



Corporate
governance
statement
2018

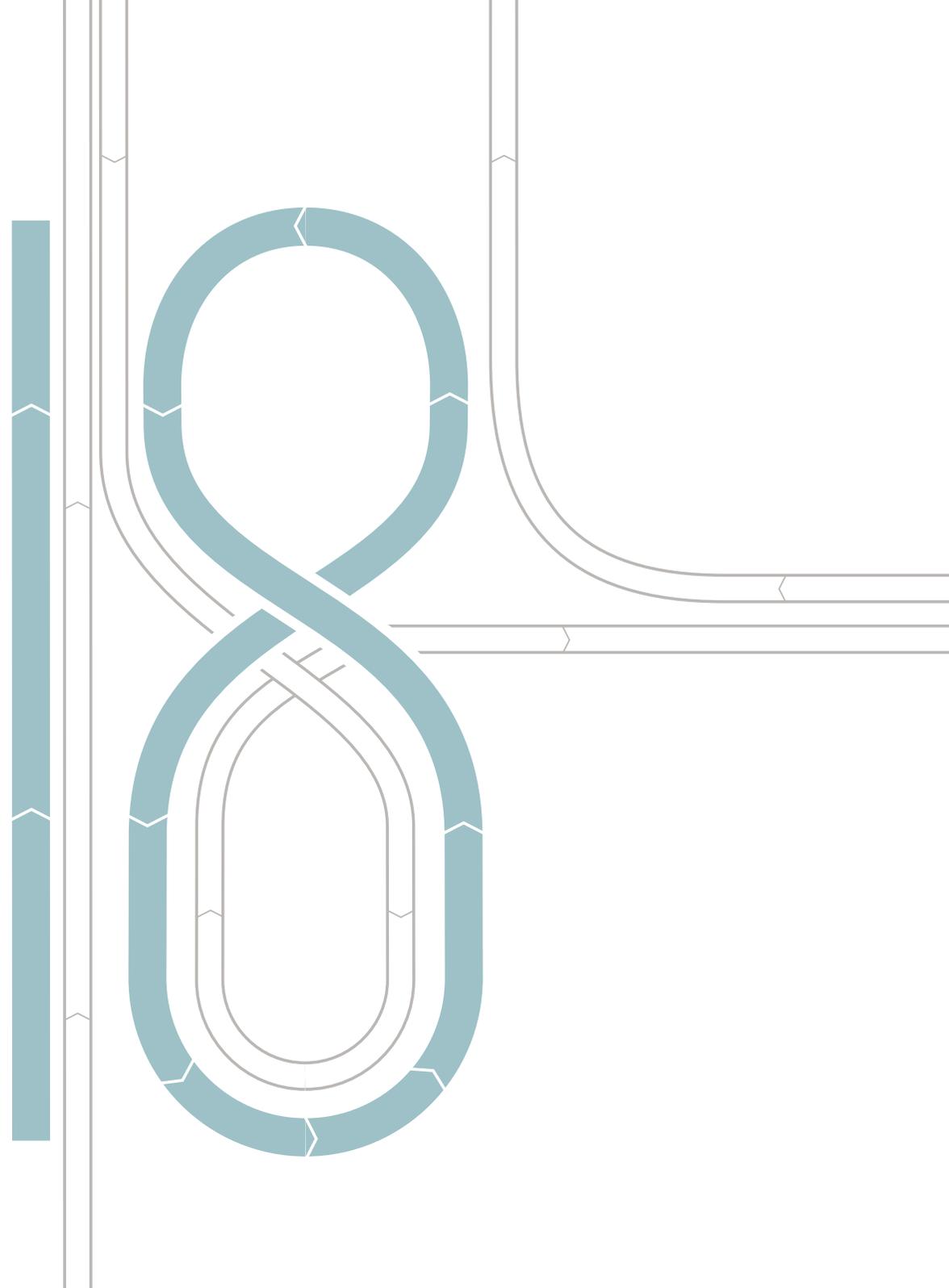


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Corporate Governance

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).

