CARGOTEC

FINANCIAL REVIEW 2019

SMARTER CARGO FLOW
FOR A BETTER EVERYDAY

BOARD OF DIRECTORS' REPORT

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BOARD OF DIRECTORS' REPORT

Operating environment in 2019

The market sentiment in 2019 was somewhat uncertain. Things that caused concern within the industry include items like the US-China trading dispute, Brexit, and the economic and regulatory uncertainty.

Kalmar's demand driver, the number of containers handled at ports globally, is estimated to have grown by 2.3 percent during 2019 compared to the previous year (Drewry). The demand for mobile equipment decreased compared to 2018. The customer interest towards port automation increased, but they consider their decisions carefully, targeting their investments mostly to phased renewals of existing ports.

The demand for Hiab's load handling equipment in 2019 was supported in the United States and Europe by the construction activity, which increased particularly in Europe. The demand for services improved compared to 2018.

Demand of MacGregor's cargo handling products in 2019 was impacted by the low level of merchant ship contracting that decreased further from an already low level in 2018. New vessel contracting in the offshore sector decreased as well from 2018, remaining at an exceptionally low level. The demand for services improved from the comparison period.

Orders received and order book

Orders received in 2019 totalled EUR 3,714 (3,756) million. In comparable foreign exchange rates, orders received decreased by 2 percent. 48 (51) percent of the orders were received by Kalmar, 35 (34) by Hiab and 17 (15) percent by MacGregor. Orders received grew in MacGregor and Hiab and decreased in Kalmar. Service orders received increased by 5 percent and totalled EUR 1,079 (1,031) million.

In geographical terms, the share of orders received was 49 (47) percent in EMEA and 34 (33) percent in Americas in 2019. Asia-Pacific's share of orders received was 17 (20) percent.

The order book increased by 5 percent from the end of 2018, and at the end of 2019 it totalled EUR 2,089 (31 Dec 2018: 1,995) million. Kalmar's order book totalled EUR 1,049 (1,012) million, representing 50 (51) percent, Hiab's EUR 406 (453) million or 20 (23) percent and MacGregor's EUR 633 (530) million or 30 (26) percent of the consolidated order book.

Sales

Sales in 2019 increased by 11 percent from the comparison period to EUR 3,683 (3,304) million.

In comparable foreign exchange rates, sales increased by 10 percent. Sales increased in all business areas. Service sales increased by 8 percent from the comparison period and totalled EUR 1,062 (980) million, representing 29 (30) percent of consolidated sales. In comparable foreign exchange rates, service sales increased by 7 percent. Software sales increased by 15 percent and amounted to EUR 168 (147) million. In comparable foreign exchange rates, software sales increased by 11 percent. In total, service and software sales amounted to EUR 1,230 (1,126) million, representing 33 (34) percent of consolidated sales.

In geographical terms, sales in 2019 increased in all market areas. EMEA's share of consolidated sales was 48 (49) percent, Americas' 34 (31) percent and Asia-Pacific's 18 (20) percent.

Financial result

Operating profit for 2019 totalled EUR 180.0 (190.0) million. The operating profit includes items affecting comparability worth EUR -84.4 (-52.1) million. EUR -7.4 (-5.4) million of the items were related to Kalmar, EUR -10.9 (-0.7) million to Hiab, EUR -55.1 (-2.6) million to MacGregor and EUR -10.9 (-43.3) million to corporate administration and support functions. In the comparison period, EUR 30 million of the items affecting comparability in the corporate administration and support functions were related to the lowered balance sheet valuation of the associated company Jiangsu Rainbow Heavy Industries Co. Ltd (RHI). More information on items affecting comparability is available in Note 2.4 to the consolidated financial statements, Restructuring costs and other items affecting comparability.

Comparable operating profit for 2019 increased by 9 percent and totalled EUR 264.4 (242.1) million, representing 7.2 (7.3) percent of sales. Comparable operating profit for Kalmar amounted to EUR 161.8 (143.6) million, for Hiab to EUR 170.2 (134.5) million, and for MacGregor to EUR -28.2 (-1.6) million. Kalmar's and Hiab's comparable operating profit increased due to higher sales. MacGregor's comparable operating profit declined due to cost overruns in certain offshore projects, low capacity utilisation, and lower sales margins.

In 2019, net interest expenses for interest-bearing debt and assets totalled EUR 21.9 (16.4) million. Net financing expenses totalled EUR 34.1 (28.9) million. Net interest expenses increased due to the application of the IFRS 16 accounting standard. Net income for 2019 totalled EUR 89.4 (108.0) million, and earnings per share EUR 1.39 (1.66). Earnings per share decreased due to significant restructuring costs especially in MacGregor, as well as higher than average tax expense due to MacGregor's negative business result as recognition criteria for deferred tax assets was not fulfilled mainly in Germany and Norway.

Balance sheet, cash flow and financing

The consolidated balance sheet total was EUR 4,227 (31 Dec 2018: 3,684) million at the end of the year 2019. Equity attributable to the equity holders of the parent was EUR 1,424 (1,426) million, representing EUR 22.12 (22.16) per share. Property, plant and equipment on the balance sheet amounted to EUR 490 (309) million and intangible assets to EUR 1,355 (1,249) million.

Return on equity (ROE, last 12 months) was 6.3 (31 Dec 2018: 7.6) percent at the end of 2019, and return on capital employed (ROCE, last 12 months) was 7.3 (8.4) percent. Return on capital employed decreased from the comparison period due to MacGregor's negative result. Cargotec's financial target is to reach 15 percent return on capital employed.

Cash flow from operating activities, before financial items and taxes, improved and totalled EUR 361.1 (125.8) million during 2019. Cash flow was supported by the decrease in net working capital to EUR 158 million at the end of 2019 from EUR 271 million at the end of 2018. Net working capital decreased due to higher advances received.

Cargotec's liquidity position is healthy. In September 2019, Cargotec issued two senior unsecured bonds in the total aggregate nominal amount of EUR 250 million. The first bond in the nominal amount of EUR 100 million, matures on 23 January 2025 and it carries a fixed annual interest of 1.250 per cent. The other bond in the nominal amount of EUR 150 million, matures on 23 September 2026 and it carries a fixed annual interest of 1.625 per cent.

Cash and cash equivalents and the undrawn long-term credit limits amounted to EUR 720 (31 Dec 2018: 556) million at the end of 2019. In addition, Cargotec had access to a commercial paper programme as well as undrawn bank overdraft facilities totalling EUR 287 (31 Dec 2018: 249) million. At the end of 2019, interest-bearing net debt totalled EUR 774 (31 Dec 2018: 625) million. Interest-bearing net debt includes EUR 188 (19) million in lease liabilities. Interest-bearing debt amounted to EUR 1,224 (920) million, of which EUR 271 (203) million was current and EUR 953 (717) million non-current debt. The average interest rate of interest-bearing liabilities, excluding on-balance sheet lease liabilities, was 1.8 (2.1) percent. Cash and cash equivalents, loans receivable, and other interest-bearing assets totalled EUR 451 (294) million.

At the end of 2019, Cargotec's total equity/total assets ratio was 36.4 (31 Dec 2018: 40.9) percent. Gearing was 54.2 (43.8) percent. Gearing increased due to the application of the IFRS 16 accounting standard.

More information on loans is available in Note 8.4 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 2019 totalled EUR 101.9 (89.0) million, representing 2.8 (2.7) percent of sales. EUR 0.2 (0.5) million was capitalised. Research and development investments were focused on digitalisation as well as projects that aim to improve the competitiveness, cost efficiency and eco-efficiency of products.

Kalmar

In November, Kalmar announced that it will collaborate with Bosch Rexroth to develop fully electric versions of its reachstacker and heavy forklift solutions. This collaboration represents another significant milestone on Kalmar's journey to offer electrically powered options for its entire equipment portfolio by 2021.

In October, Kalmar announced a new-generation version of its forklift solution for demanding loads of up to 54 tons. The Kalmar DCG380-540 is designed to offer the heavy-lifting power needed to handle the heavy loads typically seen in the stevedoring and metal industries combined with the smooth, precise control of a smaller-capacity machine.

Also in October, Kalmar was awarded first place in the PEMA (Port Equipment Manufacturers Association) Innovation Awards for two of its solutions focused on improving the eco-efficiency of container-terminal operations. The Kalmar Electric Terminal tractor and Kalmar FastCharge™ charging solution for battery-powered machinery were recognised as the best examples of disruptive and innovative technologies for the port industry. A total of 21 companies participated in the competition.

In October, Kalmar organised an Explore Automation! event in its Technology and Competence Centre in Tampere, Finland. The event gathered key industry stakeholders to share their knowledge, learn about the latest technologies and discuss experiences and recent developments in terminal automation.

During the event, Kalmar introduced Kalmar One, the first open automation system for container terminals. Kalmar One is a modular and scalable system that provides a robust foundation for automating container handling operations regardless of the vendor, equipment type, operation mode or automation level at the terminal.

Also in connection with Explore Automation!- event, Kalmar announced the introduction of Automated Truck Handling (ATH) to its Kalmar AutoStrad™ offering. ATH enables a fully automated container flow between quay cranes and trucks by automating the last stage of the landside operations – the final placement of containers onto road trucks. The feature was already available for Kalmar yard cranes and has now been added to Kalmar's horizontal transportation offering.

In July, Kalmar's multi-assembly unit in Stargard, Poland celebrated the 1,000th straddle carrier produced at the site. The multi-assembly unit in Poland started operations in 2010 and has since delivered a wide range of Kalmar and Hiab equipment to customers globally. During the same month Kalmar opened its new customer experience and training centre in North Charleston, USA. The facility serves as a showroom, training facility, and customer service centre for Kalmar's US mobile equipment business.

In May, Navis released N4 3.7, the newest version of its flagship TOS with upgraded product features and expanded capabilities. With this upgrade, Navis continues to enhance its core TOS functionality to meet the needs of its manual, semi-automated and fully automated terminal customers.

In April, Kalmar continued on its electrification journey by introducing a fully electric version of the Kalmar empty container handler. The machine is designed to help customers reduce overall fuel costs and comply with increasingly strict airborne and noise emissions standards without compromising on performance. In June, Kalmar took again a step towards its target to provide its full offering as electrically powered versions by 2021 by introducing a medium electric forklift powered by emission-free lithiumion (Li-ion) battery technology. This is the first forklift in the medium-capacity range to be powered by Li-ion batteries.

In March, Navis organised the Navis World event in San Francisco, USA, where Navis and Kalmar customers, experts and partners discussed new innovations that are boosting productivity and operational efficiency in the maritime supply chain. Navis World is an essential event for the industry.

At the event, the Navis unveiled the Navis Smart architecture, providing new ways to capture and process available industry data to optimise planning, visibility and asset utilisation. Navis also launched its Navis Smart Suite – a set of applications to digitise planning and execution for terminal operations.

During the year, Navis also tackled large-scale and complex implementations to help today's modern terminals operate efficiently and at peak productivity. Navis acted as software provider in the projects.

In February, Kalmar announced Cummins as the electrification solution provider for Kalmar's terminal tractor offering. Cummins will provide powertrain technology, including the batteries, for the Kalmar Electric Terminal Tractor (KT2E) that will be launched in 2020. Kalmar launched the electrically powered Kalmar Ottawa T2E Terminal Tractor in the United States in 2018.

Hiab

In December, the two first serial produced electric trucks arrived in Copenhagen. Both trucks, from Mitsubishi and Mercedes Benz, have the tail lift ZEPRO ZLU-75-110 SA installed. The new trucks were delivered to the two companies Aarstiderne and Citylogist at an event at the government building Christiansborg in Copenhagen. The truck keys were handed to the companies by Denmark's Minister of Transport Benny Engelbrecht.

In the same month, as part of Hiab's new route-to-market strategy in Chile, the Front Line Unit in the country closed its operations. Leading local distributor PESCO became the exclusive importer of most Hiab equipment and responsible for selling and servicing Hiab's equipment through their nationwide network. PESCO is also the distributor of EFFER cranes in Chile.

At the beginning of December, EFFER spare parts became available on Hiab's webshop that offers original spare parts and accessories. The availability of original EFFER spare parts on the webshop platform is a further step into completing the integration of EFFER into Hiab while at the same time increasing the level of support and service towards our customers.

In August, Hiab announced that it will globally extend the standard warranty to two years for all LOGLIFT and JONSERED forestry and recycling crane models. The warranty will be valid for all cranes ordered from 1 August 2019. Terms and conditions remain the same, including the three year warranty on steel components. In the same month, Hiab started to build a new paint shop at its demountables assembly unit in Raisio, Finland. The expansion is needed to meet the growing demand for demountables. The total investment is over EUR 4 million, which is divided between Hiab and the supplier FSP Finnish Steel Painting that will eventually operate the new paint shop. The expansion is expected to be in operation in March 2020.

In July, Hiab launched a specialised drywall crane HIAB K-505 HiPro for the US and Canadian markets. It is the longest and strongest drywall crane from Hiab to date with a reach of nine floors and a lifting capacity of almost 300,000 foot-pound force (ft-lbf). The crane is packed with technologically advanced features to enhance operator safety and productivity. It is also the heaviest of Hiab's drywall cranes.

Starting in the second half of 2019, Hiab will connect the majority of its equipment (all electronic control equipment) as a standard feature from factory. Customers will get equipment prepared for the future and enabled for Connected Services, such as HiConnect™.

The HIAB S-HiPro 230W waste collection crane was announced in June. Specialised for use with underground refuse containers, it is engineered to make it easier for operators to efficiently and safely perform their work in crowded urban centres.

A milestone was reached, when the 75,000th Hiab truck mounted forklift was delivered to Die Behrens-Gruppe of Germany in May. The customer travelled to the MOFFETT production centre in Dundalk, Ireland, to receive an emission-free electric MOFFETT E-series.

During the first half of 2019, Hiab's HiVision™ system has been expanded to MULTILIFT hooklifts, making hooklift operation easier, safer and quicker. HiVision creates an Augmented Reality experience by overlaying operation guidance and equipment information to real-life footage captured by rear cameras. The driver sees it on a touch-screen display inside the truck cabin that can also be used to operate the hooklift.

In April, Hiab introduced the next generation column lift DEL DL500, which is the most popular choice for 3.5-tonne vehicles in the UK. The new DEL DL500 is lighter, easier to install and comes with new safety features.

Hiab also launched two new modular installation systems for truck bodies; Hiab BodyWorks for heavy cranes and Hiab T-Body for HIAB T-series light range cranes. The modules are pre-manufactured and reduce body installation times and costs. Both have a weld-free bolted construction with parts that are easy to remove and replace.

In March, Hiab's Effer promoted R.A.C.E (Remote Assistance Control EFFER), a function that is part of their electronic management system PROGRESS 2.0. R.A.C.E lets operators to monitor the state of the crane, and access operation data from connected devices, such as smartphones, tablets and PCs. When needed, an Effer service point can immediately provide remote assistance, which can save time and money for the customer.

Effer announced the launch of two brand new light range crane models, 105 and 120. The improved, minimalist design of the new cranes provides an outstanding power-to-weight ratio.

January 2019 was the first month of full operations of MULTILIFT's test area in Raisio, Finland, where Hiab will test trucks equipped with skiploaders and hooklifts. The area gives Hiab the opportunity to test equipment from a customer point of view in difficult weather conditions and terrain. The data gathered under the testing will enable Hiab to improve its products and to come up with new solutions to customer problems.

MacGregor

In December, MacGregor and Kongsberg Digital, part of KONGSBERG, announced a collaboration agreement to test the interface of MacGregor's OnWatch Scout condition monitoring and predictive maintenance service within Kongsberg Digital's Vessel Insight data infrastructure solution. The Vessel Insight solution enables high quality data from interfaced systems to be captured and transmitted in a cost effective and secure manner to the Kongsberg Digital Kognifai platform. The initial in-service testing and data analysis will be conducted with application to MacGregor cargo handling cranes installed on pilot merchant customer vessels.

In December, and following initial testing in July on board the Eidesvik Offshore Support Vessel, Viking Neptun, fully functioning pilot releases of the OnWatch Scout digitally-enabled service were installed on Viking Neptun and the Chinese-Polish Joint Stock Shipping Company (Chipolbrok) owned general cargo vessel, Chipolbrok Pacific.

MacGregor deck handling systems are supporting the operation of the first Chinese built icebreaker, Xue Long 2, as part of China's 36th Antarctic expedition which commenced in December. A MacGregor project team has been involved in the Xue Long 2 project from the very early stage, working collaboratively with the Polar Research Institute of China project team and Marine Design and Research Institute of China to develop technical solutions required to enable deck handling equipment to operate effectively at temperatures of minus 45 degrees centigrade.

Development work on another new digital offering, Breakbulk Optimiser, continued in advance of market introduction at the Marintec China international maritime event held in Shanghai in December. Breakbulk Optimiser is an automated, cloud-based application that increases cargo planning efficiency and optimises vessel and fleet capacity utilisation.

To further support the development and market adoption of intelligent services, all operationally critical MacGregor equipment have been delivered to customers with the capability to transmit data through an internet gateway included as standard from the second half of 2019.

MacGregor designed and supplied the cargo system for the world's largest containership, MSC Gülsün, which was delivered by South Korea's Samsung Heavy Industries in July. The ship is 400 meters long, 62 meters wide and is the first in a series of 11 ultra-large containerships with a capacity of more than 23,000 TEU. Six of the containerships will be built by Samsung Heavy Industries, and the other five by Daewoo Shipbuilding & Marine Engineering. The cargo system design was developed in close collaboration with MSC and, in addition to maximising cargo intake, provides for a high degree of operational and planning flexibility.

In June, MacGregor announced an agreement with Kongsberg Maritime, part of KONGSBERG, to supply an automated mooring system for the world's first autonomous containership, Yara Birkeland. The system will enable mooring operations to be undertaken without human intervention which supports effective operations of the fully electric, zero emission vessel.

Also in June, MacGregor's new digitally-enabled predictive maintenance service, OnWatch Scout, was introduced to the market at the Nor-Shipping international maritime exhibition held in Oslo, Norway. OnWatch Scout enables operationally critical equipment to be connected to land based monitoring systems that continuously analyse component condition, and can identify changes that indicate a risk of failure. This information enhances the ability to maximise equipment availability, minimise unplanned downtime and more effectively plan maintenance activities - thereby increasing the operational availability of valuable offshore and merchant shipping assets. The OnWatch Scout advanced data analytics capability is being developed in collaboration with one of MacGregor's recently selected Rainmaking Trade & Transport Impact Programme partners, Arundo Analytics.

MacGregor completed the construction of a FibreTrac crane, the first fibre-rope offshore crane to enter the market. The crane's full potential and capabilities were demonstrated at an event held in Kristiansand, Norway.

A Google Design Sprint was held during March to support the accelerated development of certain new digital offerings. Through a highly intensive process over a 7-day period, seven MacGregor and customer domain experts focused on the application and customisation of the 'C-How' simulation tool to provide an ability to predict and enable increased operational windows within an offshore oil & gas environment. The design sprint outcome was an interactive model that will be taken forward with customers for further validation in operation.

In March, Cargotec, Kalmar, Navis and MacGregor met the 14 most promising start-ups out of more than 600 that were pre-screened at Rainmaking's Trade & Transport programme. The meeting took place in Hamburg, Germany. The programme connects world leading corporations and innovative startups to address the biggest challenges in maritime, cargo transport and logistics.

Capital expenditure

Capital expenditure, excluding acquisitions and customer financing, totalled EUR 61.3 (46.4) million in 2019. Investments in customer financing were EUR 38.9 (33.9) million. Of the capital expenditure, EUR 4.4 (7.7) million concerned intangible assets, such as global systems that in future will enable higher efficiency in operational activities as well as in support functions. Depreciation, amortisation and impairment amounted to EUR 133.8 (77.2) million. Depreciation increased by EUR 44 million due to the application of the IFRS 16 accounting standard.

Acquisitions and divestments

On 9 December, Navis, a part of Cargotec Corporation, announced that it has entered into an agreement to acquire the assets of Jade Logistics, a provider of the Master Terminal TOS for mixed cargo terminals. Jade Logistics is based in Christchurch, New Zealand and is trusted by over 100 facilities globally to manage the transport of mixed cargo such as steel, timber, containers, cars and many other materials. With the addition of Jade Logistics Master Terminal to its software portfolio, Navis is better positioned to support hundreds of terminals around the world that need to improve terminal operations for a wide variety of cargo types beyond containers. The acquisition was closed in December 2019 and it does not have an impact on Cargotec financials in 2019.

Cargotec announced on 31 July 2019 that its MacGregor business area has completed the acquisition of the marine and offshore businesses of TTS Group ASA at a consideration of EUR 57.9 million. The completion of the acquisition follows receipt of required approvals and the preliminary purchase price was paid to the seller on acquisition date, but the final purchase price is still being specified in accordance with the purchase price mechanism agreed in the purchase contract. At the time of reporting, there is a difference of opinion between the parties regarding the final purchase price. The acquired businesses will be integrated within MacGregor's operating structure, and their results have been consolidated into MacGregor's financial figures as of 1 August 2019.

On 7 March 2019 Navis, part of Cargotec, acquired the privately owned company Cetus Labs, Inc. in the US, a provider of a SaaS- and cloud-based terminal operating system (TOS) Octopi for small container and mixed cargo terminals. With the acquisition, Navis is better positioned to support thousands of smaller terminals around the world that are eager to modernise terminal operations, yet lack the technology infrastructure and technical expertise required to support a full-scale Navis N4 TOS deployment.

More information on acquisitions is available in Note 7.1 to the consolidated financial statements, Acquisitions and disposals.

Operational restructurings

In May 2017, Cargotec announced it would target EUR 50 million savings by reducing indirect purchasing spend, streamlining processes and centralising administrative operations to Cargotec Business Services centre. The realised savings cumulatively since the beginning of the programme amount to approximately EUR 41 million. The remaining part of the savings is expected to be achieved in 2020.

Restructuring costs in 2019 amounted to EUR 80.1 (53.8) million. Approximately EUR 30 million of these costs did not have cash flow impact. The restructuring costs in MacGregor business were EUR 52.1 million and the majority of this was related to adjustments at offshore business.

We estimate the restructuring costs of ongoing restructuring programmes to be approximately EUR 60 million in total in 2020. Additional reviews have been started which may increase or decrease the estimate.

More information on operational restructurings is available in Note 2.4 to the consolidated financial statements, Restructuring costs and other items affecting comparability.

Personnel

Cargotec employed 12,587 (31 Dec 2018: 11,987) people at the end of 2019. Kalmar employed 5,625 (5,737) people, Hiab 4,028 (3,879), MacGregor 2,350 (1,879), and corporate administration and support functions 584 (492). The number of employees in corporate administration and support functions increased due to centralisation of business support operations to Cargotec Business Services centre. The average number of employees in 2019 was 12,470 (1–12/2018: 11,589).

At the end of 2019, 9 (31 Dec 2018: 9) percent of the employees were located in Sweden, 8 (8) percent in Finland, and 49 (48) percent in the rest of Europe. Asia-Pacific personnel represented 19 (20) percent, Americas 13 (13) percent, and the rest of the world 2 (2) percent of total employees.

Salaries and remunerations to employees totalled EUR 629 (567) million in 2019.

The annual Compass Employee Engagement survey provides valuable information on our employees' work-related feelings and thoughts. The Compass 2019 survey had a completion rate of 78% (2018: 85%). Employee engagement has remained stable at 67%.

Our teams are clearly a stronghold. The following three topic categories, team climate collaboration (82% favorability), team impact (82% favorability) and team climate performance (80% favorability), suggest that the vast majority of our employees are satisfied with their closest team environment.

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 for 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 Cargotec's requirements in relation to, for example, environmental issues, labour practices, human rights and anti-corruption. Practical implementation is ensured through topic area-specific policies, processes and trainings.

Management of non-financial matters

The Cargotec Board of Directors has the overall responsibility on non-financial matters. Board reviews non-financial related issues at least once a year as a separate topic and as part of strategy review. Cargotec Leadership Team 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 sustainability, environment and safety management, HR, ethics and compliance, legal, sourcing, R&D and strategy. More details on the management principles of non-financial matters can be found in the Financial Review's Corporate Governance Statement and in the Cargotec Annual Review 2019.

Reporting framework

Cargotec's disclosure on non-financial issues presents 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 2019 and GRI Index 2019.

Environmental matters

The evaluation of the impacts of sustainability, climate change in particular, is a central part of Cargotec's strategy. Cargotec's environmental and health and safety (EHS) policy defines the principles for operational environmental management. In addition, business areas and sites may provide additional guidance to cover specific operational environmental management aspects in detail. Cargotec's supplier criteria and processes define environmental 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. The impact mitigations and preparations for climate change is one of the megatrends affecting the industry. The board and the leadership team spent a significant amount of time on work related to climate change impacts. At Cargotec, sustainability is perceived as a business opportunity. The Offering for eco-efficiency product portfolio accounted for 21 percent of Cargotec's total sales in 2019 (2018: 21%). For the strategy period 2019–2021, the portfolio target is to achieve double sales growth compared to traditional products by 2021.

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. Lack of leadership capabilities could decrease employee motivation, which may slow down the strategy implementation and decrease the Code of Conduct compliance. Various 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, number of injuries per million hours worked) is used as the main KPI. The assembly site IIFR target for 2019 was 5, and the rate achieved was 7.0 (2018: 6.7), while the non-assembly site IIFR rate was slightly lower at 6.8 (2018: 9.5). The Cargotec total IIFR improved to 6.9 (2018: 8.4). During the year, we have focused our efforts on improving the safety culture across the organization and as a result we see a positive trend in the overall injury rates. The inclusion of four new assembly sites, as a result of acquisitions made during 2018 has led to a slight increase of the assembly site IIFR rate. On the other hand, our non-assembly operations have shown good progress and the number of injuries has dropped significantly. We are strongly committed to improve the wellbeing and safety of our employees and will work to achieve our targets over the upcoming years. Our target is to reach IIFR 5 in assembly by 2020.

The annual Compass Employee Engagement 2019 survey had a participation rate of 78% (2018: 85%). The leadership index in 2019 was 73% (2018: 73%), while the team climate index was 77% (2018: 77%) and the employee engagement index 67% (2018: 67%) but we expect it to grow due to positive development of leadership indices. The positive score development results from the systematic leadership development. The target remains to utilize our survey data results in developing HR strategies and targets, 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 2019 was 80% (2018: 80%).

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. Code of Conduct web courses are targeted to all Cargotec employees, and a specific human rights section is included in those courses.

In 2018, Cargotec carried out an analysis of the most important operational aspects related to human rights risks and measures to mitigate those risks. Most of the human rights risks occur in the Cargotec´s sphere of interest, as in supply chain and sales agents operations. In addition, mergers and acquisitions were identified as potential areas for human rights breaches. The supply chain function continued with its sourcing sustainability management programme from 2017. 93 percent of the strategic suppliers were invited to the sustainability self-assessment tool which focuses on screening human rights and other sustainability risks in our supply chain. The Supplier Code of Conduct is also part of the supplier assessment process.

In 2019, the mergers and acquisition process was developed so that the human rights risks can be identified with better accuracy. The Human Rights risks management process will be further developed in 2020.

Ethics and Compliance

As of 2019, the Ethics & Compliance function in Cargotec reports directly to the CEO and the Audit and Risk Management Committee of the Cargotec Board of Directors. Cargotec Board of Directors receives an annual update from the Chief Compliance Officer. In addition, the Audit and Risk Management Committee of the Board receives regular updates about anti-corruption activities and other Code of Conduct matters during the year. The Cargotec Leadership Team also has a Code of Conduct panel where compliance topics are communicated and discussed.

The Cargotec Code of Conduct is the cornerstone of our compliance programme. The Code of Conduct is approved by the Cargotec Board of Directors and defines the ethical standards which directors, employees and partners need to follow. In addition, the Cargotec Anti-Corruption policy, Gift and Hospitality Instruction, Speak-Up and Non-Retaliation, as well as the new Third Party Policy guide the work against possible unethical or corrupt business practices. The practical implementation of these policies, as well as related instructions, is guided by the compliance programme, whose main principles include detection, prevention responding to potential misconduct. The main pillars of the compliance programme are: 1) Risk Assessment; 2) Policies and Procedures; 3) Training & Communications; 4) Concern Reporting & Resolution; 5) Monitoring; and 6) Oversight.

Based on the compliance risk assessments and Code of Conduct cases, the focus area for 2019 has been Third Party management. A new Third Party policy was approved in 2018 and the policy stipulates formal criteria for how to manage E&C risk relating to third parties involved in sales, supply chain, mergers and acquisitions, as well as joint ventures. The implementation of more detailed instructions and a process for third party screening and risk assessments for sales intermediaries has started in 2019 with the target of full company-wide implementation in 2020. More detailed instructions and process regarding screening and risk assessment for vendors is planned for 2020.

To further understand our employees' views on the company's ethical practices, the Code of Conduct related questions were updated and amended in the annual Compass Employee Engagement 2019 survey. 80 percent of respondents consider Cargotec as an ethical company (2018: 80%).

Cargotec detected a suspected financial fraud in connection to MacGregor and made an investigation request to the Finnish authorities based on an internal review. In June 2019, the National Bureau of Investigation in Finland reported that it has been working on a preliminary investigation about a suspected aggravated fraud in connection to MacGregor business area. Cargotec has a zero tolerance policy for misconduct, and is fully supporting the authorities in their investigations. Neither MacGregor nor Cargotec are suspected of criminal actions. Due to incompleteness of the preliminary investigation, Cargotec is not issuing further statements on the matter.

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. In addition, the Ethics & Compliance team receives direct reporting from managers and the line organisation. All reported cases are evaluated confidentially and they are investigated according to the

Code of Conduct response process. The Code of Conduct panel of Cargotec's Leadership Team reviews the need for possible disciplinary and remedial measures.

During 2019 40 cases were assessed by the Code of Conduct panel (2018: 55). A majority of these were related to labor issues or inappropriate behavior. As a response to some cases, improvements to internal processes and controls were initiated. In addition, disciplinary actions such as warnings and dismissals were initiated for some. As a response to Code of Conduct concerns involving third parties, some corrective actions were conducted with third parties and some third party relationships were terminated.

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 policies and guidelines, as well as the 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.

The role of Cargotec Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value and improving the operations of Cargotec and its businesses. It helps and supports the business organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. To ensure the independence of the Internal Audit function, Head of Internal Audit reports functionally to the Audit and Risk Management Committee, and administratively to the CFO. Internal Audit develops a flexible risk based audit plan which is approved by the Audit and Risk Management Committee.

Approved by the Board of Directors and based on Cargotec's values, the risk management policy specifies the objectives and principles of 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 Leadership Team 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.

Cargotec's main strategic risks are related to development of the markets, changes in market structure as well as efficient implementation of the strategy. Operational risks are 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

Leadership Team

On 31 December 2019, Cargotec's Leadership Team consisted of Mika Vehviläinen, CEO; Mikko Puolakka, Executive Vice President, CFO; Mikko Pelkonen, Senior Vice President, Human Resources; Mikael Laine, Senior Vice President, Strategy; Soili Mäkinen, CIO; Outi Aaltonen, General Counsel; Carina Geber-Teir, Senior Vice President, Communications; Antti Kaunonen, President, Kalmar Automation Solutions; Stefan Lampa, President, Kalmar Mobile Solutions; Scott Phillips, President, Hiab; and Michel van Roozendaal, President, MacGregor.

Cargotec announced on 25 April 2019, that it simplifies its leadership structure and combines its Executive Board and Extended Executive Board to form a new Cargotec Leadership Team. From 25 April 2019 onwards also former members of Extended Executive Board Outi Aaltonen (General Counsel) and Carina Geber-Teir (Senior Vice President, Communications) belong to Cargotec Leadership Team.

Cargotec announced on 7 March 2019, that to enhance Kalmar's growth opportunities, Cargotec reorganises it into three strategic business units (SBU); Kalmar Mobile Solutions, Kalmar Automation Solutions and Navis as of April 1, 2019. Cargotec's financial reporting structure based on three business areas Kalmar, Hiab and MacGregor, will remain unchanged. Stefan Lampa (born 1964) has been appointed President of Kalmar Mobile Solutions and a member of the Cargotec Executive Board. Antti Kaunonen, the previous President of Kalmar, has been appointed President of Kalmar Automation Solutions. He will continue as a member of the Executive Board. Benoit de la Tour will continue as the President of Navis.

Reporting segments

Kalmar

In 2019, orders received by Kalmar decreased by 7 percent and totalled EUR 1,776 (1,919) million. In comparable foreign exchange rates, orders received decreased by 9 percent. Kalmar's order book increased by 4 percent from the end of 2018, and at the end of the year it totalled EUR 1,049 (31 Dec 2018: 1,012) million.

