle East, Africa)	421.3	454.2
Asia-Pacific	50.1	57.0
Americas	96.8	110.1
Goodwill	986.7	1,024.5
Total	**1,668.1**	**1,746.8**

*Excluding financial instruments and deferred tax assets. Goodwill has not been allocated to geographical areas.

Capital expenditure

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Finland	19.5	9.1
Other EMEA (Europe, Middle East, Africa)	50.6	57.8
Asia-Pacific	6.1	6.6
Americas	8.0	7.0
Total	**84.3**	**80.5**

Number of employees

	31 Dec 2017	31 Dec 2016
Finland	956	949
Other EMEA (Europe, Middle East, Africa)	6,249	5,980
Asia-Pacific	2,402	2,643
Americas	1,644	1,612
Total	**11,251**	**11,184**

5. Acquisitions and disposals

Acquisitions and disposals 2017

On 20 December 2017, MacGregor signed an agreement to acquire the share capital of Rapp Marine Group AS ("RMG") in Norway and the transaction is expected to be closed in February. The purchase price is approximately EUR 16 million and will be paid in full on closing of the deal. RMG is a privately owned company specialised in providing winches and related equipment to fishery and research vessels. The acquisition supports MacGregor's growth strategy by enabling a strong position in the product areas related to fishery and research vessels, completing the product offering of winches and related control systems, and increasing service sales. RMG employs about 120 people and its main locations are in Norway, the USA and the United Kingdom. The sales in 2017 are estimated to be approximately EUR 40 million, of which approximately 30 percent is related to services. RMG's profitability is on the same level as MacGregor's current profitability.

On 29 December 2017, Kalmar acquired the share capital of Inver Port Services Pty Ltd ("Inver") in Australia. The purchase price of EUR 5.1 million was fully paid on closing of the deal. Inver is a privately owned company specialised in providing repairs, maintenance and crane refurbishment projects for major terminal operators across Australia, New Zealand and the Pacific. The company's sales account for approximately EUR 5 million and it employs 23 people. The acquisition supports Kalmar's strategic aim to grow in services while strengthening and broadening the existing service capabilities throughout Australia, New Zealand and the Pacific.

On 3 October 2017, Hiab completed the acquisition of the Brazilian company Argos Guindastes Indústria e Comércio Ltda's ("Argos") share capital. Argos is a privately owned company specialized in loader cranes with a manufacturing facility in Brazil and an extensive distribution network in Latin America. Argos is one of the leading loader crane manufacturers in Brazil, and with the acquisition, Hiab is strengthening its strategy and market leadership by entering the Brazilian market. Additionally, the acquisition creates a strong foundation for Hiab's business in the whole region. As a result of the acquisition, approximately 60 employees transferred to Hiab. The purchase price consists of EUR 7.4 million paid on acquisition, EUR 2.8 million deferred consideration to be paid during the next three years, and a conditional payment that, subject to earn-out criteria, is due in 2021 and limited to a maximum amount of EUR 4.1 million. The contingent consideration has not been included in the preliminary purchase price allocation. The result of Argos has been consolidated into Hiab segment's result from the beginning of October 2017. Since the acquisition date, Argos has contributed EUR 1.4 million and EUR -0.2 million to Cargotec's sales and operating profit, respectively. Had Argos been acquired on 1 January 2017, it would have increased Cargotec's full year sales by approximately EUR 6 million and decreased the operating profit by approximately EUR 1 million.

Consolidation of the acquired businesses is provisional as of 31 December 2017. Fair value measurement of the acquired assets and liabilities is preliminary and subject to adjustments until the valuation is finalised. In the preliminary valuation, customer relationships, trademarks and technology have been identified as the acquired intangible assets. According to the preliminary valuation, the acquisition will generate goodwill, which will not be tax-deductible. Goodwill is primarily based on personnel and expected synergy benefits.

Acquired net assets and goodwill, Argos and Inver, MEUR	
Intangible assets	6.0
Property, plant and equipment	2.7
Inventories	0.8
Accounts receivable and other non-interest-bearing assets	0.0
Accounts payable and other non-interest-bearing liabilities	-0.1
Deferred tax liabilities	-1.9
Net assets	**7.5**
Purchase price, payable in cash	15.2
Total consideration	**15.2**
Goodwill	**7.8**
Purchase price, paid in cash	12.4
Cash flow impact	**12.4**

The initial allocation of goodwill resulting from the acquisition is EUR 4.9 million to Hiab segment and EUR 2.8 million to Kalmar segment.

Disposals in 2017

In April, as part of the reorganising programme, MacGregor sold the majority of its ownership in the British subsidiary Woodfield Systems Limited to the company's management at a gross consideration of EUR 4.3 million including EUR 2.3 million of deferred consideration. In connection with the acquisition, a new company Woodfield Industries Limited was established which owns Woodfield Systems Limited. As a part of the arrangement, MacGregor obtained a 10 percent ownership in the new company and this ownership is accounted for as an associated company based on the level of influence retained by MacGregor. The transaction resulted in one-time costs of approximately EUR 5 million.

In May, Cargotec sold its 45 percent ownership of the Estonian subsidiary Linda Properties OÜ. The disposal had no impact on Cargotec's result.

Acquisitions and disposals in 2016

INTERSCHALT maritime systems AG

Kalmar and MacGregor acquired on 2 March 2016 privately owned INTERSCHALT maritime systems AG ("INTERSCHALT") by purchasing the full share capital of the entity for EUR 62.1 million. The acquisition includes a German parent company and subsidiaries in China, Germany, Singapore, and the USA. INTERSCHALT delivers as its main products software solutions, and related maintenance and support services that allow to enhance and optimize containerships' steering and cargo handling. Additionally, INTERSCHALT offers services for navigation equipment used in ships, and delivers equipment to ships for recording data about the ship's movement and steering including voyage data recorders, and related services. The software solutions and services related to efficiency and optimisation were acquired by Kalmar, and the safety solutions with related services were acquired by MacGregor. The acquisition supports Cargotec's growth strategy by expanding Kalmar's strong existing software and automation business related to container handling from ports to sea and among ports, and by expanding MacGregor's service business. In connection with the acquisition, the personnel of Kalmar and MacGregor increased by 231 employees who are mainly located in Germany.

The goodwill generated in the acquisition arises mostly from personnel and expected synergy benefits. The goodwill recognised at the acquisition is not tax-deductible. The table below summarises the consideration transferred, assets acquired and liabilities assumed at their acquisition date fair values.

Acquired net assets and goodwill, MEUR	
Intangible assets	29.2
Property, plant and equipment	1.9
Inventories	2.6
Accounts receivable and other non-interest-bearing assets	4.0
Interest-bearing receivables	1.2
Cash and cash equivalents	3.7
Deferred tax assets	3.6
Accounts payable and other non-interest-bearing liabilities	-11.2
Interest-bearing liabilities	-5.9
Deferred tax liabilities	-8.7
Net assets	**20.4**
Purchase price, payable in cash	62.1
Total consideration	**62.1**
Goodwill	**41.7**
Purchase price, paid in cash	62.1
Cash and cash equivalents acquired	2.2
Cash flow impact	**64.3**

The fair value measurement of acquired assets resulted in the identification of intangible assets related to customer relationships, technology and orderbook. The fair value of the acquired intangible assets was EUR 29.2 million on the acquisition date. The goodwill resulting from the acquisition is mostly allocated to Kalmar segment, and partly to MacGregor segment. The deal consideration was fully paid in cash. The cost of acquisition does not include additional conditional amounts.

INTERSCHALT has contributed EUR 24.1 million to Cargotec's sales and EUR -7.0 million to net income since the acquisition date. Transaction costs of EUR 0.3 million in 2015 and EUR 1.3 million in 2016 related to the acquisition have been included in the operating profits of Kalmar and MacGregor segments, and in other operating expenses in the consolidated statement of income. In addition, the cumulative operating profit for 2016 includes EUR 1.9 million in amortisation and depreciation of fixed assets, and EUR 3.6 million of restructuring costs.

Had the business been acquired on 1 January 2016, the contribution of INTERSCHALT to Cargotec's 2016 sales and net income, including the consolidation period, would have been EUR 28.9 million and EUR -7.7 million respectively. The pro forma loss for the year includes depreciation and amortisation related to fair value adjustments recognised at acquisition amounting to approximately EUR 2.3 million.

Other acquisitions

MacGregor obtained control of the privately owned Flintstone Technology Ltd on 22 September 2016 by acquiring 51 percent of its share capital. Flintstone Technology Ltd is a UK-based technology company of ten employees that is developing mooring and fluid handling equipment for the offshore industry. In addition to the EUR 2.3 million paid at the acquisition, MacGregor is committed to pay a contingent consideration of up to EUR 1.9 million depending on the amount of orders received by the end of 2018. The acquisition does not have a significant effect on Cargotec’s cash flow or balance sheet.

6. Long-term construction contracts

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Sales in statement of income, long-term construction contracts	225.6	302.5

Information on balance sheet items of long-term construction projects in progress on 31 December

Amounts due from customers for contract work are included in accounts receivable and other non-interest-bearing assets in the balance sheet. Amounts due to customers for contract work are included in accounts payable and other non-interest-bearing liabilities in the balance sheet.

31 Dec 2017 MEUR	Net amount of recognised costs, profits and losses	Progress billings	Net
Amount due from customers presented as an asset	-	-	42.6
Amount due to customers presented as a liability	-	-	17.6
Projects in progress total	**199.0**	**174.1**	**24.9**

31 Dec 2016 MEUR	Net amount of recognised costs, profits and losses	Progress billings	Net
Amount due from customers presented as an asset	-	-	104.7
Amount due to customers presented as a liability	-	-	30.3
Projects in progress total	**773.7**	**699.2**	**74.5**

Customer advances of EUR 11.1 (31 Dec 2016: 29.7) million are included in amounts due to customers.

7. Other operating income and expenses

Other operating income

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Gain on disposal of intangible assets and property, plant and equipment	0.3	0.8
Customer finance related other income	26.7	27.2
Rental income	3.6	4.6
Income due to order cancellations	0.8	2.5
Other income	4.4	3.0
Total	**35.8**	**38.1**

Other operating expenses

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Loss on disposal of intangible assets and property, plant and equipment	0.4	0.4
Customer finance related other expenses	26.4	26.8
Expenses due to order cancellations	-	0.4
Business combinations related expenses	0.4	1.8
Other expenses	9.6	8.4
Total	**36.7**	**37.8**

Operating profit includes exchange rate differences on forward contracts designated as cash flow hedges, total EUR 16.2 (2016: -1.4) million, of which EUR 22.6 (2016: 1.6) million in sales and EUR -6.4 (2016: -3.1) million in cost of goods sold. The exchange rate differences related to the portion of ineffective hedges, which are booked in other operating income and expenses, had no effect on the operating profit (2016: EUR 0.2 million).

In addition, operating profit includes EUR -1.3 (2016: 0.9) million of exchange rate differences arising from unhedged sales and purchases, and from hedges of sales and purchases for which hedge accounting is not applied.

Audit fees

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Annual audit	2.7	2.8
Tax advice	1.0	1.0
Other services	0.6	0.3
Total	**4.4**	**4.0**

The table above presents fees to PricewaterhouseCooper globally during the year. Non-audit fees for Pricewater-houseCoopers Oy were EUR 0.5 (2016: 0.2) million during year 2017, including fees for tax related services EUR 0.2 (2016: 0.1) million and for other services EUR 0.3 (2016: 0.1) million.

8. Restructuring costs

In May 2017, Cargotec announced it will target EUR 50 million annual cost savings from 2020 onwards by reducing indirect purchasing spend, streamlining processes and planning Cargotec Business Services operations. Cargotec Business Services operations started its activities during the autumn in Sofia, Bulgaria. Start-up costs for the operations are reported as restructuring costs.

Related to the savings targets, Cargotec started coopera-tion negotiations in Finland in May. These negotiations were completed in June and, as a consequence, the company will reduce 45 positions in Finland. At the beginning of October, Cargotec and Tieto agreed to enter into a partnership in IT Service Management and Solution Expertise Services under which Tieto took over Cargotec's overall IT service management and a major part of Cargo-tec's solution expertise services. As part of the deal, a total of 50 employees from Cargotec in Finland, Sweden and USA transferred to Tieto in the beginning of November.

MacGregor's market situation continued to be challenging in 2017. MacGregor announced planned measures to achieve annual cost savings of approximately EUR 13 million and began cooperation negotiations. The plans included the split of Smart Ocean Technology division into Cargo Handling division and Advanced Offshore Solutions division. The cooperation negotiations were finalised in December, resulting in the restructuring of operations and the reduction of approximately 170 full-time equivalents globally. The measures affect MacGregor operations in Norway, Germany, China and Singapore.

In MacGregor, the global employee cooperation negotia-tions completed during 2016 resulted in the decision to reduce 315 person-years globally with the biggest impact on operations in China, Finland, Norway, Singapore and Sweden. In addition, MacGregor made an agreement to sell its production facility in Uetersen, Germany, to a newly founded company Uetersener Maschinenfabrik GmbH. The deal was closed in December 2016, and 79 employees working in production were transferred to the new company. Kalmar transferred the production of forklift trucks from Sweden to Poland. The change in Lidhult lead to a permanent reduction of 160 employees and gradual operational closing. Operations of maritime software company INTERSCHALT in Germany, USA and China were re-organised, affecting tens of employees.

The costs arising from restructuring measures have been presented on a separate line in the consolidated statement of income. Restructuring costs have been, based on their nature, recognised in the balance sheet as an impairment to assets, as restructuring provisions or as accruals. A part of the costs has been recognised on accrual basis in the statement of income and also paid during the financial period.

1 Jan–31 Dec 2017 MEUR	Kalmar	Hiab	MacGregor	Other	Total
Employment termination costs	5.0	0.2	10.5	0.8	16.5
Impairment of non-current assets	-	-	-	-	-
Impairment of inventories	1.2	-	-	-	1.2
Other restructuring costs*	0.2	-	5.3	13.3	18.8
Total	**6.4**	**0.2**	**15.8**	**14.1**	**36.5**

1 Jan–31 Dec 2016 MEUR	Kalmar	Hiab	MacGregor	Other	Total
Employment termination costs	8.2	0.7	10.1	-	19.1
Impairment of non-current assets	4.2	-	1.3	-	5.5
Impairment of inventories	0.3	0.3	4.8	-	5.4
Other restructuring costs*	7.0	0.2	15.3	-	22.5
Total	**19.7**	**1.2**	**31.6**	**-**	**52.5**

*Includes i.a. contract (other than employment contract) termination costs, costs arising from outsourcing or transferring operations to new locations, costs of vacant premises, as well as gains and losses on sale of intangible assets and property, plant and equipment. In 2017, costs were mainly related to the establishment of Cargotec Business Services operations. In addition to that, the sum includes an approximately EUR 5 million one-time cost from MacGregor's ownership arrangement related to its former subsidiary Woodfield Systems Ltd. In 2016, the main costs were related to MacGregor's sale of production facility in Germany, MacGregor's re-organisation of office locations in Norway and Kalmar's transfer of forklift trucks production from Sweden to Poland.

9. Personnel expenses

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Wages and salaries	561.9	565.1
Equity-settled share-based payments	3.2	2.8
Cash-settled share-based payments	5.3	3.9
Pension costs	52.9	52.4
Other statutory employer costs	91.4	93.1
Total	**714.7**	**717.3**

Pension costs are presented in more detail in note 26, Post-employment benefits. Information on key management compensation is presented in note 32, Related-party transactions, and information on share-based incentives granted in note 25, Share-based payments.

10. Depreciation, amortisation and impairment charges

Depreciation, amortisation and impairment by function

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cost of goods sold	33.4	36.8
Sales and marketing	13.3	13.7
Research and development	11.7	10.8
Administration	14.6	16.7
Restructuring	0.0	5.5
Other	-0.9	1.3
Total	**72.0**	**84.8**

Depreciation and amortisation by asset type

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Intangible assets	28.8	29.2
Buildings	6.7	8.6
Machinery & equipment	37.3	40.0
Total	**72.8**	**77.8**

Impairment charges by asset type

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Other intangible assets	-	0.1
Property, plant and equipment	-0.8	6.9
Total	**-0.8**	**7.0**

11. Financing income and expenses

Financing income

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Interest income on loans receivable and cash and cash equivalents	2.5	1.2
Other financing income	0.8	0.6
Total	**3.3**	**1.8**

Financing expenses

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Interest expenses on financial liabilities measured at amortised cost	18.6	21.6
Arrangement and commitment fees relating to interest-bearing loans	1.9	1.2
Forward contracts interest component	11.9	6.2
Other financing expenses	1.1	1.3
Exchange rate differences, net	2.7	0.1
Total	**36.2**	**30.5**

Exchange rate differences included in financing income and expenses

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Exchange rate differences on interest-bearing loans and receivables	-16.3	12.1
Exchange rate differences on derivative instruments	13.7	-12.3
Total	**-2.7**	**-0.1**

The positive result from the cross-currency and interest rate swap designated as a cash flow hedge, totalling EUR 1.4 (2016: 3.2) million, has been recorded as an adjustment to the interest expenses on financial liabilities at amortised cost.

12. Income taxes

Taxes in statement of income

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Current year tax expense	83.2	53.0
Change in current year's deferred tax assets and liabilities	-28.9	-10.9
Tax expense for previous years	3.2	1.8
Total	**57.5**	**43.8**

Reconciliation of effective tax rate

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Income before taxes	193.8	169.1
Tax calculated at Finnish tax rate (20%)	38.8	33.6
Effect of different tax rates in foreign subsidiaries	9.2	5.5
Tax expense for previous years	3.2	1.8
Tax-exempt income and non-deductible expenses	1.7	0.7
Realisability of deferred tax assets	7.8	3.1
Effect of changes in tax rates	-5.1	-1.6
Other	1.9	0.7
Total taxes in statement of income	**57.5**	**43.8**
Effective tax rate, %	29.7	25.9

Taxes relating to components of other comprehensive income

	1 Jan–31 Dec 2017			1 Jan–31 Dec 2016		
MEUR	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Cash flow hedges	34.0	-7.2	26.8	3.1	-1.1	2.0
Translation differences	-71.0	2.4	-68.6	-12.4	2.1	-10.3
Actuarial gains (+) / losses (-) from defined benefit plans	-5.0	1.1	-3.9	-6.9	1.5	-5.4
Total other comprehensive income	**-42.0**	**-3.7**	**-45.7**	**-16.3**	**2.6**	**-13.7**

13. Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to the equity holders of the company by the weighted average number of shares outstanding during the financial period. The group's potential dilutive ordinary shares relate to equity-settled share-based incentive schemes. The shares granted under the incentive schemes are contingently issuable and, therefore, are considered like options when calculating the diluted earnings per share. Shares and share options are dilutive when their subscription price, including the value of the employee's yet undelivered service, is lower than the average share price during the reporting period. Dilutive effect is the difference between the number of shares to be issued and the number of shares that would have been issued at the average share price of the reporting period. Further information on the share-based incentive programmes is available in note 25, Share-based payments.

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net income attributable to the equity holders of the company, MEUR	136.1	126.0
Weighted average number of shares during financial period, ('000)	64,491	64,602
Basic earnings per share, EUR	**2.11**	**1.95**

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net income attributable to the equity holders of the company, MEUR	136.1	126.0
Weighted average number of shares during financial period, ('000)	64,491	64,602
Effect of share-based incentive programmes, ('000)	237	170
Diluted weighted average number of shares during financial period, ('000)	64,727	64,772
Diluted earnings per share, EUR	**2.10**	**1.94**

14. Goodwill

MEUR	2017	2016
Book value 1 Jan	1,024.5	976.4
Translation differences	-47.3	4.7
Companies acquired	9.3	43.4
Other changes	0.2	-
Book value 31 Dec	**986.7**	**1,024.5**

Impairment testing of goodwill

MEUR	31 Dec 2017	31 Dec 2016
Kalmar	365.4	376.9
Hiab	203.4	208.6
MacGregor	417.9	439.1
Total	**986.7**	**1,024.5**

Goodwill is reviewed for potential impairment whenever there is an indication that the current value may be impaired, or at least annually. Impairment testing of goodwill is carried out by allocating goodwill to the lowest cash generating unit level (CGU) which generates independent cash flows. These levels have been identified according to the operative business organisation to be the reported operating segments. Due to the way the operating segments are managed and organised, it is not possible to define independent cash flows for lower level product divisions.

The recoverable amounts of the cash generating units (CGU) are determined on the basis of value-in-use calculations. The future cash flow projections are based on the strategic plans approved by the top management and the

Board of Directors. Cash flow projections cover five years, of which the last year is used to define the terminal value. The fifth year is defined by extrapolating it on the basis of average development in the past and during the forecasted planning horizon, taking into account the cyclical nature of the CGU's business. Cash flows beyond the forecast period are projected by using a two percent long-term growth rate, that is based on a prudent estimate about the long-term growth rate of the industries.

The key assumptions made by the management in the projections relate to market and profitability outlooks. Future growth estimates are based on information available by external market research institutions on market development and timing of business cycles. Additionally, market share and growth potential in both new equipment and service markets have been taken into account when defining future sales growth. Key factors affecting profitability are sales volume, competitiveness and cost efficiency. The relative share of service business from total revenue has also significance due to its lower cyclicality and better than average profitability. Additionally, in Kalmar and Hiab segments, as well as in MacGregor's offshore business, the utilisation rate of factories and assembly units and their cost competitiveness have a significant impact on profitability. Major restructuring measures started in 2012 in Kalmar and Hiab have been reflected positively to performance and the ongoing profit improvement programmes are expected to further improve the profitability in the coming years. MacGregor has continued its restructuring measures in order to protect profitability in the continuing weak market situation. Cash flow projections also reflect typical working capital build-up in upturns and release during downturns in the Kalmar and Hiab segments. MacGregor's business model, mainly in merchant ship division, ties very limited working capital, but the estimated timing of orders and related advances received have been taken into account in cash flow estimates.

