



Konecranes Plc

# Corporate Governance Statement 2017

# Corporate Governance Statement 2017

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# Board of Directors

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## Composition of the Board



### Mr. Christoph Vitzthum b. 1969,

- Finnish citizen
- Chairman of the Board since 2016, Board Member since 2015
- Independent of the Company and its significant shareholders
- Education: M.Sc. (Econ.)
- Principal occupation: President and CEO, Fazer Group
- Shares: 1,625



### Mr. Ole Johansson b. 1951,

- Finnish citizen
- Vice Chairman of the Board since 2017, Board Member since 2015
- Independent of the Company and its significant shareholders
- Education: B.Sc. (Econ.)
- Principal occupation: Board professional
- Shares: 11,795



### Mrs. Janina Kugel b. 1970,

- German citizen
- Board Member since 2016
- Independent of the Company and its significant shareholders
- Education: M.Sc. (Econ.)
- Principal occupation: Chief Human Resources Officer and Member of the Managing Board, Siemens AG
- Shares: 451

# Board of Directors

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Mr. Bertel Langenskiöld b. 1950,

- Finnish citizen
- Board Member since 2012
- Independent of the Company and its significant shareholders
- Education: M.Sc. (Eng.)
- Principal occupation: Board professional
- Shares: 3,744



Mr. Ulf Liljedahl b. 1965,

- Swedish citizen
- Board Member since 2016
- Independent of the Company and its significant shareholders
- Education: B.Sc. (Econ. and Business Administration)
- Principal occupation: President and CEO, Volito AB
- Shares: 451



Mrs. Malin Persson b. 1968,

- Swedish citizen
- Board Member since 2005
- Independent of the Company and its significant shareholders
- Education: M.Sc. (Eng.)
- Principal occupation: CEO & Owner, Accuracy AB
- Shares: 8,003

# Board of Directors

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## Board members until May 23, 2017

### Mr. David A. Sachs b. 1959,

- U.S. citizen
- Board Member since January 4, 2017
- David A. Sachs is independent of the company. He is not deemed independent of significant shareholders of the company based on his position as the Chairman of the Board of Terex Corporation. Terex Corporation held more than 10 percent of Konecranes Plc's shares and votes until May 23, 2017.
- Education: B. Sc. (Industrial Engineering and Management Science)
- Principal occupation: Partner of Ares Management, LP

### Mr. Oren G. Shaffer b. 1942,

- U.S. citizen
- Board Member since January 4, 2017
- Oren G. Shaffer is independent of the company. He is not deemed independent of significant shareholders of the company based on his position as the Member of the Board of Terex Corporation. Terex Corporation held more than 10 percent of Konecranes Plc's shares and votes until May 23, 2017.
- Education: B. Sc. (Finance and Business Administration) and M. Sc. (Management)
- Principal occupation: Board professional

## Board members until March 23, 2017

### Mr. Stig Gustavson b. 1945,

- Finnish citizen
- Vice Chairman of the Board since 2016, Board Member since 1994
- Stig Gustavson is independent of any significant shareholders. He is not deemed independent of the Company based on the Board's overall evaluation relating to his former positions in Konecranes combined with his substantial voting rights in the Company.
- Education: M.Sc. (Eng.), Dr.Tech. (Hon.)
- Principal occupation: Board professional

### Mr. Svante Adde b. 1956,

- Swedish citizen
- Board Member since 2004
- Independent of the Company and its significant shareholders
- Education: B.Sc. (Econ. and Business Administration)
- Principal occupation: Senior Advisor, Lincoln International; Board professional

# Board of Directors

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## Main tasks

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

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

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

President and CEO and Chief Financial Officer report to the Board sales funnel, competitive situation, market sentiment, quarterly order intake and financial performance, full-year forecast, as well as safety, people, and customer topics. The status of the most important development activities, e.g. major IT investments, R&D projects and acquisition cases may be presented to the Board by the persons directly responsible for such matters.

## Special appointment procedure of members of the Board of Directors

As Terex Corporation has ceased to own any Company shares, the special appointment procedure of members of the Board of Directors is no longer applied.

## Diversity of the Board of Directors

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

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

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

The most important nomination criteria for the Board candidates is competency, knowledge, personal qualities and integrity. Both genders shall be represented on the Board of

# Board of Directors

Directors and Konecranes' aim is to strive towards a good and balanced board composition taking into account all aspects of board diversity.

