

Governance 2018



HOW TO READ THIS REPORT



Information regarding Konecranes' governing principles, group structure, salaries and compensation of the President and CEO and Board of Directors

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Corporate Governance

Konecranes Plc (Konecranes, the Company) is a Finnish public limited liability company, which complies with the Finnish Companies and Securities Market Acts, the rules of Nasdaq Helsinki, and other regulations concerning public companies, as well as Konecranes Plc's Articles of Association, in its decision-making and administration.

Konecranes complies with the Finnish Corporate Governance Code 2015 (the "Code"), which came into force on January 1, 2016 and was approved by the board of the Securities Market Association. The Code can be found at www.cgfinland.fi. Konecranes complies with the recommendations of the Code with no exceptions.

Konecranes has issued a Corporate Governance Statement and a Remuneration Statement based on the Code. Read more www.konecranes.com > [Investors](#) > [Corporate Governance](#).

General Meeting

The General Meeting of Shareholders is the Company's highest decision-making body, through which shareholders exercise their decision-making power and right of supervision and control over the Company's business.

An Annual General Meeting (AGM) must be held within six months after the end of a financial year. Konecranes Plc's Annual General Meeting 2018 was held on March 27, 2018.

An Extraordinary General Meeting (EGM) must be held e.g. when the Board of Directors considers it necessary or if an

auditor or shareholders with at least 10 percent of shares so demand in writing to consider a specific issue.

The Board of Directors (Board) shall convene an AGM or EGM by publishing a notice on the Company's website or in one or more national newspapers or by sending a written notice to shareholders by mail no more than three (3) months and no less than three (3) weeks before a meeting. The notice shall include the proposed agenda.

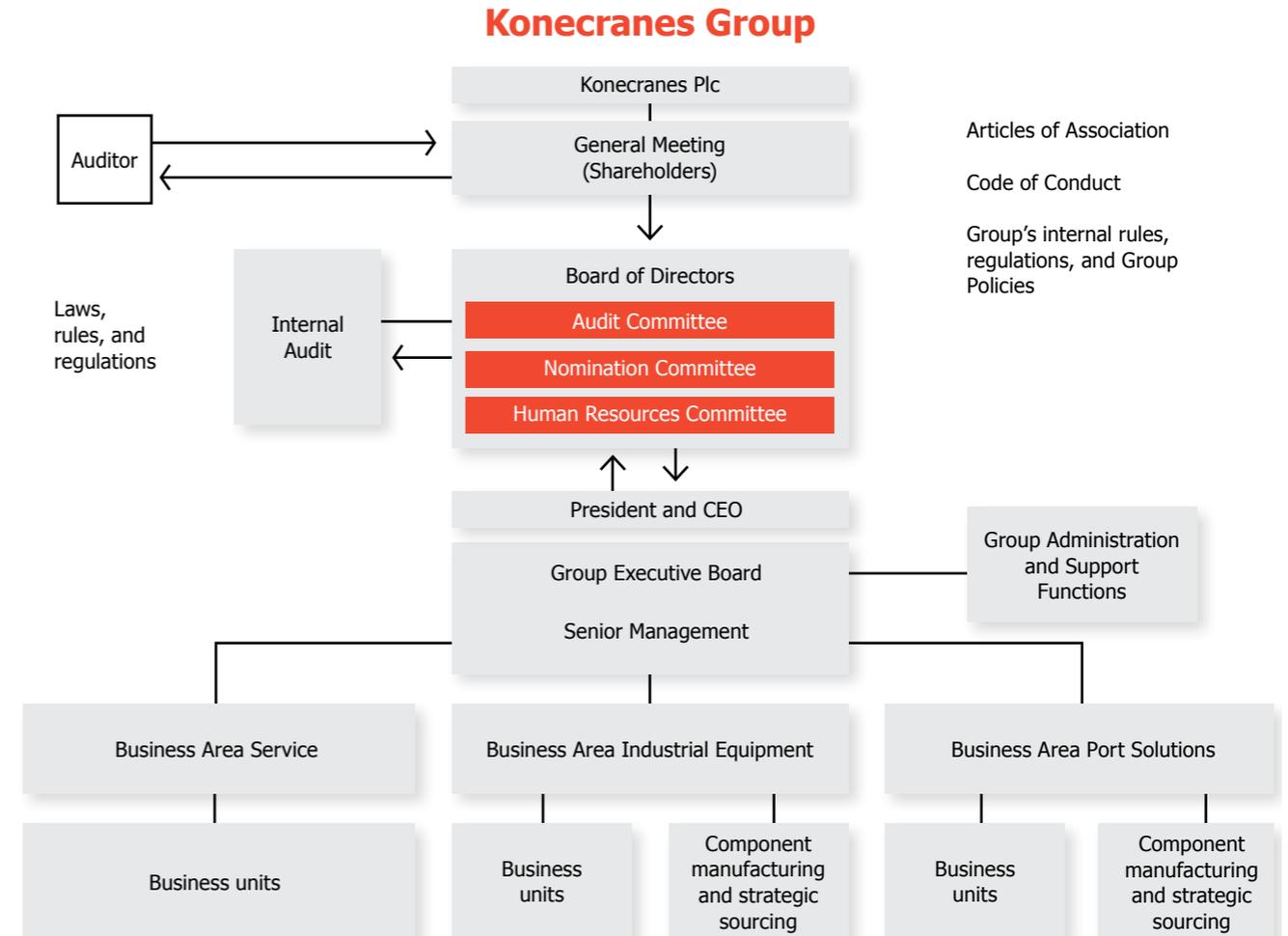
The Company shall disclose on its website the date by which shareholders shall notify the Board of Directors of any issue that they wish to be included in the agenda.

The Company will publish the decisions made at General Meetings as stock exchange releases and on the Company's website without delay after meetings.

The minutes of the General Meeting, including those appendices of the minutes that are part of decisions made by the meeting, will be posted on the Company's website within two weeks of a General Meeting.

More information on General Meetings can be found on the Company's website at www.konecranes.com > [Investors](#) > [Corporate Governance](#) > [General Meeting](#).

Corporate Governance structure of the Konecranes Group in 2018



Corporate Governance Statement 2018

Board of Directors

Composition of the Board

Mr. Christoph Vitzthum

- b. 1969
- Finnish citizen
 - Chairman of the Board since 2016, Board Member since 2015
 - Independent of the Company and its significant shareholders
 - Education: M.Sc. (Econ.)
 - Principal occupation: President and CEO, Fazer Group
 - Shares: 3,131

Mr. Ole Johansson

- b. 1951
- Finnish citizen
 - Vice Chairman of the Board since 2017, Board Member since 2015
 - Independent of the Company, but deemed to be dependent of significant shareholders of the Company based on current position as Chairman of the Board of Directors of Hartwall Capital Oy Ab
 - Education: B.Sc. (Econ.)
 - Principal occupation: Board professional
 - Shares: 12,871

Ms. Janina Kugel

- b. 1970
- German citizen
 - Board Member since 2016
 - Independent of the Company and its significant shareholders
 - Education: M.Sc. (Econ.)
 - Principal occupation: Chief Human Resources Officer and Member of the Managing Board, Siemens AG
 - Shares: 1,204

Mr. Bertel Langenskiöld

- b. 1950
- Finnish citizen
 - Board Member since 2012
 - Independent of the Company and its significant shareholders (deemed to be dependent of a significant shareholder of the Company until September 30)
 - Education: M.Sc. (Eng.)
 - Principal occupation: Board professional
 - Shares: 4,497

Mr. Ulf Liljedahl

- b. 1965
- Swedish citizen
 - Board Member since 2016
 - Independent of the Company and its significant shareholders
 - Education: B.Sc. (Econ. and Business Administration)
 - Principal occupation: President and CEO, Volito AB
 - Shares: 1,204

Board members since March 27, 2018

Mr. Per Vegard Nerseth

- b. 1964
- Norwegian citizen
 - Board Member since 2018
 - Independent of the Company and its significant shareholders
 - Education: B.Sc. (Econ.), MBA
 - Principal occupation: Group Senior Vice President, Managing Director of Global Business Unit Robotics, ABB Asea Brown Boveri Ltd
 - Shares: 513

Mr. Anders Nielsen

- b. 1962
- Swedish citizen
 - Board Member since 2018
 - Independent of the Company and its significant shareholders
 - Education: Studies in Industrial Economy
 - Principal occupation: CTO, TRATON GROUP
 - Shares: 513

Ms. Päivi Rekonen

- b. 1969
- Finnish citizen
 - Board Member since 2018
 - Independent of the Company and its significant shareholders
 - Education: M.Soc.Sc., M.Sc. (Econ.)
 - Principal occupation: Independent strategic advisor
 - Shares: 513

Board member until March 27, 2018

Ms. Malin Persson

- b. 1968
- Swedish citizen
 - Board Member since 2005
 - Independent of the Company and its significant shareholders
 - Education: M.Sc. (Eng.)
 - Principal occupation: CEO & Owner, Accuracy AB



1. Christoph Vitzthum, **2.** Ole Johansson, **3.** Janina Kugel, **4.** Bertel Langenskiöld, **5.** Ulf Liljedahl, **6.** Per Vegard Nerseth, **7.** Anders Nielsen, **8.** Päivi Rekonen.