Kalmar's sales in 2019 increased by 6 percent from the comparison period and totalled EUR 1,723 (1,618) million. Service sales increased by 3 percent and totalled EUR 464 (449) million, representing 27 (28) percent of sales. In comparable foreign exchange rates service sales increased by 3 percent. Software sales increased by 15 percent and amounted to EUR 169 (147) million. In comparable foreign exchange rates, software sales increased by 11 percent.

Kalmar's operating profit in 2019 totalled EUR 154.4 (138.1) million. The operating profit includes EUR -7.4 (-5.4) million in items affecting comparability. The comparable operating profit amounted to EUR 161.8 (143.6) million, representing 9.4 (8.9) percent of sales. Kalmar's comparable operating profit increased due to higher sales.

Hiab

In 2019, orders received by Hiab increased by 4 percent from the comparison period and totalled EUR 1,310 (1,259) million. In comparable foreign exchange rates, orders received increased by 2 percent. Hiab's order book decreased by 10 percent from the end of 2018 and totalled EUR 406 (31 Dec 2018: 453) million at the end of 2019.

Hiab's sales in 2019 increased by 18 percent and totalled EUR 1,350 (1,149) million. Service sales grew by 11 percent to EUR 343 (309) million, representing 25 (27) percent of sales.

Hiab's operating profit in 2019 increased from the comparison period and totalled EUR 159.3 (133.8) million. The operating profit includes EUR -10.9 (-0.7) million in items affecting comparability. The comparable operating profit amounted to EUR 170.2 (134.5) million, representing 12.6 (11.7) percent of sales. Hiab's comparable operating profit increased due to higher sales.

MacGregor

MacGregor's orders received in 2019 increased by 9 percent from the comparison period to EUR 630 (580) million. In comparable foreign exchange rates, orders received increased by 9 percent and by 1 percent excluding TTS acquisition. MacGregor's order book increased by 20 percent from the end of 2018, totalling EUR 633 (31 Dec 2018: 530) million at the end of 2019. Excluding TTS acquisition, order book decreased by 8 percent. Around three fourths of the order book is merchant ship-related and one fourth is offshore vessel-related.

MacGregor's sales in 2019 increased by 14 percent from the comparison period to EUR 611 (538) million. Sales excluding TTS acquisition increased by 4 percent. Service sales grew by 15 percent to EUR 255 (222) million, representing 42 (41) percent of sales. Excluding TTS acquisition, service sales increased by 4 percent.

MacGregor's operating profit in 2019 totalled EUR -83.3 (-4.2) million and operating profit excluding TTS acquisition EUR -82.0 million. The operating profit includes EUR -55.1 (-2.6) million in items affecting comparability. The comparable operating profit totalled EUR -28.2 (-1.6) million, representing -4.6 (-0.3) percent of sales. MacGregor's comparable operating profit declined due to cost overruns in certain offshore projects, low capacity utilisation, and lower sales margins. More information on items affecting comparability is available in Note 2.4 to the consolidated financial statements, Restructuring costs and other items affecting comparability.

Decisions taken at the Annual General Meeting

Cargotec Corporation's Annual General Meeting (AGM), held on 19 March 2019, adopted the financial statements and the consolidated financial statements of the year 2018. 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 2018. The AGM approved a dividend of EUR 1.09 to be paid for each class A share and a dividend of EUR 1.10 to be paid for each class B share outstanding. The dividend was decided to be paid in two instalments, EUR 0.55 in March and the rest in October 2019. The first instalment was paid on 28 March 2019 and the second instalment on 10 October 2019.

The AGM authorised the Board to decide on the repurchase of Cargotec's shares with non-restricted equity. Altogether no more than 6,400,000 shares in the company may be purchased, of which no more than 952,000 are class A shares and 5,448,000 are class B shares. The authorisation shall remain in effect for a period of 18 months from the resolution by the general meeting and it supersedes the previous one. In addition, the AGM authorised the Board of Directors to decide on the issuance of shares as well as the issuance of options and other special rights entitling to shares referred to in chapter 10 section 1 of the Finnish Companies Act. The authorisation remains in effect for a period of five years following the date of decision of the general meeting and it supersedes the previous one.

The number of the Board members was confirmed at nine. Jorma Eloranta, Tapio Hakakari, Ilkka Herlin, Peter Immonen, Teresa Kemppi-Vasama, Johanna Lamminen, Kaisa Olkkonen, Teuvo Salminen and Heikki Soljama were re-elected to the Board of Directors. The AGM elected accounting firm PricewaterhouseCoopers Oy as auditor. The auditor's fees were decided to be paid according to their invoice reviewed 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 19 March 2019. 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 19 March 2019, 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. The Board also elected the Chairmen and the members for the Audit and Risk Management Committee as well as the Nomination and Compensation Committee. Outi Aaltonen, Senior Vice President, General Counsel, continued 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.

Board of Directors' authorisations

Cargotec Corporation's Annual General Meeting (AGM), held on 19 March 2019 in Helsinki, authorised the Board to decide on the repurchase of Cargotec's shares with non-restricted equity. Altogether no more than 6,400,000 shares in the company may be purchased, of which no more than 952,000 are class A shares and 5,448,000 are class B shares. The authorisation remains in effect for a period of 18 months from the resolution by the general meeting.

Cargotec Corporation's Annual General Meeting (AGM), held on 19 March 2019 in Helsinki, authorised the Board to decide on the issuance of shares as well as the issuance of options and other special rights entitling to shares referred to in chapter 10 section 1 of the Finnish Companies Act as follows: The amount of shares to be issued based on this authorization shall not exceed 952,000 class A shares and 5,448,000 class B shares. The authorization covers both the issuance of new shares as well as the transfer of treasury shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights, on the condition that the distribution of shares is based on weighty financial grounds. The Board of Directors was authorised to decide on all the conditions of the issuance of shares and of special rights entitling to shares. The authorization remains in effect for a period of five years following the date of decision of the general meeting.

Shares and trading

Share capital, own shares and share issue

Cargotec Corporation's share capital totalled EUR 64,304,880 at the end of 2019. The number of class B shares was 55,182,079, while the number of class A shares totalled 9,526,089.

On 19 March 2019, the Board of Directors 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 launched in 2016, 2018 allocation of restricted shares programme 2016–2018 under the share-based incentive programme 2016 and performance period 2017–2018 of share-based incentive programme launched in 2017.

In the share issue, 115,275 own class B shares held by the company were transferred without consideration to the key employees participating in the share based incentive programmes in accordance with the programme specific terms and conditions. More detailed information about the launch and the terms and conditions of the programmes is available in stock exchange releases published on 10 February 2016 and on 8 February 2017.

The decision on the directed share issue is based on the authorisation granted to the Board of Directors by the Annual General Meeting on 19 March 2019. 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.

In January 2019, Cargotec repurchased a total of 40,000 class B shares based on the authorisation of the Annual General Meeting on 20 March 2018 for a total cost of EUR 1,116,632.00. The shares were repurchased for use as reward payments for the share-based incentive programmes.

At the end of 2019, Cargotec held a total of 304,328 own class B shares, accounting for 0.47 percent of the total number of shares and 0.20 percent of the total number of votes. At the end of 2019, the number of outstanding class B shares totalled 54,877,751.

For a 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 2019, the Board of Directors of Cargotec Corporation has resolved on the performance criteria for the share-based incentive programme for the year 2019. The performance share programme, approved by the Board of Directors in 2017, 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. The Board of Directors will annually resolve the performance criteria for each measuring period.

For the performance period of 2018–2019 started in 2018, the potential reward for the measuring period 2019 will be based on each business area's comparable operating profit for the key employees of the business areas Kalmar, Hiab and MacGregor, and for Navis software divisions' key employees, on Navis' sales. For Cargotec Corporate key employees, the performance criterion is Cargotec's comparable operating profit. After the end of the performance period, the Board of Directors will confirm the cumulative amount of rewards earned from the measuring periods 2018 and 2019, and potential rewards from the performance period 2018–2019 will be paid partly in Cargotec's class B shares and partly in cash in 2020. 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 the new performance period of 2019–2020, the programme is directed to approximately 150 key employees, including the members of the Leadership Team. 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 measuring period 2019 will be based on each business area's comparable service gross profit, and for Navis software divisions' key employees, on Navis' sales and on sales excluding TOS business. For the Cargotec Corporate key employees, the performance criterion is Cargotec's service gross profit. The rewards to be paid on the basis of the performance period 2019–2020 will amount up to an approximate maximum total of 294,000 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.

In February 2019, the Board of Directors of Cargotec Corporation has also resolved to establish a new restricted shares programme for 2019. As a part of total compensation, additional restricted share grants can be allocated for selected key employees for recruitment and retention purposes in 2019. Restriction period of the shares continues until the end of March 2021. The rewards to be paid on the basis of the programme will amount up to an approximate maximum total of 27,000 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.

In February 2019, the Board of Directors of Cargotec Corporation has also resolved to establish a new matching share programme directed to the Group executives. The aim is to align the objectives of the shareholders and the executives in order to increase the value of the company in the long-term, and to further strengthen the shareowner alignment by encouraging the executives to personally invest in the company's shares. The Matching Share Programme is directed to maximum seven Group executives in total, including the Chief Executive Officer. More detailed information about the launch and the terms and conditions of the programme is available in stock exchange release published on 20 February 2019.

For a more detailed description on the share-based incentive programmes, see Note 3.2 to the consolidated financial statements, Share-based payments.

Market capitalisation and trading

At the end of 2019, the total market value of class B shares was EUR 1,660 (1,464) 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 1,950 (1,720) million, excluding own shares held by the company.

The class B share closed at EUR 30.24 (26.72) on the last trading day of 2019 on Nasdaq Helsinki. The volume-weighted average share price in 2019 was EUR 31.09 (41.28), the highest quotation being EUR 38.48 (51.30) and the lowest EUR 24.12 (26.46). During the period, a total of 29 (34) million class B shares were traded on Nasdaq Helsinki, corresponding to a turnover of EUR 892 (1,382) million. In addition, according to Fidessa, a total of 40 (47) million class B shares were traded in several alternative marketplaces, such as Cboe BXE and Cboe APA, corresponding to a turnover of EUR 1,266 (1,945) million.

Loans, liabilities and commitments to related parties

Cargotec had no loans, liabilities or commitments to its related persons and their related parties on 31 December 2019.

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. Coronavirus could have direct or indirect impact on the global trade as well as the demand and deliveries of Cargotec's cargo handling solutions. Project executions 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. Also challenges related to the availability of skilled workforce and the company's ability to retain it can impact operational performance negatively. Political uncertainty and trade war could have an impact on global flow of goods and therefore on the demvand of Cargotec's solutions. 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.

MacGregor's market situation still involves uncertainties. It is anticipated that the oversupply in the merchant ship market will take time to balance out, since capacity will continue to increase while demand is expected to grow very moderately. The tightening emission regulation for ships may limit new investments in the short term. The uncertainty regarding oil price development has led to an intense fall in investments by the oil industry and created oversupply in the offshore market that has decreased offshore vessel investments. 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.

Risks regarding Cargotec's acquisitions are related to, for example, the knowledge of the local markets, authority processes, customers, corporate culture, integration as well as key employees.

There are also ethical risks related to the industries and the geographical scope where Cargotec operates in. Cargotec has increased its investments to ensure 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.

Board of Directors' proposal on the distribution of profit

The parent company's distributable equity on 31 December 2019 was EUR 911,141,801.43 of which net income for the financial year was EUR -233,978,800.57. The Board of Directors proposes to the Annual General Meeting convening on 17 March 2020 that of the distributable profit, a dividend of EUR 1.19 for each of the 9,526,089 class A shares and EUR 1.20 for each of the 54,877,751 outstanding class B shares be paid, totalling EUR 77,189,347.11. The remaining distributable equity, EUR 833,952,454.32, 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 October 2020. The first instalment of EUR 0.60 per each of class A shares and EUR 0.60 per each of class B shares outstanding shall be paid to shareholders who on the record date for dividend distribution,19 March 2020, are registered as shareholders in the company's shareholder register. The dividend payment date proposed by the Board of Directors is 26 March 2020.

The second instalment of EUR 0.59 per each of class A shares and EUR 0.60 per each of class B shares outstanding shall be paid in October 2020. 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 29 September 2020. The dividend record date for the second instalment as per the current rules of the Finnish book-entry system would thus be 01 October 2020 and the dividend payment date 08 October 2020.

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 2020

Cargotec expects its comparable operating profit for 2020 to improve from 2019 (EUR 264 million).

Annual General Meeting 2020

The Annual General Meeting of Cargotec Corporation will be held at the Marina Congress Center in Helsinki on Tuesday 17 March 2020 at 1.00 p.m. EET.

Helsinki, 5 February 2020

Cargotec Corporation
Board of Directors

Consolidated statement of income

MEUR	Note	1 Jan–31 Dec 2019	%	1 Jan–31 Dec 2018	%
Sales	2.1, 2.2	3,683.4		3,303.5	
Cost of goods sold		-2,810.3		-2,489.3	
Gross profit		873.1	23.7	814.2	24.6
Other operating income	2.3	33.5		44.8	
Selling and marketing expenses		-238.4		-234.4	
Research and development expenses		-105.6		-94.7	
Administration expenses		-269.3		-252.9	
Restructuring costs	2.4	-80.1		-53.8	
Other operating expenses	2.3	-33.8		-35.4	
Share of associated companies' and joint ventures' net income	7.2	0.6		2.3	
Operating profit	2.1, 2.3, 2.4, 3.1, 6.4	**180.0**	**4.9**	**190.0**	**5.8**
Financing income	2.5	4.0		3.4	
Financing expenses	2.5	-38.1		-32.2	
Income before taxes		**145.9**	**4.0**	**161.1**	**4.9**
Income taxes	4.1	-56.5		-53.1	
Net income for the financial year		**89.4**	**2.4**	**108.0**	**3.3**
Net income for the financial year attributable to:					
Equity holders of the parent		89.4		107.0	
Non-controlling interest		0.0		1.1	
Total		**89.4**		**108.0**	
Earnings per share for profit attributable to the equity holders of the parent:	2.6				
Earnings per share, EUR		1.39		1.66	
Diluted earnings per share, EUR		1.39		1.65	

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

Consolidated statement of comprehensive income

MEUR	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Net income for the financial year		**89.4**	**108.0**
Other comprehensive income			
Items that cannot be reclassified to statement of income:			
Actuarial gains (+) / losses (-) from defined benefit plans	3.4	-13.9	-2.1
Taxes relating to items that cannot be reclassified to statement of income	4.1	2.8	-0.1
Items that can be reclassified to statement of income:			
Gains (+) / losses (-) on cash flow hedges		2.6	-31.2
Gains (+) / losses (-) on cash flow hedges transferred to statement of income		3.9	11.5
Translation differences		11.1	-13.0
Taxes relating to items that can be reclassified to statement of income	4.1	-2.1	4.0
Other comprehensive income, net of tax		**4.5**	**-30.8**
Comprehensive income for the financial year		**93.8**	**77.3**
Comprehensive income for the financial year attributable to:			
Equity holders of the parent		93.7	76.2
Non-controlling interest		0.2	1.0
Total		**93.8**	**77.3**

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

Consolidated balance sheet

MEUR	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Goodwill	6.1	1,058.5	970.9
Other intangible assets	6.2	296.1	278.6
Property, plant and equipment	6.3	489.7	308.7
Investments in associated companies and joint ventures	7.2	120.8	99.8
Share investments	8.2	0.3	0.3
Loans receivable and other interest-bearing assets*	8.2	29.1	36.0
Deferred tax assets	4.2	131.2	137.3
Other non-interest-bearing assets	5.3, 8.2	10.3	9.5
Total non-current assets		**2,136.0**	**1,841.1**
Current assets			
Inventories	5.2	713.0	688.8
Loans receivable and other interest-bearing assets*	8.2	1.3	1.8
Income tax receivables		24.1	56.0
Derivative assets	8.2, 8.5	8.5	17.4
Accounts receivable and other non-interest-bearing assets	2.2, 5.3, 8.2	924.3	822.5
Cash and cash equivalents*	8.2, 8.3	420.2	256.3
Total current assets		**2,091.4**	**1,842.8**
Total assets		**4,227.4**	**3,683.9**

* Included in interest-bearing net debt.

MEUR	Note	31 Dec 2019	31 Dec 2018
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		-33.2	-44.2
Fair value reserves		-9.1	-13.5
Reserve for invested non-restricted equity		57.4	58.5
Retained earnings		1,247.1	1,262.5
Total equity attributable to the equity holders of the parent	3.2, 8.6	**1,424.5**	**1,425.6**
Non-controlling interest		2.8	3.0
Total equity		**1,427.3**	**1,428.5**
Non-current liabilities			
Interest-bearing liabilities*	8.2, 8.4, 9.1	953.3	717.1
Deferred tax liabilities	4.2	39.1	28.1
Pension obligations	3.4	110.4	92.3
Provisions	5.5	7.0	10.7
Other non-interest-bearing liabilities	5.4, 8.2	66.0	58.6
Total non-current liabilities		**1,175.8**	**906.8**
Current liabilities			
Current portion of interest-bearing liabilities*	8.2, 8.4, 9.1	233.0	168.4
Other interest-bearing liabilities*	8.2, 8.4	38.1	44.5
Provisions	5.5	114.3	86.7
Advances received	2.2	306.3	190.3
Income tax payables		21.1	39.6
Derivative liabilities	8.2, 8.5	11.8	5.8
Accounts payable and other non-interest-bearing liabilities	5.4, 8.2	899.8	813.5
Total current liabilities		**1,624.3**	**1,348.6**
Total equity and liabilities		**4,227.4**	**3,683.9**

* Included in interest-bearing net debt

The notes are an integral part of the consolidated financial statements

Consolidated statement of changes in equity

		Attributable to the equity holders of the parent								
MEUR	Note	Share capital	Share premium account	Translation differences	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 Jan 2019		64.3	98.0	-44.2	-13.5	58.5	1,262.5	1,425.6	3.0	1,428.5
IFRS 16 transition effect*							-9.9	-9.9	0.0	-9.9
IFRIC 23 transition effect*							-14.6	-14.6		-14.6
Restated equity 1 Jan 2019		64.3	98.0	-44.2	-13.5	58.5	1,237.9	1,401.0	3.0	1,404.0
Net income for the financial year							89.4	89.4	0.0	89.4
Cash flow hedges					4.3			4.3	0.0	4.4
Translation differences				11.0				11.0	0.1	11.1
Actuarial gains / losses from defined benefit plans	3.4, 4.1						-11.0	-11.0		-11.0
Comprehensive income for the financial year**		-	-	11.0	4.3	-	78.3	93.7	0.2	93.8
Profit distribution	8.6						-70.7	-70.7	-0.3	-71.0
Treasury shares acquired						-1.1		-1.1		-1.1
Share-based payments**	3.2						1.6	1.6		1.6
Transactions with owners of the company		-	-	-	-	-1.1	-69.1	-70.2	-0.3	-70.5
Transactions with non-controlling interests								-	0.0	0.0
Equity 31 Dec 2019		64.3	98.0	-33.2	-9.1	57.4	1,247.1	1,424.5	2.8	1,427.3

* Additional information is disclosed in notes 1.1, Accounting principles for the consolidated financial statements, and 9.4, Adoption of the new and amended IFRS standards and interpretations, impact on the financial statements.
** Net of tax.

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

		Attributable to the equity holders of the parent								
MEUR	Note	Share capital	Share premium account	Translation differences	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 Jan 2018		**64.3**	**98.0**	**-31.2**	**2.1**	**69.0**	**1,226.5**	**1,428.7**	**2.3**	**1,431.0**
Net income for the financial year							107.0	107.0	1.1	108.0
Cash flow hedges					-15.6			-15.6	0.0	-15.6
Translation differences				-13.0				-13.0	0.0	-13.0
Actuarial gains / losses from defined benefit plans	3.4, 4.1						-2.2	-2.2		-2.2
Comprehensive income for the financial year*		**-**	**-**	**-13.0**	**-15.6**	**-**	**104.8**	**76.2**	**1.0**	**77.3**
Profit distribution	8.6						-67.6	-67.6	-0.4	-68.0
Treasury shares acquired						-10.5		-10.5		-10.5
Share-based payments*	3.2						-1.2	-1.2		-1.2
Transactions with owners of the company		**-**	**-**	**-**	**-**	**-10.5**	**-68.9**	**-79.4**	**-0.4**	**-79.8**
Transactions with non-controlling interests							-	-	0.0	0.0
Equity 31 Dec 2018		**64.3**	**98.0**	**-44.2**	**-13.5**	**58.5**	**1,262.5**	**1,425.6**	**3.0**	**1,428.5**

* 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 2019	1 Jan–31 Dec 2018
Cash flow from operations before financing items and taxes			
Net income for the financial year		89.4	108.0
Depreciation, amortisation and impairment	6.4	133.8	77.2
Financing items	2.5	34.1	28.9
Taxes	4.1	56.5	53.1
Change in receivables		-69.6	-54.8
Change in payables		106.5	-49.6
Change in inventories		13.5	-54.3
Other adjustments		-3.2	17.3
Cash flow from operations before financing items and taxes		**361.1**	**125.8**
Interest received		5.3	3.1
Interest paid		-29.4	-18.6
Dividends received		-	14.0
Other financing items		14.5	-23.0
Income taxes paid		-48.1	-61.0
Net cash flow from operating activities		**303.5**	**40.2**
Net cash flow from investing activities			
Acquisitions of businesses, net of cash acquired	7.1	-109.5	-70.7
Disposals of businesses, net of cash sold	7.1	0.3	-15.5
Investments in associated companies and joint ventures	7.2	-	-0.5
Investments in fixed assets	6.2, 6.3	-68.5	-71.5
Disposals of fixed assets	2.3, 6.2, 6.3	20.8	19.1
Cash flow from investing activities, other items		6.2	1.8
Net cash flow from investing activities		**-150.6**	**-137.3**

MEUR	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Net cash flow from financing activities			
Treasury shares acquired		-2.2	-9.4
Repayments of lease liabilities	8.4	-45.5	-1.3
Proceeds from long-term borrowings	8.4	298.1	199.5
Repayments of long-term borrowings	8.4	-168.3	-83.7
Proceeds from short-term borrowings	8.4	271.6	3.4
Repayments of short-term borrowings	8.4	-257.8	-2.6
Profit distribution	8.6	-71.0	-68.0
Net cash flow from financing activities		**24.9**	**37.7**
Change in cash and cash equivalents		**177.8**	**-59.3**
Cash and cash equivalents, and bank overdrafts 1 Jan	8.3	225.5	284.7
Effect of exchange rate changes		6.6	0.1
Cash and cash equivalents, and bank overdrafts 31 Dec		**409.8**	**225.5**
Bank overdrafts 31 Dec	8.3	10.4	30.8
Cash and cash equivalents 31 Dec		**420.2**	**256.3**

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

Notes to the consolidated financial statements

1. BASIS OF PREPARATION

1.1 Accounting principles for the consolidated financial statements

General information

Cargotec Corporation (1927402-8) 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's class B shares are quoted on Nasdaq Helsinki 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 5 February 2020. 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 in 2019

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 2019 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 which may cause, for example, the sum of individual figures to deviate from the presented sum total.

Starting from 1 January 2019, Cargotec has applied the following new standards and amendments:

IFRS 16, Leases, was adopted by applying the modified retrospective transition method. The majority of the lease agreements Cargotec reported as operating leases in 2018 were converted as lease agreements recognised on the balance sheet on the adoption of IFRS 16. The transition adjustments related to the adoption of IFRS 16 resulted in a net decrease of EUR 9.9 million in retained earnings based on increases of EUR 178.1 million in interest-bearing liabilities, EUR 163.9 million in property, plant and equipment, and EUR 3.1 million in deferred tax assets, and a decrease of EUR 1.1 million in non-interest-bearing liabilities. The weighted average discount rate applied to determine the present value of lease liability was 4.3% on the date of transition.

MEUR	Reconciliation of lease liability on transition to IFRS 16
Commitments related to operating leases on 31 Dec 2018	203.2
of which related to off-balance sheet leases on 1 Jan 2019	-1.5
Additions on transition to IFRS 16 on 1 Jan 2019	6.7
Gross commitment related to new on-balance sheet leases on 1 Jan 2019	208.4
Weighted average discount rate applied in the transition	4.3%
Increase of on-balance sheet lease liabilities on 1 Jan 2019	178.1
Finance lease liabilities on 31 Dec 2018	18.5
Lease liabilities recognised on the balance sheet on 1 Jan 2019	196.6

IFRIC 23, Uncertainty over Income Tax Treatments, was adopted prospectively with the allowed transitional reliefs. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12, Income taxes, when there is uncertainty over income tax treatments. The interpretation provides guidance on how to determine whether uncertain tax treatments should be considered separately or together as a group. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation also clarifies how to consider assumptions about the examination of uncertain tax treatments by taxation authorities and measurement methods of uncertain tax positions. The reassessment of current and deferred taxes in accordance with IFRIC 23 resulted in a reduction of EUR 14.6

million in retained earnings at transition due to decreases of EUR 13.9 million in the income tax receivables and EUR 0.7 million in deferred tax assets.

The other amendments effective from 1 January 2019 had no impact on the reported figures.

Additional information about the impact of the new standards and amendments is disclosed in note 9.4, Adoption of the new and amended IFRS standards and interpretations, impact on the 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, and control is lost when this criteria is no longer met. Subsidiaries have been listed in note 7.3, 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. The difference, if any, between the consideration transferred and the fair value of net assets obtained is recognised as goodwill. Subsidiaries acquired during the financial period are included in the consolidated financial statements from the date the control is obtained, and divested subsidiaries until the date the control is lost. When control is lost, all assets and liabilities related to the disposed subsidiary are derecognised. Additionally, if relevant, the hedging result recognised in other comprehensive income by the disposed subsidiary and the translation differences related to the disposed subsidiary are reclassified to statement of income.

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 the statement of income. 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 on the balance sheet.

All intercompany transactions, receivables, liabilities, unrealised profits and distribution of profits within Cargotec are eliminated in the consolidated financial statements. The accounting principles of the 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 net assets purely based on the ownership interest held, 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, which includes goodwill and intangible assets identified on acquisition as well as the costs for acquiring or establishing the associated company or joint venture, and, subsequently, the value of investment is adjusted in accordance with changes in the net assets of the investee in proportion to Cargotec's ownership, and in accordance with the amortizations of the intangible assets identified in the acquisition. Investment in an associated company or a joint venture is derecognised when Cargotec no longer has a significant influence or joint control over the investee.

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 accounted for with equity method 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 reported only if Cargotec is committed to fulfilling the obligations of the associated company or joint venture.

Business transactions between the group and the associated companies or joint ventures are recognised in the group's financial statements only to the extent of the 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 transferred assets. The 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 monetary 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 gains and losses related to foreign currency hedges designated as hedges of sales and purchases under hedge accounting are first recognised in the statement of comprehensive income, and finally in the statement of income as adjustments to sales and purchases simultaneously with the related transactions. 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

The stand-alone financial statements of subsidiaries are reported using the currency that best reflects the operational environment of that subsidiary ("the functional currency"). In the consolidated financial statements, the statement of income and the cash flows of subsidiaries whose functional currency is other than the euro are translated into euros using the average exchange rate of the financial period, and the assets and liabilities on the 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. Intercompany loan agreements may form a part of net investment if 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 effectively form a single transaction, and within contracts, revenue recognition is determined separately for each distinct product or service. A product or service is considered to be 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 readily available resources. Therefore, a single agreement including multiple deliverable elements may include one or more distinct items of revenue. Cargotec has the main responsibility to fulfil the performance obligations, and, therefore, mainly acts as principal in its customer contracts, also when subcontractors are used.

The transaction price allocated 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. Although the variable price elements are commonly used in contracts, the project outcomes are mostly reliably predictable and the impact of variable price elements in the overall revenue recognition of projects is not determinant. The transaction price is allocated to distinct products and services in accordance with their relative fair values that are based either on list prices or expected production costs and margins, depending on the product or service.

Revenue is recognised separately for each distinct product or service either over time or at a certain point in time, based on the fulfilment of the performance obligations and how the control of the product or service is transferred to the customer. The control is considered to be transferred over time if the benefit received from performance is produced and consumed simultaneously, or if the produced performance improves an asset controlled by the customer. In addition, control is considered to be transferred over time when delivering products with a highly customised design, if it is assessed that the product is not suitable as such or with minor modifications for another customer and if Cargotec has a contractual right to a payment regarding the produced output. In other situations, revenue is recognised at the point in time when the control of the product is transferred to the customer. The timing of the transfer is primarily determined based on the transfer of risks and rewards. Depending on the type of product, the applied delivery method and the contract terms, the risks and rewards are considered to be transferred either in accordance with the applied delivery term, when the installation of the product is ready, or when the customer accepts the product.

If a customer contract is expected to be loss-making, the costs arising from the contract are estimated with the same principles that are applied to provisions and the expected loss is recognised immediately in the statement of income.

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 at a point in time 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 delivery or installation, the revenue is recognised when the product is handed over or otherwise made available to the customer. If standard products are sold with delivery but without installation, the timing of revenue recognition is stipulated by the applied delivery clause (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 to be 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 a significant amount of design work, is recognised over time by using the percentage of completion method if it is assessed that the product is not suitable as such or with minor modifications for another customer, and if Cargotec has a contractual right to a payment regarding the produced output. Due to this two-tier rule, the timing of the revenue recognition of these products is in practice determined by the payment terms of the contract. 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 contract, costs are recognised as incurred and revenues only to an extent the corresponding costs are expected to be recovered.

Revenue from sales of ready-to-use software is recognised when the software is delivered or otherwise made available to the customer. Revenue is 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. If the software sold with perpetual licence requires significant customer-specific customisation, the software licence and the customisation work are considered to be a combined performance obligation, and the related revenue is recognised by reference to the stage of completion based on the amount of work performed. If it is not possible to reliably estimate the outcome of a contract, costs are recognised as incurred and revenues only to an extent the corresponding costs are expected to be recovered. 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.

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 small-value service contracts is not assessed at an individual contract level based on the costs incurred or amount of work performed, but it is 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 with 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 outcome of a contract cannot be reliably estimated, the project costs are recognised in the statement of income during the period in which they are incurred and the revenue only to the extent that the corresponding costs are expected to be recovered. Expected contract losses are recognised as expenses 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 end 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 financing arrangements 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

Income taxes in the statement of income include group companies' taxes based on the taxable income, changes in deferred taxes and adjustments to taxes for previous periods. Income taxes based on the taxable income are calculated by using the local tax rates and laws enacted or substantively enacted at the end of the reporting period. Tax is recognised in the statement of income except to the extent that it relates to items recognised in the statement of other comprehensive income, in which case the tax is presented in the statement of other comprehensive income. Deferred taxes are calculated on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on the unutilised tax losses. Deferred tax liabilities are recognised in full and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Deferred taxes are measured with the tax rates and laws that are enacted or substantively enacted at the end of the reporting period and that are expected to apply when the asset is realised or liability settled. When there is uncertainty over an income tax treatment, Cargotec considers uncertain tax positions either separately or together as a group based on the approach that better predicts the resolution of the uncertainty. Recognised income taxes are adjusted where it is considered probable that a tax authority or competent court will not accept an uncertain tax treatment applied by Cargotec in an income tax filing. Income taxes are in that case adjusted either based on an estimate of the most likely amount or the expected weighted average value of the final tax amount, taking into account the tax authorities' expected acceptance of the chosen tax treatment.

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 fair value of 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. Goodwill is derecognised when subsidiaries are disposed of. The amount of disposed goodwill is determined in relation to the change in the value of the related reporting segment before and after the disposal, based on the value-in-use analysis, or alternatively, based on fair value less cost to sell.

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 related to intangible assets are amortised on a straight-line basis over their estimated 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, when future economic benefits are expected from the renovations, and the cost of the renovation 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 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 of items of property, plant and equipment, intangible assets, and goodwill is the fair value less costs to sell, or, if higher than that, the 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. The impairment loss can only be reversed to the 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, or 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 lives 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. The value-in-use is determined by calculating the present value of the estimated future net cash flows of the tested CGU. 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 leases property, plant and equipment in most of the countries it operates in under contracts that meet the definition of a lease. Short-term lease agreements, with contractual and expected lease periods not exceeding 12 months, are accounted for as off-balance sheet leases if there is no purchase option. Also long-term lease agreements in which the underlying leased asset is of low value are accounted for as off-balance sheet leases. Expenses related to these leases are recognised in the statement of income as incurred over the lease period.