The discount rate used in the impairment testing is the weighted average pre-tax cost of capital (WACC) determined for each segment that reflects the total cost of equity and debt, and the market risks related to the segment. Components of WACC are the risk-free interest rate, market risk premium, comparable peer industry beta, gearing and credit spread. The discount rate used in impairment testing has been determined similarly as in 2016. The pre-tax discount rate (WACC) used for Kalmar was 10.3 (2016: 10.0) percent, for Hiab 9.1 (2016: 8.4) percent and for MacGregor 9.5 (2016: 9.1) percent. Discount rates have increased from previous year mainly because of the increase in the risk-free rate that is derived from government bond yields.

As a result of the impairment tests performed no impairment loss has been recognised in 2017 or in 2016.

Sensitivity analyses of the key assumptions have been prepared as part of the impairment testing process for each CGU based on three different scenarios. The tested change in the first scenario is an increase of 2 percentage points in the discount rate, in the second scenario a 10 percent decrease in sales together with a decrease of 2 percentage points in operating profit margin, and in the third scenario the combined effect of the previous scenarios.

The sensitivity analyses performed in 2017 indicated no risk of impairment for the Hiab and Kalmar segments but the sensitivity analysis performed for the MacGregor segment, in which all three key variables changed simultaneously, decreased the fair value of the segment below the carrying value. In 2017, the recoverable amount of the MacGregor segment exceeded the carrying value by approximately EUR 500 million. However, the recoverable amount would have been less than the carrying value if there had been a combined effect of a 10.0 percent decrease in the sales forecast, a 1.9 percentage point decrease in the expected operating profit margin, and a 2.0 percentage point increase in the applied discount rate. The sensitivity analyses performed in 2016 indicated no risk of impairment with respect to any of the segments.

15. Other intangible assets

2017 MEUR	Developed technology	Acquired technology	Customer relationships and trademarks	Others*	Total
Acquisition cost 1 Jan	74.3	81.9	251.3	86.2	493.8
Translation differences	-2.7	-3.4	-16.0	-0.7	-22.8
Additions	0.0	2.0	0.2	6.7	9.0
Disposals	-4.5	-4.6	-	-21.9	-31.0
Reclassifications	41.8	2.7	5.7	-50.3	-0.1
Companies acquired and sold	-	-0.4	4.5	-	4.2
Acquisition cost 31 Dec	**109.0**	**78.3**	**245.8**	**20.0**	**453.1**
Accumulated amortisation and impairment 1 Jan	-43.2	-53.6	-57.9	-48.9	-203.6
Translation differences	1.1	1.7	5.3	0.4	8.6
Amortisation during the financial period	-6.6	-5.2	-12.3	-4.7	-28.8
Impairment charges	-	-	-	-	-
Disposals	4.6	4.6	-	21.7	31.0
Reclassifications	-19.3	-2.5	-5.6	27.4	-0.1
Companies acquired and sold	-	0.2	0.5	-	0.7
Accumulated amortisation and impairment 31 Dec	**-63.4**	**-54.8**	**-70.0**	**-4.1**	**-192.3**
Book value 31 Dec	45.6	23.5	175.8	15.9	260.8

2016 MEUR	Developed technology	Acquired technology	Customer relationships and trademarks	Others*	Total
Acquisition cost 1 Jan	59.4	76.8	223.4	88.8	448.3
Translation differences	0.8	1.2	6.2	-4.1	4.2
Additions	1.7	1.0	-	7.7	10.5
Disposals	-0.2	-0.9	-	-0.7	-1.8
Reclassifications	6.1	0.2	-	-6.2	0.1
Companies acquired and sold	6.5	3.5	21.8	0.7	32.6
Acquisition cost 31 Dec	**74.3**	**81.9**	**251.3**	**86.2**	**493.8**
Accumulated amortisation and impairment 1 Jan	-36.7	-46.9	-43.8	-48.5	-176.0
Translation differences	-0.3	-0.4	-1.6	4.1	1.8
Amortisation during the financial period	-5.9	-6.0	-12.5	-4.8	-29.2
Impairment charges	-	-0.1	-	0.0	-0.1
Disposals	0.2	0.8	-	0.7	1.7
Reclassifications	-	-0.1	-	0.0	0.0
Companies acquired and sold	-0.4	-1.0	-	-0.3	-1.7
Accumulated amortisation and impairment 31 Dec	**-43.2**	**-53.6**	**-57.9**	**-48.9**	**-203.6**
Book value 31 Dec	31.1	28.4	193.4	37.3	290.2

*Includes mainly intangible assets under construction.

The trademarks have been valued at fair value in connection with the acquisition. Some of the trademarks have been assessed to have indefinite useful lives, including MacGregor trademark. It is estimated that they will create cash flow for an indefinite period. The estimate is based on their global, regional or customer segment specific market leadership and their long history. The MacGregor trademark has been used since the 1930s and it is continuously developed. The trademarks are tested for impairment annually or more frequently if there is an indication that their current value would not be recoverable. The trademarks with indefinite useful life are tested for impairment as a part of the appropriate cash generating unit (CGU). The process is described in more detail in note 14, Goodwill. On 31 December 2017, the book value of the intangible assets with indefinite useful life amounted to EUR 40.8 (31 Dec 2016: 40.9) million.

Other trademarks have been estimated to create cash flow during their useful lives, which varies from 3 to 15 years. These trademarks are amortised on a straight-line basis over their useful lives.

16. Property, plant and equipment

2017 MEUR	Land and buildings	Machinery and equipment	Equipment leased to others	Others*	Total
Acquisition cost 1 Jan	271.4	319.5	156.7	10.0	757.6
Translation differences	-7.2	-14.6	-1.6	-0.1	-23.5
Additions	2.5	13.6	37.1	22.2	75.3
Disposals	-35.0	-25.5	-24.3	-1.2	-86.1
Reclassifications	24.3	4.2	0.1	-26.0	2.6
Companies acquired and sold	-24.6	1.2	-	0.0	-23.4
Acquisition cost 31 Dec	**231.4**	**298.3**	**168.0**	**4.9**	**702.5**
Accumulated depreciation and impairment 1 Jan	-131.7	-258.9	-58.3	0.0	-448.9
Translation differences	4.3	12.9	0.8	0.0	18.0
Depreciation during the financial period	-6.7	-18.0	-19.3	0.0	-44.0
Impairment charges	1.1	-0.3	-	-	0.8
Disposals	34.0	23.9	13.6	-	71.5
Reclassifications	-1.1	1.9	-0.1	-	0.7
Companies acquired and sold	9.0	1.3	-	-	10.3
Accumulated depreciation and impairment 31 Dec	**-91.2**	**-237.1**	**-63.4**	**0.0**	**-391.7**
Book value 31 Dec	140.2	61.2	104.6	4.9	310.8
Including assets leased under finance leases 31 Dec	8.8	1.8	-	-	10.6

2016 MEUR	Land and buildings	Machinery and equipment	Equipment leased to others	Others*	Total
Acquisition cost 1 Jan	260.8	341.0	159.9	4.2	766.0
Translation differences	-1.4	-1.8	-3.0	0.0	-6.3
Additions	3.4	12.6	40.4	13.6	70.0
Disposals	-0.9	-41.2	-40.6	-0.7	-83.3
Reclassifications	1.3	4.6	0.0	-7.1	-1.2
Companies acquired and sold	8.2	4.3	-	-	12.5
Acquisition cost 31 Dec	**271.4**	**319.5**	**156.7**	**10.0**	**757.6**
Accumulated depreciation and impairment 1 Jan	-114.7	-277.4	-67.8	0.0	-459.9
Translation differences	0.7	1.6	1.3	0.0	3.6
Depreciation during the financial period	-8.6	-19.6	-20.4	0.0	-48.6
Impairment charges	-6.4	-0.4	-	-	-6.9
Disposals	0.4	39.2	28.2	-	67.7
Reclassifications	-0.4	1.0	0.5	-	1.0
Companies acquired and sold	-2.6	-3.2	-	-	-5.8
Accumulated depreciation and impairment 31 Dec	**-131.7**	**-258.9**	**-58.3**	**0.0**	**-448.9**
Book value 31 Dec	139.6	60.6	98.4	10.0	308.6
Including assets leased under finance leases 31 Dec	0.6	2.9	-	-	3.5

*Includes mainly assets under construction and advance payments.

17. Associated companies and joint ventures

MEUR	Joint ventures		Associated companies		Total	
	2017	2016	2017	2016	2017	2016
Book value 1 Jan	64.9	55.7	58.6	61.0	123.4	116.7
Translation differences	-3.7	-1.7	-4.1	1.5	-7.8	-0.1
Share of net income*	0.0	6.5	0.9	-4.0	0.9	2.5
Dividend income	-5.4	-0.3	-0.1	-0.1	-5.5	-0.3
Additions	-1.3	4.7	0.1	-	-1.2	4.7
Book value 31 Dec	**54.5**	**64.9**	**55.3**	**58.6**	**109.8**	**123.4**

*Entities have no items recognised in the statement of comprehensive income.

Equity-accounted investments in other entities

31 Dec 2017 MEUR	Country*	Classification	Assets	Liabilities	Sales	Net income	Shareholding (%) Parent company	Shareholding (%) Group
Haida-MacGregor Jiangyin Sealing Co., Ltd.	China	Joint venture	5.0	0.8	4.2	-0.5	-	25.0
Rainbow-Cargotec Industries Co., Ltd	China	Joint venture	157.0	66.8	90.5	4.3	49.0	49.0
Sinotruk Hiab (Shandong) Equipment Co., Ltd.	China	Joint venture	21.8	7.4	4.3	-4.2	50.0	50.0
Jiangsu Rainbow Heavy Industries Co., Ltd.	China	Associated company	561.1	246.2	290.3	10.7	-	7.9
Jumbo Logistics Ltd.	Cyprus	Associated company	0.3	0.0	0.3	0.1	-	30.0
Hymetal S.A.	France	Associated company	6.4	4.6	13.0	0.0	-	40.0
Sanger Metal SP z.o.o.	Poland	Associated company	1.3	1.4	0.5	-0.2	-	30.0
Woodfield Industries Limited	United Kingdom	Associated company	8.3	3.5	7.7	-0.1	-	10.0

31 Dec 2016 MEUR	Country*	Classification	Assets	Liabilities	Sales	Net income	Shareholding (%) Parent company	Shareholding (%) Group
Haida-MacGregor Jiangyin Sealing Co., Ltd.	China	Joint venture	6.4	1.5	5.4	0.2	-	25.0
Rainbow-Cargotec Industries Co., Ltd	China	Joint venture	182.5	79.9	140.1	17.9	49.0	49.0
Sinotruk Hiab (Shandong) Equipment Co., Ltd.	China	Joint venture	21.4	6.3	1.8	-4.4	50.0	50.0
Jiangsu Rainbow Heavy Industries Co., Ltd.	China	Associated company	618.0	287.8	350.8	-53.9	-	7.9
Jumbo Logistics Ltd.	Cyprus	Associated company	0.3	0.0	0.5	0.2	-	30.0
Hymetal S.A.	France	Associated company	5.2	3.4	11.0	0.0	-	40.0
Sanger Metal SP z.o.o.	Poland	Associated company	1.5	1.4	0.5	-0.1	-	30.0

*The countries of incorporation and of primary operations are the same.

Rainbow-Cargotec Industries Co., Ltd. was established in 2012. Cargotec's ownership in the company is 49 percent and the ownership of Cargotec's associated company Jiangsu Rainbow Heavy Industries Co., Ltd. is 51 percent. The management has classified this ownership as a joint venture because the arrangement is structured through a separate vehicle, parties have rights to the net assets of the arrangement in accordance with their ownership, and control over the arrangement is shared, requiring decisions about relevant activities to be made unanimously. The joint venture Rainbow-Cargotec Industries Co., Ltd. manufactures port and offshore cranes as a strategic partner for Kalmar and MacGregor. The parties to the joint venture are committed to provide funding for the entity, if needed, up to EUR 117 million from which the share of Cargotec is approximately EUR 57 million. At the reporting date, no funding has been needed and this commitment has not been recognised in the financial statements.

Joint venture Sinotruk Hiab (Shandong) Equipment Co., Ltd. has operated from 2014 as Hiab's strategic partner manufacturing and selling truck-mounted cranes. Cargotec and China National Heavy Duty Truck Group Co., Ltd both own 50 percent of the company. The management has classified this ownership as a joint venture because the arrangement is structured through a separate vehicle, parties have rights to the net assets of the arrangement in accordance with their investments, and control over the arrangement is shared requiring decisions about relevant activities to be made unanimously.

Investments in the entities Jiangsu Rainbow Heavy Industries Co., Ltd. and Rainbow-Cargotec Industries Co., Ltd are classified as material investments due to their size. In addition, Sinotruk Hiab (Shandong) Equipment Co., Ltd. is classified as a material investment due to the amount invested in the joint venture.

Cargotec owns 7.9 (31 Dec 2016: 7.9) percent of Jiangsu Rainbow Heavy Industries Co., Ltd. The ownership has been classified as an associated company because Cargotec has a significant influence in the company due to its significant customership and board representation in the company. Jiangsu Rainbow Heavy Industries Co., Ltd. is Cargotec's strategic partner in the joint venture Rainbow-Cargotec Industries Co., Ltd. The figures recognised in the consolidated statement of income are based on the last 12-month period ending in September because the latest financial statements have not been available.

The ownership in Woodfield Industries Limited is accounted for as an associated company due to Cargotec's significant influence in the company. Additional information regarding the ownership is disclosed in note 5, Acquisitions and disposals.

MacGregor and China State Shipbuilding Corporation's (CSSC) Nanjing Luzhou Machine Co., Ltd. (LMC) have entered into agreement to establish a joint venture CSSC Nanjing Luzhou MacGregor Machinery Co., Ltd. LMC will own 51 percent and MacGregor 49 percent of the new joint venture and the established company will specialise in marine air compressor technology. MacGregor is committed to invest RMB 3.9 million (EUR 0.5 million) in it. This commitment is not recognised in the financial statements. At the reporting date, the new entity is in the process of being registered, and it is expected that the necessary approvals are obtained during the first quarter of 2018.

Summarised financial information about material associated companies and joint ventures

Summarised balance sheets at 31 Dec	Rainbow-Cargotec Industries Co., Ltd		Sinotruk Hiab (Shandong) Equipment Co., Ltd.		Jiangsu Rainbow Heavy Industries Co., Ltd.	
MEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-current assets	76.5	74.5	14.5	14.0	276.7	257.6
Cash and cash equivalents	14.0	31.2	0.6	3.3	55.5	94.1
Other current assets	66.5	76.9	6.7	4.1	228.9	266.3
Total assets	**157.0**	**182.5**	**21.8**	**21.4**	**561.1**	**618.0**
Non-current financial liabilities	-	-	-	-	16.7	8.4
Other non-current liabilities	0.1	-	-	-	83.1	62.8
Current financial liabilities	2.0	-	3.8	4.1	26.4	40.7
Other current liabilities*	64.8	79.9	3.6	2.2	120.0	175.8
Total liabilities	**66.8**	**79.9**	**7.4**	**6.3**	**246.2**	**287.8**
Net assets	**90.2**	**102.6**	**14.3**	**15.1**	**314.9**	**330.3**

*Accounts payable are included in other current liabilities..

Summarised statements of income	Rainbow-Cargotec Industries Co., Ltd		Sinotruk Hiab (Shandong) Equipment Co., Ltd.		Jiangsu Rainbow Heavy Industries Co., Ltd.	
MEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Sales	90.5	140.1	4.3	1.8	290.3	350.8
Depreciation, amortisation and impairments*	3.4	2.5	0.7	1.0	-	-
Financing income*	-	-	-	-	-	-
Financing expenses*	1.6	2.4	0.2	-	-	-
Income before taxes	5.0	21.0	-4.2	-4.4	16.5	-48.7
Income taxes	0.8	3.2	-	-	5.8	5.3
Net income for the period**	**4.3**	**17.9**	**-4.2**	**-4.4**	**10.7**	**-53.9**
Dividends received	**5.4**	**-**	**-**	**-**	**0.1**	**-**

*Information not required for associated companies.
**Entities have no items recognised via other comprehensive income.

Reconciliation of summarised information

	Rainbow-Cargotec Industries Co., Ltd		Sinotruk Hiab (Shandong) Equipment Co., Ltd.		Jiangsu Rainbow Heavy Industries Co., Ltd.	
MEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Net assets 1 Jan	102.6	87.9	15.1	16.4	330.3	420.0
Net income for the period	4.3	17.9	-4.2	-4.4	10.7	-53.9
Additions/disposals	-	-	4.7	2.7	-	-20.9
Dividends	-10.5	-	-	-	-5.5	-
Translation differences	-6.2	-3.1	-1.2	0.3	-20.6	-14.9
Net assets 31 Dec	**90.2**	**102.6**	**14.3**	**15.1**	**314.9**	**330.3**
Cargotec's share of net assets	44.2	50.3	7.2	7.5	24.8	26.0
Goodwill	0.6	0.5	1.5	5.3	29.2	31.3
Book value	44.8	50.8	8.7	12.8	54.0	57.3

Jiangsu Rainbow Heavy Industries Co., Limited is listed in China at the Shenzhen stock exchange. The fair value of Cargotec's 7.9 percent ownership on 31 December 2017 was EUR 37.0 (31 Dec 2016: 53.3) million.

18. Deferred taxes

Deferred tax assets

MEUR	1 Jan 2017	Charged to the statement of income	Charged to other comprehen-sive income	Translation difference	Acquired/sold companies	31 Dec 2017
Tax losses carried forward	58.2	-20.6	-	-0.4	-1.5	35.7
Provisions	12.7	-2.0	-	-0.4	-	10.3
Depreciation differences	51.0	6.9	-	-0.1	0.3	58.1
Pensions	8.7	0.1	1.2	-0.4	-	9.6
Elimination of intercompany profit	20.8	-0.6	-	0.0	-	20.2
Changes in fair value	6.9	-0.2	-2.5	-0.3	0.0	3.9
Inventory	14.1	-2.8	-	-1.0	0.0	10.3
Other temporary differences	58.4	-4.7	-	-1.6	0.0	52.1
Total	**230.8**	**-23.8**	**-1.3**	**-4.2**	**-1.3**	**200.3**
Offset against deferred tax liabilities*	-45.8	-7.2	-1.8	1.1	3.4	-50.3
Total, net	**185.0**	**-31.0**	**-3.1**	**-3.1**	**2.2**	**149.9**

Deferred tax liabilities

MEUR	1 Jan 2017	Charged to the statement of income	Charged to other comprehen-sive income	Translation difference	Acquired/sold companies	31 Dec 2017
Depreciation differences	9.4	-5.8	-	-0.5	1.1	4.2
Pensions	0.6	-0.2	-0.1	0.0	-	0.3
Goodwill amortisations	36.1	-9.1	-	-3.5	-2.0	21.4
Allocations of fair value on acquisitions	21.7	1.5	-	-0.7	-0.5	22.0
Research and development costs	0.7	-0.2	-	-	-0.4	0.1
Changes in fair value	2.2	-1.1	4.6	-0.3	-	5.4
Other temporary differences	48.3	-37.3	-	-0.8	0.0	10.1
Total	**118.9**	**-52.2**	**4.5**	**-5.8**	**-1.8**	**63.5**
Offset against deferred tax assets*	-45.8	-7.2	-1.8	1.1	3.4	-50.3
Total, net	**73.1**	**-59.4**	**2.7**	**-4.8**	**1.6**	**13.2**

Deferred tax assets

MEUR	1 Jan 2016	Charged to the statement of income	Charged to other comprehen-sive income	Translation difference	Acquired/sold companies	31 Dec 2016
Tax losses carried forward	64.5	-8.0	-	0.6	1.1	58.2
Provisions	16.8	-4.3	-	0.2	0.0	12.7
Depreciation differences	46.2	4.7	-	0.1	-	51.0
Pensions	6.5	0.5	1.7	0.1	0.0	8.7
Elimination of intercompany profit	19.9	0.9	-	0.0	-	20.8
Changes in fair value	6.6	5.2	-5.1	0.2	-	6.9
Inventory	12.5	0.9	-	0.3	0.4	14.1
Other temporary differences	49.6	5.4	-	0.4	3.0	58.4
Total	**222.6**	**5.3**	**-3.4**	**1.8**	**4.5**	**230.8**
Offset against deferred tax liabilities*	-39.1	-2.1	0.4	-1.0	-4.1	-45.8
Total, net	**183.5**	**3.3**	**-2.9**	**0.8**	**0.4**	**185.0**

Deferred tax liabilities

MEUR	1 Jan 2016	Charged to the statement of income	Charged to other comprehen-sive income	Translation difference	Acquired/sold companies	31 Dec 2016
Depreciation differences	3.3	-3.0	-	0.2	9.0	9.4
Pensions	0.0	0.3	0.2	0.0	-	0.6
Goodwill amortisations	32.6	0.1	-	1.4	1.9	36.1
Allocations of fair value on acquisitions	22.5	-2.6	-	1.4	0.4	21.7
Research and development costs	0.6	-0.3	-	-	0.4	0.7
Changes in fair value	0.8	4.9	-3.6	0.0	-	2.2
Other temporary differences	51.2	-4.3	-	0.7	0.7	48.3
Total	**111.1**	**-4.8**	**-3.4**	**3.6**	**12.3**	**118.9**
Offset against deferred tax assets*	-39.1	-2.1	0.4	-1.0	-4.1	-45.8
Total, net	**72.1**	**-6.9**	**-3.0**	**2.6**	**8.2**	**73.1**

*Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable, considering expiry dates, if any. Where there is a recent history of loss, Cargotec assesses if that loss arises from factors which are likely to recur. The recognition of deferred tax assets is supported by an offsetting deferred tax liabilites and where applicable an assessment of earnings history and profit projections in the relevant jurisdictions.