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.

Cargotec's shareholders exercise the highest decision-making power at the Shareholders' meeting. 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 to 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 monitors 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 for 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. Violations against Cargotec's Code of Conduct are reported to the Board annually. 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 2018, the Board convened nine times. 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 of the strategy period 2015–2018: services, digitalisation and leadership development. The Board handled and approved the strategy for the years 2019–2021. The strategy will ensure profitable growth by focusing on customer centricity, services, digitalisation and productivity. Cargotec's business areas Kalmar, Hiab and MacGregor and their R&D activities were discussed in specific theme meetings. Other special themes were automation, software, data security and sustainability. In connection with each meeting, the Board discusses also in the absence of the executive management.

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 Board members have a wide range of educational background and they have managerial experience in international companies in different cultures. The age range in 2018 was between 48 and 67 years. Three of the ten Board members were female and seven were men. Half of the members have been on the Board for more than five years and the other half of them for 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 2018 the members considered, among other things, the Board's 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 2018, 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.

Board members

Name, born, nationality	Education, title	Main position	Independence	Ownership 31 Dec 2018*
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, 6,208,516 B shares
Tapio Hakakari, Vice Chairman, 1953, Finnish	LL.M.	Non-executive director	Independent	159,757 B shares
Kimmo Alkio, 1963, Finnish	BBA, EMBA	President and CEO, Tieto Corporation	Independent	2,629 B shares
Jorma Eloranta, 1951, Finnish	M.Sc. (Tech), D.Sc. (Tech) h.c	Non-executive director	Independent	9,160 B shares
Peter Immonen, 1959, Finnish	M.Sc. (Econ)	Chairman, WIP Asset Management Oy	Independent of the company, non-independent of significant shareholders	54,286 B shares
Teresa Kemppi-Vasama, 1970, Finnish	M.Pol.Sc. (social psychology), MBA	Executive Chairman of the Board, Kemppi Oy	Independent	2,569 B shares
Johanna Lamminen, 1966, Finnish	D. Sc. (Tech.), MBA	CEO, Gasum Ltd	Independent	569 B shares
Kaisa Olkkonen, 1964, Finnish	LL.M.	CEO, SSH Communications Security Oyj	Independent	859 B shares
Teuvo Salminen, 1954, Finnish	M.Sc. (Econ), APA exam 1983	Non-executive director	Independent	9,279 B shares
Heikki Soljama, 1954, Finnish	M.Sc. (Power electronics)	Non-executive director	Independent	859 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. Violations against Cargotec's Code of Conduct are reported to the committee quarterly. 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. In addition, 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, Risk Management and Ethics & Compliance 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.

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 2018, the committee met five times. The attendance in the meetings is reported in the table below. Along with the financial, treasury, tax, risk management and compliance issues, the committee handled issues regarding GDPR and the processes of direct and indirect purchasing. 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. The committee shall see to having representatives of both genders included as candidates in the search and evaluation process of Board members to achieve the gender proportion target set for Cargotec's Board. 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 2018, 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 and saw to it that the diversity criteria were met when preparing its' proposal concerning the Board composition to the Annual General Meeting (AGM). The committee proposed to the AGM 2018 that the current Board members be re-elected.

Board and committee members' participation in meetings 2018

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

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 Board evaluates the performance of the CEO and the achievement of the targets it has set to him. 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 there are regularly reports and questions concerning the development of the financials, governance, human resources, sustainability and development projects. The CEO acts as Chairman and the General Counsel serves as the Secretary to the Executive Board. The CEO's and the Executive Board's CV details are available on the company website at www.cargotec.com.

In addition to the Executive Board members, the Extended Executive Board included Outi Aaltonen, Senior Vice President, General Counsel; Stephen Foster, Senior Vice President, Audit & Assurance; Carina Geber-Teir, Senior Vice President, Communications, since 1 September 2018 and Leena Lie, Senior Vice President, Communications until 31 August 2018. They supported the Executive Board in their fields of expertise.