Lease agreements which do not qualify for the short-term or low-value exemption are recognised on the balance sheet as lease liabilities and right-of-use assets at the commencement of the lease period. Lease liabilities are initially measured at present value by determining the expected reasonably certain lease payments and discounting them with an incremental borrowing rate that is determined separately for the main lease types in each relevant currency. Rent components not directly related to the leased asset are excluded from the lease value on the balance sheet. If a lease has no maturity date, the lease liability is determined based on the enforceable lease period considering the termination rights of both contractual parties. Lease payments are allocated to repayments of lease liabilities and finance charges so that a constant interest rate on the outstanding balance is obtained. Lease liability is included in the interest-bearing liabilities on the statement of financial position, and is measured at amortised cost. Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability adjusted by lease advances paid or incentives received, initial direct costs, and estimated dismantling, removal and restoration costs at the end of the lease period, if relevant. Right-of-use assets are included in the property, plant and equipment on the statement of financial position, and they are depreciated over the lease period on a straight-line basis unless the asset is expected to be fully consumed before the end of the lease term or purchased, in which case the depreciation period is determined based on the expected useful life of the asset. An off-balance sheet lease commitment becoming onerous leads to a recognition of a separate loss provision, whereas an on-balance sheet lease becoming onerous leads to an impairment of the related right-of-use asset.

Lease modifications are accounted for either as new lease contracts or as changes in the existing lease contracts depending on the type of the modification. Modifications accounted for as changes in the existing leases, and changes in the estimates applied in lease accounting, such as those related to the use of an option to prolong a lease or to purchase a leased asset, trigger a remeasurement of the lease liability and the right-of-use asset at an updated discount rate. Contractual rent changes tied to indexes also trigger a remeasurement of the lease liability and the right-of-use asset but without a change in the applied discount rate.

Leases, Cargotec as lessor

Cargotec rents out equipment under contracts that meet the definition of a lease, and are accounted for either as operating or finance leases. In an operating lease the risks and rewards incidental to ownership of an asset remain with the lessor. The leased asset is recognised on 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 determined by considering the normal depreciation policy of similar assets in own use and the planned use after the lease period.

In a finance lease the risks and rewards of ownership are substantially transferred to the lessee. The sales profit is recognised similarly to profit from an outright sale. Finance lease receivables are recognised on the 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 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.

Contract assets and liabilities

Contract assets relate to unbilled receivables from customer contracts in which revenue is recognised on an over time basis. Unbilled receivables represent the amount of revenue recognised relating to the work performed that exceeds the sum of invoicing and recognised losses. Contract assets are recognised as other non-interest-bearing receivables on the balance sheet. Contract liabilities relate to advances received from customer contracts and represent the amount of prepayments received, or invoiced, in excess of the revenue recognised. Contract liabilities are recognised as advances received on the balance sheet. Contract asset and liability balances are determined separately for each customer contract.

Financial assets

Financial assets are classified in accordance with the applied measurement principle as financial assets at amortised cost, fair value through other comprehensive income, or fair value through profit or loss. 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 are measured at amortised cost if there is no intention to sell the asset and the expected contractual cash flow from it is based on interest and repayment of the principal amount. The loans and receivables measured at amortised cost mostly consist of accounts receivable and cash and cash equivalents. Loan receivables are measured initially at fair value plus transaction costs and less expected credit losses, and subsequently at amortised cost in accordance with the effective interest method. Changes in the amount of expected credit loss are reflected in the expected cash flows included in amortised cost.

Accounts receivable are initially recognised at fair value less expected credit losses and subsequently at amortised cost less expected credit losses. Expected credit losses include two components. The first component is calculated mechanically by using a provision matrix in which the impairment is determined based on risk weights derived from the historical credit losses and the ageing analysis of customer receivables. The second credit loss component is based on a qualitative forward-looking analysis based on which additional impairment exceeding the first credit loss component can be recognised to a receivable or group of receivables. Impairments and allowances are recognised in the statement of income under cost of goods sold. Bad debts are written off when an official announcement of liquidation or bankruptcy confirming that the receivable will not be collected is received.

Financial assets are measured at fair value through other comprehensive income if the asset can be sold before it matures and the contractual cash flow from it is based on interest and repayment of principal. The financial assets included in the class are measured initially at fair value plus transaction costs and less expected credit losses, and subsequently at fair value less expected credit losses. In addition, the effective portion of fair value changes related to derivatives under hedge accounting is measured in accordance with this category throughout the hedge relationship.

Financial assets measured at fair value through profit or loss are those financial assets that do not belong to the previous classes, including equity investments, derivative instruments to which no hedge accounting is applied, and financial assets held for trading, or from which the expected contractual cash flows on initial recognition are not solely based on interest and repayment of principal. 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.

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 the cash flows from the asset expire or are transferred so that the material risks and rewards related to the ownership of the asset are 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 fair value through profit or loss and as financial liabilities recognised at amortised cost. 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 statement of income when hedge accounting is ceased.

Financial liabilities recognised at amortised cost include mainly interest-bearing liabilities and accounts payable. 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. Because the critical terms of the hedging instrument are set to match with the hedged item as closely as possible, there is typically no inefficiency.

Fair value changes of hedging instruments under effective cash flow hedge relationship are recognised through the statement of comprehensive income in the fair value reserve of equity, and under effective net investment hedges through the 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 through the statement of comprehensive income in fair value reserve or translation differences is recognised in the statement of income simultaneously with the hedged item. 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.

Guarantees

Cargotec grants and receives guarantees as part of its normal business and financing arrangements. The guarantees are normally granted on behalf of Cargotec companies and, therefore, do not give rise to additional credit risk. If and when guarantees are granted on behalf of external parties, the level of credit risk is estimated and recognised as a financial liability at fair value. The received external guarantees are hedging the credit risk related to

Cargotec's projects. Received guarantees typically hedge the credit risk related to Cargotec's contractual right to receive a payment regarding the work performed. Therefore, guarantees received in the beginning of a project are typically not recognised initially as financial assets and, subsequently, if a default occurs, only to the extent that Cargotec has a right to reimbursement for an amount higher than the related assets on the balance sheet.

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported on the 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 on 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 on 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 amended 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 that are 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 recognised for an onerous contract when the unavoidable costs required to fulfil the commitment exceed the gain to be received from the contract.

A restructuring provision is recognised 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 measured 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. Equity-settled incentives include benefits paid in shares and the portion of share benefits that is used to pay income taxes if Cargotec has an obligation to withhold them. 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 are taken into account when estimating the final amount of benefits. The estimate is updated at each closing date and changes in estimates are recorded through the statement of income.

New or amended IFRS standards and interpretations in 2020

In 2020, Cargotec will adopt the following new and amended standards and interpretations by the IASB:

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective from 1 January 2020) which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

Amendment to IFRS 3, Business Combinations* (effective from 1 January 2020). The amendment includes an updated definition of business, and guidance including an optional simplified test to conclude if IFRS 3 is applicable in an acquisition or not. Therefore, the amendment may allow a simpler accounting method for some of the future acquisitions.

Amendments to standards IAS 39, Financial Instruments: Recognition and Measurement, IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments, Disclosures (effective from 1 January 2020) include guidance for a situation in which a commonly applied benchmark interest rate is changing.

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

1.2. 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 as well as 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 every time 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 Kalmar and Hiab cash generating units are based on value-in-use calculations, and the recoverable amount of MacGregor cash generating unit is based on fair value less cost to sell calculation. These calculations require the use of estimates. On 31 December 2019, Cargotec had goodwill amounting to EUR 1,058.5 (31 Dec 2018: 970.9) million and other intangible assets with indefinite life totalling EUR 40.6 (40.6) million. Additional information on the sensitivity of the recoverable amount to assumptions used is disclosed in note 6.1, Goodwill.

Income taxes

The determination of taxes based on taxable income, deferred tax assets and liabilities, and the extent to which deferred tax assets can be recognised on the balance sheet, requires management judgement.

Cargotec is subject to income tax in several jurisdictions where there may be uncertainty over an income tax treatment and the interpretation of tax legislation requires management judgment. Cargotec assesses regularly uncertainties related to income tax treatments and where required, adjusts the recognised taxes either to an estimate of the most likely amount or the expected weighted average value of the final tax amount taking into account the tax authorities' expected acceptance of the chosen tax treatment. More information regarding taxes is presented in note 4.1, Income tax reconciliation and in note 4.2, Deferred tax assets and liabilities.

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 and returns (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 7.1, 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 3.4, Post-employment benefits.

Revenue recognition

Revenue recognition requires in many parts a use of judgment and estimates. Judgment is used for example in identification of separate units of revenue i.e. performance conditions when treating the deliverable products and services together or separately is not unambiguous. This is for example when the deliverable products and services alone do not form a functioning end-product. It is also customary that contracts with customers include variable price elements that require use of judgment in revenue recognition, especially in situations when there is no prior experience about the deliverable product or entirety. However, judgment is needed the most in determining the timing of revenue recognition.

Revenue related to long-term service contracts and separately identified construction contracts is recognised on an over time basis in accordance with the percentage of completion. Application of the percentage of completion method is allowed if the delivered machine is estimated to have no alternative use for Cargotec, and at all times during the project Cargotec has a right to payment regarding the work already performed. Revenue recognised on reporting date in accordance with the over time model is based on the cumulative costs in relation to the contract's estimated total costs, or an estimate of the construction contract's physical stage of completion. 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 2019, approximately 13.7 (2018: 12.3) percent of sales was recognised on an over time basis. Additional information is disclosed in note 2.2, Revenue recognition.

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 adjusted to reflect the current best estimate when necessary. 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 2019, provisions totalled EUR 121.3 (31 Dec 2018: 97.4) million, of which EUR 20,4 (10.9) million were restructuring provisions. Additional information about provisions is disclosed in note 5.5, 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 on the balance sheet on 31 December 2019 totalled EUR 97.9 (31 Dec 2018: 95.2) million. Additional information about inventories is disclosed in note 5.2, Inventories.

Leases

Measurement of the on-balance sheet leases partly requires a use of judgment, in particular, when determining the capitalized lease term. If a lease contract includes an option to prolong or purchase the leased asset, the decision to include or exclude the option in the value of the capitalized lease liability and right-of-use asset is based on an estimate of the likelihood to exercise the option. In practice, the probability to exercise an option is estimated from the needs of the business as part of the real estate management process and taking into account the contractual conditions, leasehold improvements made or needed, and the local market situation. Additional information about leases is disclosed in notes 9.1, Leases, and 6.3, Property, plant and equipment.

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 customer receivables at the end of the reporting period based on the expected credit losses. Expected credit loss is estimated based on systematic and continuous follow-up as part of the credit risk control that is based on both historical and forward-looking credit loss assessment. The amount of impairment in the balance sheet on 31 December 2019 totalled EUR 19.0 (31 Dec 2018: 23.1) million. Additional information regarding the impairment of accounts receivable is disclosed in note 5.3, 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 7.3, Subsidiaries. In these investments, it has been assessed that Cargotec has de facto control based on shareholder agreements. Note 7.2, Joint ventures and associated companies, 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 investments, in which Cargotec's voting rights are normally less than 20 percent. Accounting for the investment as an associated company is based on Cargotec's significant influence in the investee. In addition to the voting rights, the determination of the influence is affected by, for example, the ownership structure of the investee and Cargotec's representation in the board of directors, as well as Cargotec's significance as a customer.

2. FINANCIAL PERFORMANCE

2.1 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, service and software sales. Cargotec has refined the definition of service business for Hiab and MacGregor from the beginning of 2019 and the comparison figures of 2018 have been restated accordingly. The financial performance of the operating segments is measured through comparable operating profit and operating profit. 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 2019 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Sales						
Equipment	1,090.0	1,006.8	356.6	2,453.5	0.0	2,453.4
Services	464.0	343.2	254.9	1,062.1	-0.5	1,061.6
Software	168.5	-	-	168.5	-0.1	168.4
Total sales	**1,722.6**	**1,350.0**	**611.5**	**3,684.1**	**-0.7**	**3,683.4**
Depreciation and amortisation	63.9	28.5	22.9	115.3	9.8	125.1
Impairment charges	0.4	0.0	7.9	8.3	0.4	8.7
Share of associated companies' and joint ventures' net income	1.4	-1.7	0.4	0.0	0.6	0.6
Operating profit	**154.4**	**159.3**	**-83.3**	**230.4**	**-50.4**	**180.0**
% of sales	9.0%	11.8%	-13.6%	-	-	4.9%
Restructuring costs and other items affecting comparability	7.4	10.9	55.1	73.4	10.9	84.4
Comparable operating profit	**161.8**	**170.2**	**-28.2**	**303.8**	**-39.5**	**264.4**
% of sales	9.4%	12.6%	-4.6%	-	-	7.2%
Financing items	-	-	-	-	-	-34.1
Income before taxes	**-**	**-**	**-**	**-**	**-**	**145.9**
EBITDA	218.7	187.9	-52.5	354.1	-40.2	313.8

1 Jan–31 Dec 2018 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Sales						
Equipment	1,021.8	839.5	316.6	2,177.9	-0.8	2,177.1
Services	449.4	309.3	221.5	980.2	-0.4	979.8
Software	147.0	-	-	147.0	-0.4	146.6
Total sales	**1,618.2**	**1,148.8**	**538.1**	**3,305.1**	**-1.6**	**3,303.5**
Depreciation and amortisation	44.4	10.1	13.9	68.4	7.0	75.3
Impairment charges	1.6	0.0	0.3	1.9	-	1.9
Share of associated companies' and joint ventures' net income	3.9	-2.1	-0.2	1.5	0.8	2.3
Operating profit	**138.1**	**133.8**	**-4.2**	**267.7**	**-77.7**	**190.0**
% of sales	8.5%	11.6%	-0.8%	-	-	5.8%
Restructuring costs and other items affecting comparability	5.4	0.7	2.6	8.8	43.3	52.1
Comparable operating profit	**143.6**	**134.5**	**-1.6**	**276.5**	**-34.4**	**242.1**
% of sales	8.9%	11.7%	-0.3%	-	-	7.3%
Financing items	-	-	-	-	-	-28.9
Income before taxes	**-**	**-**	**-**	**-**	**-**	**161.1**
EBITDA	184.1	143.9	9.9	337.9	-70.7	267.2

Segment assets and liabilities

The assets and liabilities allocated to segments 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, deferred considerations on disposals 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, deferred considerations on acquisitions, dividend liabilities and derivatives designated as hedges of future treasury transactions.

31 Dec 2019 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Goodwill	338.0	226.9	493.6	1,058.5	-	1,058.5
Other intangible assets	79.8	20.9	161.8	262.5	33.6	296.1
Property, plant and equipment	282.1	121.1	63.5	466.7	23.0	489.7
Investments in associated companies and joint ventures	67.9	4.3	23.8	96.0	24.8	120.8
Share investments	-	0.0	0.0	0.0	0.2	0.3
Working capital receivables	775.0	484.7	377.4	1,637.0	24.7	1,661.7
Unallocated assets, interest-bearing	-	-	-	-	450.7	450.7
Unallocated assets, non-interest-bearing	-	-	-	-	149.6	149.6
Total assets	**1,542.7**	**857.9**	**1,120.1**	**3,520.8**	**706.6**	**4,227.4**
Working capital liabilities	726.5	312.4	402.5	1,441.5	61.9	1,503.4
Unallocated liabilities, interest-bearing*	-	-	-	-	1,224.3	1,224.3
Unallocated liabilities, non-interest-bearing	-	-	-	-	72.4	72.4
Total liabilities	**726.5**	**312.4**	**402.5**	**1,441.5**	**1,358.6**	**2,800.1**
Operative capital employed	816.2	545.5	717.6	2,079.3	44.4	2,123.7
Capital expenditure	60.7	28.5	6.6	95.7	4.4	100.2

31 Dec 2018 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Goodwill	328.1	216.7	426.1	970.9	-	970.9
Other intangible assets	82.0	38.0	121.7	241.7	36.9	278.6
Property, plant and equipment	203.7	64.2	26.9	294.7	14.0	308.7
Investments in associated companies and joint ventures	67.2	6.6	2.0	75.8	24.0	99.8
Share investments	-	0.0	0.0	0.0	0.2	0.3
Working capital receivables	746.0	452.0	310.9	1,508.9	18.1	1,527.0
Unallocated assets, interest-bearing	-	-	-	-	294.1	294.1
Unallocated assets, non-interest-bearing	-	-	-	-	204.5	204.5
Total assets	**1,426.9**	**777.5**	**887.7**	**3,092.1**	**591.9**	**3,683.9**
Working capital liabilities	633.9	283.2	286.0	1,203.0	52.5	1,255.6
Unallocated liabilities, interest-bearing*	-	-	-	-	919.6	919.6
Unallocated liabilities, non-interest-bearing	-	-	-	-	80.2	80.2
Total liabilities	**633.9**	**283.2**	**286.0**	**1,203.0**	**1,052.4**	**2,255.4**
Operative capital employed	793.0	494.3	601.7	1,889.0	40.6	1,929.7
Capital expenditure	61.2	9.9	2.3	73.4	6.9	80.3

* The unallocated interest-bearing debt on 31 Dec 2018 included the hedging of cross-currency risk relating to the USD 85 million US Private Placement bond, totalling EUR -10.3 million. The bond matured in February 2019.

Orders

	Orders received		Order book	
MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Kalmar	1,775.7	1,918.8	1,049.3	1,012.4
Hiab	1,309.8	1,259.2	406.3	453.0
MacGregor	629.7	579.6	633.3	529.9
Eliminations	-0.9	-1.4	-0.4	-0.6
Total	**3,714.3**	**3,756.2**	**2,088.6**	**1,994.6**

Number of employees

	Average		At the end of year	
	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Kalmar	5,723	5,685	5,625	5,737
Hiab	4,063	3,604	4,028	3,879
MacGregor	2,125	1,887	2,350	1,879
Corporate administration and support functions	559	413	584	492
Total	**12,470**	**11,589**	**12,587**	**11,987**

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 2019 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Finland	37.0	32.8	6.2	76.0	0.0	76.0
Other EMEA (Europe, Middle East, Africa)	758.1	688.3	242.0	1,688.4	-0.5	1,687.8
USA	506.1	443.8	71.6	1,021.5	0.0	1,021.5
Other Americas	136.9	72.2	12.2	221.3	-0.1	221.2
China	79.9	8.5	108.6	197.1	0.0	197.1
Other Asia-Pacific	204.6	104.3	170.9	479.8	0.0	479.7
Total	**1,722.6**	**1,350.0**	**611.5**	**3,684.1**	**-0.7**	**3,683.4**

1 Jan–31 Dec 2018 MEUR	Kalmar	Hiab	MacGregor	Segments total	Corporate administration, support functions and eliminations	Cargotec total
Finland	39.1	30.4	4.9	74.4	-0.3	74.1
Other EMEA (Europe, Middle East, Africa)	749.8	567.1	219.8	1,536.8	-1.0	1,535.7
USA	433.1	366.7	58.5	858.2	0.0	858.2
Other Americas	105.9	67.0	7.6	180.5	-0.1	180.4
China	86.3	13.0	86.8	186.0	0.0	186.0
Other Asia-Pacific	204.0	104.7	160.5	469.2	-0.2	469.0
Total	**1,618.2**	**1,148.8**	**538.1**	**3,305.1**	**-1.6**	**3,303.5**

Non-current assets and goodwill*

MEUR	31 Dec 2019	31 Dec 2018
Finland	134.0	109.7
Other EMEA (Europe, Middle East, Africa)	559.9	443.4
Americas	108.9	79.2
Asia-Pacific	103.8	54.8
Goodwill	1,058.5	970.9
Total	**1,965.1**	**1,658.0**

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

Capital expenditure

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Finland	10.7	7.4
Other EMEA (Europe, Middle East, Africa)	69.9	59.2
Americas	12.8	5.9
Asia-Pacific	6.7	7.8
Total	**100.2**	**80.3**

Number of employees

MEUR	31 Dec 2019	31 Dec 2018
Finland	1,043	1,012
Other EMEA (Europe, Middle East, Africa)	7,539	7,096
Americas	1,579	1,510
Asia-Pacific	2,426	2,369
Total	**12,587**	**11,987**

2.2 Revenue recognition

1 Jan–31 Dec 2019 MEUR	Kalmar	Hiab	MacGregor	Internal sales	Cargotec total
Equipment sales	1,090.0	1,006.8	356.6	0.0	2,453.4
Service sales	464.0	343.2	254.9	-0.5	1,061.6
Software sales	168.5	-	-	-0.1	168.4
Total sales	**1,722.6**	**1,350.0**	**611.5**	**-0.7**	**3,683.4**
Recognised at a point in time	1,405.0	1,339.1	435.1	-0.6	3,178.5
Recognised over time	317.6	10.9	176.4	-0.1	504.8

1 Jan–31 Dec 2018 MEUR	Kalmar	Hiab	MacGregor	Internal sales	Cargotec total
Equipment sales	1,021.8	839.5	316.6	-0.8	2,177.1
Service sales	449.4	309.3	221.5	-0.4	979.8
Software sales	147.0	-	-	-0.4	146.6
Total sales	**1,618.2**	**1,148.8**	**538.1**	**-1.6**	**3,303.5**
Recognised at a point in time	1,377.4	1,139.4	382.3	-1.6	2,897.5
Recognised over time	240.8	9.4	155.8	0.0	406.0

Contract assets and liabilities

Contract assets MEUR	2019	2018
Contract assets 1 Jan	78.1	51.7
Translation differences	1.4	-0.8
Transfers to receivables	-123.3	-299.6
Companies acquired and sold	2.5	6.4
Change in provision for doubtful accounts and impairments	0.0	-0.1
Progress, cost estimate and price adjustments	158.8	320.6
Contract assets 31 Dec	**117.4**	**78.1**
Contract assets not expected to be invoiced within the next 12 months	0.5	0.0

Contract liabilities MEUR	2019	2018
Contract liabilities 1 Jan	190.3	194.1
Translation differences	1.1	-0.7
Revenue recognised from contract liability on 1 Jan	-124.1	-154.3
Companies acquired and sold	61.1	1.4
Cash received/paid less revenue recognized	177.9	149.8
Contract liabilities 31 Dec	**306.3**	**190.3**
Contract liabilities not expected to be recognised as revenue within the next 12 months	22.5	5.2
Adjustment to sales recognized during previous years	0.1	1.3

Transaction price allocated to remaining performance obligations related to customer contracts

Transaction price allocated to remaining performance obligations related to ongoing customer contracts is on the reporting date EUR 2,088.6 (31 Dec 2018: 1,994.6) million, of which 80% (81%) is expected to be recognised as revenue during the next 12 months.

2.3 Other operating income and expenses

Other operating income

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Gain on disposal of intangible assets and property, plant and equipment	1.0	0.2
Customer finance related other income	27.2	27.3
Rental income	2.3	3.0
Income due to order cancellations	0.0	0.2
Other income	3.0	14.1
Total	**33.5**	**44.8**

Other operating expenses

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Loss on disposal of intangible assets and property, plant and equipment	0.1	0.4
Customer finance related other expenses	27.0	27.1
Expenses due to order cancellations	-	0.0
Business combinations related expenses	2.9	2.9
Other expenses	3.8	5.0
Total	**33.8**	**35.4**

Operating profit includes exchange rate differences on forward contracts designated as cash flow hedges, total EUR -3.9 (2018: -11.5) million, of which EUR -6.8 (-8.1) million in sales and EUR 2.9 (-3.4) 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 (2018: no effect).

In addition, operating profit includes EUR 0.7 (2018: -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 2019	1 Jan–31 Dec 2018
Annual audit	2.9	2.8
Tax advice	0.6	0.6
Other services	0.6	1.8
Total	**4.0**	**5.1**

The table above presents fees to PricewaterhouseCoopers globally during the year. Non-audit fees for PricewaterhouseCoopers Oy were EUR 0.4 (2018: 1.7) million during year 2019, including fees for tax related services EUR 0.0 (0.1) million and for other services EUR 0.4 (1.5) million.

2.4 Restructuring costs and other items affecting comparability

1 Jan–31 Dec 2019 MEUR	Kalmar	Hiab	MacGregor	Other	Total
Restructuring costs					
Employment termination costs	5.3	7.9	9.4	0.0	22.7
Impairments of non-current assets	0.0	-	5.9	-	5.9
Impairments of inventories	-	-0.5	20.7	-	20.1
Restructuring-related disposals of businesses*	0.3	-	0.0	-	0.4
Other restructuring costs**	1.7	3.5	16.1	9.7	31.0
Restructuring costs, total	**7.4**	**10.9**	**52.1**	**9.7**	**80.1**
Other items affecting comparability					
Expenses related to business acquisitions	-	-	3.0	1.3	4.3
Other items affecting comparability, total	**-**	**-**	**3.0**	**1.3**	**4.3**
Restructuring costs and other items affecting comparability, total	**7.4**	**10.9**	**55.1**	**10.9**	**84.4**

1 Jan–31 Dec 2018 MEUR	Kalmar	Hiab	MacGregor	Other	Total
Restructuring costs					
Employment termination costs	2.5	0.1	0.7	-0.2	3.2
Impairments of non-current assets***	1.6	-	0.6	30.0	32.2
Impairments of inventories	1.3	-	0.0	-	1.4
Restructuring-related disposals of businesses*	-8.5	-	0.1	-	-8.4
Other restructuring costs**	8.6	0.6	2.8	13.5	25.5
Restructuring costs, total	**5.4**	**0.7**	**4.3**	**43.3**	**53.8**
Other items affecting comparability					
Insurance benefits	-	-	-5.0	-	-5.0
Expenses related to business acquisitions	-	-	3.3	-	3.3
Other items affecting comparability, total	**-**	**-**	**-1.7**	**-**	**-1.7**
Restructuring costs and other items affecting comparability, total	**5.4**	**0.7**	**2.6**	**43.3**	**52.1**

* Additional information regarding disposals of businesses is presented in note 7.1, Acquisitions and disposals.

** Other restructuring costs includes contract termination costs (other than employment contracts), costs arising from outsourcing or transferring operations to new locations, maintenance costs of vacant and in the future redundant premises for Cargotec, gains and losses on sale of intangible assets and property, plant and equipment that relate to sold or discontinued operations as well as costs for the on-going group wide reorganisation of support functions. In addition, the last quarter of 2018 includes costs related to discontinuation of unprofitable product ranges in Kalmar.

*** In 2018, impairments of non-current assets included an impairment loss of EUR 30.0 million related to the impairment testing of Cargotec's investment in the associated company Jiangsu Rainbow Heavy Industries Co., Ltd (RHI), that is listed on the Shenzhen stock exchange in China.

Restructuring costs

The costs arising from restructuring measures are presented on a separate line in the consolidated statement of income. Restructuring costs are, 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 is recognised on an accrual basis in the statement of income and also paid during the financial period.

In May 2017, Cargotec announced it would target EUR 50 million annual cost savings from 2020 onwards by reducing indirect purchasing spend, streamlining processes and centralising administrative operations to Cargotec Business Services centre. Cargotec Business Services started its activities during autumn 2017 in Sofia, Bulgaria, and expanded the operations during 2018-2019. Costs that relate to this on-going group wide reorganisation of support functions are reported as employment termination costs and other restructuring costs.

MacGregor continued during 2019 to streamline its operations to adjust to the challenging market situation. Booked restructuring costs relate mainly to the integration of the marine- and offshore businesses of TTS Group ASA, acquired in the end of July, and winding down certain products in MacGregor's offshore product portfolio due to offshore market's fundamental transition from the traditional oil and gas centric business towards more renewable energy sources. From the offshore product portfolio related write downs EUR 20.7 million was booked to inventory.

Other items affecting comparability

Other items affecting comparability are reported in the statement of income either in administration expenses, other operating income or other operating expenses.

2.5 Financing income and expenses

Financing income

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Interest income on financial assets measured at amortised cost	3.8	3.2
Other financing income	0.1	0.0
Exchange rate differences, net	0.1	0.2
Total	**4.0**	**3.4**

Financing expenses

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Interest expenses on financial liabilities measured at amortised cost	17.6	19.3
Interest expenses on leases	8.1	0.3
Arrangement and commitment fees relating to interest-bearing loans	1.5	2.1
Forward contracts interest component	9.7	9.5
Other financing expenses	1.3	1.1
Total	**38.1**	**32.2**

Other financing expenses includes EUR 0.2 (2018: 0.8) million of impairment losses related to loan receivables.

Exchange rate differences included in financing income and expenses

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Exchange rate differences on interest-bearing loans and receivables	-2.4	-5.5
Exchange rate differences on derivative instruments	2.5	5.7
Total	**0.1**	**0.2**

The positive result from the cross-currency and interest rate swap designated as a cash flow hedge, totalling EUR 0.2 (2018: 1.1) million, has been recorded as an adjustment to the interest expenses on financial liabilities at amortised cost. The cross-currency and interest rate swap matured in February 2019.

2.6 Earnings per share

Earnings per share is calculated by dividing the net income attributable to the equity holders of the parent 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 3.2, Share-based payments.

	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Net income attributable to the equity holders of the parent, MEUR	89.4	107.0
Weighted average number of shares during financial period, ('000)*	64,358	64,546
Earnings per share, EUR	**1.39**	**1.66**

	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Net income attributable to the equity holders of the parent, MEUR	89.4	107.0
Weighted average number of shares during financial period, ('000)*	64,358	64,546
Effect of share-based incentive programmes, ('000)	120	143
Diluted weighted average number of shares during financial period, ('000)	64,477	64,689
Diluted earnings per share, EUR	**1.39**	**1.65**

* Due to the lock-up period in the share-based incentive programme 2017–2020 the average number of shares used in the earnings per share calculation differs from the average amount of outstanding shares.

3. EMPLOYEE BENEFITS

3.1 Personnel expenses

MEUR	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Wages and salaries		622.8	563.6
Equity-settled share-based payments	3.2	3.4	2.5
Cash-settled share-based payments	3.2	3.0	0.6
Pension costs	3.4	58.0	50.8
Other statutory employer costs		93.6	83.6
Total		**780.7**	**701.1**

Information on key management compensation is presented in note 3.3, Management remuneration. Number of employees is presented in note 2.1, Segment information.

3.2 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.

	2019	2018	2017
First year earnings criteria	Service business gross profit, Navis' sales	Service business gross profit, Navis' sales	Service business gross profit, return on capital employed, Navis' sales
Second year earnings criteria		Comparable operating profit, Navis' sales	Return on capital employed, Navis' sales
Range of reward per participant based on the level of participation and fulfilment of the earnings criteria	0–23,100 shares and cash for taxes	0–15,040 shares and cash for taxes	0–18,600 shares and cash for taxes
Expected total cost of the programme on grant date, MEUR	9.7	7.8	8.5
Initial number of participants	146	146	100
Participants fullfilling the minimum earnings criteria on 31 Dec 2017	-	-	93
Participants fullfilling the minimum earnings criteria on 31 Dec 2018	-	139	64
Participants fullfilling the minimum earnings criteria on 31 Dec 2019	144	126	63
Number of class B shares granted	291,250	184,880	183,200
Number of class B shares forfeited in 2017	-	-	8,600
Number of class B shares forfeited in 2018	-	5,630	77,151
Number of class B shares forfeited in 2019	2,300	83,175	72,938
Number of class B shares subject to vesting conditions on 31 Dec 2018	-	179,250	97,449
Number of class B shares subject to vesting conditions on 31 Dec 2019	288,950	96,075	24,511

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 incentive programme
First phase earnings criteria	Operating result, orders received, return on capital employed
Second phase additional earnings criteria	Total shareholder return
Range of first phase reward in relation to participant's annual salary	0–120%
Range of second phase earnings multiplier in relation to phase one reward	100–300%
Expected total cost of the programme on grant date, MEUR	7.3
Final cost of the programme, MEUR	6.3
Number of shares earned	66,061
Initial number of participants	84
Participants fullfilling the minimum earnings criteria on 31 Dec 2018	48
Participants fullfilling the minimum earnings criteria on 31 Dec 2019	Ended

Matching share programme 2019–2022

Matching share incentive programme for the years 2019–2022 is targeted to the members of the executive board and other key persons. Persons participating in the program make an investment to Cargotec shares at the inception of the program and receive an equivalent amount of shares in accordance with the matching share programme. The reward is granted and settled in Cargotec class B shares on top of which Cargotec pays taxes and tax-related expenses. The vesting condition related to matching shares is tied to working condition so that one third of the reward is earned annually over the three year period after which the vested shares have a lock-up period of one year except the shares vested during the last year for which there is no lock-up period. The amount of reward is restricted if during a year when its vesting conditions are met, the average price of Cargotec share exceeds 60 euros.