Main tasks

The Board is vested with powers and duties to manage and supervise the administration and operations of the Company as set forth in the Companies Act, the Articles of Association, and any other applicable Finnish laws and regulations. The Company complies with all other applicable rules and regulations affecting the Company or its affiliates (Group Companies) outside Finland, provided that such compliance does not constitute a violation of Finnish law.

The Board has a general obligation to pursue the best interests of the Company and all of its shareholders. The Board is accountable to the Company's shareholders. The members of the Board of Directors shall act in good faith and with due care, exercising their business judgment on an informed base in what they believe to be the best interest of the Company and its shareholder community as a whole.

The Board of Directors shall decide on the business strategy of the Company, the appointment and dismissal of the President and CEO, the deputy to the President and CEO, and other senior management, Group structure, acquisitions and divestments, financial matters, and investments. It shall also continuously review and monitor the operations and performance of Group Companies, risk management, and the Company's compliance with applicable laws, as well as any other issues determined by the Board of Directors. The Board shall keep itself informed of issues and business activities of major strategic importance to the Company on an ongoing basis. The Board shall appoint a secretary to be present at all Board meetings.

The President and CEO and Chief Financial Officer report to the Board on a quarterly basis on the sales funnel, competitive situation, market sentiment, the Company's order intake and financial performance, full-year forecast,

as well as on safety, people, and customer topics. The status of the most important development activities, e.g. major IT investments, R&D projects and acquisition cases, may be presented to the Board by the persons directly responsible for such matters.

Diversity of the Board of Directors

In 2016, the Board approved a diversity policy. According to the policy, the Members of the Board of Directors are always selected based upon their expected contribution and effectiveness as Members of the Board of Directors, and capability to positively influence the long-term strategic direction and performance of the company. As a team, the Board of Directors works for the benefit of the key stakeholders, including customers, employees and shareholders. Diversity in the composition of the Board of Directors enables diversity in thinking and high-quality decision making.

When considering diversity within the Board of Directors, the main attribute is diversity in thinking including individual professional and personal experiences, influenced by diversity in nationality, age and gender. Board selections are based on a candidate's background and competency to understand Konecranes' current and future markets, strategy, employees and customers, including a sound understanding of financials and business dynamics. Collectively the Board of Directors should have combined experience in different markets, geographies and important topics like digitalization and corporate responsibility.

For a well-functioning Board of Directors, it is important that Board members are committed to Board work and have the possibility to devote the time needed to understand the company's current situation, customers and strategy.

The most important nomination criteria for Board candidates is competency, knowledge, personal qualities and integrity. Both genders shall be represented on the Board of Directors and Konecranes' aim is to strive towards a good and balanced board composition taking into account all aspects of board diversity.

At the end of 2018, out of eight Board members, two were female, representing one fourth of the total number of Board members. The Board constituted of four different nationalities and experience from three different decades of birth. The Board also consisted of different educational backgrounds from the fields of engineering, economics, social science and human resource management.

In 2018, Konecranes' Board convened 12 times. The attendance of the Board members at meetings was 98%. The attendance of the members to the board and committee meetings is presented in the table below:

Board meetings 2018

Member	Board Meetings	
	Attendance	Percentage
Christoph Vitzthum	12/12	100%
Ole Johansson	12/12	100%
Janina Kugel	12/12	100%
Bertel Langenskiöld	12/12	100%
Ulf Liljedahl	12/12	100%
Per Vegard Nerseth	9/10	90%
Anders Nielsen	9/10	90%
Malin Persson	2/2	100%
Päivi Rekonen	10/10	100%

Committee meetings 2018

Member	Audit Committee meetings		Nomination Committee meetings		Human Resources Committee meetings	
	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage
Christoph Vitzthum			5/5	100%	5/5	100%
Ole Johansson	6/6	100%	5/5	100%		
Janina Kugel					4/5	80%
Bertel Langenskiöld					5/5	100%
Ulf Liljedahl	6/6	100%	5/5	100%		
Per Vegard Nerseth						
Anders Nielsen						
Malin Persson	1/1	100%				
Päivi Rekonen	5/5	100%				

The Audit Committee

During 2018, the Board's Audit Committee comprised of the following members:

- Mr. Ulf Liljedahl (Chairman),
- Mr. Ole Johansson,
- Ms. Malin Persson (until March 27, 2018)
- Ms. Päivi Rekonen (from March 27, 2018)

All members of the Audit Committee are deemed to be independent of the Company and, with the exception of Mr. Ole Johansson, independent of its significant shareholders. Mr. Ole Johansson is deemed to be dependent of significant shareholders of the Company based on his current position as Chairman of the Board of Directors of Hartwall Capital Oy Ab. All members have sufficient expertise on corporate management. In addition, all members have a degree in business administration and/or economics.

The Board shall appoint an Audit Committee from among its members to assist the Board in its responsibilities relating to the appropriate arrangement of the control of the Company accounts and finances pursuant to the Companies Act. The Audit Committee shall have at least three (3) non-executive Board members majority of whom are independent of and not affiliated with the Company. At least one member must be independent of significant shareholders. The intention is not to extend the duties of the Board from what is expressly stipulated in the Finnish Companies Act. The Audit Committee shall not make independent decisions and it may rely on the information provided to it.

Main tasks

The tasks and responsibilities are defined in the Charter of the Audit Committee, which is based on a Board resolution as part of the Company's corporate governance principles and include the following:

- Monitoring the reporting process of financial statements;
- Supervising the financial reporting process;
- Monitoring the financial position of the Company by reviewing Annual Financial Statements and to the extent appropriate Interim Financial Statements;
- Overseeing the quality and integrity of the Financial Statements and related Disclosures;
- Monitoring the efficiency and adequacy of the Company's internal control, internal audit and risk management systems;
- Reviewing the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement;
- Reviewing and monitoring plans and reports of the Internal Audit function;
- Approving the annual plan, issuing instructions and reviewing the operations of the Internal Audit function;
- Evaluating the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company to be audited;
- Preparing the proposal for resolution on the election of external auditors;
- Reviewing the external audit plan;
- Monitoring the statutory audit of the financial statements and consolidated financial statements and reviewing all material reports from the auditor addressed to Konecranes Plc and its subsidiary companies; and
- Preparing and making recommendations and proposals for action to the Board resulting from listed tasks to the extent Audit Committee finds necessary.

In 2018, Konecranes' Audit Committee convened 6 times. The attendance of the Audit Committee members at meetings was 100 %. The attendance of the members is presented in the table on page 5.

The Nomination Committee

During 2018, the Board's Nomination Committee comprised of the following members:

- Mr Christoph Vitzthum (Chairman),
- Mr. Ole Johansson,
- Mr. Ulf Liljedahl

All members of the Nomination Committee are deemed to be independent of the Company and, with the exception of Mr. Ole Johansson, independent of its significant shareholders. Mr. Ole Johansson is deemed to be dependent of significant shareholders of the Company based on his current position as Chairman of the Board of Directors of Hartwall Capital Oy Ab.

The Nomination Committee is responsible for preparing matters pertaining to the appointment and remuneration of the Board of Directors of the Company. The Nomination Committee does not have independent decision-making powers. The Board shall appoint the members and the Chairman of the Nomination Committee from among its members. The Nomination Committee shall have at least three (3) non-executive Board members. The majority of the members shall be independent of the Company.

Main tasks

The Nomination Committee is appointed to assist the Board in its responsibilities. The tasks and responsibilities are defined in a Charter of the Nomination Committee which is based on a Board resolution as part of the Company's corporate governance principles. The Committee shall:

- Prepare and present to the Annual General Meeting, and, if necessary, to an Extraordinary General Meeting, a proposal for the number of the members of the Board within the limits of the Articles of Association of the Corporation;
- Prepare and present to the Annual General Meeting, and, if necessary, to an Extraordinary General Meeting, a proposal for the election of the members of the Board; and
- Prepare and present to the Annual General Meeting, and, if necessary, to an Extraordinary General Meeting, a proposal for the remuneration of the members of the Board.

In 2018, Konecranes' Nomination Committee convened 5 times. The attendance of the Nomination Committee members at meetings was 100 %. The attendance of the members is presented in the table on page 5.

The Human Resources Committee

During 2018, the Board's Human Resources Committee comprised of the following members:

- Mr. Bertel Langenskiöld (Chairman),
- Ms. Janina Kugel and
- Mr. Christoph Vitzthum

All members of the Human Resources Committee are currently deemed to be independent of the Company and its significant shareholders. Until September 30, Mr. Bertel Langenskiöld was deemed to be dependent of a significant shareholder of the Company.

