Cargotec's financial statements review 2018

STRONG YEAR IN ORDERS RECEIVED, PROFIT BELOW OUR TARGET

CARGOTEC

Cargotec's financial statements review 2018: Strong year in orders received, profit below our target

- Kalmar's orders received and operating profit increased
- Hiab's demand continued to be strong, but operating profit declined
- MacGregor's orders received increased, but the market environment remained challenging

The figures in this financial statements review review are based on Cargotec Corporation's audited 2018 financial statements.

October–December 2018 in brief: Orders received continued to develop strongly

- Orders received increased by 26 percent and totalled EUR 991 (784) million. Orders received grew in all business areas.
- Order book amounted to EUR 1,995 (31 Dec 2017: 1,566) million at the end of the period.
- Sales increased by 3 percent and totalled EUR 910 (886) million.
- Service sales increased by 2 percent and totalled EUR 243 (238) million.
- Service and software sales represented 32 (32) percent of consolidated sales.
- Operating profit was EUR 60.9 (54.7) million, representing 6.7 (6.2) percent of sales.
- Operating profit excluding restructuring costs increased by 2 percent and amounted to EUR 73.5 (72.0) million, representing 8.1 (8.1) percent of sales.
- Cash flow from operations before financial items and taxes totalled EUR 86.0 (112.4) million.
- Net income for the period amounted to EUR 34.1 (27.7) million.
- Earnings per share was EUR 0.53 (0.42).

January–December 2018 in brief: Orders increased, profit below last year

- Orders received increased by 18 percent and totalled EUR 3,756 (3,190) million.
- Sales increased by 2 percent and totalled EUR 3,304 (3,250) million.
- Service sales increased by 3 percent and totalled EUR 932 (907) million.
- Service and software sales represented 33 (33) percent of consolidated sales.
- Operating profit was EUR 190.0 (222.1) million, representing 5.8 (6.8) percent of sales. Operating profit includes EUR 53.8 (36.5) million in restructuring costs.
- Operating profit excluding restructuring costs decreased by 6 percent and amounted to EUR 243.8 (258.6) million, representing 7.4 (8.0) percent of sales.
- Cash flow from operations before financial items and taxes totalled EUR 125.8 (253.5) million.
- Net income for the financial year amounted to EUR 108.0 (132.7) million.
- Earnings per share was EUR 1.66 (2.05). The decline in earnings per share was mainly related to an impairment loss of EUR 30 million of the associated company Jiangsu Rainbow Heavy Industries, recognised in the second quarter of 2018.

- The Board of Directors proposes to the Annual General Meeting convening on 19 March 2019 a dividend of EUR 1.09 per class A share and EUR 1.10 per outstanding class B share be paid. The Board also proposes that the dividend shall be paid in two instalments, in March and October 2019. The dividend for class A shares would be paid in EUR 0.55 and EUR 0.54 instalments. The dividend for outstanding class B shares would be paid in two EUR 0.55 instalments.

Outlook for 2019

Cargotec expects its comparable operating profit for 2019 to improve from 2018 (EUR 242.1 million).

New alternative performance measure – Comparable operating profit

Cargotec uses alternative performance measures (APMs) to better convey underlying business performance and to enhance comparability from period to period. Starting from 1 January 2019, Cargotec replaces the alternative performance measure of "operating profit excluding restructuring costs" with "comparable operating profit" for measuring business performance in the financial reporting. Comparable operating profit does not contain items significantly affecting comparability. In addition to restructuring costs, these items mainly include capital gains and losses, income and expenses related to business acquisitions and disposals, impairments of assets and reversals of impairments, insurance benefits, and expenses related to legal proceedings. Cargotec's comparable operating profit for 2018 is EUR 242.1 (2017: 258.6) million.

Cargotec's key figures

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. More information on the new standards is available in Note 2, Accounting principles and new accounting standards. Cargotec has also aligned the definitions of the equipment, service and software businesses from the beginning of 2018. The data for the comparison period 2017 has been restated accordingly. Cargotec has published a stock exchange release on 28 March 2018 regarding the changes.

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Orders received	991	784	26%	3,756	3,190	18%
Service orders received	254	221	15%	984	896	10%
Order book, end of period	1,995	1,566	27%	1,995	1,566	27%
Sales	910	886	3%	3,304	3,250	2%
Service sales	243	238	2%	932	907	3%
Software sales*	47	45	3%	147	152	-4%
Service and software sales, % of Cargotec's sales	32%	32%		33%	33%	
Operating profit	60.9	54.7	11%	190.0	222.1	-14%
Operating profit, %	6.7%	6.2%		5.8%	6.8%	
Operating profit**	73.5	72.0	2%	243.8	258.6	-6%
Operating profit**, %	8.1%	8.1%		7.4%	8.0%	
Income before taxes	52.2	47.0	11%	161.1	189.2	-15%
Cash flow from operations before financing items and taxes	86.0	112.4	-23%	125.8	253.5	-50%
Net income for the period	34.1	27.7	23%	108.0	132.7	-19%
Earnings per share, EUR	0.53	0.42	25%	1.66	2.05	-19%
Interest-bearing net debt, end of period	625	472	33%	625	472	33%
Gearing, %	43.8%	33.1%		43.8%	33.1%	
Interest-bearing net debt / EBITDA***	2.3	1.6		2.3	1.6	
Return on capital employed (ROCE), annualised, %	8.0%	9.6%		8.0%	9.6%	
Personnel, end of period	11,987	11,251	7%	11,987	11,251	7%

*Software sales include Navis business unit and automation software
**Excluding restructuring costs
***Last four quarters' EBITDA

Cargotec's CEO Mika Vehviläinen: Strong order book creates a solid foundation for 2019

The year 2018 was twofold at Cargotec. Orders grew strongly in all our business areas, but we fell behind our target to improve our result. Kalmar's operating profit improved, but the weaker results for Hiab and MacGregor led to a lower operating profit at group level compared to the previous year. Although the demand for Hiab's equipment and services continued to grow strongly, its operating profit declined, particularly as the US dollar weakened against the euro, but also due to challenges with the supply chain and related additional costs. MacGregor's market environment was still challenging, which led to a lower sales and operating profit, excluding restructuring costs. Kalmar's operating profit improved, thanks to measures that improved productivity.

Throughout the year, Kalmar received several orders that benefit from advanced automation technology solutions. We also moved in the right direction with our software and digital solutions. In line with our strategy, we will continue to invest in the development of digitalisation solutions. We believe that the value chain for container handling can be significantly enhanced and we want to help our customers fully exploit these opportunities.

Our service business continued to develop positively and, at comparable exchange rates, its sales increased by six percent compared to the previous year. Our goal is to increase the sales of our service and software business from the current approximately EUR 1.1 billion to EUR 1.5 billion over the next two to four years. Service solutions that utilise digitalisation are increasingly emerging alongside traditional service methods in our offering.

The Board of Directors proposes to the Annual General Meeting to increase the dividend to EUR 1.10. This would be the fifth consecutive year in which our dividend has risen compared to the previous year. Although our results were lower than in the previous year, our order backlog is now 27 percent higher than it was one year ago. This gives us a good starting position for the year to come. We are committed to continuing to develop Cargotec from a good company to great one and in connection to this we will continue to sharpen our competitiveness and improve our productivity.

Reporting segments' key figures

Orders received

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	450	369	22%	1,919	1,555	23%
Hiab	357	289	24%	1,259	1,116	13%
MacGregor	184	126	46%	580	521	11%
Internal orders	0	0		-1	-2	
Total	**991**	**784**	**26%**	**3,756**	**3,190**	**18%**

Order book

MEUR	31 Dec 2018	31 Dec 2017	Change
Kalmar	1,012	786	29%
Hiab	453	300	51%
MacGregor	530	481	10%
Internal orders	-1	-1	
Total	**1,995**	**1,566**	**27%**

Sales

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	444	465	-5%	1,618	1,598	1%
Hiab	318	280	13%	1,149	1,084	6%
MacGregor	149	141	5%	538	571	-6%
Internal sales	-1	-1		-2	-2	
Total	**910**	**886**	**3%**	**3,304**	**3,250**	**2%**

Operating profit

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	47.1	40.0	18%	138.1	126.6	9%
Hiab	34.4	39.9	-14%	133.8	157.0	-15%
MacGregor	-7.3	-5.1	-44%	-4.2	-5.2	19%
Corporate administration and support functions	-13.2	-20.1	34%	-77.7	-56.3	-38%
Total	**60.9**	**54.7**	**11%**	**190.0**	**222.1**	**-14%**

Operating profit excluding restructuring costs

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	51.0	42.8	19%	143.6	133.1	8%
Hiab	34.9	39.9	-13%	134.5	157.2	-14%
MacGregor	-3.0	1.2	< -100%	0.1	10.6	-99%
Corporate administration and support functions	-9.4	-12.0	21%	-34.4	-42.2	19%
Total	**73.5**	**72.0**	**2%**	**243.8**	**258.6**	**-6%**

Press conference for analysts and media

A press conference for analysts and media, combined with a live international telephone conference, will be arranged on 8 February at 10.00 a.m. EET at Cargotec's head office, Porkkalankatu 5, Helsinki. The event will be held in English. The report will be presented by CEO Mika Vehviläinen and Executive Vice President, CFO Mikko Puolakka. The presentation material will be available at www.cargotec.com by latest 9.30 a.m. EET.

The telephone conference, during which questions may be presented, can be accessed with access code 029318 using the following numbers:

FI: +358 (0)9 7479 0360
SE: +46 (0)8 5033 6573
UK: +44 (0)330 336 9104
US: +1 323-794-2095

The event can also be viewed as a live webcast at www.cargotec.com. An on-demand version of the conference will be published at Cargotec's website later during the day.

For further information, please contact:
Mikko Puolakka, Executive Vice President and CFO, tel. +358 20 777 4105
Hanna-Maria Heikkinen, Vice President, Investor Relations, tel. +358 20 777 4084

Cargotec (Nasdaq Helsinki: CGCBV) enables smarter cargo flow for a better everyday with its leading cargo handling solutions and services. Cargotec's business areas Kalmar, Hiab and MacGregor are pioneers in their fields. Through their unique position in ports, at sea and on roads, they optimise global cargo flows and create sustainable customer value. Cargotec's sales in 2018 totalled approximately EUR 3.3 billion and it employs around 12,000 people. www.cargotec.com

Cargotec's financial statements review 2018

Operating environment

The number of containers handled at ports globally is estimated to have grown by around five percent during 2018 compared to the previous year (Drewry). The demand for Kalmar's mobile equipment and services improved compared to the previous year. Customers consider their project and automation solutions carefully in relation to container throughput volumes, the utilisation rates of existing equipment base and the efficiency of automation technology. Customers' investments were mostly targeted to smaller subprojects as well as improving the efficiency of the existing terminals instead of building new terminals.

The demand for Hiab's load handling equipment in 2018 was supported in the United States and Europe by the construction activity, which remained at a good level. The demand for services improved from last year.

Merchant ship contracting improved slightly during 2018 compared to the previous year, but remained at a low level. Contracting in the offshore sector improved slightly compared to 2017, but remained clearly below historical levels. The demand for MacGregor's services improved slightly in the merchant ship sector.

Financial performance

Orders received and order book

Orders received by reporting segment

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	450	369	22%	1,919	1,555	23%
Hiab	357	289	24%	1,259	1,116	13%
MacGregor	184	126	46%	580	521	11%
Internal orders	0	0		-1	-2	
Total	**991**	**784**	**26%**	**3,756**	**3,190**	**18%**

Orders received by reporting segment, comparable foreign exchange rates*

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	447	369	21%	1,980	1,555	27%
Hiab	357	289	24%	1,292	1,116	16%
MacGregor	187	126	49%	595	521	14%
Internal orders	0	0		-1	-2	
Total	**990**	**784**	**26%**	**3,867**	**3,190**	**21%**

*Indicative. 2018 figures are calculated assuming that the foreign exchange rates would have remained at the comparison period's level.