	2019
Earnings criteria	Service condition, shareholding condition
Range of reward per participant based on the level of participation and fulfilment of the earnings criteria	0–24,770 shares and cash for taxes
Expected total cost of the programme on grant date, MEUR	6.0
Initial number of participants	7
Participants fullfilling the minimum earnings criteria on 31 Dec 2019	7
Number of class B shares granted	98,413
Number of class B shares forfeited in 2019	-
Number of class B shares subject to vesting conditions on 31 Dec 2019	98,413

Restricted shares incentive programmes 2019

Restricted incentive programme is targeted to key persons selected by the Board of Directors. The vesting criteria in the 2019 programme is the fulfillment of a two-year service condition. Reward is granted and paid in Cargotec class B shares in addition to which Cargotec pays taxes and tax-related expenses related it. Rewards are paid after the end of the vesting period.

	2019
Earnings criteria	Service condition
Expected total cost of the programme on grant date, MEUR	0.4
Initial number of participants	3
Number of participants on 31 Dec 2019	3
Number of class B shares granted	6,516
Number of class B shares forfeited in 2019	-
Number of class B shares subject to vesting conditions on 31 Dec 2019	6,516

Restricted shares incentive programmes 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.

	2018	2017
Range of reward in relation to participant's annual salary	0–100%	0–100%
Expected total cost of the programme at grant date, MEUR	1.1	1.0
Final cost of the programme, MEUR	1.2	1.0
Initial number of participants	10	10
Participants fullfilling the minimum earnings criteria on 31 Dec 2018	10	Ended
Participants fullfilling the minimum earnings criteria on 31 Dec 2019	Ended	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	2019	2018	2019	2018
Share-based incentive programme 2017–2020	3.7	0.4	2.4	1.1
Share-based incentive programme 2014–2016	0.3	1.4	-	0.2
Matching share programme 2019-2022	2.4	-	1.1	-
Restricted shares incentive programme 2019	0.1	-	0.1	-
Restricted shares incentive programmes 2016-2018	0.4	1.0	-	0.1
Total	**6.9**	**2.9**	**3.6**	**1.4**

3.3 Management remuneration

The top management comprises the Board of Directors and the Leadership Team (the Executive Board until 25 April 2019). The remuneration paid or payable based on the work performed consists of the following:

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Wages, salaries and other short-term employee benefits	5.5	5.3
Share-based payments	3.7	1.0
Post-employment benefits	-	0.5
Total	**9.1**	**6.8**

The composition of Cargotec's Leadership Team has changed during 2019 and 2018. The remuneration of the new Leadership Team members is included in the key management compensation information from the appointment date.

The CEO and members of the Leadership Team are participants in the share-based incentive programmes. The table below summarises the number of Cargotec class B shares delivered to them based on these programmes.

	The CEO		Other members of the Leadership Team	
Number of class B shares	2019	2018	2019	2018
Share-based incentive programme 2017, earning period 2017–2018	2,325	-	4,873	-
Share-based incentive programme 2016, earning period 2016–2018	9,162	-	9,643	-
Share-based incentive programme 2015, earning period 2015–2017	-	22,693	-	28,786
Restricted shares incentive programme 2018, earning period 2018	-	-	9,050	-
Restricted shares incentive programme 2016–2018, earning period 2017	-	-	-	4,906
Total	**11,487**	**22,693**	**23,566**	**33,692**

At the end of 2019, the CEO and members of the Leadership Team are participants to the share-based incentive programme 2018 and 2019. Additionally, the CEO and five other members of the Leadership Team are participants to the matching share programme 2019-2022 and one member of the Leadership Team to restricted shares incentive programme 2019.

Further information on the incentive programmes is presented in note 3.2, Share-based payments.

The CEO is entitled to a supplemental defined contribution pension 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. No supplemental pension contributions have been paid in 2019. In 2018, a EUR 0.5 million contribution was paid to the insurance company administering the benefit. Additionally, the CEO is entitled to a statutory pension, for which a pension cost of EUR 0.1 (2018: 0.2) million was recorded in year 2019. Other Finnish members of the Leadership Team 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 Leadership Team 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 top management on 31 December 2019 or 31 December 2018.

Salaries and remunerations paid

1,000 EUR		1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Mika Vehviläinen	CEO*	1,539.8	2,862.7
Ilkka Herlin	Chairman of the Board	105.2	103.2
Tapio Hakakari	Vice Chairman of the Board	75.2	73.2
Kimmo Alkio	Member of the Board (until 19 March 2019)	3.0	53.0
Jorma Eloranta	Member of the Board	60.1	58.0
Peter Immonen	Member of the Board	58.1	58.0
Teresa Kemppi-Vasama	Member of the Board	54.0	54.0
Johanna Lamminen	Member of the Board	54.0	54.0
Kaisa Olkkonen	Member of the Board	59.0	59.0
Teuvo Salminen	Member of the Board	74.0	73.0
Heikki Soljama	Member of the Board	53.0	54.0

* Year 2019 includes, in addition to the base salary, fringe benefits and short-term incentive payout, also taxable income from share-based incentive programme 2016 and 2017. Year 2018 includes, in addition to the base salary, fringe benefits and short-term incentive payout, also taxable income from the share-based incentive programme 2015.

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

3.4 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	2019	2018
Present value of unfunded obligations	100.2	83.6
Present value of funded obligations	42.0	40.3
Fair value of benefit plan assets	36.1	33.3
Net liability	**106.0**	**90.6**
Net liability on balance sheet	110.4	92.3
Net asset on balance sheet	4.4	1.7
Expense related to defined contribution plans	51.0	44.1
Expense related to defined benefit plans and other post-employment benefits	7.0	6.7
Expense in the statement of income	**58.0**	**50.8**
Remeasurement of defined pension benefits and other post-employment benefits	-13.9	-2.1
Remeasurement in the statement of comprehensive income	**-13.9**	**-2.1**

Expected contributions to defined benefit plan assets during the next reporting period is EUR 2,0 (31 Dec 2018: EUR 1.4) million. The weighted average duration of the defined benefit obligations was 16.2 (15.9) years.

Reconciliation of the net defined benefit obligation

MEUR	Present value of plan obligation	Fair value of plan assets	Total
1 Jan 2019	123.9	-33.3	90.6
Current service cost	5.0	-	5.0
Interest expense (+) / income (-)	2.9	-0.9	2.0
Past service cost	0.0	-	0.0
Remeasurements:			
Return on plan assets, excluding amounts of interest	-	-1.8	-1.8
Actuarial gain (-) / loss (+) from change in demographic assumptions	-0.5	-	-0.5
Actuarial gain (-) / loss (+) from change in financial assumptions	14.9	-	14.9
Experience adjustment gain (-) / loss (+)	1.4	-	1.4
Foreign exchange rate gains (-) / losses (+)	0.2	-1.0	-0.9
Contributions by employer	-	-2.2	-2.2
Contributions by plan participants	0.2	0.0	0.2
Benefits paid	-6.1	3.1	-3.1
Settlements	-0.1	0.0	-0.1
Companies acquired and sold	0.4	-	0.4
31 Dec 2019	**142.1**	**-36.1**	**106.0**

MEUR	Present value of plan obligation	Fair value of plan assets	Total
1 Jan 2018	123.6	-36.5	87.2
Current service cost	4.5	-	4.5
Interest expense (+) / income (-)	2.8	-0.8	2.0
Past service cost	0.3	-	0.3
Remeasurements:			
Return on plan assets, excluding amounts of interest	-	1.2	1.2
Actuarial gain (-) / loss (+) from change in demographic assumptions	-1.0	-	-1.0
Actuarial gain (-) / loss (+) from change in financial assumptions	2.4	-	2.4
Experience adjustment gain (-) / loss (+)	-0.6	-	-0.6
Foreign exchange rate gains (-) / losses (+)	-1.3	0.2	-1.1
Contributions by employer	-	-1.6	-1.6
Contributions by plan participants	0.0	0.0	0.0
Benefits paid	-4.9	1.5	-3.3
Settlements	-2.5	2.6	0.1
Companies acquired and sold	0.5	0.0	0.5
31 Dec 2018	**123.9**	**-33.3**	**90.6**

Allocation of plan assets and liabilities geographically

MEUR	Sweden	United Kingdom	Norway	Other countries	Total
Present value of plan liability:					
2019	97.5	18.3	6.3	20.0	142.1
2018	81.7	18.2	6.0	18.0	123.9
Fair value of plan assets:					
2019	6.1	22.2	3.9	3.9	36.1
2018	5.6	19.8	4.1	3.9	33.3

Allocation of plan assets

MEUR	2019	2018
Debt instruments	3.2	1.6
Investment funds	9.0	8.2
Qualifying insurance policies	2.4	4.5
Equity instruments	3.1	3.1
Other assets	18.4	16.0
Total plan assets	**36.1**	**33.3**

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 2019 (2018)	1.5 (2.4)	1.9 (2.6)	1.8 (2.6)	1.6 (1.9)
Expected rate of salary increases 2019 (2018)	2.0 (2.3)	2.8 (2.9)	2.3 (2.7)	2.2 (3.8)
Expected pension growth rate 2019 (2018)	2.0 (2.0)	1.8 (3.4)	1.3 (0.8)	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.

Sensitivity analysis of the relevant actuarial assumptions' impact on defined benefit obligation

MEUR	2019	2018
0.5%-point increase in the principal assumption		
Discount rate	-7.8	-8.3
Expected rate of salary increases	3.3	2.8
Expected pension growth rate	5.4	5.4
0.5%-point decrease in the principal assumption		
Discount rate	8.9	9.5
Expected rate of salary increases	-2.8	-2.5
Expected pension growth rate	-4.9	-4.8
Change in the life expectancy		
Effect of 1 year increase in the life expectancy	3.9	3.7
Effect of 1 year decrease in the life expectancy	-3.9	-3.7

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 88 (31 Dec 2018: 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.

4. INCOME TAXES

4.1 Income tax reconciliation

Taxes in statement of income

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Current year tax expense	45.4	35.2
Change in current year's deferred tax assets and liabilities	8.9	18.3
Tax expense for previous years	2.2	-0.4
Total	**56.5**	**53.1**

Reconciliation of effective tax rate

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Income before taxes	145.9	161.1
Tax calculated at Finnish tax rate (20%)	29.2	32.2
Effect of different tax rates in foreign subsidiaries	4.1	7.2
Tax expense for previous years	2.2	-0.4
Tax-exempt income and non-deductible expenses	3.7	2.1
Realisability of deferred tax assets	18.0	5.8
Effect of changes in tax rates	-1.1	4.6
Other	0.4	1.5
Total taxes in statement of income	**56.5**	**53.1**
Effective tax rate, %	38.7	32.9

Taxes relating to components of other comprehensive income

	1 Jan–31 Dec 2019			1 Jan–31 Dec 2018		
MEUR	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Cash flow hedges	6.5	-2.1	4.4	-19.7	4.0	-15.6
Translation differences	11.1	-	11.1	-13.0	-	-13.0
Actuarial gains (+) / losses (-) from defined benefit plans	-13.9	2.8	-11.0	-2.1	-0.1	-2.2
Total other comprehensive income	**3.7**	**0.7**	**4.5**	**-34.7**	**4.0**	**-30.8**

4.2 Deferred tax assets and liabilities

2019 MEUR	1 Jan	IFRS 16 and IFRIC 23, transition effect*	Recognised in statement of income	Recognised in other comprehensive income	Companies acquired and sold	Translation differences	31 Dec
Deferred tax assets							
Intangible and tangible assets	67.0	3.1	2.6	-	0.6	0.2	73.5
Inventories	20.2	-	0.3	-	-	0.1	20.6
Provisions and accruals	21.2	-	3.4	-	-	0.2	24.8
Tax losses and credits carried forward	50.8	-0.7	-8.9	-	-	0.2	41.4
Other temporary differences	19.2	-	-2.4	0.8	0.3	0.0	18.1
Deferred tax assets total	178.4	2.4	-5.0	0.8	0.9	0.8	178.3
Offset against deferred tax liabilities**	-41.0	-	-6.0	-	-	-0.1	-47.1
Deferred tax assets, net	**137.3**	**2.4**	**-11.0**	**0.8**	**0.9**	**0.7**	**131.2**
Deferred tax liabilities							
Intangible and tangible assets	57.9	0.0	6.7	-	6.9	0.5	72.1
Other temporary differences	11.2	-	0.6	0.1	2.0	0.1	14.0
Deferred tax liabilities total	69.1	0.0	7.4	0.1	8.9	0.7	86.2
Offset against deferred tax assets**	-41.0	-	-6.0	-	-	-0.1	-47.1
Deferred tax liabilities, net	**28.1**	**0.0**	**1.3**	**0.1**	**8.9**	**0.6**	**39.1**
Deferred taxes, net asset	**109.3**	**2.4**	**-12.3**	**0.7**	**-8.0**	**0.1**	**92.2**

* Additional information is disclosed in notes 1.1, Accounting principles for the consolidated financial statements, and 9.4, Adoption of the new and amended IFRS standards and interpretations, impact on the financial statements.

** Deferred tax assets and liabilities are offset for presentation purposes when there is a legally enforceable right to offset income tax receivables against income tax payables and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

2018 MEUR	1 Jan	Recognised in statement of income	Recognised in other comprehensive income	Companies acquired and sold	Translation differences	31 Dec
Deferred tax assets						
Intangible and tangible assets	65.9	0.8	-	0.3	0.1	67.0
Inventories	24.6	-5.6	-	1.0	0.1	20.2
Provisions and accruals	27.8	-6.8	-	0.1	0.1	21.2
Tax losses and credits carried forward	62.0	-10.3	-	-0.1	-0.8	50.8
Other temporary differences	20.6	-3.7	2.1	-	0.3	19.2
Deferred tax assets total	200.8	-25.7	2.1	1.3	-0.2	178.4
Offset against deferred tax liabilities**	-50.3	7.8	1.3	-	0.2	-41.0
Deferred tax assets, net	**150.4**	**-17.9**	**3.4**	**1.3**	**0.1**	**137.3**
Deferred tax liabilities						
Intangible and tangible assets	47.7	-0.8	-	10.1	0.8	57.9
Other temporary differences	15.3	-1.9	-1.9	-0.2	-0.1	11.2
Deferred tax liabilities total	63.1	-2.6	-1.9	9.9	0.6	69.1
Offset against deferred tax assets**	-50.3	7.8	1.3	-	0.2	-41.0
Deferred tax liabilities, net	**12.7**	**5.2**	**-0.6**	**9.9**	**0.9**	**28.1**
Deferred taxes, net asset	**137.7**	**-23.1**	**4.0**	**-8.6**	**-0.8**	**109.3**

** Deferred tax assets and liabilities are offset for presentation purposes when there is a legally enforceable right to offset income tax receivables against income tax payables and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Deferred tax assets are recognised for tax losses and credits 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 2019, Cargotec had EUR 316.5 (31 Dec 2018: 127.8) million of tax losses and credits carried forward for which no deferred tax assets were recognised because the realisation of the tax benefit is not probable. Tax losses and credits of EUR 19.0 (31 Dec 2018: 16.3) million will expire during the next five years and EUR 297.4 (31 Dec 2018: 111.6) million have no expiry date or will expire after five years. Unrecognised tax losses and credits relate mainly to Norway and Germany.

As of 31 December 2019, Cargotec had reduced income tax assets recorded by net amount of EUR 15.9 (31 Dec 2018: 0) million to reflect uncertainty related to income taxes. The matter mainly relates to the non-acceptance of tax deductions for which Cargotec may appeal and claim a tax refund.

A deferred tax liability on undistributed profits of subsidiaries located in countries where distribution generates tax consequences is recognised when it is likely that the earnings will be distributed in the foreseeable future. On 31 December 2019, Cargotec had EUR 450.1 (31 Dec 2018: 745.4) million of undistributed profits for which no deferred tax liability was recognised.

5. NET WORKING CAPITAL

5.1 Net working capital

MEUR	Note	31 Dec 2019	31 Dec 2018
Inventories	5.2	713.0	688.8
Operative derivative assets		17.9	9.2
Accounts receivable	5.3	670.9	626.3
Other operative non-interest-bearing assets		260.0	202.7
Working capital receivables		**1,661.7**	**1,527.0**
Provisions	5.5	-121.3	-97.4
Advances received	2.2	-306.3	-190.3
Operative derivative liabilities		-18.5	-18.9
Accounts payable	5.4	-438.7	-424.2
Pension obligations	3.4	-110.4	-92.3
Other operative non-interest-bearing liabilities		-508.1	-432.5
Working capital liabilities		**-1,503.4**	**-1,255.6**
Net working capital		**158.3**	**271.4**

Assets and liabilities unallocated to business operations are not included in net working capital. Unallocated assets comprise loans and other interest-bearing receivables, cash and cash equivalents, income tax receivables, deferred tax assets, deferred interests, deferred considerations on disposals 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, deferred considerations on acquisitions, dividend liabilities and derivatives designated as hedges of future treasury transactions.

5.2 Inventories

MEUR	31 Dec 2019	31 Dec 2018
Raw materials and supplies	265.8	277.0
Work in progress	205.8	185.9
Finished goods	196.7	193.1
Advance payments paid for inventories	44.8	32.8
Total	**713.0**	**688.8**

Obsolescence provision of inventories to net realisable value was EUR 97.9 (31 Dec 2018: 95.2) million at the end of period.

Impairment of inventories included in restructuring costs is presented in note 2.4, Restructuring costs and other items affecting comparability.

5.3 Accounts receivable and other non-interest-bearing receivables

MEUR	Note	31 Dec 2019	31 Dec 2018
Non-Current			
Non-current non-interest-bearing assets	8.2	10.3	9.5
Current			
Accounts receivable	8.2	670.9	626.3
Unbilled receivables from customer contracts	8.2	117.4	78.1
VAT receivable		80.0	71.7
Deferred interests	8.2	0.1	1.6
Other deferred assets		55.9	44.7
Total current		**924.3**	**822.5**
Total accounts receivable and other non-interest-bearing receivables		**934.6**	**832.0**

Expected credit losses from trade receivables and contract assets

31 Dec 2019 MEUR	Gross value	Expected credit losses: Based on historical risk assessment	Expected credit losses: Based on forward-looking risk assessment	Average rate of allowance	Net value on balance sheet
Unbilled receivables and accounts receivable not due	613.8	-0.4	-0.3	0%	613.1
1–90 days overdue	126.5	-0.9	-0.6	-1%	125.0
91–360 days overdue	45.5	-4.6	-1.3	-13%	39.6
Over 360 days overdue	21.6	-6.4	-4.6	-51%	10.5
Total	**807.3**	**-12.3**	**-6.7**	**-2%**	**788.3**

31 Dec 2018 MEUR	Gross value	Expected credit losses: Based on historical risk assessment	Expected credit losses: Based on forward-looking risk assessment	Average rate of allowance	Net value on balance sheet
Unbilled receivables and accounts receivable not due	517.4	-0.4	0.0	0%	517.0
1–90 days overdue	149.6	-1.1	-0.1	-1%	148.3
91–360 days overdue	40.1	-4.7	-1.5	-15%	34.0
Over 360 days overdue	20.4	-9.0	-6.1	-74%	5.2
Total	**727.5**	**-15.3**	**-7.8**	**-3%**	**704.4**

Movement in the loss allowance for trade receivables and contract assets during the period

MEUR	Credit loss allowance 2019	Credit loss allowance 2018
Allowance 1 Jan	23.1	22.2
Companies acquired and sold	0.7	0.9
Increase of allowance	13.2	14.2
Use of allowance	-7.5	-1.7
Reversed allowance	-10.5	-12.3
Other changes	0.1	-0.3
Balance 31 Dec	**19.0**	**23.1**

Credit losses recognised in the statement of income

MEUR	Credit loss allowance 2019	Credit loss allowance 2018
Movement in the loss allowance during the period	2.7	1.9
Directly recognised credit losses	2.5	1.6
Total	**5.2**	**3.5**

5.4 Accounts payable and other non-interest-bearing liabilities

MEUR	Note	31 Dec 2019	31 Dec 2018
Non-current			
Buy-back obligations from customer finance arrangements	8.2	60.4	54.8
Other non-interest-bearing liabilities	8.2	5.6	3.8
Total non-current		**66.0**	**58.6**
Current			
Accounts payable	8.2	438.7	424.2
Accrued salaries, wages and employment costs		65.0	55.2
Late cost reservations		77.6	48.1
Cost accruals related to construction contracts		49.9	42.2
Prepaid rents from customer finance arrangements		61.5	49.5
Accrued interests	8.2	9.4	13.1
Liabilities related to business combinations	8.2	7.6	0.9
Other accrued expenses		190.1	180.2
Total current		**899.9**	**813.5**
Total accounts payable and other non-interest-bearing liabilities		**965.9**	**872.1**

5.5 Provisions

2019 MEUR	Product warranties	Claims	Restructuring	Onerous contracts	Others	Total
Provisions 1 Jan	70.9	3.7	10.9	9.9	2.0	97.4
Translation differences	0.2	0.1	0.0	0.0	0.0	0.3
Increases	22.9	3.2	19.8	2.9	4.0	52.8
Companies acquired and sold	10.0	3.9	-	10.6	1.1	25.6
Provisions used	-18.6	-0.7	-10.0	-7.9	-2.1	-39.3
Reversals of provisions	-10.8	-2.3	-0.4	-1.5	-0.6	-15.6
Provisions 31 Dec	**74.6**	**7.9**	**20.4**	**14.0**	**4.4**	**121.3**

2018 MEUR	Product warranties	Claims	Restructuring	Onerous contracts	Others	Total
Provisions 1 Jan	75.9	6.8	30.3	5.7	1.9	120.6
Translation differences	-0.1	0.1	-0.3	-0.1	0.0	-0.4
Increases	23.5	3.8	8.5	10.0	0.4	46.1
Companies acquired and sold	0.4	-	-	0.5	0.2	1.0
Provisions used	-14.8	-0.4	-25.6	-2.6	-0.2	-43.6
Reversals of provisions	-13.8	-6.6	-2.0	-3.5	-0.3	-26.2
Provisions 31 Dec	**70.9**	**3.7**	**10.9**	**9.9**	**2.0**	**97.4**

MEUR	31 Dec 2019	31 Dec 2018
Non-current provisions	7.0	10.7
Current provisions	114.3	86.7
Total	**121.3**	**97.4**

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.

Claims include items related to product claims and legal disputes. 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 2.4, Restructuring costs and other items affecting comparability.

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. More information on estimation of provisions can be found in note 1.2, Estimates and assumptions requiring management judgement.

6. INTANGIBLE AND TANGIBLE ASSETS

6.1 Goodwill

MEUR	2019	2018
Book value 1 Jan	970.9	986.7
Translation differences	2.5	-6.5
Companies acquired	85.1	28.4
Companies sold	-	-37.8
Other changes	-	0.0
Book value 31 Dec	**1,058.5**	**970.9**

Impairment testing of goodwill

MEUR	31 Dec 2019	31 Dec 2018
Kalmar	338.0	328.1
Hiab	226.9	216.7
MacGregor	493.6	426.1
Total	**1,058.5**	**970.9**

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 primarily based on the value-in-use calculations but because the value-in-use calculation of MacGregor indicated impairment of goodwill in 2019, the recoverable amount of MacGregor is additionally determined based on the fair value less costs to sell. In both models, the recoverable amount is determined from future cash flow projections that are based on the strategic plans approved by the top management and the Board of Directors. The main difference between the models is that the fair value model reflects assumptions that market participants would apply in pricing the asset, and, therefore, for example the planned efficiency improvements can be taken into account at an earlier phase than in the model based on value-in-use to the extent it can be assumed that similar benefits from efficiency improvements would be available to a market participant. In addition, the value-in-use model is based on pre-tax cash flows whereas the fair value less cost to sell model is based on post-tax cash flows. Cash flow forecasts cover five years, of which the ending year is used to derive the terminal value. The value of the ending year of the forecast period is determined by extrapolating it based on the average development over the past years and the esimated development over the forecasted period, by taking into account the cyclical nature of the CGU's business. Cash flows beyond the forecast horizon have been projected using a growth rate that is based on an estimate of the long-term growth rate of the industries, taking into account the OECD long-term growth projections but capped by the level of risk-free rate used in the calculations. Long-term growth rates have been 1.8 (2018: 2.0) percent for Kalmar, 0.8 (2018: 2.0) percent for Hiab, and 1.6 (2018: 2.0) percent for MacGregor.

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 estimating 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 in the cash flow projections due to its lower cyclicity 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. The efficiency improvements over the past years in Kalmar and Hiab have affected positively in financial performance, and the ongoing profit improvement programmes are expected to further improve the profitability in the coming years. MacGregor has continued streamlining its operations in adapting to the difficult market conditions. Additionally, the acquisition of TTS is expected to result in significant synergy benefits. Cash flow projections in the analyses 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 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 a risk-free interest rate based on average of government bond yields weighted by the sales of cash generating unit in respective countries, market risk premium, comparable peer industry beta, gearing and credit spread. In the impairment testing based on value-in-use, the WACC is determined on a pre-tax basis whereas and in the impairment testing based on fair value less cost to sell, the WACC is determined on a post-tax basis. The discount rate used in the impairment testing has been determined otherwise similarly as in previous year except that in determining the risk-free rate, the government bonds with negative yields have been adjusted to zero, and a higher market risk premium than before has been applied to partly offset the impact of significant decline in the government bond yields. The discount rate (WACC) used for Kalmar was 10.4 (2018: 11.9) percent, for Hiab 9.6 (10.4) percent and for MacGregor 7.4 (10.3) percent. Discount rates have declined from previous year mainly because of the decrease in the government bond yields. Additionally, reason for the decrease in MacGregor's discount rate is that, due to the change in the applied impairment model, in 2019 it has been determined on a post-tax basis whereas in 2018 on a pre-tax basis. For Kalmar and Hiab, WACC has been determined on a pre-tax basis during both years.

As a result of the impairment tests performed no impairment loss has been recognised in 2019 or in 2018.

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 2019 and 2018 indicated no risk of impairment for the Hiab and Kalmar segments. The results of MacGregor segment's sensitivity analysis are presented in the table below.

MacGregor goodwill sensitivity analysis

		Sensitivity analysis scenarios and results		
	Recoverable amount in excess of book value, MEUR	WACC +2%	Sales -10% and operating profit -2%	Sales -10%, operating profit -2% and WACC + 2%
31 Dec 2019	170.0	Impairment*	Impairment**	Impairment
31 Dec 2018	370.0	No impairment	No impairment	Impairment***

* Threshold for impairment was WACC + 1.2%
** Threshold for impairment was sales -10% and operating profit -0.8%
*** Threshold for impairment was sales -10%, operating profit -1.1%, and WACC +2%

6.2 Other intangible assets

2019 MEUR	Developed technology	Acquired technology	Customer relationships and trademarks	Others*	Total
Acquisition cost 1 Jan	122.2	91.2	284.1	11.6	509.0
Translation differences	-0.2	0.5	2.2	0.5	3.1
Additions	0.0	0.4	-	4.0	4.4
Disposals	-7.2	-0.9	0.0	0.7	-7.4
Reclassifications	12.1	13.8	-10.2	-7.2	8.6
Companies acquired and sold	14.0	12.8	21.0	0.0	47.8
Acquisition cost 31 Dec	**140.9**	**117.8**	**297.1**	**9.7**	**565.6**
Accumulated amortisation and impairment 1 Jan	-74.0	-66.6	-84.6	-5.3	-230.4
Translation differences	0.0	-0.3	-0.9	-0.5	-1.6
Amortisation during the financial period	-10.9	-7.1	-14.8	-0.1	-32.9
Impairment charges	-4.8	0.0	-	-0.9	-5.6
Disposals	7.2	0.8	0.0	-0.7	7.3
Reclassifications	1.2	-1.8	-	0.0	-0.6
Companies acquired and sold	-5.6	0.0	0.0	-	-5.6
Accumulated amortisation and impairment 31 Dec	**-86.9**	**-75.0**	**-100.2**	**-7.4**	**-269.5**
Book value 31 Dec	**54.0**	**42.8**	**196.9**	**2.3**	**296.1**

* Includes mainly intangible assets under construction.

2018 MEUR	Developed technology	Acquired technology	Customer relationships and trademarks	Others*	Total
Acquisition cost 1 Jan	109.0	78.3	245.8	20.0	453.1
Translation differences	-0.2	0.0	2.6	0.0	2.4
Additions	0.2	0.6	0.4	6.5	7.7
Disposals	0.0	-0.3	0.1	-0.1	-0.2
Reclassifications	13.2	3.6	-1.5	-14.8	0.5
Companies acquired and sold	-	8.9	36.7	-	45.6
Acquisition cost 31 Dec	**122.2**	**91.2**	**284.1**	**11.6**	**509.0**
Accumulated amortisation and impairment 1 Jan	-63.4	-54.8	-70.0	-4.1	-192.3
Translation differences	0.0	-0.1	-1.1	0.0	-1.2
Amortisation during the financial period	-10.4	-5.6	-13.2	-0.2	-29.4
Impairment charges	-	-	-	-1.6	-1.6
Disposals	-	0.2	-0.1	0.1	0.1
Reclassifications	-0.2	-0.6	-	0.6	-0.2
Companies acquired and sold	-	-5.8	-0.2	-	-6.0
Accumulated amortisation and impairment 31 Dec	**-74.0**	**-66.6**	**-84.6**	**-5.3**	**-230.4**
Book value 31 Dec	**48.2**	**24.6**	**199.5**	**6.4**	**278.6**

* 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 6.1, Goodwill. On 31 December 2019, the book value of the intangible assets with indefinite useful life amounted to EUR 40.6 (31 Dec 2018: 40.6) 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.

6.3 Property, plant and equipment

	Owned assets				Right-of-use assets		
2019 MEUR	Land and buildings	Machinery and equipment	Equipment leased to others	Others*	Land and buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	214.9	297.3	165.4	5.5	20.8	8.1	712.0
IFRS 16 transition effect**					133.3	30.6	163.9
Acquisition cost 1 Jan, adjusted	214.9	297.3	165.4	5.5	154.1	38.7	875.9
Translation differences	2.0	0.8	1.1	0.0	0.7	0.3	4.9
Additions	2.5	20.1	38.8	9.0	12.9	12.5	95.7
Disposals	-9.6	-5.3	-27.3	-1.2	-3.9	-2.5	-49.8
Reclassifications	2.9	5.3	13.5	-8.9	-0.2	0.2	12.9
Companies acquired and sold	4.8	13.1	-	-	6.5	2.5	26.9
Acquisition cost 31 Dec	**217.6**	**331.3**	**191.5**	**4.3**	**170.1**	**51.7**	**966.5**
Accumulated depreciation and impairment 1 Jan	-91.2	-236.4	-64.7	0.0	-3.7	-7.3	-403.3
Translation differences	-0.7	-0.4	-0.4	0.0	-0.1	0.0	-1.7
Depreciation during the financial period	-6.3	-18.4	-25.0	-	-27.3	-15.3	-92.3
Impairment charges	-0.4	0.1	-	-	-2.7	0.0	-3.1
Disposals	4.9	4.4	15.8	0.0	1.9	1.8	28.7
Reclassifications	0.0	0.0	6.3	-	0.0	0.0	6.3
Companies acquired and sold	-0.7	-10.8	-	-	-	0.0	-11.5
Accumulated depreciation and impairment 31 Dec	**-94.5**	**-261.5**	**-68.0**	**0.0**	**-32.0**	**-20.8**	**-476.7**
Book value 31 Dec	**123.1**	**69.8**	**123.5**	**4.3**	**138.1**	**30.9**	**489.7**

* Includes mainly assets under construction and advance payments.
** Additional information is disclosed in notes 1.1, Accounting principles for the consolidated financial statements, and 9.4, Adoption of the new and amended IFRS standards and interpretations, impact on the financial statements.

2018 MEUR	Owned assets Land and buildings	Machinery and equipment	Equipment leased to others	Others*	Right-of-use assets Land and buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	219.1	288.6	168.0	4.9	12.3	9.7	702.5
Translation differences	0.3	-2.1	-0.7	0.1	-0.4	-0.2	-2.9
Additions	6.6	12.3	33.9	10.8	8.8	0.2	72.6
Disposals	-2.8	-11.4	-36.5	-0.3	0.0	-1.4	-52.5
Reclassifications	4.9	5.7	0.8	-10.8	0.0	-0.3	0.3
Companies acquired and sold	-13.3	4.3	-	0.8	-	0.1	-8.1
Acquisition cost 31 Dec	**214.9**	**297.3**	**165.4**	**5.5**	**20.8**	**8.1**	**712.0**
Accumulated depreciation and impairment 1 Jan	-87.7	-229.2	-63.4	0.0	-3.5	-7.9	-391.7
Translation differences	-0.6	1.7	0.3	0.0	0.0	0.1	1.5
Depreciation during the financial period	-6.4	-17.2	-21.3	-	-0.2	-0.8	-45.9
Impairment charges	-0.1	-0.2	-	-	-	-	-0.3
Disposals	1.3	10.8	19.8	-	0.0	1.3	33.2
Reclassifications	-0.5	1.1	-0.1	-	-	0.0	0.6
Companies acquired and sold	2.8	-3.3	-	-	-	0.0	-0.5
Accumulated depreciation and impairment 31 Dec	**-91.2**	**-236.4**	**-64.7**	**0.0**	**-3.7**	**-7.3**	**-403.3**
Book value 31 Dec	**123.7**	**60.9**	**100.8**	**5.4**	**17.0**	**0.9**	**308.7**

* Includes mainly assets under construction and advance payments.