The Human Resources Committee is responsible for assisting and providing guidance and recommendations to the Board of Directors of the Company in fulfilling its oversight and other responsibilities in relation to e.g. the operative structure and selection of senior management; talent management, diversity and inclusion, retention and succession planning of senior management; professional and competence development for senior management and workforce planning; evaluation and compensation of the President and CEO and Group Executive Board (GXB); general principles for compensation, long and short term incentive compensation plans and share-based incentive plans; human resources, corporate responsibility and safety strategies and performance. The Board shall appoint the members and the Chairman of the Human Resources Committee from among its members.

The Human Resources Committee has the authority to take decisions regarding minor matters within its scope

of responsibility that are of an administrative nature and/or relate to the implementation of Board decisions and do not (i) require a decision by the Board of Directors under applicable law or regulations or pursuant to the internal policies or practice of Konecranes, or (ii) otherwise, in the opinion of the Committee, give reason for a decision by the Board of Directors. The Human Resources Committee shall have at least three (3) non-executive Board members. The majority of the members shall be independent of the Company.

Main tasks

The Human Resources Committee is appointed to assist the Board in its responsibilities. The tasks and responsibilities are defined in a Charter of the Human Resources Committee which is based on a Board resolution as part of the Company's corporate governance principles. Committee shall:

- Review the organizational structure of the Company and make related recommendations or proposals to the Board when needed. The Committee will consider the principles for the selection of senior management, ensure that the long and short list of candidates contains diverse candidates and make proposals to the Board concerning the approval of the appointments, transfers and terminations for GXB positions;
- Review and monitor Konecranes' Talent Management and Succession Planning process and review potential successor candidates for GXB positions. In addition, the Committee will together with the President and CEO evaluate any special retention need of senior management;
- Review development plans for the Group Executive Board Members and executive development programs, including training and competence development programs for members of senior management;

- Review the President and CEO's authority and responsibilities and make related recommendations or proposals to the Board when needed. The Committee will recommend to the Board on an annual basis the President and CEO's compensation founded on the evaluation of the Company's performance, compensation paid to chief executive officers in comparable global organizations, the competitive market for persons with similar skills and competences, and the Human Resources Committee's assessment of the President and CEO's current and expected contribution to the Company's success. The Committee will, based upon a recommendation by the President and CEO, make a proposal to the Board concerning the approval of the base compensation review and incentive levels for GXB members;
- Make recommendations to the Board with respect to the President and CEO's variable compensation and the adoption and amendment of long and short-term incentive compensation plans and share-based plans which are subject to shareholder or Board approval. The Committee will make a proposal to the Board concerning the approval of the performance targets for the President and CEO, annual grants and the achievement against target for the GXB members. The Human Resources Committee will evaluate and make recommendations to the Board concerning the Company's general principles for compensation. The Human Resources Committee will review incentive compensation plans and share-based plans to assess whether they provide an appropriate balance of risk and reward in relation to the Company's overall business strategy and expected performance, shareholder value creation and alignment of shareholder and senior management interests, without encouraging senior management to take unnecessary or excessive risks.

The Committee will monitor compliance with share ownership guidelines for the President and CEO and other members of senior management;

- Receive reports on the Company's human resources, corporate responsibility and safety strategies and its performance against the set targets, market standard, business strategy and Konecranes values, and may recommend revisions to these targets. The Committee will receive reports on the Corporation's practices for supporting diversity and inclusion in the workplace, workplace safety activities and performance, and the Corporation's performance against Konecranes fair labor frame.

In 2018, Konecranes' Human Resources Committee convened 5 times. The attendance of the Human Resources Committee members at meetings was 93%. The attendance of the members is presented in the table on page 5.

President and CEO

Panu Routila

b. 1964

- Finnish citizen
- President and CEO
- Member of the Group Executive Board since 2015
- Employed since 2015
- Education: M.Sc. (Econ.)
- Shares: 32,419

Main tasks and duties

Under the Companies Act, the President and CEO is responsible for the day-to-day management of the Company in accordance with instructions and orders given by the Board. The President and CEO may undertake actions which, considering the scope and nature of the operations of the Company, are unusual or extensive, only with the authorization of the Board. The President and CEO shall see to it that the Company's accounting practices comply with the law and that its financial affairs have been arranged in a reliable manner. The President and CEO is also responsible for preparing matters presented to the Board and for the Company's strategic planning, finance, financial planning, reporting, and risk management.

Group Executive Board

In addition to the President & CEO, the following persons belong to the Group Executive Board:

Teo Ottola

b. 1968

- Finnish citizen
- Chief Financial Officer, Deputy CEO
- Member of the Group Executive Board since 2007
- Employed since 2007
- Education: M.Sc. (Econ.)
- Shares: 35,018

Fabio Fiorino

b. 1967

- Canadian citizen
- Executive Vice President, Business Area Service
- Member of the Group Executive Board since 2012
- Employed since 1995
- Education: B. Eng. P.Eng. MBA
- Shares: 23,932

Timo Leskinen

b. 1970

- Finnish citizen
- Senior Vice President, Human Resources
- Member of the Group Executive Board since 2013
- Employed since 2013
- Education: M.Sc. (Psy)
- Shares: 10,588

Mika Mahlberg

b. 1963

- Finnish citizen
- Executive Vice President, Business Area Port Solutions
- Member of the Group Executive Board since 2017
- Employed since 1997
- Education: M. Sc. (Eng.)
- Shares: 8,305

Juha Pankakoski

b. 1967

- Finnish citizen
- Executive Vice President, Technologies
- Member of the Group Executive Board since 2015
- Employed since 2004
- Education: M.Sc. (Eng.), eMBA
- Shares: 8,522

Sirpa Poitsalo

b. 1963

- Finnish citizen
- Senior Vice President, General Counsel
- Member of the Group Executive Board since 2016
- Employed since 1988
- Education: LL.M.
- Shares: 33,060

Mikko Uhari

b. 1957

- Finnish citizen
- Executive Vice President, Business Area Industrial Equipment
- Member of the Group Executive Board since 1997
- Employed since 1997
- Education: Lic. Sc. (Eng.)
- Shares: 118,960

Group Executive Board member since September 1, 2018

Minna Aila

b. 1966

- Finnish citizen
- Executive Vice President, Marketing & Corporate Affairs
- Member of the Group Executive Board since 2018
- Employed since 2018
- Education: LL.M.
- Shares: 0

Group Executive Board member until June 30, 2018

Susanna Schneeberger

b. 1973

- Swedish citizen
- Executive Vice President, Strategy
- Member of the Group Executive Board since 2017
- Employed since 2017
- Education: M. Sc., MBA

Main tasks

The Group Executive Board assists the President and CEO, but has no official statutory position based on legislation or the Articles of Association. In practice, however, it plays a significant role in the Company's management system, strategy preparation, and decision-making.



1. Panu Routila, **2.** Teo Ottola, **3.** Fabio Fiorino, **4.** Timo Leskinen, **5.** Mika Mahlberg, **6.** Juha Pankakoski, **7.** Sirpa Poitsalo, **8.** Mikko Uhari, **9.** Minna Aila.

Internal control and risk management related to financial reporting

Internal control related to financial reporting is designed to provide reasonable assurance concerning the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements covering listed companies. Risk management is considered an integral part of running Konecranes' business. Konecranes' corporate risk management principles provide a basic framework for risk management, while each Group company or operating unit is responsible for its own risk management. This principle is also followed in risk management related to financial reporting.

Management of financial risks is described in Note 33 of Konecranes' Financial Statements 2018.

Control environment

Corporate governance and business management at Konecranes are based on the company's values of trust in people, total service commitment, and sustained profitability. The control environment is the foundation for all the other components of internal control and for promoting employee awareness of key issues. It supports the execution of strategy and regulatory compliance. The Board of Directors and Group Management are responsible for defining the Konecranes Group's control environment through business management structures, corporate policies, instructions, and financial reporting

frameworks. These include Konecranes Code of Conduct and Konecranes Controller's Manual, which constitute the main tool for accounting and financial reporting principles with respect to providing information, guidelines, and instructions. The interpretation and application of accounting standards is the responsibility of the global accounting function. Guidelines and instructions for reporting are updated when necessary and are reviewed at least once a year.

Konecranes has three business segments (business areas), Service, Industrial Equipment and Port Solutions. As a deviation to Business Area Industrial Equipment, Business Area Port Solutions also incorporates those service branches and spare part units which are dedicated to serve the port customer segment.

Business Area Service has three business units, Industrial Service, Parts supply and Component spare parts. Business Unit Industrial Service is internally managed and reported as a line organization through three regions—Europe, Middle East and Africa (EMEA), Americas (AME) and Asia-Pacific (APAC). Other business units are managed as line organizations globally. Business Area Industrial Equipment and Business Area Port Solutions are operated as line organizations further divided into business units, and under business units further into product lines. These segments have clear product line profit responsibilities, ensuring a flawless order-delivery

process and enabling effective decision making. Support functions, such as finance, legal, HR, IT and marketing and communications are managed as line organizations.