Orders received during the fourth quarter increased by 26 percent from the comparison period and totalled EUR 991 (784) million. Compared to the comparison period, currency rate changes had no significant impact on orders received. Orders received grew in all business areas. Service orders received increased by 15 percent and totalled EUR 254 (221) million.

Orders received in 2018 increased by 18 percent from the comparison period and totalled EUR 3,756 (3,190) million. Compared to the comparison period, currency rate changes had a three percentage point negative impact on orders received. The negative impact is mainly related to the weakening of the US dollar compared to the euro. 51 (49) percent of the orders in 2018 were received by Kalmar, 34 (35) percent by Hiab and 15 (16) percent by MacGregor. Orders received grew in all business areas. Service orders received increased by 10 percent and totalled EUR 984 (896) million.

Order book by reporting segment

MEUR	31 Dec 2018	31 Dec 2017	Change
Kalmar	1,012	786	29%
Hiab	453	300	51%
MacGregor	530	481	10%
Internal order book	-1	-1	
Total	**1,995**	**1,566**	**27%**

The order book increased by 27 percent from the end of 2017, and at the end of 2018 it totalled EUR 1,995 (31 Dec 2017: 1,566) million. Kalmar's order book totalled EUR 1,012 (786) million, representing 51 (50) percent, Hiab's EUR 453 (300) million or 23 (19) percent and MacGregor's EUR 530 (481) million or 26 (31) percent of the consolidated order book. Approximately 80% of the order book is expected to be recognised as revenue in 2019.

Orders received by geographical area

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
EMEA	489	390	25%	1,755	1,512	16%
Americas	310	237	31%	1,245	1,064	17%
Asia-Pacific	192	157	22%	757	614	23%
Total	**991**	**784**	**26%**	**3,756**	**3,190**	**18%**

In geographical terms, the share of orders received in the fourth quarter was 49 (50) percent in EMEA and 31 (30) percent in Americas. Asia-Pacific's share of orders received was 20 (20) percent.

In 2018, the share of orders received was 47 (48) percent in EMEA and 33 (33) percent in Americas. Asia-Pacific's share of all orders was 20 (19) percent.

Sales

Sales by reporting segment

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	444	465	-5%	1,618	1,598	1%
Hiab	318	280	13%	1,149	1,084	6%
MacGregor	149	141	5%	538	571	-6%
Internal sales	-1	-1		-2	-2	
Total	**910**	**886**	**3%**	**3,304**	**3,250**	**2%**

Sales by reporting segment, comparable foreign exchange rates*

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	445	465	-4%	1,664	1,598	4%
Hiab	317	280	13%	1,180	1,084	9%
MacGregor	151	141	7%	554	571	-3%
Internal sales	-1	-1		-2	-2	
Total	**911**	**886**	**3%**	**3,396**	**3,250**	**4%**

*Indicative. 2018 figures are calculated assuming that the foreign exchange rates would have remained at the comparison period's level.

Fourth quarter 2018 sales increased by three percent from the comparison period to EUR 910 (886) million. Compared to the comparison period, currency rate changes had no impact on sales. Sales increased in Hiab and MacGregor and decreased in Kalmar. Service sales increased by two percent from the comparison period and totalled EUR 243 (238) million, representing 27 (27) percent of consolidated sales. Also in comparable foreign exchange rates, service sales increased by two percent. Software sales increased by three percent and amounted to EUR 47 (45) million. In comparable foreign exchange rates, software sales increased by two percent. Service and software sales amounted to EUR 289 (283) million, representing 32 (32) percent of consolidated sales.

Sales in 2018 increased by two percent from the comparison period to EUR 3,304 (3,250) million. Compared to the comparison period, currency rate changes had a three percentage point negative impact on sales. In comparable foreign exchange rates, sales increased by four percent. Sales grew in Kalmar and Hiab and declined in MacGregor. Service sales grew by three percent from the comparison period and totalled EUR 932 (907) million, representing 28 (28) percent of consolidated sales. In comparable foreign exchange rates, service sales increased by six percent. Software sales decreased by four percent and amounted to EUR 147 (152) million. In comparable foreign exchange rates, software sales remained at the comparison period's level. Service and software sales amounted to EUR 1,079 (1,060) million, representing 33 (33) percent of consolidated sales.

Sales by geographical area

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
EMEA	460	422	9%	1,610	1,423	13%
Americas	272	252	8%	1,039	1,034	0%
Asia-Pacific	177	213	-17%	655	793	-17%
Total	**910**	**886**	**3%**	**3,304**	**3,250**	**2%**

In geographical terms, sales increased in EMEA and Americas during the fourth quarter and decreased in Asia-Pacific. EMEA's share of consolidated sales was 51 (48) percent, Americas' 30 (28) percent and Asia-Pacific's 19 (24) percent.

In 2018, sales grew in EMEA and declined in Asia-Pacific compared to the previous year. In Americas, sales remained at the comparison period's level. EMEA's share of consolidated sales was 49 (44) percent, Americas' 31 (32) percent and Asia-Pacific's 20 (24) percent.

Financial result

Operating profit by reporting segment

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	47.1	40.0	18%	138.1	126.6	9%
Hiab	34.4	39.9	-14%	133.8	157.0	-15%
MacGregor	-7.3	-5.1	-44%	-4.2	-5.2	19%
Corporate administration and support functions	-13.2	-20.1	34%	-77.7	-56.3	-38%
Total	**60.9**	**54.7**	**11%**	**190.0**	**222.1**	**-14%**

Operating profit for the fourth quarter totalled EUR 60.9 (54.7) million. Operating profit includes EUR 12.5 (17.2) million in restructuring costs. EUR 3.9 (2.9) million of the restructuring costs were related to Kalmar, EUR 0.5 (0.0) million to Hiab, EUR 4.3 (6.3) million to MacGregor and EUR 3.8 (8.1) million to corporate administration and support functions.

Operating profit for 2018 totalled EUR 190.0 (222.1) million. Operating profit includes EUR 53.8 (36.5) million in restructuring costs. EUR 5.4 (6.4) million of the restructuring costs were related to Kalmar, EUR 0.7 (0.2) million to Hiab, EUR 4.3 (15.8) million to MacGregor and EUR 43.3 (14.1) million to corporate administration and support functions. The restructuring costs of corporate administration and support functions were related to the lowered balance sheet valuation of the associated company Jiangsu Rainbow Heavy Industries Co. Ltd and to the company-wide support functions' efficiency programme.

Operating profit excluding restructuring costs by reporting segment

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Kalmar	51.0	42.8	19%	143.6	133.1	8%
Hiab	34.9	39.9	-13%	134.5	157.2	-14%
MacGregor	-3.0	1.2	< -100%	0.1	10.6	-99%
Corporate administration and support functions	-9.4	-12.0	21%	-34.4	-42.2	19%
Total	**73.5**	**72.0**	**2%**	**243.8**	**258.6**	**-6%**

Operating profit for the fourth quarter, excluding restructuring costs, was EUR 73.5 (72.0) million, representing 8.1 (8.1) percent of sales. Excluding restructuring costs, operating profit for Kalmar amounted to EUR 51.0 (42.8) million, for Hiab EUR 34.9 (39.9) million, and for MacGregor EUR -3.0 (1.2) million. Kalmar's operating profit increased due to productivity and cost efficiency actions as well as more favourable business mix. Hiab's operating profit declined due to unfavourable business mix as well as additional costs related to the continued unstable supply chain. MacGregor's operating profit excluding restructuring was negative due to higher than expected project costs as well as low capacity utilisation in certain product areas.

Operating profit excluding restructuring costs for 2018 was EUR 243.8 (258.6) million, representing 7.4 (8.0) percent of sales. Excluding restructuring costs, operating profit for Kalmar amounted to EUR 143.6 (133.1) million, Hiab EUR 134.5 (157.2) million, and MacGregor EUR 0.1 (10.6) million. Kalmar's operating profit increased due to productivity measures. Hiab's operating profit declined due to the weakening of the US dollar compared to the euro as well as additional costs related to supply chain. MacGregor's operating profit excluding restructuring costs decreased, as cost savings did not fully compensate the decline in sales and due to higher than expected project costs.

Net financing expenses and net income

Net interest expenses for interest-bearing debt and assets for the fourth quarter totalled EUR 4.3 (4.0) million. Net financing expenses totalled EUR 8.7 (7.7) million. For 2018, the net interest expenses for interest-bearing debt and assets totalled 16.4 (16.2) million euros. Net financing expenses totalled EUR 28.9 (32.9) million.

Net income for the fourth quarter totalled EUR 34.1 (27.7) million, and earnings per share EUR 0.53 (0.42). Net income for 2018 was EUR 108.0 (132.7) million, and earnings per share EUR 1.66 (2.05). The decline in earnings per share was mainly related to an impairment loss of EUR 30 million of the associated company Jiangsu Rainbow Heavy Industries, recognised in the second quarter of 2018.

Balance sheet, cash flow and financing

The consolidated balance sheet total was EUR 3,684 (31 Dec 2017: 3,569) million at the end of the year 2018. Equity attributable to the equity holders of the parent was EUR 1,426 (1,423) million, representing EUR 22.16 (22.06) per share. Property, plant and equipment on the balance sheet amounted to EUR 309 (311) million and intangible assets to EUR 1,249 (1,247) million.

Return on equity (ROE, annualised) in 2018 was 7.6 (2017: 9.4) percent, and return on capital employed (ROCE, annualised) was 8.0 (9.6) percent. Cargotec's financial target is to reach 15 percent return on capital employed in the next 2–4 years.

Cash flow from operating activities, before financial items and taxes, totalled EUR 125.8 (253.5) million during 2018. Cash flow decreased, as more capital was tied up in inventories due to improved demand in certain product categories in Kalmar and Hiab as well as supply chain issues, and as accounts receivable were higher. At the end of 2018, net working capital increased to EUR 271 million from the level of EUR 115 million at the end of 2017.

Cargotec's liquidity position is healthy. Cash and cash equivalents and the undrawn long-term credit limits amounted to EUR 556 (31 Dec 2017: 609) million. In addition, Cargotec had an access to a commercial paper programme as well as undrawn bank overdraft facilities totalling EUR 249 (31 Dec 2017: 270) million. At the end of 2018, interest-bearing net debt totalled EUR 625 (31 Dec 2017: 472) million. Interest-bearing debt amounted to EUR 920 (788) million, of which EUR 203 (121) million was current and EUR 717 (667) million non-current debt. The average interest rate on the loan portfolio was 2.2 (2.3) percent. Cash and cash equivalents, loans receivable, and other interest-bearing assets totalled EUR 294 (317) million.

At the end of 2018, Cargotec's total equity/total assets ratio was 40.9 (31 Dec 2017: 42.2) percent. Gearing was 43.8 (33.1) percent. Profit distribution in 2018 totalled EUR 68.0 (62.2) million.

Corporate topics

Research and development

Research and product development expenditure in 2018 totalled EUR 89.0 (92.5) million, representing 2.7 (2.8) percent of sales. EUR 0.5 (0.5) million was capitalised. Research and development investments were focused on digitalisation as well as projects that aim to improve the competitiveness and cost efficiency of products.

Kalmar

In November, Kalmar opened a new innovation centre in Ljungby, southern Sweden, that will focus on the digitalisation and development of mobile cargo handling equipment and related maintenance services.

In September, Navis hosted the Navis Asia Pacific Summit in Qingdao, China, where Navis executives, experts and partners discussed new innovations that are boosting productivity and operational efficiency in the changing ocean shipping landscape.

In June, Kalmar introduced its first application key for Kalmar Key, the terminal industry's only automation platform with open interfaces. The Kalmar Application Key opens up Kalmar's best-practice model for systems integration in terminals that follow the 'AutoRTG with coupled manual horizontal transportation' concept. It includes generic interface specifications, high-level business process descriptions to support integration, access to the Kalmar Key partner forum and a software development kit.