In 2017, the number of female Board members was two, which represented one-third of the total number of

Board members. At the end of 2017, the Board members represented three different nationalities and three different decades of birth. The members of the Board of Director possessed broad expertise in engineering, economics and human resource management.

In 2017, Konecranes' Board convened 22 times. The attendance of the Board members at meetings was 94%. The attendance of the members to the board and committee meetings is presented in the table below:

Board meetings 2017						
Member	Board Meetings		Audit Committee Meetings		Nomination and Compensation Committee Meetings	
	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage
Christoph Vitzthum	22/22	100%	-	-	2/2	100%
Svante Adde	6/7	86%	1/1	100%	-	-
Stig Gustavson	7/7	100%	-	-	2/2	100%
Ole Johansson	22/22	100%	5/5	100%	-	-
Janina Kugel	19/22	86%	-	-	2/2	100%
Bertel Langenskiöld	22/22	100%	-	-	2/2	100%
Ulf Liljedahl	22/22	100%	5/5	100%	-	-
Malin Persson	21/22	95%	5/5	100%	-	-
David A. Sachs	6/6*	100%	2/2	100%	-	-
Oren G. Shaffer	6/6*	100%	-	-	2/2	100%

\*Excluding the meetings that the Board member was unable to attend due to disqualification.

Board meetings 2017				
Member	Human Resources Committee Meetings		Nomination Committee Meetings	
	Attendance	Percentage	Attendance	Percentage
Christoph Vitzthum	4/4	100%	2/2	100%
Svante Adde	-	-	-	-
Stig Gustavson	-	-	-	-
Ole Johansson	-	-	2/2	100%
Janina Kugel	3/4	75%	-	-
Bertel Langenskiöld	4/4	100%	-	-
Ulf Liljedahl	-	-	2/2	100%
Malin Persson	-	-	-	-
David A. Sachs	-	-	-	-
Oren G. Shaffer	1/1	100%	-	-

# The Audit Committee

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During 2017, the Board's Audit Committee comprised of the following members:

- Mr. Ulf Liljedahl (Chairman),
- Mr. Ole Johansson,
- Mrs. Malin Persson,
- Mr. David A. Sachs (from January 5, 2017 until May 23, 2017) and
- Mr. Svante Adde (until March 23, 2017).

All members of the Audit Committee are deemed to be independent of the Company and its significant shareholders. All members have sufficient expertise on corporate management. In addition, Mr. Ole Johansson and Mr. Ulf Liljedahl have a degree in business administration and/or economics.

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

## Main tasks

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

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

In 2017, Konecranes' Audit Committee convened five times. The attendance of the Audit Committee members at meetings was 100%. The attendance of the members is presented in the table on page 7.

# The Nomination Committee

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The Board of Directors established the Nomination Committee in its meeting on March 23, 2017. During 2017, the Board's Nomination Committee comprised of the following members:

- Mr Christoph Vitzthum (Chairman).
- Mr. Ole Johansson
- Mr. Ulf Liljedahl (from June 12, 2017)
- Mr. David A. Sachs (until May 23, 2017).

All members of the Nomination Committee are deemed to be independent of the Company and its significant shareholders.

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

## Main tasks

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

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

In 2017, Konecranes' Nomination Committee convened twice. The attendance of the Nomination Committee members at meetings was 100%. The attendance of the members is presented in the table on page 7.

# The Human Resources Committee

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The Board of Directors established the Human Resources Committee in its meeting on March 23, 2017. During 2017, the Board's Human Resources Committee comprised of the following members:

- Mr. Bertel Langenskiöld (Chairman),
- Mrs. Janina Kugel,
- Mr Christoph Vitzthum and
- Mr. Oren G. Shaffer (until May 23, 2017)

All members of the Human Resources Committee are deemed to be independent of the Company and its significant shareholders.