6.4 Depreciation, amortisation and impairment charges

Depreciation, amortisation and impairment by function

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Cost of goods sold	64.4	36.5
Sales and marketing	17.7	13.8
Research and development	10.5	10.7
Administration	32.9	14.0
Restructuring	8.1	2.2
Other	0.2	0.0
Total	**133.8**	**77.2**

Depreciation, amortisation and impairment charges by asset type are disclosed in notes 6.1, Goodwill, 6.2, Other intangible assets, and 6.3, Property, plant and equipment.

7. GROUP STRUCTURE

7.1 Acquisitions and disposals

Acquisitions in 2019

MacGregor acquired on 31 July 2019 the marine and offshore businesses of the Norwegian listed company TTS Group ASA ("TTS") at a consideration of EUR 57.9 million. The preliminary purchase price was paid to the seller on acquisition date, but the final purchase price is still being specified in accordance with the purchase price mechanism agreed in the purchase contract. At the time of reporting, there is a difference of opinion between the parties regarding the final purchase price. The acquisition strengthens MacGregor's product portfolio and market position in the main cargo and load handling markets, and related services. Additionally, significant synergy benefits are expected to be obtained from the transaction. The acquired entities are operating in more than 10 countries from which China, Germany, Norway and Sweden are the most significant ones. The acquired businesses consist of 19 fully owned subsidiaries and three 50% owned joint ventures in China. The integration of the joint ventures is subject to temporary restrictions set by the competition authorities. As a result of the acquisition, approximately 580 employees transferred to Cargotec. The result of TTS has been consolidated into MacGregor segment from the beginning of August 2019 after which TTS has contributed EUR 49.9 million to Cargotec's sales and EUR -1.3 million to operating profit. Had TTS been acquired on 1 January 2019, it would have increased Cargotec's full year sales by approximately EUR 119.8 million and decreased operating profit by approximately EUR 3.2 million. In total EUR 2.9 million of costs related to TTS acquisition have been included in the operating profit of MacGregor segment and in other operating expenses on Cargotec's statement of income in 2019. These costs are not included in MacGregor's comparable operating profit.

Consolidation of the acquired businesses and measurement of intangible assets and goodwill recognised in the acquisition are provisional as of reporting date as the related valuations are ongoing. 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 expected synergy benefits and personnel.

Acquired net assets and goodwill, TTS, MEUR	
Intangible assets	50.3
Property, plant and equipment	15.9
Investments in associated companies and joint ventures	21.7
Inventories	60.4
Accounts receivable and other non-interest-bearing assets	25.8
Cash and cash equivalents	24.8
Deferred tax assets	0.8
Accounts payable and other non-interest-bearing liabilities	-109.5
Interest-bearing liabilities	-78.8
Deferred tax liabilities	-11.3
Net assets	**-0.1**
Purchase price, payable in cash	57.9
Total consideration	**57.9**
Goodwill	**58.0**
Purchase price, paid in cash	56.6
Cash and cash equivalents acquired, including overdrafts	44.7
Cash flow impact	**101.3**

Navis, part of Kalmar, acquired on 19 December 2019 the assets of Jade Logistics based in New Zealand at a consideration of EUR 4.3 million, and the transaction is accounted for as a business combination. The main asset acquired, Master Terminal, is a terminal operating system (TOS) that can be used in managing various types of cargo. With the acquired software Navis is better positioned to support terminals managing wide variety of cargo types beyond containers. The result of acquired business is consolidated into Kalmar segment from beginning of January 2020. Consolidation of the acquired business is provisional on reporting date and the fair value measurements are preliminary. In the preliminary valuation, intangible assets related to technologies have been identified, and the acquisition is expected to generate goodwill that is not tax deductible.

Navis acquired on 7 March 2019 the share capital of the US-based privately owned company Cetus Labs, Inc. ("Cetus") at the price of EUR 10.8 million of which EUR 3.5 million was paid on the date of acquisition. The remaining amount, which is conditional, is expected to be paid over the next three years. The main product of Cetus is a SaaS- and cloud-based terminal operating system (TOS), Octopi, designed for small container and mixed cargo terminals.

The result of Cetus has been consolidated into Kalmar segment from the beginning of March. Cetus had no material impact on Cargotec's sales during 2019. Consolidation of the acquired business is presented as final on reporting date. In the final valuation, customer relationships, trademarks and technology were identified as the acquired intangible assets. The goodwill recognised in the acquisition is primarily based on personnel and expected synergy benefits, and is not tax-deductible.

Acquired net assets and goodwill, Jade Logistics and Cetus Labs, MEUR	
Intangible assets	7.7
Accounts receivable and other non-interest-bearing assets	0.0
Cash and cash equivalents	0.2
Accounts payable and other non-interest-bearing liabilities	-0.4
Interest-bearing liabilities	-0.4
Deferred tax liabilities	-2.0
Net assets	**5.0**
Purchase price, payable in cash	15.1
Total consideration	**15.1**
Goodwill	**10.1**
Purchase price, paid in cash	7.9
Cash and cash equivalents acquired, including overdrafts	-0.2
Cash flow impact	**7.7**

Hiab acquired the sales and service business of ATS Aufbau und Transportsysteme GmbH in Germany on 2 May 2019 for a consideration of EUR 0.8 million. The acquisition had no material impact on the reported figures.

Acquisitions in 2018

On 6 November 2018, Hiab acquired the share capital of Effer S.p.A ("Effer"), located in Italy, at the price of EUR 44.6 million. Effer was a privately owned company which is known as a high-quality knuckle-boom crane manufacturer. Effer's product range includes truck loader cranes, special application truck cranes, and marine cranes. Acquisition complements Hiab's product portfolio especially in heavy cranes, and Effer's global dealer network strengthens Hiab's sales network. Additionally, acquisition strengthens Hiab's product development, and increases the sales and efficiency of Hiab's service business. Effer's all operations are located in Italy. As a result of the acquisition, 400 employees were transferred to Cargotec. The result of Effer has been consolidated into Hiab segment from the beginning of November 2018. In 2018, Effer contributed EUR 16.1 million and EUR 0.8 million to Cargotec's sales and operating profit, respectively. Had Effer been acquired on 1 January 2018, it would have increased Cargotec's full year sales by approximately EUR 96.6 million and operating profit by approximately EUR 5.1 million.

Consolidation of the acquired businesses is presented as final on reporting date. In the final valuation, customer relationships, trademarks and technology were identified as the acquired intangible assets. The goodwill recognised in the acquisition is primarily based on personnel and expected synergy benefits, and is not tax-deductible.

Acquired net assets and goodwill, Effer S.p.A, MEUR	
Intangible assets	19.1
Property, plant and equipment	3.4
Inventories	12.1
Accounts receivable and other non-interest-bearing assets	15.9
Cash and cash equivalents	5.1
Deferred tax assets	1.2
Accounts payable and other non-interest-bearing liabilities	-19.6
Interest-bearing liabilities	-12.2
Deferred tax liabilities	-5.3
Net assets	**19.6**
Purchase price, payable in cash	44.6
Total consideration	**44.6**
Goodwill	**25.1**
Purchase price, paid in cash	43.5
Cash and cash equivalents acquired, including overdrafts	6.3
Cash flow impact	**49.8**

On 5 February 2018, MacGregor acquired the share capital of Rapp Marine Group AS ("RMG") at the price of EUR 7.7 million. RMG was a privately owned company and it is 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's main locations are in Norway, the United States and the United Kingdom. As a result of the acquisition, 135 employees were transferred

to Cargotec. The result of RMG has been consolidated into MacGregor segment from the beginning of February 2018. In 2018, RMG contributed EUR 49.2 million and EUR 0.1 million to Cargotec's sales and operating profit, respectively. Had RMG been acquired on 1 January 2018, it would have increased Cargotec's full year sales by approximately EUR 53.7 million and operating profit by approximately EUR 0.1 million.

Fair value measurements of the acquired assets and assumed liabilities are final. In determining the fair values, intangible assets related to customer relationships, trademarks and technology were identified as the acquired intangible assets. The acquisition generated goodwill that is not tax-deductible. The generated goodwill is primarily based on personnel and expected synergy benefits.

Acquired net assets and goodwill, Rapp Marine Group AS, MEUR	
Intangible assets	5.2
Property, plant and equipment	1.0
Inventories	15.3
Accounts receivable and other non-interest-bearing assets	23.1
Interest-bearing receivables	0.0
Cash and cash equivalents	0.9
Deferred tax assets	0.4
Accounts payable and other non-interest-bearing liabilities	-44.2
Interest-bearing liabilities	-11.9
Deferred tax liabilities	-1.0
Net assets	**-11.1**
Purchase price, payable in cash	7.7
Total consideration	**7.7**
Goodwill	**18.8**
Purchase price, paid in cash	7.7
Cash and cash equivalents acquired, including overdrafts	10.7
Cash flow impact	**18.4**

Hiab acquired the service business of Londonderry Garage Limited in the UK on 8 October 2018 for a consideration of EUR 1.1 million, the sales and service business of Logan Inglis Limited in Scotland on 10 August 2018 for a consideration of EUR 0.6 million, and the service business of Berendsen & Merz in Germany on 1 June 2018 for a consideration of EUR 0.4 million. These acquisitions had no material impact on reported figures. The combined cash flow impact of these acquisitions was EUR 1.4 million.

Disposals in 2018

On 29 June 2018, Kalmar sold its rough terrain container handling business in the U.S. for a consideration of EUR 8.0 million, of which EUR 1.3 million was paid during the next 18 months. The transaction follows Kalmar's strategy to focus on container ports, heavy industry and distribution segments, and it resulted in a net loss of EUR 4.1 million that is included in the restructuring costs in the statement of income. The disposal reduced Cargotec's personnel by 71 employees. During 2018, the rough terrain container handling business contributed EUR 8.2 million and EUR -0.9 million to Cargotec's sales and operating profit, respectively.

On 9 May 2018, Kalmar entered into an agreement with JCE Invest AB to establish a joint venture, Bruks Siwertell Group ("BSG"), specialised in dry bulk handling. The joint venture consists of the businesses of Siwertell AB and BRUKS Holding AB contributed by Kalmar and JCE Invest AB respectively. Kalmar accounts for the transaction as a disposal of the subsidiary Siwertell AB, and the new 48 percent ownership in BSG is consolidated as an associated company. As a result of the transaction, Kalmar recognised an investment of EUR 18.9 million in the associated company, and a vendor note receivable of EUR 33.0 million from BSG that will be redeemed in annual instalments. The transaction follows Kalmar's strategy to focus on container ports, heavy industry and distribution segments, and it resulted in a net profit of EUR 12.6 million that is included in the restructuring costs in the statement of income. The disposal reduced Cargotec's personnel by 111 employees. In 2018, Siwertell contributed EUR 8.7 million and EUR -0.3 million to Cargotec's sales and operating profit, respectively.

On 15 June 2018, Hiab disposed of its 40 percent ownership in the associated company Hymetal S.A. at a price of EUR 0.9 million. The transaction had no material impact on reported figures.

7.2 Joint ventures and associated companies

	Joint ventures		Associated companies		Total	
MEUR	2019	2018	2019	2018	2019	2018
Book value 1 Jan	53.4	54.5	46.4	55.3	99.8	109.8
Translation differences	-1.4	-0.5	-0.2	-0.8	-1.6	-1.3
Share of net income*	-3.6	-1.4	4.2	3.7	0.6	2.3
Impairment	0.1	0.1	-	-30.0	0.1	-29.9
Dividend income	-	-	-	0.0	-	0.0
Additions	21.8	0.5	-	19.1	21.8	19.6
Disposals and liquidations	-	-	-	-0.8	-	-0.8
Book value 31 Dec	**70.3**	**53.4**	**50.5**	**46.4**	**120.8**	**99.8**

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

Equity-accounted investments in other entities

31 Dec 2019 MEUR	Country*	Classification	Assets	Liabilities	Sales	Net income	Shareholding (%) Parent company	Group
Haida-MacGregor Jiangyin Sealing Co., Ltd.	China	Joint venture	5.4	0.5	5.9	0.5	-	25.0
Rainbow-Cargotec Industries Co., Ltd	China	Joint venture	190.2	103.5	113.4	-4.8	49.0	49.0
Sinotruk Hiab (Shandong) Equipment Co., Ltd.	China	Joint venture	21.2	12.7	9.2	-3.5	50.0	50.0
CSSC Nanjing Luzhou MacGregor Machinery Co., Ltd	China	Joint venture	0.8	0.1	0.1	-0.2	-	49.0
TTS Hua Hai Ships Equipment (Shanghai) Co., Ltd.**	China	Joint venture	38.7	26.3	61.0	3.1	-	50.0
TTS Bohai Machinery (Dalian) Co., Ltd.**	China	Joint venture	24.3	14.9	32.4	1.2	-	50.0
TTS SCM Marine and Offshore Machinery Co., Ltd.**	China	Joint venture	12.4	8.0	10.8	0.2	-	50.0
Jiangsu Rainbow Heavy Industries Co., Ltd.	China	Associated company	665.7	340.4	220.9	7.4	-	7.9
Bruks Siwertell Group AB	Sweden	Associated company	122.2	67.5	132.0	7.8	-	48.0
Other equity-accounted investments			7.0	3.1	7.4	0.1		

* The countries of incorporation and of primary operations are the same.
** The amounts presented in the table include full year sales and net income of these entities. Cargotec has consolidated the net result of these companies from 1 August 2019.

31 Dec 2018 MEUR	Country*	Classification	Assets	Liabilities	Sales	Net income	Shareholding (%) Parent company	Group
Haida-MacGregor Jiangyin Sealing Co., Ltd.	China	Joint venture	5.2	0.7	4.3	0.3	-	25.0
Rainbow-Cargotec Industries Co., Ltd	China	Joint venture	153.3	62.5	79.3	1.4	49.0	49.0
Sinotruk Hiab (Shandong) Equipment Co., Ltd.	China	Joint venture	20.2	9.4	6.9	-4.3	50.0	50.0
CSSC Nanjing Luzhou MacGregor Machinery Co., Ltd	China	Joint venture	1.0	0.0	-	-0.1	-	49.0
Jiangsu Rainbow Heavy Industries Co., Ltd.	China	Associated company	553.2	235.6	227.0	9.5	-	7.9
Bruks Siwertell Group AB	Sweden	Associated company	121.9	74.1	102.9	6.1	-	48.0
Other equity-accounted investments			7.3	5.7	7.3	-0.1		

* 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. Cargotec has issued corporate guarantees worth EUR 38.0 (31 Dec 2018: 37.7) million to RCI in order to secure long-term financing.

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. Cargotec has issued corporate guarantees worth EUR 3.8 (31 Dec 2018: 3.8) million to Sinotruk in order to secure long-term financing.

On 23 March 2018, MacGregor established a joint venture CSSC Nanjing Luzhou MacGregor Machinery Co., Ltd. together with Nanjing Luzhou Machine Co., Ltd. (LMC), owned by China State Shipbuilding Corporation (CSSC). LMC owns 51 percent and MacGregor 49 percent of the joint venture specialised in marine air compressor technology.

As part of the acquisition of TTS on 31 July 2019 (additional information in note 7.1 Acquisitions and disposals), Cargotec obtained 50 percent ownership in entities: TTS Hua Hai Ships Equipment (Shanghai) Co., Ltd., TTS Bohai Machinery (Dalian) Co., Ltd., and TTS SCM Marine and Offshore Machinery Co., Ltd. The companies manufacture hatch covers, winches and cranes for merchant and offshore use - mainly for the Chinese market. Cargotec consolidates the ownerships as joint ventures based on the joint control and right to proportionate share of net assets in these companies in accordance with the ownership. As a precondition for the TTS acquisition, Chinese competition authorities set temporary remedies between Cargotec and the acquired joint ventures that relate to cooperation and pricing of certain products. The remedies have an impact on the economic benefit obtained from the companies but not on the use of joint control in them. Acquired joint ventures have been measured at fair value and based on the initial valuation of EUR 21.7 million on 31 December 2019, goodwill of EUR 9.1 million and customer relationships of EUR 6.2 million are subsumed in the fair value.

Cargotec owns 7.9 (31 Dec 2018: 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.

Cargotec established on 9 May 2018 together with JCE Invest AB a new company Bruks Siwertell Group to which Cargotec sold the share capital of Siwertell AB that belonged to Kalmar segment, and JCE Invest transferred its subsidiary Bruks Holding AB. Both companies are specialised in bulk cargo handling equipment. Cargotec obtained 48 percent ownership in Bruks Siwertell Group that is classified as an associated company based on Cargotec's significant influence in the company. In addition, Cargotec recognised as part of the transaction, an interest-bearing loan receivable of EUR 33 million with a maximum term of ten years that the associated company repays annually based on its result.

Investments in the entities Jiangsu Rainbow Heavy Industries Co., Ltd., Rainbow-Cargotec Industries Co., Ltd, and Bruks Siwertell Group AB are classified as material investments due to their size.

Summarised financial information about material joint ventures and associated companies

Summarised balance sheets at 31 Dec	Rainbow-Cargotec Industries Co., Ltd		Jiangsu Rainbow Heavy Industries Co., Ltd.		Bruks Siwertell Group AB	
MEUR	2019	2018	2019	2018	2019	2018
Non-current assets	82.3	75.8	307.8	289.0	63.0	65.5
Cash and cash equivalents	10.2	15.9	102.8	39.4	13.1	18.4
Other current assets	97.8	61.6	255.1	224.8	46.1	37.9
Total assets	**190.2**	**153.3**	**665.7**	**553.2**	**122.2**	**121.9**
Non-current financial liabilities	6.1	-	12.1	15.7	26.3	33.3
Other non-current liabilities	0.0	0.1	87.6	92.5	11.5	11.6
Current financial liabilities	-	7.0	20.5	26.8	0.0	0.9
Other current liabilities*	97.4	55.5	220.2	100.6	29.7	28.3
Total liabilities	**103.5**	**62.5**	**340.4**	**235.6**	**67.5**	**74.1**
Net assets	**86.7**	**90.8**	**325.3**	**317.6**	**54.7**	**47.8**

* Accounts payable are included in other current liabilities.

Summarised statements of income	Rainbow-Cargotec Industries Co., Ltd.		Jiangsu Rainbow Heavy Industries Co., Ltd.		Bruks Siwertell Group AB	
MEUR	2019	2018	2019	2018	2019	2018
Sales	113.4	79.3	220.9	227.0	132.0	102.9
Depreciation, amortisation and impairments*	3.4	3.6	*	*	2.6	1.8
Financing income*	-	-	*	*	0.3	0.0
Financing expenses*	0.2	0.0	*	*	1.7	0.9
Income before taxes	-5.6	1.7	9.4	13.2	9.8	8.1
Income taxes	-0.8	0.2	1.9	3.7	2.0	2.0
Net income for the period**	**-4.8**	**1.4**	**7.4**	**9.5**	**7.8**	**6.1**
Dividends received	**-**	**-**	**-**	**-**	**-**	**-**

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

Reconciliation of summarised information

	Rainbow-Cargotec Industries Co., Ltd.		Jiangsu Rainbow Heavy Industries Co., Ltd.		Bruks Siwertell Group AB	
MEUR	2019	2018	2019	2018	2019	2018
Net assets 1 Jan	90.8	90.2	317.6	314.9	47.8	-
Net income for the period	-4.8	1.4	7.4	9.5	7.8	6.1
Additions/disposals	-	-	-1.9	0.4	-	41.0
Dividends	-	-	-	-4.2	-	-
Translation differences	0.7	-0.8	2.2	-2.9	-0.8	0.6
Net assets 31 Dec	**86.7**	**90.8**	**325.3**	**317.6**	**54.7**	**47.8**
Cargotec's share of net assets	42.5	44.5	25.6	25.0	26.3	22.9
Goodwill	0.0	0.6	-0.8	-1.0	-0.8	-0.9
Book value 31 Dec	**42.5**	**45.1**	**24.8**	**24.0**	**25.4**	**22.0**

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 2019 was EUR 28.7 (31 Dec 2018: 24.5) million. In 2018, Cargotec recognised an impairment loss of EUR 30.0 million related to impairment testing of investment in the associated company Jiangsu Rainbow Heavy Industries Co., Ltd (RHI).

7.3 Subsidiaries

31 Dec 2019	Country	Shareholding (%) Parent company	Shareholding (%) Group
Cargotec Argentina S.R.L.	Argentina		100
Cargotec Australia Pty Ltd	Australia		100
Cargotec Automation Solutions Australia Pty Ltd	Australia		100
Kalmar Equipment (Australia) Pty. Ltd.	Australia		100
MacGregor Australia Pty Ltd	Australia		100
Inver Port Services Pty. Ltd.	Australia		100
Hiab Austria GmbH	Austria		100
Kalmar Austria GmbH	Austria		100
Cargotec Belgium NV	Belgium	100	100
MacGregor Belgium NV	Belgium		100
TTS Benelux NV	Belgium		100
Cargotec Brazil Ltda	Brazil		100
MLS Servicos Offshore e Navais Ltda	Brazil		100
Hiab Brasil Guindastes e Servicos Ltda	Brazil		100
Cargotec Bulgaria EOOD	Bulgaria		100
Waltco Lift Inc.	Canada		100
Hiab Chile S.A.	Chile		100
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
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
TTS Marine Equipment (Dalian) Co., Ltd	China		100
TTS Marine Shanghai Co. Ltd.	China		100
Kalmar Colombia S.A.S.	Colombia		100
MacGregor Croatia d.o.o.	Croatia		100
HATLAPA (Eastmed) Limited	Cyprus		70

31 Dec 2019	Country	Shareholding (%) Parent company	Shareholding (%) Group
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
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
Kalmar Germany GmbH	Germany		100
HATLAPA Verwaltungsgesellschaft mbH	Germany		100
MacGregor Germany GmbH et Co. KG	Germany		100
Hiab Germany GmbH	Germany		100
TTS NMF GmbH	Germany		100
TTS Marine GmbH	Germany		100
MacGregor Greece Ltd	Greece		100
TTS Greece Ltd.	Greece		100
Cargotec India Private Limited	India		100
MacGregor Marine India Private Limited	India		100
PT Kalmar Pacific Indonesia	Indonesia		100
Cargotec Engineering 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
Effer S.p.A.	Italy		100

31 Dec 2019	Country	Shareholding (%) Parent company	Shareholding (%) Group
TTS Marine 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
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
Kalmar Netherlands B.V.	Netherlands		100
MacGregor Netherlands Holding B.V.	Netherlands		100
MacGregor Netherlands B.V.	Netherlands		100
Hiab Benelux B.V.	Netherlands		100
Navis Software New Zealand Limited	New Zealand		100
Hiab Norway AS	Norway		100
Kalmar Norway AS	Norway	100	100
MacGregor Norway AS	Norway	50	100
TTS Offshore Solutions AS	Norway		100
Hydralift Marine AS	Norway		100
TTS Marine AS	Norway		100
Cargotec Services Panama, S.A.	Panama		100
Cargotec Panama, S.A.	Panama		100
Cargotec Poland Sp. z.o.o.	Poland		100
MacGregor Poland Sp. z.o.o.	Poland		100
TTS 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
Rapp Marine Mechanical Design doo Kragujevac	Serbia		100
Cargotec CHS Pte. Ltd.	Singapore		100
HATLAPA Asia Pacific Pte Ltd	Singapore		100

31 Dec 2019	Country	Shareholding (%) Parent company	Shareholding (%) Group
ISMS Services Pte. Ltd.	Singapore		100
MacGregor Pte Ltd	Singapore	100	100
TTS Singapore Pte. Ltd.	Singapore	100	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 Co., Ltd.	South Korea		100
TTS Marine Korea Co., Ltd.	South Korea		100
Kalmar Spain Cargo Handling Solutions S.A.	Spain		100
Hiab Cranes, S.L. Unipersonal	Spain		100
Hiab Iberia, S.L. Unipersonal	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
Zeteco AB	Sweden		100
Z-Lyften Produktion AB	Sweden		100
TTS Marine 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

31 Dec 2019	Country	Shareholding (%) Parent company	Shareholding (%) Group
TTS Marine Services 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
Player and Cornish Marine Limited	United Kingdom		100
Rapp Marine UK Ltd	United Kingdom		100
Cargotec Crane and Electrical Services Inc.	USA		100
Cargotec Holding, Inc.	USA	100	100
Hiab USA Inc.	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
Rapp Marine U.S. Inc.	USA		100
TTS Inc.	USA		100

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

8. CAPITAL STRUCTURE AND FINANCIAL INSTRUMENTS

8.1 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. Organisation, 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 the treasury function 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 the 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 the fair value change related to a change in the 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 the 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 was applied to the cash flows of the US Private Placement corporate bond, which was issued in February 2007 and matured in 2019. The cash flows of the bond were converted into euro flows through a cross-currency swap. As a result of the hedging, Cargotec effectively held a long-term euro-denominated 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 2019 MEUR	**EUR**	**USD**	**SEK**	**PLN**	**NOK**	**CNY**	**Others**
Balance sheet items	-50.6	46.7	-13.0	22.0	-9.9	-3.1	7.5
Hedges	110.7	-366.2	122.8	12.9	53.2	68.4	-0.2
Balance sheet exposure	**60.1**	**-319.5**	**109.8**	**35.0**	**43.3**	**65.2**	**7.3**
Order book and purchases	-46.5	352.0	-122.1	-63.4	-40.2	-63.9	-17.1
Net exposure	**13.6**	**32.5**	**-12.3**	**-28.4**	**3.2**	**1.3**	**-9.8**

31 Dec 2018 MEUR	**EUR**	**USD**	**SEK**	**PLN**	**NOK**	**CNY**	**Others**
Balance sheet items	-81.6	54.3	-1.8	40.0	-17.2	-8.3	14.4
Hedges	206.6	-388.5	41.9	22.7	75.6	70.0	-28.3
Balance sheet exposure	**125.1**	**-334.2**	**40.2**	**62.7**	**58.4**	**61.8**	**-13.9**
Order book and purchases	-149.4	360.5	-45.4	-72.8	-59.6	-57.5	24.1
Net exposure	**-24.3**	**26.3**	**-5.3**	**-10.1**	**-1.1**	**4.3**	**10.2**

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 recognised 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 the 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 2.6 million positive/negative (31 Dec 2018: 1.6 million negative/positive), and on other comprehensive income EUR 23.5 million negative/positive (20.5 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 0.6 million positive/negative (31 Dec 2018: 0.8 million positive/negative), and on other comprehensive income EUR 7.5 million positive/negative (1.6 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 0.3 million positive/negative (31 Dec 2018: 0.3 million negative/positive), and on other comprehensive income EUR 1.3 million positive/negative (2.2 million positive/negative).

Net investments in non-euro area subsidiaries cause translation differences, recognised in the consolidated equity (translation risk). Translation risk is mitigated by managing the capital structure so that the effect of foreign exchange rate fluctuations on debt and equity are in balance. Cargotec Treasury regularly monitors the translation exposure and evaluates the materiality of the risk position. The impact of the translation risk from currencies to Cargotec's gearing is evaluated to be not significant and hedging the translation risk has not been considered necessary.

31 Dec 2019 MEUR	USD	PLN	NOK	SGD	SEK
Translation exposure	477.6	186.0	227.4	87.1	90.1
Translation risk	**477.6**	**186.0**	**227.4**	**87.1**	**90.1**

31 Dec 2018 MEUR	USD	PLN	NOK	SGD	SEK
Translation exposure	425.1	166.5	295.4	73.7	90.1
Translation risk	**425.1**	**166.5**	**295.4**	**73.7**	**90.1**

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 2019, Cargotec's consolidated interest-bearing debt totalled EUR 1,224.3 (31 Dec 2018: 929.9) million, of which EUR 647.3 (473.1) million were fixed rate corporate bonds, EUR 0.7 (1.5) million were other long-term fixed rate loans, and EUR 187.8 (18.5) million were finance lease liabilities. The rest, EUR 388.4 (436.8) million, consisted of fixed and floating rate loans, short term loans, bank overdrafts and other interest-bearing liabilities. On 31 December 2019, the average interest duration of interest-bearing debt, including hedges of loans, was 27 (22) months.

The EUR 450.7 (31 Dec 2018: 294.1) million investment portfolio consisted mainly of short-term deposits and bank account balances. Interest-bearing loan receivables totalled EUR 29.0 (37.3) million and customer finance related finance lease receivables EUR 1.5 (0.6) million. The average interest duration of the interest bearing assets was less than one month (less than one month).

Based on the sensitivity analysis, a one percentage point increase/decrease in the interest rates would have decreased/ increased net interest cost by EUR 0.6 (31 Dec 2018: increased/ decreased by 0.8) 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 3.5 (31 Dec 2018: increased/decreased by EUR 4.5) 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.

Cross-currency and interest rate swap with a nominal value at the time of the maturity of EUR 74.9 (31 Dec 2018: 74.2) million had fixed interest payment for both currencies. Similar change in the interest rate levels of EUR and USD would have had no impact on income before taxes or on other comprehensive income with respect to this instrument.

Interest fixing periods

31 Dec 2019 MEUR	0–6 mths	6–12 mths	12–24 mths	24–36 mths	Later	Total
Loans receivable and other interest-bearing assets*	424.4	26.3	-	-	-	450.7
Non-current loans from financial institutions	-245.9	-	-	-	-62.3	-308.2
Corporate bonds	-150.0	-	-	-149.7	-347.7	-647.3
Lease liabilities	-20.1	-20.1	-31.0	-23.3	-93.4	-187.8
Current interest-bearing liabilities and other interest-bearing liabilities**	-80.2	-0.7	-	-	-	-80.9
Net	**-71.7**	**5.5**	**-31.0**	**-173.0**	**-503.4**	**-773.6**

31 Dec 2018 MEUR	0–6 mths	6–12 mths	12–24 mths	24–36 mths	Later	Total
Loans receivable and other interest-bearing assets*	260.4	0.4	33.3	-	-	294.1
Non-current loans from financial institutions	-150.7	-	-	-	-149.6	-300.2
Corporate bonds	-74.2	-	-149.8	-	-249.1	-473.1
Lease liabilities	-0.6	-0.6	-1.2	-1.0	-15.1	-18.5
Current interest-bearing liabilities and other interest-bearing liabilities**	-134.6	-3.5	-	-	-	-138.1
Net	**-99.7**	**-3.7**	**-117.6**	**-1.0**	**-413.7**	**-635.7**

* Including cash and cash equivalents
** Including bank overdrafts

Other market risks

In addition to financial risks managed by 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 2019, the liquidity reserves, including cash and cash equivalents and long-term undrawn credit facilities, totalled EUR 720.2 (31 Dec 2018: 556.3) 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 2019, repayments of short- and long-term interest-bearing liabilities due within the following 12 months totalled EUR 271.0 (212.8) million.

On 31 December 2019, Cargotec held undrawn EUR 300.0 (31 Dec 2018: 300.0) million long-term Revolving Credit Facility, which will mature in June 2024. 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 137.3 (98.7) million and a EUR 150.0 (150.0) million domestic Commercial Paper facility which on 31 December 2019 was unused (unused). Cargotec's total liquidity position includes EUR 76.1 (59.6) million of cash and cash equivalents in different currencies subject to currency-related or other regulatory restrictions, and, therefore, these balances may not be utilised outside these countries 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 Dec 2019	31 Dec 2019
Cash and cash equivalents	420.2	256.3
Committed long-term undrawn revolving credit facilities	300.0	300.0
Repayments of interest-bearing liabilities during next 12 months	-271.0	-212.8
Total liquidity	**449.2**	**343.5**

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. Covenant is based on prior to IFRS 16 calculation methodology for the majority of the loans. According to management assessment, Cargotec is in good position regarding liquidity and there are no significant concentrations of risks relating to refunding.

The following tables represent the maturity analysis of the company's financial liabilities and derivatives. The figures are non-discounted contractual cash flows.

