Financial Statements 2017

Caverion

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Operating environment in 2017

The overall market situation was relatively positive and stable throughout the period. Demand developed favourably in Finnish, Swedish and German markets. In Danish and Norwegian markets, the general economy and demand situation recovered from the previous year, supported by public demand. In Industrial Solutions division the market was stable in industrial maintenance. The markets for the divisions Eastern Europe and Austria also remained stable.

Services

Demand for Technical Maintenance and Managed Services remained strong. Opportunities for Caverion in terms of outsourced operations and maintenance increased. Interest in private public partnerships and other Life Cycle Solutions was good in the Nordic countries while these kind of commercial models still represent only a marginal part of the entire market.

Projects

The market for Technical Installation and Large Projects business was positive throughout the period. However, price competition remained tight. In the Large Projects market, tendering activity remained on a good level, while Caverion continued its selective approach. Low interest rates and availability of financing supported investments. Requirements for increased energy efficiency, better indoor climate and tightening environmental legislation supported demand. In certain technical disciplines there were signs of resource shortage.

Market position

Caverion has a strong market position in the European building solutions market measured by revenue. Caverion holds a leading market position in Norway. Caverion is among the two or three largest companies in Finland, Sweden and Austria. In Germany and Denmark, Caverion is among the five largest companies in the market. Additionally, the Company is the leading industrial solutions company in Finland and one of the principal providers of industrial solutions in Sweden. The largest industrial client segments are the forest industry and the energy sector.

(Source of market sizes: the company's estimate based on public information from third parties and management calculation)

Caverion's year 2017

Caverion's year 2017 was marked with a focus on continuing the turnaround programme and stabilising the operations. In the beginning of the year, Caverion was still experiencing challenges mostly in its Projects business despite the good market conditions. The Projects business performance was poor in Sweden, Germany and Industrial Solutions. Caverion continued to implement its corrective actions and to improve its Projects business performance towards an acceptable level. Caverion also continued to realise savings from the completed restructuring actions and discretionary fixed cost savings.

As the year progressed, Caverion started to see the first signs of improved performance related to its turnaround programme in the third quarter. While the company was still getting negative impact from the older poor-performing and technically completed projects, the ongoing new business in Projects and particularly Services was showing improving results. In 2017, Caverion's result was burdened by project write-downs of EUR 31.2 (59.0) million. The turnaround programme has caused also other one-off costs. As an example, the Group's external legal costs relating to Projects business amounted to EUR 3.8 million. In addition, the result was impacted by negative forecast changes in other older projects and the Group's more prudent revenue recognition related to change orders in projects. The personnel expenses decreased by 4.9 percent and the other operating expenses by 4.6 percent from the previous year, while the total performance and utilisation actions amounted to restructuring costs of approximately EUR 7.3 (26.9) million.

At closing of the year Caverion estimated that while there are still certain project performance risks remaining into 2018 from the already technically completed projects and there are still about one third of projects in the project order backlog that have been started in 2016 or earlier, the Projects business should materially improve its result in 2018. The remaining project risks mainly relate to three completed Large Projects in Industrial Solutions.

Caverion published its guidance for 2017 on February 7, 2017 and estimated that the Group's revenue would remain at the previous year's level in 2017 (2016: EUR 2,364 million) and that the Group's EBITDA excluding restructuring costs would more than double in 2017 (2016: EUR 15.6 million). Caverion also published its guidance terminology table on the same day. Caverion revised its profitability guidance for 2017 on December 12, 2017. According to the updated guidance Caverion expected that its Group EBITDA excluding restructuring costs will grow clearly (15–30%) or significantly (30–100%) compared to last year in 2017 (2016: EUR 15.6 million). The previous revenue guidance remained unchanged.

Caverion closed the year with revenue that was in line with the previous year and amounted to EUR 2,282.8 (2,364.1) million. The restructuring costs for 2017 amounted to EUR 7.3 (26.9) million and the EBITDA excluding restructuring costs amounted to EUR 18.3 (15.6) million. The reported EBITDA amounted to EUR 11.0 (–11.4) million. The Group's working capital was 6.1 (–2.6) million at the end of December. In 2017 free cash flow amounted to EUR –8.5 (–72.1) million, improving by EUR 63.6 million from last year. Free cash flow was partly improved by the lower level of investments compared to last year.

The EUR 100 million hybrid capital issued in June strengthened Caverion Group's capital structure and financial position. At the end of December, the Group's gearing was 24.4 (78.7) percent and equity ratio 27.9 (18.7) percent.

The year was also marked with some changes in key management. Ari Lehtoranta started as the President and CEO of Caverion Corporation on January 1, 2017. There were also several other changes in the Group Management Board during the year,

described in more detail under "Changes in Caverion's Group Management". The new Group Management Board started to build a new stronger Caverion for the future and initiated a strategy review together with the Board of Directors. The new "Fit for Growth" strategy and the updated financial targets are described in more detail under "Group strategy and financial targets".

Caverion made some smaller acquisitions in 2017. In Finland, Caverion and Enegia made a partnership agreement on providing energy efficiency services and entered into an asset deal covering remote property management. In the transaction, Enegia's remote management business and the associated personnel were transferred to Caverion Finland on November 1, 2017. After the transaction, Caverion manages remotely a total of over 4,000 properties across Finland, making Caverion Finland's largest service company providing remote property management. The value of the asset deal was not disclosed. Caverion also completed two small acquisitions in Austria. In July, Caverion signed an asset transfer agreement with AE Ausserwöger Elektrotechnik GmbH on the acquisition of its electrical business. The business transferred had revenue of approximately EUR 2 million and 19 employees in 2016. In August Caverion acquired all shares in Weiss Anlagen Technik GmbH, a cleanroom technology company with revenue of approximately EUR 3 million and 15 employees in 2016. The transaction prices were not published.

Caverion announced on November 27, 2017 that it had signed an agreement to sell its product business under the Krantz brand in Germany to STEAG Energy Services GmbH, a German company providing integrated solutions in the fields of electricity and heat production and engineering services. The sale became effective on December 31, 2017. As a part of Caverion Germany, Krantz employed approximately 230 people and its revenue was approximately EUR 41 million in 2017. The capital gain from the divestment is reported under other operating income for the period and it amounted to EUR 12.3 million.

Group strategy and financial targets

Caverion Group launched its new strategy and the updated financial targets in a stock exchange release on November 6, 2017. Caverion also arranged a Capital Markets Day related to the strategy updates in Helsinki on November 7, 2017. The related presentations and webcast recordings are available on Caverion's website www.caverion.com/investors.

The new strategy until 2020 is built around the digitalisation of the industry. According to its updated vision, Caverion wants to be the "**First choice in digitalising environments**" for its customers, employees and partners in its industry. Before investing heavily in digital growth, however, Caverion has to first improve its current performance. Therefore the new strategy is divided into two phases: "**Fit**" and "**Growth**". With these two phases combined, the new strategy is called a "**Fit for Growth**" strategy.

Caverion has selected four Must-Win areas, which are crucial to success in strategy implementation. During the first "Fit" phase over 2018–2019, Caverion will concentrate on materially improving its financial performance. In this phase "**Top Performance at Every Level**" is a pivotal Must-Win to boost the Group's cash conversion, improve productivity, clean the project portfolio and continue the selective approach towards Projects. This Must-Win focuses on performance management in the business units Services and Projects while driving also savings in procurement, material logistics and fixed costs through detailed actions. There is also a clear target to boost growth in the Services part of the business.

The Must-Win area "**Excellent customer experience**" focuses on a creation of a service culture where customer demand and experience are key starting points. Running parallel with this area throughout the whole strategy period is the "**Winning team**" Must-Win, which focuses on creating excellent customer experience through capable leaders and engaged professionals and having the right people in the right places through enhanced resource planning and competence development.

Towards the end of the "Fit" phase the focus will shift more on the fourth Must-Win area "**Best solutions**". In this area Caverion will drive growth based on its existing and new capabilities in high value-adding technologies as well as by co-creating wholly new digital services with its customers.

After successful implementation of the "Fit" phase, Caverion will move to the "Growth" phase of its strategy during 2019–2020. The main target of this phase is to further accelerate growth in Services. Caverion has set a specific business mix target for its revenue; the long-term target reaching beyond 2020 is to generate over two-thirds of Group revenue from the Services business. At the same time, Caverion will continue its selective approach in Projects throughout the strategy period. However, Projects will still remain important as they act as a gateway to Services and contribute to maintaining the company's technical forerunner position.

Caverion wants to prioritise on cash flow generation and profitability improvement in its new strategy. Caverion has set cash conversion and EBITDA as the most important financial targets, supported by a moderate debt leverage level. Except for constantly targeting to beat market growth in its Services business, Caverion has not defined a general revenue growth target for the "Fit" phase of its strategy. It will be given by the end of 2019 before the start of the "Growth" phase.

The main updates to the financial targets were the following:

Previous targets	Updated targets (until the end of 2020)
Profitability: EBITDA over 6% of revenue	**Cash conversion** = Operating cash flow before financial and tax items / EBITDA > 100%
Revenue growth: Average annual revenue growth >10%	**Profitability**: EBITDA over 6% of revenue (no change)
Working capital: negative	**Debt leverage**: Net debt/EBITDA < 2.5x
	Growth: – Revenue growth target will be given by the end of 2019. – Services growth > market growth. – Long-term target beyond 2020: Services generate over two-thirds of Group revenue.
Dividend policy: distribute at least 50% of the result for the year after taxes, excluding changes in fair value.	**Dividend policy**: distribute at least 50% of the result for the year after taxes, however, taking profitability and leverage level into account.

Dividends and dividend policy

The Board of Directors proposes to the Annual General Meeting to be held on March 26, 2018 that no dividend will be paid for the financial year 2017.

The Annual General Meeting, held on March 17, 2017, decided that no dividend was to be paid for the financial year 2016.

Caverion's dividend policy is to distribute as dividends at least 50 percent of the result for the year after taxes, however, taking profitability and leverage level into account. Even though there are no plans to amend this dividend policy, there is no guarantee that a dividend or capital redemption will actually be paid in the future, and also there is no guarantee of the amount of the dividend or return of capital to be paid for any given year.

Capital allocation policy

Caverion's capital allocation principles in the order of importance are:

1. Investments in organic growth including digitalisation. However, Caverion's targeted operational capex level (excluding acquisitions) should not exceed 1 percent of revenue;
2. Reduction in leverage;
3. Dividend policy of distributing at least 50% of net profit remains in place, taking into account profitability and leverage level;
4. Mergers and acquisitions in areas where adding complementing capabilities or assets to existing footprint especially in Services. However, acquisitions are only allowed for divisions performing well.

Group financial development 2017

The key figures have been presented in more detail in the Consolidated Financial Statements. Unless otherwise noted, the figures in brackets refer to the corresponding period in the previous year.

Turnaround programme and estimated key risk areas for 2018

Caverion continued to realise savings from the completed restructuring actions and discretionary fixed cost savings. In January–December, the personnel expenses decreased by 4.9 percent and the other operating expenses by 4.6 percent from the previous year, while the total performance and utilisation actions amounted to restructuring costs of approximately EUR 7.3 (26.9) million.

The turnaround programme has caused also other one-off costs. As an example, the Group's external legal costs relating to Projects business amounted to EUR 3.8 million in January–December.

Caverion made write-downs totalling EUR 31.2 (59.0) mainly related to risk projects in divisions Industrial Solutions and Germany in January–December 2017. Following the latest assessment, while there are still certain project performance risks remaining into 2018 from the already technically completed projects and there are still about one third of projects in the project order backlog that have been started in 2016 or earlier, the Projects business should materially improve its result in 2018. The remaining project risks mainly relate to three completed Large Projects in Industrial Solutions.

Turnaround programme – Items affecting EBITDA and operating profit [1]

EUR million	1–12/17	1–12/16
EBITDA	11.0	–11.4
EBITDA margin, %	0.5	–0.5
Items affecting EBITDA and operating profit		
– Project write-downs [2]	31.2	59.0
– Restructuring costs	7.3	26.9

[1] The effect of the risk from overdue trade receivables and the utilisation risk excluded for 2017.

[2] Project write-downs figure for 2017 and 2016 are not fully comparable. The project write-downs in 2017 only include cost estimate adjustments, cost overruns and provision increases from a pre-defined risk project list.

Order backlog

Order backlog amounted to EUR 1,491.0 million at the end of December, up by 5.9 percent from the end of the previous year (EUR 1,408.1 million). At comparable exchange rates the order backlog increased by 7.4 percent. The Services order backlog increased by 18.5 percent from the previous year. In Projects the order backlog declined by 2.8 percent. This was largely due to the Group's more selective approach towards the Projects business. Caverion has implemented a stricter project tendering process since the second quarter of 2016 as well as closed down several poor-performing project units. Caverion also continued to focus on the tendering process with a target to uplift the project margin in new project business orders.

Revenue

Revenue for January–December was EUR 2,282.8 (2,364.1) million. Revenue decreased by 3.4 percent compared to the previous year. Revenue increased from the previous year in Austria and Denmark-Norway, while it decreased in other divisions. Project write-downs also affected revenue for the period.

At previous year's exchange rates revenue was EUR 2,288.9 million and decreased by 3.2 percent compared to the previous year. Changes in the Swedish crown accounted for EUR –8.9 million, the Norwegian crown of EUR –1.6 million and the Russian rouble of EUR 3.8 million.