On 31 December 2017, Cargotec had EUR 108.3 (31 Dec 2016: 53.8) million of tax losses carried forward of which no deferred tax assets were recognised because the realisation of the tax benefit is not probable. Tax losses of EUR 13.7 (31 Dec 2016: 7.7) million will expire during the next five years and the rest, EUR 94.6 (31 Dec 2016: 46.1) million, have no expiry date or will expire after five years.

A deferred tax liability on undistributed profits of subsidiaries located in countries where distribution generates tax consequences is recognised when it is likely that earnings will be distributed in the foreseeable future. On 31 December 2017, Cargotec had EUR 1,120.1 (31 Dec 2016: 1,372.6) million of undistributed profits for which no deferred tax liabilities were recognised.

19. Inventories

MEUR	31 Dec 2017	31 Dec 2016
Raw materials and supplies	236.2	236.9
Work in progress	174.7	230.1
Finished goods	170.2	156.3
Advance payments paid for inventories	25.9	23.7
Total	**607.0**	**647.0**

Obsolescence provision of inventories to net realisable value was EUR 93.6 (31 Dec 2016: 96.0) million at the end of period.

Impairment of inventories included in restructuring costs is presented in note 8, Restructuring costs.

20. Financial instruments by measurement category

31 Dec 2017 MEUR	Note	Measured at cost or amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total
Available-for-sale investments		0.2	-	-	0.2
Loans receivable and other interest-bearing assets		7.4	-	-	7.4
Derivative assets	21	-	12.1	7.3	19.4
Accounts receivable and other non-interest-bearing receivables	22	653.5	-	-	653.5
Cash and cash equivalents	23	309.1	-	-	309.1
Total financial assets		**970.3**	**12.1**	**7.3**	**989.7**
Interest-bearing liabilities	27	795.2	-	-	795.2
Derivative liabilities	21	-	0.3	6.1	6.4
Accounts payable and other non-interest-bearing liabilities	28	472.2	-	-	472.2
Total financial liabilities		**1,267.4**	**0.3**	**6.1**	**1,273.8**

31 Dec 2016 MEUR	Note	Measured at cost or amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total
Available-for-sale investments		3.8	-	-	3.8
Loans receivable and other interest-bearing assets		5.0	-	-	5.0
Derivative assets	21	-	42.0	20.7	62.7
Accounts receivable and other non-interest-bearing receivables	22	679.5	-	-	679.5
Cash and cash equivalents	23	273.2	-	-	273.2
Total financial assets		**961.5**	**42.0**	**20.7**	**1,024.2**
Interest-bearing liabilities	27	821.9	-	-	821.9
Derivative liabilities	21	-	22.1	12.0	34.1
Accounts payable and other non-interest-bearing liabilities	28	479.8	-	-	479.8
Total financial liabilities		**1,301.7**	**22.1**	**12.0**	**1,335.8**

Financial assets and liabilities measured at fair value through profit and loss include currency forwards and the cross-currency and interest rate swap that are used to hedge against financial risks but for which no hedge accounting is applied. Fair value changes related to derivatives for which hedge accounting is applied are accumulated in other comprehensive income during hedge accounting and recycled to statement of income when hedge accounting is ceased. The recurring measurement of these instruments at fair value is based on commonly applied valuation methods and uses observable market-based variables. Therefore, these measurements are categorised in the fair value hierarchy as level 2 fair values. Other items are recognised on balance sheet either at cost or at amortised cost and information about their fair values is presented under each respective note to the extent that the difference between the book value and fair value is significant.

The derivative assets and liabilities are presented at their gross values as the offsetting criteria of IFRS are not met. Cargotec has derivative positions with several banks and related transactions are effected under ISDA agreement that allows to settle on a net basis all outstanding items within the scope of the agreement for example in the event of bankruptcy. At the reporting date, the remaining counter-party risk after net settlement, as allowed by ISDA, was EUR 13.9 (31 Dec 2016: 28.9) million for Cargotec and EUR 0.9 (31 Dec 2016: 0.3) million for the counterparties.

21. Derivatives

31 Dec 2017 MEUR	Nominal value	Positive fair value	Negative fair value	Net fair value
Non-current				
Cross-currency and interest rate swaps	70.9	6.1	-	6.1
Total	**70.9**	**6.1**	**-**	**6.1**
Current				
Currency forwards, cash flow hedge accounting	1,104.5	6.0	0.3	5.7
Currency forwards, net investment hedge accounting	-	-	-	-
Currency forwards, other	875.8	7.3	6.1	1.2
Cross-currency and interest rate swaps	-	-	-	-
Total	**1,980.3**	**13.3**	**6.4**	**6.9**
Total derivatives	**2,051.1**	**19.4**	**6.4**	**13.0**

31 Dec 2016 MEUR	Nominal value	Positive fair value	Negative fair value	Net fair value
Non-current				
Cross-currency and interest rate swaps	80.6	16.9	-	16.9
Total	**80.6**	**16.9**	**-**	**16.9**
Current				
Currency forwards, cash flow hedge accounting	1,311.4	1.6	9.9	-8.4
Currency forwards, net investment hedge accounting	566.4	-	12.2	-12.2
Currency forwards, other	1,700.8	20.7	12.0	8.8
Cross-currency and interest rate swaps	113.8	23.5	-	23.5
Total	**3,692.5**	**45.8**	**34.1**	**11.8**
Total derivatives	**3,773.1**	**62.7**	**34.1**	**28.7**

A cross-currency and interest rate swap hedges the US Private Placement corporate bond which was issued in February 2007 and will mature in 2019. Cash flow hedge accounting is applied to this instrument. The majority of the highly probable cash flows hedged by the currency forward contract will realise within one year.

The derivatives have been recognised at gross fair values in the balance sheet, as the netting agreements related to derivatives allow unconditional netting only in the occurence of credit events, but not in a normal situation. The group has not given or received collateral related to derivatives from the counterparties.

22. Accounts receivable and other non-interest-bearing receivables

MEUR	Note	31 Dec 2017	31 Dec 2016
Non-current			
Non-current non-interest-bearing assets	20	8.5	7.9
Current			
Accounts receivable	20	588.9	549.3
Unbilled receivables from customer contracts	20	54.6	118.4
VAT receivable		61.6	54.7
Deferred interests	20	1.6	4.0
Other deferred assets		44.7	52.5
Total		751.3	778.9
Total accounts receivable and other non-interest-bearing receivables		**759.8**	**786.8**

Ageing analysis of accounts receivable

MEUR	31 Dec 2017	31 Dec 2016
Not due	446.7	394.2
1–90 days overdue	115.6	120.2
91–360 days overdue	18.4	31.4
Over 360 days overdue	8.2	3.5
Total	**588.9**	**549.3**

Impairments, included into ageing analysis of accounts receivable

MEUR	31 Dec 2017	31 Dec 2016
1–90 days overdue	0.6	0.3
91–360 days overdue	7.0	4.3
Over 360 days overdue	13.1	15.4
Total	**20.7**	**20.0**

23. Cash and cash equivalents

MEUR	31 Dec 2017	31 Dec 2016
Cash at bank and on hand	300.2	264.2
Short-term deposits	9.0	9.0
Total	**309.1**	**273.2**

Cash and cash equivalents in the statement of cash flows

MEUR	31 Dec 2017	31 Dec 2016
Cash and cash equivalents	309.1	273.2
Bank overdrafts used	-24.4	-12.4
Cash and cash equivalents in the statement of cash flows	**284.7**	**260.8**

24. Equity

Total equity consists of share capital, share premium account, translation differences, fair value reserves, reserve for invested non-restricted equity, retained earnings and non-controlling interest. Share premium account includes the amount exceeding the accounting par value of shares received by the company in connection with share subscriptions if the stock options had been decided on under the old Limited Liability Companies Act (29 Sep 1978/734). Translation differences includes translation differences caused by translation of foreign subsidiaries' financial statements into euro, exchange rate gains and losses from the intercompany loan agreements that form part of a net investment, and effective portion of foreign currency differences arising from hedges of net investment in a foreign operation. Fair value reserve includes hedge accounted component of fair value changes of derivatives under hedge accounting. Reserve for invested non-restricted equity includes transactions with treasury shares and share subscriptions with stock options. Retained earnings include net income for the period less paid dividends and donations approved by the Annual General Meeting. Additionally, retained earnings include actuarial gains and losses from defined benefit plans, and the cost of equity-settled share-based payments.

Shares and share capital

According to Cargotec's Articles of Association, the company's share capital is divided into class A and class B shares, both without nominal value. Cargotec class B shares are quoted on the Nasdaq Helsinki Ltd. Cargotec's share capital is fully paid up.

In the Shareholders' Meeting, each class A share carries one vote, as does each set of ten class B shares, with the provision that each shareholder is entitled to at least one vote. According to the Articles of Association, class B shares earn a higher dividend in dividend distribution than class A shares. The difference between dividends paid on the two classes of shares is a minimum of one (1) cent and a maximum of two and a half (2.5) cents.

Number of shares	Class A shares	Class B shares	Total
Number of shares 1 Jan 2017	9,526,089	55,182,079	64,708,168
Number of shares 31 Dec 2017	**9,526,089**	**55,182,079**	**64,708,168**
Treasury shares 31 Dec 2017	-	-208,390	-208,390
Number of shares outstanding 31 Dec 2017	**9,526,089**	**54,973,689**	**64,499,778**
Number of shares 1 Jan 2016	9,526,089	55,164,983	64,691,072
Stock options exercised	-	17,096	17,096
Number of shares 31 Dec 2016	**9,526,089**	**55,182,079**	**64,708,168**
Treasury shares 31 Dec 2016	-	-265,099	-265,099
Number of shares outstanding 31 Dec 2016	**9,526,089**	**54,916,980**	**64,443,069**

Dividend distribution

After 31 December 2017, the following dividends were proposed by the Board of Directors to be paid: EUR 1.04 per each class A share and EUR 1.05 per outstanding class B share, a total of EUR 67,629,506.01.

25. Share-based payments

Share-based incentive programme 2017–2020

Incentive programme for the years 2017–2020 is targeted to the members of the executive board and other key persons. The programme consists of three annually granted incentive programme periods in which rewards are conditional on the fulfilment of a three-year service condition and performance conditions during the first two years that are tied to financial targets and separately set for each year. The reward is granted and settled in Cargotec class B shares on top of which Cargotec pays taxes and tax-related expenses. The reward related to each incentive programme period is paid after two years based on fulfillment of the vesting criteria and is subject to approximately one-year lock-up period.

	2017
First year earnings criteria	Service business gross profit, return on capital employed
Range of reward per participant based on the level of participation and fulfilment of the earnings criteria	0–18,600 shares plus cash for taxes
Expected total cost of the programme on grant date, MEUR	8.5
Initial number of participants	100
Participants fullfilling the minimum earnings criteria on 31 Dec 2017	93
Number of class B shares granted	183,200
Number of class B shares forfeited	8,600
Number of class B shares subject to vesting conditions on 31 Dec 2017	174,600

Share-based incentive programme 2014–2016

Incentive programme for the years 2014–2016 is targeted to the members of the executive board and other key persons. The programme consists of three annually granted incentive programme periods in which rewards are conditional on fulfilment of a three-year service condition and a performance condition for the first year that is tied to financial targets. The final payment is based on total shareholder return of Cargotec's class B share over the vesting period, and its estimated cost on grant date has been assessed by using the Black-Scholes option pricing model. The earned reward is determined in cash and settled in Cargotec class B shares after deducting taxes and tax-related expenses. Reward is paid in shares at the end of the vesting period.

	2016	2015	2014
First phase earnings criteria	Operating result, orders received, return on capital employed	Operating result, orders received, return on capital employed	Operating result, orders received, financial performance targets tied to working capital
Second phase additional earnings criteria	Total shareholder return	Total shareholder return	Share price
Range of first phase reward in relation to participant's annual salary	0–120%	0–120%	0–120%
Range of second phase earnings multiplier in relation to phase one reward	100–300%	100–300%	100–300%
Expected total cost of the programme on grant date, MEUR	7.3	6.5	5.6
Final cost of the programme, MEUR	Ongoing	Ongoing	3.6
Initial number of participants	84	77	56
Participants fullfilling the minimum earnings criteria 31 Dec 2017	53	46	Ended
Participants fullfilling the minimum earnings criteria 31 Dec 2016	64	55	42

Restricted shares incentive programmes 2014–2016 and 2016–2018

Restricted incentive programmes are targeted to the members of the executive board and a few other key persons. They consist of annually granted programmes in which rewards are tied to one-year vesting periods. The vesting period of each programme includes a service condition and a perfomance condition that is mainly tied to financial performance targets. The earned reward is determined in cash and settled in Cargotec class B shares after deducting taxes and tax-related expenses. The paid rewards are subject to a one year lock-up period.

	2017	2016	2015
Range of reward in relation to participant's annual salary	0–100%	0–100%	0–100%
Expected total cost of the programme at grant date, MEUR	1.0	1.8	1.0
Final cost of the programme, MEUR	Ongoing	1.2	1.4
Initial number of participants	10	9	8
Participants fullfilling the minimum earnings criteria 31 Dec 2017	10	7	Ended

Effect of share-based payment transactions in result and balance sheet

	Recognised as cost during the period		Recognised as provision on 31 Dec	
MEUR	2017	2016	2017	2016
Share-based incentive programme 2017–2020	1.8	-	1.1	-
Share-based incentive programme 2014–2016	6.5	6.0	8.4	5.7
Restricted shares incentive programmes 2014–2016 and 2016–2018	1.0	1.3	0.4	0.5
Total	**9.4**	**7.3**	**9.9**	**6.2**

26. Post-employment benefits

Cargotec has various post-employment benefit plans throughout the world. Pension arrangements are made in accordance with local regulations and practices in line with the defined contribution pension plans or defined benefit pension plans.

The defined benefit arrangements determine the amount of pension to be paid and the benefits to be paid for disability and at termination of employment. The benefits in these arrangements are usually based on the length of employment and the level of final salary.

The main countries having defined benefit plans are Sweden, the United Kingdom and Norway. The most significant plans are in Sweden. The defined benefit pension plans are funded by the relevant group companies to satisfy local statutory funding requirements.

Summary of the impact of post-employment benefits in the financial statements

MEUR	2017	2016
Present value of unfunded obligations	79.5	72.4
Present value of funded obligations	44.2	46.7
Fair value of benefit plan assets	36.5	37.7
Net liability	**87.2**	**81.4**
Net liability on balance sheet	87.5	81.4
Net asset on balance sheet	0.3	-
Expense related to defined contribution plans	46.8	45.4
Expense related to defined benefit plans and other post-employment benefits	6.0	7.0
Expense in the statement of income	**52.9**	**52.4**
Remeasurement of defined pension benefits and other post-employment benefits	-5.0	-6.9
Remeasurement in the statement of comprehensive income	**-5.0**	**-6.9**

Expected contribution to defined benefit plans during the next reporting period is EUR 2.6 (31 December 2016: EUR 2.2) million. The weighted average duration of the defined benefit obligations was 15.8 (31 December 2016: 16.6) years.

Reconciliation of the net defined benefit obligation

MEUR	Present value of plan obligation	Fair value of plan assets	Total
1 Jan 2017	119.1	-37.7	81.4
Current service cost	4.5	-	4.5
Interest expense (+) / income (-)	2.9	-1.0	1.9
Past service cost	0.2	-	0.2
Remeasurements:			
Return on plan assets, excluding amounts of interest	-	-0.4	-0.4
Actuarial gain (-) / loss (+) from change in demographic assumptions	0.0	-	0.0
Actuarial gain (-) / loss (+) from change in financial assumptions	3.6	-	3.6
Experience adjustment gain (-) / loss (+)	1.8	-	1.8
Foreign exchange rate gains (-) / losses (+)	-2.7	1.7	-1.0
Contributions by employer	-	-1.7	-1.7
Contributions by plan participants	0.2	0.0	0.2
Benefits paid	-5.2	2.0	-3.3
Settlements	-0.7	0.5	-0.1
Companies acquired and sold	-	-	0.0
31 Dec 2017	**123.6**	**-36.5**	**87.2**

MEUR	Present value of plan obligation	Fair value of plan assets	Total
1 Jan 2016	110.6	-39.3	71.3
Current service cost	4.9	-	4.9
Interest expense (+) / income (-)	3.2	-1.2	2.0
Past service cost	-0.1	-	-0.1
Remeasurements:			
Return on plan assets, excluding amounts of interest	-	-1.4	-1.4
Gain (-) / loss (+) from change in demographic assumptions	-0.1	-	-0.1
Gain (-) / loss (+) from change in financial assumptions	7.7	-	7.7
Experience adjustment gain (-) / loss (+)	0.7	-	0.7
Foreign exchange rate gains (-) / losses (+)	-0.6	2.8	2.2
Contributions by employer	-	-1.8	-1.8
Contributions by plan participants	-	-0.1	-0.1
Benefits paid	-6.5	2.4	-4.1
Settlements	-0.8	0.8	-0.1
Companies acquired and sold	0.1	-	0.1
31 Dec 2016	**119.1**	**-37.7**	**81.4**

Allocation of plan assets and liabilities geographically

MEUR	Sweden	United Kingdom	Norway	Other countries	Total
Present value of plan liability:					
2017	78.7	19.3	8.6	17.1	123.6
2016	71.3	20.6	9.9	17.4	119.1
Fair value of plan assets:					
2017	6.0	19.6	6.8	4.2	36.5
2016	5.9	19.7	8.0	4.1	37.7

Allocation of plan assets

MEUR	2017	2016
Debt instruments	2.6	3.7
Investment funds	11.3	11.1
Qualifying insurance policies	4.9	5.7
Equity instruments	3.5	3.5
Other assets	14.2	13.7
Total plan assets	**36.5**	**37.7**

Plan assets do not include own equity instruments or other assets used by the entity.

Defined benefit plans: applied actuarial assumptions

%	Sweden	United Kingdom	Norway	Other countries*
Discount rate 2017 (2016)	2.6 (2.7)	2.4 (2.5)	2.3 (2.1)	1.7 (1.9)
Expected rate of salary increases 2017 (2016)	2.3 (2.3)	2.6 (2.8)	2.5 (2.3)	3.5 (2.5)
Expected pension growth rate 2017 (2016)	1.9 (1.5)	3.4 (3.5)	1.3 (2.1)	1.8 (1.5)

*Weighted average

The discount rate is determined separately for each plan and where available, the discount rate is based on a yield of high quality corporate bonds that are denominated in the same currency and have length that approximates the plan duration. The discount rate in Sweden is based on Swedish housing market bonds, the discount rate in the United Kingdom is based on iBoxx quoted for sterling corporate bonds and the discount rate in Norway is based on Norwegian covered bond yields. The discount rate in all euro countries is based on iBoxx quoted for euro bonds and the discount rate in the United States is based on a yield curve provided by Mercer.

Impact of changes in relevant actuarial assumptions to defined benefit obligation

MEUR	2017	2016
Effect of a 0.5%-point increase in the principal assumption would impact the overall liability as follows:		
Discount rate	-8.2	-7.6
Expected rate of salary increases	2.6	2.7
Expected pension growth rate	5.5	5.7
Effect of a 0.5%-point decrease in the principal assumption would impact the overall liability as follows:		
Discount rate	9.4	8.6
Expected rate of salary increases	-2.2	-2.2
Expected pension growth rate	-4.9	-4.7
Effect of 1 year increase in the life expectancy	3.7	3.4
Effect of 1 year decrease in the life expectancy	-3.7	-3.4

The table above summarises the results of the sensitivity analysis prepared separately for each plan, and for each relevant actuarial variable, by an external actuary. The sensitivity analysis has been prepared for one variable at a time while holding all other variables constant. Regardless of the actual volatility of the given variable, for presentation purposes the analysis has been prepared by assuming a fixed change in the key variable as indicated in table. Consequently, the purpose of the analysis is not to quantify possible or expected change in the defined benefit obligation but to illustrate the sensitivity of the value of obligation to these variables, the fluctuation of which may deviate from the figures presented in practice. The sensitivity analysis covers 89 (31.12.2016: 87) percent of the net defined benefit liability recognised on the balance sheet.

The analysis above assesses only the pension liability's sensitivity to given variables without considering the plan assets. Although the changes in the discount rate create the most significant risk to plan based on the sensitivity analysis, in practice, the interest rate sensitivity is partly offset by the plan assets that include investments in bonds. The plan assets also include instruments such as equities and funds that in the near term may be volatile, but on the long run are expected to outperform corporate bond yields. The risks related to asset performance are significant both due to the absolute size of plan assets and due to their relative size compared to plan liability. This risk is mitigated by suitable asset allocation and balancing between risk and return. The defined benefit obligation is determined based on the current best estimate of the life expectancy. If the assumed life expectancy proves to be underestimated, also the recognised plan liability will be insufficient. Uncertainty regarding the reliability of this estimate is also a risk to the plan.

27. Interest-bearing liabilities

Book value of interest-bearing liabilities

MEUR	Note	31 Dec 2017	31 Dec 2016
Non-current			
Loans from financial institutions		192.7	424.7
Corporate bonds		469.3	230.0
Finance lease liabilities	30	10.1	2.1
Other interest-bearing liabilities		1.7	-
Total		**673.8**	**656.8**
Current			
Loans from financial institutions		95.3	24.7
Corporate bonds		-	113.8
Finance lease liabilities	30	0.8	1.2
Other interest-bearing liabilities		0.8	13.0
Bank overdrafts used		24.4	12.4
Total		**121.4**	**165.1**
Total interest-bearing liabilities		**795.2**	**821.9**

On 31 December 2017, the average interest rate of long-term loans and corporate bonds after hedging of USD denominated corporate bonds through cross-currency and interest rate swaps into EUR, was 2.3 (31 Dec 2016: 1.9) percent. The average interest rate of short-term loans was 2.0 (31 Dec 2016: 4.6) percent.

The fair values of corporate bonds, presented below, are calculated using discounted cash flows with market rates and Cargotec Corporation's credit risk as discount factors. The fair values of other interest-bearing liabilities are not materially different from their carrying amounts.