In June, Kalmar also introduced the very first solution to its new eco-efficient Eco Range product range. Kalmar Eco Reachstacker substantially cuts the fuel consumption and costs as well as lowers the carbon emissions, which helps customers meet current and future emissions standards.

In May, Kalmar announced its commitment to reduce emissions in cargo and material handling operations by fostering eco-efficient technologies. According to the commitment, Kalmar's full offering will be available as electrically powered versions by 2021. The target is in line with Cargotec's sustainability roadmap announced in 2016.

In May, the Kalmar Ottawa Electric Terminal Tractor was introduced to the market in the Americas. The electric terminal tractor with a fully electric powertrain that produces zero emissions at source is designed for trailer-handling operations in dispersed warehouses, container terminals and other applications where short-distance highway travel is required.

In April, Kalmar launched the FastCharge Automated Guided Vehicle (AGV) that features an eco-efficient electric power system that uses the latest lithium-ion battery technology, making it much easier and more cost effective to maintain and operate than a comparable machine powered by lead-acid batteries. The fully electric drivetrain also ensures zero emissions at source.

In March, Kalmar introduced the latest-generation straddle and shuttle carriers which provide better reliability, productivity, driver comfort and safety through improvements in e.g. electric systems and working lights. Additionally, the Essential range of reachstackers, empty container handlers and forklifts was introduced in Latin America. The Essential range provides customers with build quality, high availability and excellent safety at a competitive price.

Hiab

In November, Hiab won the Quality Organisation of the Year Award at The 2018 International Quality Awards in London. The Awards, organised by The Chartered Quality Institute, recognise the outstanding work of quality professionals and for the first time also a whole organisation.

Also in November, Hiab completed the acquisition of Effer S.p.A. from CTE Group that was announced on 31 July 2018. For Hiab as the global leader in on-road load handling solutions, the acquisition meant a significant advancement in its ambition to be the leader in cranes and preferred partner for its customers.

During the third quarter, Hiab continued the renewal and expansion of its class-leading load handling equipment, its service network and services offering, and smart and connected solutions.

In September, Hiab had a strong presence at the Internationale Automobil Ausstellung (IAA) 2018 commercial vehicle exhibition in Hannover, Germany, presenting its latest innovations and total load handling solutions. Products launched and first time presented publicly included the MULTILIFT Ultima, the next generation of hooklifts. MULTILIFT Ultima features several industry-first innovations that will enhance productivity, ease of use and operational safety.

Also the new HIAB building material cranes were displayed at the event. The signature models offer the most advanced remote control system in the industry, the HIAB HiPro, as well as pioneering features like Hiab's Crane Tip Control (CTC), to ensure efficient and safe crane operation.

The portfolio of JONSERED recycling cranes was extended with four renewed and two new models, the 1250RZ and 1500RZ. Innovations include new safety features and the option for a JONSERED recycling crane and a MULTILIFT hooklift that can be operated by one combined remote-control unit.

In services, Hiab rolled out it’s ProCare™ Total Repair & Maintenance (R+M) programme globally at IAA, following excellent customer feedback and uptake in the UK and the Netherlands where it was first launched. At a fixed monthly price, customers benefit from increased equipment uptime and reduced total cost of ownership, with their equipment value maintained with Hiab original parts.

Since the IAA launch, Hiab has already announced the first new customers for ProCare™ R+M in Australia, Germany and the US.

Hiab commercially rolled out its connected service HiConnect™ at IAA 2018. HiConnect enables businesses to gain real-time insights into their fleet and load-handling equipment utilisation and operation, enhancing uptime, productivity and safety.

Hiab continued to make selective investments into strengthening its comprehensive sales and service network and capability with the acquisition of a former authorised Hiab dealer in Scotland.

In August, Hiab announced the market success of its revolutionary and award-winning HiVision™ virtual reality-based crane operation system, which 18 months after its commercial launch has been sold to customers in more than 10 markets. Latest upgrades to HiVision™ include support for remote service.

In July, all of Hiab's production units were awarded new, stricter ISO certifications for quality assurance, sustainability and safety, replacing earlier Hiab-wide ISO certifications.

During the second quarter, Hiab continued to expand its spare parts web shop which now covers 46 countries. New service centres were opened in London, UK; Karlsruhe, Germany; and Lyon, France.

In May, Hiab launched its renewed HIAB light range loader cranes with a capacity from 4 to 11 metric tonnes. The renewed loader crane portfolio is now the most up-to-date in total market. Additionally, Hiab bundled its expertise and offering for the Waste Management & Recycling segment. The offering is based on class-leading equipment, experience, services and technology based solutions that are relevant across the waste management and recycling value chain.

In April, Hiab launched the new MOFFETT M5 NX truck mounted forklift which is especially designed for medium to heavy-duty tasks. The introduced truck mounted forklift provides improved operator safety and comfort, easier maintenance, as well as great performance and reliability.

The new MULTILIFT COMMANDER container handling unit was also presented to the markets. This application is new for the commercial hooklift market and it enables handling containers safely and efficiently in locations where no infrastructure exists to load or unload containers from the truck. Uses for the MULTILIFT COMMANDER include cargo applications as well as large warehousing, fire and rescue, construction and project logistics, and infrastructure greenfield projects.

In March, Hiab launched the MULTILIFT hooklifts for the US market. The introduced hooklift models represent light, medium and heavy duty ranges. The key segments in the US market for the hooklifts will be landscaping, waste & recycling, rock & dirt and the municipal sector.

In March, Hiab opened a new installation and competence centre in Meppel, the Netherlands. This new centre offers FrameWorks™ subframes, truck bodies and complete vehicle solutions for the European customer base. It is also the global competence centre for Hiab FrameWorks™ installations as well as the distribution centre for FrameWorks™ kits. Hiab FrameWorks™, launched in 2016, is a modular system that provides the customer a pre-manufactured, ready-to-install subframe that matches the chosen truck.

In February, Hiab opened Vision Lab, which is the latest addition to the Test and Innovation Centre in Hudiksvall, Sweden. The new facility enables testing the latest technologies with imaging, visual and object recognition under different conditions. The goal is to improve existing sensors and create new smart sensors for all Hiab product lines as well as investigate the possibilities of augmented reality in the service and maintenance of Hiab's equipment.

MacGregor

In October MacGregor signed a Letter of Intent on strategic cooperation with China State Shipbuilding Corporation (CSSC). The mutual trust built between MacGregor and CSSC during the 30 years of partnership will be a solid foundation for future cooperation.

Finland–Singapore Maritime innovation camp, held on 23–28 September in Singapore, sought ways to improve stevedore working conditions. MacGregor was one of the event's corporate partners together with PSA Corporation.

At the beginning of September, MacGregor introduced a new breakbulk cargo stowage solution, the Breakbulk Optimiser, which enables operators to rapidly and optimally plan the stowage of many different types of cargo, increasing vessel utilisation rates significantly and therefore improving business performance.

At the end of August, MacGregor announced that it is collaborating as part of a consortium aiming to improve containerships' performance and to create a new business model.

MacGregor has developed a unique new system for improving port and voyage efficiency for RoRo vessels. To extend its scope and accuracy, MacGregor participated in June in SeaFocus' Intelligence Hunt®, where two teams were asked to collaborate and create a solution that would extend the scope and accuracy of a unique new system for improving port and voyage efficiency for RoRo vessels. The team working with MacGregor challenge, called the MacGregor Vikings, won this year's event.

In April, MacGregor and China State Shipbuilding Corporation's (CSSC) Nanjing Luzhou Machine Co., Ltd. (LMC) celebrated the opening of their first joint venture in China.

In February, MacGregor and SeaFocus announced a collaboration agreement that will support the companies in creating new cooperation models to benefit maritime trade and drive industry innovation. With the agreement, MacGregor will participate in Intelligence Hunt®, a cooperation concept developed by SeaFocus, which brings companies and cross-faculty international university students together.

Capital expenditure

Capital expenditure, excluding acquisitions and customer financing, totalled EUR 46.4 (47.2) million in 2018. Investments in customer financing were EUR 33.9 (37.1) million. Of the capital expenditure, EUR 7.7 (9.0) 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 77.2 (72.0) million.

Acquisitions and divestments in 2018

On 31 July 2018, Hiab entered into an agreement to acquire the Effer loader cranes business from the CTE Group for an enterprise value of EUR 50 million. Effer, founded in 1965, has over 50 years' experience in developing and manufacturing knuckle-boom cranes, with its product range encompassing truck cranes with a 3 to 300 metric tonne lifting capacity, special application truck cranes, and marine cranes. Effer S.p.A. is headquartered in Minerbio, Italy and it has approximately 400 employees. Distribution is managed through a network of over 100 dealers covering 60 countries globally. Effer's sales in 2017 totalled EUR 71 million and generated an operating profit of approximately EUR 6.1 million. The acquisition was completed on 6 November 2018 and the financial results of Effer S.p.A. have been consolidated into Hiab business area financials from November 2018.

Kalmar signed an agreement to sell its rough terrain handling business, Kalmar Rough Terrain Center (KRTC), to the management of KRTC and a Texas-based investment group. The contract was signed and is effective as of 29 June 2018. The transaction follows Kalmar's strategy to focus on container ports, heavy industry and distribution segments. The rough terrain handling business is outside these core areas.

On 9 May 2018, Cargotec signed an agreement with JCE Invest AB to establish a joint venture, Bruks Siwertell Group, specialised in dry bulk handling. The new joint venture will own Siwertell AB (previously part of Kalmar Business Area within Cargotec) and BRUKS Holding AB (previously part of JCE Group). Both companies are world-leading suppliers of bulk materials handling solutions. Cargotec will own 48% of the shares in Bruks Siwertell Group, and JCE Invest AB will own the rest, 52%. The ownerships are included to venturers' consolidated financial statements in accordance with the applicable regulation. In 2017, Siwertell generated total revenues of approximately EUR 60 million.

On 8 February 2018, MacGregor entered into an agreement to acquire the major businesses from TTS Group, a global provider of cargo handling equipment and services for merchant and offshore ships, for an enterprise value of EUR 87 million. The combination of two highly complementary businesses will produce greater scale and diversification and will strengthen MacGregor's portfolio and market position in key markets for cargo and load handling equipment. Based on preliminary estimates, potential cost synergies are estimated to be around EUR 30-35 million on annual level and are expected to be reached within 3 years from closing. The sales of the business MacGregor aims to acquire totalled EUR 211 million in 2017 from which approximately 26 percent was related to service sales. During the fourth quarter, MacGregor announced that it has received approvals from the competitive authorities in Germany and South Korea, but is still waiting for the approval from the competition authority in China. MacGregor expects to close the transaction in Q1 2019.

In December 2017, MacGregor signed an agreement to acquire Rapp Marine Group (RMG) in order to strengthen its offering for the fishery and research vessel segment. MacGregor's existing portfolio already includes various deck handling equipment, such as cranes and booms, but with RMG, MacGregor is able to offer complete solutions with advanced winches and related control systems. The transaction was completed on 5 February 2018. RMG’s sales in 2017 were approximately EUR 40 million, of which approximately 30 percent was related to services.

Operational restructurings

MacGregor announced on 9 November 2017 planned measures to achieve annual cost savings of approximately EUR 13 million by reorganising its operations and began statutory cooperation negotiations. The statutory cooperation negotiations resulted in restructuring of operations and reducing approximately 170 full-time equivalents globally. The realised savings from the programme were approximately EUR 13 million in 2018.