Revenue of the Services business was EUR 1,195.2 (1,130.6) million in January–December, an increase of 5.7 percent from the corresponding period last year. Services business revenue consisted of Technical Maintenance revenue of EUR 850.5 (817.8) million and Managed Services revenue of EUR 344.6 (312.8) million. Revenue decreased in the Projects business by 11.8 percent from the corresponding period last year due to more selective tendering especially in Large Projects. Revenue of the Projects business was EUR 1,087.6 (1,233.6) million in January–December, consisting of Technical Installation revenue of EUR 716.2 (782.3) million and Large Projects revenue of EUR 371.4 (451.3) million. The Projects business was impacted by project write-downs in January–December.

The Services business accounted for 52.4 (47.8) percent of Group revenue and the Projects business for 47.6 (52.2) percent of Group revenue in January–December.

Distribution of revenue

Revenue, EUR million	1–12/ 2017	%	1–12/ 2016	%	Change
Denmark-Norway	481.5	21%	455.8	19%	6%
Sweden	492.2	22%	531.8	22%	–7%
Germany	465.3	20%	506.6	21%	–8%
Industrial Solutions	287.3	13%	317.7	13%	–10%
Finland	317.3	14%	320.7	14%	–1%
Austria	161.9	7%	153.0	6%	6%
Eastern Europe	77.2	3%	78.7	3%	–2%
Group, total	**2,282.8**	**100%**	**2,364.1**	**100%**	**–3%**
Projects business	1,087.6	48%	1,233.6	52%	–12%
Technical Installation	716.2	31%	782.3	33%	–8%
Large Projects	371.4	16%	451.3	19%	–18%
Services business	1,195.2	52%	1,130.6	48%	6%
Technical Maintenance	850.5	37%	817.8	35%	4%
Managed Services	344.6	15%	312.8	13%	10%

Profitability

EBITDA

EBITDA excluding restructuring costs was EUR 18.3 (15.6) million, or 0.8 (0.7) percent of revenue in January–December. EBITDA for January–December was EUR 11.0 (–11.4) million, or 0.5 (–0.5) percent of revenue.

Profitability was burdened by project business write-downs and restructuring costs. Caverion made risk project write-downs totalling EUR 31.2 (59.0) in January–December. These write-downs related to risk projects mainly in divisions Industrial Solutions and Germany and they were negative forecast changes and cost overruns related to earlier identified risk projects. Profitability was specifically burdened by cost overruns and write-downs in a set of Industrial Solutions projects related to a new bioproduct plant in Finland, totalling EUR 13.5 million. These projects were finalised during the summer. In addition, the result was impacted by negative forecast changes in other older projects and the Group's more prudent revenue recognition related to change orders in projects.

Restructuring costs totalled EUR 7.3 (26.9) million in January–December. Restructuring costs consisted of personnel costs totalling EUR 4.4 (21.1) million, rents for empty premises totalling EUR 1.1 (4.3) million and other restructuring costs totalling EUR 1.8 (1.5) million.

Costs related to materials and supplies decreased to EUR 638.4 (648.2) million and external services to EUR 433.0 (450.8) million in January–December. The effects of the restructuring actions completed in 2016 were clearly visible in January–December. Personnel expenses decreased by 4.9 percent and other operating expenses by 4.6 percent from the previous year. Personnel expenses amounted to a total of EUR 940.4 (989.1) million. Other operating expenses decreased to EUR 275.8 (289.2) million. Other operating income was EUR 15.9 (1.9) million. The capital gain from the Krantz divestment is reported under other operating income for the period and it amounted to EUR 12.3 million.

EBITDA is defined as Operating profit + Depreciation, amortisation and impairment. EBITDA excluding restructuring costs is defined as Operating profit + Depreciation, amortisation and impairment + restructuring costs.

Operating profit

Operating profit for January–December was EUR –19.3 (–40.8) million, or –0.8 (–1.7) percent of revenue.

Depreciation, amortisation and impairment amounted to EUR 30.4 (29.5) million in January–December, of which EUR 2.0 (6.1) million were allocated intangibles related to acquisitions and EUR 28.4 (23.4) million were other depreciations, amortisation and impairments, the majority of which related to IT.

The other factors affecting operating profit have been described in more detail under EBITDA.

Result before taxes, result for the period and earnings per share

Result before taxes amounted to EUR –25.1 (–43.5) million, result for the period to EUR –20.9 (–31.7) million and earnings per share to EUR –0.19 (–0.25) in January–December. Net financing expenses in January–December were EUR –5.7 (–2.6) million. Net financing expenses increased due to the extended debt maturity structure, higher interest costs and loan amendment fees.

The Group's effective tax rate was 16.8 (27.1) percent in January–December.

Capital expenditure, acquisitions and disposals

Gross capital expenditure on non-current assets totalled EUR 20.4 (38.2) million during January–December, representing 0.9 (1.6) percent of revenue. Investments in information technology totalled EUR 13.3 (25.1) million during January–December. IT investments were focused on building a harmonised IT infra and common platforms, datacenter consolidation as well as implementing a common ERP template. IT systems and mobile tools were also developed to improve the Group's internal processes and efficiency going forward. Other investments, including acquisitions, amounted to EUR 7.1 (13.0) million.

Caverion made three smaller acquisitions in 2017. In Finland, Caverion and Enegia made a partnership agreement on providing energy efficiency services and entered into an asset deal covering remote property management. In the transaction, Enegia's remote management business and the associated personnel were transferred to Caverion Finland on November 1, 2017. After the transaction, Caverion manages remotely a total of over 4,000 properties

across Finland, making Caverion Finland's largest service company providing remote property management. The value of the asset deal was not disclosed. During the period, Caverion completed also two small acquisitions in Austria. In July, Caverion signed an asset transfer agreement with AE Ausserwöger Elektrotechnik GmbH on the acquisition of its electrical business. The business transferred had revenue of approximately EUR 2 million and 19 employees in 2016. In August Caverion acquired all shares in Weiss Anlagen Technik GmbH, a cleanroom technology company with revenue of approximately EUR 3 million and 15 employees in 2016. The transaction prices were not published.

Caverion announced on November 27, 2017 that it had signed an agreement to sell its product business under the Krantz brand in Germany to STEAG Energy Services GmbH, a German company providing integrated solutions in the fields of electricity and heat production and engineering services. The sale became effective on December 31, 2017. As a part of Caverion Germany, Krantz employed approximately 230 people and its revenue was approximately EUR 41 million in 2017. The capital gain from the divestment is reported under other operating income for the period and it amounted to EUR 12.3 million.

Research and development

The Group's expenses related to research and development activities related to product and service development amounted to approximately EUR 2.8 (3.7) million in 2017, representing 0.1 (0.2) percent of revenue.

Cash flow, working capital and financing

In January-December, the Group's free cash flow was negative although improving from last year. Free cash flow amounted to EUR –8.5 (–72.1) million In January-December. Free cash flow was impacted by the increase in working capital in risk projects. Free cash flow was improved by the lower level of investments compared to last year. The Group's operating cash flow before financial and tax items amounted to EUR –8.7 (–22.4) million in January–December.

The Group's working capital was 6.1 (–2.6) million at the end of December. Working capital decreased from EUR 75.7 million at the end of the third quarter, as the amount of POC receivables decreased from EUR 321.1 million at the end of September 2017 to EUR 249.7 million at the end of December. Trade receivables amounted to EUR 347.3 (378.2) million at the end of December. At the end of the year, working capital was still tied by certain risk projects mainly in divisions Industrial Solutions and Germany.

Caverion's cash and cash equivalents amounted to EUR 29.2 (47.7) million at the end of December. In addition, Caverion has undrawn revolving credit facilities amounting to EUR 100.0 million and undrawn overdraft facilities amounting to EUR 19.0 million.

The Group's interest-bearing loans and borrowings amounted to EUR 93.2 (193.3) million at the end of December and the average interest rate after hedges was 2.53 percent. Approximately 75 percent of the loans have been raised from banks and other financial institutions, approximately 5 percent directly from the money markets and approximately 17 percent from insurance companies. A total of EUR 35.5 million of the interest-bearing loans and borrowings will fall due during the next 12 months. The Group's net debt amounted to EUR 64.0 (145.5) million at the end of December.

On June 9, 2017 Caverion Corporation issued a EUR 100 million hybrid bond, an instrument subordinated to the company's other debt obligations and treated as equity in the IFRS financial statements. The hybrid bond does not confer to its holders the rights of a shareholder and does not dilute the holdings of current shareholders. The coupon of the hybrid bond is 4.625 per cent per annum until June 16, 2020. The hybrid bond does not have a maturity date but the issuer is entitled to redeem the hybrid for the first time on June 16, 2020, and subsequently, on each coupon interest payment date. If the hybrid bond is not redeemed on June 16, 2020, there will be a step-up of 500 basis points in the coupon. The hybrid bond strengthened Caverion Group's capital structure and financial position. At the end of December, the Group's gearing was 24.4 (78.7) percent and equity ratio 27.9 (18.7) percent.

Caverion's external loans are subject to a financial covenant based on the ratio of the Group's net debt to EBITDA. Caverion and its core banks agreed on changes in the loan documentation in connection with the hybrid transaction in June. The project write-downs made in 2017 burdened the company's EBITDA and the financial covenant level in 2017. Caverion concluded amendments with its lending parties related to the maximum level of the financial covenant and confirmed the EBITDA calculation principles related to the Group's financial covenant in 2017. In December, it was agreed with the core banks that the covenant maximum level is not tested at the end of December 2017. Financial covenant shall not exceed 3.5:1 after the end of December 2017. At the end of December, the Group's Net debt to EBITDA was 2.9x according to the confirmed calculation principles.

Changes in external financial reporting in 2017

Caverion announced in an investor news release on May 29, 2017 that it is launching further actions to address the remaining utilisation and performance challenges in Sweden. These actions included reductions in workforce, combining of existing units, better usage of shared resources and the integration of Caverion's Swedish industrial and building systems operations. In the integration approximately 350 employees from the Swedish industrial operations were to be transferred to Division Sweden. The integration also resulted in changes in Caverion's external financial reporting. Caverion has reported the figures for its Swedish industrial operations under Division Sweden as of July 1, 2017. The figures for the comparative periods have been adjusted to reflect current reporting structure.

Board of Directors, Auditors, President and CEO

Board of Directors

The Annual General Meeting of Caverion was held on March 17, 2017. The Annual General Meeting elected a Chairman, Vice Chairman and six ordinary members to the Board of Directors. Michael Rosenlew was elected as the Chairman of the Board of Directors, Markus Ehrnrooth as the Vice Chairman and Jussi Aho, Joachim Hallengren, Thomas Hinnerskov, Antti Herlin, Anna Hyvönen and Eva Lindqvist as members of the Board of Directors for a term continuing until the end of the next Annual General Meeting. The term of Antti Herlin began upon the registration of the amendment of the Articles of Association in the Trade Register on March 29, 2017.

In the beginning of 2017 until the closing of the Annual General Meeting the previous Board of Directors consisted of Vice Chairman Michael Rosenlew, who chaired the Board since the departure of the former Chairman Ari Lehtoranta as of November 15, 2016, as well as Markus Ehrnrooth, Anna Hyvönen, Eva Lindqvist and Ari Puheloinen as members of the Board of Directors.

More detailed information of Caverion's board members and their remuneration as well as board committees can be found in Corporate Governance Statement and Remuneration Statement which are published separately on Caverion's website www.caverion.com/Investors – Corporate Governance.

Auditors

The Annual General Meeting elected PricewaterhouseCoopers Oy, auditing firm, to audit the company's governance and accounts in 2017. The auditor with the main responsibility is Heikki Lassila, Authorised Public Accountant.

President and CEO

Caverion's Board of Directors nominates the President and CEO and decides on his/her remuneration and other terms of employment. Caverion Corporation's President and CEO is Mr. Ari Lehtoranta as of January 1, 2017.

Personnel

Personnel by division, end of period	12/2017	12/2016	Change
Denmark-Norway	3,253	3,330	–2%
Sweden	3,150	3,557	–11%
Germany	2,453	2,452	0%
Industrial Solutions	2,208	2,357	–6%
Finland	2,444	2,439	0%
Austria	840	811	4%
Eastern Europe	1,754	1,841	–5%
Group Services	114	126	–10%
Group, total	16,216	16,913	–4%

Caverion Group employed 16,607 (17,381) people on average in January–December 2017. At the end of December, the Group employed 16,216 (16,913) people. Personnel expenses for January–December 2017 amounted to EUR 940.4 (989.1) million.

The effects of the restructuring actions completed in 2016 and 2017 are clearly visible. In 2017, new resources were needed to fulfil critical competence gaps. Caverion continued to hire trainees and apprentices to grow as experts. Special attention continued to be paid to project management and the strengthening of managerial capabilities. Development activities were continued in divisions to better match business demand with the supply of resources.

Several Group-wide projects were continued such as the implementation of project management capabilities. Further performance and utilisation improvement actions were initiated in Sweden. Talent and succession planning as well as the implementation of harmonised job structures and people processes continued. The well-being of employees was a focus area and group-wide safety programme was taken forward. Occupational safety is measured using a common indicator (number of accidents per one million working hours). In 2017, Caverion managed to decrease the accident frequency rate to the level of 5.7 (1–12/2016: 6.3).

Changes in Caverion's Group Management

Ari Lehtoranta started as the President and CEO of Caverion Corporation on January 1, 2017.