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

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

## Main tasks

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

- Review the organizational structure of the Company and make related recommendations or proposals to the Board when needed. The Committee will consider the principles for the selection of senior management, ensure that the long and short list of candidates contains diverse candidates and make proposals to the Board concerning the approval of the appointments, transfers and terminations for GXB positions;
- Review and monitor Konecranes' Talent Management and Succession Planning process and review potential successor candidates for GXB positions. In addition, the Committee will together with the President and CEO evaluate any special retention need of senior management;
- Review development plans for the Group Executive Board Members and executive development programs, including training and competence development programs for members of senior management;
- Review the President and CEO's authority and responsibilities and make related recommendations or proposals to the Board when needed. The Committee will recommend to the Board on an annual basis the President and CEO's compensation founded on the evaluation of the Company's performance, compensation paid to chief executive officers in comparable global organizations, the competitive market for persons with similar skills and competences, and the Human Resources Committee's assessment of the President and CEO's current and expected contribution to the Company's success. The Committee will, based upon a recommendation by the President and CEO, make a proposal to the Board concerning the approval of the base compensation review and incentive levels for GXB members;

# The Human Resources Committee

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- Make recommendations to the Board with respect to the President and CEO's variable compensation and the adoption and amendment of long and short term incentive compensation plans and share-based plans which are subject to shareholder or Board approval. The Committee will make a proposal to the Board concerning the approval of the performance targets for the President and CEO, annual grants and the achievement against target for the GXB members. The Human Resources Committee will evaluate and make recommendations to the Board concerning the Company's general principles for compensation. The Human Resources Committee will review incentive compensation plans and share-based plans to assess whether they provide an appropriate balance of risk and reward in relation to the Company's overall business strategy and expected performance, shareholder value creation and alignment of shareholder and senior management interests, without encouraging senior management to take unnecessary or excessive risks. The Committee will monitor compliance with share ownership guidelines for the President and CEO and other members of senior management;
- Receive reports on the Company's human resources, corporate responsibility and safety strategies and its performance against the set targets, market standard, business strategy and Konecranes values, and may recommend revisions to these targets. The Committee will receive reports on the Corporation's practices for supporting diversity and inclusion in the workplace, work place safety activities and performance and the Corporation's performance against Konecranes fair labor frame.

In 2017, Konecranes' Human Resources Committee convened four times. The attendance of the Human Resources Committee members at meetings was 92%. The attendance of the members is presented in the table on page 7.

# President and CEO

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## Panu Routila b. 1964,

- Finnish citizen
- President and CEO
- Member of the Group Executive Board since 2015
- Employed since 2015
- Education: M.Sc. (Econ.)
- Shares: 28,315

## Main tasks and duties

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

# Group Executive Board

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



## Teo Ottola b. 1968,

- Finnish citizen
- Chief Financial Officer, Deputy CEO
- Member of the Group Executive Board since 2007
- Employed since 2007
- Education: M.Sc. (Econ.)
- Shares: 32,689



## Fabio Fiorino b. 1967,

- Canadian citizen
- Executive Vice President, Business Area Service
- Member of the Group Executive Board since 2012
- Employed since 1995
- Education: B. Eng. PEng. MBA
- Shares: 21,880



## Mikko Uhari b. 1957,

- Finnish citizen
- Executive Vice President, Business Area Industrial Equipment
- Member of the Group Executive Board since 1997
- Employed since 1997
- Education: Lic. Sc. (Eng.)
- Shares: 116,764

# Group Executive Board

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Mika Mahlberg b. 1963,

- Finnish citizen
- Executive Vice President, Business Area Port Solutions
- Member of the Group Executive Board since 2017
- Employed since 1997
- Education: M. Sc. (Eng.)
- Shares: 10,123



Susanna Schneeberger b. 1973,

- Swedish citizen
- Executive Vice President, Strategy
- Member of the Group Executive Board since 2017
- Employed since 2017
- Education: M. Sc., MBA
- Shares: 0



Juha Pankakoski b. 1967,

- Finnish citizen
- Executive Vice President, Technologies
- Member of the Group Executive Board since 2015
- Employed since 2004
- Education: M.Sc. (Eng.), eMBA
- Shares: 7,215

# Group Executive Board

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## Timo Leskinen b. 1970,

- Finnish citizen
- Senior Vice President, Human Resources
- Member of the Group Executive Board since 2013
- Employed since 2013
- Education: M.Sc. (Psy)
- Shares: 9,223



## Sirpa Poitsalo b. 1963,

- Finnish citizen
- Senior Vice President, General Counsel
- Member of the Group Executive Board since 2016
- Employed since 1988
- Education: LL.M.
- Shares: 31,833