Corporate bonds

			Fair value, MEUR		Book value, MEUR	
Loan period	Coupon rate, %	Nominal value	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
2007–2017	5.58	120.0 MUSD	-	114.5	-	113.8
2007–2019	5.68	85.0 MUSD	73.2	84.9	70.9	80.6
2014–2020	3.38	150.0 MEUR	159.7	159.6	149.6	149.4
2017–2022	1.75	150.0 MEUR	153.7	-	149.4	-
2017–2024	2.38	100.0 MEUR	102.3	-	99.4	-

The USD denominated Private Placement corporate bond is hedged through a cross-currency and interest rate swap defined as a cash flow hedge. Considering the hedge, Cargotec has no material amounts of interest-bearing debt in foreign currencies.

Reconciliation of interest-bearing liabilities

MEUR	Note	Non-current interest-bearing liabilities including repayments	Finance lease liabilities and current interest-bearing liabilities	Bank overdrafts used	Total interest-bearing liabilities
1 Jan 2017		772.9	36.6	12.4	821.9
Cash flows		-12.7	-10.2	13.1	-9.7
Disposals of business	5	-3.9	-	-	-3.9
Translation differences		-10.1	-	-	-10.1
Effective yield adjustment		0.5	-2.4	-1.0	-2.9
31 Dec 2017		**746.7**	**24.0**	**24.5**	**795.2**

The repayments of long-term borrowings in the consolidated statement of cash flows include a realized EUR 22.7 million foreign currency gain from a cross-currency and interest rate swap that hedged the USD denominated Private Placement bond that expired during the year, and is not included in the above reconciliation.

28. Accounts payable and other non-interest-bearing liabilities

MEUR	Note	31 Dec 2017	31 Dec 2016
Non-current			
Buy-back obligations from customer finance arrangements	20	54.6	44.8
Other non-interest-bearing liabilities	20	6.9	4.7
Total		**61.5**	**49.4**
Current			
Accounts payable	20	398.1	408.2
Accrued salaries, wages and employment costs		53.2	56.8
Late cost reservations		90.5	84.6
Cost accruals related to construction contracts		20.3	64.2
Amount due to customers from construction contracts		17.6	30.3
Advance payments from customer financing arrangements		53.9	50.7
Advance payments from service contracts		21.2	18.4
Accrued interests	20	12.3	14.6
Liabilities related to business combinations	20	0.3	7.6
Other accrued expenses		212.9	200.9
Total		**880.3**	**936.2**
Total accounts payable and other non-interest-bearing liabilities		**941.9**	**985.6**

29. Provisions

2017 MEUR	Warranties	Product claims	Restructuring	Onerous contracts	Others	Total
Provisions 1 Jan	80.9	8.3	38.1	20.3	2.9	150.4
Translation differences	-1.5	-0.9	-1.1	-0.4	-0.1	-4.0
Increases	29.1	2.6	12.6	6.9	0.9	52.1
Companies acquired and sold	-0.1	-	-	-	-	-0.1
Provisions used	-19.8	-1.1	-16.8	-15.9	-0.5	-54.1
Reversals of provisions	-12.7	-2.1	-2.4	-5.2	-1.3	-23.8
Provisions 31 Dec	**75.9**	**6.8**	**30.3**	**5.7**	**1.9**	**120.6**

2016 MEUR	Warranties	Product claims	Restructuring	Onerous contracts	Others	Total
Provisions 1 Jan	66.0	6.5	8.9	15.0	2.4	98.8
Translation differences	0.8	0.3	0.4	0.4	0.0	1.9
Increases	39.5	4.9	35.4	13.9	2.0	95.7
Companies acquired and sold	0.2	-	-	0.5	0.0	0.7
Provisions used	-12.3	-1.9	-5.0	-7.4	-0.5	-27.2
Reversals of provisions	-13.3	-1.5	-1.6	-2.0	-1.1	-19.4
Provisions 31 Dec	**80.9**	**8.3**	**38.1**	**20.3**	**2.9**	**150.4**

MEUR	31 Dec 2017	31 Dec 2016
Non-current provisions	17.1	37.6
Current provisions	103.5	112.8
Total	**120.6**	**150.4**

Provisions for warranties cover the expected expenses related to warranty claims from goods sold in the financial period or earlier with a valid warranty. Warranty periods vary among the products but are mainly from 1 to 2 years.

Provisions for product claims received are made when the value, probability and realisation can be estimated. Provisions are expected to realise mainly within 1–2 years.

Provisions for restructuring are based on plans approved and implemented by the management related to restructuring of operations. Provisions are expected to realise within 1–2 years. Information on restructuring costs can be found in note 8, Restructuring costs.

Provisions for onerous contracts are recognised when it is probable that contract costs will exceed the estimated total contract revenue. The expected loss is recognised as an expense immediately. Provisions for onerous contracts in general realise within 1–2 years.

Other provisions include various items, e.g. related to personnel and legal disputes. More information on estimation of provisions can be found in note 2, Estimates and assumptions requiring management judgement.

30. Leases

Cargotec as lessee

MEUR	31 Dec 2017	31 Dec 2016
Non-cancellable operating lease payables		
Less than 1 year	37.3	34.9
1–5 years	87.3	85.1
Over 5 years	64.8	74.9
Total	**189.4**	**194.9**
Non-cancellable finance lease payables		
Less than 1 year	1.0	1.3
1–5 years	2.0	2.1
Over 5 years	8.4	0.1
Total	**11.3**	**3.6**
Present value of non-cancellable finance lease payables		
Less than 1 year	0.8	1.2
1–5 years	1.7	1.9
Over 5 years	8.4	0.1
Total	**10.9**	**3.2**
Future finance charges	0.4	0.3

Cargotec leases globally a large part of the properties needed in the operations under non-cancellable operating leases with varying terms and conditions. Cargotec's finance lease obligations mainly include machinery and equipment needed in the operations.

In December 2017, Kalmar entered into a sale and lease-back arrangement related to its new R&D center in Sweden that is currently under construction and is expected to be finalised during 2018. Due to Kalmar's commitments related to the transaction, the payment received from the sale was recognised as a finance lease liability, and the property under construction was reclassified to finance lease assets. Lease accounting of these items will begin once the property is ready.

The aggregate operating lease expenses for the financial year totalled EUR 40.1 (2016: 39.5) milion.

Cargotec as lessor

MEUR	31 Dec 2017	31 Dec 2016
Non-cancellable operating lease receivables		
Less than 1 year	4.1	5.8
1–5 years	11.6	13.8
Over 5 years	1.6	0.8
Total	**17.2**	**20.4**
Non-cancellable finance lease receivables		
Less than 1 year	0.4	0.7
1–5 years	0.6	0.6
Over 5 years	-	-
Total	**1.1**	**1.3**
Present value of non-cancellable finance lease receivables		
Less than 1 year	0.4	0.6
1–5 years	0.6	0.6
Over 5 years	-	-
Total	**0.9**	**1.1**
Future finance income	0.2	0.2

Cargotec's operating lease receivables mainly relate to container handling and industrial application equipment leased out under contracts with varying duration and other terms.

Rental income recognised in sales from operating leases was EUR 5.0 (2016: 5.4) million.

31. Commitments

MEUR	31 Dec 2017	31 Dec 2016
Guarantees	0.2	0.2
Customer financing	18.4	20.6
Operating leases	189.4	194.9
Other contingent liabilities	0.6	2.4
Total	**208.6**	**218.1**

Cargotec Corporation has guaranteed obligations of Cargotec companies arising from ordinary course of business. The total amount of these guarantees on 31 December 2017 was EUR 461.2 (31 Dec 2016: 424.3) million.

Certain products are sold under customer finance arrangements in which some level of risk is typically retained by Cargotec. When the level of retained risk is low and, therefore, not reflected on the balance sheet, it is reported in full as a contingent liability under commitments. No significant liabilities are expected to arise from the commitments related to customer financing.

Information regarding operating leases is disclosed in note 30, Leases.

In addition, Cargotec has commitments related to its investments in joint ventures. These commitments are disclosed in note 17, Investments in associated companies and joint ventures.

Contingent liabilities

Cargotec received in October 2016 a USD 13 million verdict in a local jury trial in Hempstead, USA. Verdict is related to business acquisition negotiations Cargotec USA had in 2010 and 2011. The negotiations were closed without results. The claim is based on Cargotec having breached confidentiality obligations related to the negotiations. Cargotec disputes the claim and has appealed to the Court of Appeals.

There are also certain other legal claims and disputes based on various grounds pending against Cargotec around the world. The management believes that the outcome of these disputes will not have a material effect on Cargotec's financial position.

32. Related-party transactions

Cargotec's related parties include the parent company Cargotec Corporation and its subsidiaries, associated companies and joint ventures. Related parties include also the members of the Board of Directors and the Executive Board, including the CEO. Wipunen varainhallinta oy, Mariatorp Oy and Pivosto Oy exercise through ownership in Cargotec significant influence over the company.

Transactions with associated companies and joint ventures

1 Jan–31 Dec 2017 MEUR	Associated companies	Joint ventures	Total
Sale of products and services	7.0	5.1	12.0
Purchase of products and services	19.6	78.0	97.6

1 Jan–31 Dec 2016 MEUR	Associated companies	Joint ventures	Total
Sale of products and services	8.2	7.9	16.1
Purchase of products and services	24.8	134.5	159.4

Balances with associated companies and joint ventures

31 Dec 2017 MEUR	Associated companies	Joint ventures	Total
Accounts receivable	2.2	3.7	5.9
Accounts payable	1.5	4.7	6.2

31 Dec 2016 MEUR	Associated companies	Joint ventures	Total
Accounts receivable	1.6	2.1	3.7
Accounts payable	2.7	5.8	8.5

Comparable information from year 2016 has been restated.

Transactions with associated companies and joint ventures are carried out at market price.

Key management compensation

The top management comprises the Board of Directors and the Executive Board. The remuneration paid or payable based on the work performed consists of the following:

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Wages, salaries and other short-term employee benefits	3.6	4.6
Share-based payments	3.5	3.1
Post-employment benefits	0.5	0.7
Termination benefits	-	0.5
Total	**7.6**	**8.9**

The composition of Cargotec's Executive Board has changed during 2016. The remuneration of the Executive Board members who left the Board is included in the key management compensation information for the period they were members.

The CEO and members of the Executive Board are participants in the share-based incentive programmes 2017–2020 and 2014–2016. Based on the 2014 programme, the CEO was rewarded in spring 2017 with 9,176 and three other Executive Board members with 7,491 Cargotec class B shares. First phase of 2015 programme rewarded the CEO and four other Executive Board members and first phase of 2016 programme the CEO and five other Executive Board members. Additionally, the CEO and members of the Executive Board participate to the restricted shares incentive programmes. As the targets for the earnings period 2015 were fulfilled, the CEO was

rewarded with 8,097 class B shares and other Executive Board members with 13,174 class B shares in spring 2016. As the financial targets for the earnings period 2016 were fulfilled, the CEO was rewarded with 2,971 and other Executive Board members with 5,073 class B shares in spring 2017.

Further information on the incentive programmes is presented in note 25, Share-based payments.

The CEO is entitled to a supplemental defined contribution pension benefit, for which a EUR 0.5 (2016: 0.7) million contribution has been paid in 2017 to the insurance company administering the benefit. According to the pension arrangement, the CEO is entitled to retire between the age of 60–65. Any additional contributions to the CEO's supplemental pension benefit are approved by the Board of Directors. Board of Directors also sets the performance criteria for payment of contributions. Additionally, the CEO is entitled to a statutory pension, for which a pension cost of EUR 0.2 (2016: 0.2) million was recorded in year 2017. Other Finnish members of the Executive Board are entitled to a statutory pension. Their retirement age is determined in line with the statutory pension scheme in Finland. Hiab and MacGregor Business Area Presidents have supplemental defined contribution pension plans, following the local market practice. The members of the Executive Board have a period of notice of 6 months and are entitled to compensation, for termination of employment, corresponding to 6 to 12 months' salary.

Cargotec had no loans, liabilities or commitments to persons belonging to Cargotec's related party on 31 December 2017 or 31 December 2016.

Salaries and remunerations paid

1,000 EUR		1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Mika Vehviläinen	CEO*	2,338.3	1,689.5
Ilkka Herlin	Chairman of the Board	124.2	101.2
Tapio Hakakari	Vice Chairman of the Board	89.0	69.2
Kimmo Alkio	Member of the Board (since 22 March 2016)	64.0	36.7
Jorma Eloranta	Member of the Board	70.0	53.0
Peter Immonen	Member of the Board	70.0	53.0
Teresa Kemppi-Vasama	Member of the Board (since 21 March 2017)	54.0	-
Antti Lagerroos	Member of the Board (until 22 March 2016)	-	11.0
Johanna Lamminen	Member of the Board (since 21 March 2017)	54.0	-
Anja McAlister (Silvennoinen)	Member of the Board (until 22 March 2016)	-	12.0
Kaisa Olkkonen	Member of the Board (since 22 March 2016)	69.0	44.7
Teuvo Salminen	Member of the Board	86.8	70.0
Heikki Soljama	Member of the Board (since 22 March 2016)	64.0	38.7

*Year 2017 includes, in addition to the base salary, fringe benefits and short-term incentive pay out, also taxable income from the restricted shares programme 2016 and share-based incentive programme 2014. Year 2016 includes, in addition to the base salary and fringe benefits and short-term incentive pay out, also taxable income from the restricted shares programme 2015.

Further information on share and option right ownership of the Board of Directors and key management is available under Shares and shareholders.

33. Subsidiaries

31 Dec 2017	Country	Shareholding (%) Parent	Shareholding (%) Group
Cargotec Argentina S.R.L.	Argentina		100
Cargotec Australia Pty Ltd	Australia		100
Cargotec Automation Solutions Australia Pty Ltd	Australia		100
Inver Port Services Pty. Ltd.	Australia		100
Kalmar Equipment (Australia) Pty. Ltd.	Australia		100
MacGregor Australia Pty Ltd	Australia		100
Hiab Austria GmbH	Austria		100
Interhydraulik Zepro GmbH	Austria		100
Kalmar Austria GmbH	Austria		100
Cargotec Caribbean Services Ltd.	Bahamas		100
Cargotec Belgium NV	Belgium	100	100
MacGregor Belgium NV	Belgium		100
Cargotec Brazil Indústria e Comércio de Equipamentos para Movimentacao de Cargas Ltda	Brazil		100
Hiab Brasil Guindastes e Servicos Ltda	Brazil		100
MLS Servicos Offshore e Navais Ltda	Brazil		100
Cargotec Bulgaria EOOD	Bulgaria		100
Waltco Lift Inc.	Canada		100
Hiab Chile S.A.	Chile		100
Triplex Chile Ltda.	Chile		95
Cargotec Asia Limited	China		100
Cargotec Industries (China) Co., Ltd	China		100
Cargotec (Shanghai) Trading Company Limited	China		100
China Crane Investment Holdings Limited	China		100
Hiab Load Handling Equipment (Shanghai) Co., Ltd	China		100
INTERSCHALT Maritime Systems Trading (Shanghai) Co., Ltd.	China		100
Kalmar Port Machinery (Shenzhen) Co., Ltd	China		100
MacGREGOR (CHN) Ltd	China		100
MacGregor (HKG) Limited	China		100
MacGREGOR (Shanghai) Trading Co., Ltd.	China		100
MacGregor (Tianjin) Co., Ltd	China		100
Hiab d.o.o.	Croatia	100	100
MacGregor Croatia d.o.o.	Croatia		100
HATLAPA (Eastmed) Limited	Cyprus		70
HATLAPA Filtration Technology Ltd.	Cyprus		51
ISMS Holdings Limited	Cyprus		100
MacGregor Cyprus Limited	Cyprus		100
MacGregor Denmark A/S	Denmark		100
Zepro Danmark A/S	Denmark		100
Cargotec Estonia AS	Estonia	100	100
MacGREGOR BLRT Baltic OÜ	Estonia		51
Cargotec Finland Oy	Finland		100
Cargotec Holding Finland Oy	Finland	100	100
Cargotec Solutions Oy	Finland	100	100
MacGregor Finland Oy	Finland		100
Oy Sisu Ab	Finland	100	100

31 Dec 2017	Country	Shareholding (%) Parent	Shareholding (%) Group
Hiab France SAS	France	100	100
Kalmar France SAS	France		100
MacGregor France S.A.S.	France		100
SRMP – Société Réunionaise de Maintenance Portuaire	France		51
HATLAPA Verwaltungsgesellschaft mbH	Germany		100
Hiab Germany GmbH	Germany		100
INTERSCHALT Bluedrive GmbH	Germany		100
Kalmar Germany GmbH	Germany		100
MacGregor Germany GmbH et Co. KG	Germany		100
MacGregor Greece Ltd	Greece		100
Cargotec India Private Limited	India		100
MacGregor Marine India Private Limited	India		100
PT MacGregor Indonesia	Indonesia		100
Cargotec Engineering Ireland Ltd	Ireland		100
Cargotec Research & Development Ireland Ltd	Ireland		100
Hiab Italia S.r.l.	Italy		100
Kalmar Italia S.r.l.	Italy		100
MacGregor Italy S.r.l.	Italy		100
Cargotec Japan Ltd	Japan		100
MacGregor Japan Ltd	Japan		100
MacGREGOR BLRT Baltic UAB	Lithuania		51
Bromma (Malaysia) Sdn. Bhd.	Malaysia		100
Cargotec Terminal Solutions (Malaysia) Sdn Bhd	Malaysia		100
Hiab Sdn Bhd	Malaysia		100
MacGregor Malaysia Sdn. Bhd.	Malaysia		100
Kalmar Mexico Equipos S.A. de C.V.	Mexico		100
Kalmar Maghreb S.A.	Morocco		100
Cargotec Holding Netherlands B.V.	Netherlands	100	100
Hiab Benelux B.V.	Netherlands		100
Kalmar Netherlands B.V.	Netherlands		100
MacGregor Netherlands B.V.	Netherlands		100
MacGregor Netherlands Holding B.V.	Netherlands		100
Hiab Norway AS	Norway		100
Kalmar Holding Norway AS	Norway	100	100
Kalmar Norway AS	Norway		100
MacGregor Holding Norway AS	Norway	50	100
MacGregor MDH AS	Norway		100
MacGregor Norway AS	Norway		100
Cargotec Panama, S.A.	Panama		100
Cargotec Services Panama, S.A.	Panama		100
Cargotec Poland Sp. z.o.o.	Poland		100
MacGregor Poland Sp. z.o.o.	Poland		100
Kalmar Portugal, Unipessoal Lda	Portugal		100
MacGregor Doha WLL	Qatar		49*
Cargotec RUS LLC	Russia		100
Hiab RUS LLC	Russia		100
Cargotec CHS Pte. Ltd.	Singapore		100
HATLAPA Asia Pacific Pte. Ltd.	Singapore		100
ISMS Services Pte. Ltd.	Singapore		100

31 Dec 2017	Country	Shareholding (%) Parent	Shareholding (%) Group
MacGREGOR Plimsoll Offshore Services Pte Ltd	Singapore		100
MacGREGOR Plimsoll Pte Ltd	Singapore		100
MacGregor Pte Ltd	Singapore	100	100
MacGREGOR (SGP) Pte Ltd.	Singapore		100
Cargotec Slovakia Spol. s.r.o.	Slovakia	100	100
Tagros d.o.o.	Slovenia	100	100
Hiab (Pty) Ltd	South Africa		100
Kalmar Industries South Africa (Pty) Ltd	South Africa	100	100
Cargotec Korea Limited	South Korea		100
MacGregor Korea Ltd	South Korea		100
Hiab Cranes, S.L. Unipersonal	Spain		100
Hiab Iberia, S.L. Unipersonal	Spain		100
Kalmar Spain Cargo Handling Solutions S.A.	Spain		100
Cargotec Holding Sweden AB	Sweden	100	100
Cargotec Patenter AB	Sweden		100
Cargotec Patenter HB	Sweden		100
Cargotec Sweden AB	Sweden	100	100
Hiab AB	Sweden		100
Koffert Sverige AB	Sweden		100
MacGregor Sweden AB	Sweden		100
Siwertell AB	Sweden		100
Zeteco AB	Sweden		100
Z-Lyften Produktion AB	Sweden		100
Cargotec (Thailand) Co., Ltd.	Thailand		100
Kalmar Turkey Yuk Tasima Sistemleri Anonim Şirketi	Turkey		100
Cargotec Ukraine, LLC	Ukraine		100
Bromma Middle East DMCC	United Arab Emirates		100
Kalmar Middle East DMCC	United Arab Emirates		100
MacGregor (ARE) Gulf LLC	United Arab Emirates		49*
MacGregor (ARE) LLC	United Arab Emirates		49*
Del Equipment (U.K.) Limited	United Kingdom		100
Flintstone Technology Limited	United Kingdom		51
Hiab Limited	United Kingdom	100	100
Kalmar Limited	United Kingdom	100	100
MacGregor (GBR) Limited	United Kingdom		100
P and C Compressor Spares Ltd	United Kingdom		100
Player and Cornish Marine Limited	United Kingdom		100
Cargotec Crane and Electrical Services Inc.	USA		100
Cargotec Holding, Inc.	USA	100	100
Hiab USA Inc.	USA		100
Kalmar RT Center LLC	USA		100
Kalmar Solutions LLC	USA		100
Kalmar USA Inc.	USA		100
MacGregor USA Inc.	USA		100
Navis LLC	USA		100
Waltco Lift Corp.	USA		100

*Cargotec has control of the company based on the shareholders' agreement and thus subsidiary is fully consolidated.

34. Events after the balance sheet date

On 5 February, MacGregor closed the acquisition of Rapp Marine Group AS in Norway. Information about the acquisition is disclosed in note 5, Acquisitions and disposals.