Caverion announced the following changes in Caverion's Group Management Board and organisation structure on January 9, 2017. The role of the Group level functions Services and Projects was strengthened by increasing their areas of responsibility and they will be called business units going forward. Thomas Hietto, born 1967, M.Sc. (Tech.) was appointed as the head of business unit Services and Jarno Hacklin, born 1978, B. (Eng.), was appointed as the head of business unit Projects. Ville Tamminen, born 1974, LL.M (trained on the bench), was appointed as the head of Division Finland. A new Group function Legal & Governance was also established in the company. Anne Viitala, born 1959, LL.M (trained on the bench), eMBA, was appointed as the head of new Group function Legal & Governance. All of the appointed are also members of the Group Management Board of Caverion Corporation. The appointments took effect as of January 9, 2017, apart from the appointment of Thomas Hietto. He started in his position on July 1, 2017. The business unit Services was headed until June 30, 2017 by Matti Malmberg who continues his service at Caverion.

Caverion announced on January 19, 2017 that Erkki Huusko, born 1957, B. (Eng.), eMBA, was appointed as Head of Division Industrial Solutions and a member of the Group Management Board of Caverion Corporation as of January 19, 2017. Erkki Huusko had previously worked as Chief Operative Officer in the Division Industrial Solutions, meanwhile Juhani Pitkäkoski had had total responsibility of the division. Juhani Pitkäkoski continued to work in the division until July 16, 2017.

Caverion announced on April 3, 2017 that Minna Schrey-Hyppänen, born 1966, M.Sc. (Eng.), M.Sc (Econ), was appointed as Head of Human Resources and a member of the Group Management Board of Caverion Corporation as of June 26, 2017. Merja Eskola, her predecessor, continues her service at Caverion being responsible of strategic resourcing and talent development.

Caverion announced on June 21, 2017 that Sakari Toikkanen, born 1967, Lic (Tech.), was appointed as Head of Division Industrial Solutions of Caverion Corporation as of June 21, 2017. He assumes the position until a new permanent head of division is hired. Sakari Toikkanen also continued in his role as the Head of IT & Communications & Sales development of Caverion Corporation and as a member of the Group Management Board. Erkki Huusko continued in specific tasks in the company until December 2, 2017. The responsibility area of Strategy and M&A was transferred to Group function Finance under CFO Martti Ala-Härkönen on June 22, 2017.

Caverion announced on November 6, 2017 that it will separate its Denmark-Norway division operations into two divisions Denmark and Norway as of January 1, 2018. At the same time it was announced that Michael Højgaard, born 1961, the former Managing Director for Caverion Denmark was appointed as Head of the new Division Denmark and a member of the Group Management Board of Caverion Corporation as of January 1, 2018. Executive Vice President & CEO Knut Gaaserud, the former Head of Division Denmark-Norway continues as the Head of Division Norway and a member of the Group Management Board of Caverion Corporation.

Caverion announced on December 1, 2017 that Juha Mennander, born 1965, M.Sc. (Tech.), was appointed as Head of Market Operations and a member of the Group Management Board of Caverion Corporation as of January 1, 2018. One of the must-wins in Caverion's strategy is Excellent customer experience, which Juha Mennander will be managing. He took over the management of the Marketing and Communications, Sales Development and Procurement. In this connection, CFO Martti Ala-Härkönen assumes the responsibility for Information Technology. Additionally, Mennander will later assume the responsibility for implementing selected group-wide organisational change projects. At the same time Sakari Toikkanen's responsibilities with Group functions ended, and he focuses on managing the Industrial Solutions division on a full-time basis.

Most significant business risks and risk management

Caverion is exposed to different types of strategic, operational, political, market, customer, financial and other risks. The market environment is currently positive in markets relevant for Caverion, but there may always occur sudden unexpected changes affecting also Caverion.

Caverion's typical operational risks relate to its Services and Projects business. These include risks related to tendering (e.g. calculation and pricing), contractual terms and conditions, partnering, subcontracting, procurement and price of materials, availability of qualified personnel and project management. To manage these risks, risk assessment and review processes for both the sales and execution phase have been introduced, and risk reservations have been increased. Given the specific risks related to project business, the Group Project Business Unit was established in the beginning of 2017 and is dedicated to the overall improvement of project risk management, to steering the project portfolio and to improve project management capabilities. Despite all actions taken there is a risk that some project risks materialise, which could have a negative impact on Caverion's financial performance and position. Project risk assessment is an ongoing process in the company, and it is possible that risks may be identified in currently running and new projects.

Although improved project controls have been implemented, it is possible that some risks may materialise, which could lead to project write-downs, provisions, disputes or litigations. Caverion has made a large amount of project write-downs during 2016–2017 but it is still possible that risks may emerge in these or new projects.

According to Group policy, write-offs or provisions are booked on receivables when it is evident that no payment can be expected. Caverion Group follows a policy in valuing trade receivables and the bookings include estimates and critical judgements. The estimates are based on experience on realised write-offs in previous years, empirical knowledge of debt collection, customer-specific collaterals and analyses as well as the general economic situation of the review period. Caverion continued its risk assessments related to POC and trade receivables in its project portfolio in 2017. During 2017 Caverion has managed to collect a large number of receivables, but there are certain individual larger receivables where the company continues its actions to negotiate and collect the receivables. There is remaining risk in the identified receivables, and it cannot be excluded that there is also risk associated with other receivables.

Given the nature of Caverion's business, Group companies are involved in disputes and legal proceedings in several projects. These disputes and legal proceedings typically concern claims made against Caverion for allegedly defective or delayed delivery. In some cases, the collection of receivables by Caverion may result in disputes and legal proceedings. There is a risk that the client presents counter claims in these proceedings. The outcome of claims, disputes and legal proceedings is difficult to predict. Write-downs and provisions are booked following the applicable accounting rules.

The investigation of violations of competition law related regulations in the technical services industry in Germany continues. As part of the investigation German authorities have searched information from various technical services providers, including Caverion. Caverion co-operates with the local authorities. Based on the currently available information, it is still not possible to evaluate the magnitude of the potential risk for Caverion related to these issues. The timing of the closing of the investigations is also unknown. It is possible that the costs, sanctions and indemnities can be material.

As part of this co-operation Caverion has identified activities during 2009–2011 that are likely to fulfil the criteria of corruption or other criminal commitment in one of its client project executed in that time. Caverion has brought its findings to the attention of the authorities and supports them to further investigate the case. It is possible that these infringements will cause considerable damage to Caverion in terms of fines, civil claims as well as legal expenses. However, the magnitude of the potential damage cannot be assessed at the moment. Caverion is monitoring the situation and will disclose any relevant information as applicable under regulations.

Caverion is implementing a robust compliance programme. As part of the programme all employees must complete an annual e-learning module and further training is given across the organisation. All employees are required to comply with Caverion's Code of Conduct, which sets zero tolerance on bribery and corruption. In addition, Caverion has restructured and updated its Group-level policies and guidelines ("Caverion Guidelines") and re-launched them in September 2017.

Goodwill recognised on Caverion's balance sheet is not amortised, but it is tested annually for any impairment. The amount by which the carrying amount of goodwill exceeds the recoverable amount is recognised as an impairment loss through profit and loss. If negative changes take place in Caverion's result and growth development, this may lead to an impairment of goodwill, which may have an unfavourable effect on Caverion's result of operations and shareholders' equity.

Caverion's external loans are subject to a financial covenant based on the ratio of the Group's net debt to EBITDA. Breaching this covenant would give the lending parties the right to declare

the loans to be immediately due and payable. Caverion concluded amendments with its lending parties related to the maximum level of the financial covenant and confirmed the EBITDA calculation principles related to the Group's financial covenant in 2017. On June 9, 2017 Caverion issued a EUR 100 million hybrid bond which is treated as equity under IFRS. The hybrid bond issue improved the Group's liquidity and capital structure, hence also the financial covenant level. The project write-downs made in 2017 burdened the company's EBITDA and the financial covenant level in 2017. It is possible that Caverion may need amendments related to its financial covenant also in the future. The level of the financial covenant ratio is continuously monitored and evaluated against actual and forecasted EBITDA and net debt figures.

Caverion's business typically involves granting of guarantees in favour of customers or other stakeholders, especially in large projects, e.g. for advance payments received, for performance of contractual obligations, and for defects during the warranty period. Such guarantees are typically granted by financial intermediaries on behalf of Caverion. There is no assurance that the company would have continuous access to sufficient guarantees from financial intermediaries at competitive terms or at all, and the absence of such guarantees could have an adverse effect on Caverion's business and financial condition. To manage this risk, Caverion's target is to maintain several guarantee facilities in the different countries where it operates.

There are risks related to the functionality, security and availability of the company's IT systems. Caverion has made significant investments in IT and system development. There is a risk that the expected functionalities and pay-back are not fully materialised.

Financial risks are described in more detail in the Financial Statements note 5.5.

Authorisations

Repurchase of own shares

The Annual General Meeting of Caverion Corporation, held on March 17, 2017, authorised the Board of Directors to decide on the repurchase of own shares. The authorisation covers the repurchase of a maximum of 12,000,000 company's own shares using the company's unrestricted equity, at fair value at the date of repurchase, which shall be the prevailing market price in the trading at the regulated market organised by Nasdaq Helsinki Ltd. The shares may be repurchased other than pro rata to the shareholders' existing holdings. The share purchase will decrease the company's distributable unrestricted equity. The authorisation is valid for eighteen months from the date of the resolution of the Annual General Meeting. The Board of Directors has not used the authorisation during 2017.

Share issue

The Annual General Meeting authorised the Board of Directors to decide on share issues. The authorisation may be used in full or in part by issuing a maximum of 25,000,000 Caverion shares in one or more issues. The Board of Directors may decide on a directed share issue in deviation from the shareholders' pre-emptive rights. The Board of Directors would be authorisded to decide to whom and in which order the shares will be issued. The authorisation can be used e.g. in order to strengthen the Company's capital structure, to broaden the Company's ownership, to be used as payment in corporate acquisitions or when the Company acquires assets relating to its business and as part of the Company's incentive programmes. In the share issues shares may be issued for subscription against payment or without charge. The Board of Directors is also authorised to decide on a share issue without payment directed to the company itself, within the limitations laid down in the Companies Act. The authorisation empowers the Board of Directors to decide on the terms and conditions of and measures related to the share issues in accordance with the Companies Act, including the right to decide whether the subscription price will be recognized in full or in part in the invested unrestricted equity reserve or as an increase to the share capital.

The share issue authorisation also includes the authorisation to transfer own shares that are in the possession of company or may be acquired. This authorisation applies to a maximum of 12,500,000 company's own shares. The Board of Directors was authorised to decide on the purpose and the terms and conditions for such transfer. The authorisation is valid until March 31, 2018. The Board of Directors has not used the authorisation during 2017.

Information about shares in Caverion Corporation

Updated lists of Caverion's largest shareholders and ownership structure by sector as per December 31, 2017 are available on Caverion's website at www.caverion.com/investors. The total combined holdings of the members of the Board of Directors, President and CEO and other members of the Group Management Board as per December 31, 2017 are presented in the notes to the financial statements.

Shares and share capital

Caverion Corporation has a single series of shares, and each share entitles its holder to one vote at the general meeting of the company and to an equal dividend. The company's shares have no nominal value. Caverion's articles of association neither have any redemption or consent clauses nor any provisions regarding the procedure of changing the articles. Caverion Corporation's share capital and the number of shares have not changed during the reporting period. Number of shares in Caverion Corporation was 125,596,092 and the share capital was EUR 1,000,000 on December 31, 2017.

Shares held by the company, pledging, option rights

At the beginning of January 1, 2017, the number of shares was 125,596,092 and the share capital was EUR 1,000,000. Caverion held 512,328 treasury shares throughout the whole reporting period January–December 2017. The number of shares outstanding was thus 125,083,764 at the end of December 2017. Own shares held by Caverion Corporation represent 0.41% of the total number of shares and voting rights.

Caverion's Board of Directors approved a rolling long-term share-based incentive plan for the Group's senior management in December 2015. The share based incentive plan consists of a Performance Share Plan (PSP) as the main structure supported by a Restricted Share Plan as a complementary structure for specific situations. Both plans consist of annually commencing individual plans, each with a three-year period. The commencement of each new plan is subject to a separate decision of the Board. The Board of Directors decided to continue the said incentive structure in December 2016 and in December 2017. The first plans commenced thus at the beginning of 2016, followed by the second and third plans in the beginning of 2017 and 2018, respectively. The targets

set for the first and second Performance Share Plan 2016–2018 and 2017–2019 were not met and no rewards will therefore be paid thereof. If all targets will be met, the share rewards based on Performance Share Plan 2018–2020 will comprise a maximum of approximately 850,000 Caverion shares (gross before the deduction of applicable payroll tax), to be delivered in the spring of 2021. Furthermore, the potential share rewards based on the Restricted Share Plans for 2016–2018; 2017–2019 as well as 2018–2020 total a maximum of approximately 236,000 shares (gross before the deduction of applicable payroll tax). Of these plans, a maximum of approximately 66,000 shares will be delivered in the spring of 2019 and a maximum of approximately 85,000 shares both in the spring of 2020 and 2021. More information on the incentive plans was released in stock exchange releases on December 18, 2015; December 21, 2016 and December 21, 2017. Furthermore, more information on the earlier long-term share-based incentive plan 2014–2016 was released in a stock exchange release on May 26, 2014. The targets set for this plan were not met.

Caverion has not made any decision regarding the issue of option rights or other special rights entitling to shares. Caverion or its subsidiaries do not have any Caverion Corporation shares as a pledge.