In the finance operating model, management accounting (business controlling) and financial accounting are segregated where applicable. Management accounting employees specialize in supporting the business area management decision making, whereas financial accounting primarily follows legal structure with a close link to corporate level financial accounting. Financial accounting organization also includes a separate Group Internal Controls team. Group Internal Controls is focused on supporting local units in improving controls and processes and monitoring compliance with our internal controls.

Financial targets are set and planning/follow-up activities are executed along the business area and business unit structure in accordance with the overall business targets of the Konecranes Group. The operations of Business Area Service are typically monitored based on profit-responsible service branches, which are further consolidated to country and region levels. Business Area Industrial Equipment is mainly monitored via Components, Industrial Cranes and Process Solutions business units, which are divided into business/product lines. Manufacturing of components, sub-assemblies and other parts have a separate set of KPI's, as these supply operations are treated as cost centers rather than profit-

generating units. In 2018, Business Area Port Solutions had Mobile Harbor Cranes, Port Cranes, Software Solutions, Lift Trucks and Port Solutions Service business units monitored in the same way as in Business Area Industrial Equipment.

Control activities

Konecranes Group management has operational responsibility for internal controls. Control activities are integrated into the business processes of the Konecranes Group and management's business supervision and monitoring procedures. Management follow-up is carried out through monthly management reporting routines and performance review meetings. These meetings are conducted at the business area and business unit levels, based on their own management structures, as well as at the Group level. Topics covered in the meetings include safety, review of the sales funnel, competitive situation, market sentiment, order intake and order book, monthly financial performance, quarterly and rolling 12-month forecasts; people, customer and internal control topics are also taken into account. Group management separately follows up the most important development activities. For example, R&D projects are monitored by the Product Board. The Product Board typically convenes on a quarterly basis.

All legal entities and business units have their own defined controller functions. Representatives from

controller functions participate in planning and evaluating unit performance, and ensure that monthly and quarterly financial reporting follows the Group's policies and instructions and that all financial reports are delivered on time in accordance with schedules set by the Group.

The Group has identified and documented the significant internal controls that relate to its financial processes either directly or indirectly through other processes. Group companies are responsible for implementing the identified and documented internal controls. During 2018, Konecranes continued to enhance internal controls to cover identified risks more effectively in the business processes. The Group has a register of internal controls that apply to all entities globally. The register includes controls over assets, liabilities, revenue, and costs that require the involvement of Business and Financial Management. The register included 107 controls that are categorized as key controls or operational controls. The list of internal controls is reviewed annually.

Assessments and monitoring

Each legal entity/unit assesses and reports its compliance with the centrally determined set of significant internal controls through completion of an annual controls assessment document. Responsibility for fulfilling this reporting requirement lies with the managing directors and controllers. This document is reviewed by the Group Internal Controls team who ensures completion of the assessment and provides feedback and guidance when needed on how to improve existing processes to fill possible gaps in controls.

In addition to the above-described self-assessment of control environment, approximately 95 percent of the active legal entities/units had their significant internal

controls reviewed or tested in 2018. Internal Audit visits cover approximately 60 percent of the operational entities and around 78 percent of third-party revenue. The remaining reviewed entities were either visited/tested by Group Internal Controls or conducted self-testing of their local controls. Self-testing results were reviewed by Group Internal Controls. Remediation of the control deficiencies is the responsibility of the Managing Director of the legal entity, and Internal Audit or Group Internal Controls conducts a control review after the entity has corrected control weaknesses.

Communication

The Controller's Manual, together with reporting instructions, control register and policies, are stored in the Konecranes intranet for access by personnel. The Group, business areas and regions also arrange meetings to share information on financial processes and practices. Information for the Group's stakeholders is regularly communicated via the Konecranes Group's website. To ensure that the information provided is comprehensive and accurate, the Group has established a set of external communication guidelines. These define how, by whom, and when information should be issued; and they are designed to ensure that Konecranes meets all its information obligations and to further strengthen internal controls related to financial reporting.

During 2018

In 2018, Konecranes continued its IT system project to further develop and implement harmonized processes, increase operational visibility, and improve decision making, and to reduce the overall number of various IT systems. The SAP ERP system is being taken into use for transaction handling and logistics within all three business areas. The Siebel ERP system is being taken into

use to manage field service operations as well as to store data related to assets under maintenance contracts.

Konecranes also continued the implementation and development of the Financial Shared Service Center (FSSC) concept to offer mainly transaction handling services, financial master data maintenance, and some financial accounting services from regional centers to individual Konecranes companies.

The internal control environment will be further improved using common, unified processes and a common system platform. Monitoring the effectiveness of internal controls will become more transparent following the implementation of the SAP ERP system. Financial Shared Service Centers will create a unified framework for transactional processing and provide an enhanced segregation of duties.

Other information

Internal audit

Konecranes' Internal Audit function is an independent unit, which assists the organization in achieving its objectives. The unit evaluates the efficiency of risk management, control, and governance processes. During 2018 the responsibility for internal investigations was moved from internal audit to the Head of Compliance and Ethics. In 2018 the Company also launched an additional method for reporting suspect misconducts by launching an externally hosted Whistleblowing channel.

Internal Audit operates according to an audit plan approved by the Board's Audit Committee. The unit's working methods are based on the professional standards laid down by the Institute of Internal Auditors (IIA) and focus on process-oriented engagement rather than solely entity-based auditing. Internal audit results are reported to audited units' operative management, local subsidiary's Chairman of the Board (internal Board) and relevant GXB members. Remediation follow-ups are coordinated by Internal Audit and Group Internal Controls Team. Remediated findings are verified by Internal Audit in separate re-audits.

In 2018, the Internal Audit Team conducted 48 planned audits according to an approved annual audit plan. In 10 full audits, the Internal Audit Team covered 107 key and operational controls with wide sample sizes, and in 38 walkthrough audits, the internal auditor covered 35 key controls with limited sample sizes. The annual plan covered 54 active legal entities.

All Internal Audit activities are reported to the Group Executive Board and the Board's Audit Committee on a regular basis. Internal Audit is responsible to the Audit Committee.

Related party transactions

Konecranes has not conducted related party transactions that are material from the perspective of the company and where such transactions deviate from the company's normal business operations or are not made on market or market equivalent terms.

Insider administration

The Board of Directors has approved Konecranes Plc Insider Regulations based on Market Abuse Regulation ("MAR"), regulation and guidance given by European Security Markets Authority, the Finnish Securities Markets Act, Nasdaq Helsinki Ltd's Guidelines for Insiders and guidance given by the Financial Supervision Authority.

Konecranes maintains an insider list ("Insider List") recording all persons having access to insider information related to the Company. The Insider List consists of one or more project-specific sections. Konecranes has determined that it will not establish a permanent insider section in this Insider List and there are thus no permanent insiders in Konecranes.

In Konecranes persons discharging managerial responsibilities ("Managers") according to MAR, are the members of the Board of Directors, the President and CEO and the members of the Group Executive Board.

Managers and their closely associated persons have to notify Konecranes and Financial Supervision Authority of all transactions, as defined in MAR, conducted on their own account relating to the financial instruments of Konecranes within three days of the transactions.

Managers are prohibited from trading in Konecranes' financial instruments during a closed period starting on the 15th day of the month prior to the end of each calendar quarter and ending when the corresponding interim report or the financial statement bulletin is published, including the day of publication of said report ("Closed Period").

Konecranes keeps a record of persons who regularly participate in the preparation of Group level financial results or who can otherwise have access to such information and has decided that the Closed Period set by Konecranes applies to them. Persons included in the Insider List's project-specific sections are prohibited from trading in Konecranes financial instruments until termination of the project concerned.

External audit

Ernst & Young Oy, Authorized Public Accountant Firm, has been the Company's external auditor since 2006. Ms. Kristina Sandin served as Principal Auditor in 2018 and has been in this position since 2015. Ernst & Young Oy and its affiliated audit companies received EUR 3,759,000 in fees for auditing Konecranes Group companies in 2018 and fees of EUR 407,000 for non-audit services.

Remuneration statement 2018

Remuneration philosophy

Konecranes remuneration philosophy aims to attract, retain and motivate talented employees. We consider incentives and learning opportunities as drivers and as vital parts of the total employee experience. Remuneration is linked to performance and achievements in all organizational levels.