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

Parent company income statement

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Sales		**155.2**	**152.4**
Administration expenses	3, 4, 5	-166.8	-152.9
Other operating income		0.0	0.0
Operating loss		**-11.6**	**-0.5**
Financing income and expenses	6	95.3	128.5
Profit before appropriations and taxes		**83.7**	**128.0**
Group contributions		-	-8.9
Income taxes	7	-0.2	-2.2
Profit for the period		**83.5**	**116.9**

Figures are presented according to the Finnish Accounting Standards (FAS).

Parent company balance sheet

MEUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	8	37.3	35.8
Tangible assets	9	0.1	0.1
Investments			
Investments in subsidiaries	10	4,187.5	2,798.5
Investments in joint ventures	10	50.5	50.5
Other investments	10	3.8	3.8
Total non-current assets		**4,279.2**	**2,888.7**
Current assets			
Non-current receivables	11, 13	408.1	425.8
Current receivables	12, 13	336.3	755.2
Cash and cash equivalents		198.7	191.0
Total current assets		**943.1**	**1,372.0**
Total assets		**5,222.3**	**4,260.7**

MEUR	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity			
Share capital		64.3	64.3
Share premium account		98.0	98.0
Fair value reserves		-0.7	0.2
Reserve for invested non-restricted equity		74.3	71.7
Retained earnings		1,113.5	1,057.8
Net income for the period		83.5	116.9
Total equity	14	**1,433.1**	**1,408.9**
Provisions		**0.6**	**-**
Liabilities			
Non-current liabilities	13, 15	662.0	654.8
Current liabilities	13, 16	3,126.6	2,197.1
Total liabilities		**3,788.7**	**2,851.8**
Total equity and liabilities		**5,222.3**	**4,260.7**

Figures are presented according to the Finnish Accounting Standards (FAS).

Parent company cash flow statement

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Operating loss	-11.6	-0.5
Adjustments to the operating loss for the period	5.5	5.0
Change in working capital:		
Change in non-interest-bearing receivables	8.1	-10.9
Change in non-interest-bearing payables	1.8	6.9
Interest paid	-20.2	-21.7
Interest received	18.3	16.1
Dividends received	134.4	107.7
Income taxes paid	0.0	0.0
Derivatives	57.3	53.8
Cash flow from operating activities	**193.7**	**156.4**
Investments to tangible and intangible assets	-7.1	-7.7
Investments to subsidiaries and other companies	-1,501.5	-61.6
Proceeds from sales of group companies	51.7	-
Cash flow from investing activities	**-1,456.9**	**-69.3**
Received and paid group contributions	-8.9	56.7
Stock options exercised	-	0.5
Acquisition of treasury shares	-	-7.6
Proceeds from sale of treasury shares	1.2	0.4
Increase in loans receivable	-98.2	-126.1
Disbursement of loans receivable	449.7	304.5
Proceeds from short-term borrowings	1,484.5	423.5
Repayments of short-term borrowings	-504.6	-580.2
Proceeds from long-term borrowings	249.8	-
Repayments of long-term borrowings	-241.4	-2.5
Profit distribution	-61.1	-52.2
Cash flow from financing activities	**1,271.0**	**17.0**
Change in cash and cash equivalents	7.7	104.2
Cash and cash equivalents 1 Jan	191.0	86.9
Cash and cash equivalents 31 Dec	**198.7**	**191.0**

Figures are presented according to the Finnish Accounting Standards (FAS).

Notes to the parent company financial statements

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1. Accounting principles for the parent company financial statements

Basis of preparation

Cargotec Corporation's financial statements have been prepared in accordance with the Finnish Accounting Standards (FAS).

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency-denominated receivables and payables outstanding at the end of the financial period are revaluated at the exchange rate prevailing on the balance sheet date. Exchange rate gains/losses relating to operations are treated as adjustments to sales and costs. Exchange rate gains/losses associated with financial instruments are included in financing income and expenses.

Revenue recognition

Sales primarily include internal service charges. Revenue from the service sales is recognised when the services have been rendered.

Income taxes

Deferred tax assets and liabilities, due to temporary differences between the financial statements and taxation are calculated using the future period's enacted tax rate at the closing date. Total deferred tax liability is included in the balance sheet in full and deferred tax asset at the estimated probable asset value.

Income taxes include a tax expense calculated from the taxable income of the period in accordance with the Finnish tax legislation.

Intangible and tangible assets, amortisation and depreciation

Intangible and tangible assets are stated at original acquisition cost less accumulated amortisation and depreciation, and impairment. Amortisation and depreciation are recognised on a straight-line basis in accordance with a predetermined plan based on the estimated useful economic life of assets. The amortisation and depreciation periods based on expected useful economic lives are as follows:

- Intangible assets 3–10 years
- Other capitalised expenditure 5–10 years
- Buildings 25 years
- Machinery and equipment 3–5 years

Investments

Investments in the group companies and joint ventures are measured at acquisition cost less accumulated impairment. Other investments, for which fair value cannot be measured reliably due to non-existent public markets or reliable valuation methods, are also mainly measured at acquisition cost less accumulated impairment.

Loans receivable

Loans receivable include mainly loans to group companies. Loans receivable are initially recognised at fair value, and subsequently measured at amortised cost less impairments in accordance with the effective interest method. Interest income from loans receivable is recognised as financial income based on the effective interest rate.

Cash and cash equivalents

Cash and cash equivalents include cash balances, short-term bank deposits and other short-term liquid investments with maturities up to three months.

Loans payable

Loans payable are initially recognised as a liability on balance sheet at an amount received less transaction costs. Subsequently, loans payable are measured at amortised cost in accordance with the effective interest rate method. Transaction costs and interests are recognised as finance expense in the income statement by applying the effective interest rate.

Derivative instruments

Derivative instruments are initially recognised in the balance sheet at cost, which equals their fair value, and subsequently they are measured at fair value on each balance sheet date in accordance with the principles of IFRS, as allowed by FAS, and the fair value changes are recognised in the income statement unless hedge accounting is applied. Fair values of currency forward contracts and cross-currency and interest rate swaps are determined by using commonly applied valuation methods and the valuations are based on observable market data for interest rates and currencies. Derivative instruments maturing after 12 months from the balance sheet date are included in the non-current assets and liabilities. Other derivative instruments are included in the current assets and liabilities.

Hedge accounting in accordance with IAS 39 is applied to hedges of cash flows associated with foreign currency-denominated loans. To qualify for hedge accounting, the parent company documents the hedge relationship of the derivative instrument and the related hedged item, the company's risk management targets and the hedging strategy. When starting hedge accounting and at least in every interim and annual closing, the company documents and estimates the effectiveness of the hedge by measuring the ability of the hedging instrument to offset changes in fair value of the underlying asset or cash flow with respect to the hedged risk.

Changes in the fair value of effective cash flow hedges are recognised in fair value reserve of the equity. Ineffective portion is recognised immediately in the income statement. Cumulative gain or loss on the hedge deferred to equity is recognised in the income statement as an adjustment to the hedged item during the same period when the hedged item is recognised. Changes in the fair value of hedging instruments relating to operative items that no longer are expected to materialise are recognised immediately in the

income statement in other operating income/expenses. If the hedging instrument matures, is sold, the contract is revoked or exercised or the relation of the hedging instrument and the underlying item is revoked, the cumulative change in the fair value of the hedging instrument remains in equity and is recognised in the income statement when the underlying operative item materialises.

Changes in the fair values of hedges, for which hedge accounting is not applied, are recognised in the income statement, either in operative income and expenses or financial income and expenses, depending on the hedged item. Changes in all forward contract fair values due to interest rate changes are always directly recognised in financial income and expenses.

Equity

Equity consists of share capital, share premium account, fair value reserves, reserve for invested non-restricted equity and retained earnings, deducted with dividends paid and donations approved at the Annual General Meeting. The amount exceeding the accounting par value of shares received by the company in connection with share subscriptions was recorded in share premium account under the old Limited Liability Companies Act (29 Sep 1978/734). Fair value reserves include the cumulative spot-component of the changes in the fair values of the derivative instruments defined as cash flow hedges. Under the new (1 Sep 2006) Limited Liability Companies Act (21 Jul 2006/624), when stock options are exercised, the amount received is recorded in reserve for invested non-restricted equity. Changes in treasury shares are recorded in reserve for invested non-restricted equity. The net income for the period is recorded in retained earnings.

Provisions

Statutory provisions are expenses to which the parent company is committed and that are not likely to generate the corresponding revenue, or losses, which are regarded as evident.

2. Financial risk management

The parent company manages the financial risks of the group and operates under the same policies and instructions as the group.

Currency risk

The parent company's treasury function operates as an internal bank for the group's subsidiaries. The parent company's currency exposure originates mainly from foreign currency funding given to subsidiaries and foreign currency loans taken by the parent company. In addition, the currency position includes internal forward agreements with the subsidiaries, external forward agreements, and cross currency swaps. Foreign exchange differences arising from these transactions are booked in the profit and loss statement in the financial items. Furthermore, the parent company invoices the group companies for services provided. Foreign exchange differences from these invoices are booked in the parent company's operational profit.

The parent company's open currency exposure on 31 December 2017 was, in absolute terms, EUR 8.6 (31 Dec 2016: 17.3) million.

Until May 2017, the parent company hedged a part of the Swedish krona related translation risk with derivatives, and applied hedge accounting for these hedges with the aim to reduce the impact of Swedish krona related translation risk to Cargotec's gearing. After changing the accounting treatment of the SEK intercompany net investment loans, Cargotec decided to unwind the hedges in May 2017. On 31 December 2017, there were no outstanding derivatives related to translation risk (31 Dec 2016: EUR 556.4 million). The impact of these derivatives to the parent company's financing income over the period was EUR 10.9 (2016: 23.4) million.

Interest rate risk

The parent company's interest rate risk originates from external loans and internal loans and deposits. The pricing of intercompany transactions is based on transfer pricing rules, and internal interest income and expenses are eliminated on group level. As a result, interest rate risk is not measured separately on parent company level, and the information presented in the consolidated financial statements regarding interest risk and its management is the same for the parent company.

Liquidity and funding risk

The majority of the group's derivatives, loans and cash equivalents belong to the parent company. The maturity structure of these financial liabilities is not separately followed on parent company level, because the information presented in the consolidated financial statements provides a fair view of the liquidity and funding risk. Only account payables and account receivables vary significantly between the parent company and the group.

Credit and counterparty risk

The parent company's account receivables and loan receivables originate mainly from the other group companies, and the parent company is therefore not exposed to a counterparty risk.

External loan receivables on 31 December 2017 were EUR 2.1 (31 Dec 2016: 1.2) million, and cash and equivalents EUR 198.7 (31 Dec 2016: 191.0) million. The parent company's cash and equivalents are held in banks having a solid credit rating and approved by the Treasury Committee. More information about the credit risk related to derivatives is disclosed in the note 20, Financial instruments by measurement category, in the consolidated financial statements.

Operational risks of the treasury function

The treasury function operates as part of the parent company, and applies the same risk management goals as the group.

3. Personnel expenses

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Wages and salaries	20.6	18.0
Pension costs	3.3	3.3
Other statutory employer costs	0.4	1.2
Total	**24.4**	**22.5**

Pension benefits of personnel are arranged with an external pension insurance company.

Average number of employees

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Administrative employees	195	180

Key management compensation

Remunerations including fringe benefits paid to members of Cargotec's Board of Directors related to their Board work during the financial period totalled EUR 0.7 (2016: 0.5) million.

The salaries and remunerations paid to the CEO, including base salary, fringe benefits, short-term incentive payout and taxable income from the restricted shares incentive programme 2016 and share-based incentive programme 2014 (2016: restricted shares incentive programme 2015), totalled EUR 2.3 (2016: 1.7) million. The CEO is entitled to a supplemental defined contribution pension benefit, for which a EUR 0.5 (2016: 0.7) million contribution has been paid in 2017 to the insurance company administering the benefit. According to the pension arrangement, the CEO is entitled to retire between the age of 60–65. Any additional contributions to the CEO's supplemental pension benefit are approved by the Board of Directors. Board of Directors also sets the performance criteria for payment of contributions. Additionally, the CEO is entitled to a statutory pension, for which a pension cost of EUR 0.2 (2016: 0.2) million was recorded in year 2017.

The key management's compensation is described in more detail in note 32, Related-party transactions, in the consolidated financial statements.

4. Depreciation, amortisation and impairment charges

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Planned depreciation and amortisation		
Intangible rights	0.8	0.7
Goodwill	0.4	0.4
Other capitalised expenditure	4.3	4.2
Machinery and equipment	0.1	0.0
Total	**5.6**	**5.3**

5. Audit fees

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Annual audit	0.6	0.6
Tax advice	0.2	0.1
Other services	0.0	0.1
Total	**0.8**	**0.8**

6. Financing income and expenses

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Interest income		
From group companies	14.2	13.6
From third parties	0.5	0.2
Total	**14.7**	**13.8**
Other financing income		
From group companies	34.1	13.3
Dividends from group companies	134.4	107.7
Exchange rate differences	10.7	22.9
Total	**179.1**	**143.8**
Interest expenses		
From group companies	-4.4	-3.5
From third parties	-15.7	-16.6
Total	**-20.1**	**-20.1**
Other financing expenses		
From group companies	-13.5	-18.8
From third parties	-14.3	-9.3
Total	**-27.8**	**-28.0**
Reversals of impairments of investments in subsidiaries	59.7	51.0
Impairments of investments in subsidiaries	-110.3	-32.0
Total financing income and expenses	**95.3**	**128.5**

Positive result from cross-currency and interest rate swaps designated as cash flow hedges, totalling EUR 1.4 (2016: 3.2) million, has been recorded as adjustment to interest expenses on financial liabilities at amortised cost.

7. Income taxes

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Current year tax expense	1.1	0.3
Change in deferred tax asset	-1.0	1.9
Total	**0.2**	**2.2**

8. Intangible assets

MEUR	Intangible rights	Goodwill	Other capitalised expenditure	Fixed assets under construction	Total
Acquisition cost 1 Jan 2017	7.0	2.2	52.8	6.5	68.4
Additions	1.3	-	0.2	5.6	7.1
Disposals	-	-	-	-	-
Transfer between groups	-	-	0.7	-0.7	-
Acquisition cost 31 Dec 2017	**8.2**	**2.2**	**53.7**	**11.4**	**75.5**
Accumulated amortisation 1 Jan 2017	-5.2	-1.3	-26.2	-	-32.7
Amortisation during the period	-0.8	-0.4	-4.3	-	-5.5
Disposals	-	-	-	-	-
Accumulated amortisation and impairments 31 Dec 2017	**-6.0**	**-1.7**	**-30.5**	**-**	**-38.2**
Book value on 31 Dec 2017	**2.3**	**0.4**	**23.2**	**11.4**	**37.3**
Acquisition cost 1 Jan 2016	6.4	2.2	50.1	2.5	61.1
Additions	0.6	-	0.1	6.9	7.6
Disposals	-	-	-0.2	-	-0.2
Transfer between groups	-	-	2.9	-2.9	-
Acquisition cost 31 Dec 2016	**7.0**	**2.2**	**52.8**	**6.5**	**68.4**
Accumulated amortisation 1 Jan 2016	-4.5	-0.9	-22.2	-	-27.5
Amortisation during the period	-0.7	-0.4	-4.2	-	-5.3
Disposals	-	-	0.2	-	-0.2
Accumulated amortisation 31 Dec 2016	**-5.2**	**-1.3**	**-26.2**	**-**	**-32.7**
Book value 31 Dec 2016	**1.8**	**0.9**	**26.7**	**6.5**	**35.8**

MEUR	2017	2016
Capitalised interest expense	0.1	0.2

The capitalised interest expense relates to an ERP project and is included in other capitalised expenditure. Capitalised interest is amortised according to the amortisation plan for other capitalised expenditure.

9. Tangible assets

MEUR	Machinery and equipment	Other tangible assets	Total
Acquisition cost on 1 Jan 2017	1.2	0.1	1.3
Additions	0.1	0.0	0.1
Acquisition cost on 31 Dec 2017	**1.3**	**0.1**	**1.4**
Accumulated depreciation on 1 Jan 2017	-1.1	-0.1	-1.2
Depreciation during the period	-0.1	-	-0.1
Accumulated depreciation on 31 Dec 2017	**-1.2**	**-0.1**	**-1.2**
Book value on 31 Dec 2017	**0.1**	**0.0**	**0.1**
Acquisition cost on 1 Jan 2016	1.1	0.1	1.2
Additions	0.1	-	0.1
Acquisition cost on 31 Dec 2016	**1.2**	**0.1**	**1.3**
Accumulated depreciation on 1 Jan 2016	-1.1	-0.1	-1.1
Depreciation during the period	0.0	-	0.0
Accumulated depreciation on 31 Dec 2016	**-1.1**	**-0.1**	**-1.2**
Book value on 31 Dec 2016	**0.1**	**0.0**	**0.1**

10. Investments

MEUR	2017	2016
Investments in subsidiaries		
Acquisition cost 1 Jan	2,920.5	2,861.6
Accumulated impairments 1 Jan	-122.1	-141.0
Additions	1,496.9	59.0
Disposals	-64.7	-
Reversals of impairments / impairments	-43.2	19.0
Book value 31 Dec	**4,187.5**	**2,798.5**

MEUR	2017	2016
Investments in joint ventures		
Acquisition cost 1 Jan	50.5	45.8
Additions	-	4.7
Book value 31 Dec	**50.5**	**50.5**

MEUR	2017	2016
Other investments		
Acquisition cost 1 Jan	3.8	3.8
Book value 31 Dec	**3.8**	**3.8**

Subsidiary companies' full name, country of domicile and parent company's shareholding are disclosed in note 33, Subsidiaries, in the consolidated financial statements.

11. Non-current receivables

MEUR	31 Dec 2017	31 Dec 2016
Loans receivable from group companies	398.2	407.1
Loans receivable from others	2.1	1.2
Deferred tax asset	1.7	0.6
Derivative assets	6.1	16.9
Total	**408.1**	**425.8**

12. Current receivables

MEUR	31 Dec 2017	31 Dec 2016
From group companies		
Loans receivable	274.6	616.3
Accounts receivable	16.1	7.5
Derivative assets	19.5	53.5
Deferred assets	2.7	17.2
Total	**312.9**	**694.5**
From third parties		
Accounts receivable	0.1	0.0
Derivative assets	13.1	45.5
Deferred assets	10.3	15.1
Total	**23.4**	**60.7**
Total current receivables	**336.3**	**755.2**

13. Derivatives

Fair values of derivative financial instruments

31 Dec 2017 MEUR	Positive fair value	Negative fair value	Net fair value
Intra-group currency forward contracts	19.5	33.8	-14.3
Currency forward contracts	13.0	6.3	6.7
Cross-currency and interest rate swaps	6.1	-	6.1
Total	**38.5**	**40.1**	**-1.6**

31 Dec 2016 MEUR	Positive fair value	Negative fair value	Net fair value
Intra-group currency forward contracts	53.5	13.0	40.5
Currency forward contracts	21.9	33.8	-12.0
Cross-currency and interest rate swaps	40.5	-	40.5
Total	**115.9**	**46.9**	**69.0**

Nominal values of derivative financial instruments

MEUR	31 Dec 2017	31 Dec 2016
Intra-group currency forward contracts	2,836.8	2,463.3
Currency forward contracts	1,980.3	3,563.7
Cross-currency and interest rate swaps	70.9	194.5
Total	**4,887.9**	**6,221.5**

A cross-currency and interest rate swap hedges the US Private Placement corporate bond which was issued in February 2007 and will mature in 2019. Cash flow hedge accounting is applied to this instrument. The majority of the highly probable cash flows hedged by the currency forward contract will realise within one year.

The derivatives have been recognised at gross fair values in the balance sheet, as the netting agreements related to derivatives allow unconditional netting only in the occurence of credit events, but not in a normal situation. The group has not given or received collateral related to derivatives from the counterparties.

14. Equity

MEUR	2017	2016
Restricted equity		
Share capital 1 Jan	64.3	64.3
Share capital 31 Dec	**64.3**	**64.3**
Share premium account 1 Jan	98.0	98.0
Share premium account 31 Dec	**98.0**	**98.0**
Fair value reserves 1 Jan	0.2	1.0
Cash flow hedges	-1.1	-1.0
Change in deferred taxes	0.2	0.2
Fair value reserve 31 Dec	**-0.6**	**0.2**
Total restricted equity	**161.6**	**162.5**
Non-restricted equity		
Reserve for invested non-restricted equity 1 Jan	71.7	78.0
Acquisition of treasury shares	-	-7.6
Proceeds from sale of treasury shares	2.6	0.8
Stock options exercised	-	0.5
Reserve for invested non-restricted equity 31 Dec	**74.3**	**71.7**
Retained earnings 1 Jan	1,174.7	1,110.0
Profit distribution	-61.1	-51.6
Donations	-	-0.6
Retained earnings 31 Dec	**1,113.5**	**1,057.8**
Profit for the period	83.5	116.9
Total non-restricted equity	**1,271.4**	**1,246.4**
Total equity	**1,433.1**	**1,408.9**
Distributable equity	**1,271.4**	**1,246.4**

15. Non-current liabilities

MEUR	31 Dec 2017	31 Dec 2016
Corporate bonds	469.3	230.0
Loans from financial institutions	192.7	424.7
Deferred tax liability	-	0.1
Total non-current liabilities	**662.0**	**654.8**

Maturity after 5 years

MEUR	31 Dec 2017	31 Dec 2016
Loans from financial institutions	100.0	16.6
Total	**100.0**	**16.6**

The fair values of corporate bonds, presented below, are calculated using discounted cash flows with market rates and Cargotec Corporation's credit risk as discount factors. The fair values of other interest-bearing liabilities are not materially different from their carrying amounts.