Trading in shares

The opening price of Caverion's share was EUR 7.94 at the beginning of the year 2017. The closing rate on the last trading day of the review period on December 29 was EUR 5.89. The share price decreased by 35 percent during January–December. The highest price of the share during the review period January–December was EUR 8.28, the lowest was EUR 5.76 and the average price was EUR 7.19. Share turnover on Nasdaq Helsinki in January–December amounted to 51.2 million shares. The value of share turnover was EUR 368.2 million (source: Nasdaq Helsinki).

Caverion's shares are also traded in other market places, such as Cboe, Turquoise, Aquis and Frankfurt Stock Exchange (Open Market). During January–December, 9.5 million Caverion Corporation shares changed hands in alternative public market places, corresponding to approximately 11.9 percent of the total share trade. Of the alternative market places, Caverion shares changed hands particularly in Cboe CXE. Furthermore, during January–December, 19.1 million Caverion Corporation shares changed hands in OTC trading outside Nasdaq Helsinki, corresponding to approximately 23.9 percent of the total share trade (source: Fidessa Fragmentation Index).

Caverion Corporation's market capitalisation at the end of the review period was EUR 736.7 million. Market capitalisation has been calculated excluding the 512,328 shares held by the company as per December 31, 2017.

Outlook for 2018

Guidance for 2018

Caverion estimates that the Group's revenue for 2018 will decrease compared to the previous year (2017: EUR 2,282.8 million). Caverion estimates that the Group's adjusted EBITDA will more than double in 2018 (2017: EUR 22.3 million).

Adjusted EBITDA = EBITDA before items affecting comparability (IAC).

Items affecting comparability (IAC) are material items or transactions, which are relevant for understanding the financial performance of Caverion when comparing profit of the current period with previous periods. These items can include (1) capital gains and losses from divestments; (2) write-downs, expenses and/or income from separately identified major risk projects; (3) restructuring expenses and (4) other items that according to Caverion management's assessment are not related to normal business operations. In 2018, major risk projects include three completed Large Projects from Industrial Solutions. The financial impacts of these will be reported separately by Caverion under "Items affecting comparability (IAC)". The adjusted EBITDA figure for 2017 has been calculated accordingly.

Adjusted EBITDA – Items affecting comparability

EUR million	1–12/17
EBITDA	11.0
EBITDA margin, %	0.5
Items affecting EBITDA	
– Write-downs, expenses and income from major risk projects	16.3
– Restructuring costs	7.3
– Capital gains and losses from divestments	–12.3
Adjusted EBITDA	22.3
Adjusted EBITDA margin, %	1.0

Caverion's current guidance for 2018 is based on the IFRS standards applied on the balance sheet date. As a result of the adoption of new IFRS 15 accounting principles effective from January 1, 2018, Caverion's revenue recognition will change in 2018. The IFRS 15 restated figures for 2017 will be published in March 2018. At the same time, Caverion will update its guidance according to IFRS 15.

In its revenue guidance Caverion applies the following guidance terminology.

Positive change	Lower limit, %	Upper limit, %
Increases	0%	

Negative change	Lower limit, %	Upper limit, %
Decreases		0%

In its adjusted EBITDA guidance Caverion applies the following guidance terminology, with a +/– 2pp (percentage point) threshold to the said limits.

Positive change	Lower limit %	Upper limit %
At last year's level	–5%	5%
Grows	5%	30%
Grows significantly	30%	100%
Doubles	100%	

Negative change	Lower limit %	Upper limit %
Decreases	–30%	–5%
Decreases significantly		–30%

Market outlook for Caverion's services and solutions

The megatrends in the industry, such as the increase of technology in built environments, energy efficiency requirements, increasing digitalisation and automation as well as urbanisation continue to promote demand for Caverion's services and solutions over the coming years.

Services

The underlying demand for Services is expected to remain strong. As technology in buildings increases, the need for new services and the demand for Life Cycle Solutions are expected to increase. Clients' tendency towards focusing on their core operations continues to open opportunities for Caverion in terms of outsourced operations and maintenance especially for public authorities, industries and utilities.

Projects

The Projects markets are expected to remain on a good level. Good demand is expected to continue from both private and public sectors. However, price competition is expected to remain tight. Low interest rates and availability of financing are expected to support investments. The demand for Design & Build of Total Technical Solutions is expected to develop favourably in large and technically demanding projects. Requirements for increased energy efficiency, better indoor conditions and tightening environmental legislation will be significant factors supporting the positive market development.

Caverion Corporation's disclosure on non-financial information 2017

Business model and value creation

Caverion's technological capabilities cover all building systems and selected infrastructure and industrial technologies. Caverion operates an asset-light business. **Human capital** is the most important asset for Caverion. Everything Caverion delivers to its customers is produced by its 16,200 highly skilled employees. Making this human capital serve its clients is at the core of Caverion's value creation.

Caverion is a reliable and trustworthy partner for customers, employees and labour unions, governmental officials and business partners. **Social capital** in terms of good relationships is an important part of Caverion's ability to create value.

Universal demand for energy efficiency and sustainability as well as Caverion's capabilities in developing, delivering, operating and maintaining solutions that answer to this demand, are the most relevant areas of **natural capital** for Caverion. Energy efficiency is incorporated in Caverion's services. Caverion proactively proposes energy-saving activities to its clients.

Caverion's **financial capital** consists of a balanced portfolio of equity, hybrid capital treated as equity under IFRS and interest-bearing loans. Secured financing enables Caverion's long-term development and investments related thereto.

Caverion designs and builds solutions for buildings, industry and infrastructure. These solutions are the core of Caverion's **manufactured capital** as they all once completed, require service for the entire life cycle and thus create long-term recurring business opportunities for Caverion. An example of these are the 30,000 spaces under Caverion's service. Caverion also offers 24/7 remote monitoring services for buildings.

Caverion operates in 12 countries. Caverion's tax footprint covers all of its operating countries; income taxes are paid in the jurisdiction where the value is initially created.

Caverion's key stakeholders are the 30,000 B2B customers, employees, shareholders, partners and suppliers and the whole society. Results in value creation are measured by taking each key stakeholder into consideration.

Caverion's business model and value creation

Assets

- 16,200 employees in 12 European countries
- Competences in building technologies
- Caverion brand
- Service vehicle fleet
- Equity capital EUR 262.7m
- Interest-bearing debt EUR 93.2m

Business

Strategy
Mission
Vision
Values

- Revenue: EUR 2,282.8m
- EBITDA: EUR 11.0m
- Market capitalisation: EUR 737m on Dec. 31, 2017

Value created and impact

- Personnel expenses EUR 940.4m
- Employee engagement index 70% on target level
- Improved work safety – LTIFR 5.7
- Improved net promoter score (NPS)
- Expenses for materials and services EUR 1.3bn
- Fleet fuel emissions 22,999 tCO_2
- Net financing expenses paid EUR 4.6m
- Taxes paid EUR 3.4m
- Dividends paid EUR 0

Environmental matters with focus on fleet fuel consumption

Caverion strives to keep the negative environmental impacts of its operations as minimal as possible. Of Caverion's own operations, the fuel consumption of the car fleet has the most material environmental impact.

Caverion's target is to utilise logistical solutions that help to reduce greenhouse gas emissions. As an example, environmental aspects are considered in the selection of company cars. Caverion mostly uses diesel cars in its service and business car fleet. In addition, gas and full electric business cars are used particularly in Caverion Sweden. Caverion continuously follows the development of technology and is open to consider hybrid and electric cars for wider use in the future. As another example, Caverion Finland offered the possibility to test electric and hybrid cars for business use in 2017.

Caverion's divisions have their own service and business car policies, requirements and restrictions. For service vehicles the limit is between 150–201 gCO_2/km, depending on the country, and for business cars the limit is between 128–150 gCO_2/km. The total number of Caverion's service and business cars decreased from 2016 to 2017, especially in Norway and Sweden. The reduction is partly due to efficiency measures carried out in the business.

An efficient planning of routes and an economical way of driving are important focus areas to Caverion. In 2017, an environmentally friendly driver campaign was rolled out both in both Norway and Denmark, which included smart route planning and ecological driving trainings. The use of mobile solutions in field work has also been increased. This contributes to the reduction of unnecessary driving.

Caverion's business does not involve significant environmental risks, and the business consumes only minor amounts of non-renewable natural resources or energy. For most part, the environmental impact of Caverion's operations relates to localised noise or dust. In addition, Caverion's operations generate waste that is recycled and disposed in an appropriate manner.

Caverion continuously follows legislation changes in the EU area. The proposed bonus-malus system of Sweden, as an example, would create a monetary incentive to renew the vehicle fleet in order to meet more ambitious emission limits. Otherwise the result would be a higher tax for vehicles with high emissions. Furthermore, an increasing amount of diesel restrictions in city areas could have an effect on Caverion's fleet in the future. Caverion needs to take this into consideration as an increasing amount of its fuel consumption is diesel fuel. In 2017, 95% of Caverion's fleet fuel consumption was diesel fuel.

The targets for fleet fuel consumption and fuel efficiency are currently local and country-specific. In late 2017, Caverion started defining Group-level environmental targets for chosen KPIs. This work will be continued during 2018.

Caverion's non-financial KPIs are presented at the end of the disclosure.

Social and employee matters with focus on work safety and strengthening the employer image

Caverion's business success is reached through its employees. The objective of people-related strategic focus areas is to help Caverion meet its business targets. The main targets are to further secure the availability of talent, employee engagement and motivation as well as the professional growth and learning of Caverion's personnel.

Safety Guidelines describe Caverion's approach to safety-related matters:

- Every employee has the right to a safe working environment and Caverion is committed to excellence in occupational safety
- Caverion develops and actively monitors occupational safety
- Through their own actions, every Caverion employee is equally responsible for safety
- Caverion requires its subcontractors and partners to adopt its safety guidelines

The implementation of Caverion's Safety Guidelines is monitored and audited through regular safety audits and inspections as well as safety check-ups and meetings at worksites. Caverion also follows the implementation of its Safety Guidelines through its employee engagement survey. Following safety regulations is part of everyone's daily priorities at Caverion. The Group Management Board and the Division management teams are involved in the process through intensive and regular follow-ups as well as communication of safety-related KPIs.

Managing the risks in occupational safety is important at all of Caverion's worksites. Risks are managed through safety activities such as safety risk observations and Safety Toolbox talks, which are held systematically and reported. Management's safety observation tours are also one way of managing the risks. These provide the opportunity for open dialogue on safety topics at the worksites.

Caverion has driven harmonisation in key occupational safety topics since 2015. At the same time, the company has implemented common safety measures, which are reported throughout the organisation. The results of Caverion's focus on proactive safety behaviour are clearly seen as a decrease of occupational accidents over the past few years. Also relevant mandatory safety cards and/or certificates must be in place. Further, Caverion's employees must complete a safety-related e-learning session, which is mandatory for all employees and part of the Group's onboarding process.

As an international company Caverion wants to create an environment that is attractive for both its current and prospective employees. In order to create an environment that will support its future success, the following activities are Caverion's key focus areas:

- **Performance development**: Caverion uses the performance development process to set individual strategy-related targets and development plans for all employees
- **Professional growth**: Caverion offers its employees an opportunity for continuous learning and training. Caverion uses the 70/20/10 model based on the assumption that 70% of learning is done on the job, 20% from learning from others, and 10% from development and formal training programmes
- **Inspiring leadership**: Caverion's value-based Leadership Principles have been defined during 2017 in order to crystallise what kind of leadership is expected at Caverion
- **Leader forum**: Leader Forum events are arranged Group-wide and in the divisions for Caverion's key executives.

Caverion measures the total employee turnover rate and average duration of employment as KPIs for the company's ability to attract and retain skilled labour. Performance management process is implemented throughout the company and followed locally by

monitoring set KPIs and targets related thereto. Caverion encourages continuous feedback to ensure clarity on tasks and achievements throughout the year. It is important for Caverion to retain its ability to attract skilled and professional employees to all types of work positions. This is essential for Caverion in order to be able to offer best possible solutions and services to its customers.

Caverion updated its career and recruitment web pages during 2017. Approximately 1,300 young people join Caverion every year as apprentices, interns, summer workers, trainees, and/or thesis workers. Trainee programmes constitute an important recruitment channel for Caverion.

Caverion also launched a new set of e-learning modules in areas of onboarding, code of conduct, project management and safety. The implementation of a harmonised Job Structure grading was continued. The Job Structure clarifies the roles and responsibilities of the most common Caverion jobs. The roll-out of a Group-wide employee engagement survey was also continued. The results of the survey were discussed in teams throughout the organisation. As a follow-up to the discussions, team- and function-based development plans were created and the related actions were taken forward.

Respect for human rights in Caverion's operations and supply chain

Caverion's Code of Conduct was revised in September 2017. The initial Code of Conduct was issued when the company was established in 2013. In accordance with the Code of Conduct, Caverion does not allow any kind of discrimination related to age, gender, nationality, social status, religion, physical or mental disability, political or other opinions, sexual orientation or any other factor. Caverion's Code of Conduct also guides actively towards improved equality and promotes equality between genders and diversity. Internationally proclaimed human rights are respected. Caverion applies zero tolerance approach to discrimination, harassment or any unlawful action.

Caverion utilises a separate Supplier Code of Conduct (SCoC) with its collaboration partners. Suppliers, subcontractors, and other business partners are expected to comply with internationally proclaimed human rights, labour conditions, social responsibility and good ethical practices.