In May 2017, Cargotec announced it will target EUR 50 million savings by reducing indirect purchasing spend, streamlining processes and planning Cargotec Business Services operations. Cargotec targets annual cost savings of EUR 50 million from 2020 and onwards. Approximately EUR 30 million of the savings will come from reductions in global indirect purchasing spend like logistics, external services and facilities. The remaining part of the savings will come from applying new technologies, like automation, in support processes and from the new Cargotec Business

Services operations that has started its activities in Sofia, Bulgaria. In 2018, the realised savings from the programme amounted to around EUR 11 million. The estimated restructuring costs related to the programme are around EUR 16 million in 2019.

Kalmar has transferred the production of forklift trucks from Sweden to Poland as planned. At the same time, Kalmar invests in new, state of the art premises in Sweden and transforms the operations in Southern Sweden into a Business, Innovation and Technology Centre. The total benefits of the activities are estimated to amount to approximately EUR 13 million annually, of which around EUR 8 million were realised in 2018.

Restructuring costs amounted to EUR 53.8 (36.5) million in 2018. Kalmar's restructuring costs include EUR 12.6 million sales gains and EUR 4.1 million sales losses, both related to disposals of businesses. Kalmar's other restructuring costs were EUR 14.0 million, and were mostly related to discontinuation of unprofitable product ranges. MacGregor's restructuring costs amounted to EUR 4.3 million and were related to operational efficiency measures. Of the corporate administration and support functions' restructuring costs, EUR 30 million are related to the lowered balance sheet valuation of Jiangsu Rainbow Heavy Industries Co. Ltd (RHI) associated company, and the rest, EUR 13.3 million, to company wide support functions efficiency programme. The impairment loss of RHI did not have an impact on the cash flow.

More information regarding operational restructurings is available in Note 5, Restructuring costs.

Personnel

Cargotec employed 11,987 (31 Dec 2017: 11,251) people at the end of 2018. Kalmar employed 5,737 (5,819) people, Hiab 3,879 (3,370), MacGregor 1,879 (1,859), and corporate administration and support functions 492 (203). The number of employees in corporate administration and support functions increased due to the establishment of Cargotec Business Service (CBS) centre in Bulgaria. The average number of employees in 2018 was 11,589 (1–12/2017: 11,128).

At the end of the year 2018, 9 (31 Dec 2017: 11) percent of the employees were located in Sweden, 8 (8) percent in Finland, and 48 (43) percent in the rest of Europe. Asia-Pacific personnel represented 20 (21) percent, Americas 13 (15) percent, and the rest of the world 2 (2) percent of total employees.

Salaries and remunerations to employees totalled EUR 567 (570) million in 2018.

The annual Compass Employee Engagement survey provides valuable information on our employees' work-related feelings and thoughts. The Compass 2018 survey had a participation rate of 85 percent (2017: 86). Employee engagement has slightly declined to 67 percent (2017: 69). However, we see continuous improvement in our leadership indices. The leadership behaviours index is up at 73 percent (2017: 71) and the climate index shows an increase as well, being now at 77 percent (2017: 76). Our expectation is that, with the new strategy being assimilated and leadership indices on the rise, the engagement will continue to improve.

Sustainability

Climate change is one of the megatrends affecting the industry, and the ways to mitigate and prepare to it is one of the biggest concerns in the society. Cargotec's biggest environmental impact and mitigation potential lies within the solutions Cargotec provides to its customers. 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 2018 (2017: 18%). For the next strategy period 2019–2021, the portfolio target is to achieve double the sales growth compared to traditional products. Kalmar's initiative to have its full offering available as electrically powered versions by 2021 supports this ambition.

Our operational sustainability work in 2018 focused especially on safety, human rights risks, supply chain management, clean energy, and ethics and compliance. We continued to develop safety campaigns and building safety culture throughout the company. Our IIFR[1] rate is unsatisfactory with 6.7 (2017: 6.1) injuries per million hours worked in our assembly facilities.

Cargotec carried out an analysis of the most important operational aspects related to human rights risks and measures to mitigate those risks. Most human rights risks occur in the Cargotec's sphere of interest, such 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, while the mergers and acquisition process was developed to identify human rights risks with better accuracy. The renewed human rights due diligence process will be taken into use in 2019 and will be implemented to all mergers and acquisition cases.

Our sourcing function intensified its actions within the supplier sustainability management programme by asking selected suppliers to conduct sustainability self-assessment questionnaires. On the environmental side, we achieved our target of having 100 percent of the electricity used in Finland and Sweden to originate from renewable energy sources. In ethics and compliance, we launched a new Conflict of Interest instruction and, together with the HR function, implemented a formal process for declaring and disclosing possible conflict of interest risks. A new third party policy was also approved. It stipulates formal criteria for ways to manage ethics and compliance (E&C) risks that relate to third parties within sales, supply chain, mergers and acquisitions as well as joint ventures. We also improved E&C risk assessment integration into the M&A process.

Executive Board

On 31 December 2018, Cargotec's Executive Board consisted of Mika Vehviläinen, CEO; Mikko Puolakka, Executive Vice President, CFO; Mikko Pelkonen, Senior Vice President, Human Resources; Mikael Laine, Senior Vice President, Strategy; Soili Mäkinen, CIO (appointed to the Executive Board on 26 March 2018); Roland Sundén, Senior Vice President, Corporate Development; as well as business area presidents Antti Kaunonen (Kalmar), Scott Phillips (Hiab), and Michel van Roozendaal (MacGregor). Outi Aaltonen, Senior Vice President, General Counsel, acts as Secretary to the Executive Board.

Cargotec announced on 23 August 2018 that Scott Phillips was appointed President of Hiab business area and member of the Executive Board as of 1 October 2018. Roland Sundén, President of Hiab until 30 September 2018, took up a corporate development role in Cargotec as of 1 October, continuing to report to Mika Vehviläinen and as a member of the Cargotec Executive Board until the end of 2018, when he retired according to his contract.

[1] Number of injuries per million hours worked.

Reporting segments

Kalmar

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Orders received	450	369	22%	1,919	1,555	23%
Order book, end of period	1,012	786	29%	1,012	786	29%
Sales	444	465	-5%	1,618	1,598	1%
Service sales	116	121	-4%	449	445	1%
% of sales	26%	26%		28%	28%	
Software sales	47	45	3%	147	152	-4%
% of sales	10%	10%		9%	10%	
Operating profit	47.1	40.0	18%	138.1	126.6	9%
% of sales	10.6%	8.6%		8.5%	7.9%	
Operating profit*	51.0	42.8	19%	143.6	133.1	8%
% of sales*	11.5%	9.2%		8.9%	8.3%	
Personnel, end of period	5,737	5,819	-1%	5,737	5,819	-1%

*Excluding restructuring costs

In the fourth quarter, orders received by Kalmar increased by 22 percent and totalled EUR 450 (369) million. In comparable foreign exchange rates, orders received increased by 21 percent. The orders received in 2018 increased by 23 percent and totalled EUR 1,919 (1,555) million. In comparable foreign exchange rates, orders received increased by 27 percent.

Major orders received by Kalmar in 2018 included:

- Kalmar and Navis will supply a state-of-the-art, fully automated intermodal terminal solution for Qube's Moorebank Logistics Park (MLP) in Australia. The order, valued at approximately EUR 80 million, includes the supply of the OneTerminal solution comprising Kalmar's automated train handling, automated yard crane and automated horizontal transportation equipment, and the Navis N4 terminal operating system (TOS).
- Kalmar will deliver fully automatic equipment, software and services for a unique, fully digitalised container handling solution at Yara's Porsgrunn facility in Norway. Once completed, all the necessary operations related to the autonomous and electric container vessel Yara Birkeland will be conducted in a fully autonomous and cost efficient manner, with zero emissions.
- A subscription agreement with Cosco Shipping Ports Ltd. for the Navis N4 terminal operating system (TOS).
- Kalmar will supply a complete AutoRTG system to Belfast Container Terminal in Northern Ireland. The system will comprise eight automated rubber-tyred gantry cranes (AutoRTGs) controlled by the Kalmar Terminal Logistic System (TLS) and new-generation remote control desks.

Kalmar’s order book increased by 29 percent from the 2017 year-end, and at the end of 2018 it totalled EUR 1,012 (31 Dec 2017: 786) million.

Kalmar’s fourth quarter sales decreased by five percent and totalled EUR 444 (465) million. Service sales decreased by four percent from the comparison period and totalled EUR 116 (121) million, representing 26 (26) percent of sales. In comparable foreign exchange rates and excluding the impact of divested and acquired businesses, service sales increased by five percent. Software sales increased by three percent and amounted to EUR 47 (45) million. In comparable foreign exchange rates, software sales increased by two percent.

Kalmar’s sales in 2018 totalled EUR 1,618 (1,598) million. Service sales totalled EUR 449 (445) million, representing 28 (28) percent of sales. In comparable foreign exchange rates and excluding the impact of divested and acquired businesses, service sales increased by nine percent. Software sales decreased by four percent and amounted to EUR 147 (152) million. In comparable foreign exchange rates, software sales decreased by one percent.

Kalmar’s fourth quarter operating profit totalled EUR 47.1 (40.0) million. Operating profit includes EUR 3.9 (2.9) million in restructuring costs. Operating profit, excluding restructuring costs, amounted to EUR 51.0 (42.8) million, representing 11.5 (9.2) percent of sales. Kalmar’s operating profit increased due to productivity and cost efficiency actions as well as more favourable business mix.

Kalmar’s operating profit for 2018 totalled EUR 138.1 (126.6) million. Operating profit includes EUR 5.4 (6.4) million in restructuring costs. Operating profit, excluding restructuring costs, amounted to EUR 143.6 (133.1) million, representing 8.9 (8.3) percent of sales. Kalmar’s operating profit increased due to productivity measures.

Hiab

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Orders received	357	289	24%	1,259	1,116	13%
Order book, end of period	453	300	51%	453	300	51%
Sales	318	280	13%	1,149	1,084	6%
Service sales	71	65	10%	274	258	6%
% of sales	22%	23%		24%	24%	
Operating profit	34.4	39.9	-14%	133.8	157.0	-15%
% of sales	10.8%	14.3%		11.6%	14.5%	
Operating profit*	34.9	39.9	-13%	134.5	157.2	-14%
% of sales*	11.0%	14.3%		11.7%	14.5%	
Personnel, end of period	3,879	3,370	15%	3,879	3,370	15%

*Excluding restructuring costs

Hiab's orders received for the fourth quarter increased by 24 percent from the comparison period and totalled EUR 357 (289) million. Also in comparable foreign exchange rates, orders received increased by 24 percent. Orders received increased in EMEA and Americas and declined in Asia-Pacific. The orders received in 2018 increased by 13 percent and totalled EUR 1,259 (1,116) million.

Major orders received by Hiab in 2018 included:

- 14 MOFFETT truck mounted forklifts for a UK based customer. Half of the ordered equipment represent Hiab's MOFFETT E-Series which is completely emission free and silent and therefore excellent for the urban night-time deliveries. The order also includes total repair and maintenance contract, Hiab ProCare™.
- Order for 26 loader cranes from an Australian customer.
- 382 MULTILIFT demountables from Rheinmetall MAN Military Vehicles Österreich GesmbH to be supplied to the United Kingdom's Ministry of Defence.
- Altogether 40 forestry cranes were ordered by multiple customers in Sweden during the month of December.
- 148 WALTCO HLF liftgates ordered by US customer. Some of these are equipped with HiConnect for a trial-run where the customer get paid for each liftgate delivery. If successful, the whole fleet will be upgraded and the customer will have a new revenue stream.

Hiab's order book increased by 51% compared to the end of 2017 and totalled EUR 453 (31 Dec 2017: 300) million at the end of the year 2018.

Hiab's fourth quarter sales increased by 13 percent and totalled EUR 318 (280) million. Sales increased in the EMEA region and the Americas. Service sales grew by 10 percent to EUR 71 (65) million, representing 22 (23) percent of sales. In 2018, Hiab's sales increased by six percent and totalled EUR 1,149 (1,084) million. Service sales grew by six percent to EUR 274 (258) million, representing 24 (24) percent of sales.