Corporate bonds

			Book value, MEUR	
Loan period	Coupon rate, %	Nominal value	31 Dec 2017	31 Dec 2016
2007–2017	5.6	120.0 MUSD	-	113.8
2007–2019	5.7	85.0 MUSD	70.9	80.6
2014–2020	3.4	150.0 MEUR	149.6	149.4
2017–2022	1.8	150.0 MEUR	149.5	-
2017–2024	2.4	100.0 MEUR	99.4	-

USD denominated Private Placement corporate bond is hedged through cross-currency and interest rate swap defined as cash flow hedges. Considering the hedge, Cargotec has no material amounts of interest-bearing debt in foreign currencies.

16. Current liabilities

MEUR	31 Dec 2017	31 Dec 2016
To group companies		
Loans from group companies	2,942.3	1,962.3
Accounts payable	1.1	13.3
Derivative liabilities	33.8	13.0
Accruals	24.4	16.1
Total	**3,001.6**	**2,004.7**
To third parties		
Corporate bonds	32.1	113.8
Loans from financial institutions	50.0	-
Bank overdrafts used	0.1	0.0
Accounts payable	12.5	13.5
Derivative liabilities	6.4	34.0
Accruals	23.9	31.0
Total	**125.0**	**192.4**
Total current liabilities	**3,126.6**	**2,197.1**

Accruals

MEUR	31 Dec 2017	31 Dec 2016
Accrued salaries, wages and employment costs	3.5	6.0
Accrued interests	12.2	14.6
Other accruals	32.6	26.4
Total	**48.3**	**47.0**

17. Commitments

MEUR	31 Dec 2017	31 Dec 2016
Security for guarantees		
Guarantees given on behalf of group companies	461.2	424.3
Contingencies		
Rental commitments given on behalf of others	-	1.7
Leasing commitments		
Maturity within the next financial period	1.5	2.0
Maturity after next financial period	7.8	2.1
Total	**470.6**	**5.8**

KEY FIGURES

Key financial figures

Consolidated statement of income		2017	2016	2015	2014	2013
Sales	MEUR	3,280	3,514	3,729	3,358	3,181
Exports from and sales outside Finland	MEUR	3,205	3,451	3,673	3,307	3,131
Operating profit	MEUR	227	198	213	127	93
% of sales	%	6.9%	5.6%	5.7%	3.8%	2.9%
Operating profit excluding restructuring costs	MEUR	263	250	231	149	127
% of sales	%	8.0%	7.1%	6.2%	4.4%	4.0%
Income before taxes	MEUR	194	169	186	98	79
% of sales	%	5.9%	4.8%	5.0%	2.9%	2.5%
Net income for the financial period	MEUR	136	125	143	72	55
% of sales	%	4.2%	3.6%	3.8%	2.1%	1.7%

Other key figures		2017	2016	2015	2014	2013
Wages and salaries	MEUR	570	571	538	506	460
Depreciation, amortisation and impairment	MEUR	72	85	77	81	77
Capital expenditure in intangible assets and property, plant and equipment	MEUR	47	40	38	38	69
Capital expenditure in customer financing	MEUR	37	40	41	42	39
Capital expenditure total % of sales	%	2.6%	2.3%	2.1%	2.4%	3.4%
Cash flow from operations	MEUR	253	373	315	204	181
Research and development costs	MEUR	92	91	83	67	63
% of sales	%	2.8%	2.6%	2.2%	2.0%	2.0%
Equity	MEUR	1,427	1,397	1,342	1,214	1,239
Total assets	MEUR	3,557	3,736	3,571	3,652	3,336
Interest-bearing net debt[1]	MEUR	472	503	622	719	578
Return on equity	%	9.7%	9.1%	11.2%	5.9%	4.5%
Return on capital employed	%	9.8%	8.8%	9.8%	6.2%	5.0%
Total equity / total assets	%	41.5%	39.1%	39.8%	35.9%	39.5%
Gearing[1]	%	33.0%	36.0%	46.4%	59.2%	46.7%
Interest-bearing net debt / EBITDA, rolling 12 months		1.6	1.8	2.1	3.5	3.4
Orders received	MEUR	3,190	3,283	3,557	3,599	3,307
Order book	MEUR	1,550	1,783	2,064	2,200	1,980
Average number of employees		11,128	11,193	10,772	10,838	10,210
Number of employees 31 Dec		11,251	11,184	10,837	10,703	10,610
Dividends	MEUR	68[2]	61	52	35	27

1 Including cross-currency hedging of the 85 (31 Dec 2013: 300 and 31 Dec 2014–31 Dec 2016: 205) million USD Private Placement corporate bond. Additional information is disclosed in Capital structure management section under note 3, Financial risk management.

2 Board's proposal.

Share-related key figures

		2017	2016	2015	2014	2013
Earnings per share						
Basic earnings per share	EUR	2.11	1.95	2.21	1.11	0.89
Diluted earnings per share	EUR	2.10	1.94	2.21	1.11	0.89
Equity per share	EUR	22.10	21.65	20.73	18.76	19.18
Dividend per class B share	EUR	1.05[4]	0.95	0.80	0.55	0.42
Dividend per class A share	EUR	1.04[4]	0.94	0.79	0.54	0.41
Dividend per earnings, class B share	%	49.8%[4]	48.7%	36.1%	49.6%	47.1%
Dividend per earnings, class A share	%	49.5%[4]	48.3%	35.7%	48.7%	46.0%
Effective dividend yield, class B share	%	2.2%[4]	2.2%	2.3%	2.2%	1.6%
Price per earnings, class B share	EUR	22.4	22.0	15.6	23.0	30.4
Development of share price, class B share						
Average share price	EUR	49.85	34.31	31.58	27.65	24.49
Highest share price	EUR	59.25	43.35	37.37	34.67	29.69
Lowest share price	EUR	40.26	24.30	23.70	20.57	19.35
Closing price at the end of period	EUR	47.20	42.89	34.50	25.55	27.09
Market capitalisation 31 Dec[1]	MEUR	3,047	2,762	2,228	1,647	1,743
Market capitalisation of class B shares 31 Dec[2]	MEUR	2,595	2,355	1,900	1,403	1,484
Trading volume, number of class B shares traded	('000)	33,407	42,653	58,340	53,641	41,105
Trading volume, number of class B shares traded	%	60.0%	73.9%	104.5%	96.0%	74.0%
Weighted average number of class A shares[3]	('000)	9,526	9,526	9,526	9,526	9,526
Number of class A shares 31 Dec[3]	('000)	9,526	9,526	9,526	9,526	9,526
Weighted average number of class B shares[2]	('000)	54,965	55,076	55,042	54,861	51,995
Number of class B shares 31 Dec[2]	('000)	54,974	54,917	55,072	54,911	54,789
Diluted weighted average number of class B shares[2]	('000)	55,227	55,246	55,072	54,949	52,082

Trading information is based on Nasdaq Helsinki Ltd statistics.

1 Including class A and B shares, excluding treasury shares.
2 Excluding treasury shares.
3 No dilution on class A shares.
4 Board's proposal.

Calculation of key figures

Key figure		Formula
Return on equity (ROE) (%)	=	100 x Net income for financial period / Total equity (average for financial period)
Return on capital employed (ROCE) (%)	=	100 x Income before taxes + interest and other financing expenses / Total assets - non-interest-bearing debt (average for financial period)
Total equity / total assets (%)	=	100 x Total equity / Total assets - advances received
Gearing (%)	=	100 x Interest-bearing debt*- interest-bearing assets / Total equity
Basic earnings / share (EUR)	=	Net income attributable to the equity holders of the parent / Average number of outstanding shares during financial period
Diluted earnings / share (EUR)	=	Net income attributable to the equity holders of the parent / Average number of outstanding diluted shares during financial period
Equity / share (EUR)	=	Total equity attributable to the equity holders of the parent / Number of outstanding shares at the end of financial period
Dividend / share (EUR)	=	Dividend for financial period / Number of outstanding shares at the end of financial period
Dividend / earnings (%)	=	100 x Dividend for financial period / share / Basic earnings / share
Effective dividend yield (%)	=	100 x Dividend / share / Closing price for the class B share at the end of financial period
Price / earnings (P/E)	=	Closing price for the class B share at the end of financial period / Basic earnings / share
Average share price (EUR)	=	EUR amount traded during financial period for the class B share / Number of class B shares traded during financial period
Market capitalisation at the end of financial period	=	Number of class B shares outstanding at the end of financial period x closing price for the class B share at the end of financial period + Number of class A shares outstanding at the end of financial period x closing day average price for the class B share
Trading volume	=	Number of class B shares traded during financial period
Trading volume (%)	=	100 x Number of class B shares traded during financial period / Average weighted number of class B shares during financial period

*Including cross-currency hedging of the USD Private Placement corporate bond.

In addition, Cargotec uses and presents alternative performance measures (APMs) to better convey underlying business performance and to enhance comparability from period to period. APMs are reported as complementary information.

The alternative performance measures used by Cargotec are:

Measure		Formula
Operating profit excluding restructuring costs (MEUR and % of sales)	=	Operating profit + restructuring costs
Interest-bearing net debt (MEUR)	=	Interest-bearing liabilities - loans receivable and other interest-bearing assets +/- foreign currency hedge of corporate bonds
Net interest-bearing debt / EBITDA, rolling 12 months	=	Net interest bearing debt / EBITDA (earnings before interests, taxes, depreciation and amortisation), rolling 12 months

Key exchange rates for the euro

Closing rate	31 Dec 2017	31 Dec 2016
SEK	9.844	9.553
USD	1.199	1.054

Average rate	1–12/2017	1–12/2016
SEK	9.639	9.450
USD	1.131	1.102

SHARES AND SHAREHOLDERS

Cargotec Corporation's class B shares are quoted on the Nasdaq Helsinki Large Cap list since 1 June 2005. The trading code is CGCBV. The shares are registered in the book-entry securities system maintained by Euroclear Finland Ltd., which also maintains the official shareholder register of Cargotec Corporation.

Share-related key figures 2013–2017, EUR

	2017	2016	2015	2014	2013
Basic earnings per share	2.11	1.95	2.21	1.11	0.89
Equity per share	22.10	21.65	20.73	18.76	19.18
Dividend per class B share	1.05*	0.95	0.80	0.55	0.42
Dividend per class A share	1.04*	0.94	0.79	0.54	0.41
Effective dividend yield, class B share, %	2.2%*	2.2%	2.3%	2.2%	1.6%
Price per earnings, class B share	22.4	22.0	15.6	23.0	30.4
Development of share price, class B share					
Average share price	49.85	34.31	31.58	27.65	24.49
Highest share price	59.25	43.35	37.37	34.67	29.69
Lowest share price	40.26	24.30	23.70	20.57	19.35
Closing price at the end of the period	47.20	42.89	34.50	25.55	27.09

*Board's proposal

Shares and share capital

Cargotec has two classes of shares, of which class B shares are listed and class A shares are unlisted. At the Annual General Meeting, each class A share is assigned one vote, as is each block of ten class B shares, with the provision that each shareholder is entitled to at least one vote. The total number of votes attached to all shares was 15,041,421 at the end of 2017.

There were no changes in Cargotec Corporation's share capital in 2017. On 31 December 2017, share capital, fully paid and entered in the trade register, totalled EUR 64,304,880. There were 55,182,079 class B shares and 9,526,089 class A shares.

Dividend distribution

In dividend distribution, class B shares earn a higher dividend than class A shares. The difference between dividends paid on the two classes of shares is a minimum of one (1) cent and a maximum of two and a half (2.5) cents.

Dividend proposal

The Board of Directors proposes to the Annual General Meeting (AGM), that of the distributable profit, a dividend of EUR 1.04 for each class A shares and EUR 1.05 for each class B shares outstanding be paid for the financial year 2017. The Board also proposes that the dividend shall be paid in two instalments, in March and September 2018. The dividend for class A shares would be paid in two EUR 0.52 instalments. The dividend for outstanding class B shares would be paid in EUR 0.53 and EUR 0.52 instalments.

Own shares and share issue

On 21 March 2017, the Board of Directors of Cargotec Corporation decided on a directed share issue related to the reward payments for share-based incentive programmes. The share reward payments are related to Cargotec's share-based incentive programme 2014, 2016 allocation of restricted shares programme 2014–2016 under the share-based incentive programme 2014, and 2016 allocation of restricted shares programme 2016–2018 under the share-based incentive programme 2016. In the share issue, 56,709 own class B shares held by the company have been transferred without consideration to the key employees participating in the share based incentive programmes in accordance with the programme specific terms and conditions. The decision on the directed share issue is based on the authorisation granted to the Board of Directors by the Annual General Meeting on 18 March 2014. According to the authorisation, the Board of Directors can decide on a share issue amounting to a maximum of 952,000 class A shares and 5,448,000 class B shares.

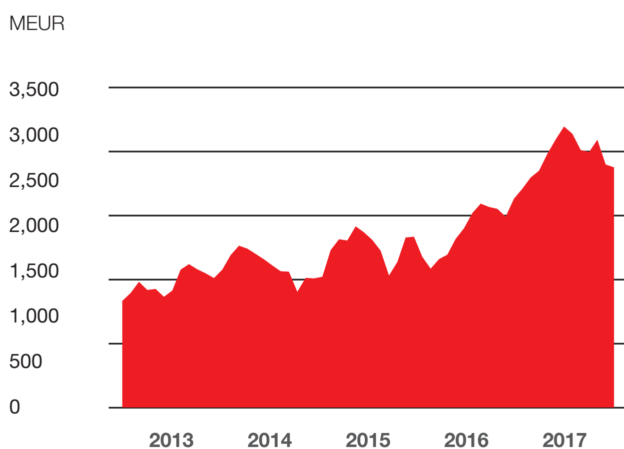
At the end of 2017, Cargotec held a total of 208,390 own class B shares, accounting for 0.32 percent of the total number of shares and 0.14 percent of the total number of votes, and the number of outstanding class B shares totalled 54,973,689.

Share price development and trading

In 2017, Cargotec's class B share price rose 10 percent, from EUR 42.89 to EUR 47.20. Over the same period, the OMX Helsinki Benchmark Cap Index rose 7 percent.

At the end of 2017, the total market value of class B shares, calculated using the closing quotation of class B shares of the last trading day of the year, was EUR 2,595 (31 Dec 2016: 2,355) million, excluding own shares held by the company. Cargotec's year-end market capitalisation, in which unlisted class A shares are valued at the average price of class B shares on the last trading day of the year, was EUR 3,047 (2,762) million, excluding own shares held by the company.

Market capitalisation, class B shares



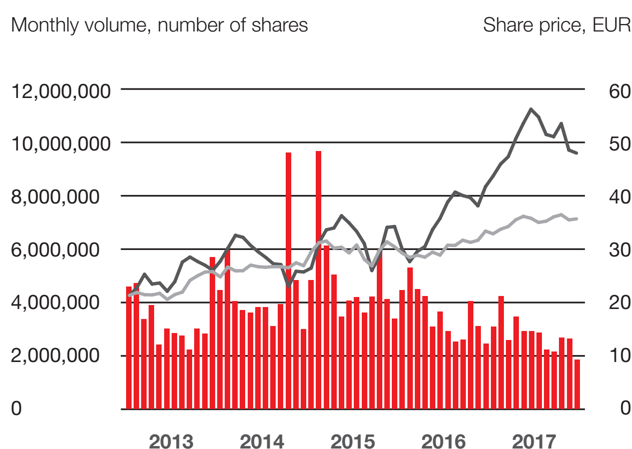
The class B share closed at EUR 47.20 (31 Dec 2016: 42.89) on the last trading day of 2017. The highest quotation for 2017 was EUR 59.25 (2016: 43.35) and the lowest EUR 40.26 (24.30). The volume weighted average price for the financial period was EUR 49.85 (34.31).

In 2017, a total of 33 (2016: 43) million class B shares were traded on Nasdaq Helsinki Ltd, corresponding to a turnover of EUR 1,665 (1,456) million. The average daily trading volume of class B shares was 133,094 (168,590) shares or EUR 7 (6) million.

In addition, according to Fidessa, a total of 48 (2016: 68) million class B shares were traded in several alternative marketplaces, such as Cboe OTC and Cboe CXE, corresponding to a turnover of EUR 2,428 (2,334) million.

Information on the Cargotec class B share price is available on Cargotec's website www.cargotec.com/investors.

Share price and volume



Shareholders

At the end of 2017, Cargotec had 21,520 (31 Dec 2016: 22,068) registered shareholders, the largest shareholder being Wipunen varainhallinta oy. Ilkka Herlin was the largest owner when including shares owned directly as well as through companies in which a controlling interest is held. There were 19,794,824 (16,622,504) nominee-registered shares, representing 30.59 (25.69) percent of the total number of shares, which corresponds to 13.16 (11.05) percent of all votes.

A monthly updated list of major shareholders is available on Cargotec's website at www.cargotec.com/investors.

Major shareholders on 31 December 2017

	Shareholder	Class A shares	Class B shares	Shares total	Shares total, %	Votes total	Votes total, %
1	Wipunen varainhallinta oy	2,940,067	6,200,000	9,140,067	14.13	3,560,067	23.67
2	Mariatorp Oy	2,940,067	5,000,000	7,940,067	12.27	3,440,067	22.87
3	Pivosto Oy	2,940,067	3,850,000	6,790,067	10.49	3,325,067	22.11
4	Kone Foundation	705,888	1,232,454	1,938,342	3.00	829,133	5.51
5	The State Pension Fund		850,000	850,000	1.31	85,000	0.57
6	Ilmarinen Mutual Pension Insurance Company		792,000	792,000	1.22	79,200	0.53
7	Varma Mutual Pension Insurance Company		500,098	500,098	0.77	50,009	0.33
8	SEB Gyllenberg Finlandia Fund		424,390	424,390	0.66	42,439	0.28
9	Herlin Heikki		400,000	400,000	0.62	40,000	0.27
10	Sigrid Jusélius Foundation		367,600	367,600	0.57	36,760	0.24
11	Nordea Pro Finland Fund		333,597	333,597	0.52	33,359	0.22
12	Nurminen Hanna		270,268	270,268	0.42	27,026	0.18
13	Evli Finnish Small Cap Fund		238,172	238,172	0.37	23,817	0.16
14	Nordea Pro Finland Fund		208,390	208,390	0.32	20,839	0.14
15	Blåberg Anna		182,745	182,745	0.28	18,274	0.12
16	Herlin Olli		175,000	175,000	0.27	17,500	0.12
17	Herlin Ville		160,000	160,000	0.25	16,000	0.11
18	Jenny and Antti Wihuri Foundation		160,000	160,000	0.25	16,000	0.11
19	Veritas Pension Insurance Company Ltd.		158,317	158,317	0.24	15,831	0.11
20	Vakuutusosakeyhtiö Henki-Fennia		156,399	156,399	0.24	15,639	0.10
	Total	**9,526,089**	**21,659,430**	**31,185,519**	**48.19**	**11,692,027**	**77.75**
	Nominee registered			19,794,824			
	Other owners			13,727,825			
	Total number of shares issued on 31 Dec 2017			**64,708,168**			

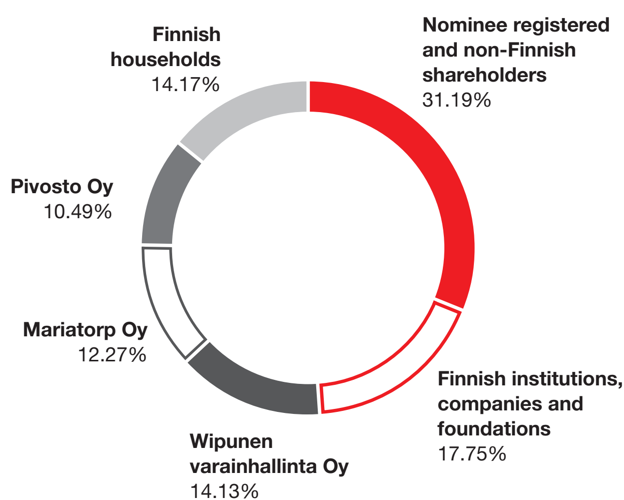
Based on ownership records of Euroclear Finland Ltd.

Breakdown of share ownership on 31 December 2017

Number of shares	Number of shareholders	% of shareholders	Total shares	% of total number of shares
1–100	10,228	47.53	527,703	0.82
101–500	7,855	36.50	1,982,842	3.06
501–1,000	1,714	7.97	1,307,404	2.02
1,001–10,000	1,544	7.18	4,249,631	6.57
10,001–100,000	147	0.68	4,701,950	7.27
100,001–1,000,000	25	0.12	6,494,192	10.04
over 1,000,000	6	0.03	45,230,764	69.90
Total	**21,519**	**100.00**	**64,494,486**	**99.68**
of which nominee registered			19,794,824	30.59
In the joint book-entry account			5,292	0.01
Number of outstanding shares on 31 Dec 2017			**64,499,778**	**99.68**
Own shares on 31 Dec 2017	1		208,390	0.32
Total number of shares on 31 Dec 2017			**64,708,168**	**100.00**

Based on ownership records of Euroclear Finland Ltd.

Breakdown by shareholder category on 31 December 2017



Based on ownership records of Euroclear Finland Ltd.

Board and management shareholding

On 31 December 2017, the aggregate shareholding of the Board of Directors, the CEO and companies in which they have a controlling interest was 2,940,067 (31 Dec 2016: 2,940,067) class A shares and 6,500,873 (6,489,623) class B shares, which correspond to 14.59 (14.57) percent of the total number of all shares and 23.87 (23.86) percent of all votes.

The CEO Mika Vehviläinen is covered by the share-based incentive programmes 2015, 2016 and 2017.

Up-to-date information on the shares held by the Board of Directors and management is available on Cargotec's website www.cargotec.com/investors.