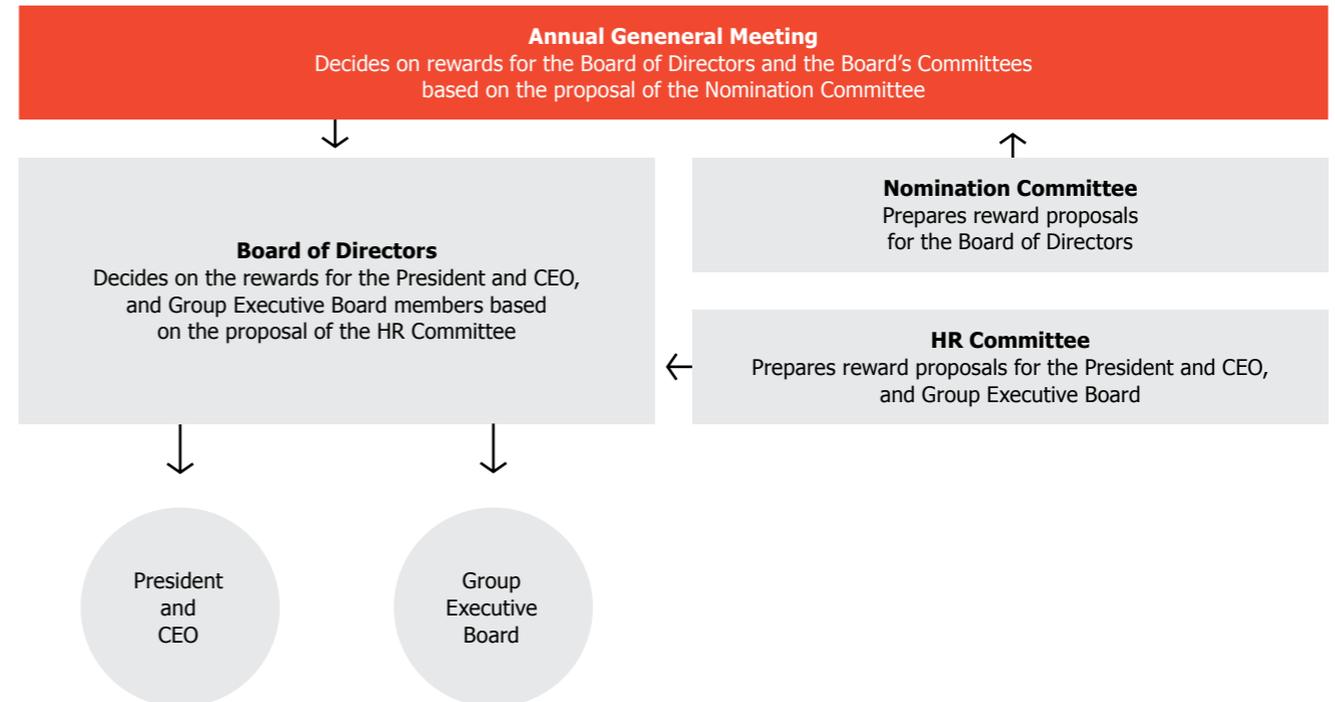
Our remuneration is designed to promote high performance and commitment to our business targets. The goal of the Konecranes remuneration schemes is to drive competitiveness and long-term financial success of the company, as well as to contribute to the positive development of shareholder value.

Konecranes positions itself to the employer market based on the geographical locations of the employees and the employee groups. We are prepared to make additional investments on employer markets where Konecranes employer brand is less distinguished and where less career opportunities exist inside the company. Also, we are prepared to invest more in fast-developing markets, such as countries with high inflation. The definition of market varies between employee groups. For operatives and staff, Konecranes predominantly uses local benchmark companies. As for management, we benchmark ourselves with international companies based on management's geographical location.



Decision-making process

All Konecranes remuneration related decisions are made by the 'one above' principle. In other words the remuneration of an employee must always be accepted by his/her manager's superior. The decision-making process is depicted in the chart below.



Remuneration of the Board of Directors

The Annual General Meeting decides on the remuneration of the Board of Directors and the Board's Committees annually. The decision proposals are prepared by the Nomination Committee.

Remuneration of the President and CEO

The Human Resources Committee reviews the President and CEO's performance and prepares the proposal for the President and CEO's remuneration. External market data and advisers are used to support the proposal preparation and the performance review. Based on the Human Resources Committee's evaluation, market benchmarking and other relevant facts, the Board determines the total remuneration elements of the President and CEO.

Remuneration of the Group Executive Board and Senior Management

The Board evaluates and decides on the total remuneration of the Group Executive Board members and other executives reporting directly to the President and CEO.

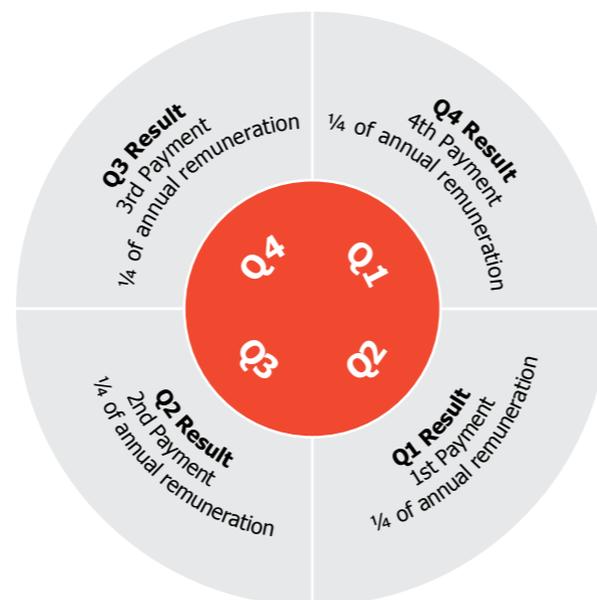
Remuneration Elements

Remuneration of Board of Directors

The Konecranes Annual General Meeting resolves the remuneration of the Board members. In case the term of office of a Board member ends before the closing of the next Annual General Meeting, he or she is entitled to the prorated amount of the annual remuneration calculated based on his or her actual term in office.

50 percent of annual remuneration is paid in Konecranes shares purchased on the market on behalf of the Board members. Remuneration may also be paid by transferring treasury shares based on the authorization given to the Board of Directors by the General Meeting. If payment in shares cannot be carried out due to reasons related to either the Company or a Board member, annual remuneration will be paid entirely in cash. The remuneration is paid in four equal instalments, each instalment being purchased or transferred within the two-week period following each of the Company's interim report announcements and the Company's financial statements release for each year.

The Konecranes Board members are not in an employment relationship or service contract with Konecranes. They do not participate in Konecranes' incentive programs or have a pension scheme arranged by Konecranes.



Remuneration of the Management and Employees

Salaries

The base salaries and fringe benefits of the Konecranes President and CEO and other Group Executive Board members reflect the performance and individual job responsibilities, experience, skills and knowledge.

Konecranes salaries are defined according to the relevant local market in each country. In terms of base salary, Konecranes aims to be globally at the median of the chosen markets. Base salaries vary between countries and employee groups.

At Konecranes, Managers evaluate their employees' salaries annually against the Konecranes Rewards Philosophy, ensuring that possible salary increases are allocated effectively to individual employees based on their performance and contribution. The Annual Salary Review Process also applies to Group Executive Board members and senior management who report directly to the CEO and is completed by the Board of Directors.

Incentives

Short-term Incentives

The Konecranes Group remuneration structure includes an incentive plan. Konecranes short-term incentives are designed to support the Company's financial success and the employees' commitment to achieve set targets on a semi-annual or annual basis, depending on the year. Participants, in addition to Senior Management, are decided locally based on the market practice.

Konecranes incentives are typically based on the financial results of the Konecranes Group, business area, business unit and/or a smaller unit, and the employee's personal performance in comparison to set targets. Incentive criteria may vary but are usually based on the Konecranes Group's five key performance areas: safety, customer, people, growth, and profitability. Currently, a minimum of 50 percent of all employees' targets shall be based on financial performance. As for executives, such as business area/unit management or service region/sub-region management, 70–100 percent of the annual incentive is typically based on financial performance.

The amount of the incentive opportunity is defined by the employee's position in the organization and the geographical location. The actual pay-out is based on the combination of personal and financial performance. The local and global market needs guide the use of incentives in each geographical location, separately.

Konecranes incentive schemes are always based on written documentation. Quantitative performance criteria are used rather than qualitative assessments, whenever possible.

The President and CEO's annual incentive is based on the comparison of financial performance of the Company and the expectations set out by the Board of Directors for the applicable year. The maximum incentive opportunity for the President and CEO is 85 percent of the annual base salary.

The Group Executive Board members' annual variable pay is based on the Group's financial performance and on business area performance, if applicable for the person,

and on the individual's performance against predefined targets. The annual variable pay percentage is based on the individual responsibilities and is at maximum 50 to 75 percent of the individual annual base salary (2/3 of the maximum being the target level).

Long-term Incentives

The aim of Konecranes long-term incentive plans, i.e. the Performance Share Plans, is to align the objectives of shareholders and Konecranes' key employees to increase the value of the Company, to commit key employees to the Company and to reward employees for achieving set targets.

In 2018 Konecranes had four active Performance Share Plans. Konecranes Performance Share Plans have a three-year performance period, during which the plan participants may earn rewards according to the realization of the criteria set in the beginning of the performance period. The exception to this is the 2016 Performance Share Plan which, due to the ongoing corporate transaction process with Terex Corporation at that time, has a one-year performance period and 2 years' holding period. In 2017, the Board of Directors issued an additional Performance Share Plan for the CEO with a five-year performance period.