Maturities of financial liabilities

31 Dec 2019 MEUR	2020	2021	2022	2023	2024	Later	Total
Derivatives							
Currency forward contracts, outflow	-2,652.7	-	-	-	-	-	-2,652.7
Currency forward contracts, inflow	2,648.2	-	-	-	-	-	2,648.2
Cross-currency and interest rate swaps, outflow	-	-	-	-	-	-	-
Cross-currency and interest rate swaps, inflow	-	-	-	-	-	-	-
Derivatives, net	**-4.5**	**-**	**-**	**-**	**-**	**-**	**-4.5**
Interest-bearing liabilities							
Repayments of loans from financial institutions	-80.2	-142.0	-16.6	-124.7	-	-24.9	-388.4
Repayments of corporate bonds	-150.0	-	-149.7	-	-99.6	-248.1	-647.3
Repayments of lease liabilities	-40.1	-31.0	-23.3	-18.0	-13.5	-61.9	-187.8
Repayments of other interest-bearing liabilities	-0.7	-	-	-	-	-	-0.7
Total interest charges	-20.9	-17.0	-13.1	-11.2	-7.6	-15.4	-85.2
Accounts payable and other non-interest bearing liabilities	-457.8	-24.4	-16.1	-9.7	-7.9	-5.8	-521.7
Total	**-754.3**	**-214.4**	**-218.7**	**-163.6**	**-128.6**	**-356.1**	**-1,835.8**

31 Dec 2018 MEUR	2019	2020	2021	2022	2023	Later	Total
Derivatives							
Currency forward contracts, outflow	-2,259.8	-	-	-	-	-	-2,259.8
Currency forward contracts, inflow	2,259.4	-	-	-	-	-	2,259.4
Cross-currency and interest rate swaps, outflow	-67.0	-	-	-	-	-	-67.0
Cross-currency and interest rate swaps, inflow	76.3	-	-	-	-	-	76.3
Derivatives, net	**8.9**	**-**	**-**	**-**	**-**	**-**	**8.9**
Interest-bearing liabilities							
Repayments of loans from financial institutions	-136.6	-42.1	-92.0	-16.5	-124.6	-24.9	-436.8
Repayments of corporate bonds	-74.2	-149.8	-	-149.6	-	-99.5	-473.1
Repayments of lease liabilities	-1.2	-1.2	-1.0	-0.9	-0.7	-13.5	-18.5
Repayments of other interest-bearing liabilities	-0.8	-0.8	-	-	-	-	-1.5
Total interest charges	-15.8	-10.2	-8.2	-5.5	-4.5	-5.2	-49.3
Accounts payable and other non-interest bearing liabilities	-438.6	-23.1	-13.8	-8.8	-8.6	-4.0	-496.9
Total	**-658.3**	**-227.1**	**-115.1**	**-181.2**	**-138.4**	**-147.1**	**-1,467.1**

Corporate bonds have maturities ranging from 2020 to 2026 and loans from financial institutions have maturities ranging from 2020 to 2025.

Credit and counterparty risks

The business units are responsible for managing the operational credit risks. Because of the diverse and global clientele, Cargotec is not exposed to significant credit risk concentrations. Credit risk related to sales contracts is mitigated by using payment terms that are based on advance payments, bank guarantees or other guarantees, and by monitoring the creditworthiness of customers. Credit risks related 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 5.3, Accounts receivable and other non-interest-bearing receivables.

The Treasury Committee sets financial 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 a high credit rating are accepted as counterparties. Deposits of liquidity reserves and trading in financial instruments are only accepted with counterparties confirmed by the Treasury Committee.

Cargotec's total credit risk exposure on 31 December 2019 including credit risk related to both on-balance sheet and off-balance sheet items amounted to EUR 1,374.9 (31 Dec 2018: 1,124.3) million. From the total exposure, EUR 1.6 (13.2) million relates to financial assets measured at fair value through profit or loss.

Credit risk position

31 Dec 2019		Credit risk			
MEUR	Note	Low	Increased	High	Total
On-balance sheet credit risk from customer contracts					
Accounts receivable	5.3	620.8	39.6	10.5	670.9
Unbilled receivables	5.3	117.4	-	-	117.4
Total		**738.2**	**39.6**	**10.5**	**788.3**
On-balance sheet credit risk from other financial assets					
Loans receivable and other interest-bearing assets	8.2	26.8	3.5	0.2	30.5
Derivative assets (risk after ISDA netting)	8.5	1.6	-	-	1.6
Other non-interest-bearing receivables	5.3	10.3	-	-	10.3
Cash and cash equivalents	8.3	420.2	-	-	420.2
Total		**458.9**	**3.5**	**0.2**	**462.6**
Off-balance sheet credit risk from contracts with customers					
Customer financing	9.2	23.3	-		23.3
Operating lease receivables	9.1	100.7	-		100.7
Total		**124.0**	**-**	**-**	**124.0**
Total credit risk exposure		**1,321.1**	**43.1**	**10.7**	**1,374.9**

31 Dec 2018		Credit risk			
MEUR	Note	Low	Increased	High	Total
On-balance sheet credit risk from customer contracts					
Accounts receivable	5.3	587.2	34.0	5.2	626.3
Unbilled receivables	5.3	78.1	-	-	78.1
Total		**665.2**	**34.0**	**5.2**	**704.4**
On-balance sheet credit risk from other financial assets					
Loans receivable and other interest-bearing assets	8.2	33.3	4.2	0.4	37.9
Derivative assets (risk after ISDA netting)	8.5	12.8	-	-	12.8
Other non-interest-bearing receivables	5.3	11.1	-	-	11.1
Cash and cash equivalents	8.3	256.3	-	-	256.3
Total		**313.5**	**4.2**	**0.4**	**318.1**
Off-balance sheet credit risk from contracts with customers					
Customer financing	9.2	26.7	-	-	26.7
Operating lease receivables	9.1	75.1	-	-	75.1
Total		**101.8**	**-**	**-**	**101.8**
Total credit risk exposure		**1,080.6**	**38.1**	**5.6**	**1,124.3**

The credit risk classification of customer receivables is based on how long they are overdue. Credit risk related to less than 90 days overdue receivables is considered to be low, and increased if receivables are 90–360 days overdue. Over 360 days overdue customer receivables are classified as high risk. Regarding the other financial assets, the classification to increased or high credit risk is based on an asset-specific credit risk assessment.

The credit losses recognised in the statement of income amounted to EUR 5.4 (31 Dec 2018: 5.6) million of which EUR 5.2 (3.5) million relates to credit losses from customer receivables disclosed in note 5.3, Accounts receivable and other non-interest-bearing receivables.

Cargotec holds no significant amounts of external loan receivables except for the EUR 26.3 (31 Dec 2018: 33.3) million vendor note from the associated company Bruks Siwertell Group. Additional information about the vendor note is disclosed in note 7.1, Acquisitions and disposals, and note 7.2, Joint ventures and associated companies.

The derivative assets and liabilities are presented at their gross fair values as the IFRS offsetting criteria are not met. Cargotec has derivative positions with several banks, and related transactions are effected under the ISDA agreement that allows for settling on a net basis all outstanding items within the scope of the agreement, such as in the event of bankruptcy. At the reporting date, the remaining counterparty risk after net settlement, as allowed by ISDA, was EUR 1.6 (31 Dec 2018: 12.8) million for Cargotec and EUR 4.9 (1.1) million for the counterparties.

The maximum credit risk relating to cash and cash equivalents corresponds to their carrying amount. According to management assessment, no significant credit losses are anticipated on the investments of liquidity reserves. The off-balance sheet customer finance and operating lease receivables are collateralised, and, therefore, the related credit risk is considered to be low.

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 in capital structure management. Interest-bearing 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 2019	31 Dec 2018
Interest-bearing liabilities*	1,224.3	929.9
Lease liabilities included in interest-bearing liabilities	187.8	18.5
Loans receivable and other interest-bearing assets	-30.5	-37.9
Cash and cash equivalents	-420.2	-256.3
Interest-bearing net debt in balance sheet	**773.6**	**635.8**
Foreign currency hedge of corporate bonds*	-	-10.3
Interest-bearing net debt	**773.6**	**625.5**
Equity	1,427.3	1,428.5
Gearing	**54.2%**	**43.8%**

MEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Operating profit	180.0	190.0
Depreciation, amortisation and impairment	133.8	77.2
EBITDA	**313.8**	**267.2**
Interest-bearing net debt / EBITDA	**2.5**	**2.3**

* Cash flow hedge accounting was applied to the cash flows of the US Private Placement corporate bond (31 Dec 2018: USD 85 million), which matured in February 2019. The cash flows of the bond were converted into euro flows through a cross-currency swap. As a result of the hedging, Cargotec effectively held a EUR 64 million fixed rate debt on 31 Dec 2018.

8.2 Financial instruments by measurement category

31 Dec 2019 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
Share investments		-	-	0.3	0.3
Loans receivable and other interest-bearing assets		30.5	-	-	30.5
Derivative assets	8.5	-	2.6	5.8	8.5
Accounts receivable and other non-interest-bearing receivables	5.3	798.7	-	-	798.7
Cash and cash equivalents	8.3	420.2	-	-	420.2
Total financial assets		**1,249.4**	**2.6**	**6.1**	**1,258.1**
Interest-bearing liabilities	8.4	1,224.3	-	-	1,224.3
Derivative liabilities	8.5	-	2.1	9.6	11.8
Accounts payable and other non-interest-bearing liabilities	5.4	516.5	-	5.3	521.7
Total financial liabilities		**1,740.8**	**2.1**	**14.9**	**1,757.8**

31 Dec 2018 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
Share investments		-	-	0.3	0.3
Loans receivable and other interest-bearing assets		37.5	-	0.4	37.9
Derivative assets	8.5	-	12.9	4.6	17.4
Accounts receivable and other non-interest-bearing receivables	5.3	715.6	-	-	715.6
Cash and cash equivalents	8.3	256.3	-	-	256.3
Total financial assets		**1,009.3**	**12.9**	**5.2**	**1,027.4**
Interest-bearing liabilities	8.4	929.9	-	-	929.9
Derivative liabilities	8.5	-	0.5	5.2	5.8
Accounts payable and other non-interest-bearing liabilities	5.4	496.9	-	-	496.9
Total financial liabilities		**1,426.8**	**0.5**	**5.2**	**1,432.5**

Cargotec adopted IFRS 16, Leases in the beginning of 2019. On adoption of the standard, majority of the lease agreements Cargotec reported as operating leases in 2018 were converted into lease agreements recognised on the balance sheet and the lease liability related to these increased interest-bearing liabilities by EUR 178.1 million.

Financial assets and liabilities measured at fair value through profit and loss include currency forwards and in the comparison period a cross-currency and interest rate swap, which are used to hedge against financial risks but for which no hedge accounting is applied, and conditional considerations related to business combinations. 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 related to sales transaction ceases, and to value of inventory when hedge accounting related to purchase transaction ceases. The recurring measurement of derivative instruments at fair value is based on commonly applied valuation methods and uses observable market-based variables based on which these measurements are categorised in the fair value hierarchy as level 2 fair values. The fair values of other instruments measured at fair value through profit or loss are partly based on non-market based variables, and, therefore, these measurements are categorised in the fair value hierarchy as level 3 fair values. Other items are recognised on balance sheet 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.

Loans receivable and other interest-bearing assets mainly consist of receivables from sales of businesses. The largest of these receivables is a EUR 26.3 million vendor loan related to the sale of Siwertell AB in 2018. The loan accrues annual 3.75% interest until the end of 2020, and 4.25% as a minimum afterwards. Loan repayments are tied to the annual result of Bruks Siwertell Group, and its maximum length is 10 years. Additional information regarding the Siwertell AB sales transaction is disclosed in note 7.1, Acquisitions and disposals, and in note 7.2, Joint ventures and associated companies. The carrying value of the Loans receivable and other interest-bearing asset includes credit loss-related write-downs of EUR 0.9 (31 Dec 2018: 3.6) million.

8.3 Cash and cash equivalents

MEUR	31 Dec 2019	31 Dec 2018
Cash at bank and on hand	408.1	251.9
Short-term deposits	12.1	4.3
Total	**420.2**	**256.3**

Cash and cash equivalents in the statement of cash flows

MEUR	31 Dec 2019	31 Dec 2018
Cash and cash equivalents	420.2	256.3
Bank overdrafts used	-10.4	-30.8
Cash and cash equivalents in the statement of cash flows	**409.8**	**225.5**

8.4 Interest-bearing liabilities

Book value of interest-bearing liabilities

MEUR	Note	31 Dec 2019	31 Dec 2018
Non-current			
Loans from financial institutions		308.2	300.2
Corporate bonds		497.4	398.8
Lease liabilities	9.1	147.7	17.3
Other interest-bearing liabilities		-	0.8
Total		**953.3**	**717.1**
Current			
Loans from financial institutions		69.8	105.8
Corporate bonds		150.0	74.2
Lease liabilities	9.1	40.1	1.2
Other interest-bearing liabilities		0.7	0.8
Bank overdrafts used		10.4	30.8
Total		**271.0**	**212.8**
Total interest-bearing liabilities		**1,224.3**	**929.9**

On 31 December 2019, the average interest rate of long-term loans and corporate bonds was 1.8 (31 Dec 2018: 1.9) percent. The average interest rate of short-term loans was 3.2 (2.9) 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 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
2007–2019	Fixed 5.68	85.0 MUSD	-	74.4	-	74.2
2014–2020	Fixed 3.38	150.0 MEUR	151.2	156.0	150.0	149.8
2017–2022	Fixed 1.75	150.0 MEUR	153.5	152.8	149.7	149.6
2017–2024	Fixed 2.38	100.0 MEUR	104.2	103.2	99.6	99.5
2019–2025	Fixed 1.25	100.0 MEUR	98.0	-	99.4	-
2019–2026	Fixed 1.63	150.0 MEUR	144.6	-	148.7	-

The USD denominated Private Placement corporate bond matured in February 2019 and it was hedged through a cross-currency and interest rate swap defined as a cash flow hedge. Considering the hedge, Cargotec did not have any material amounts of interest-bearing debt in foreign currencies.

Reconciliation of interest-bearing liabilities

MEUR	Note	Non-current interest-bearing liabilities including repayments	Lease liabilities and current interest-bearing liabilities	Bank overdrafts used	Total interest-bearing liabilities
31 Dec 2018		866.9	32.2	30.8	929.9
IFRS 16 transition effect*		-	178.1	-	178.1
1 Jan 2019, restated		866.9	210.2	30.8	1,107.9
Cash flows		129.8	-31.7	-90.4	7.7
New and changed lease agreements		-	26.7	-	26.7
Companies acquired and sold	7.1	0.4	9.3	69.5	79.2
Translation differences		0.7	0.9	0.5	2.1
Effective yield adjustment		0.6	-	-	0.6
31 Dec 2019		**998.4**	**215.4**	**10.4**	**1,224.3**
1 Jan 2018		746.7	24.0	24.5	795.2
Cash flows		115.7	-1.0	-16.3	98.5
New and changed lease agreements		-	9.3	-	9.3
Companies acquired and sold	7.1	0.9	0.3	23.0	24.1
Translation differences		3.1	-0.5	-0.4	2.3
Effective yield adjustment		0.5	-	-	0.5
31 Dec 2018		**866.9**	**32.2**	**30.8**	**929.9**

* Additional information is disclosed in notes 1.1, Accounting principles for the consolidated financial statements, and 9.4, Adoption of the new and amended IFRS standards and interpretations, impact on the financial statements.

8.5 Derivatives

31 Dec 2019 MEUR	Nominal value	Positive fair value	Negative fair value	Net fair value
Non-current				
Currency forwards, cash flow hedge accounting	-	-	-	-
Currency forwards, other	-	-	-	-
Total	-	-	-	-
Current				
Currency forwards, cash flow hedge accounting	1,618.7	2.6	2.1	0.5
Currency forwards, other	1,030.8	5.8	9.6	-3.8
Cross-currency and interest rate swaps	-	-	-	-
Total	2,649.5	8.5	11.8	-3.3
Total derivatives	2,649.5	8.5	11.8	-3.3

31 Dec 2018 MEUR	Nominal value	Positive fair value	Negative fair value	Net fair value
Non-current				
Currency forwards, cash flow hedge accounting	-	-	-	-
Currency forwards, other	-	-	-	-
Total	-	-	-	-
Current				
Currency forwards, cash flow hedge accounting	1,265.8	2.7	0.5	2.2
Currency forwards, other	994.8	4.6	5.2	-0.7
Cross-currency and interest rate swaps	74.2	10.1	-	10.1
Total	2,334.9	17.4	5.8	11.7
Total derivatives	2,334.9	17.4	5.8	11.7

A cross-currency and interest rate swap hedged the US Private Placement corporate bond which was issued in February 2007 and matured in February 2019. Cash flow hedge accounting was applied to this instrument. The majority of the highly probable cash flows hedged by the currency forward contracts 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.

8.6 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 Corporation's class B shares are quoted on Nasdaq Helsinki. 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 2019	9,526,089	55,182,079	64,708,168
Number of shares 31 Dec 2019	**9,526,089**	**55,182,079**	**64,708,168**
Treasury shares 31 Dec 2019	-	-304,328	-304,328
Number of shares outstanding 31 Dec 2019	**9,526,089**	**54,877,751**	**64,403,840**
Number of shares 1 Jan 2018	9,526,089	55,182,079	64,708,168
Number of shares 31 Dec 2018	**9,526,089**	**55,182,079**	**64,708,168**
Treasury shares 31 Dec 2018	-	-379,603	-379,603
Number of shares outstanding 31 Dec 2018	**9,526,089**	**54,802,476**	**64,328,565**

Dividend distribution

After 31 December 2019, the following dividends were proposed by the Board of Directors to be paid: EUR 1.19 per each class A share and EUR 1.20 per outstanding class B share, a total of EUR 77,189,347.11.

9. OTHER NOTES

9.1 Leases

Cargotec leases property and equipment in most of the countries where it operates. Leased properties include land and buildings mainly for use as offices, manufacturing facilities, workshops, and warehouses. The average length of Cargotec's property leases on reporting date is 9.7 (1 January 2019: 10.6) years and contracts typically include an option or options to prolong, or an option to early terminate the lease. Optional lease periods are reflected in the capitalised value of the leases based on the real estate management process in which the remaining reasonably certain lease period is reassessed on a regular basis, and typically the capitalisation threshold is met, depending on the location and use of the property, from a few months to a couple of years before the end of the ongoing lease period. Leased equipment include mainly vehicles and machines with fixed rents and lease terms. The average length of Cargotec's equipment leases on reporting date is 3.1 (1 January 2019: 2.9) years. Cargotec lease agreements typically do not include variable rent elements except for the rent escalation clauses tied to inflation-related indexes. The weighted average discount rate applied to determine the present value of lease liability on reporting date is 4.2 (1 January 2019: 4.3) percent.

Cargotec as lessee

MEUR	Note	IFRS 16 31 Dec 2019	IAS 17 31 Dec 2018
Off-balance sheet leases			
Lease payments related to off-balance sheet leases			
Less than one year		1.2	47.1
One to two years		0.7	62.0
Two to three years		0.4	32.5
Three to four years		0.0	4.4
Four to five years		0.0	0.3
Over five years		0.0	56.9
Total		**2.4**	**203.2**
Off-balance sheet lease commitments on reporting date			
Lease payments related to short-term leases		0.3	1.0
Lease payments related to low-value leases		2.0	0.8
Total		**2.4**	**1.8**
On-balance sheet leases			
Lease payments related to on-balance sheet leases			
Less than one year		46.5	1.9
One to two years		36.1	1.8
Two to three years		27.4	1.6
Three to four years		21.2	1.4
Four to five years		16.1	1.2
Over five years		72.3	17.3
Total		**219.7**	**25.0**

MEUR	Note	IFRS 16 31 Dec 2019	IAS 17 31 Dec 2018
Present value of lease payments related to on-balance sheet leases	8.4		
Less than one year		40.1	1.2
One to two years		31.0	1.2
Two to three years		23.3	1.0
Three to four years		18.0	0.9
Four to five years		13.5	0.7
Over five years		61.9	13.5
Total		**187.8**	**18.5**
Future interest expense related to on-balance sheet leases		31.9	6.5
Right-of-use assets	6.3		
Land and buildings		138.1	17.0
Machinery and equipment		30.9	0.9
Total		**169.0**	**17.9**
Leases in the statement of income			
Depreciation related to right-of-use assets	6.3	42.6	1.0
Interest expense on lease liabilities	2.5	8.1	0.3
Early termination gain (-) / loss (+)		1.9	0.1
Impairment related to right-of-use assets	6.3	2.7	-
Rent expense from off-balance sheet leases:		2.9	45.0
Portion related to short-term leases	9.2	1.3	-
Portion related to low-value leases	9.2	1.6	-
Total		**58.2**	**46.4**
Leases in the statement of cash flows			
Lease payments related to off-balance sheet leases		2.9	45.0
Lease payments related to on-balance sheet leases		53.6	1.6
Total		**56.6**	**46.6**

Cargotec as lessor

MEUR	Note	IFRS 16 31 Dec 2019	IAS 17 31 Dec 2018
Off-balance sheet leases			
Operating lease receivables			
Less than one year		33.5	28.9
One to two years		16.5	22.6
Two to three years		33.6	13.2
Three to four years		11.0	5.5
Four to five years		2.9	3.2
Over five years		3.3	1.5
Total		**100.7**	**75.1**
Property, plant and equipment related to off-balance sheet leases	6.3		
Land and buildings		1.1	8.1
Machinery and equipment		123.5	100.8
Total		**124.6**	**108.9**
On-balance sheet leases			
Finance lease receivables			
Less than one year		0.5	0.3
One to two years		0.5	0.2
Two to three years		0.4	0.2
Three to four years		0.2	0.1
Four to five years		0.0	0.0
Over five years		0.0	0.0
Total		**1.5**	**0.7**

MEUR	Note	IFRS 16 31 Dec 2019	IAS 17 31 Dec 2018
Present value of finance lease receivables			
Less than one year		0.5	0.2
One to two years		0.5	0.1
Two to three years		0.4	0.1
Three to four years		0.2	0.1
Four to five years		0.0	0.0
Over five years		0.0	0.0
Total		**1.5**	**0.6**
Future interest income related to finance lease receivables		0.1	0.1
Finance lease receivables			
Land and buildings		0.9	-
Machinery and equipment		0.5	0.6
Total		**1.5**	**0.6**
Leases in the statement of income			
Rent income related to operating leases		30.7	33.8
Selling profit or loss related to finance leases		0.1	0.1
Interest income related to finance leases		0.1	0.1
Total		**30.9**	**34.0**
Leases in the statement of cash flows			
Lease payments related to off-balance sheet leases		42.4	29.5
Lease payments related to on-balance sheet leases		1.5	0.7
Total		**43.9**	**30.3**

Cargotec's operating lease receivables mainly relate to container handling and industrial application equipment leased out under contracts with varying duration and conditions. The operating lease receivables also include future rent income from premises owned or subleased by Cargotec.

Rental income recognised in sales from operating leases was EUR 28.5 (2018: 30.9) million and rental income recognised in other operating income from operating leases was EUR 2.3 (3.0) million.

9.2 Commitments

MEUR	31 Dec 2019	31 Dec 2018
Guarantees given on behalf of associated companies and joint ventures	41.8	41.5
Guarantees given on behalf of others	0.4	-
Customer financing	23.3	26.7
Off-balance sheet leases	2.4	203.2
Other contingent liabilities	4.9	0.5
Total	**72.8**	**271.9**

Cargotec Corporation has guaranteed obligations of Cargotec companies arising from ordinary course of business. The total amount of these guarantees on 31 December 2019 was EUR 512.5 (31 Dec 2018: 460.8) 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.

The majority of the lease agreements Cargotec reported as off-balance sheet operating leases in 2018 were converted into lease agreements recognised on the balance sheet on the adoption of IFRS 16. Off-balance sheet leases include from 1 Jan 2019 the lease commitments related to short-term leases, low-value leases, and leases that have not yet commenced. The aggregate off-balance sheet lease expenses totalled EUR 2.9 (2018: 45.0) million. Additional information regarding the IFRS 16 transition is presented in note 1.1, Accounting principles for the consolidated financial statements. Information regarding leases is disclosed in note 9.1, Leases.

In addition, Cargotec has commitments related to its investments in joint ventures. These commitments are disclosed in note 7.2, Joint ventures and associated companies.

Contingent liabilities

Cargotec received in October 2016 a USD 13 million verdict in a local jury trial in Hempstead, USA. The verdict was related to business acquisition negotiations Cargotec USA had in 2010 and 2011. The negotiations were closed without results. The claim was based on Cargotec having breached confidentiality obligations related to the negotiations. In December 2018, Cargotec won its appeal to dispute the verdict of damages. The opponent has appealed to the Supreme Court of Texas. Cargotec has not booked a provision for this item to its financial statements.

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.

9.3 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, the CEO and other members of the Leadership Team, their close family members and entities controlled directly or indirectly by them. In addition, major shareholders with more than 20 percent ownership of shares or of the total voting rights in the company, are included in related parties.

Transactions with associated companies and joint ventures

1 Jan–31 Dec 2019 MEUR	Associated companies	Joint ventures	Total
Sale of products and services	0.1	9.0	9.1
Purchase of products and services	25.2	47.5	72.7

1 Jan–31 Dec 2018 MEUR	Associated companies	Joint ventures	Total
Sale of products and services	4.4	2.6	7.0
Purchase of products and services	18.1	61.1	79.2

Balances with associated companies and joint ventures

31 Dec 2019 MEUR	Associated companies	Joint ventures	Total
Loans receivable	27.4	-	27.4
Accounts receivable	0.0	8.0	8.0
Accounts payable	0.7	6.3	6.9

31 Dec 2018 MEUR	Associated companies	Joint ventures	Total
Loans receivable	34.7	-	34.7
Accounts receivable	1.0	0.5	1.5
Accounts payable	2.0	2.0	4.0

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

Remuneration to the members of the Board of Directors, the CEO and other members of the Leadership team is presented in note 3.3, Management remuneration.

Cargotec did not have other material business transactions with its related parties than those presented above.

9.4 Adoption of the new and amended IFRS standards and interpretations, impact on the financial statements

The following table summarises the impacts of the adoption of the new accounting standard IFRS 16, Leases, and the new interpretation IFRIC 23, Uncertainty over Income Tax Treatments, on Cargotec's consolidated balance sheet. More detailed information of the content of the new standard and interpretation as well as the impacts on Cargotec's accounting principles can be found on note 1.1, Accounting principles for the consolidated financial statements

Consolidated balance sheet

MEUR	31 Dec 2018, original	IFRS 16	IFRIC 23	1 Jan 2019, restated
ASSETS				
Non-current assets				
Goodwill	970.9			970.9
Other intangible assets	278.6			278.6
Property, plant and equipment	308.7	163.9		472.6
Investments in associated companies and joint ventures	99.8			99.8
Share investments	0.3			0.3
Loans receivable and other interest-bearing assets	36.0			36.0
Deferred tax assets	137.3	3.1	-0.7	139.8
Other non-interest-bearing assets	9.5			9.5
Total non-current assets	**1,841.1**	**167.0**	**-0.7**	**2,007.5**
Current assets				
Inventories	688.8			688.8
Loans receivable and other interest-bearing assets	1.8			1.8
Income tax receivables	56.0		-13.9	42.1
Derivative assets	17.4			17.4
Accounts receivable and other non-interest-bearing assets	822.5			822.5
Cash and cash equivalents	256.3			256.3
Total current assets	**1,842.8**	**0.0**	**-13.9**	**1,828.9**
Total assets	**3,683.9**	**167.0**	**-14.6**	**3,836.3**

MEUR	31 Dec 2018, original	IFRS 16	IFRIC 23	1 Jan 2019, restated
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	-44.2			-44.2
Fair value reserves	-13.5			-13.5
Reserve for invested non-restricted equity	58.5			58.5
Retained earnings	1,262.5	-9.9	-14.6	1,237.9
Total equity attributable to the equity holders of the parent	**1,425.6**	**-9.9**	**-14.6**	**1,401.0**
Non-controlling interest	3.0			3.0
Total equity	**1,428.5**	**-9.9**	**-14.6**	**1,404.0**
Non-current liabilities				
Interest-bearing liabilities	717.1	141.9		859.0
Deferred tax liabilities	28.1	0.0		28.1
Pension obligations	92.3			92.3
Provisions	10.7			10.7
Other non-interest-bearing liabilities	58.6			58.6
Total non-current liabilities	**906.8**	**142.0**	**0.0**	**1,048.8**
Current liabilities				
Current portion of interest-bearing liabilities	168.4	36.1		204.5
Other interest-bearing liabilities	44.5			44.5
Provisions	86.7			86.7
Advances received	190.3			190.3
Income tax payables	39.6			39.6
Derivative liabilities	5.8			5.8
Accounts payable and other non-interest-bearing liabilities	813.5	-1.1		812.3
Total current liabilities	**1,348.6**	**35.0**	**0.0**	**1,383.6**
Total equity and liabilities	**3,683.9**	**167.0**	**-14.6**	**3,836.3**

KEY FIGURES

Key financial figures

Consolidated statement of income		2019	2018	2017	2016	2015
Sales	MEUR	3,683	3,304	3,250	3,514	3,729
Sales to outside of Finland	MEUR	3,607	3,229	3,175	3,451	3,673
Operating profit	MEUR	180	190	222	198	213
% of sales	%	4.9%	5.8%	6.8%	5.6%	5.7%
Comparable operating profit	MEUR	264	242	259	250	231
% of sales	%	7.2%	7.3%	8.0%	7.1%	6.2%
Income before taxes	MEUR	146	161	189	169	186
% of sales	%	4.0%	4.9%	5.8%	4.8%	5.0%
Net income for the financial period	MEUR	89	108	133	125	143
% of sales	%	2.4%	3.3%	4.1%	3.6%	3.8%
Depreciation, amortisation and impairment	MEUR	134	77	72	85	77
Wages and salaries	MEUR	629	567	570	571	538

Consolidated balance sheet and investments		2019	2018	2017	2016	2015
Equity	MEUR	1,427	1,429	1,425	1,397	1,342
Total assets	MEUR	4,227	3,684	3,569	3,736	3,571
Interest-bearing net debt	MEUR	774	625	472	503	622
Net working capital	MEUR	158	271	115	57	151
Capital expenditure in intangible assets and property, plant and equipment	MEUR	61	46	47	40	38
Capital expenditure in customer financing	MEUR	39	34	37	40	41
Capital expenditure, total % of sales	%	2.7%	2.4%	2.6%	2.3%	2.1%

Other key figures		2019	2018	2017	2016	2015
Return on equity (ROE)	%	6.3%	7.6%	9.4%	9.1%	11.2%
Return on capital employed (ROCE)[1]	%	7.3%	8.4%	10.2%	9.1%	9.9%
Total equity / total assets	%	36.4%	40.9%	42.2%	39.6%	40.3%
Gearing[2]	%	54.2%	43.8%	33.1%	36.0%	46.4%
Interest-bearing net debt / EBITDA		2.5	2.3	1.6	1.8	2.1
Orders received	MEUR	3,714	3,756	3,190	3,283	3,557
Order book	MEUR	2,089	1,995	1,566	1,783	2,064
Cash flow from operations before financing items and taxes	MEUR	361	126	253	373	315
Research and development costs	MEUR	102	89	92	91	83
% of sales	%	2.8%	2.7%	2.8%	2.6%	2.2%
of which capitalised	MEUR	0.2	0.5	0.5	2.4	4.3
Average number of employees		12,470	11,589	11,128	11,193	10,772
Number of employees 31 Dec		12,587	11,987	11,251	11,184	10,837

[1] Cargotec has refined the treatment of the interest rate component of currency forward contracts in the calculation of return on capital employed. As a result, the return on capital employed increased by 0.4 percentage points in 2018, 0.5 percentage points in 2017, 0.3 percentage points in 2016, and 0.1 percentage points in 2015.
[2] In 2015-2018 included the cross-currency hedging of the US Private Placement corporate bond. The bond matured in February 2019. Additional information is disclosed in Capital structure management section under note 8.1, Financial risk management.

From the beginning of 2019, Cargotec applies the new accounting standard IFRS 16, Leases, and the new interpretation IFRIC 23, Uncertainty over Income Tax Treatments. The data for the comparison periods has not been restated. Additional information is disclosed in notes 1.1, Accounting principles for the consolidated financial statements, and 9.4, Adoption of the new and amended IFRS standards and interpretations, impact on the financial statements.

From the beginning of 2018, Cargotec applies the new IFRS 15 and IFRS 9 accounting standards as well as the amendments to the IFRS 2 standard. The data for the comparison period 2017 has been restated accordingly.