Caverion operates primarily in developed, transparent markets. Based on its own evaluation, there is no serious risk of a violation of child labour laws by any of Caverion's suppliers. Potential risks relate to the uncertainty or unawareness of how subcontractors conduct their daily business. The risks of breach in the area of human rights are predominantly located further away in Caverion's supply chain.

Caverion has a web-based reporting channel, through which its employees can confidentially report on their observations of suspected misconduct. In addition, reports can be submitted via email.

Anti-corruption and bribery

The Code of Conduct clearly sets out Caverion's policy on corruption and bribery: Caverion applies a zero tolerance approach to corruption, bribery, anti-competitive practices, discrimination, harassment or any unlawful action.

The following principles guide Caverion's relationship with its suppliers, subcontractors and other business partners:

- Caverion does not tolerate any forms of bribery or other illegal payments in the relationships with its suppliers, subcontractors, and other business partners;
- Caverion does everything to reject bribery, corruption and white-collar crimes within its sphere of influence.

Caverion supports open and fair competition in all its markets. Caverion complies with the applicable competition legislation in every activity and avoids situations where there is a risk that competition regulations could be breached.

Caverion monitors its anti-bribery policies by investigating all reports made through its ethical reporting channel. The channel is a web-based whistle-blowing tool and available for all Caverion personnel. The anonymous whistle-blowing channel has been in use since 2013, and all reports and allegations are investigated by the Group's compliance organisation. The right and obligation to report any misconduct is supported by the non-retaliation policy set out in the Code of Conduct.

Generally, the construction industry has been seen as a high-risk business environment in terms of bribery risks. Caverion has zero tolerance approach to any corruption or bribery.

Caverion has externally communicated about two compliance cases:

- Germany: Caverion has discovered in its internal cartel investigations a possible corruption in one project in Germany. This internal investigation was conducted in Caverion's German subsidiary, Caverion Deutschland GmbH and all suspected individuals worked for that company. The events refer to the time before the demerger from YIT. The matter is pending.
- Finland: Caverion and one employee of Caverion are subject to bribery charges. The case involves alleged bribery by sponsoring horse sport activities. The events refer to years 2007–2012, the time before the demerger from YIT. The matter is pending.

Caverion has several standard control processes aimed at preventing identified risks of anti-corruption and bribery from materialising. These processes are part of the sales and execution phases of projects, and the sales and delivery phases of services. They include checks and controls (for example monitoring, reviews, due diligence measures and approvals) in the tender preparation and procurement activities.

Caverion has established a Compliance Programme including a Group-level Compliance unit headed by the Chief Compliance Officer and the local compliance officers. In addition, Caverion has reviewed its Group-level policies, instructions, and guidelines and re-established them in a structured manner under the name "Caverion Guidelines". Caverion operates a Group's Ethics & Compliance Committee consisting of top management representatives and the Chief Compliance Officer.

The CEO has made a clear statement that no actions will be tolerated against persons making bona fide reports in the ethical reporting channel.

Caverion's non-financial KPIs

	2017	2016
Environmental matters		
Fleet fuel emissions (tCO_2)	22,999	23,584
Fleet fuel emissions ($kgCO_2$ / revenue EUR)	10.1	10.0
Number of service cars	4,833	5,130
Number of business cars	1,484	1,622
Social and employee matters		
Accident frequency rate (number of occupational accidents resulting in absence per a million work hours)	5.7	6.3
Fatal accidents (total number)	0	0
OHSAS 18001 -certified business (%)	91	92
Turnover rate, permanent employees (%)	15.6	14.6
Average duration of employment (years)	10.6	11.0
Employee engagement index (%)	70	70 (2015)
Respect for Human rights		
The completion rate of Code of Conduct training (%)	93	84
Anti-corruption and bribery		
The number of Group's Ethics & Compliance Committee meetings	3	3

Consolidated income statement

EUR million	Note	1.1.–31.12.2017	1.1.–31.12.2016
Revenue	2.1	**2,282.8**	**2,364.1**
Other operating income	2.2	15.9	1.9
Materials and supplies		–638.4	–648.2
External services		–433.0	–450.8
Employee benefit expenses	2.2	–940.4	–989.1
Other operating expenses	2.2	–275.8	–289.2
Share of results in associated companies	5.7	0.0	–0.1
Depreciation, amortisation and impairment	2.3	–30.4	–29.5
Operating profit		**–19.3**	**–40.8**
Financial income		0.9	1.2
Exchange rate differences (net)		0.2	0.2
Financial expenses		–6.9	–4.1
Financial income and expenses	2.4	–5.7	–2.6
Result before taxes		**–25.1**	**–43.5**
Income taxes	2.5	4.2	11.8
Result for the financial year		**–20.9**	**–31.7**
Attributable to:			
Owners of the parent		–20.9	–31.7
Non-controlling interests		0.0	0.0
Earnings per share for profit attributable to owners of the parent:			
Earnings per share, basic, EUR	2.6	–0.19	–0.25
Earnings per share, diluted, EUR		–0.19	–0.25

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

Consolidated statement of comprehensive income

EUR million	Note	1.1.–31.12.2017	1.1.–31.12.2016
Result for the period		**–20.9**	**–31.7**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Change in the fair value of defined benefit pension		1.6	–4.2
– Deferred tax		0.0	1.3
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging	5.5	0.1	
Change in fair value of available-for-sale assets	5.4	0.1	0.0
Translation differences		–2.6	1.0
Other comprehensive income, total		**–0.7**	**–1.9**
Total comprehensive income		**–21.5**	**–33.6**
Attributable to:			
Owners of the parent		–21.6	–33.6
Non-controlling interests		0.0	0.0

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

Consolidated statement of financial position

EUR million	Note	Dec 31, 2017	Dec 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	4.3	21.9	28.3
Goodwill	4.2	331.6	339.8
Other intangible assets	4.3	46.7	53.0
Investments in associated companies	5.7	0.1	0.1
Available-for-sale financial assets	5.4	1.2	1.2
Receivables	3.2	2.1	3.3
Deferred tax assets	3.5	17.6	10.6
Total non-current assets		**421.1**	**436.4**
Current assets			
Inventories	3.1	17.6	30.7
Trade receivables	3.2	347.3	378.2
POC-receivables	3.2	249.7	244.4
Other receivables	3.2	47.5	40.4
Income tax receivables		7.5	6.4
Cash and cash equivalents		29.2	47.7
Total current assets		**698.9**	**747.9**
TOTAL ASSETS		**1,120.0**	**1,184.3**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	5.2		
Share capital		1.0	1.0
Treasury shares		–3.2	–3.2
Translation differences		–8.1	–5.5
Fair value reserve		–0.5	–0.7
Hybrid capital		100.0	
Retained earnings		173.2	193.1
		262.4	184.6
Non-controlling interests		0.4	0.4
Total equity		**262.7**	**185.0**
Non-current liabilities			
Deferred tax liabilities	3.5	51.6	51.1
Pension obligations	5.8	44.2	45.4
Provisions	3.4	7.0	7.1
Interest-bearing debts	5.4	57.7	127.6
Other liabilities	3.3	0.4	0.6
Total non-current liabilities		**160.8**	**231.7**
Current liabilities			
Trade payables	3.3	215.5	214.1
Advances received	3.3	179.9	192.5
Other payables	3.3	237.3	258.7
Income tax liabilities		5.8	6.5
Provisions	3.4	22.4	30.1
Interest-bearing debts	5.4	35.5	65.7
Total current liabilities		**696.4**	**767.6**
Total liabilities		**857.3**	**999.3**
TOTAL EQUITY AND LIABILITIES		**1,120.0**	**1,184.3**

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

Consolidated statement of cash flows

EUR million	Note	1.1.–31.12.2017	1.1.–31.12.2016
Cash flow from operating activities			
Result for the financial year		–20.9	–31.7
Adjustments for:			
Depreciation, amortisation and impairment		30.4	29.5
Reversal of accrual-based items		–5.0	12.1
Financial income and expenses		5.7	2.6
Gains on the sale of tangible and intangible assets		–12.3	0.3
Taxes		–4.2	–11.8
Total adjustments		14.5	32.8
Change in working capital:			
Change in trade and other receivables		1.3	–12.5
Change in inventories		11.9	–2.9
Change in trade and other payables		–15.6	–8.2
Total change in working capital		**–2.4**	**–23.5**
Operating cash flow before financial and tax items		**–8.7**	**–22.4**
Interest paid		–6.7	–3.9
Other financial items, net		1.1	0.6
Interest received		0.8	1.0
Dividends received		0.2	0.0
Taxes paid		–3.4	–12.4
Net cash generated from operating activities		**–16.7**	**–37.0**
Cash flow from investing activities			
Acquisition of subsidiaries and businesses, net of cash	4.1	–2.4	–4.2
Disposals of subsidiaries and businesses, net of cash	4.1	23.1	0.0
Purchases of property, plant and equipment	4.3	–4.2	–10.3
Purchases of intangible assets	4.3	–13.2	–23.5
Increases in other investments			0.1
Proceeds from sale of tangible and intangible assets		0.2	0.3
Proceeds from sale of available-for-sale financial assets		0.1	0.2
Net cash used in investing activities		**3.6**	**–37.4**
Cash flow from financing activities			
Change in loan receivables		1.2	–2.8
Proceeds from borrowings	5.3		80.0
Repayment of borrowings	5.3	–68.7	–22.1
Change in current liabilities, net	5.3	–30.0	34.6
Proceeds from finance lease debts	5.4		2.8
Repayment of finance lease debts	5.4	–2.2	–3.7
Proceeds from hybrid capital	5.2	100.0	
Hybrid capital expenses and interests		–1.0	
Dividends paid		0.0	–35.1
Net cash used in financing activities		**–0.7**	**53.8**
Net change in cash and cash equivalents		**–13.9**	**–20.6**
Cash and cash equivalents at the beginning of the financial year		47.7	68.1
Foreign exchange rate effect on cash and cash equivalents		–4.6	0.2
Cash and cash equivalents at the end of the financial year		**29.2**	**47.7**

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

Consolidated statement of changes in equity

EUR million	Note	Attributable to owners of the parent							Non-controlling interests	Total equity
		Share capital	Retained earnings	Translation differences	Fair value reserve	Treasury shares	Hybrid Capital	Total		
Equity January 1, 2017		**1.0**	**193.1**	**–5.5**	**–0.7**	**–3.2**		**184.7**	**0.4**	**185.0**
Comprehensive income 1–12/2017										
Result for the period			–20.9					**–20.9**	0.0	**–20.9**
Other comprehensive income:										
Change in fair value of defined benefit pension			1.6					**1.6**		**1.6**
– Deferred tax			0.0					**0.0**		**0.0**
Cash flow hedges	5.5				0.1			**0.1**		**0.1**
Change in fair value of available for sale financial assets	5.4				0.1			**0.1**		**0.1**
Translation differences				–2.6				**–2.6**		**–2.6**
Comprehensive income 1–12/2017, total			**–19.2**	**–2.6**	**0.2**			**–21.6**	**0.0**	**–21.5**
Transactions with owners	5.2									
Dividend distribution									0.0	**0.0**
Share-based payments	6.2		0.1					**0.1**		**0.1**
Hybrid capital							100.0	**100.0**		**100.0**
Hybrid capital transaction costs after taxes			**–0.8**					**–0.8**		**–0.8**
Transactions with owners, total			**–0.7**				**100.0**	**99.3**	**0.0**	**99.3**
Equity on December 31, 2017		**1.0**	**173.2**	**–8.1**	**–0.5**	**–3.2**	**100.0**	**262.4**	**0.4**	**262.7**

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

EUR million	Note	Attributable to owners of the parent Share capital	Retained earnings	Translation differences	Fair value reserve	Treasury shares	Total	Non-controlling interests	Total equity
Equity January 1, 2016		**1.0**	**262.8**	**–6.5**	**–0.7**	**–3.2**	**253.4**	**0.4**	**253.7**
Comprehensive income, 1–12/2016									
Profit for the period			–31.7				**–31.7**	0.0	**–31.7**
Other comprehensive income:									
Change in fair value of defined benefit pension			–4.2				**–4.2**		**–4.2**
– Deferred tax			1.3				**1.3**		**1.3**
Cash flow hedges	5.5								
Change in fair value of available for sale financial assets	5.4				0.0		**0.0**		**0.0**
Translation differences				1.0			**1.0**		**1.0**
Comprehensive income 1–12/2016, total			**–34.6**	**1.0**	**0.0**		**–33.6**		**–33.6**
Transactions with owners	5.2								
Dividend distribution			–35.1				**–35.1**		**–35.1**
Share-based payments	6.2		0.0			0.0	**0.0**		**0.0**
Transactions with owners, total			**–35.1**			**0.0**	**–35.1**		**–35.1**
Equity on December 31, 2016		**1.0**	**193.1**	**–5.5**	**–0.7**	**–3.2**	**184.7**	**0.4**	**185.0**

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

Notes to the consolidated financial statements

1 Basis of preparation

Accounting principles can be found next to the relevant notes in sections 2–6.

General information

Caverion Corporation (the "Parent company" or the "Company") with its subsidiaries (together, "Caverion" or "Caverion Group") is a service company in building systems, construction services and services for industry. Caverion designs, builds, operates and maintains user-friendly and energy-efficient technical solutions for buildings and industries throughout the life cycle of the property. Caverion's services are used in offices and retail properties, housing, public premises, industrial plants and infrastructure, among other places.