Additional information:

Corporate Governance statement 2017
Remuneration statement 2017
CVs of Board members (Cargotec.com)
CVs of Executive Board members (Cargotec.com)

SIGNATURES FOR BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Helsinki, 7 February 2018

Ilkka Herlin
Chairman of the Board

Tapio Hakakari
Vice Chairman of the Board

Kimmo Alkio
Member of the Board

Jorma Eloranta
Member of the Board

Peter Immonen
Member of the Board

Teresa Kemppi-Vasama
Member of the Board

Johanna Lamminen
Member of the Board

Kaisa Olkkonen
Member of the Board

Teuvo Salminen
Member of the Board

Heikki Soljama
Member of the Board

Mika Vehviläinen
CEO

Our Auditor's report has been issued today.

Helsinki, 7 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant

Tomi Hyryläinen
Authorised Public Accountant

AUDITOR'S REPORT
(TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of Cargotec Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion
- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit and Risk Management Committee.

What we have audited

We have audited the financial statements of Cargotec Oyj (business identity code 1927402-8) for the year ended 31 December 2017. The financial statements comprise:
- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

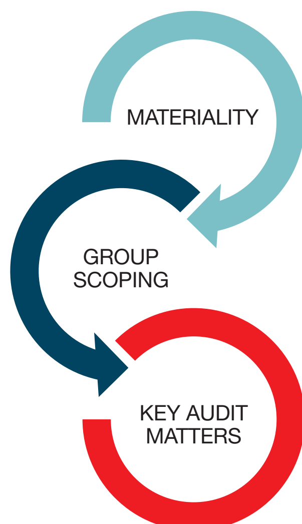
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 7 to the consolidated financial statements.

Our Audit Approach

Overview



Materiality
- We have applied an overall group materiality of € 14,2 million.

Group scoping
- The group audit scope includes all significant operating companies, as well as a large number of smaller companies, covering the vast majority of revenues, assets and liabilities.

Key audit matters
- Revenue recognition of long-term contracts
- Valuation of goodwill
- Accounting for restructuring provisions and costs
- Valuation of inventory

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 14,2 million
How we determined it	Net sales and profit before tax
Rationale for the materiality benchmark applied	We chose the combination of net sales and profit before tax as the benchmark because, in our view, the performance of the Group is most commonly measured by using these criteria, and it is a generally accepted benchmark.

How we tailored our group audit scope

The group audit scope was tailored to take into account the structure of the Group and the size, complexity and risk of individual subsidiaries. Using this criteria we selected companies and accounts into our audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Revenue recognition of long-term contracts Refer to notes 1, 2, and 6 in the consolidated financial statements.	
The group has significant long-term contracts in Kalmar and MacGregor segments. These long-term contracts are often complex customised solutions and meet the definition of a construction contract. Revenue related to these construction contracts is recognised using the percentage of completion method, where progress is measured either by physical milestones or determined by comparing actual costs incurred to date, with the total estimated costs of the project. The revenue recognition for construction contracts includes management judgment in a form of estimates, which are subject to management experience and expectations of future events. The most important judgment relates to the estimated total costs of the project, which is influenced by various factors, related to both material and labour as well as specific contract related risks. We have accordingly considered these estimates to constitute a focus area in the audit.	Our revenue testing included both testing of the company's controls, as well as substantive audit procedures targeted at selected major projects. Our testing of the company's controls, focused on the IT systems used by the company, as well as process level controls covering project forecasting and revenue recognition. Our substantive testing focused on estimates applied by management in the accounting. Our procedures included, among others things, the following: • Ensured that the revenue recognition method applied was appropriate based on the terms of the arrangement; • Agreed the total project revenue estimates to sales agreements, including amendments as appropriate; • Tested the accuracy of the cost estimate by taking a sample of cost components and traced those to supporting documentation; and • Recalculated the completion stage of the projects to ensure that the amount of revenue being recognized is correct by comparing actual costs per the company's accounting records to the estimated total costs of the projects. When physical milestone method was used, we obtained appropriate evidence based on the circumstances to support the stage of completion.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Valuation of Goodwill Refer to notes 1, 2 and 14 in the consolidated financial statements. At 31 December 2017 the Group's goodwill balance amounted to € 986,7 million and is recognized in three reporting segments: Kalmar € 391,3 million, Hiab € 177,4 million and MacGregor € 417,9 million. The company tests goodwill for potential impairment annually and whenever there is an indication that the carrying value may be impaired by comparing the recoverable amount against the carrying value of the goodwill. The recoverable amounts are determined using value in use model. Value in use calculations are subject to significant management judgement in a form of estimates of future cash flows and discount rates. Valuation of goodwill is a focus area in the audit due to the size of the goodwill balance and the high level of management judgement involved.	Our audit focused on assessing the appropriateness of management's judgment and estimates used in the goodwill impairment analysis through the following procedures: • We tested the methodology applied in the value in use calculation by comparing it to the requirements of IAS 36, Impairment of Assets, and we tested the mathematical accuracy of calculation; • We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to strategic plans approved by the Board of Directors; • We tested the key underlying assumptions, including sales and profitability forecasts, discount rates used and the implied growth rates beyond the forecasted period; • We compared the current year actual results included in the prior year impairment model to consider whether forecasts included assumptions that, with hindsight, had been optimistic; • We assessed the appropriateness of the sensitivity analysis performed by the management; and • The discount rates applied within the impairment analysis were assessed by PwC business valuation specialist, including comparison to economic and industry forecasts as appropriate. We also considered the appropriateness of the related disclosures provided in note 14 in the financial statements.
Accounting for restructuring provisions and costs Refer to notes 1, 2, 8 and 29 in the consolidated financial statements. Restructuring provision amounts to €30,3 million at 2017 year-end, with an annual restructuring costs of €36,5 million recognised in the profit and loss statement. These costs primarily consisted of redundancies and related costs, costs for contract terminations, relocation costs, consulting and professional fees and asset impairments. The recognition of restructuring costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the Group is committed at the balance sheet date. The presentation in the financial statements also requires consideration of whether the amounts included in the charge are fair. We have accordingly considered this area to constitute a focus area in the audit.	Our audit procedures were designed to test that the costs incurred were accurately recorded, capturing both amounts paid during the year and amounts estimated and accrued. Our audit focused specifically on the following: • We assessed whether the restructurings costs have been recognised in the correct financial period, in accordance with IFRS; • The appropriateness of the provisions and the assumptions relating to asset impairments; and • Assessment of whether the costs incurred were sufficiently distinct to warrant inclusion in the restructuring costs and in line with Cargotec accounting policies.
Valuation of inventories Refer to notes 1, 2 and 19 in the consolidated financial statements. Net inventories amount to €607,0 million, including a provision of €93,6 million at the end of 2017. Inventories are measured at the lower of cost or estimated net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale. Inventory provision is recorded to adjust the inventory to its net realisable value. When estimating the level of provision, management takes into account the nature, state, age structure and estimated demand for the inventory, as appropriate. We focused on inventories due to its size and the nature of the judgements made by management when assessing the level of provision required.	Our audit consisted testing of company's controls both for valuation and existence of inventories as well as substantive audit procedures. Our substantive procedures were focused on the following: • We participated in the physical inventory counting to obtain audit evidence regarding existence and condition of the inventory. During the inventory counting we assessed the appropriateness of the counting procedures at each site and performed independent test counts. Where inventory was held in the custody of third parties, we obtained appropriate confirmations and reconciled these to the inventory balance; • To address the risk of misstatement in the cost of inventory, we tested a sample of items from the inventory system to third party purchase invoices. We also obtained and tested management's calculations on the absorption of direct and indirect costs to make sure that those have been appropriately accounted for; • Where the provision was based on the aging structure of the inventory, we performed recalculations and ensured that the provision is in line with the Group's accounting policies. Where judgement was used by management, we ensured that it was reasonable and reflected the circumstances; and • Where provision was based on estimated demand of the inventory, we tested the supporting documentation and ensured that the provision is in line with Group's accounting policies. Where judgement was used by management, we ensured that it was reasonable and reflected the circumstances.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

The auditors who have signed the audit report have been acting as the auditors appointed by the annual general meeting of Cargotec Oyj as follows: Pricewaterhouse-Coopers Oy has, without interruption, been acting as the auditor since 1 June 2005 for 13 years during which we have nominated an authorised public accountant (KHT) to be the principal auditor in charge.

Authorised public accountant (KHT) Tomi Hyryläinen has, without interruption, been acting as the auditor since 18 March 2015 for three years. Prior to that, Authorised public accountant (KHT) Tomi Hyryläinen has acted as the principal auditor in charge nominated by Pricewaterhouse-Coopers Oy since 19 March 2012.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion
- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 7 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

Tomi Hyryläinen
Authorised Public Accountant (KHT)

CARGOTEC CORPORATE GOVERNANCE STATEMENT 2017

Cargotec's governance and management are based on the Finnish Limited Liability Companies Act and Securities Markets Act, the rules and guidelines of Nasdaq Helsinki Ltd, as well as the company's Articles of Association and Code of Conduct. Cargotec complies with all the recommendations of the Finnish Corporate Governance Code 2015, published by the Securities Markets Association (www.cgfinland.fi/en).

The corporate governance statement is issued as a separate report and disclosed, together with the financial statements, Board of Directors' report and the remuneration statement, on the company website at www.cargotec.com > Investors > Governance. Up-to-date information on governance and remuneration is available on the website.

At the Shareholders' meeting, Cargotec's shareholders exercise the highest decision-making power. The company is managed by the Board of Directors and the CEO.

Cargotec has three business areas: Kalmar, Hiab and MacGregor. Cargotec Corporate's role is to act as a strategic architect to maximise shareholder value and support the business areas in fulfilling the requirements, rules and regulations set for listed companies.

Board of Directors

Responsibilities

The Board confirms Cargotec's strategy and will monitor its implementation. As stipulated in the Finnish Limited Liability Companies Act and the Articles of Association, the Board is responsible for the management and proper organisation of the company's operations as well as representing the company. The Board has compiled a written charter for its work that defines its main duties and operating principles. The Board's responsibilities include approving the company's annual, half-year and interim financial statements and ensuring that the supervision of the company's accounting and financial matters is properly organized. The Board decides on significant loans, acquisitions and investments and approves the annual and long-term business plans and budgets as well as risk management principles. The Board approves the long- and short-term incentive programmes and their outcome. The Board appoints Cargotec's CEO and determines the related terms of employment. As defined in the Board's annual plan, the Board has theme meetings in which issues associated with the execution of the strategy or another current theme are discussed.

In 2017, the Board convened nine times and made one unanimous resolution without convening. The attendance in the meetings is reported in the table further below. The key themes on the Board's agenda were Cargotec's strategic focus areas services, digitalisation and leadership development as well as follow-up of the implementation of strategy. Cargotec's business areas Kalmar, Hiab and MacGregor were discussed in specific theme meetings and other special themes were R&D, automation, software and corporate responsibility.

Composition

According to the Articles of Association, Cargotec's Board of Directors includes a minimum of six and a maximum of twelve members. Board members are elected at the Annual General Meeting (AGM) for a one-year term of office that expires at the end of the first AGM following the election. The Board elects Chairman and Vice Chairman from among its members.

The Board's composition shall support the overall goal of implementing Cargotec´s strategy. According to the Board's diversity principles, board diversity is not a static concept but evolves over time and reflects the operations strategy and the future needs of the company. The diversity factors include work experience in Cargotec's strategic business areas and of the cultures in which Cargotec operates, as well as educational background, age and gender. There shall be both genders in the Board, the target being at least two directors representing each gender. The Nomination and Compensation committee shall pay attention to the diversity criteria, when identifying and proposing new candidates to the Board, as well as when proposing re-election of current members. The committee shall see to having both genders included as candidates in the search and evaluation process to achieve the gender proportion target set for Cargotec's Board.

The Board members have a wide range of educational background and they have managerial experience in international companies and of different cultures. The age range in 2017 was between 47 and 66 years. Three of the ten Board members were female and seven were men. Four of the members have been on the Board for more than five years and six of them less than five years.

Self-assessment and assessment of independence

The Board conducts an annual internal self-assessment to review its own performance and procedures. In the self-evaluation conducted in October 2017 the members considered, among other things, the decision-making process, the strategy work, the role of the members and board diversity, as well as the Board's ability to perceive the social and environmental effects of its resolutions.

The majority of Board members shall be independent of the company and a minimum of two of the independent directors are to be independent of significant shareholders. The Board conducts, annually and when necessary, an assessment of its members as regards their independence of the company and major shareholders, as defined in the Corporate Governance Code. In 2017, the members were independent of the company and all except Ilkka Herlin and Peter Immonen independent of major shareholders. The Board considers that also Ilkka Herlin, Tapio Hakakari and Peter Immonen, who have been on the Board for more than ten years, are independent of the company.

Outi Aaltonen, Senior Vice President, General Counsel, served as the Secretary to the Board of Directors. The CV details of the Board members are available on the company website at www.cargotec.com.

Name, born, nationality	Education, title	Main position	Independence	Ownership 31 Dec 2017*
Ilkka Herlin Chairman 1959, Finnish	Ph.D., D.Sc. (Tech) h.c., D.Sc. (Agr & For) h.c.	Chairman and owner, Wipunen varainhallinta oy; Chairman, Foundation for a Living Baltic Sea	Independent of the company, significant shareholder	2,940,067 A shares, 6,207,918 B shares
Tapio Hakakari Vice Chairman 1953, Finnish	LL.M.	Non-executive director	Independent	159,335 B shares
Kimmo Alkio 1963, Finnish	BBA, EMBA	President and CEO, Tieto Corporation	Independent	2,313 B shares
Jorma Eloranta 1951, Finnish	M.Sc. (Tech), D.Sc. (Tech) h.c.	Non-executive director	Independent	8,844 B shares
Peter Immonen 1959, Finnish	M.Sc. (Econ)	Chairman, WIP Asset Management Oy	Independent of the company, non-independent of significant shareholders	53,970 B shares
Kaisa Olkkonen 1964, Finnish	LL.M.	CEO, SSH Communications Security Oyj	Independent	543 B shares
Teuvo Salminen 1954, Finnish	M.Sc. (Econ), APA exam 1983	Non-executive director	Independent	8,857 B shares
Heikki Soljama 1954, Finnish	M.Sc. (Power electronics)	Non-executive director	Independent	543 B shares
Members since 21 March 2017:				
Teresa Kemppi-Vasama 1970, Finnish	M.Pol.Sc. (social psychology), MBA	Executive Chairman of the Board, Kemppi Oy	Independent	2,253 B shares
Johanna Lamminen 1966, Finnish	D. Sc. (Tech.), MBA	CEO, Gasum Ltd	Independent	253 B shares

*Direct ownership and ownership of corporations controlled by the director

Board Committees

The Board has set up two committees to improve the efficiency of board work: the Audit and Risk Management Committee and the Nomination and Compensation Committee. The Board nominates the members and the Chairmen of the committees from among its members annually in its organising meeting and confirms the committees' written charters. The committees have no independent decision-making power, but prepare issues to be resolved by the Board.

Audit and Risk Management Committee

The committee's duty is to supervise the financial reporting executed by the management, and to monitor the financial statement and interim reporting process. In accordance with its charter, the committee supervises the adequacy and appropriateness of the company's internal control, internal audit and risk management, the development of operative and strategic risks and risk management, and handles Corporate Audit plans and reports. Furthermore, the committee prepares a proposal to the Annual General Meeting regarding the election and fees of the external auditor, defines and monitors the non-audit services performed by the auditing firm to ensure the auditors' independence, and monitors the statutory audit of financial statements and consolidated financial statements. The committee also reviews the Corporate governance statement.

The Audit and Risk Management Committee consists of a minimum of three members of the Board of Directors. The CEO, CFO and director of Audit & Assurance as well as representatives of the auditing firm attend the meetings. The directors of Group Control, Treasury, Taxes, Legal and Risk Management report to the committee on a regular basis. If the matters to be dealt with so require, the committee convenes without the presence of the company's management.

In 2017, the Audit and Risk Management Committee was chaired by Teuvo Salminen and its members were Ilkka Herlin and Kaisa Olkkonen. Committee members are independent of the company and, with the exception of Ilkka Herlin, independent of major shareholders. Committee members possess years of experience in business management duties.

In 2017, the committee met five times. The attendance in the meetings is reported in the table below. Along with the financial, treasury, tax and risk management issues, the committee monitored the development of non-financial reporting, the renewal of long-term financing, the progress on implementation of the new IFRS standards and the corporate-wide development programme concerning controls. The committee also handled Code of Conduct and compliance issues. The committee held an annual self-assessment discussion to review whether its performance needs to be developed.

Nomination and Compensation Committee

The Nomination and Compensation Committee prepares a proposal to Cargotec's Annual General Meeting concerning the composition and remuneration of the Board of Directors and is responsible for taking into account the Board's diversity criteria. The committee prepares a proposal to the Board regarding the appointment of the CEO and the terms of employment, and prepares the nomination and remuneration issues of other top management members as needed before Board approval. The committee handles and prepares Cargotec's pay strategy and the long- and short-term incentive programmes and follows their outcome and functionality.

The committee consists of a minimum of three Board members. The committee convenes as needed but at least three times a year. Ilkka Herlin acted as chairman of the committee, and the members were Jorma Eloranta, Tapio Hakakari and Peter Immonen. Committee members are independent of the company. The CEO and the Senior Vice President, Human Resources, attended the committee meetings, except when they themselves were the subject of discussion.

In 2017, the committee convened six times. The attendance in the meetings is presented in the table below. In accordance with the annual cycle, the committee's agenda comprised top management incentive programmes and their outcome, top management reviews and compensation as well as talent review follow-up. The committee handled the Board's diversity principles. When preparing the proposal to the Annual General Meeting 2017 concerning the Board composition, the committee paid attention to the diversity of the Board members. The target was to complement the Board's skill base in Cargotec's strategic focus areas and to balance the gender representation by proposing more female directors in the Board. The two new Board members proposed by the committee and appointed by the Shareholders' meeting, Teresa Kemppi-Vasama and Johanna Lamminen, both possess strong international business and strategic experience, which supplements the Board's' skill base e.g. in the areas of production, energy, financing and digitalisation, and supports Cargotec's strategic goal to become the market leader in intelligent cargo handling. The representation of female directors in the Board rose from 12.5 to 30 percent.

Participation in meetings, Board and committees 2017

Name	Board of Directors	Audit and Risk Management Committee	Nomination and Compensation Committee
Ilkka Herlin	9/9 (Chairman)	4/5	6/6 (Chairman)
Tapio Hakakari	9/9		6/6
Kimmo Alkio	9/9		
Jorma Eloranta	9/9		6/6
Peter Immonen	9/9		6/6
Kaisa Olkkonen	9/9	5/5	
Teuvo Salminen	8/9	5/5 (Chairman)	
Heikki Soljama	9/9		
Members since 21 March 2017:			
Teresa Kemppi-Vasama	8/8		
Johanna Lamminen	8/8		

CEO

The Board of Directors appoints Cargotec's CEO and determines the related terms of employment, defined in a written employment contract. The CEO is responsible for ensuring that the targets, plans, guidelines and goals set by the Board are carried out within Cargotec. According to the Finnish Limited Liability Companies Act, the CEO ensures that the accounting practices of the company comply with the law and that financial matters are handled in a reliable manner. The performance of the CEO is evaluated by the Board, as is the achievement of targets set by the Board. Cargotec's CEO is Mika Vehviläinen, Master of Science (Economics).

Executive Board

Supporting the CEO in his duties, the Executive Board is responsible for business development and the company's operational activities in accordance with the targets set by the Board of Directors and the CEO. The Executive Board also defines operative principles and procedures in accordance with the guidelines set by the Board. The Executive Board convenes every month and whenever necessary and concentrates on the strategic issues of the group and the business areas. On the agenda are regular reports and questions concerning the development of the financials, governance, human resources, corporate responsibility and development projects. The CEO acts as Chairman and the General Counsel serves as the Secretary to the Executive Board. The Executive Board's CV details are available on the company website at www.cargotec.com.

In addition to the Executive Board members listed below, the Extended Executive Board included Outi Aaltonen, Senior Vice President, General Counsel; Stephen Foster, Senior Vice President, Audit & Assurance; Leena Lie, Senior Vice President, Communications and Soili Mäkinen, Chief Information Officer. They support the Executive Board in their fields of expertise.

Name	Born, nationality	Position	Education	Ownership on 31 Dec 2017, class B shares*
Mika Vehviläinen	1961, Finnish	CEO	M.Sc. (Econ.)	56,044
Mikko Puolakka	1969, Finnish	Executive Vice President, CFO	M.Sc. (Econ)	1,200
Mikael Laine	1964, Finnish	Senior Vice President, Strategy	M.Sc. (Econ.)	4,456
Mikko Pelkonen	1970, Finnish	Senior Vice President, Human Resources	B.A.	16,189
Antti Kaunonen	1959, Finnish	President, Kalmar	Dr. Tech	3,200
Roland Sundén	1953, Swedish	President, Hiab	M.Sc. (Mech. Eng.)	9,797
Michel van Roozendaal	1963, Dutch	President, MacGregor	M.Sc. (Aerospace Eng.), MBA	5,341

*Direct ownership and ownership of corporations controlled by the director

Insider administration

Cargotec applies the insider guidelines of Nasdaq Helsinki Ltd, in addition to which the Board of Directors has approved internal insider guidelines based on the Nasdaq Helsinki guidelines.

Persons who have access to all Cargotec inside information when performing their duties are registered permanently. The members of the Board of Directors, the CEO and the other members of the Extended Executive Board, the Executive Assistant to the CEO and the officer maintaining the insider registers are included on the permanent insider list. Persons who, on the basis of an employment or other contract, work for the company and obtain inside information associated with a specific project, are entered in the company's project-specific insider register, which is established when necessary.

Cargotec maintains a list of its Managers and their closely associated persons. Cargotec's Managers include the members of the Board of Directors and the Executive Board. The Managers and their closely associated persons are obliged to notify Cargotec and the Finnish Financial Supervisory Authority of every transaction conducted on their own account relating to Cargotec's financial instruments. Cargotec will publish each notification in the form of a stock exchange release.