## Main tasks

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

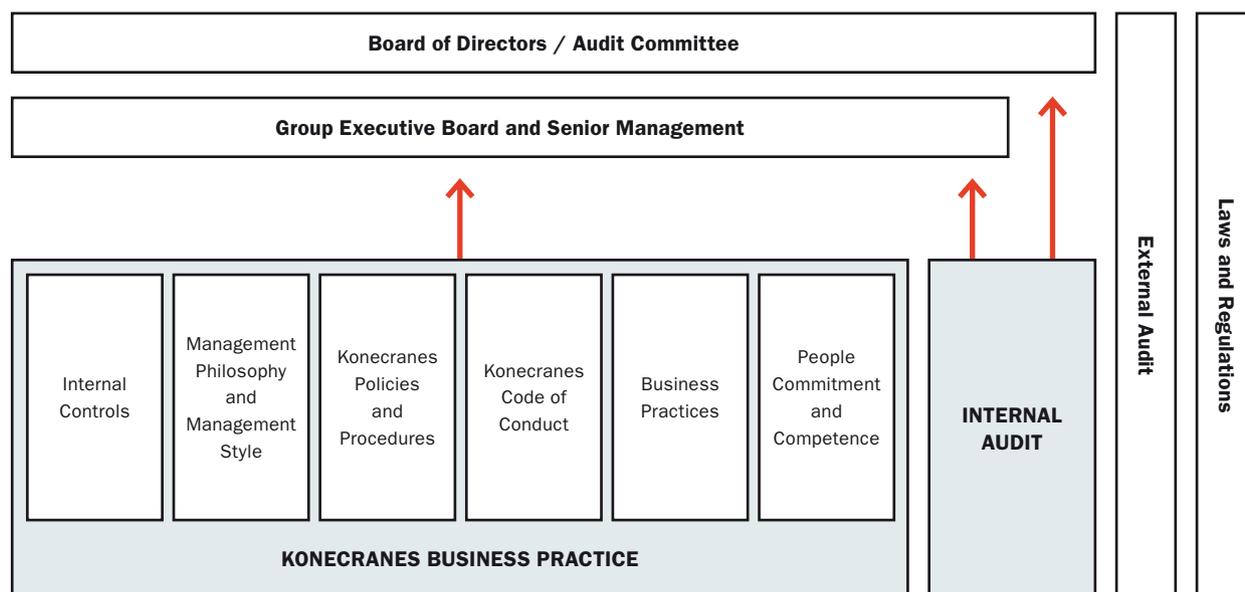
# Internal Control and Risk Management related to Financial Reporting

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

Management of financial risks is described in the Note 33 of Konecranes' Financial Statements 2017.

## Control Environment

*Main features of Internal Control related to financial reporting*



# Internal Control and Risk Management related to Financial Reporting

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## Control environment

Corporate governance and business management at Konecranes are based on the company's values of trust in people, total service commitment, and sustained profitability. The control environment is the foundation for all the other components of internal control and for promoting employee awareness of key issues. It supports the execution of strategy and regulatory compliance. The Board of Directors and Group Management are responsible for defining the Konecranes Group's control environment through business management structures, corporate policies, instructions, and financial reporting frameworks. These include the Konecranes Code of Conduct and the Konecranes Controller's Manual, which constitute the main tool for accounting and financial reporting principles in respect of providing information, guidelines, and instructions. The interpretation and application of accounting standards is the responsibility of the global accounting function. Guidelines and instructions for reporting are updated when necessary and are reviewed at least once a year.

From the beginning of the year, the new business segment split was introduced, comprising three segments (business areas), Service, Industrial Equipment and Port Solutions. As a deviation to Business Area Industrial Equipment, the Business Area Port Solutions also incorporates those service branches and spare part units which are dedicated to serve the port customer segment. These units were earlier reported under the Business Area Service.

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

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

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

In 2017, the Group integrated all MHPS entities fully into Konecranes' operational structure. All MHPS units started to follow Konecranes' business performance methodology and reporting structure from the beginning of the year. At the same time, we maintained a parallel reporting structure enabling us to see the Konecranes legacy and MHPS legacy business performance also separately. This parallel structure will be largely dismantled from the beginning of 2018. The Konecranes control environment and activities were unified between Konecranes and MHPS legacies to the extent possible during 2017.