Each Performance Share Plan period defines a maximum remuneration in shares. For practical reasons, part of the earned share remuneration is paid in cash to ensure that the participants can pay the necessary taxes for the share-based compensation. The actual remuneration payment is based on the performance of the Company against the predefined criteria – if a threshold level for the criteria is not met, long-term incentives will not be paid.

Konecranes long-term incentive plans include ownership obligations that pose restrictions to named plan participants selling shares received as remuneration. The members of the Konecranes Group Executive Board, including the President and CEO, have an obligation to continue to own at least 50 percent of the shares earned annually through the Performance Share Plan until their ownership of the Company shares equals their annual salary. Since 2017, the CEO is not entitled to sell shares paid as reward through the Performance Share Plan until he owns Konecranes shares worth EUR 750,000 in total.

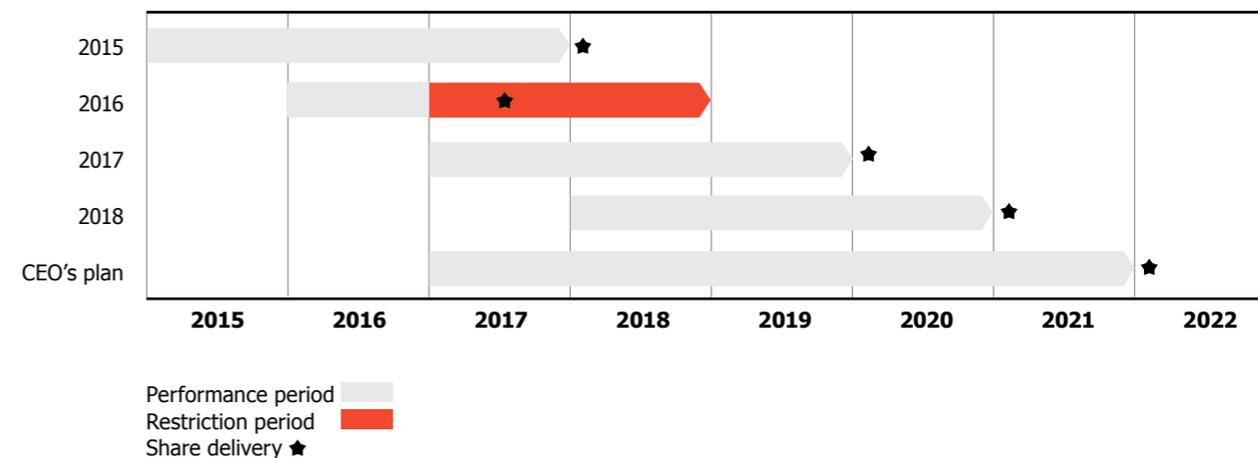
In 2012, Konecranes launched an Employee Share Savings Plan for all employees, including the Management, except in those countries where the plan could not be offered for legal or administrative reasons. Participants save a monthly sum of up to 5 percent of their gross salary, which is used to buy Konecranes shares from the market on behalf of the participants. If participants are still in possession of these shares after an approximate three-year holding period, they will receive one matching share for every two initially purchased.

Pensions

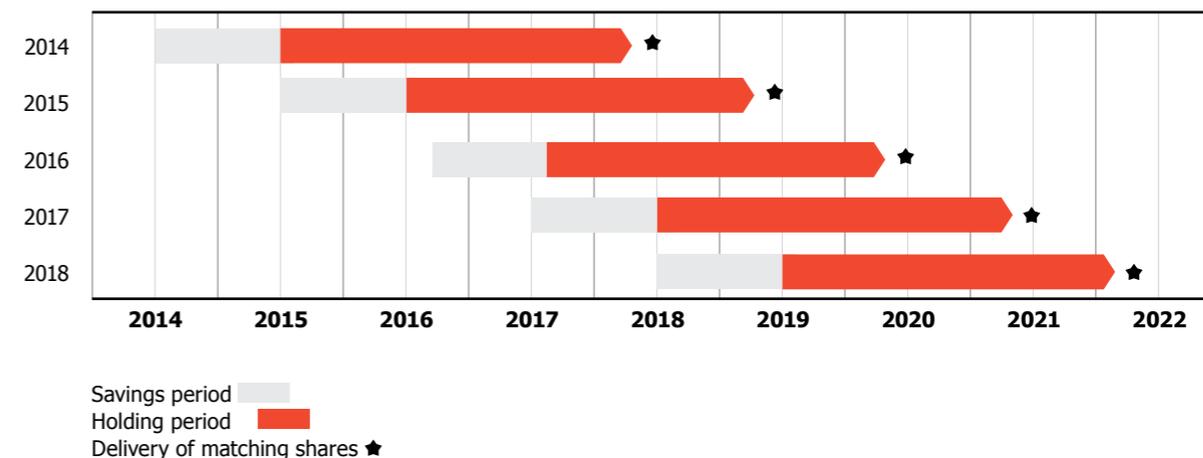
The Finnish statutory pension system covers the Finnish Konecranes Group Executive Board members. The non-Finnish members participate in pension systems in their local countries. In addition to statutory pensions, Konecranes provides supplementary contribution-based pension benefit to the President and CEO.

The pension scheme for the President and CEO sets his defined contribution at 20 percent of his annual salary, excluding performance-based compensation (annual or long-term incentives).

Performance Share Plan



Employee Share Savings Plan



The Finnish members of the Group Executive Board participate in a defined group pension insurance scheme, which can be withdrawn from at the age of 60. However, the retirement age is set according to the Finnish Employees Pensions Act (TyEL). The Finnish Group Executive Board members have life insurance and disability insurances. The non-Finnish members participate in a contribution-based pension plan and have local insurance cover.

Remuneration of the President and CEO and Konecranes Group Executive Board

	President and CEO	Group Executive Board
Base salary	Fixed salary with fringe benefits	Fixed salary with fringe benefits
Short-term incentives	<ul style="list-style-type: none"> › Based on financial performance › Max. 85% of annual base salary 	<ul style="list-style-type: none"> › Based on individual performance and Group/Business area performance › Max. 50–75% of individual’s base salary
Long-term incentives	Paid according to Performance Share Plans	Paid according to Performance Share Plans
Pensions	<ul style="list-style-type: none"> › Finnish Statutory pension › Defined contribution plan at 20% of annual salary 	<p>Finnish members</p> <ul style="list-style-type: none"> › Statutory pension › Contribution-based group pension insurance scheme › Life insurance and disability insurances <p>Non-Finnish members</p> <ul style="list-style-type: none"> › Defined contribution pension plan › Local insurance cover
Shareholding requirements	<p>Performance Share Plan 2017 or Performance Share Plan 2017–2021 for the CEO</p> <ul style="list-style-type: none"> › Must hold until he owns shares worth EUR 750,000 in total <p>Previous plans</p> <ul style="list-style-type: none"> › Must hold min. 50% of any net shares given based on reward plans, until the value of shareholding equals annual salary 	<p>Must hold min. 50% of any net shares given based on reward plans</p> <ul style="list-style-type: none"> › Until the value of shareholding equals annual salary and › Membership in the Group Executive Board continues

Terms of Employment for President and CEO

- Period of notice for either party: 6 months
- Severance pay: equals to 12 months’ salary and fringe benefits, in addition to the notice period compensation
- Retirement age: 63 years
- Total remuneration:
 - Monthly salary: EUR 50,000 excluding benefits
 - Fringe benefits: car, mobile phone
 - Contribution-based pension: 20% of annual salary
 - Short-term incentive: maximum 85% of annual salary
 - Long-term incentive: paid according to Performance Share Plans

Annual remuneration report 2018

This part presents the remuneration paid and payable to Board of Directors, Konecranes President and CEO, and Group Executive Board in 2018.

Remuneration of the Board of Directors

Fees payable to the Board members as confirmed by the latest Annual General Meeting on March 27, 2018 and the total compensation paid in 2018 are shown in the tables below.

Fees payable to the Board of Directors

Annual fee 2018	Total EUR
Chairman of the Board	140,000
Vice Chairman	100,000
Board member	70,000
Fee per Board Committee meeting	1,500
Chairman of the Audit Committee per Audit Committee meeting	3,000

Board members are also reimbursed for their travel expenses.

Total remuneration paid to the Board of Directors during 2018

Member	Board Remuneration 2018				Total EUR
	EUR Cash portion as part of Total Annual Remuneration	Number of shares as part of Total Annual Remuneration	EUR value of shares as part of Total Annual Remuneration	EUR Committee Meetings	
Chairman					
Christoph Vitzthum	87,500	1,506	52,500	18,000	158,000
Vice Chairman					
Ole Johansson	62,500	1,076	37,500	18,000	118,000
Other Board Members					
Anders Nielsen	35,000	513	17,500		52,500
Bertel Langenskiöld	43,750	753	26,250	7,500	77,500
Janina Kugel	43,750	753	26,250	7,500	77,500
Päivi Rekonen	35,000	513	17,500	6,000	58,500
Per Vegard Nerseth	35,000	513	17,500		52,500
Ulf Liljedahl	43,750	753	26,250	25,500	95,500
Board member until March 27, 2018					
Malin Persson	8,750	240	8,750	1,500	19,000
Total Board Compensation	395,000	6,620	230,000	84,000	709,000

Due to the payment cycle, Board remuneration during 2018 includes the Board of Directors' partial remuneration from January 1, 2018 until AGM 2018 (1/4 instalment and committee meeting fees), and from AGM

2018 until December 31, 2018 the partial remuneration (3/4 instalment and committee meeting fees) that was decided by AGM 2018.