Trading in Cargotec financial instruments is prohibited

a) if a person possesses inside information,
b) regarding permanent insiders and their dependent children, during a period of 30 days prior to the publication of Cargotec's annual or interim reports (closed window),
c) regarding persons having access to full Cargotec financials, especially persons engaged with preparing Cargotec's annual or interim reports, and their dependent children, during a period of 30 days prior to the publication of such report (closed window), and
d) regarding project-specific insiders, for the duration of the project until the project is published or otherwise terminated.

The General Counsel of Cargotec is responsible for the overall insider management in Cargotec, including necessary training. Corporate Legal is responsible for maintaining the list of Managers and the insider lists and informing the insiders on their insider status and of closed windows. Corporate Communications is responsible for disclosing the transactions of the Managers and their closely associated persons.

External audit

The statutory external audit for the financial period includes auditing of accounting records, financial statements and administration. In addition to the auditor's report issued annually, the auditors report to the Board of Directors on their audit findings on a regular basis, and attend the Board Audit and Risk Management Committee meetings.

According to the Articles of Association, the company has at least one and a maximum of three auditors. The auditors must be public accountants authorised by the Central Chamber of Commerce, or an auditing firm. The auditors are elected annually by the AGM and their assignment expires at the end of the first AGM following the election.

The AGM in 2017 elected Authorised Public Accountant (APA) Tomi Hyryläinen and PricewaterhouseCoopers Oy as Cargotec's auditors. PricewaterhouseCoopers nominated APA Ylva Eriksson as its principal auditor. Auditors' fees are compensated against an invoice. PricewaterhouseCoopers Oy has acted as Cargotec's auditor since 2005. Competitive tendering for the audit last took place for the financial year starting in 2012.

The fees paid to the auditors for different services are listed below. Other services are mainly related to mergers and acquisitions.

Auditors' fees

MEUR	2017	2016
Audit fees	2.7	2.8
Tax advice	1.0	1.0
Other services	0.6	0.3
Total	**4.4**	**4.0**

Internal control of the financial reporting process

Cargotec compiles its financial reporting in accordance with the International Financial Reporting Standards (IFRS), the Securities Markets Act, the Finnish Accounting Act and the Finnish Accounting Board's guidelines and statements, while complying with the standards of the Financial Supervisory Authority (FIN-FSA) and the rules of Nasdaq Helsinki Ltd. The internal control and risk management principles, guidelines, practices and responsibilities pertaining to the company's financial reporting process, have been designed to ensure that the financial reports disclosed by Cargotec are reliable and meet the requirements of the law, regulations and company principles. Instructions regarding the publication of financial information and external communications are included in Cargotec´s disclosure policy approved by the Board of Directors. This is available on the company website at www.cargotec.com > Investors > Investor relations. Investor Relations together with Corporate Communications are responsible for ensuring the accuracy of and compliance with the policy.

Internal control

The objective of Cargotec's internal control is to ensure that its operations are efficient and profitable, that risk management is adequate and appropriate, and that financial and other information produced is reliable. Cargotec's internal control is based on the company's Code of Conduct and internal controls. With respect to the financial reporting process, these are supported by Cargotec's policies and guidelines, as well as its internal

financial reporting process and communication. Cargotec's internal control policy, which is approved by the Board of Directors, specifies the applicable control principles, procedures and responsibilities. The company SpeakUp line gives an opportunity to confidentially and anonymously raise concerns of possible misconduct or other matters that may not be in line with company values and policies.

Similarly to other Cargotec operations, responsibility for internal control is divided into three tiers. The line management is principally responsible for internal control. This is backed by corporate support functions, which define instructions applicable across the company and supervise risk management. Internal and external audits form the third tier, their task being to ensure that the first two tiers function effectively.

Audit & Assurance
Audit & Assurance is a corporate function that provides independent and professional services in the areas of Corporate Audit and Risk Management as well as Ethics and Compliance.

Corporate Audit
Corporate Audit operates separately from the operative organisation and reports to the Board Audit and Risk Management Committee and, administratively, to the CEO. It takes account of the major risks identified in the company's risk map when developing the audit plan and monitors the mitigation of selected risks. The audits of the operations of subsidiaries and business units assess the effectiveness of internal control and risk management, as well as compliance with operating principles and guidelines. Furthermore, Corporate Audit audits and assesses financial reporting processes and compliance with the related control measures in Cargotec units. It regularly reports on its findings and audit activities to the company management and the Board Audit and Risk Management Committee.

Risk management
Approved by the Board of Directors and based on Cargotec's values, the risk management policy specifies the objectives and principles of the risk management as well as the responsibilities involved. A core principle is continuous, systematic and preventive action taken to identify risks, define the company's risk appetite, assess and handle risks and, if they materialise, deal with them effectively. The CEO and the Executive Board are responsible for the methods, implementation and supervision of risk management, and report on these to the Board of Directors. Cargotec's risk management is spread across units and corporate support functions that assign responsibility for risk management and that are in charge of identifying, managing and reporting risks. Financial risks are managed centrally by the Corporate Treasury, and reported on for corporate management and the Board of Directors on a regular basis.

Financial reporting process
The effectiveness of internal control measures related to financial reporting is monitored by the Board of Directors, the Audit and Risk Management Committee, the CEO, the Executive Board and business area management teams. Various control measures, such as reconciliations, logic analyses and comparative analyses, are performed at different organisational levels. The purpose of these control measures is to detect, prevent and correct any errors and deviations in financial follow-up. Cargotec's financial reporting is based on monthly performance monitoring in a centralised reporting system. Financial reports are first reviewed at a reporting unit level, and then at the operative management's review meetings on a division level, followed by business area level and group management level reviews. Finally, the reports are discussed at the Extended Executive Board's meeting. Financial information is also reported to the Board of Directors on a monthly basis. Controllers report any deviations from the plans to the management teams, analyse the reasons for such deviations and support the management in decision-making. Monthly reviews also ensure that performance is in line with annual targets and that financial forecasts are up to date. The financial reporting and planning instructions (Cargotec accounting standards and Cargotec reporting manual) are available to all employees on Cargotec's intranet. The company's finance function aims to harmonise the practices and procedures applied by controllers, while ensuring consistent interpretation of instructions and further improving them.

A corporate-wide development programme regarding internal controls has clarified and reinforced the shared principles and ways of working and strengthened internal control. The programme's processes are now part of the company's daily operations and help ensure compliance with Cargotec's Code of Conduct and internal policies. Multifaceted reporting tools, based on common systems, have been developed to support the financial performance monitoring and comparability. Cargotec Business Services offer shared financial services for Cargotec companies.

CARGOTEC REMUNERATION STATEMENT 2017

The remuneration statement presents Cargotec's decision-making procedure, remuneration principles and the remuneration paid to members of the Board, Chief Executive Officer (CEO) and the Executive Board in 2017.

Decision-making procedure

The Annual General Meeting (AGM) decides on the remuneration of members of the Board of Directors, on the basis of a proposal made by the Board's Nomination and Compensation Committee (NCC). In determining such remuneration, the committee takes account of the Board members' responsibilities and obligations towards the company. Furthermore, the committee compares the Board's remuneration packages to those paid by other companies of the same size operating in a comparable business environment.

Cargotec's compensation and benefits policy is applied in determining the total remuneration of the CEO and Executive Board. The policy is approved by the Board of Directors. Based on a proposal by the NCC, the Board decides on the annual base salary, short-term incentive programmes and benefits of the CEO and the Executive Board. In addition, the Board of Directors decides on long-term incentive programmes and on the target group and allocation of such programmes based on a proposal by the NCC.

Main principles of remuneration

Remuneration at Cargotec is characterised by five key principles:

- We align total compensation funding with our strategic and business plans – Our compensation and benefits programmes reinforce the link between rewards and achievement of business results. Programmes are funded on the basis of business affordability to justify the spending of compensation euros.
- We reinforce a high-performing culture – We pay for performance and behaviours that reinforce the underlying shared performance culture value. Cargotec has a standard approach for managing performance on a global basis to reward top performers and support low performers.
- We promote pay for performance differentiation – Our compensation programmes enable robust differentiation based on individual performance contributions to business results. As individual and company performance goals are met and exceeded, our programmes offer incentives that position actual cash compensation at competitive levels.
- Our goal is to balance shareholder and employee needs – Our compensation and benefits programmes are designed to optimise the needs of both shareholders and employees.
- We enhance our ability to attract, retain, and motivate a diverse group of talented individuals – Our compensation and benefits programmes are flexible and fair and are understood and valued by employees.

Board of Directors

The Board members receive from the company only remuneration related to their Board and Committee memberships and Board work. Board members are not included in Cargotec's short-term or long-term incentive programmes. Of the total annual remuneration, 30 percent is paid in Cargotec's class B shares and the rest in cash. The shares are purchased at market price on a yearly basis. Board members must keep the shares they have obtained as annual remuneration under their ownership for at least two years from the day they obtained them.

CEO and Executive Board

The total remuneration structure of the CEO and Executive Board comprises a fixed base salary including fringe benefits and incentive plans, for which both short- and long-term targets have been defined. The variable salary component consists of a share-based incentive programme linked to the company's long-term targets, as well as short-term incentive programme. Relevant market practices are closely followed when defining the remuneration elements.

Cargotec Executive Board remuneration consists of the following elements:

Remuneration element	Description
Base salary	Fixed salary including taxable fringe benefits
Short-term Incentives (STI)	2017 annual bonus programme performance targets: • Financial, 60% weight (2017 cash flow and operating profit) • Strategic individual targets, 40% weight • Threshold, target and maximum performance levels defined Target (maximum) incentive levels as a % of annual base salary: • CEO: 60% (120%) • Business Area President: 50% (100%) • Other Executive Board member: 40% (80%)
Long-term Incentives (LTI)	2017 share-based incentive programme: Performance period 2017–2018 + ownership and value creation period 2019; in total 3-year long-term incentive programme. Performance period includes two measuring periods, both lasting for one calendar year. Performance targets for measuring period 2017: • Cargotec or Business Area participants: Service gross profit and Return on Capital Employed (ROCE %, excluding restructuring costs) • Navis software division participants: Navis' sales and on strategic targets of Xvela business Performance targets for measuring period 2018 will be set in the beginning of the year by the Board of Directors. After the end of the performance period, the Board of Directors will confirm the cumulative amount of rewards earned from the measuring periods 2017 and 2018, and potential rewards from the performance period 2017–2018 will be paid partly in Cargotec's class B shares and partly in cash in 2019 (the cash portion of the reward will cover the tax and tax-like payments arising from the reward). The shares paid as reward may not be transferred during an approximate one-year ownership and value creation period established for the shares. Target (maximum) number of net shares allocated for the performance period 2017–2018: • CEO: 9,300 (18,600) • Other Executive Board members: 3,050–3,810 (6,100–7,620) Target (maximum) gross incentive level as a % of gross annual base salary for the performance period 2017–2018: • CEO: 120% (240%) • Other Executive Board members: 80–100% (160–200%) No share delivery if a termination notice has been delivered by either party prior to the share delivery. Share ownership recommendation for the Executive Board members: One-year gross base salary, the recommendation is to be fulfilled through refraining from transferring shares received under the Cargotec share-based incentive programmes. Claw-back provision: Board of Directors may decide to cut or cancel rewards and recover already delivered rewards from the participant in case of misconduct. In addition to the 2017 share-based incentive programme, there are two earlier established long-term incentive programmes: • 2015 share-based incentive programme (incentive payout in spring 2018) • 2016 share-based incentive programme (incentive payout in spring 2019)
Restricted shares	As a part of total remuneration, additional restricted shares can be granted to selected Executive Board members. Gross reward, before deduction for the applicable taxes and employment related expenses, is in range of 20–100% of the annual base salary. Threshold level for financial performance is set by the Board. One-year earning period is followed by one-year restriction period.
Pension	The CEO is entitled to a supplemental pension benefit. According to the pension agreement, the CEO is entitled to retire between the age of 60–65. A EUR 500,000 contribution has been paid in 2017 to insurance company administering the pension benefit. Any additional contributions to the CEO's supplemental pension benefit are approved by the Board of Directors (pension contributions are subject to performance criteria set by the Board of the Directors). Other Finnish members of the Executive Board are entitled to a statutory pension. Their retirement age is determined in accordance with the statutory pension scheme in Finland. Hiab and MacGregor Business Area Presidents have supplemental defined contribution pension plans, following the local market practice.
Severance pay	The members of the Executive Board have a period of notice of 6 months and are entitled to compensation, for termination of employment, corresponding to 6 to 12 months' salary.

Remuneration report

Board of Directors

Based on the decision of the AGM of 21 March 2017, the Board's annual remunerations for the year 2017 are as follows:

- Chairman: EUR 85,000
- Vice Chairman: EUR 60,000
- Chairman of the Audit and Risk Management Committee: EUR 60,000
- Other Board members: EUR 45,000

In addition, a fee of EUR 1,000 is paid for attendance of meetings of the Board and its committees.

Remuneration paid to Board members in 2017 is shown in the following table.

Member of the Board	Remuneration for Board membership and Board work, EUR*	Number of class B shares obtained as remuneration**
Ilkka Herlin, Chairman	124,240	721
Tapio Hakakari, Vice Chairman	88,990	503
Kimmo Alkio, member	64,000	374
Jorma Eloranta, member	70,000	374
Peter Immonen, member	70,000	374
Teresa Kemppi-Vasama, member[1]	54,000	253
Johanna Lamminen, member[1]	54,000	253
Kaisa Olkkonen, member	69,000	374
Teuvo Salminen, member	86,750	503
Heikki Soljama, member	64,000	374
Total	**744,980**	**4,103**

*Including Board remuneration for period of 1 January 2017–31 March 2018, meeting attendance fees and fringe benefits for period of 1 January 2017–31 December 2017.
**Value included in remuneration for Board membership and Board work. Number of shares includes in addition last quarter 2016 remuneration paid in February 2017.
[1]Since 21 March 2017

CEO and Executive Board

For the financial period 2017, the base salary of Cargotec's CEO Mika Vehviläinen was EUR 706,860 including fringe benefits. In addition, he received a short-term incentive payout of EUR 575,505 (payout is based on 2016 performance) and long-term incentive payout of EUR 1,055,946 in total. The CEO is covered by Cargotec's short-term incentive programme and share-based incentive programmes. The remuneration paid to the CEO and the Executive Board members in 2017 is stated in the following table:

Remuneration paid during 2017, EUR	CEO Mika Vehviläinen*	Other members of Executive Board (in aggregate)**
Base salary including fringe benefits	706,860	2,005,484
Short-term incentives (based on 2016 performance, taxable gross amount before deduction of taxes and employment-related expenses)	575,505	993,200
Long-term incentives: 2014 share-based incentive programme payout (taxable gross amount before deduction of taxes and employment-related expenses)	797,666	698,466
Long-term incentives: 2016 restricted shares programme payout (taxable gross amount before deduction of taxes and employment-related expenses)	258,280	428,219
Total	**2,338,311**	**4,125,369**

*In addition, CEO Mika Vehviläinen received EUR 500,000 supplemental pension contribution in 2017.
**Mikael Laine, Mikko Pelkonen, Mikko Puolakka, Antti Kaunonen, Roland Sundén, Michel van Roozendaal.

The following table summarises the actual number of class B shares delivered (net, after deduction of taxes and employment-related expenses) to the CEO and other members of the Executive Board in 2017:

Actual number of shares delivered in 2017	CEO Mika Vehviläinen	Other members of Executive Board (in aggregate)
2014 share-based incentive programme: 2014–2016 earning period; class B shares	9,176	7,491
2014–2016 restricted shares programme: 2016 earning period, 2017 restriction period; class B shares	2,971	2,234
2016–2018 restricted shares programme: 2016 earning period, 2017 restriction period; class B shares	-	2,839
Total	**12,147**	**12,564**

The following table summarises the net number of shares granted to the CEO and other members of the Executive Board in 2017 (possible incentive payout in spring 2019):

Net number of shares granted in 2017	CEO Mika Vehviläinen	Other members of Executive Board (in aggregate)
2017 share-based incentive programme: Performance period 2017–2018 + value creation period 2019, on target performance, net number of shares. Additionally cash portion to cover taxes.	9,300	22,100

The following table summarises the gross value in euros of restricted shares granted to the CEO and other members of the Executive Board in 2017 (possible incentive payout in spring 2018):

Gross LTI value granted in 2017, EUR	CEO Mika Vehviläinen	Other members of Executive Board (in aggregate)
2016–2018 restricted shares programme; earning period 2017 (gross in euros, before deduction of taxes and employment-related expenses)	-	350,000

INVESTOR RELATIONS

Mission and goal

Cargotec's Investor Relations aims to ensure that all market participants have correct and sufficient information at all times to support a fair valuation of Cargotec's share. Investor Relations is responsible for planning and executing financial and investor communications at Cargotec, and all investor requests are processed centrally through Cargotec's Investor Relations.

The investor relations function prepares Cargotec's financial statements and quarterly reviews, develops the investor website and writes stock exchange releases. It also organises roadshows, investor meetings and events, seminars, news conferences of result publications, as well as site visits and annual general meetings.

Investor relations also manages the arrangements for the Capital Markets Day events for investors and analysts and gathers and analyses market information and investor feedback to be used by Cargotec's management and the Board of Directors.

Silent period

Cargotec follows a three-week silent period prior to the publication of interim reports or financial statements. During this time, Cargotec spokespersons do not comment on the company's financial situation, market, or future outlook, hold any meetings with investors or analysts or attend any investor conferences.

Investor relations in 2017

Cargotec's Investor Relations actively organised various events for investors and analysts in 2017. In addition to Investor Relations, Cargotec's CEO, CFO and Business Area Presidents participated in investor meetings and events.

During the year, Investor Relations arranged the MacGregor day, the Software Day, and the Hiab Investor Day. At the events, management representatives from MacGregor, Kalmar, Navis and Hiab presented their businesses, giving participants a deeper insight of their present situation, strategy and future possibilities. The events also provided possibilities to discuss with the business management.

During the year, Investor Relations organised investor and analyst visits to DP World London Gateway Port, the Rainbow-Cargotec Industries factory in China and to a local container terminal in Taicang. The China visit was part of Finnish Industrial Week, which was organised together with other Finnish manufacturing companies. Press and analyst meetings were arranged in connection with publishing earnings reports.

Visit to the port terminal in Taicang was arranged as part of Finnish Industrial Week in June.

In September, Cargotec held a Capital Markets Day in London. At the event, the company's top management presented Cargotec's strategy, recent developments and future plans to become the leader in intelligent cargo handling. Furthermore, strategy must-win area specialists lead discussions and answered questions during break-out sessions. Approximately 60 investors, analysts and media representatives had registered to the event.

The speakers and organisers of Capital Markets Day in the sunny London on 12 September.

In 2017, Investor Relations organised roadshows in the United Kingdom, France, Denmark, Austria, Switzerland, Italy, Germany, Norway, Spain, the United States, Sweden, Canada, the Netherlands, Singapore, Hong Kong and Japan.

The publication dates for Cargotec's Financial Statements Review, Half-Year Report and Interim Reports in 2017 were 8 February, 26 April, 20 July and 27 October. Cargotec arranged conference calls for media and analysts for all the Interim Reports, where the CEO and CFO presented the results for the previous quarter. It was possible to follow the meetings at Cargotec's head office in Helsinki, via a live audio webcast on Cargotec's investor website or via a conference call. Recordings and transcripts of the events are available on Cargotec's investor website.

New content and IR awards

In addition to new events, Cargotec's Investor Relations function developed new ways to communicate with investors and to increase the transparency of its actions. The new additions include, for example, an IR video gallery, an IR blog and a podcast channel.

In addition to videos provided by the Cargotec business areas, the IR video gallery contains brief interim report result reviews, event speaker interviews, as well as event webcasts. In 2017, the IR blog grew by six posts. It can also be read on the Sijoitustieto website in Finnish.

In November, Hanna-Maria Heikkinen, Cargotec's Head of Investor Relations, was presented the Best Investor Relations Officer in Finland award at the IR Nordic Markets 2017 event in Stockholm, arranged by the Swedish research and analysis consultancy Regi. Cargotec's Investor Relations function ranked third in the Best Company category in Finland.

Analyst coverage

At the end of 2017, the Cargotec share was covered by 13 analysts, located in Helsinki, Stockholm, Düsseldorf and London. Two new analysts, from UBS and Credit Suisse, started covering Cargotec in 2017. Analyst contact information as well as consensus estimates are available on Cargotec's investor website. Cargotec does not take any responsibility for the content, accuracy or completeness of the views of analysts or other capital market representatives.

Financial calendar 2018

February 8, 2018	Financial Statements Review 2017
Week 8, 2018	Financial Statements and Annual Report 2017
March 20, 2018	Annual General Meeting
April 24, 2018	Publication of the January–March 2018 Interim Report
July 19, 2018	Publication of the January–June 2018 Half-Year Report
October 26, 2018	Publication of the January–September 2018 Interim Report

The calendar is available on Cargotec's investor website.

Investor Relations contact information

Hanna-Maria Heikkinen
VP, Investor Relations
Tel. +358 20 777 4084

Pekka Rouhiainen
Investor Relations Manager
Tel. +358 40 739 5897

Tiina Aaltonen
Executive Assistant to the CFO and Investor Relations
Tel. +358 20 777 4105

Cargotec (Nasdaq Helsinki: CGCBV) enables smarter cargo flow for a better everyday with its leading cargo handling solutions and services. Cargotec's business areas Kalmar, Hiab and MacGregor are pioneers in their fields. Through their unique position in ports, at sea and on roads, they optimise global cargo flows and create sustainable customer value. Cargotec's sales in 2017 totalled approximately EUR 3.3 billion and it employs over 11,000 people.

www.cargotec.com

Cargotec Corporation
Porkkalankatu 5, FI-00180 Helsinki
P.O. Box 61, FI-00501 Helsinki, FINLAND
Tel. +358 20 777 4000
communications@cargotec.com
www.cargotec.com

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See also the Cargotec annual review 2017.