Caverion Corporation is domiciled in Helsinki, and its registered address is Panuntie 11, 00620 Helsinki, Finland. The company's shares are listed on the NASDAQ OMX Helsinki Ltd as of July 1, 2013. The copies of the consolidated financial statements are available at www.caverion.com or at the parent company's head office, Panuntie 11, 00620 Helsinki.

On June 30, 2013, the partial demerger of Building Systems business (the "demerger") of YIT Corporation became effective. At this date, all of the assets and liabilities directly related to Building Systems business were transferred to Caverion Corporation, a new company established in the partial demerger.

These consolidated financial statements were authorised for issue by the Board of Directors in their meeting on February 6, 2018 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended or rejected in the Annual General Meeting.

The consolidated financial statements have been prepared in accordance with the basis of preparation and accounting policies set out below.

The consolidated financial statements of Caverion Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union observing the standards and interpretations effective on December 31, 2017. The notes to the consolidated financial statements also comply with the requirements of Finnish accounting and corporate legislation complementing the IFRS regulation.

The figures in these consolidated financial statements are presented in million euros, unless stated otherwise. Rounding differences may occur.

Caverion Group's consolidated financial statements for the financial year ended 2017 have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and liabilities at fair value through profit and loss and derivative instruments at fair value. Equity-settled share-based payments are measured at fair value at the grant date.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed under "Critical accounting estimates and judgements" below.

Consolidation

Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The total consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Caverion Group. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's assets.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Disposal of subsidiaries

When the Group ceases to have control, any remaining interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognised through profit and loss. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if realised and recognised in the income statement. If the interest is reduced but control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are booked to non-controlling interest in equity.

Transactions with non-controlling interests

The Group accounts transactions with non-controlling interests that do not result in loss of control as equity transactions. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and exercise judgement in the application of the accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates may deviate from the related actual results. The estimates and assumptions that have a significant risk of

causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. Accounting estimates and judgements are commented in more detail in connection with each item.

- Goodwill
- Contracts under percentage of completion method
- Income taxes
- Provisions
- Employee benefit obligations
- Trade receivables

Foreign currency translation and transactions

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in euros, which is the Group's presentation currency.

The income statements of foreign Group companies are translated into euro using the average exchange rate for the reporting period. The balance sheets are translated at the closing rate at the date of that balance sheet. Translating the result for the period using different exchange rates in the income statement and balance sheet results in a translation difference, which is recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income. When a foreign subsidiary is disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction or valuation, where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "Finance income and expenses". All other foreign exchange gains and losses are presented in the income statement above operating profit. Non-monetary items are mainly measured at the exchange rates prevailing on the date of the transaction date.

Caverion Group applies exchange rates published by the European Central Bank in the consolidated financial statements. Exchange rates used:

		Income statement January–December 2017	Income statement January–December 2016	Statement of financial position December 31, 2017	Statement of financial position December 31, 2016
1 EUR =	CZK	26.3231	27.0342	25.5350	27.0210
	DKK	7.4385	7.4453	7.4449	7.4344
	NOK	9.3316	9.2911	9.8403	9.0863
	PLN	4.2561	4.3635	4.1770	4.4103
	RUB	65.9183	74.1467	69.3920	64.3000
	SEK	9.6377	9.4676	9.8438	9.5525

Operating segments

The profitability of Caverion Group has been presented as one operating segment from January 1, 2014 onwards. The chief operating decision-maker of Caverion is the Board of Directors. Due to the management structure of Caverion, nature of its operations and its business areas, Group is the relevant reportable operating segment.

Evaluation of the future impact of new standards and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments'.

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit and loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. The new guidance will not have a significant impact on the classification and measurement of its financial assets.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The new impairment model requires recognition of impairment provisions based on expected credit losses (ECL) rather than only on incurred credit losses as is the case under IAS 39. The new guidance will not have a significant impact on the provisions for financial assets.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit and loss. In the Group this includes the negative fair values of derivatives. The group expects this to have no impact.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to

that currently prepared under IAS 39. Hedge accounting is not and according to current management assessment, will not be applied in current hedging relationships.

Caverion will apply the new rules commencing on 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15, 'Revenue from contracts with customers'.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised when, or as, the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, IFRS 15 requires disclosures about the entity's contracts with customers, performance obligations in the contracts and significant judgements made. Caverion will adopt IFRS 15 as of January 1st, 2018 using the full retrospective method. It replaces IAS 11, 'Construction contracts,' IAS 18, 'Revenue' and related interpretations.

Group management has performed an analysis of the impacts of IFRS 15, which is subject to changes arising from finalisation of the ongoing analysis. Management view is that the IFRS 15 standard has only a limited impact on the current revenue recognition practices based on the percentage of completion method. The most significant impact from adopting IFRS 15 relates to the new requirements for the determination of the transaction price. The standard requires to recognise revenue from any variable consideration at its estimated amount, if it is highly probable that no significant reversal of revenue will occur once the uncertainty related to the variable consideration is resolved. Based on the analysis performed for this part of the new guidance, a negative impact amounting to EUR 20–25 million on Group's retained earnings will be recognised. In previous years, revenue has been recognised from variable consideration when the management has assessed that it is probable that criteria for revenue recognition from variable consideration will be met.

The IFRS 15 restated figures for 2017 will be published in March 2018.

IFRS 16 'Leases'.

The new model requires the lessee to recognise almost all lease contracts on the balance sheet. Whereas, under the previous guidance in IAS 17, Leases, a lessee had to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet), the new model requires the lessee to recognise an asset (the right to use the leased item) and a financial liability to pay rentals. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the group's operating leases. For further information on off balance sheet lease liabilities see note 5.9, Lease agreements. Group management has performed an initial assessment of the impacts of IFRS 16 standard. Based on the current analysis most of the operating leases will be recognised into the balance sheet. The new standard will have significant impact on Group's balance sheet and related key ratios, such as the equity ratio and gearing. The leasing standard will also have impact on Group's income statement. Operating lease cost will be divided into the depreciation of the right-of-use asset and interest cost associated with the liability resulting to improved EBITDA. However, the group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

Caverion plans to adopt the standard as of the effective date January 1, 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

New standards and amendments adopted

Amendment to IAS 7 Statement of Cash Flows

The amendment requires to explain changes in liabilities arising from financing activities. The group has adopted the amendments made to IAS 7 as from January 1, 2017 and revised its net debt disclosures to comply with new requirements. Additional information is presented in note 5.3.

2 Financial performance

In this section

This section comprises the following notes describing Caverions's financial performance in 2017:

2.1 Revenue 25
2.2 Costs and expenses 26
2.3 Depreciation, amortisation and impairment 27
2.4 Financial income and expenses 27
2.5 Income taxes 28
2.6 Earnings per share 28

Strategy targets 2017–2020

Cash conversion = Operating cash flow before financial and tax items / EBITDA > 100%

Profitability: EBITDA over 6% of revenue

Debt leverage: Net debt/EBITDA < 2.5×

Growth:
- Revenue growth target will be given by the end of 2019.
- Services growth > market growth.
- Long-term target beyond 2020: Services generate over two-thirds of Group revenue.

2.1 Revenue

Distribution of revenue

EUR million	2017	%	2016	%
Germany	465.3	20%	506.6	21%
Sweden	492.2	22%	531.8	22%
Denmark-Norway	481.5	21%	455.8	19%
Industrial Solutions	287.3	13%	317.7	13%
Finland	317.3	14%	320.7	14%
Austria	161.9	7%	153.0	6%
Eastern Europe	77.2	3%	78.7	3%
Group, total	**2,282.8**	**100%**	**2,364.1**	**100%**
Projects business	**1,087.6**	**48%**	**1,233.6**	**52%**
Technical Installation	716.2	31%	782.3	33%
Large Projects	371.4	16%	451.3	19%
Services business	**1,195.2**	**52%**	**1,130.6**	**48%**
Technical Maintenance	850.5	37%	817.8	35%
Managed Services	344.6	15%	312.8	13%

Caverion's customer base consists of a large number of customers in several geographical areas and no individual customer represents a material share of its revenue.

Geographical distribution of revenue by customer location

EUR million	2017	2016
Sweden	500.4	561.3
Finland	567.4	573.6
Norway	368.4	359.5
Germany	447.9	477.0
Austria	155.0	148.5
Denmark	139.8	126.3
Other countries	103.8	117.9
Group total	**2,282.8**	**2,364.1**

Long-term contracts

The revenue from long-term contracts under percentage of completion method amounted to EUR 1,263.6 million (1,371.5 million), 55% (58%) of the Caverion Group total revenue.

The consolidated statement of financial position includes EUR 249.7 (244.4) million of unbilled contract revenue under percentage of completion method.

Accounting principles

Income from the sale of products and services is recognised as revenue at fair value net of indirect taxes and discounts.

Revenue from sales of goods is recorded when the significant risks and rewards and control associated with the ownership of the goods have been transferred to the buyer. Revenue for sales of short-term services is recognised in the accounting period in which the services are rendered.

Contracts under percentage of completion method are recognised as revenue on the stage of completion basis when the outcome of the project can be estimated reliably. The stage of completion of these contracts are measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for the contract. Costs in excess of the stage of completion are capitalised as work in progress. Invoicing which exceeds the revenue recognised based on the stage of completion is recognised in advances received. Invoicing which is less than the revenue recognised on the percentage of completion basis is deferred and presented as related accrued income.

Due to estimates included in the revenue recognition of contracts under percentage of completion method, revenue and profit presented by financial period only rarely correspond to the equal distribution of the total profit over the duration of the project. When revenue recognition is based on the percentage of completion method, the outcome of the projects and contracts is regularly and reliably estimated. Calculation of the total income of projects involves estimates on the total costs required to complete the project as well as on the development of billable work. If the

estimates regarding the outcome of a contract change, the revenue and result recognised are adjusted in the reporting period when the change first becomes known and can be estimated. If it is probable that the total costs required to complete a contract will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

The Group can also carry out a pre-agreed single project or a long-term service agreement through a construction consortium. The construction consortium is not a separate legal entity. The participating companies usually have a joint responsibility. Projects and service agreements performed by the consortium are included in the reporting of the group company and revenue is recognised on the stage of completion basis according to the group company's share in the consortium. ■

2.2 Costs and expenses

Employee benefit expenses

EUR million	2017	2016
Wages and salaries	738.2	768.4
Pension costs	71.4	83.6
Share-based compensations	0.2	–0.5
Other indirect employee costs	130.6	137.6
Total	**940.4**	**989.1**
Average number of personnel	**16,607**	**17,381**

Information on the management's salaries and fees and other employee benefits is presented in note 6.1 Key management compensation.

Other operating income and expenses

EUR million	2017	2016
Expenses for leased office facilities	34.6	39.7
Other expenses for leases	50.5	43.4
Voluntary indirect personnel expenses	10.9	12.6
Other variable expenses for work in progress	47.7	60.5
Travel expenses	41.9	46.7
IT expenses	43.9	35.3
Premises expenses	8.7	8.9
Other fixed expenses [1)]	37.6	42.0
Total of other operating expenses	**275.8**	**289.2**
Other operating income [2)]	15.9	1.9
Total of other operating items	**259.9**	**287.3**

[1)] Other fixed expenses include losses on the sale of tangible and intangible assets as well as consulting, legal, administrative, marketing and other fixed costs.

[2)] Other operating income includes e.g. gains on the sale of tangible and intangible assets and rental income. In 2017 other operating income includes capital gain from divestment of Krantz business in Germany amounting to EUR 12.3 million.

The Group's research and development expenses amounted to EUR 2.6 (3.2) million in 2017. Research expenditure is expensed in the income statement as incurred.

Audit fee

EUR million	2017	2016
PricewaterhouseCoopers		
Audit fee	0.8	0.7
Statement	0.0	0.0
Tax services	0.2	0.2
Other services	0.5	0.2
Others	0.1	0.1
Total	**1.6**	**1.2**

Expenses for non-audit services PricewaterhouseCoopers Oy has provided to Caverion Group entities in Finland amounted to EUR 0.5 million during the financial year 2017. The services included auditors' statements (EUR 0.0 million), tax services (EUR 0.0 million) and other services (EUR 0.5 million).

Restructuring costs

EUR million	2017	2016
Personnel related costs	4.4	21.1
Rents	1.1	4.3
Other restructuring costs	1.8	1.5
Total	**7.3**	**26.9**

In June 2016, Caverion launched a large restructuring program, which continued rest of the year and in year 2017. In addition, Caverion launched further actions in Sweden in May 2017. Expenses attributable directly to the restructuring program and actions have been reported separately as restructuring costs. In its interim and half yearly reports Caverion has disclosed EBITDA excluding restructuring costs as an alternative performance measure (APM).