Operating profit for Hiab in the fourth quarter decreased from the comparison period and totalled EUR 34.4 (39.9) million. Operating profit includes EUR 0.5 (0.0) million in restructuring costs. Operating profit, excluding restructuring costs, amounted to EUR 34.9 (39.9) million, representing

11.0 (14.3) percent of sales. Hiab's operating profit declined due to unfavourable business mix as well as additional costs related to the continued unstable supply chain.

Hiab's operating profit for 2018 decreased from the comparison period and totalled EUR 133.8 (157.0) million. Operating profit includes EUR 0.7 (0.2) million in restructuring costs. Operating profit, excluding restructuring costs, amounted to EUR 134.5 (157.2) million, representing 11.7 (14.5) percent of sales. Hiab's operating profit declined due to the weakening of the US dollar compared to the euro as well as additional costs related to supply chain.

MacGregor

MEUR	Q4/18	Q4/17	Change	2018	2017	Change
Orders received	184	126	46%	580	521	11%
Order book, end of period	530	481	10%	530	481	10%
Sales	149	141	5%	538	571	-6%
Service sales	55	53	5%	209	205	2%
% of sales	37%	37%		39%	36%	
Operating profit	-7.3	-5.1	-44%	-4.2	-5.2	19%
% of sales	-4.9%	-3.6%		-0.8%	-0.9%	
Operating profit*	-3.0	1.2	< -100%	0.1	10.6	-99%
% of sales*	-2.0%	0.8%		0.0%	1.9%	
Personnel, end of period	1,879	1,859	1%	1,879	1,859	1%

*Excluding restructuring costs

MacGregor's orders received in the fourth quarter increased by 46 percent from the comparison period to EUR 184 (126) million. In comparable foreign exchange rates, orders received increased by 49 percent. Around two thirds of the orders received were related to merchant ships and around one third to the offshore sector. Orders received increased in EMEA and Asia-Pacific regions. MacGregor's orders received in 2018 increased by 11 percent from the comparison period and totalled EUR 580 (521) million.

Major orders received by MacGregor in 2018 included:

- Upgrading and optimising container stowage systems for three container vessels from Germany.
- Order for a heavy duty crane to Indonesia.
- Complete hatch cover sets and container fixed fittings for 26 container ships to South Korea.
- Cargo handling solutions for conversion and upgrade projects to a French shipping company.
- EUR 22 million orders for cruise access equipment from three European yards.
- Deck machinery equipment for the US Navy T-ATSX-class vessel.

MacGregor's order book grew by 10 percent from the 2017 year-end, totalling EUR 530 (31 Dec 2017: 481) million at the end of the year 2018. Around two thirds of the order book is merchant ship-related and one third is offshore vessel-related.

MacGregor's fourth quarter sales increased by five percent from the comparison period to EUR 149 (141) million. Sales grew in the EMEA region and the Americas. The share of service sales was EUR 55 (53) million, or 37 (37) percent. MacGregor's sales in 2018 decreased by six percent from the comparison period to EUR 538 (571) million. The share of service sales was EUR 209 (205) million, or 39 (36) percent.

MacGregor's operating profit for the fourth quarter totalled EUR -7.3 (-5.1) million. Operating profit includes EUR 4.3 (6.3) million in restructuring costs. Operating profit, excluding restructuring costs, totalled EUR -3.0 (1.2) million, representing -2.0 (0.8) percent of sales. MacGregor's operating profit excluding restructuring was negative due to higher than expected project costs as well as low capacity utilisation in certain product areas.

MacGregor's operating profit for 2018 totalled EUR -4.2 (-5.2) million. Operating profit includes EUR 4.3 (15.8) million in restructuring costs. Operating profit, excluding restructuring costs, totalled EUR 0.1 (10.6) million, representing 0.0 (1.9) percent of sales. MacGregor's operating profit excluding restructuring costs decreased, as cost savings did not fully compensate for the decline in sales and due to higher than expected project costs.

Annual General Meeting and shares

Decisions taken at the Annual General Meeting

Cargotec Corporation’s Annual General Meeting (AGM), held on 20 March 2018, adopted the financial statements of the parent company and consolidated financial statements of the year 2017. 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 2017. The AGM approved a dividend of EUR 1.04 to be paid for each class A share and a dividend of EUR 1.05 be paid for each class B share outstanding. The dividend was decided to be paid in two instalments, in March and September 2018. The first instalment was paid on 29 March 2018 and the second instalment on 27 September 2018.

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 will supersede the previous one. The number of the Board members was confirmed at ten. Kimmo Alkio, 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 and authorised public accountant Tomi Hyryläinen as auditors. The auditors' fees were decided to be paid according to invoice approved by the company.

On 20 March 2018, 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 Committee as well as the Nomination and Compensation Committee.

Outi Aaltonen, Senior Vice President, General Counsel, will continue as Secretary to the Board. Cargotec published stock exchange releases on the decisions taken at the AGM as well as the Board of Directors’ organising meeting on 20 March 2018. The stock exchange releases and presentations of the members of the Board of Directors are available on Cargotec’s website at www.cargotec.com.

Change of auditor

On 27 December 2018, Cargotec announced that the Finnish Patent and Registration Office has on the same date designated Markku Katajisto, Authorised Public Accountant, as the company's auditor for the financial year 2018, with the role taking effect immediately.

Markku Katajisto replaces Tomi Hyryläinen as the company's auditor, as Tomi Hyryläinen has on 20 December 2018 announced his resignation from this position as he has moved to other assignments.

After the change, Cargotec's auditors are PricewaterhouseCoopers Oy, Authorised Public Accountants, who have announced that the responsible auditor is Mikko Nieminen, Authorised Public Accountant, and Markku Katajisto, Authorised Public Accountant.

Shares and trading

Share capital, own shares and share issue

Cargotec Corporation's share capital totalled EUR 64,304,880 at the end of 2018. The number of class B shares was 55,182,079, while the number of class A shares totalled 9,526,089.

On 20 March 2018, the Board of Directors of Cargotec Corporation decided on a directed share issue related to the reward payments for share-based incentive programmes. The share reward payments are related to Cargotec's share-based incentive programme 2015, as well as 2017 allocation of restricted shares programme 2016–2018 under the share-based incentive programme 2016.

In the share issue, 138,787 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 2015 and on 10 February 2016.

The decision on the directed share issue is based on the authorisation granted to the Board of Directors by the Annual General Meeting on 18 March 2014. According to the authorisation, the Board of Directors can decide on a share issue amounting to a maximum of 952,000 class A shares and 5,448,000 class B shares. In accordance with the authorisation, previously 26,684 own class B shares were transferred on 31 March 2014, 28,030 shares on 31 March 2015, 27,601 shares on 31 March 2016 and 56,709 shares on 31 March 2017.

In July 2018, Cargotec repurchased a total of 150,000 class B shares based on the authorisation of the Annual General Meeting on 20 March 2018 for a total cost of EUR 6,082,462.20. In addition, based on the aforementioned authorisation, Cargotec repurchased a total of 160,000 class B shares in December 2018 for a total cost of EUR 4,391,164.00. The shares were repurchased for use as reward payments for the share-based incentive programmes. Payments and grants will be realised as per their respective terms and conditions, starting on March 2019 at the earliest.

At the end of 2018, Cargotec held a total of 379,603 own class B shares, accounting for 0.59 percent of the total number of shares and 0.25 percent of the total number of votes. At the end of 2018, the number of outstanding class B shares totalled 54,802,476.

Share-based incentive programmes

In February 2018, The Board of Directors of Cargotec Corporation has resolved on the performance criteria for the share-based incentive programme for the year 2018. 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. For the measuring periods, the Board of Directors will annually resolve on the performance criteria for each measuring period.

For the performance period of 2017–2018 started in 2017, the potential reward of the measuring period 2018 will be based on the business areas' Return on Capital Employed (ROCE, excluding restructuring costs) for the key employees of the business areas Kalmar, Hiab and MacGregor, and for Navis software divisions' key employees, on Navis' sales and on sales of XVELA business. For Cargotec Corporate key employees, the performance criterion is Cargotec's Return on Capital Employed (ROCE, excluding restructuring costs). After the end of the performance period, the Board of Directors will confirm the cumulative amount of rewards earned from the measuring periods 2017 and 2018, and potential rewards from the performance period 2017–2018 will be paid partly in Cargotec's class B shares and partly in cash in 2019. As a rule, no reward will be paid, if a key employee's employment or service ends before the reward payment. The shares paid as reward may not be transferred during an approximate one-year ownership and value creation period established for the shares.

For the new performance period of 2018–2019, the programme is directed to approximately 150 key employees, including the members of the Executive Board. The incentive programme supports increasing growth of the service and software business according to Cargotec's strategy. For the key employees of the business areas Kalmar, Hiab and MacGregor, the potential reward of the measuring period 2018 will be based on the business areas' 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 2018-2019 will amount up to an approximate maximum total of 180,000 Cargotec's class B shares. In addition, the rewards include cash proportions that are intended to cover taxes and tax-related costs arising from the reward to the key employees. After the end of the performance period, the Board of Directors will confirm the cumulative amount of rewards earned from the measuring periods 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.

Market capitalisation and trading

At the end of 2018, the total market value of class B shares was EUR 1,464 (2,595) 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 1,720 (3,047) million, excluding own shares held by the company.

The class B share closed at EUR 26.72 (47.20) on the last trading day of 2018 on Nasdaq Helsinki. The volume-weighted average share price in 2018 was EUR 41.28 (49.85), the highest quotation being EUR 51.30 (59.25) and the lowest EUR 26.46 (40.26). During the period, a total of 34 (33) million class B shares were traded on Nasdaq Helsinki, corresponding to a turnover of EUR 1,382 (1,665) million. In addition, according to Fidessa, a total of 47 (48) million class B shares were traded in several alternative marketplaces, such as Cboe APA and Cboe BXE, corresponding to a turnover of EUR 1,945 (2,428) million.

Short-term risks and uncertainties

Developments in the global economy and cargo flows have a direct effect on Cargotec’s business environment and customers’ willingness to invest. A slowdown in global economic growth could reduce the growth in container traffic. Furthermore, the consolidation of ship companies and container terminal operators as well as the relatively low penetration of automation technology could postpone the customers’ investment decisions regarding container handling automation. Project executions may face risks related to schedule, cost and delivery guarantees. Furthermore, potential bottlenecks in the supply chain could postpone deliveries and have a negative impact on sales and results. Uncertainty may be increased by risks stemming from political instability, volatility on the currency and raw material markets, or from the financing sector. In addition, a trade war could have an impact on global flow of goods and therefore on the demand 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. Greater difficulty in obtaining financing would weaken customers' liquidity and investments.

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

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

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 develop ethical business practices and the related internal processes are continuously being developed further.

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

Board of Directors' proposal on the distribution of profit

The parent company's distributable equity on 31 December 2018 was EUR 1,213,139,061.71 of which net income for the period was EUR 13,813,850.04. The Board of Directors proposes to the Annual General Meeting convening on 19 March 2019 that of the distributable profit, a dividend of EUR 1.09 for each of the 9,526,089 class A shares and EUR 1.10 for each of the 54,802,476 outstanding class B shares be paid, totalling EUR 70,666,160.61. The remaining distributable equity, EUR 1,142,472,901.10, 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 2019. The first instalment of EUR 0.55 per each of class A shares and EUR 0.55 per each of class B shares outstanding shall be paid to shareholders who on the record date for dividend distribution, 21 March 2019, are registered as shareholders in the company's shareholder register. The dividend payment date proposed by the Board of Directors is 28 March 2019.

The second instalment of EUR 0.54 per each of class A shares and EUR 0.55 per each of class B shares outstanding shall be paid in October 2019. 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 1 October 2019. The dividend record date for the second instalment as per the current rules of the Finnish book-entry system would thus be 3 October 2019 and the dividend payment date 10 October 2019.