Board meeting attendance 2018

Member	Board meetings attended	Audit Committee meetings attended	HR Committee meetings attended	Nomination Committee meetings attended
Chairman				
Christoph Vitzthum	12/12	(-)	5/5	5/5
Vice Chairman				
Ole Johansson	12/12	6/6	(-)	5/5
Other Board Members				
Anders Nielsen	9/10	(-)	(-)	(-)
Bertel Langenskiöld	12/12	(-)	5/5	(-)
Janina Kugel	12/12	(-)	4/5	(-)
Päivi Rekonen	10/10	5/5	(-)	(-)
Per Vegard Nerseth	9/10	(-)	(-)	(-)
Ulf Liljedahl	12/12	6/6	(-)	5/5
Board member until March 27, 2018				
Malin Persson	2/2	1/1	(-)	(-)

Remuneration of the President and CEO and Konecranes Group Executive Board members

The remuneration of the Konecranes Group Executive Management in 2018 is shown in the table below. The salaries, fringe benefits and short-term incentives paid to the President and CEO and the Group Executive Board amount to a total of EUR 4,293,714.

Konecranes conducted annual target setting and achievement review for 2018 to facilitate business success. The 2018 Group adjusted EBITA was used as main criteria for Group and BA management.

Remuneration of the President and CEO and Konecranes Group Executive Board Members

	President and CEO		Other members of Group Executive Board	
	2018 Panu Routila	2017 Panu Routila	2018	2017
Salaries and fringe benefits	647,700	664,836	2,844,365	2,297,895
Short-term incentives	330,000	575,500	471,649	1,895,783
Share rights allocated (PSP) # of share rights	200,000	248,000	258,000	258,000
Shareholding in Konecranes Plc # of shares ^{*)}	32,419	28,315	238,385	229,727
Expense of statutory/voluntary pension plans	259,653	315,100	303,879	474,536

^{*)} Includes 84,000 shares from PSP 2016, which were under transfer restriction until December 31, 2018. There were no loans outstanding to the Group Executive Board at end of the period 2018 and 2017. There are no guarantees on behalf of the Group Executive Board in year 2018 and 2017.

Long-term Incentives

The long-term incentives awarded in the recent years are shown in the table below.

Performance Share Plan (year)	PSP 2015	PSP 2016	PSP 2017	PSP 2018
Performance period	2015–2017	2016	2017–2019	2018–2020
Measure	Adjusted Cumulative EPS	Adjusted EBITDA	Adjusted Cumulative EPS	Adjusted Cumulative EPS
Total gross shares delivered	98,496	667,509 ^{*)}	N/A	N/A
Restriction period	–	Until 31.12.2018	–	–
Gross shares delivered				
Panu Routila, CEO	8,208	48,000	N/A	N/A
Other members of Group Executive Board, total	16,416	120,000	N/A	N/A

^{*)} On December 17, 2018 a total of 7,000 Konecranes shares have been returned free of consideration to the company according to the terms and conditions of Performance Share Plan 2016.

Konecranes Employee Share Savings Plan (ESSP) is offered to all employees including the management, excepts in countries where it is not possible due to legal or administrative reasons.

Summary of Employee Share Savings Plan

Employee Share Savings Plan (year)	ESSP 2014	ESSP 2015	ESSP 2016	ESSP 2017	ESSP 2018
Savings period	July 1, 2014– June 30, 2015	July 1, 2015– June 30, 2016	September 1, 2016– June 30, 2017	July 1, 2017– June 30, 2018	July 1, 2018– June 30, 2019
Amount of participants ^{*)}	1,164	1,269	1,243	2,018	1,981
Amount of shares acquired	71,664	91,368	47,017	100,257	On-going
Delivered or expected matching shares to be delivered ^{*)}	35,832	45,684	23,509	50,129	On-going

^{*)} By the end of January 2019.

Risk management

Konecranes Board of Directors has defined and adopted a set of risk management principles based on widely accepted international good management practices. The Audit Committee evaluates and reports on the adequacy and appropriateness of internal controls and risk management to the Board.

Risk management principles

Risk is anything that will clearly affect Konecranes ability to achieve its business objectives and execute its strategies. Risk management is part of Konecranes control system and is designed to ensure that any risks related to the Company's business operations, are identified and managed adequately and appropriately to safeguard the continuity of Konecranes business at all times.

The Group's risk management principles provide a basic framework for risk management across Konecranes, and each Group company or operating unit is responsible for its own risk management. This approach guarantees the best possible knowledge of local conditions, experience, and relevance.

The Group's risk management principles define risk management as a continuous and systematic activity aimed at protecting employees from personal injury, safeguarding the assets of all Group companies and the Group as a whole, and ensuring stable and profitable financial performance. By minimizing losses due to realized risks, and optimizing the cost of risk management, Konecranes can safeguard its overall long-term competitiveness.

Significant risks for Konecranes

Konecranes has assessed its strategic, operational, financial, and hazard-related risks. The list of risks below, and the risk management methods described here, are intended to be indicative only and should not be considered exhaustive.

Market risks

Demand for Konecranes products and services is affected by the development of local and global economies, regional and country-specific political issues and stability, as well as the business cycles of Konecranes customer industries. Currency fluctuations may cause changes in competitiveness of our products in a specific market and affect our customers' businesses. Capital expenditure on industrial cranes varies with the development of industrial production and production capacity, while demand for port solutions follows trends in global transportation and, over the shorter term, port investment cycles. The lift truck cycle follows other product segments. Demand for maintenance services is driven by the capacity utilization rates of our customers. In addition to risks related to sales volumes, adverse changes in demand can also result in overcapacity and affect market prices, as can the actions of competitors.

Konecranes aim is to increase the proportion of service revenue in its total revenue stream and thereby reduce its exposure to economic cycles. In general, the demand for service is less volatile than that for equipment.

As part of its strategy, Konecranes strives to maintain a reasonably wide geographical market presence to

balance out economic trends in different market areas, while paying attention to relevant distribution costs. Konecranes also aims to limit the risks resulting from changes in demand in different customer segments, as well as the demand for certain products by maintaining a diverse customer base and offering a wide range of products and services. By active product development, Konecranes also strives to differentiate itself from its competitors and reduce the competitive pressures that it experiences.

During 2018 Konecranes has continued this approach and has further developed its go-to-market strategy with the products and services, brands and sales channels.

Customer credit risks

Challenges with customer payments could adversely affect Konecranes financial situation. To limit this risk, we apply a conservative credit policy in respect of our customers. It is Konecranes practice to review customers carefully before entering into a formal business relationship with them and to require credit reports from new customers. The credit risks of our customers are mitigated with advance payments, letters of credit, payment guarantees, and credit insurance where applicable. By using these tools and carefully monitoring customer payments, we have been able to successfully limit our credit risks.

During 2018, Konecranes has streamlined the local credit policies of frontline units to enhance and enforce implementation of related process and practices.

Konecranes continued the integration of 3rd party services with ERP-systems to check customer data against outstanding sanctions lists, and also to check products and spare-parts against the dual-use items lists to verify compliance.

Technology risks

Konecranes recognizes that there are various threats and opportunities related to the development of new products and services in its business. Active management of intellectual property rights is essential in the global marketplace.

We have continued to monitor general market trends, technological developments, competitors' actions, customer behavior, and developments in various industry segments, in order to identify signs of potential changes that could impact us.

With our internal processes we systematically follow-up key technologies. We have refined process-driven approaches, from innovations to needed technological research, all the way to product development projects.

In 2018, we continued to work closely with a number of start-up companies to ensure early knowledge of new ideas and technologies. Also, collaboration with external research institutes and universities continued. In 2018 we conducted series of digitalization and AI/machine learning trainings. All of these provide awareness of and secure access to technological development in our field of business.

We utilize our global testing centers to further improve safety and reliability of our products. We carry out extensive life-time testing of our new and existing products, creating new knowledge to reduce technical risks. Testing centers are also an integral part of our in-house research and are audited to ISO 17025 standard, ensuring the quality of testing processes, proper test planning and documentation of the results. We use the results actively to develop the reliability of our products.

With global crane data via our Industrial Internet solution we increase our awareness of how cranes behave in daily operations. Based on this, we continued to develop algorithms, helping us predict issues related to crane safety and operations. All this limits the technical risks in crane usage, and grants us better knowledge for crane designs and service operations.

In 2018 we continued to actively protect our designs, innovations, trademarks, and domains. We have a regular process to monitor possible violations and react on those.