2.3 Depreciation, amortisation and impairment

EUR million	2017	2016
Depreciation and amortisation by asset category		
Intangible assets		
Allocations from business combinations	2.0	6.1
Other intangible assets	20.5	15.2
Tangible assets	7.8	8.2
Total	**30.4**	**29.5**

Accounting principles

The depreciation and amortisation are recorded on a straight-line basis over the economic useful lives of the assets:

Intangible assets:

Allocations from business combinations 3–5 years
Other intangible assets 2–5 years

Tangible assets:

Buildings: 40 years
Machinery and equipment: 3–5 years
Other tangible assets: 10–40 years ■

2.4 Financial income and expenses

EUR million	2017	2016
Financial income		
Dividend income on available for sale investments	0.2	0.0
Interest income on loans and other receivables	0.7	0.9
Realised gains on available for sale investments		0.1
Other financial income on loans and other receivables	0.1	0.1
Financial income, total	**0.9**	**1.2**
Financial expenses		
Interest expenses on liabilities at amortised cost [1]	–4.5	–2.7
Other financial expenses on liabilities at amortised cost	–2.3	–1.1
Interest expenses on finance leases	–0.2	–0.1
Changes in fair values on financial instruments at fair value through profit and loss account [2]	0.1	–0.2
Financial expenses, total	**–6.9**	**–4.1**
Exchange rate gains	28.3	17.9
Exchange rate losses	–28.1	–17.6
Exchange rate differences, net	**0.2**	**0.2**
Financial expenses, net	**–5.7**	**–2.6**

[1] Interest expenses on liabilities at amortised cost include EUR 0.3 (0.3) million interest expenses on derivatives.

[2] Measurement of interest rate derivatives at fair value.

Accounting principles

Interest income and expenses are recognised using the effective interest method and dividend income when the right to receive payment is established. More detailed information about financial assets and interest-bearing liabilities can be found in note 5.4. ■

2.5 Income taxes

Income taxes in the income statement

EUR million	2017	2016
Tax expense for current year	2.4	4.4
Tax expense for previous years	–0.8	0.5
Change in deferred tax assets and liabilities	–5.8	–16.8
Total income taxes	**–4.2**	**–11.8**

The reconciliation between income taxes in the consolidated income statement and income taxes at the statutory tax rate in Finland 20.0% is as follows:

EUR million	2017	2016
Result before taxes	**–25.1**	**–43.5**
Income taxes at the tax rate in Finland (20.0%)	–5.0	–8.7
Effect of different tax rates outside Finland	–1.4	–3.1
Tax exempt income and non-deductible expenses	2.9	0.4
Net results of associated companies	0.0	0.0
Impact of the changes in the tax rates on deferred taxes [1]	–0.6	–0.4
Impact of losses for which deferred taxes is not recognised	0.3	0.0
Unrecognised losses from previous years	–0.1	
Reassessment of deferred taxes	0.5	0.8
Taxes for previous years	–0.8	–0.7
Income taxes in the income statement	**–4.2**	**–11.8**

[1] In 2017, the effect of the change of tax rate mainly in Norway from 24.0% to 23.0% in 2018. In 2016, the effect of the change of tax rate in Norway from 25.0% to 24.0% in 2017.

Accounting principles

Tax expenses in the income statement comprise current and deferred taxes. Taxes are recognised in the income statement except when they are associated with items recognised in other comprehensive income or directly in shareholders' equity. Current taxes are calculated on the taxable income on the basis of the tax rate stipulated for each country by the balance sheet date. Taxes are adjusted for the taxes of previous financial periods, if applicable. The management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The tax provisions recognised in such situations are based on evaluations by the management. Evaluating the total amount of income taxes at the Group level requires significant judgement, so the amount of total tax includes uncertainty. ■

2.6 Earnings per share

	2017	2016
Result for the financial year, EUR million	–20.9	–31.7
Hybrid capital expenses and accrued unrecognised interest after tax, EUR million	–2.8	
Adjusted result for the financial year, EUR million	**–23.7**	**–31.7**
Weighted average number of shares (1,000 shares)	125,084	125,084
Earnings per share, basic, EUR	**–0.19**	**–0.25**

Accounting principles

Earnings per share is calculated by dividing the result for the financial year attributable to the owners of the parent company (adjusted with the hybrid capital expenses and accrued unrecognised interest after tax) by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting number of shares to assume conversion of all diluting potential shares. There were no diluting effects in 2017 and 2016. ■

3 Working capital and deferred taxes

In this section

This section comprises the following notes describing Caverion's working capital and deferred taxes for 2017:

3.1 Inventories 30
3.2 Trade and other receivables . . 30
3.3 Trade and other payables 31
3.4 Provisions 32
3.5 Deferred tax assets and liabilities 32

EUR million	31.12.2017	31.12.2016
Inventories	17.6	30.7
Trade and POC receivables	597.1	622.7
Other current receivables	46.0	38.9
Trade and POC payables	–236.1	–239.7
Other current liabilities	–238.6	–262.5
Advances received	–179.9	–192.5
Working capital	**6.1**	**–2.6**

3.1 Inventories

EUR million	2017	2016
Raw materials and consumables	13.3	15.9
Work in progress	4.2	14.7
Advance payments	0.2	0.2
Total	**17.6**	**30.7**

The Group didn't make any write-downs of inventories during financial years 2017 and 2016.

Accounting principles

Inventories are stated at the lower of cost and net realisable value. The acquisition cost of materials and supplies is determined using the weighted average cost formula. The acquisition cost of work in progress comprises the value of materials, direct costs of labour, other direct costs and a systematic allocation of the variable manufacturing overheads and fixed overhead. The net realisable value is the estimated selling price in an orderly transaction less the estimated cost of completion and the estimated cost to make the sale. ■

3.2 Trade and other receivables

EUR million	2017 Carrying value	2016 Carrying value
Trade receivables	347.3	378.2
POC-receivables	249.7	244.4
Loan receivables	1.0	1.1
Prepayments and other accrued income	27.8	22.7
Other receivables	18.8	16.6
Total	**644.6**	**663.1**

Trade receivables average amount was EUR 315.1 (321.4) million in 2017. Group has not received collaterals.

Non-current receivables amounted to EUR 2.1 (3.3) million in 2017, out of which EUR 2.1 (2.1) million were defined benefit pension plan assets, EUR 0.0 (1.1) million loan receivables and EUR 0.0 (0.1) million other receivables.

Trade receivables aging profile

Age analysis of trade receivables December 31, 2017

EUR million	Carrying amount	Impaired	Gross
Not past due [1]	240.5	0.0	240.5
1 to 90 days	54.6	–0.8	55.4
91 to 180 days	6.0	–0.4	6.4
181 to 360 days	8.8	–1.1	9.9
Over 360 days	37.5	–3.9	41.4
Total	**347.3**	**–6.3**	**353.6**

Age analysis of trade receivables December 31, 2016

EUR million	Carrying amount	Impaired	Gross
Not past due [1]	272.4	–0.1	272.5
1 to 90 days	49.8	–0.2	50.1
91 to 180 days	9.0	–0.1	9.0
181 to 360 days	16.3	–1.6	17.9
Over 360 days	30.7	–4.5	35.3
Total	**378.2**	**–6.5**	**384.8**

[1] There are no material trade receivables that would be otherwise past due but whose terms have been renegotiated.

Operational credit risk of receivables

Caverion's operational credit risk arises from outstanding receivable balances and long term agreements with customers. Customer base and the nature of commercial contracts are different in each country, and local teams are responsible for ongoing monitoring of customer-specific credit risk. The exposure to credit risk is monitored on an ongoing basis.

The Group manages credit risk relating to operating items, for instance, by advance payments, upfront payment programs in projects, payment guarantees and careful assessment of the credit quality of the customer. Majority of the Caverion Group's operating activities are based on established, reliable customer relationships and generally adopted contractual terms. The payment terms of the invoices are mainly from 14 to 45 days. Credit background of new customers is assessed comprehensively and when necessary, guarantees are required and client's paying behavior is monitored actively. The Caverion Group does not have any significant concentrations of credit risk as the clientele is widespread and geographically spread into the countries in which the Group operates.

The credit losses and impairment of receivables were EUR 1.0 million in 2017 and EUR 1.9 million in 2016. The Group's maximum exposure to credit risk at the balance sheet date (December 31, 2017) is the carrying amount of the financial assets. There are EUR 46.3 (47.0) million overdue receivables, that are more than 180 days old. Majority of these receivables is related to disputed contracts. Receivables and related risk are monitored on regular basis and risk assessments are updated always when there are changes in circumstances. A receivable is impaired when payment is seen improbable.

Current receivables includes operative risk which is described in more detail in the Board of Directors' Report.

Accounting principles

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in 12 months or less, they are classified as current. If not, they are presented as non-current.

The Group recognises an impairment loss on receivables when there is objective evidence that payment is not expected to occur. Recognised impairment loss includes estimates and critical judgements. The estimates are based on historical credit losses, past practice of credit management, client specific analysis and economic conditions at the assessment date.

According to the Group's policy for trade receivables, a loss of 50% is recognised of doubtful receivables that are overdue more than 180 days and loss of 100% when receivables are overdue more than 360 days. If trade receivables overdue more than 180 days have collateral, scheme of payment or it is otherwise still collectable they should not be impaired. In these cases documentation supporting management judgement should be available.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

Due to the application of the percentage of completion method, part of a reliably estimated impairment losses are included in the cost estimate of the project and considered as weakened margin forecast. Therefore impairment losses of trade receivables in onerous projects are included in the loss reserve. ■

3.3 Trade and other payables

EUR million	2017 Carrying value	2016 Carrying value
Non-current liabilities		
Liabilities of derivative instruments	0.3	0.5
Other liabilities	0.1	0.1
Total non-current payables	**0.4**	**0.6**
Current liabilities		
Trade payables	215.5	214.1
Accrued expenses	127.4	150.5
Accrued expenses from long-term contracts	20.5	25.7
Advances received [1)]	179.9	192.5
Other payables	89.4	82.5
Total current payables	**632.7**	**665.3**

[1)] Advances received consist of advances received and invoiced advances.

Accounting principles

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within 12 months or less. If not, they are presented as non-current liabilities. ■

3.4 Provisions

EUR million	Warranty provision	Provisions for loss making projects	Restructuring provisions	Legal provisions	Other provisions	Total
January 1, 2017	**14.9**	**3.1**	**12.1**	**3.0**	**4.0**	**37.2**
Translation differences	–0.2	–0.1	–0.2	0.0		–0.4
Provision additions	3.2	5.5	6.2	0.9	1.9	17.7
Released during the period	–3.3	–5.6	–11.0	–1.1	–0.5	–21.5
Reversals of unused provisions	–0.1		–2.1	–0.7	–0.5	–3.4
Acquisitions through business combinations	0.1					0.1
Business disposals	–0.1	0.0			–0.1	–0.3
December 31, 2017	**14.6**	**2.8**	**5.0**	**2.1**	**4.9**	**29.4**
Non-current provisions	4.7		0.4		1.9	7.0
Current provisions	9.9	2.8	4.6	2.1	3.0	22.4
Total	**14.6**	**2.8**	**5.0**	**2.1**	**4.9**	**29.4**

EUR million	Warranty provision	Provisions for loss making projects	Restructuring provisions	Legal provisions	Other provisions	Total
January 1, 2016	**17.5**	**2.0**	**0.9**	**2.4**	**3.9**	**26.7**
Translation differences	0.0	0.0	–0.1	0.0		–0.1
Provision additions	4.0	2.9	15.0	1.3	2.8	26.1
Released during the period	–6.6	–1.8	–3.7	–0.4	–2.7	–15.2
Reversals of unused provisions	–0.1			–0.4		–0.5
Business disposals	0.2					0.2
December 31, 2016	**14.9**	**3.1**	**12.1**	**3.0**	**4.0**	**37.2**
Non-current provisions	4.4		0.5		2.2	7.1
Current provisions	10.5	3.1	11.6	3.0	1.9	30.1
Total	**14.9**	**3.1**	**12.1**	**3.0**	**4.0**	**37.2**

The recognition of provisions involves estimates concerning probability and quantity. As at December 31, 2017 the provisions amounted to EUR 29.4 (37.2) million.

Accounting principles

Provisions are recorded when the Group has a legal or constructive obligation on the basis of a past event, the realisation of the payment obligation is probable and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditure required to settle the obligation. If reimbursement for some or all of the obligations can be received from a third party, the reimbursement is recorded as a separate asset, but only when it is practically certain that said reimbursement will be received. Provisions are recognised for onerous contracts when the unavoidable costs required to meet obligations exceeds the benefits expected to be received under the contract. The amount of the warranty provision is set on the basis of experience of the realisation of these commitments.

Provisions for restructuring are recognised when the Caverion Group has made a detailed restructuring plan and initiated the implementation of the plan or has communicated it. ■

3.5 Deferred tax assets and liabilities

EUR million	2017	2016
Deferred tax asset	17.6	10.6
Deferred tax liability	–51.6	–51.1
Deferred tax liability, net	**–34.0**	**–40.5**
Changes in deferred tax assets and liabilities:		
Deferred tax liability, net January 1	–40.5	–56.4
Translation difference	1.0	–1.6
Changes recognised in income statement	5.8	16.5
Changes recognised in comprehensive income	0.0	1.3
Changes recognised in equity	0.2	
Acquisitions and allocations	–0.5	–0.4
Deferred tax liability, net December 31	**–34.0**	**–40.5**

Changes in deferred tax assets and liabilities before the offset

2017 EUR million	January 1	Translation difference	Recognised in the income statement	Recognised in compre-hensive income	Recognised in equity	Acquisitions and allocations	December 31
Deferred tax assets:							
Provisions	4.8	–0.1	–0.9				3.8
Tax losses carried forward	15.0	–0.2	11.2				26.0
Pension obligations	8.0	–0.1	–0.2	0.0			7.7
Other items	3.7	–0.2	–1.6		0.2	0.0	2.1
Total deferred tax assets	**31.5**	**–0.6**	**8.5**	**0.0**	**0.2**	**0.0**	**39.6**
Deferred tax liabilities:							
Allocation of intangible assets [1]	33.7	–1.1	–0.4			0.5	32.7
Accumulated depreciation differences	2.3	0.0	0.8				3.1
Pension obligations	0.4		0.0				0.4
Percentage of completion method	34.7	–0.4	2.0				36.3
Other items	0.8		0.4				1.2
Total deferred tax liabilities	**71.9**	**–1.5**	**2.8**			**0.5**	**73.7**

2016 EUR million	January 1	Translation difference	Recognised in the income statement	Recognised in compre-hensive income	Recognised in equity	Acquisitions and allocations	December 31
Deferred tax assets:							
Provisions	4.6	0.1	0.1	0.0			4.8
Tax losses carried forward	6.5	0.0	8.5				15.0
Pension obligations	7.0	–0.2	0.1	1.2			8.0
Other items	2.9	–0.3	0.9	0.1		0.1	3.7
Total deferred tax assets	**21.0**	**–0.5**	**9.5**	**1.3**		**0.1**	**31.5**
Deferred tax liabilities:							
Allocation of intangible assets [1]	34.6	0.8	–1.8				33.7
Accumulated depreciation differences	7.1	–0.1	–4.6				2.3
Pension obligations	0.4	0.0	0.0				0.4
Percentage of completion method	33.0	0.4	1.3				34.7
Other items	2.3	0.0	–1.9	0.0		0.4	0.8
Total deferred tax liabilities	**77.5**	**1.1**	**–7.1**	**0.0**		**0.4**	**71.9**

[1] Capitalisation of intangible assets include besides capitalisation of intangible assets, the deductible amount of the deferred taxes of goodwill from the separate entities.