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 2019

Cargotec expects its comparable operating profit for 2019 to improve from 2018 (EUR 242.1 million).

New alternative performance measure – comparable operating profit

Cargotec uses alternative performance measures (APMs) to better convey underlying business performance and to enhance comparability from period to period. Starting from 1 January 2019, Cargotec replaces the alternative performance measure of "operating profit excluding restructuring costs" with "comparable operating profit" for measuring business performance in the financial reporting. Comparable operating profit does not contain items significantly affecting comparability. In addition to restructuring costs, these items mainly include capital gains and losses, income and expenses related to business acquisitions and disposals, impairments of assets and reversals of impairments, insurance benefits, and expenses related to legal proceedings. Cargotec's comparable operating profit for 2018 is EUR 242.1 (2017: 258.6) million.

Annual General Meeting 2019

The Annual General Meeting of Cargotec Corporation will be held at the Marina Congress Center in Helsinki on Tuesday 19 March 2019 at 1.00 p.m. EET.

Financial calendar 2019

Financial Statements and Annual Report 2018 will be available at www.cargotec.com on week 8
The Annual General Meeting will be held on Tuesday, 19 March 2019
Interim report January–March 2019, on Thursday, 25 April 2019
Half year financial report January–June 2019, on Thursday, 18 July 2019
Interim report January–September 2019, on Tuesday, 22 October 2019

Helsinki, 7 February 2019
Cargotec Corporation
Board of Directors

Consolidated statement of income

MEUR	Q4/18	Q4/17	2018	2017
Sales	**909.8**	**886.2**	**3,303.5**	**3,249.8**
Cost of goods sold	-694.0	-655.0	-2,489.3	-2,397.7
Gross profit	**215.8**	**231.2**	**814.2**	**852.1**
Gross profit, %	*23.7%*	*26.1%*	*24.6%*	*26.2%*
Other operating income	14.7	8.2	44.8	35.8
Selling and marketing expenses	-61.2	-56.5	-234.4	-221.8
Research and development expenses	-24.2	-27.5	-94.7	-98.2
Administration expenses	-64.3	-73.5	-252.9	-273.6
Restructuring costs	-12.5	-17.2	-53.8	-36.5
Other operating expenses	-9.0	-9.8	-35.4	-36.7
Costs and expenses	-156.5	-176.3	-626.5	-631.0
Share of associated companies' and joint ventures' net income	1.7	-0.2	2.3	0.9
Operating profit	**60.9**	**54.7**	**190.0**	**222.1**
Operating profit, %	*6.7%*	*6.2%*	*5.8%*	*6.8%*
Financing income and expenses	-8.7	-7.7	-28.9	-32.9
Income before taxes	**52.2**	**47.0**	**161.1**	**189.2**
Income before taxes, %	*5.7%*	*5.3%*	*4.9%*	*5.8%*
Income taxes	-18.1	-19.3	-53.1	-56.5
Net income for the period	**34.1**	**27.7**	**108.0**	**132.7**
Net income for the period, %	*3.8%*	*3.1%*	*3.3%*	*4.1%*
Net income for the period attributable to:				
Equity holders of the parent	33.9	27.1	107.0	132.4
Non-controlling interest	0.2	0.6	1.1	0.2
Total	**34.1**	**27.7**	**108.0**	**132.7**
Earnings per share for profit attributable to the equity holders of the parent:				
Earnings per share, EUR	0.53	0.42	1.66	2.05
Diluted earnings per share, EUR	0.52	0.42	1.65	2.05

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

Consolidated statement of comprehensive income

MEUR	Q4/18	Q4/17	2018	2017
Net income for the period	**34.1**	**27.7**	**108.0**	**132.7**
Other comprehensive income				
Items that cannot be reclassified to statement of income:				
Actuarial gains (+) / losses (-) from defined benefit plans	-3.9	-4.6	-2.1	-5.0
Taxes relating to items that cannot be reclassified to statement of income	0.7	1.0	-0.1	1.1
Items that can be reclassified to statement of income:				
Gains (+) / losses (-) on cash flow hedges	-10.9	2.5	-31.2	50.2
Gains (+) / losses (-) on cash flow hedges transferred to statement of income	4.3	-5.4	11.5	-16.2
Gains (+) / losses (-) on net investment hedges	-	-	-	10.9
Translation differences	-5.0	-18.3	-13.0	-81.9
Taxes relating to items that can be reclassified to statement of income	1.3	0.6	4.0	-4.8
Other comprehensive income, net of tax	**-13.5**	**-24.2**	**-30.8**	**-45.7**
Comprehensive income for the period	**20.6**	**3.5**	**77.3**	**87.0**
Comprehensive income for the period attributable to:				
Equity holders of the parent	20.4	2.9	76.2	86.8
Non-controlling interest	0.2	0.6	1.0	0.2
Total	**20.6**	**3.5**	**77.3**	**87.0**

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

Consolidated balance sheet

ASSETS, MEUR	31 Dec 2018	31 Dec 2017
Non-current assets		
Goodwill	970.9	986.7
Other intangible assets	278.6	260.8
Property, plant and equipment	308.7	310.8
Investments in associated companies and joint ventures	99.8	109.8
Share investments	0.3	0.2
Loans receivable and other interest-bearing assets*	36.0	5.0
Deferred tax assets	137.3	150.0
Derivative assets	-	6.1
Other non-interest-bearing assets	9.5	8.5
Total non-current assets	**1,841.1**	**1,837.9**
Current assets		
Inventories	688.8	623.3
Loans receivable and other interest-bearing assets*	1.8	2.5
Income tax receivables	56.0	36.4
Derivative assets	17.4	13.3
Accounts receivable and other non-interest-bearing assets	822.5	746.8
Cash and cash equivalents*	256.3	309.1
Total current assets	**1,842.8**	**1,731.4**
Total assets	**3,683.9**	**3,569.3**

EQUITY AND LIABILITIES, MEUR	31 Dec 2018	31 Dec 2017
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	-31.2
Fair value reserves	-13.5	2.1
Reserve for invested non-restricted equity	58.5	69.0
Retained earnings	1,262.5	1,220.6
Total equity attributable to the equity holders of the parent	**1,425.6**	**1,422.8**
Non-controlling interest	3.0	2.3
Total equity	**1,428.5**	**1,425.1**
Non-current liabilities		
Interest-bearing liabilities*	717.1	673.8
Deferred tax liabilities	28.1	12.7
Pension obligations	92.3	87.5
Provisions	10.7	17.1
Other non-interest-bearing liabilities	58.6	61.5
Total non-current liabilities	**906.8**	**852.6**
Current liabilities		
Current portion of interest-bearing liabilities*	168.4	83.8
Other interest-bearing liabilities*	44.5	37.6
Provisions	86.7	103.5
Advances received**	190.3	194.1
Income tax payables	39.6	49.1
Derivative liabilities	5.8	6.4
Accounts payable and other non-interest-bearing liabilities**	813.5	817.1
Total current liabilities	**1,348.6**	**1,291.7**
Total equity and liabilities	**3,683.9**	**3,569.3**

*Included in interest-bearing net debt.
**Amounts due to customers from construction contracts and advance payments from service contracts and software business have been regrouped from “Accounts payable and other non-interest-bearing liabilities” to “Advances received”. On 31 Dec 2017, the restated amount was EUR 67.2 million.

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent								
MEUR	Share capital	Share premium account	Translation differences	Fair value reserves	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**	**1,220.6**	**1,422.8**	**2.3**	**1,425.1**
+/- IFRS 9 transition effect						-1.6	-1.6	-	-1.6
+/- IFRS 2 transition effect						7.5	7.5	-	7.5
Restated 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
Net investment hedges			-				-		-
Translation differences			-13.0				-13.0	0.0	-13.0
Actuarial gains (+) / losses (-) from defined benefit plans						-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						-67.6	-67.6	-0.4	-68.0
Treasury shares acquired					-10.5		-10.5		-10.5
Share-based payments*						-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**
Equity 1 Jan 2017	**64.3**	**98.0**	**37.3**	**-24.7**	**69.0**	**1,151.1**	**1,395.0**	**2.2**	**1,397.2**
+/- IFRS 15 transition effect						1.3	1.3	-	1.3
Restated equity 1 Jan 2017	**64.3**	**98.0**	**37.3**	**-24.7**	**69.0**	**1,152.3**	**1,396.3**	**2.2**	**1,398.5**
Net income for the financial year						132.4	132.4	0.2	132.7
Cash flow hedges				26.8			26.8		26.8
Net investment hedges			8.7				8.7		8.7
Translation differences			-77.3				-77.3	0.0	-77.3
Actuarial gains (+) / losses (-) from defined benefit plans						-3.9	-3.9		-3.9
Comprehensive income for the financial year*			**-68.6**	**26.8**	**-**	**128.5**	**86.8**	**0.2**	**87.0**
Profit distribution						-61.1	-61.1	-1.0	-62.2
Treasury shares acquired					-		-		-
Share-based payments*						3.2	3.2		3.2
Transactions with owners of the company					**-**	**-58.0**	**-58.0**	**-1.0**	**-59.0**
Transactions with non-controlling interests						-2.3	-2.3	-0.9	-1.4
Equity 31 Dec 2017	**64.3**	**98.0**	**-31.2**	**2.1**	**69.0**	**1,220.6**	**1,422.8**	**2.3**	**1,425.1**

*Net of tax

Consolidated statement of cash flows

MEUR	2018	2017
Net cash flow from operating activities		
Net income for the financial year	108.0	132.7
Depreciation, amortisation and impairment	77.2	72.0
Financing items	28.9	32.9
Taxes	53.1	56.5
Change in receivables	-54.8	0.1
Change in payables	-49.6	-38.7
Change in inventories	-54.3	-4.9
Change in net working capital	-158.7	-43.6
Other adjustments	17.3	2.9
Cash flow from operations before financing items and taxes	**125.8**	**253.5**
Interest received	3.1	4.8
Interest paid	-18.6	-20.1
Dividends received	14.0	5.5
Other financing items	-23.0	14.6
Income taxes paid	-61.0	-77.5
Net cash flow from operating activities	**40.2**	**180.9**
Net cash flow from investing activities		
Acquisitions of businesses, net of cash acquired	-70.7	-14.4
Disposals of businesses, net of cash sold	-15.5	-1.2
Investments in associated companies and joint ventures	-0.5	-4.7
Investments in fixed assets	-71.5	-84.3
Disposals of fixed assets	19.1	13.7
Cash flow from investing activities, other items	1.8	1.3
Net cash flow from investing activities	**-137.3**	**-89.7**
Net cash flow from financing activities		
Treasury shares acquired	-9.4	-
Acquisition of non-controlling interests	-	-0.4
Proceeds from long-term borrowings	199.5	253.2
Repayments of long-term borrowings	-83.7	-243.1
Proceeds from short-term borrowings	3.4	7.6
Repayments of short-term borrowings	-3.9	-17.7
Profit distribution	-68.0	-62.2
Net cash flow from financing activities	**37.7**	**-62.6**
Change in cash and cash equivalents	**-59.3**	**28.6**
Cash and cash equivalents, and bank overdrafts at the beginning of period	284.7	260.8
Effect of exchange rate changes	0.1	-4.6
Cash and cash equivalents, and bank overdrafts at the end of period	**225.5**	**284.7**
Bank overdrafts at the end of period	30.8	24.4
Cash and cash equivalents at the end of period	**256.3**	**309.1**

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

Key figures

		2018	2017
Equity / share	EUR	22.16	22.06
Total equity / total assets*	%	40.9%	42.2%
Interest-bearing net debt	MEUR	625.5	471.7
Interest-bearing net debt / EBITDA, rolling 12 months		2.3	1.6
Gearing	%	43.8%	33.1%
Return on equity (ROE), annualised	%	7.6%	9.4%
Return on capital employed (ROCE), annualised	%	8.0%	9.6%

*Amounts due to customers from construction contracts as well as advance payments from service contracts and software business have been regrouped from “Accounts payable and other non-interest-bearing liabilities” to “Advances received” on the balance sheet. As a result, the total equity / total assets ratio increased by 0.8 percentage points in 2017.