# Internal Control and Risk Management related to Financial Reporting

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## Control activities

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

All legal entities and business units have their own defined controller functions. Representatives from controller functions participate in planning and evaluating unit performance, and ensure that monthly and quarterly financial reporting follows the Group's policies and instructions and that all financial reports are delivered on time in accordance with schedules set by the Group.

The Group has identified and documented the significant internal controls that relate to its financial processes either directly or indirectly through other processes. Group companies are responsible for implementing the identified and documented internal controls. During 2017, Konecranes continued to enhance internal controls to cover identified risks more effectively in the business processes. The Group has defined a register of internal controls that apply to all entities globally. The register includes controls over assets, liabilities, revenue, and costs that require the involvement of Business and Financial Management. The register included 122 controls and are categorized as key control or operational control. The list of internal controls is reviewed annually.

## Assessments and monitoring

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

In addition to the above-described self-assessment of control environment, approximately 90 percent of the legal entities/units had their significant internal controls reviewed or tested in 2017. Internal Audit visits covered over one-third of the operational entities and around 73 percent of third-party revenue. The remaining entities were either visited/tested by Business Compliance or conducted self-testing of their local controls. Self-testing results were reviewed by Business Compliance. Remediation of the control deficiencies is the responsibility of the Managing Director of the legal entity, and Internal Audit or Business Compliance makes a control review after the entity has corrected control weaknesses.

## Communication

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

# Internal Control and Risk Management related to Financial Reporting

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## During 2017

The main activities for 2017 were related to the integration of acquired MHPS business to Konecranes. Financial internal controls were reviewed and aligned between the two different environments to the extent possible. Acquisition also brought a Business Compliance team to the Group, which enabled a significant part of the entities to have their controls tested. Additionally, resources of the Internal Audit team were substantially increased.

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

system is being taken into use to manage the field service operations as well as to store the data related to the assets under maintenance contracts.

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

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

# Other information

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## Internal audit

Konecranes' Internal Audit function is an independent unit, which assists the organization in achieving its objectives. The unit evaluates the efficiency of risk management, control, and governance processes and investigates all reports of suspected incidents. The latter can be made in person or through a confidential e-mail reporting channel (Whistleblower channel). In 2017, there were nine (9) reports of suspected misconduct via the Whistleblower channel; these cases did not have a material impact on the Group's financial results.

Internal Audit operates according to an audit plan approved by the Board's Audit Committee. The unit's working methods are based on the professional standards laid down by the Institute of Internal Auditors (IIA) and focus on process-oriented engagement rather than solely entity-based auditing. Internal audit results are reported to audited unit leads and operative management. Finding remediation follow-ups are coordinated by Internal Audit and Business Compliance Team. Remediated findings are verified by Internal Audit in separate re-audits.

In 2017, the Internal Audit Team conducted 38 planned audits according to an approved annual audit plan. In 15 full audits, the Internal Audit Team covered 122 key and operational controls with wide sample sizes, and in 23 walkthrough audits, the internal auditor covered 35 key controls with limited sample sizes. The annual plan covered 18 legacy MHPS entities and 20 legacy Konecranes entities.

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

## Related party transactions

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

## Insider administration

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

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

In Konecranes persons discharging managerial responsibilities ("Managers") according to MAR, are the members of the Board of Directors, the President and CEO and the members of the Group Executive Board. Managers and their closely associated persons have to notify Konecranes and Financial Supervision Authority of all transactions, as defined in MAR, conducted on their own account relating to the financial instruments of Konecranes within three days of the transactions.

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

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

## External audit

Ernst & Young Oy, Authorized Public Accountant Firm, has been the Company's external auditor since 2006. Mrs. Kristina Sandin served as Principal Auditor in 2017. Ernst & Young Oy and its affiliated audit companies received EUR 4,154,000 in fees for auditing Konecranes Group companies in 2017 and fees of EUR 601,000 for non-audit services.

Konecranes is a world-leading group of Lifting Businesses™, serving a broad range of customers, including manufacturing and process industries, shipyards, ports and terminals. Konecranes provides productivity enhancing lifting solutions as well as services for lifting equipment of all makes. In 2017, Group sales totaled EUR 3,136 million. The Group has 16,400 employees at 600 locations in 50 countries. Konecranes shares are listed on the Nasdaq Helsinki (symbol: KCR).