Share-related key figures

		2019	2018	2017	2016	2015
Earnings per share	EUR	1.39	1.66	2.05	1.95	2.21
Diluted earnings per share	EUR	1.39	1.65	2.05	1.94	2.21
Equity per share	EUR	22.12	22.16	22.06	21.65	20.73
Dividend per class B share	EUR	1.20[4]	1.10	1.05	0.95	0.80
Dividend per class A share	EUR	1.19[4]	1.09	1.04	0.94	0.79
Total dividends	MEUR	77[4]	71	68	61	52
Dividend per earnings, class B share	%	86.4%[4]	66.4%	51.1%	48.7%	36.1%
Dividend per earnings, class A share	%	85.9%[4]	65.9%	50.8%	48.3%	35.7%
Effective dividend yield, class B share	%	4.0%[4]	4.1%	2.2%	2.2%	2.3%
Price per earnings, class B share		21.8	16.1	23.0	22.0	15.6
Development of share price, class B share						
Average share price	EUR	31.09	41.28	49.85	34.31	31.58
Highest share price	EUR	38.48	51.30	59.25	43.35	37.37
Lowest share price	EUR	24.12	26.46	40.26	24.30	23.70
Closing price at the end of period	EUR	30.24	26.72	47.20	42.89	34.50
Market capitalisation 31 Dec[1]	MEUR	1,950	1,720	3,047	2,762	2,228
Market capitalisation of class B shares 31 Dec[2]	MEUR	1,660	1,464	2,595	2,355	1,900
Trading volume, number of class B shares traded	('000)	28,772	33,506	33,407	42,653	58,340
Trading volume, number of class B shares traded	%	53.0%	60.1%	60.0%	73.9%	104.5%
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)	54,850	55,020	54,965	55,076	55,042
Number of class B shares 31 Dec[2]	('000)	54,878	54,802	54,974	54,917	55,072
Diluted weighted average number of class B shares[2]	('000)	54,961	55,163	55,227	55,246	55,072

Trading information is based on Nasdaq Helsinki Ltd statistics.

[1] iIncluding 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

IFRS key figures

Earnings per share (EUR) = $\dfrac{\text{Net income attributable to the equity holders of the parent}}{\text{Average number of outstanding shares during financial year}}$

Diluted earnings per share (EUR) = $\dfrac{\text{Net income attributable to the equity holders of the parent}}{\text{Average number of diluted outstanding shares during financial year}}$

Alternative performance measures

According to the ESMA Guidelines on Alternative Performance Measures, an Alternative Performance Measure (APM) is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. In addition to IFRS key figures, Cargotec uses the following alternative performance measures:

Key figure		Definition	Reason for use	Reconciliation
Operating profit (MEUR and % of sales)	=	Sales - cost of goods sold + other operating income - selling and marketing expenses - research and development expenses - administration expenses - restructuring costs - other operating expenses + share of associated companies' and joint ventures' net income	Operating profit is used to measure business profitability. It describes the profitability of the business before taking into account financial items and taxes.	Statement of income
Comparable operating profit (MEUR and % of sales)	=	Operating profit excluding items significantly affecting comparability	Comparable operating profit is used to monitor and forecast profit development and set related targets. It is calculated by excluding items significantly affecting comparability from operating profit, which makes it easier to compare the profitability of the business at different time periods.	Note 2.1, Segment information
Items significantly affecting comparability (MEUR)	=	Items significantly affecting comparability include, in addition to restructuring costs, mainly capital gains and losses, gains and losses related to acquisitions and disposals, impairments and reversals of impairments of assets, insurance benefits, and expenses related to legal proceedings.	Factor used to calculate Comparable operating profit.	Note 2.4, Restructuring costs and other items affecting comparability
Cash flow from operations before financing items and taxes	=	Net income for the financial year + depreciation, amortisation and impairment + financing items + taxes + other adjustments + changes in net working capital	Represents cash flow from operations after income from sales less operating expenses. Measures the company's ability to meet its financial commitments, including interest payments, taxes, investments, and equity and debt payments. Used to monitor and forecast business performance.	Statement of cash flows

Key figure		Definition	Reason for use	Reconciliation
Interest-bearing net debt / EBITDA	=	Interest-bearing net debt / EBITDA	Used to measure corporate capital structure and financial capacity.	Note 8.1, Financial risk management
Interest-bearing net debt (MEUR)	=	Non-current interest-bearing liabilities + current portion of interest-bearing liabilities + current other interest-bearing liabilities - non-current and current loans receivable and other interest-bearing assets - cash and cash equivalents +/- foreign currency hedge of corporate bonds	Interest-bearing net debt represents Cargotec's indebtedness. Used to monitor capital structure and as a factor to calculate Interest-bearing net debt / EBITDA and Gearing.	Note 8.1, Financial risk management
EBITDA (MEUR)	=	Operating profit + depreciation, amortisation and impairment	Factor used to calculate Interest-bearing net debt / EBITDA.	Note 8.1, Financial risk management
Net working capital (MEUR)	=	Inventories + operative derivative assets + accounts receivable + other operative non-interest-bearing assets - provisions - advances received - operative derivative liabilities - accounts payable - pension obligations - other operative non-interest-bearing liabilities	Net working capital is used to follow the amount of capital needed for the business to operate. It does not include financing items, taxes nor non-current assets. Used as a factor to calculate Operative capital employed.	Note 5.1, Net working capital
Operative capital employed (MEUR)	=	Goodwill + other intangible assets + property, plant and equipment + investments in associated companies and joint ventures + share investments + working capital receivables - working capital liabilities	Operative capital employed refers to the amount of capital needed for the business to operate and generate profits. It does not include taxes or financing items. Used to measure the efficiency with which the capital is used.	Note 2.1, Segment information
Investments	=	Additions to intangible assets and property, plant and equipment including owned assets and right-of-use assets, excluding assets acquired through business combinations	Investments refer to money used to acquire long-term assets. Used as a factor in cash flow calculation.	Note 6.2 Other intangible assets; note 6.3 Property, plant and equipment
Orders received, comparable foreign exchange rates (MEUR)	=	Orders received calculated using average euro rates of the comparison periods in the translation of non-euro subsidiaries.	Used to enhance comparability of orders received from period to period.	-
Sales, comparable foreign exchange rates (MEUR)	=	Sales calculated using average euro rates of the comparison periods in the translation of non-euro subsidiaries.	Used to enhance comparability of sales from period to period.	-
Return on equity (ROE) (%)	= 100 x	Net income for the financial year / Total equity (average for the financial year)	Represents the rate of return that shareholders receive on their investments.	Net income for financial year: Income statement; Total equity: Balance sheet
Return on capital employed (ROCE) (%)	= 100 x	Income before taxes + financing expenses / Total assets - non-interest-bearing debt (average for the financial year)	Represents relative profitability or the rate of return that has been received on capital employed requiring interest or other return.	Income before taxes and financing expenses: Income statement; Total assets and non-interest-bearing debt: Balance sheet
Non-interest-bearing debt	=	Total assets - total equity - non-current interest-bearing liabilities - current portion of interest-bearing liabilities - current other interest-bearing liabilities	Used as a factor to calculate Return on capital employed (ROCE).	Balance sheet

Key figure		Definition	Reason for use	Reconciliation
Total equity / total assets (%)	= 100 x	Total equity / Total assets - advances received	Used to measure solvency and describe the share of the company's assets financed by equity.	Balance sheet
Gearing (%)	= 100 x	Interest-bearing net debt / Total equity	Represents the company's indebtedness by measuring the amount of interest-bearing debt in proportion to equity capital. Some of Cargotec's loan agreements include a covenant restricting the corporate capital structure, measured by gearing.	Note 8.1, Financial risk management

Share-related key figures

Equity / share (EUR)	=	Total equity attributable to the equity holders of the parent / Number of outstanding shares at the end of the financial year
Dividend / share (EUR)	=	Dividend for the financial year / Number of outstanding shares at the end of the financial year
Dividend / earnings (%)	= 100 x	Dividend for the financial year / share / Earnings per share
Effective dividend yield (%)	= 100 x	Dividend / share / Closing price for the class B share at the end of the financial year
Price / earnings (P/E)	=	Closing price for the class B share at the end of the financial year / Earnings per share
Average share price (EUR)	=	EUR amount traded during financial year for the class B share / Number of class B shares traded during the financial year
Market capitalisation at the end of the financial year	=	Number of class B shares outstanding at the end of the financial year x closing price for the class B share at the end of the financial year + Number of class A shares outstanding at the end of the financial year x closing day average price for the class B share
Trading volume	=	Number of class B shares traded during the financial year
Trading volume (%)	= 100 x	Number of class B shares traded during the financial year / Average weighted number of class B shares during the financial year

Key exchange rates for the euro

Closing rate	31 Dec 2019	31 Dec 2018
SEK	10.447	10.255
USD	1.123	1.145

Average rate	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
SEK	10.557	10.259
USD	1.121	1.181

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

Parent company income statement

EUR	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Sales		**195,108,782.71**	**182,413,141.08**
Administration expenses	3, 4, 5	-196,858,955.65	-194,650,317.70
Other operating income		125,352.81	49,594.69
Operating loss		**-1,624,820.13**	**-12,187,581.93**
Financing income and expenses	6	-240,915,470.37	342,511.64
Loss before appropriations and taxes		**-242,540,290.50**	**-11,845,070.29**
Group contributions		9,300,000.00	28,000,000.00
Income taxes	7	-738,510.07	-2,341,079.67
Loss / Profit for the period		**-233,978,800.57**	**13,813,850.04**

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

Parent company balance sheet

EUR	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets	8	33,564,605.74	36,917,207.52
Tangible assets	9	82,597.63	124,049.55
Investments			
Investments in subsidiaries	10	2,692,616,765.72	3,627,828,801.65
Investments in joint ventures	10	36,691,395.61	37,891,395.61
Other investments	10	3,788,468.03	3,788,468.03
Total non-current assets		**2,766,743,832.73**	**3,706,549,922.36**
Current assets			
Non-current receivables	11, 13	67,399,153.00	158,023,861.56
Current receivables	12,13	798,282,755.99	520,449,878.27
Cash and cash equivalents		287,301,391.10	147,739,227.78
Total current assets		**1,152,983,300.09**	**826,212,967.61**
Total assets		3,919,727,132.82	4,532,762,889.97

EUR	Note	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES			
Equity			
Share capital		64,304,880.00	64,304,880.00
Share premium account		97,992,301.08	97,992,301.08
Fair value reserves		-	-128,406.79
Reserve for invested non-restricted equity		72,533,210.32	69,866,381.21
Retained earnings		1,072,587,391.68	1,129,458,830.46
Loss / Profit for for the period		-233,978,800.57	13,813,850.04
Total equity	14	**1,073,438,982.51**	**1,375,307,836.00**
Provisions		**50,553.21**	**50,553.21**
Liabilities			
Non-current liabilities	13, 15	805,590,509.11	699,012,027.89
Current liabilities	13, 16	2,040,647,087.99	2,458,392,472.87
Total liabilities		**2,846,237,597.10**	**3,157,404,500.76**
Total equity and liabilities		**3,919,727,132.82**	**4,532,762,889.97**

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

Parent company cash flow statement

TEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Operating loss	-1,625	-12,188
Adjustments to the operating loss for the period	5,980	6,383
Change in working capital:		
Change in non-interest-bearing receivables	2,991	-6,834
Change in non-interest-bearing payables	-6,674	-4,556
Interest paid	-28,073	-26,004
Interest received	12,380	12,819
Dividends received	106,521	554,659
Income taxes paid	18	-
Derivatives	36,499	-24,490
Cash flow from operating activities	**128,017**	**499,790**
Investments to tangible and intangible assets	-3,359	-6,065
Investments to subsidiaries and other companies	-3,415	-6,700
Proceeds from sales of group companies	627,999	28,876
Cash flow from investing activities	**621,225**	**16,111**
Received and paid group contributions	28,000	-
Acquisition of treasury shares	-2,198	-9,415
Proceeds from sale of treasury shares	2,633	2,246
Increase in loans receivable	-427,669	-218,077
Disbursement of loans receivable	177,776	337,501
Proceeds from short-term borrowings	724,717	96,912
Repayments of short-term borrowings	-1,173,295	-825,730
Proceeds from long-term borrowings	298,096	199,450
Repayments of long-term borrowings	-167,053	-82,111
Profit distribution	-70,686	-67,624
Cash flow from financing activities	**-609,679**	**-566,848**
Change in cash and cash equivalents	139,562	-50,948
Cash and cash equivalents 1 Jan	147,739	198,686
Cash and cash equivalents 31 Dec	**287,301**	**147,739**

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

Notes to the parent company financial statements

1. Accounting principles for the parent company financial statements

Basis of preparation
Cargotec Corporation's (1927402-8) 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 on 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 the 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 on 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.

Parent company applies hedge accounting only to hedges of cash flows associated with foreign currency-denominated loans, in which interest rate swap is used as a hedging instrument. 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.

Statutory 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 and external forward agreements. Foreign exchange differences arising from these transactions are booked in the statement of income in the financial items. Furthermore, the parent company invoices the group companies for the 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 2019 was, in absolute terms, EUR 12.0 (31 Dec 2018: 19.3) 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 accounts receivable 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 2019 were EUR 0.4 (31 Dec 2018: 1.0) million, and cash and equivalents EUR 287.3 (31 Dec 2018: 147.7) million. The parent company's cash and equivalents are held in banks that have a solid credit rating and are approved by the Treasury Committee. More information about the credit risk related to derivatives is disclosed in the note 8.1 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

TEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Wages and salaries	21,243	18,349
Pension costs	2,312	2,989
Other statutory employer costs	701	394
Total	**24,256**	**21,732**

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

Average number of employees

	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
White-collar	173	157

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 595,600 (2018: 639,480).

The salaries and remunerations paid to the CEO, including base salary, fringe benefits, short-term incentive payout and taxable income from the share-based incentive programme 2016 and 2017 (2018: share-based incentive programme 2015), totalled EUR 1,539,787 (2018: 2,862,702). The CEO is entitled to a supplemental defined contribution pension 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. No supplemental pension contributions have been paid in 2019. In 2018, a EUR 500,000 contribution was paid to the insurance company administering the benefit. Additionally, the CEO is entitled to a statutory pension, for which a pension cost of EUR 118,989 (2018: 159,330) was recorded in year 2019.

The key management's compensation is described in more detail in note 3.3, Management remuneration, in the consolidated financial statements.

4. Depreciation, amortisation and impairment charges

TEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Planned depreciation and amortisation		
Intangible rights	5,779	5,933
Goodwill	-	431
Other capitalised expenditure	932	67
Machinery and equipment	41	38
Total	**6,752**	**6,469**

5. Audit fees

TEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Annual audit	678	644
Tax advice	287	99
Other services	97	880
Total	**1,062**	**1,623**

6. Financing income and expenses

TEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Interest income		
From group companies	7,670	10,458
From third parties	803	615
Total	**8,473**	**11,073**
Other financing income		
From group companies	20,810	24,741
Dividends from group companies	106,521	554,659
Exchange rate differences	479	-23
Total	**127,809**	**579,377**
Interest expenses		
To group companies	-9,623	-7,672
To third parties	-15,226	-15,834
Total	**-24,849**	**-23,506**
Other financing expenses		
To group companies	-28,165	-2,770
To third parties	-12,062	-12,527
Total	**-40,227**	**-15,297**
Reversals of impairments / impairments		
Reversals of impairments of investments in subsidiaries	8,570	-
Impairments of investments in subsidiaries	-319,492	-538,696
Impairments of investments in joint ventures	-1,200	-12,608
Total	**-312,122**	**-551,304**
Total financing income and expenses	**-240,915**	**343**

Positive result from cross-currency and interest rate swaps designated as cash flow hedges, totalling EUR 0.2 (2018: 1.1) million, has been recorded as adjustment to interest expenses on financial liabilities at amortised cost. Cross-currency and interest rate swap matured in February 2019.

7. Income taxes

TEUR	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Current year tax expense	-1,539	-2,290
Change in deferred tax asset	800	-51
Total	**-739**	**-2,341**

8. Intangible assets

TEUR	Intangible rights	Goodwill	Other capitalised expenditure	Fixed assets under cons-truction	Total
Acquisition cost 1 Jan 2019	62,718	-	11,682	4,992	79,392
Additions	-	-	823	2,536	3,359
Disposals	-	-	-	-	-
Transfers between groups	5,997	-	360	-6,357	-
Acquisition cost 31 Dec 2019	**68,715**	**-**	**12,865**	**1,171**	**82,751**
Accumulated amortisation 1 Jan 2019	-31,032	-	-11,442	-	-42,474
Amortisation during the period	-5,779	-	-932	-	-6,711
Transfers between groups	-	-	-	-	-
Accumulated amortisation and impairments 31 Dec 2019	**-36,811**	**-**	**-12,374**	**-**	**-49,185**
Book value 31 Dec 2019	**31,904**		**490**	**1,171**	**33,565**
Acquisition cost 1 Jan 2018	8,233	2,154	53,702	11,417	75,506
Additions	722	-	12	5,306	6,040
Disposals	-	-	-	-	-
Transfers between groups	53,763	-	-42,032	-11,731	-
Acquisition cost 31 Dec 2018	**62,718**	**2,154**	**11,682**	**4,992**	**81,546**
Accumulated amortisation 1 Jan 2018	-5,983	-1,724	-30,491	-	-38,198
Amortisation during the period	-5,933	-431	-67	-	-6,431
Transfers between groups	-19,116	-	19,116	-	-
Accumulated amortisation and impairments 31 Dec 2018	**-31,032**	**-2,154**	**-11,442**	**-**	**-44,629**
Book value 31 Dec 2018	**31,686**	**-**	**239**	**4,992**	**36,917**

TEUR	2019	2018
Capitalised interest expense	77	110

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

TEUR	Machinery and equipment	Other tangible assets	Total
Acquisition cost on 1 Jan 2019	1,287	121	1,409
Additions	-	-	-
Acquisition cost on 31 Dec 2019	**1,287**	**121**	**1,409**
Accumulated depreciation on 1 Jan 2019	-1,188	-97	-1,285
Depreciation during the period	-41	-	-41
Accumulated depreciation on 31 Dec 2019	**-1,229**	**-97**	**-1,326**
Book value on 31 Dec 2019	**58**	**24**	**83**
Acquisition cost on 1 Jan 2018	1,262	121	1,384
Additions	25	-	25
Acquisition cost on 31 Dec 2018	**1,287**	**121**	**1,409**
Accumulated depreciation on 1 Jan 2018	-1,150	-97	-1,247
Depreciation during the period	-38	-	-38
Accumulated depreciation on 31 Dec 2018	**-1,188**	**-97**	**-1,285**
Book value on 31 Dec 2018	**99**	**24**	**124**

10. Investments

TEUR	2019	2018
Investments in subsidiaries		
Acquisition cost 1 Jan	4,331,748	4,352,732
Accumulated impairments 1 Jan	-703,919	-165,223
Additions	3,709	7,900
Reductions*	-627,999	-28,884
Reversals of impairments / impairments**	-310,922	-538,696
Book value 31 Dec	**2,692,617**	**3,627,829**

TEUR	2019	2018
Investments in joint ventures		
Acquisition cost 1 Jan	37,891	50,499
Impairments	-1,200	-12,608
Book value 31 Dec	**36,691**	**37,891**

TEUR	2019	2018
Other investments		
Acquisition cost 1 Jan	3,788	3,788
Book value 31 Dec	**3,788**	**3,788**

* The reduction booked in 2019 is related to an equity refund received from a subsidiary.

** In 2019, the impairments are mainly related to impairments on ownership of MacGregor companies due to the loss making business. The impairment booked in 2018 relates to EUR 450 million dividend received from a subsidiary.

Subsidiary companies' full name, country of domicile and parent company's shareholding are disclosed in note 7.3, Subsidiaries, in the consolidated financial statements.

11. Non-current receivables

TEUR	31 Dec 2019	31 Dec 2018
Loans receivable from group companies	65,040	156,065
Loans receivable from others	-	400
Deferred tax asset	2,359	1,559
Total	**67,399**	**158,024**

12. Current receivables

TEUR	31 Dec 2019	31 Dec 2018
From group companies		
Loans receivable	716,602	403,850
Accounts receivable	22,229	22,167
Derivative assets	34,616	36,074
Deferred assets	9,646	29,781
Total	**783,093**	**491,872**
From third parties		
Loans receivable	430	648
Accounts receivable	63	125
Derivative assets	8,473	17,412
Deferred assets	6,224	10,393
Total	**15,190**	**28,578**
Total current receivables	**798,283**	**520,450**

Deferred assets

TEUR	31 Dec 2019	31 Dec 2018
Group contribution	9,300	28,000
Interest income	646	3,286
Periodizations	2,645	3,258
VAT receivable	1,789	3,048
Other accruals	1,490	2,582
Total	**15,870**	**40,174**

13. Derivatives

Fair values of derivative financial instruments

31 Dec 2019 TEUR	Positive fair value	Negative fair value	Net fair value
Intra-group currency forward contracts	34,616	18,967	15,649
Other currency forward contracts	8,473	11,718	-3,245
Total	**43,089**	**30,685**	**12,404**

31 Dec 2018 TEUR	Positive fair value	Negative fair value	Net fair value
Intra-group currency forward contracts	36,074	9,747	26,327
Other currency forward contracts	7,108	5,321	1,787
Cross-currency and interest rate swaps	10,117	-	10,117
Total	**53,299**	**15,068**	**38,231**

Nominal values of derivative financial instruments

TEUR	31 Dec 2019	31 Dec 2018
Intra-group currency forward contracts	2,304,818	2,221,797
Other currency forward contracts	2,640,109	2,252,413
Cross-currency and interest rate swaps	-	74,236
Total	**4,944,927**	**4,548,446**

A cross-currency and interest rate swap hedged the US Private Placement corporate bond which was issued in February 2007 and matured in February 2019. Cash flow hedge accounting was applied for this instrument and it was recognised at fair value through profit and loss. The majority of the highly probable cash flows hedged by the currency forward contracts will realise within one year.

The derivatives have been recognised at gross fair values on 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

TEUR	2019	2018
Restricted equity		
Share capital 1 Jan	64,305	64,305
Share capital 31 Dec	**64,305**	**64,305**
Share premium account 1 Jan	97,992	97,992
Share premium account 31 Dec	**97,992**	**97,992**
Fair value reserves 1 Jan	-128	-650
Cash flow hedges	160	652
Change in deferred taxes	-32	-130
Fair value reserve 31 Dec	**-**	**-128**
Total restricted equity	**162,297**	**162,169**
Non-restricted equity		
Reserve for invested non-restricted equity 1 Jan	69,866	74,338
Acquisition of treasury shares	-1,119	-10,495
Proceeds from sale of treasury shares	3,786	6,023
Reserve for invested non-restricted equity 31 Dec	**72,533**	**69,866**
Retained earnings 1 Jan	1,143,272	1,197,083
Profit distribution	-70,686	-67,624
Retained earnings 31 Dec	**1,072,587**	**1,129,459**
Loss / Profit for the period	-233,979	13,814
Total non-restricted equity	**911,141**	**1,213,139**
Total equity	**1,073,438**	**1,375,308**
Distributable equity	**911,141**	**1,213,139**

15. Non-current liabilities

TEUR	31 Dec 2019	31 Dec 2018
Corporate bonds	497,390	398,832
Loans from financial institutions	308,200	300,180
Total non-current liabilities	**805,590**	**699,012**

Maturity after 5 years

TEUR	31 Dec 2019	31 Dec 2018
Loans from financial institutions	273,052	124,394
Total	**273,052**	**124,394**

Corporate bonds

				Book value, TEUR	
Loan period	Interest	Coupon rate, %	Nominal value	31 Dec 2019	31 Dec 2018
2007–2019	Fixed	5.68	85,000 TUSD	-	74,233
2014–2020	Fixed	3.38	150,000 TEUR	149,953	149,772
2017–2022	Fixed	1.75	150,000 TEUR	149,708	149,593
2017–2024	Fixed	2.38	100,000 TEUR	99,566	99,467
2019–2025	Fixed	1.25	100,000 TEUR	99,403	-
2019–2026	Fixed	1.63	150,000 TEUR	148,713	-

The USD denominated Private Placement corporate bond matured in February 2019 and it was hedged through a cross-currency and interest rate swap defined as a cash flow hedge. Considering the hedge, Cargotec did no have any material amounts of interest-bearing debt in foreign currencies.

16. Current liabilities

TEUR	31 Dec 2019	31 Dec 2018
To group companies		
Loans from group companies	1,758,866	2,206,687
Accounts payable	1,947	14,820
Derivative liabilities	18,967	9,747
Accruals	16,987	16,851
Total	**1,796,768**	**2,248,105**
To third parties		
Corporate bonds	149,953	74,233
Loans from financial institutions	42,111	92,096
Bank overdrafts used	1,210	632
Accounts payable	10,106	10,144
Derivative liabilities	11,718	5,324
Accruals	28,781	27,858
Total	**243,879**	**210,287**
Total current liabilities	**2,040,647**	**2,458,392**

Accruals

TEUR	31 Dec 2019	31 Dec 2018
Accrued salaries, wages and employment costs	6,925	4,360
Accrued interests	9,218	12,442
Other accruals	29,625	27,907
Total	**45,768**	**44,709**

17. Commitments

TEUR	31 Dec 2019	31 Dec 2018
Security for guarantees		
Guarantees given on behalf of group companies	512,526	460,836
Guarantees given on behalf of associated companies and joint ventures	41,805	41,516
Guarantees given on behalf of others	400	-
Leasing commitments		
Maturity within the next financial period	1,168	1,215
Maturity after next financial period	4,601	5,260
Total	**560,500**	**508,827**

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 2015–2019, EUR

	2019	2018	2017	2016	2015
Earnings per share	1.39	1.66	2.05	1.95	2.21
Equity per share	22.12	22.16	22.06	21.65	20.73
Dividend per class B share	1.20[1]	1.10	1.05	0.95	0.80
Dividend per class A share	1.19[1]	1.09	1.04	0.94	0.79
Effective dividend yield, class B share, %	4.0%[1]	4.1%	2.2%	2.2%	2.3%
Price per earnings, class B share	21.8	16.1	23.0	22.0	15.6
Development of share price, class B share					
Average share price	31.09	41.28	49.85	34.31	31.58
Highest share price	38.48	51.30	59.25	43.35	37.37
Lowest share price	24.12	26.46	40.26	24.30	23.70
Closing price at the end of period	30.24	26.72	47.20	42.89	34.50

[1] 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 15,041,133 at the end of 2019.

There were no changes in Cargotec Corporation's share capital in 2019. On 31 December 2019, 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 1,19 for each class A shares and EUR 1,20 for each class B shares outstanding be paid for the financial year 2019. The Board also proposes that the dividend shall be paid in two instalments, in March and October 2020. The dividend for class A shares would be paid in EUR 0.60 and EUR 0.59 instalments. The dividend for outstanding class B shares would be paid in two EUR 0.60 instalments.

Own shares and share issue

On 19 March 2019, the Board of Directors 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 launched in 2016, 2018 allocation of restricted shares programme 2016–2018 under the share-based incentive programme 2016 and performance period 2017–2018 of share-based incentive programme launched in 2017.

In the share issue, 115,275 own class B shares held by the company were transferred without consideration to the key employees participating in the share based incentive programmes in accordance with the programme specific terms and conditions. More detailed information about the launch and the terms and conditions of the programmes is available in stock exchange releases published on 10 February 2016 and on 8 February 2017.

The decision on the directed share issue is based on the authorisation granted to the Board of Directors by the Annual General Meeting on 19 March 2019. 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.

In January 2019, Cargotec repurchased a total of 40,000 class B shares based on the authorisation of the Annual General Meeting on 20 March 2018 for a total cost of EUR 1,116,632.00. The shares were repurchased for use as reward payments for the share-based incentive programmes.

At the end of 2019, Cargotec held a total of 304,328 own class B shares, accounting for 0.47 percent of the total number of shares and 0.20 percent of the total number of votes. At the end of 2019, the number of outstanding class B shares totalled 54,877,751.

Share price development and trading

In 2019, Cargotec's class B share price increased by 13 percent, from EUR 26.72 to EUR 30.24. Over the same period, the OMX Helsinki Benchmark Cap Index increased by 15 percent.

At the end of 2019, 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 1,660 (31 Dec 2018: 1,464) 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 1,950 (1,720) million, excluding own shares held by the company.

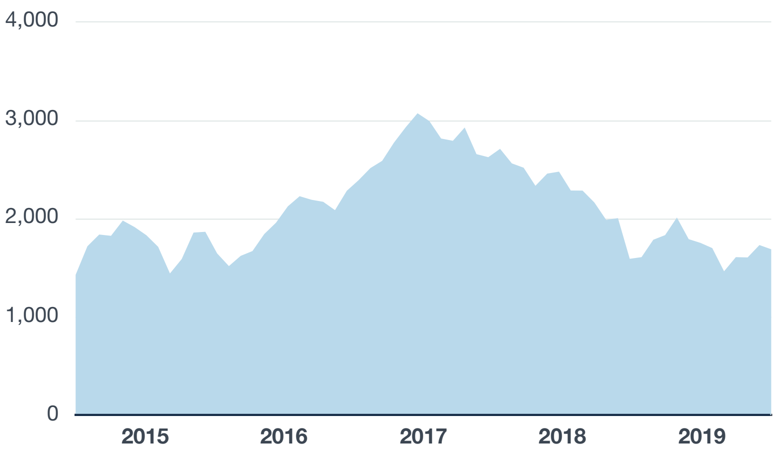
The class B share closed at EUR 30.24 (26.72) on the last trading day of 2019. The highest quotation for 2019 was EUR 38.48 (51.30) and the lowest EUR 24.12 (26.46). The volume weighted average price for the financial period was EUR 31.09 (41.28).

In 2019, a total of 29 (34) million class B shares were traded on Nasdaq Helsinki, corresponding to a turnover of EUR 892 (1,382) million. The average daily trading volume of class B shares was 115,088 (134,025) shares or EUR 4 (6) million.

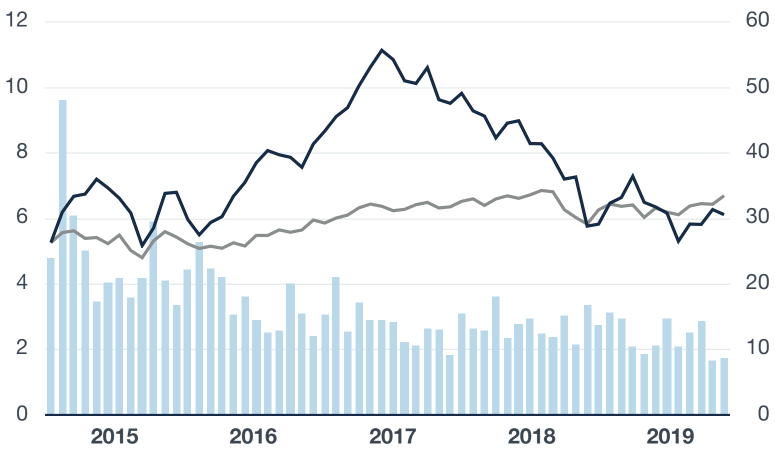
In addition, according to Fidessa, a total of 40 (47) million class B shares were traded in several alternative marketplaces, such as Cboe APA and Cboe BXE, corresponding to a turnover of EUR 1,266 (1,945) million.

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

MARKET CAPITALISATION, CLASS B SHARES



SHARE PRICE AND VOLUME



Monthly volume in NASDAQ OMX Helsinki Ltd
Monthly volume weighted average price
OMXHB Cap indexed monthly closing price

Shareholders

At the end of 2019, Cargotec had 24,532 (22,510) 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 17,213,609 (17,888,693) nominee-registered shares, representing 26.60 (27.65) percent of the total number of shares, which corresponds to 11.44 (11.89) percent of all votes.