Additional information regarding interest-bearing net debt and gearing is disclosed in note 9, Interest-bearing net debt and liquidity.

Notes to the financial statements review

1. 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 listed on Nasdaq Helsinki Ltd since 1 June 2005.

2. Accounting principles and new accounting standards

The financial statements review has been prepared according to IAS 34 Interim Financial Reporting. The accounting policies adopted are consistent with those of the annual financial statements for 2018. All figures presented have been rounded which may cause, for example, the sum of individual figures to deviate from the presented sum total.

IFRS 15, Revenue from contracts with customers, was adopted retrospectively with the allowed transitional reliefs on 1 Jan 2018. The adoption of IFRS 15 resulted in changes in the timing of revenue recognition related to certain products. The retrospective adoption of these changes resulted in an increase of EUR 1.3 million in Cargotec’s equity in the opening balance of 2017, and a reduction of EUR 3.7 million in the net income for the year 2017.

IFRS 9, Financial instruments, was adopted prospectively with the allowed transitional reliefs on 1 Jan 2018. The adoption of IFRS 9 resulted in an increase in the credit loss provision regarding the less than 90 days overdue receivables related to which Cargotec previously recognised no generic credit loss provision. In addition, certain loan receivables were impaired on the adoption of IFRS 9. These transitional adjustments resulted in a reduction of EUR 1.6 million in Cargotec’s equity in the opening balance of 2018.

Amendments to IFRS 2 regarding the classification and measurement of share-based payment transactions were adopted prospectively on 1 Jan 2018. As a result of the amendments, the share-based payments that are settled net in shares after withholding taxes are accounted for in full as equity-settled arrangements despite the fact that Cargotec pays in cash the taxes related to the rewards on behalf of the participants. The adoption of the IFRS 2 amendments resulted in an increase of EUR 7.5 million in Cargotec’s equity in the opening balance of 2018.

Cargotec's changed accounting principles regarding revenue from contracts with customers

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 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 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 a 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 a 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. When 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 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 related to the contract is recognised only to an amount corresponding with the costs incurred. 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.

Cargotec's changed accounting principles regarding 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 receivables 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 the amortised cost.

Accounts receivables 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.

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

1 Jan 2018 MEUR	**Measured at amortised cost**	**Measured at fair value through other comprehensive income**	**Measured at fair value through profit or loss**	**Total**
Share investments	-	-	0.2	**0.2**
Loans receivable and other interest-bearing assets	5.8	-	1.1	**6.9**
Derivative assets	-	12.1	7.3	**19.4**
Accounts receivable and other non-interest-bearing receivables	652.0	-	-	**652.0**
Cash and cash equivalents	309.1	-	-	**309.1**
Total financial assets	**967.0**	**12.1**	**8.6**	**987.7**
Interest-bearing liabilities	795.2	-	-	**795.2**
Derivative liabilities	-	0.3	6.1	**6.4**
Accounts payable and other non-interest-bearing liabilities	472.2	-	-	**472.2**
Total financial liabilities	**1,267.4**	**0.3**	**6.1**	**1,273.8**

Cargotec has recognised the following adjustments on 1 January 2018 due to adoption of IFRS 9:

Available-for-sale investments of EUR 0.2 million has been reclassified to share investments measured at fair value through profit or loss.

Loans receivable and other interest-bearing assets of EUR 1.1 million have been reclassified to financial assets measured at fair value through profit or loss, and an impairment of EUR 0.5 million has been recognised regarding the amounts measured at amortised cost.

An impairment of EUR 1.5 million has been recognised in accounts receivable and other non-interest-bearing assets due to the adoption of the new credit loss model.

Cargotec's changed accounting principles regarding 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 every closing and changes in estimates are recorded through the statement of income.

3. Segment information

Sales, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	444	465	1,618	1,598
Hiab	318	280	1,149	1,084
MacGregor	149	141	538	571
Internal sales	-1	-1	-2	-2
Total	**910**	**886**	**3,304**	**3,250**

Sales by geographical area, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
EMEA	460	422	1,610	1,423
Americas	272	252	1,039	1,034
Asia-Pacific	177	213	655	793
Total	**910**	**886**	**3,304**	**3,250**

Sales by geographical area, %	**Q4/18**	**Q4/17**	**2018**	**2017**
EMEA	51%	48%	49%	44%
Americas	30%	28%	31%	32%
Asia-Pacific	19%	24%	20%	24%
Total	**100%**	**100%**	**100%**	**100%**

Operating profit and EBITDA, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	47.1	40.0	138.1	126.6
Hiab	34.4	39.9	133.8	157.0
MacGregor	-7.3	-5.1	-4.2	-5.2
Corporate administration and support functions	-13.2	-20.1	-77.7	-56.3
Operating profit	**60.9**	**54.7**	**190.0**	**222.1**
Depreciation and amortisation	19.6	19.4	77.2	72.0
EBITDA	**80.6**	**74.1**	**267.2**	**294.2**

Operating profit, %	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	10.6%	8.6%	8.5%	7.9%
Hiab	10.8%	14.3%	11.6%	14.5%
MacGregor	-4.9%	-3.6%	-0.8%	-0.9%
Cargotec	6.7%	6.2%	5.8%	6.8%

Restructuring costs, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	-3.9	-2.9	-5.4	-6.4
Hiab	-0.5	0.0	-0.7	-0.2
MacGregor	-4.3	-6.3	-4.3	-15.8
Corporate administration and support functions	-3.8	-8.1	-43.3	-14.1
Total	**-12.5**	**-17.2**	**-53.8**	**-36.5**

Operating profit excl. restructuring costs, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	51.0	42.8	143.6	133.1
Hiab	34.9	39.9	134.5	157.2
MacGregor	-3.0	1.2	0.1	10.6
Corporate administration and support functions	-9.4	-12.0	-34.4	-42.2
Total	**73.5**	**72.0**	**243.8**	**258.6**

Operating profit excl. restructuring costs, %	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	11.5%	9.2%	8.9%	8.3%
Hiab	11.0%	14.3%	11.7%	14.5%
MacGregor	-2.0%	0.8%	0.0%	1.9%
Cargotec	8.1%	8.1%	7.4%	8.0%

Orders received, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Kalmar	450	369	1,919	1,555
Hiab	357	289	1,259	1,116
MacGregor	184	126	580	521
Internal orders received	0	0	-1	-2
Total	**991**	**784**	**3,756**	**3,190**

Orders received by geographical area, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
EMEA	489	390	1,755	1,512
Americas	310	237	1,245	1,064
Asia-Pacific	192	157	757	614
Total	**991**	**784**	**3,756**	**3,190**

Orders received by geographical area, %	**Q4/18**	**Q4/17**	**2018**	**2017**
EMEA	49%	50%	47%	48%
Americas	31%	30%	33%	33%
Asia-Pacific	20%	20%	20%	19%
Total	**100%**	**100%**	**100%**	**100%**

Order book, MEUR	**31 Dec 2018**	**31 Dec 2017**
Kalmar	1,012	786
Hiab	453	300
MacGregor	530	481
Internal order book	-1	-1
Total	**1,995**	**1,566**

Number of employees at the end of period	**31 Dec 2018**	**31 Dec 2017**
Kalmar	5,737	5,819
Hiab	3,879	3,370
MacGregor	1,879	1,859
Corporate administration and support functions	492	203
Total	**11,987**	**11,251**

Average number of employees	**2018**	**2017**
Kalmar	5,685	5,740
Hiab	3,604	3,192
MacGregor	1,887	1,965
Corporate administration and support functions	413	232
Total	**11,589**	**11,128**

4. Revenue from contracts with customers

Cargotec, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Equipment sales	620	603	2,224	2,190
Service sales	243	238	932	907
Software sales	47	45	147	152
Total sales	**910**	**886**	**3,304**	**3,250**
Recognised at a point in time	785	782	2,898	2,847
Recognised over time	125	104	406	403

Kalmar, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Equipment sales	281	300	1,022	1,000
Service sales	116	121	449	445
Software sales	47	45	147	153
Total sales	**444**	**465**	**1,618**	**1,598**
Recognised at a point in time	361	394	1,377	1,339
Recognised over time	83	71	241	258

Hiab, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Equipment sales	246	215	875	826
Service sales	71	65	274	258
Total sales	**318**	**280**	**1,149**	**1,084**
Recognised at a point in time	315	278	1,139	1,076
Recognised over time	3	2	9	8

MacGregor, MEUR	**Q4/18**	**Q4/17**	**2018**	**2017**
Equipment sales	94	88	329	366
Service sales	55	53	209	205
Total sales	**149**	**141**	**538**	**571**
Recognised at a point in time	110	111	382	434
Recognised over time	39	31	156	137

5. Restructuring costs

MEUR	2018	2017
Employment termination costs	3.2	16.5
Impairment of non-current assets*	32.2	-
Impairment of inventories	1.4	1.2
Disposal of businesses**	-8.4	4.7
Other restructuring costs***	25.5	14.1
Total	**53.8**	**36.5**

*Includes an impairment loss of EUR 30.0 million, recognised in the second quarter of 2018, related to 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. The market value of the RHI shares owned by Cargotec on 31 Dec 2018 was EUR 24.5 (31 Dec 2017: 37.0) million. The book value of the RHI shares after the impairment on 31 Dec 2018 was EUR 24.0 million (31 Dec 2017: 54.0) million.

**Additional information regarding disposed businesses is presented in note 12, Acquisitions and disposals.

***Includes e.g. contract (other than employment contract) termination costs, costs arising from outsourcing or transferring operations to new locations, costs of vacant premises, gains and losses on sale of intangible assets and property, plant and equipment as well as establishment costs of Cargotec Business Services operations. In addition, the sum in 2018 includes costs related to discontinuation of unprofitable product ranges in Kalmar.

6. Capital expenditure, depreciation and amortisation

Capital expenditure, MEUR	2018	2017
Intangible assets	7.7	9.0
Land and buildings	15.4	2.5
Machinery and equipment	57.1	72.8
Total	**80.3**	**84.3**

Depreciation, amortisation and impairment, MEUR	2018	2017
Intangible assets	31.0	28.8
Land and buildings	6.7	5.6
Machinery and equipment	39.5	37.6
Total	**77.2**	**72.0**

7. Taxes in statement of income

MEUR	2018	2017
Current year tax expense	35.2	83.2
Change in current year's deferred tax assets and liabilities	18.3	-29.9
Tax expense for previous years	-0.4	3.2
Total	**53.1**	**56.5**

8. Net working capital

MEUR	31 Dec 2018	31 Dec 2017
Inventories	688.8	623.3
Operative derivative assets	9.2	18.8
Accounts receivable	626.3	587.7
Other operative non-interest-bearing assets	202.7	165.0
Provisions	-97.4	-120.6
Advances received	-190.3	-194.1
Operative derivative liabilities	-18.9	-12.0
Accounts payable	-424.2	-398.1
Pension obligations	-92.3	-87.5
Other operative non-interest-bearing liabilities	-432.5	-467.7
Total	**271.4**	**114.8**

Assets and liabilities that are not allocated 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.

9. Interest-bearing net debt and liquidity

MEUR	31 Dec 2018	31 Dec 2017
Interest-bearing liabilities*	929.9	795.2
Loans receivable and other interest-bearing assets	-37.9	-7.4
Cash and cash equivalents	-256.3	-309.1
Interest-bearing net debt on balance sheet	**635.8**	**478.7**
Foreign currency hedge of corporate bonds*	-10.3	-6.9
Interest-bearing net debt	**625.5**	**471.7**
Equity	1,428.5	1,425.1
Gearing	**43.8%**	**33.1%**

The fair values of interest-bearing assets and liabilities are not significantly different from their carrying amounts.