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.

Executive Board members

Name	Born, nationality	Position	Education	Ownership on 31 Dec 2018, class B shares*
Mika Vehviläinen	1961, Finnish	CEO	M.Sc. (Econ.)	78,737
Mikko Puolakka	1969, Finnish	Executive Vice President, CFO	M.Sc. (Econ.)	3,386
Mikael Laine	1964, Finnish	Senior Vice President, Strategy	M.Sc. (Econ.)	11,104
Mikko Pelkonen	1970, Finnish	Senior Vice President, Human Resources	B.A.	21,167
Soili Mäkinen	1960, Finnish	CIO, Senior Vice President, Digitalisation; member of the Executive Board since 26 Mar 2018, before that member of the Extended Executive Board	M.Sc. (Econ.)	9,702
Antti Kaunonen	1959, Finnish	President, Kalmar	Dr. Tech	7,631
Scott Phillips	1966, American	President, Hiab since 1 Oct 2018	MBA, B.Sc. (Ind. Tech.)	0
Michel van Roozendaal	1963, Dutch	President, MacGregor	M.Sc. (Aerospace Eng.), MBA	7,886
Roland Sundén	1953, Swedish	Senior Vice President, Corporate Development 1 Oct–31 Dec 2018; before that President, Hiab	M.Sc. (Mech. Eng.)	22,955

* Direct ownership and ownership of corporations controlled by the director

Persons who have access to all Cargotec inside information 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 as well as to any legally incompetent persons under their custody or trusteeship, during a period of 30 days prior to the publication of Cargotec's annual, half year 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, as well as to any legally incompetent persons under their custody or trusteeship, 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 the 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's 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 2018 elected Authorised Public Accountant (APA) Tomi Hyryläinen and the auditing firm PricewaterhouseCoopers Oy as Cargotec's auditors. PricewaterhouseCoopers nominated APA Ylva Eriksson as its principal auditor.

The Auditor Oversight of the Finnish Patent and Registration Office designated on 27 December 2018 APA Markku Katajisto as the company's statutory auditor for the financial year 2018. Markku Katajisto replaces Tomi Hyryläinen, who announced on 20 December 2018 his resignation from the position of the company's auditor. In addition, the principal auditor nominated by PricewaterhouseCoopers Oy changed, as APA Mikko Nieminen was nominated to replace Ylva Eriksson. After the change, Cargotec's auditors are APA Markku Katajisto and PricewaterhouseCoopers Oy, with APA Mikko Nieminen 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	2018	2017
Audit fees	2.8	2.7
Tax advice	0.6	1.0
Other services	1.8	0.6
Total	5.1	4.4

Internal control and risk management 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 intranet and 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.

To prevent financial and other misconduct, Cargotec has instructions for principles and process for raising concerns. The SpeakUp line gives an opportunity to anonymously raise concerns of possible misconduct or other matters that may not be in line with company values and policies. The reporting channel is provided by an external partner, to ensure anonymity. All reports are investigated and processed in confidence by the Ethics and Compliance team. Corrective and disciplinary actions are discussed and

agreed in the monthly Code of Conduct panel of the Extended Executive Board.

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.

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.

Corporate Audit

Corporate Audit operates separately from the operative organisation and reports to the Board's 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's 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. The 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's Audit and Risk Management Committee. 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 Audit and Risk Management Committee 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. Cargotec Business Services offer shared financial services for Cargotec companies.

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.

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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 2018 totalled approximately EUR 3.3 billion and it employs around 12,000 people.

Cargotec's reporting for the year 2018 consists of five documents: the Annual review, the Financial review, the Corporate governance statement, the Remuneration statement, and the GRI index. All documents are available on the company website www.cargotec.com.



Annual review 2018



Financial review 2018



Corporate governance statement 2018



Remuneration statement 2018



GRI index 2018