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

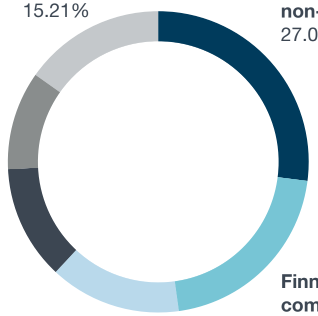
	Shareholder	Class A shares	Class B shares	Shares total	Shares total, %	Votes total	Votes total, %
1	Wipunen varainhallinta oy	2,940,067	6,200,000	9,140,067	14.13	3,560,067	23.67
2	Mariatorp Oy	2,940,067	5,000,000	7,940,067	12.27	3,440,067	22.87
3	Pivosto Oy	2,940,067	3,910,000	6,850,067	10.59	3,331,067	22.15
4	KONE Foundation	705,888	1,232,454	1,938,342	3.00	829,133	5.51
5	Ilmarinen Mutual Pension Insurance Company		1,450,000	1,450,000	2.24	145,000	0.96
6	Varma Mutual Pension Insurance Company		1,143,888	1,143,888	1.77	114,388	0.76
7	The State Pension Fund		750,000	750,000	1.16	75,000	0.50
8	Elo Mutual Pension Insurance Company		504,000	504,000	0.78	50,400	0.34
9	Mandatum Life Insurance Company Ltd.		500,835	500,835	0.77	50,083	0.33
10	Herlin Heikki Juho Kustaa		400,000	400,000	0.62	40,000	0.27
11	Sigrid Jusélius Foundation		367,600	367,600	0.57	36,760	0.24
12	Veritas Pension Insurance Company Ltd.		366,124	366,124	0.57	36,612	0.24
13	Evli Finnish Small Cap Fund		343,000	343,000	0.53	34,300	0.23
14	Cargotec Oyj		304,328	304,328	0.47	30,432	0.20
15	Nurminen Hanna Kirsti		270,268	270,268	0.42	27,026	0.18
16	OP-Finland Small Firms Fund		269,781	269,781	0.42	26,978	0.18
17	Nordea Pro Finland Fund		251,158	251,158	0.39	25,115	0.17
18	Society of Swedish Literature in Finland		219,800	219,800	0.34	21,980	0.15
19	Blåberg Anna Karolina		182,745	182,745	0.28	18,274	0.12
20	Herlin Olli Ilkka Julius		175,000	175,000	0.27	17,500	0.12
	Total	**9,526,089**	**23,840,981**	**33,367,070**	**51.57**	**11,910,182**	**79.18**
	Nominee registered			17,213,609			
	Other owners			14,127,489			
	Total number of shares issued on 31 Dec 2019			**64,708,168**			

Based on ownership records of Euroclear Finland Ltd.

Number of shares	Number of share-holders	% of shareholders	Total shares	% of total number of shares
1–100	12,630	51.49	610,713	0.94
101–500	8,279	33.75	2,095,115	3.24
501–1,000	1,813	7.39	1,393,357	2.15
1,001–10,000	1,622	6.61	4,330,332	6.69
10,001–100,000	154	0.63	4,501,606	6.96
100,001–1,000,000	25	0.10	6,493,292	10.03
over 1,000,000	8	0.03	44,974,133	69.50
Total	**24,531**	**100.00**	**64,398,548**	**99.52**
of which nominee registered			17,213,609	26.60
In the joint book-entry account			5,292	0.01
Number of outstanding shares on 31 Dec 2019			**64,403,840**	**99.53**
Own shares on 31 Dec 2019	1		304,328	0.47
Total number of shares on 31 Dec 2019			**64,708,168**	**100.00**

Based on ownership records of Euroclear Finland Ltd.

BREAKDOWN BY SHAREHOLDER CATEGORY ON 31 DECEMBER 2019



Based on ownership records of the Euroclear Finland Ltd.

Board and management shareholding

On 31 December 2019, the aggregate shareholding of the Board of Directors, the CEO and companies in which they have a controlling interest was 2,940,067 (2,940,067) class A shares and 6,559,411 (6,527,220) class B shares, which correspond to 14.68 (14.63) percent of the total number of all shares and 23.91 (23.89) percent of all votes.

The CEO Mika Vehviläinen is covered by the share-based incentive programmes 2018, 2019 and matching-share programme 2019.

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 2019
Remuneration statement 2019
CVs of Board members (cargotec.com)
CVs of Executive Board members (cargotec.com)

SIGNATURES FOR BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Helsinki, 5. February 2020

Ilkka Herlin
Chairman of the Board

Tapio Hakakari
Vice Chairman 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, 5. February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
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 2019. The financial statements comprise:

- the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements, including a summary of significant accounting policies
- the parent company balance sheet, parent company income statement, parent company cash flow statement and notes to the parent company financial statements.

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.

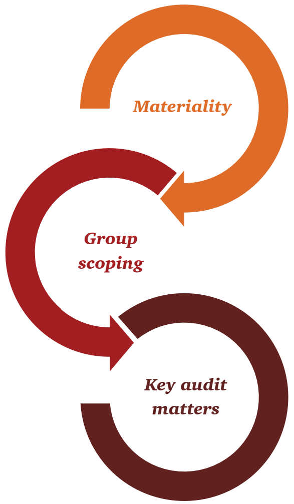
Independence

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 2.3 to the consolidated financial statements.

Our Audit Approach

Overview



- We have applied an overall group materiality of € 14 million (previous year € 14 million).

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

- Over time revenue recognition
- 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 million (previous year € 14 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 these 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
Over time revenue recognition Refer to notes 1.1, 1.2, and 2.2 to the consolidated financial statements. The group has significant long-term construction contracts in Kalmar and MacGregor segments. These long-term construction contracts are recognised on an over time basis in accordance with the percentage of completion if the delivered machine or solution is estimated to have no alternative use for the company and at all times during the project the company has a right to payment regarding the work already performed. Percentage of completion is determined either by reference to costs incurred to date as a percentage of the estimated total costs of the project or by completion of a certain physical milestone. Over time revenue recognition 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. Over time revenue recognition is a key audit matter in the audit due to the level of management judgement included in the estimates.	Our revenue testing included both testing of the company's controls, as well as substantive audit procedures for selected projects. Our testing of the company's controls, focused on the IT systems used by the group, as well as process level controls covering project forecasting and revenue recognition. Our substantive testing focused particularly on estimates applied by management in the accounting. Our procedures for the selected projects included, among other things, the following: • We ensured that the revenue recognition method applied was appropriate based on the terms of the arrangement; • We agreed the total project revenue estimates to sales agreements, including amendments as appropriate; • We tested the accuracy of the cost estimate by taking a sample of cost components and traced those to supporting documentation; and • We recalculated the completion stage of the projects to ensure that the amount of revenue being recognised 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 1.1, 1.2 and 6.1 to the consolidated financial statements. At 31 December 2019 the Group's goodwill balance amounted to € 1.058,5 million and is recognized in three reporting segments: Kalmar € 338,0 million, Hiab € 226,9 million and MacGregor € 493,6 million. The company tests goodwill for potential impairment at least 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 of Kalmar and Hiab are determined using value in use model, and the recoverable amount of MacGregor is based on fair value less cost to sell calculation. These calculations are subject to significant management judgement in a form of estimates of future cash flows and discount rates. Valuation of goodwill is a key audit matter in the audit due to the significant 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 calculations and in the fair value less cost to sell calculation by comparing them 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 to the forecasts included in the prior year impairment model to consider whether the 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 of the components of the discount rate used by the company to generally accepted external sources of information as appropriate. • We also considered the appropriateness of the related disclosures provided in note 6.1 in the consolidated financial statements.

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Accounting for restructuring provisions and costs Refer to notes 1.1, 1.2, 2.4 and 5.5 to the consolidated financial statements. Restructuring provision amounts to € 20,4 million at 2019 year-end, with an annual restructuring costs of € 80,1 million recognised in the profit and loss statement. These costs primarily consisted of employment termination costs, impairments of non-current assets, impairments of inventories, restructuring-related gains and losses on disposals of businesses, contract termination costs, costs arising from outsourcing or transferring operations to new locations, maintenance costs of vacant premises and roll out and development costs of Cargotec Business Services operations. The accounting for restructuring provisions and costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the company 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. Accounting for restructuring provisions and costs is a key audit matter in the audit due to level of management judgement included in the estimates.	Our audit procedures were designed to test that the costs incurred were accurately recorded, capturing both amounts paid during the financial 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; • We assessed the appropriateness of the provisions and the assumptions relating to asset impairments; and • We assessed whether the costs incurred were sufficiently distinct to warrant inclusion in the restructuring costs and in line with the group accounting policies.

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of inventories Refer to notes 1.1, 1.2 and 5.2 to the consolidated financial statements. Net inventories amount to € 713,0 million, including a provision of € 97,9 million at the end of 2019. 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 countings of the group companies selected in our audit scope to obtain audit evidence regarding existence and condition of the inventory. During the inventory counting we assessed the appropriateness of the counting procedures 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 accounting; • 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

We were first appointed as auditors by the annual general meeting on 1 June 2005. Our appointment represents a total period of uninterrupted engagement of 15 years.

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 5 February 2020

PricewaterhouseCoopers Oy

Authorised Public Accountants

Markku Katajisto

Authorised Public Accountant (KHT)

CORPORATE GOVERNANCE STATEMENT 2019

Governance

Cargotec's governance and management are based on the Finnish Limited Liability Companies Act and Securities Markets Act, as well as the company's Articles of Association and Code of Conduct. Cargotec class B share is listed at Nasdaq Helsinki and the company complies with the rules and guidelines of Helsinki Exchange and the Finnish Financial Supervision Authority. In 2019, Cargotec complied with all the recommendations of the Finnish Corporate Governance Code 2015, published by the Securities Markets Association and as of 1 Jan 2020, Cargotec complies with the Corporate Governance Code 2020 (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. 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.

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 operational and financial plans as well as risk management principles. Violations against Cargotec's Code of Conduct are reported to the Board. 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 connection with each meeting, the Board discusses also in the absence of the executive management.

In 2019, the Board convened ten times. The attendance in the meetings is reported in the table further below. The Board agrees annually on focus areas for the coming year. The key themes on the Board's agenda were Cargotec's strategic focus areas of the strategy period 2019–2021, which are 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 sustainability, automation and data security.

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 a Chairman and a 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.

At the AGM in 2019, the current Board members Jorma Eloranta, Tapio Hakakari, Ilkka Herlin, Peter Immonen, Teresa Kemppi-Vasama, Johanna Lamminen, Kaisa Olkkonen, Teuvo Salminen and Heikki Soljama were re-elected to the Board of Directors. Kimmo Alkio, Board member until 19 March 2019, did not stand for re-election. In its organising meeting, the Board elected Ilkka Herlin as Chairman and Tapio Hakakari as Vice Chairman. At the end of 2019, the age range of the members was between 49 and 68 years. Three of the nine Board members were women and six were men. Five of the members have been on the Board for more than five years and four of them for less than five years.The gender target the Board had set has been reached. The Board members have a wide range of educational background and they have executive experience in international companies in different cultures.

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 2019 the members considered, among other things, the Board's decision making process, the strategy work, each member's own contribution to the Board work, as well as perceiving sustainability aspects in decision making.

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 2019, 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 and the remuneration of the Board is described in the Remuneration statement 2019.

Board members 31 Dec 2019

Ilkka Herlin
Chairman, b. 1959

Ph.D., D.Sc. (Tech) h.c., D.Sc. (Agr & For) h.c

Chairman of the Nomination and Compensation Committee

Member of the Audit and Risk Management Committee

Independent of the company, significant shareholder (Wipunen varainhallinta oy), not independent of significant shareholder (Board member of Mariatorp Oy)

Main position: Chairman and owner, Wipunen varainhallinta oy; Chairman, Foundation for a Living Baltic Sea

Ownership 31 Dec 2019*:
2,940,067 A shares
6,209,207 B shares

Tapio Hakakari
Vice chairman, b. 1953

LL.M

Member of the Nomination and Compensation Committee

Independent of the company and significant shareholders

Main position: Non-executive director

Ownership 31 Dec 2019*:
160,245 B shares

Jorma Eloranta
member, b.1951

M.Sc. (Tech), D.Sc. (Tech) h.c

Member of the Nomination and Compensation Committee

Independent of the company and significant shareholders

Main position: Non-executive director

Ownership 31 Dec 2019*:
9,526 B shares

Peter Immonen
member, b. 1959

M.Sc. (Econ)

Member of the Nomination and Compensation Committee

Independent of the company, not independent of significant shareholders (Board member in Wipunen varainhallinta oy and Mariatorp Oy)

Main position: Chairman, WIP Asset Management Oy

Ownership 31 Dec 2019*:
54,652 B shares

Teresa Kemppi-Vasama
member, b. 1970

M.Pol.Sc. (social psychology), MBA

Independent of the company and significant shareholders

Main position: Executive Chairman of the Board, Kemppi Oy

Ownership 31 Dec 2019*:
935 B shares

* Direct ownership and the ownership of controlled corporations

Board members 31 Dec 2019

Johanna Lamminen
member, b. 1966

D. Sc. (Tech.), MBA

Independent of the company and significant shareholders

Main position: CEO, Gasum Ltd

Ownership 31 Dec 2019*:
935 B shares

Kaisa Olkkonen
member, b. 1964

LL.M

Member of the Audit and Risk Management Committee

Independent of the company and significant shareholders

Main position: CEO, SSH Communications Security Oyj

Ownership 31 Dec 2019*:
1,225 B shares

Teuvo Salminen
member, b. 1954

M.Sc. (Econ), APA exam 1983

Chairman of the Audit and Risk Management Committee

Independent of the company and significant shareholders

Main position: Non-executive director

Ownership 31 Dec 2019*:
9,767 B shares

Heikki Soljama
member, b. 1954

M.Sc. (Power electronics)

Independent of the company and significant shareholders

Main position: Non-executive director

Ownership 31 Dec 2019*:
1,225 B shares

Board member until 19 March 2019: Kimmo Alkio; b. 1963; BBA, EMBA; Main position: President and CEO, Tieto Corporation; Independent of the company and significant shareholders

* Direct ownership and the ownership of controlled corporations

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 Internal Audit plans and reports. Furthermore, the committee prepares a proposal to the Annual General Meeting regarding the election and fees of the external auditor, and monitors the statutory audit of financial statements and consolidated financial statements. The committee defines and monitors the non-audit services performed by the auditing firm to ensure the auditor's independence. Cargotec's Board has confirmed a Non-audit services policy for defining the permitted non-audit services purchased from the auditors. Violations against Cargotec's Code of Conduct are reported to the committee. The committee also reviews the Corporate governance statement and the Non-financial information report.

The Audit and Risk Management Committee consists of a minimum of three members of the Board of Directors. In addition, the CEO, CFO and Head of Internal Audit 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 2019, the committee met five times. The meeting attendance is reported in the above table. Along with the financial, treasury, tax, risk management and compliance issues, the committee handled issues regarding the supply chain, insurances and the company's development projects. The committee also acquainted itself with the operations of Cargotec Business Services offering shared financial services for Cargotec companies. The committee held an annual self-assessment discussion to review whether its performance needs to be developed.

Board and committee members' participation in meetings 2019

Name	Board of Directors	Audit and Risk Management Committee	Nomination and Compensation Committee
Ilkka Herlin	10/10 (Chairman)	5/5	6/6 (Chairman))
Tapio Hakakari	10/10		6/6
Kimmo Alkio	3/3		
Jorma Eloranta	10/10		6/6
Peter Immonen	10/10		4/6
Teresa Kemppi-Vasama	10/10		
Johanna Lamminen	10/10		
Kaisa Olkkonen	10/10	5/5	
Teuvo Salminen	10/10	5/5 (Chairman)	
Heikki Soljama	9/10		

Nomination and Compensation Committee

The Nomination and Compensation Committee prepares a proposal to Cargotec's AGM concerning the composition and remuneration of the Board of Directors. The committee prepares the remuneration policy and remuneration report for the company's governing bodies, i.e. the Board, the CEO and the deputy CEO, if such is appointed. The committee handles annually the Board's diversity principles and follows if the diversity target is met. The committee prepares a proposal to the Board regarding the appointment of the CEO and the terms of employment.

The committee prepares Cargotec's long- and short-term incentive programmes and follows their outcome and functionality, and prepares the nomination and remuneration issues of other top management members as needed before Board approval.

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 2019, the committee convened six times. The meeting attendance is presented in the above table. 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 AGM in spring 2019. Board member Kimmo Alkio informed the committee that he was not going to stand for re-election and the committee proposed that the number of members be decreased to nine and all other current members be re-elected. The committee also prepared the remuneration policy for the governing bodies to be presented to the AGM in 2020.

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).

Leadership Team

Supporting the CEO in his duties, the Leadership Team 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 Leadership Team also defines operative principles and procedures in accordance with the guidelines set by the Board. The Leadership Team 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.

Cargotec simplified its leadership structure in April 2019 and combined the former Executive Board and Extended Executive Board to form a new Cargotec Leadership Team. The Leadership Team consists of former Executive Board members Mika Vehviläinen, CEO; Mikko Puolakka, Executive Vice President, CFO; Stefan Lampa, President, Kalmar Mobile Solutions; Antti Kaunonen, President, Kalmar Automation Solutions; Scott Phillips, President, Hiab; Michel van Roozendaal, President, MacGregor; Mikael Laine, Senior Vice President, Strategy; Soili Mäkinen, CIO, Senior Vice President, Digitalisation; and Mikko Pelkonen, Senior Vice President, Human Resources, as well as former Extended Executive Board members Outi Aaltonen, Senior Vice President, General Counsel, and Carina Geber-Teir, Senior Vice President, Communications. The Leadership Team members report to Cargotec's CEO. The CEO's and the Leadership Team's CV details are available on the company website and their remuneration is described in the Remuneration statement 2019.

Leadership Team 31 Dec 2019

Mika Vehviläinen
CEO

B. 1961, Finnish citizen

M.Sc. (Econ.)

Ownership 31 Dec 2019*:
111,694 B shares

Mikko Puolakka
Executive Vice President, CFO

B. 1969, Finnish citizen

M.Sc. (Econ.)

Ownership 31 Dec 2019*:
19,363 B shares

Antti Kaunonen
President, Kalmar Automation Solutions

B. 1959, Finnish citizen

Dr. Tech

Ownership 31 Dec 2019*:
11,099 B shares

Stefan Lampa
President, Kalmar Mobile Solutions as of 1 April 2019

B. 1964, Swedish citizen

M.Sc. (mech. eng.), EMBA

Ownership 31 Dec 2019*:
12,385 B shares

Scott Phillips
President, Hiab

B. 1966, American citizen

MBA, B.Sc. (Ind. Tech.)

Ownership 31 Dec 2019*:
12,385 B shares

Michel van Roozendaal
President, MacGregor

B. 1963, Dutch citizen

M.Sc. (Aerospace Eng.), MBA

Ownership 31 Dec 2019*:
29,321 B shares

* Direct ownership and the ownership of controlled corporations

Leadership Team 31 Dec 2019

Outi Aaltonen
Senior Vice President, General Counsel

B. 1965, Finnish citizen

LL.M

Ownership 31 Dec 2019*:
5,920 B shares

Carina Geber-Teir
Senior Vice President, Communications

b. 1972, Finnish citizen

M. Sc. (Pol)

Ownership 31 Dec 2019*:
875 B shares

Mikael Laine
Senior Vice President, Strategy

B. 1964, Finnish citizen

M.Sc. (Econ.)

Ownership 31 Dec 2019*:
13,837 B shares

Soili Mäkinen
CIO, Senior Vice President, Digitalisation

B. 1960, Finnish citizen

M.Sc. (Econ.)

Ownership 31 Dec 2019*:
11,078 B shares

Mikko Pelkonen
Senior Vice President, Human Resources

B. 1970, Finnish citizen

B.A.

Ownership 31 Dec 2019*:
36,899 B shares

* Direct ownership and the ownership of controlled corporations

Related party transactions

Cargotec's related parties include the subsidiaries, associated companies and joint ventures. Also the members of the Board of Directors, the CEO and other members of the Leadership Team, their close family members and entities controlled directly or indirectly by them, as defined in IAS 24, are related to Cargotec. Major shareholders with more than 20 percent ownership of shares or of the total voting rights in the company, are included in related parties. The company maintains lists of its related parties. The transactions with associated companies and joint ventures are followed in the financial reporting system. They are reported in Note 9.3 to the financial statements and they have been carried out at market prices. The company has an instruction for the Board and Leadership Team members and major shareholders regarding recognising the related party transactions. They are obliged to inform the company of any planned agreements or other legal acts with any group company and asked annually to confirm if any related party transactions have taken place. The Board will handle all related party transactions that are not conducted in the ordinary course of business of the company or are not implemented under arm's-length terms.

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 are registered permanently. The members of the Board of Directors, the CEO and other members of the Leadership Team, the Head of Internal Audit, 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 Leadership Team. 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.

Until the AGM 2019, Cargotec had two auditors: Authorised Public Accountant (APA) Markku Katajisto and the auditing firm PricewaterhouseCoopers Oy with APA Mikko Nieminen as its principal auditor. The AGM on 19 March 2019 elected one auditor, the auditing firm PricewaterhouseCoopers Oy, with APA Markku Katajisto as its principal auditor.

Auditor's fees are compensated against an invoice. PricewaterhouseCoopers Oy has acted as Cargotec's auditor since 2005. Competitive tendering for the audit last took place in 2011. The fees paid to the auditors for different services are listed below. Other services are mainly related to mergers and acquisitions.

Auditor's fees

MEUR	2019	2018
Audit fees	2.9	2.8
Tax advice	0.6	0.6
Other services	0.6	1.8
Total	4.0	5.1

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. 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 Code of Conduct panel of Cargotec Leadership Team.

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 policies and guidelines, as well as the 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.

Internal Audit

The role of Cargotec Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value and improving the operations of Cargotec and its businesses. It helps and supports the business organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. To ensure the independence of the Internal Audit function, Head of Internal Audit reports functionally to the Audit and Risk Management Committee, and administratively to the CFO. Internal Audit develops a flexible risk based audit plan which is approved by the 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 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 Leadership Team 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. Board of Directors' report includes an estimate on the company's main risks and uncertainties and short-term risks.

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 Leadership Team 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 Leadership Team'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, HR and indirect procurement services for Cargotec companies and target to harmonized way of working with common processes, controls and tools.

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 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.

REMUNERATION STATEMENT 2019

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 Leadership Team in 2019.

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 the Compensation Committee (NCC). In determining such remuneration, the committee takes account of the Board members' responsibilities and obligations towards the company. Furthermore, the NCC compares the Board's remuneration to 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 the Leadership Team. 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 Leadership Team. 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 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 Leadership Team

The total remuneration structure of the CEO and the Leadership Team 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 programmes 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 Leadership Team remuneration consists of the following elements:

Remuneration element	Description
Base salary	Fixed salary including taxable fringe benefits
Short-term Incentives (STI)	2019 annual bonus programme performance targets: • CEO: Financial 70% weight (2019 cash flow and comparable operating profit). Strategic individual targets 30% weight. • Other Leadership Team members: Financial 70% weight (2019 cash flow and comparable operating profit). Strategic individual targets 30% weight. • Threshold, target and maximum performance levels defined Target (maximum) incentive levels as a % of annual base salary: • CEO: 65% (130%) • Strategic Business Unit President: 55% (110%) • Other Leadership Team member: 35–45% (70–90%)
Long-term Incentives (LTI)	2019 share-based incentive programme: Performance period 2019-2020 + ownership and value creation period 2021; 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 2019: • Cargotec or Business Area participants: Service gross profit • Navis software division participants: Navis' sales and on sales excluding TOS-business Performance targets for measuring period 2020 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 2019 and 2020, and potential rewards from the performance period 2019–2020 will be paid partly in Cargotec's class B shares and partly in cash in 2021 (the cash portion of the reward will cover the tax and 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 2019–2020: • CEO: 11,550 (23,100) • Other Leadership Team members: 1,100–7,300 (2,200–14,600) Target (maximum) gross incentive level as a % of gross annual base salary for the performance period 2019–2020: • CEO: 115% (230%) • Other Leadership Team members: 30–125% (60–250%) No share delivery if a termination notice has been delivered by either party prior to the share delivery. Share ownership recommendation for the Leadership Team 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 2019 share-based incentive programme, there are two earlier established long-term incentive programmes: • 2017 share-based incentive programme (incentive payout in spring 2019, followed by ownership and value creation period until 31.12.2019) • 2018 share-based incentive programme (incentive payout in spring 2020, followed by ownership and value creation period until 31.12.2020)
Restricted shares	As a part of total remuneration, additional restricted shares can be granted to selected Leadership Team 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.
Co-investment share programme	2019–2022 Matching Share Programme: The CEO and other selected five Leadership Team members have purchased in total 86,695 Cargotec class B shares in March 2019. Company will deliver the matching shares in relation 1:1 to the purchased shares in three matching periods, which will end on 30 April 2020 (1/3 of shares), 31 March 2021 (1/3 of shares) and 31 March 2022 (1/3 of shares). The rewards earned on the basis of the programme will be paid partly in Cargotec class B shares and partly in cash after each matching period. As a rule, no reward will be paid, if a participant's employment or service terminates before the reward payment. The shares paid as a reward in 2020 and 2021 may not be transferred during an approximate one-year lock-up period established for the shares. Furthermore, the company's share ownership recommendation for the Leadership Team members is applied to the rewards to be paid in the programme.
Pension	CEO Mika Vehviläinen's pension is provided according to the statutory Finnish pension system (Finnish TyEL). Additionally, Mr. Mika Vehviläinen is entitled to a supplemental defined contribution pension benefit in Finland. According to the pension agreement, the CEO is entitled to retire between the age of 60–65. No supplemental pension contributions have been paid in 2019. 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 Leadership Team are entitled to a statutory pension. Their retirement age is determined in accordance with the statutory pension scheme in Finland. Additionally, one Finnish member has a supplemental defined contribution pension plan. The MacGregor Business Area President has a supplemental defined contribution pension plan, following the local market practice.
Severance pay	The members of the Leadership Team 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 19 March 2019, the Board's annual remunerations for the year 2019 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 2019 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	105,240	691
Tapio Hakakari, Vice Chairman	75,240	488
Kimmo Alkio, member***	3,000	-
Jorma Eloranta, member	60,060	366
Peter Immonen, member	58,060	366
Teresa Kemppi-Vasama, member	54,000	366
Johanna Lamminen, member	54,000	366
Kaisa Olkkonen, member	59,000	366
Teuvo Salminen, member	74,000	488
Heikki Soljama, member	53,000	366
Total	**595,600**	**3,863**

* Including Board remuneration, meeting attendance fees and fringe benefits for period of 1 January 2019–31 December 2019.

** Value included in remuneration for Board membership and Board work.

*** Until 19 March 2019.

CEO and Cargotec Leadership Team

For the financial period 2019, the base salary of Cargotec's CEO Mika Vehviläinen was EUR 699,659 including fringe benefits. In addition, he received a short-term incentive payout of EUR 124,344 (payout is based on 2018 performance) and long-term incentive payout of EUR 715,784 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 Leadership Team members in 2019 is stated in the following table:

Remuneration paid during 2019, EUR	CEO Mika Vehviläinen	Other members of Leadership Team (in aggregate)*
Base salary including fringe benefits	699,659	2,906,230
Short-term incentives (based on 2018 performance, taxable gross amount before deduction of taxes and employment-related expenses)	124,344	503,378
Long-term incentives: 2016 share-based incentive programme payout (taxable gross amount before deduction of taxes and employment-related expenses)	550,746	572,911
Long-term incentives: 2017 share-based incentive programme payout (taxable gross amount before deduction of taxes and employment-related expenses)	165,038	325,152
Restricted shares: 2018 restricted shares programme payout (taxable gross amount before deduction of taxes and employment-related expenses)	-	301,931
Total	**1,539,787**	**4,609,602**

* Outi Aaltonen (since 25 April 2019), Carina Geber-Teir (since 25 April 2019), Antti Kaunonen, Mikael Laine, Stefan Lampa (since 1 April 2019), Soili Mäkinen, Mikko Pelkonen, Mikko Puolakka, Scott Phillips, Roland Sundén (until 31 January 2019), Michel van Roozendaal.

Long-term incentives - 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 Leadership Team in 2019:

Actual number of shares delivered in 2019	CEO Mika Vehviläinen	Other members of Leadership Team (in aggregate)
2016 share-based incentive programme: 2016–2018 earning period; class B shares	9,162	9,643
2017 share-based incentive programme: 2017–2018 earning period + value creation period 2019; class B shares	2,325	4,873

Long-term incentives - the following table summarises the net number of shares granted to the CEO and other members of the Leadership Team in 2019 (possible incentive payout in spring 2021):

Net number of shares granted in 2019	CEO Mika Vehviläinen	Other members of Leadership Team (in aggregate)
2019 share-based incentive programme: Performance period 2019–2020 + value creation period 2021, on target performance, net number of shares. Additionally, a cash portion to cover taxes and employment-related expenses.	11,550	44,250

Restricted shares - 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 Leadership Team in 2019:

Actual number of shares delivered in 2019	CEO Mika Vehviläinen	Other members of Leadership Team (in aggregate)
2018 restricted shares programme: 2018 earning period, 2019 restriction period; class B shares	-	9,050

Restricted shares - the following table summarises the net number of shares granted to the CEO and other members of the Leadership Team in 2019 (possible incentive payout in spring 2021):

Net number of shares granted in 2019	CEO Mika Vehviläinen	Other members of Leadership Team (in aggregate)
2019 restricted shares programme. Share delivery by April 2021. Additionally, a cash portion to cover taxes and employment-related expenses.	-	2,755

Co-investment share programme - The following table summarises the net number of shares purchased by the CEO and other members of the Leadership Team in 2019:

Number of shares purchased in 2019	CEO Mika Vehviläinen	Other members of Leadership Team (in aggregate)
2019–2022 Matching Share Programme	24,770	61,925

Company will deliver the matching shares in relation 1:1 to the purchased shares in three matching periods, which will end on 30 April 2020 (1/3 of shares), 31 March 2021 (1/3 of shares) and 31 March 2022 (1/3 of shares).

INVESTOR RELATIONS AT CARGOTEC

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 it participates in annual general meeting arrangements. Investor relations prepares videos on current topics, such as interim reports or specific events. IR produces regular podcasts that cover similar topics. Both videos and podcasts can be found from Cargotec website's Investor section, videos from the IR video gallery in particular.

Investor Relations leads the Capital Markets Day and other IR events arrangements 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 publication of an interim report 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 2019

Cargotec's Investor Relations actively organised various events for investors and analysts in 2019. In addition to Investor Relations, Cargotec's CEO, CFO, business area presidents and other business experts participated in investor meetings and events.

In September, Cargotec organised the Finnish Industrial Days in Shanghai together with other Finnish industrial companies KONE, Wärtsilä and Kemira. About 30 analysts and investors attended our presentations during the event. Kalmar, Hiab and MacGregor representatives explained their recent development, market conditions and plans for the future in China.

Also in September Cargotec IR organised a site visit for analysts and investors to Hiab's and Kalmar's sites in Stargard, Poland, where their main assembly units are located. The purpose of the event was to offer analysts and investors an opportunity to meet with our local business leads and gain a better understanding of our assembly capabilities in Poland. In total 13 investors and analysts participated in the visit.

In September 2019, 13 investors and analysts visited Kalmar's and Hiab's assembly units in Stargard, Poland.

In June, we organised a Service Day event in Helsinki, Finland, where service leaders of Kalmar, Hiab and MacGregor gave presentations about the growth prospects, recent development as well as achievements after the Capital Market Day 2017. In March we organised a Hiab investor breakfast in Helsinki. The event included presentations from Hiab's President Scott Phillips and other members of Hiab's top management. 20 investors and analysts participated in this event.

In 2019, Investor Relations organised 19 roadshows in the US, United Kingdom, Denmark, Finland, Sweden, Netherlands, Germany, Spain, Italy and France. We also participated in several conferences and seminars, for example in the SEB Industrial and Technology Seminar and Carnegie Capital Goods Conference in Stockholm, Sweden, and SEB Conference in Copenhagen, Denmark. In addition, Cargotec attended several events targeted to private investors, and hosted frequent investor and analyst meetings both at Cargotec headquarters in Helsinki as well as in other venues.

The publication dates for Cargotec's Financial statements review, half-year report and interim reports in 2019 were 8 February, 25 April, 18 July and 22 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. Cargotec IR also produced specific short videos for each quarter, where the main results from each quarter were concisely presented. Recordings, videos and transcripts of the events are available on Cargotec's investor website.

Awards in 2019

The IR magazine awarded Cargotec Investor Relations the Best Investor Event (small to mid-cap) 2019 Award in its annual IR Magazine Awards - Europe evaluation. The winners are determined by the input of hundreds of analysts and portfolio managers, who give their opinions on which companies provide them with the best IR service in Europe.

Analyst coverage

At the end of 2019, Cargotec share was covered by 12 analysts, located in Helsinki, Stockholm, and London. 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 2020

6 February 2020	Financial Statements Review 2019
Week 8, 2020	Financial statements review and Annual Report 2019
17 March 2020	Annual General Meeting
23 April 2020	Publication of January–March 2020 Interim Report
17 July 2020	Publication of January–June 2020 Half-Year Report
22 October 2020	Publication of January–September 2020 Interim report

The IR calendar is available on Cargotec website's Investor section.

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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 2019 totalled approximately EUR 3.7 billion and it employs around 12,500 people. www.cargotec.com

Annual Review 2019

Financial Review 2019

GRI Index 2019

Cargotec's reporting for the year 2019 consists of three documents: the Annual review, the Financial review, and the GRI index. The financial review includes the Board of Directors' report, the financial statements, the auditor's report, the corporate governance statement and the remuneration statement. All documents are available on the company website www.cargotec.com.

www.cargotec.com

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