*Cash flow hedge accounting is applied to the cash flows of the USD 85 (31 Dec 2017: 85) million Private Placement corporate bond. The cash flows of the bond are converted into euro flows through a cross-currency swap. As a result of the hedging, Cargotec effectively holds a EUR 64 (31 Dec 2017: 64) million fixed rate debt.

MEUR	31 Dec 2018	31 Dec 2017
Cash and cash equivalents	256.3	309.1
Committed long-term undrawn revolving credit facilities	300.0	300.0
Repayments of interest-bearing liabilities in the following 12 months	-212.8	-121.4
Total liquidity	**343.5**	**487.7**

10. Derivatives

Fair values of derivative financial instruments

MEUR	Positive fair value 31 Dec 2018	Negative fair value 31 Dec 2018	Net fair value 31 Dec 2018	Net fair value 31 Dec 2017
Non-current				
Cross-currency and interest rate swaps	-	-	-	6.1
Total	**-**	**-**	**-**	**6.1**
Current				
Currency forwards, cash flow hedge accounting	2.7	0.5	2.2	5.7
Currency forwards, other	4.6	5.2	-0.7	1.2
Cross-currency and interest rate swaps	10.1	-	10.1	-
Total	**17.4**	**5.8**	**11.7**	**6.9**
Total derivatives	**17.4**	**5.8**	**11.7**	**13.0**

A cross-currency and interest rate swap hedges the US Private Placement corporate bond which was issued in February 2007 and will mature in 2019. Cash flow hedge accounting is applied for this instrument.

Financial assets and liabilities recognised at fair value through profit and loss comprise mainly currency derivatives as well as the cross-currency and interest rate swap. The recurring measurement of these instruments at fair value is based on commonly applied valuation methods and uses observable market-based variables. Therefore, these measurements are categorised in the fair value hierarchy as level 2 fair values.

Nominal values of derivative financial instruments

MEUR	31 Dec 2018	31 Dec 2017
Currency forward contracts	2,260.7	1,980.3
Cash flow hedge accounting	1,265.8	1,104.5
Other	994.8	875.8
Cross-currency and interest rate swaps	74.2	70.9
Total	**2,334.9**	**2,051.1**

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

11. Commitments

MEUR	31 Dec 2018	31 Dec 2017
Guarantees given on behalf of associated companies and joint ventures	41.5	28.3
Guarantees given on behalf of others	-	0.2
Customer financing	26.7	18.4
Operating leases	203.2	189.4
Other contingent liabilities	0.5	0.6
Total	**271.9**	**236.8**

Cargotec Corporation has guaranteed obligations of Cargotec companies arising from ordinary course of business. The total amount of these guarantees on 31 December 2018 was EUR 460.8 (31 Dec 2017: 461.2) 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.

Cargotec leases globally a large part of the properties needed in the operations under non-cancellable operating leases with varying terms and conditions.

The future minimum lease payments under non-cancellable operating leases

MEUR	31 Dec 2018	31 Dec 2017
Less than 1 year	47.1	37.3
1–5 years	99.2	87.3
Over 5 years	56.9	64.8
Total	**203.2**	**189.4**

The aggregate operating lease expenses totalled EUR 45.0 (1–12/2017: 40.1) million.

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 may still appeal the judgment.

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

12. Acquisitions and disposals

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 45.5 million. Effer was a privately owned company that is renowned 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 has 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 provisional as of 31 December 2018. Fair value measurement of the acquired assets and liabilities is preliminary and subject to adjustments until the valuation is finalised. In the preliminary valuation, customer relationships, trademarks and technology have been identified as the acquired intangible assets. According to the preliminary valuation, the acquisition will generate goodwill, which will not be tax-deductible. Goodwill is primarily based on personnel and expected synergy benefits.

Acquired net assets and goodwill, MEUR	
Intangible assets	34.4
Property, plant and equipment	3.8
Inventories	12.1
Accounts receivable and other non-interest-bearing assets	16.2
Cash and cash equivalents	5.1
Deferred tax assets	1.0
Accounts payable and other non-interest-bearing liabilities	-19.9
Interest-bearing liabilities	-12.2
Deferred tax liabilities	-9.5
Net assets	**30.9**
Purchase price, payable in cash	45.5
Total consideration	**45.5**
Goodwill	**14.6**
Purchase price, paid in cash	43.5
Cash and cash equivalents acquired	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 8.5 million. The final purchase price may still decrease as a result of the agreed purchase price mechanism related to acquired working capital. 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 has 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.

Consolidation of the acquired businesses is provisional as of 31 December 2018. Fair value measurement of the acquired assets and liabilities is preliminary and subject to adjustments until the valuation is finalised. In the preliminary valuation, customer relationships, trademarks and technology have been identified as the acquired intangible assets. According to the preliminary valuation, the acquisition will generate goodwill, which will not be tax-deductible. Goodwill is primarily based on personnel and expected synergy benefits.

Acquired net assets and goodwill, MEUR	
Intangible assets	6.1
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	-37.5
Interest-bearing liabilities	-11.9
Deferred tax liabilities	-1.2
Net assets	**-3.7**
Purchase price, payable in cash	8.5
Total consideration	**8.5**
Non-controlling interest	0.0
Goodwill	**12.2**
Purchase price, paid in cash	8.5
Cash and cash equivalents acquired	10.7
Cash flow impact	**19.2**

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 agreed to be 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 the 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.

Acquisitions in 2017

On 29 December 2017, Kalmar acquired the share capital of Inver Port Services Pty Ltd ("Inver") in Australia. The purchase price of EUR 5.2 million was fully paid on closing of the deal. Inver was a privately owned company and it is specialised in providing repairs, maintenance and crane refurbishment projects for major terminal operators across Australia, New Zealand and the Pacific. The company's sales account for approximately EUR 5 million and it employs 23 people. The acquisition supports Kalmar’s strategic aim to grow in services while strengthening and broadening the existing service capabilities throughout Australia, New Zealand and the Pacific. The result of Inver has been consolidated into Kalmar segment from the beginning of January 2018.

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

Cargotec's full year sales by approximately EUR 6 million and decreased the operating profit by approximately EUR 1 million.

Fair value measurements of the acquired assets and liabilities are final, and there were no material differences to the values reported earlier during 2018. In the final valuation, customer relationships, trademarks and technology have been identified as the acquired intangible assets. The goodwill generated in the acquisition is not tax-deductible. Goodwill is primarily based on personnel and expected synergy benefits.

Acquired net assets and goodwill, Argos and Inver, MEUR	
Intangible assets	3.7
Property, plant and equipment	2.7
Inventories	0.8
Accounts receivable and other non-interest-bearing assets	0.0
Accounts payable and other non-interest-bearing liabilities	-0.1
Deferred tax liabilities	-1.1
Net assets	**5.9**
Purchase price, payable in cash	15.4
Total consideration	**15.4**
Goodwill	**9.4**
Purchase price, paid in cash	12.5
Cash flow impact	**12.5**

The final allocation of goodwill arising from the acquisition is EUR 6.0 million to Hiab segment and EUR 3.4 million to Kalmar segment.

Disposals in 2017

In April, as part of the reorganising programme, MacGregor sold the majority of its ownership in the British subsidiary Woodfield Systems Ltd to the company's management at a gross consideration of EUR 4.3 million including EUR 2.3 million of deferred consideration. The remaining 10 percent investment is accounted for as an associated company based on the level of influence retained by MacGregor. The transaction resulted in one-time costs of approximately EUR 5 million.

Key exchange rates for the euro

Closing rates	31 Dec 2018	31 Dec 2017
SEK	10.255	9.844
USD	1.145	1.199

Average rates	2018	2017
SEK	10.259	9.639
USD	1.181	1.131

Calculation of key figures

Equity / share (EUR)	=		Total equity attributable to the equity holders of the parent / Number of outstanding shares at the end of period
Total equity / total assets (%)	=	100 x	Total equity / Total assets - advances received
Gearing (%)	=	100 x	Interest-bearing liabilities - loans receivable and other interest-bearing assets +/- foreign currency hedge of corporate bonds / Total equity
Return on equity (ROE) (%)	=	100 x	Net income for the period (annualised) / Total equity (average for the period)
Return on capital employed (ROCE) (%)	=	100 x	Income before taxes + interest and other financing expenses (annualised) / Total assets - non-interest-bearing debt (average for the period)
Earnings per share (EUR)	=		Net income for the period attributable to the equity holders of the parent / Average number of outstanding shares during the period
Diluted earnings per share (EUR)	=		Net income for the period attributable to the equity holders of the parent / Average number of outstanding diluted shares during the period

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

The alternative performance measures used by Cargotec are:

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

Items included in net working capital are presented in note 8, Net working capital.

Starting from 1 January 2019, Cargotec uses in its financial reporting the alternative performance measure "comparable operating profit" for measuring business performance.

Comparable operating profit (MEUR and % of sales)	=	Operating profit excluding items significantly affecting comparability

Items significantly affecting comparability include, in addition to restructuring costs, mainly capital gains and losses, gains and losses related to business acquisitions and disposals, impairments of assets and reversals of impairments, insurance benefits, and expenses related to legal proceedings.

Quarterly key figures

Cargotec		**Q4/2018**	**Q3/2018**	**Q2/2018**	**Q1/2018**	**Q4/2017**
Orders received	MEUR	991	921	981	863	784
Service orders received	MEUR	254	242	248	239	221
Order book	MEUR	1,995	1,887	1,786	1,684	1,566
Sales	MEUR	910	805	816	773	886
Service sales	MEUR	243	229	235	226	238
Software sales	MEUR	47	39	29	32	45
Service and software sales, % of sales	%	32%	33%	32%	33%	32%
Operating profit	MEUR	60.9	54.5	21.3	53.2	54.7
Operating profit	%	6.7%	6.8%	2.6%	6.9%	6.2%
Operating profit*	MEUR	73.5	57.1	56.3	57.0	72.0
Operating profit*	%	8.1%	7.1%	6.9%	7.4%	8.1%
Earnings per share	EUR	0.53	0.58	0.03	0.52	0.42

Kalmar		**Q4/2018**	**Q3/2018**	**Q2/2018**	**Q1/2018**	**Q4/2017**
Orders received	MEUR	450	486	550	432	369
Order book	MEUR	1,012	1,003	947	837	786
Sales	MEUR	444	415	389	371	465
Service sales	MEUR	116	111	112	110	121
Software sales	MEUR	47	39	29	32	45
Operating profit*	MEUR	51.0	38.6	25.2	28.7	42.8
Operating profit*	%	11.5%	9.3%	6.5%	7.7%	9.2%

Hiab		**Q4/2018**	**Q3/2018**	**Q2/2018**	**Q1/2018**	**Q4/2017**
Orders received	MEUR	357	294	301	307	289
Order book	MEUR	453	371	337	329	300
Sales	MEUR	318	260	295	276	280
Service sales	MEUR	71	67	69	67	65
Operating profit*	MEUR	34.9	24.2	39.4	36.1	39.9
Operating profit*	%	11.0%	9.3%	13.4%	13.1%	14.3%

MacGregor		**Q4/2018**	**Q3/2018**	**Q2/2018**	**Q1/2018**	**Q4/2017**
Orders received	MEUR	184	141	131	124	126
Order book	MEUR	530	513	503	519	481
Sales	MEUR	149	130	133	126	141
Service sales	MEUR	55	51	54	49	53
Operating profit*	MEUR	-3.0	0.3	2.6	0.2	1.2
Operating profit*	%	-2.0%	0.2%	2.0%	0.2%	0.8%

*Operating profit excluding restructuring costs