Technical training of our service technicians is an essential risk management effort. The same applies to lifting equipment specific training for engineers and designers. Service technician training continued actively during the year. For engineers, we continued developing specific training material and conducted trainings based on this.

Personnel

Konecranes' ability to operate is dependent on the availability, expertise, and competence of professional personnel.

The investment continued in industry-leading technical skills of our service technicians, leadership development,

along with customer-centric and effective sales and sales management skills. In these focus areas, Konecranes invested in training efforts to ensure customer satisfaction.

Furthermore, Konecranes continued employee engagement programs, such as our Employee Share Savings Plan, and invested in employee well-being.

Acquisitions

Unsuccessful acquisitions or a failure to successfully integrate an acquired company, could result in reduced profitability or hamper the implementation of corporate strategy. Konecranes reduces the risks associated with acquisitions by carrying out due diligence analyses, using external advisors when needed.

On January 4, 2017 Konecranes closed the acquisition of Material Handling & Port Solutions segment from Terex Corporation. During the years 2017 and 2018, Konecranes has invested substantial resources to execute the successful closing of the transaction and professional integration of acquired entities. The scale and expected benefits of the acquisition allows to create opportunities for Konecranes, while failure to achieve the objectives may result in significant risks.

Production risks

Konecranes strategy is to maintain the in-house production of key components that have high added value, and/or provide core competitive advantages. There are specific risks involved with different aspects of production, such as production capacity management, operational efficiency, continuity, and quality.

In 2018, our activities were focused on enhancement of our capabilities in the supply chain with regards

to internal flexibility and efficiency. We were also adjusting the production capacity to the market demand. Investments on capacity increases and replacements focused on environmental aspects, safety and security of operations.

Procurement risks

Procurement operates a proactive approach to mitigate risks related to pricing, quality, capacity, availability, supplier Code of Conduct, and other expectations. Inefficiencies and deficiencies in these areas could affect the performance and reputation of Konecranes adversely. Contracts and operations with key suppliers are designed to optimize performance globally when necessary.

In 2018, Konecranes continued to develop the quality via selected supplier development. We also continued to improve supplier footprint, demand-supply planning, forecasting, and supplier communications to improve our ability to respond to customer needs. Supplier auditing and continuity management initiated even further proactive remedial together with suppliers.

To reduce supplier base related risks, Konecranes constantly seeks competitive alternative sources while improving cooperation with selected existing suppliers. When available, alternative suppliers enhance price competition, increase production capacity, and reduce risks of single supplier dependency. Konecranes supplier portfolio is reviewed, categorized and managed centrally.

Quality risks

High-quality services and equipment along with business procedures and processes, play a key role in minimizing Konecranes' business risks. Certified quality procedures are widely used in the Group.

In 2018, Konecranes continued developing both its local and global quality improvement processes. That development was supported by continuing to deploy the Company's shared processes and IT tools to better register customer experiences and approaches to systematic problem-solving, with the goal of improving our business performance. To strive for operational excellence, Konecranes continued to use and develop the Lean Six Sigma methodology with good results. The methodology plays a key role in systematic improvement of the Company's processes and quality.

IT risks

Konecranes IT is responsible for all IT services, applications, and assets used by Group companies. Konecranes operations depend on the availability, reliability, quality, confidentiality, and integrity of information. During 2018 the global trend of malicious attacks continued also against Konecranes. These information security risks and incidents may have an unfavorable effect on business performance. Therefore, Konecranes continues to invest in IT security.

Konecranes uses reliable IT solutions and employs efficient information security management, to avoid data loss and prevent the confidentiality, availability, or integrity of data from being compromised. User care and support is organized by using both internal and outsourced IT services to ensure high availability, resiliency, and continuity of services, combined with rapid recovery in the event of any temporary loss of key services. Third party experts are utilized to audit, test, and improve cyber security for internally and externally developed IT services.

During 2018, the implementation of global IT applications and harmonized business processes continued, including the ongoing integration activities of Terex MHPS business.

Analytics and business intelligence capabilities are in focus, aiming to turn increasing amounts of business-, user-, and device-generated data into new business opportunities. In 2018, Konecranes IT continued adapting agile development methods for improved customer focus and flexibility while keeping pace with accelerating speed of change.

Product liability and contract risks

Konecranes can be subject to various legal actions, claims, and other proceedings in various countries, typical for a company in its industry and consistent with a global business that encompasses a wide range of products and services. These may involve contractual disputes, warranty claims, product liability (including design defects, manufacturing defects, failure to post appropriate warnings, and asbestos legacy), employment, auto liability, and other matters involving claims related to general liability. These risks are managed by continuously monitoring operations, improving product safety and documentation, training customers, and enhancing sales terms.

In 2018, Konecranes continued to implement and improve the contract analysis and acceptance process according to its Contractual Instructions. The practices related to product quality inspections and alleged product liabilities have also been in focus during 2018. These activities, as examples, have followed the acquisition of Material Handling & Port Solutions segment from Terex Corporation as Konecranes strives to harmonize the best practices throughout the organization.

Illegal activities

Konecranes is committed to complying with all applicable laws and regulations, but breaches of the company’s

policies resulting in illegal activities can threaten the company. Konecranes recognizes that even small-scale illegal activity could damage its reputation and affect its financials and results adversely but does not consider the risk to be material. Internal procedures, supervision, audits, and practical tools are used to reduce Konecranes exposure to these types of risks.

Konecranes issues written policies to ensure compliance with legislation, regulations, and our own principles across the Konecranes Group. Particular emphasis is placed on training, to ensure that employees are aware of and comply with the applicable legislation, regulations, internal policies, practices, and principles relating to their work.

Illegal and fraudulent criminal activities targeting Konecranes cause risks that may have substantial impact on our financial results. We continued our efforts to decrease the exposure to such activity.

In 2018, Konecranes updated its Code of Conduct and Anti-Corruption Policy while creating new governance structures for developing and implementing our compliance & ethics -program, including supplier code of conduct development. Work to ensure compliance with new legislation, such as GDPR, continued systematically during 2018.

Damage risks

Damage risks include, for example, business interruption risks, occupational health and safety-related risks, environmental risks, fire and other disasters, natural events, and premises security risks. Konecranes identifies and assesses these risks continuously as part of its business processes. To mitigate these risks, we have adopted a number of occupational health and safety

guidelines, rescue planning, and premises security instructions. Konecranes has also sought to prepare for the materialization of these risks through various insurance programs and by continuously improving its preparedness to deal with various potential crisis situations.

During 2018, we continued with our risk assessments to identify risks and enhance controls for main risks related to environment, safety and security. The harmonization and implementation of our global safety processes and procedures continued, including the successful implementation of a process and tool for capturing observations, near-misses and incidents. This enables us to better understand our risk profile and investigate and improve the way we work.

Financial risks

Konecranes manages most of its financial risks on a centralized basis through its Group Treasury. The Group Treasury operates through Konecranes Finance Corporation, which acts as a financial vehicle for the Group at Corporate Headquarters. Konecranes Finance Corporation is not a profit center that strives to maximize its profits, but rather its role is to help the Group’s companies reduce the financial risks associated with global business operations, such as market, credit, and liquidity risks. The most significant market risk relates to foreign currency transactions.

The responsibility for identifying, evaluating, and controlling the financial risks arising from the Group’s global business operations is divided between business units and Konecranes Finance Corporation.

Units hedge their risks internally with Group Treasury. Most of the Group’s financial risks are channeled through

Konecranes Finance Corporation, where they can be evaluated and controlled efficiently.

Almost all funding, cash management, and foreign exchange transactions with banks and other external counterparties are carried out centrally by Konecranes Finance Corporation, and in accordance with the Group’s Treasury Policy. Only in a few special cases, where local central bank regulations prohibit the use of Group services for hedging and funding, this is done directly between an operating company and a bank under the supervision of Group Treasury. Konecranes Finance Corporation uses a treasury system that enables transactions to be processed in real-time and provides in-depth records of activities and performance. Standard reporting is done on a weekly basis and covers Group-level commercial and financial cash flows, foreign currency transaction exposure, debt positions, derivatives portfolios, and counterparty credit exposure for financial transactions. In addition, all Group companies participate in monthly managerial and statutory reporting.

See Note 33 in the Financial Statements and the Board of Directors’ Report for a detailed overview of financial risk management.

Insurance

The Group reviews its insurance policies as part of its overall risk management on a continuous basis. Insurance policies are used to cover all risks that are economically feasible or otherwise reasonable to insure.

Internal control and Risk management related to Financial reporting can be consulted in the Corporate Governance Statement 2018.



Konecranes is a world-leading group of Lifting Businesses™, serving a broad range of customers, including manufacturing and process industries, shipyards, ports and terminals. Konecranes provides productivity-enhancing lifting solutions as well as services for lifting equipment of all makes. The Group has 16,100 employees at 600 locations in 50 countries. Konecranes is listed on the Nasdaq Helsinki (symbol: KCR).

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