No deferred tax asset of EUR 0.7 (2.3) million has been recognized on accumulated losses, of which some part is not approved by tax authorities in 2017.

Accounting principles

Deferred taxes are calculated on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred taxes are calculated on goodwill impairment that is not deductible in taxation and no deferred taxes are recognised on the undistributed profits of subsidiaries to the extent that the difference is unlikely to be reverse in the foreseeable future. Deferred taxes have been calculated using the statutory tax rates or the tax rates substantively enacted by the balance sheet date. Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

The most significant temporary differences arise from differences between the recognised revenue from long-term contracts using the percentage of completion method and taxable income, depreciation differences relating to property, plant and equipment, defined benefit pension plans, provisions deductible at a later date, measurement at fair value in connection with business combinations and unused tax losses.

The deferred tax assets on the taxable losses will be booked to the extent the benefit is expected to be able to deduct from the taxable profit in the future. Deferred tax liability on undistributed earnings of subsidiaries, where the tax will be paid on the distribution of earnings, has not been recognized in the statement of financial position, because distribution of the earnings is in the control of the Group and it is not probable in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. ■

4 Business combinations and capital expenditure

In this section

This section comprises the following notes, which describe Caverion's business combinations and capital expenditure in 2017:

4.1 Acquisitions and disposals . . . 35

4.2 Goodwill. 36

4.3 Tangible and intangible assets 38

4.1 Acquisitions and disposals

Acquisitions

Assets and liabilities of the acquired businesses

EUR million	2017	2016
Intangible assets	3.2	2.7
Tangible assets	0.4	0.2
Inventories	0.4	2.6
Trade and other receivables	0.4	1.9
Deferred tax assets	0.0	0.1
Cash and cash equivalents	0.5	1.2
Total assets	**4.9**	**8.6**
Interest-bearing debts		3.3
Pension liabilities		0.2
Provisions	0.2	0.0
Deferred tax liabilities	0.5	0.6
Other liabilities	1.0	3.2
Total liabilities	**1.7**	**7.2**
Net assets	**3.2**	**1.4**
Acquisition cost paid in cash	**2.9**	**5.5**
Contingent consideration	**0.4**	
Goodwill	**0.1**	**4.1**

Caverion made three acquisitions in 2017. In Finland, Caverion and Enegia made a partnership agreement on providing energy efficiency services and entered into an asset deal covering remote property management. In the transaction, Enegia's remote management business and the associated personnel were transferred to Caverion Finland on November 1, 2017. After the transaction, Caverion manages remotely a total of over 4,000 properties across Finland, making Caverion Finland's largest service company providing remote property management. The value of the asset deal was not disclosed. During the period, Caverion completed also two small acquisitions in Austria. In July, Caverion signed an asset transfer agreement with AE Ausserwöger Elektrotechnik GmbH on the acquisition of its electrical business. The business transferred had revenue of approximately EUR 2 million and 19 employees in 2016. In August Caverion acquired all shares in Weiss Anlagen Technik GmbH, a cleanroom technology company with revenue of approximately EUR 3 million and 15 employees in 2016. The transaction prices were not published.

Disposals

Assets and liabilities of the disposed businesses

EUR million	2017
Goodwill	8.3
Tangible assets	1.6
Inventories	1.2
Trade and other receivables	5.1
Deferred tax assets	
Cash and cash equivalents	
Total assets	**16.2**
Interest-bearing debts	
Pension liabilities	0.4
Provisions	0.3
Deferred tax liabilities	
Other liabilities	5.9
Total liabilities	**6.6**
Net assets	**9.6**
Consideration paid in cash	**23.1**
Contingent consideration	**–1.2**
Gain on sales	**12.3**

Caverion signed on November 27, 2017 an agreement to sell its product business under the Krantz brand in Germany to STEAG Energy Services GmbH. The sale became effective on December 31, 2017. As a part of Caverion Germany, Krantz employed 227 people and its revenue was approximately EUR 41 million in 2017. The capital gain from the divestment is reported under other operating income for the period and it amounted to EUR 12.3 million.

4.2 Goodwill

Goodwill is allocated to the cash generating units (CGU) as follows:

EUR million	2017	2016
Finland	72.4	72.3
Sweden	41.8	36.6
Norway	69.7	69.7
Denmark	7.6	7.6
Industrial Solutions	41.8	47.0
Germany	77.7	86.0
Austria	18.3	18.3
Poland	2.4	2.4
Total goodwill	**331.6**	**339.8**

During the financial year EUR 0.1 million goodwill related to Enegia acquisition and EUR 8.3 million related to Krantz business disposal has been recorded. In addition, Swedish Industrial Solutions business has been transferred from Industrial Solutions to division Sweden and as a part of this transfer also related goodwill, amounting to EUR 5.2 million, has been transferred.

Goodwill is reviewed for potential impairment whenever there is an indication that the current value may be impaired, or at least annually. Impairment testing of goodwill is carried out by allocating goodwill to the lowest cash generating unit level (CGU) which generates independent cash flows. The recoverable amounts of the cash generating units (CGU) are determined on the basis of value-in-use calculations. The future cash flow projections are based on the budget approved by the top management and the Board of Directors and other long-term financial plans. Cash flow projections cover three years, the terminal value is defined by extrapolating it on the basis of average development during the forecasted planning horizon. Cash flows beyond the forecast period are projected by using 1 percent long-term growth rate, that is based on a prudent estimate about the long-term growth rate. In 2016, the estimated growth rate was 1.5 (Poland 2) percent. Future growth estimates are based on the former experience and information available by external market research institutions on market development.

The discount rate used in the impairment testing is weighted average pre-tax cost of capital (WACC). The discount rate reflects the total cost of equity and debt and the market risks related to the segment. The WACC components are risk-free interest rate, market risk premium, comparable peer industry beta, gearing and credit spread. In 2017, the WACC range was between 7.4%–8.2% (2016: 7.5%–8.7%).

In 2016, Austria and Czech were combined to one single CGU (Austria). This is based to the fact that both entities have a common management and that Czech entity is in practise one of regions in division Austria.

Impairment testing

The goodwill test results are evaluated by comparing the recoverable amount (E) with the carrying value of the CGU assets (T), as follows:

	Ratio			Estimate
E		<	T	Impairment
E	0–20%	>	T	Slightly above
E	20–50%	>	T	Clearly above
E	50%–	>	T	Substantially above

As a result of the impairment tests performed no impairment loss has been recognised in 2017 or in 2016. In all CGUs the recoverable amount exceeded carrying value substantially.

Key assumptions used in sensitivity analyses for the recoverable cash flows are changes in discount rate, revenue and profitability as well as in terminal growth rate. Changes in these assumptions lead to impairment risk as follows:

Key assumptions in sensitivity analyses	Impairment risk in CGU's
Revenue –10% and EBIT –1 ppt	Germany
WACC + 2 ppt	Germany
Residual growth rate –0.5 ppt	–
All of the above	Germany
	Industrial Solutions

Accounting principles

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets of the acquiree and the fair value of the non-controlling interest in the acquiree on the date of acquisition. The net identifiable assets include the assets acquired and the liabilities assumed as well as the contingent liabilities. The consideration transferred is measured at fair value.

Impairment testing

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to cash-generating units. Goodwill is measured at the original acquisition cost less impairment. Impairment is expensed immediately in the income statement and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed of.

Goodwill is tested for any impairment annually in accordance with the accounting policy. Impairment losses on goodwill are never reversed. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The cash flows in the value-in-use calculations are based on the management's best estimate of market development for the subsequent years. The discount rate may be increased with a branch specific risk factor.

The recoverable amounts have been assessed in relation to different time periods and the sensitivity has been analysed for the changes of the discount rate, profitability and terminal growth rate. ■

4.3 Tangible and intangible assets

Property, plant and equipment

2017 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets [1]	Advance payments	Total
Historical cost at January 1, 2017	**1.0**	**15.2**	**66.6**	**22.7**	**2.3**	**107.8**
Translation differences	0.0	0.0	–1.3	–0.3	0.0	–1.6
Increases		0.2	3.1	1.2	0.5	4.9
Acquisitions		0.0	0.5			0.5
Decreases		0.0	–2.5	–3.0	0.0	–5.5
Business disposals			–1.1	–2.7		–3.8
Reclassifications between classes			0.5	0.1	–2.4	–1.8
Historical cost at December 31, 2017	**1.0**	**15.4**	**65.8**	**18.1**	**0.3**	**100.5**
Accumulated depreciation and impairment at January 1, 2017		**–11.2**	**–51.8**	**–16.5**		**–79.5**
Translation differences		0.0	1.0	0.2		1.2
Depreciation		–0.4	–5.1	–2.3		–7.8
Accumulated depreciation of increases and acquisitions			–0.1			–0.1
Accumulated depreciation of decreases and business disposals		0.0	3.0	4.5		7.5
Accumulated depreciation and impairment at December 31, 2017		**–11.6**	**–53.0**	**–14.0**		**–78.6**
Carrying value January 1, 2017	1.0	4.0	14.8	6.2	2.3	28.3
Carrying value December 31, 2017	1.0	3.8	12.8	4.0	0.3	21.9

2016 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets [1]	Advance payments	Total
Historical cost at January 1, 2016	**1.0**	**15.1**	**64.7**	**20.8**	**2.1**	**103.8**
Translation differences	0.0	0.0	0.8	0.3	0.0	1.1
Increases	0.0	0.1	5.9	2.0	1.9	9.9
Acquisitions			0.4		0.0	0.4
Decreases			–6.0	–0.4	0.0	–6.5
Business disposals			0.0	0.0	0.0	0.0
Reclassifications between classes		0.0	0.8	0.0	–1.8	–1.0
Historical cost at December 31, 2016	**1.0**	**15.2**	**66.6**	**22.7**	**2.3**	**107.8**
Accumulated depreciation and impairment at January 1, 2016		**–10.7**	**–51.7**	**–13.9**		**–76.3**
Translation differences		0.0	–0.8	–0.2		–1.0
Depreciation		–0.4	–5.0	–2.8		–8.2
Accumulated depreciation of decreases		0.0	5.6	0.4		6.0
Accumulated depreciation and impairment at December 31, 2016		**–11.2**	**–51.8**	**–16.5**		**–79.5**
Carrying value January 1, 2016	1.0	4.4	13.0	7.0	2.1	27.4
Carrying value December 31, 2016	1.0	4.0	14.8	6.2	2.3	28.3

[1] Other tangible assets include, among other things, leasehold improvement costs.

Carrying value of finance lease assets amounting to EUR 1.0 (1.2) million is included in the carrying amount of machinery and equipment.

Accounting principles

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the cost over their estimated useful lives.

The residual values and useful lives of assets are reviewed at the end of each reporting period. If necessary, they are adjusted to reflect the changes in expected economic benefits. Capital gains or losses on the disposal of property, plant and equipment are included in other operating income or expenses. ■

Intangible assets

2017 EUR million	Goodwill	Allocations from business combinations	Other intangible assets	Total other intangible assets
Historical cost at January 1, 2017	**340.7**	**60.5**	**86.9**	**147.4**
Increases			13.3	13.3
Acquisitions	0.1	3.2	0.0	3.2
Decreases		–1.6	–2.5	–4.1
Business disposals	–8.3			
Reclassifications between classes			1.8	1.8
Translation differences		–0.7	–0.9	–1.6
Historical cost at December 31, 2017	**332.5**	**61.4**	**98.6**	**160.0**
Accumulated amortisation and impairment at January 1, 2017	**–0.9**	**–53.5**	**–40.9**	**–94.4**
Amortisation and impairment		–2.0	–20.5	–22.5
Translation differences		0.6	0.6	1.2
Accumulated amortisation of increases and acquisitions			0.0	0.0
Accumulated amortisation of decreases and reclassifications		1.6	0.8	2.4
Accumulated amortisation and impairment at December 31, 2017	**–0.9**	**–53.3**	**–60.1**	**–113.3**
Carrying value January 1, 2017	339.8	7.0	46.0	53.0
Carrying value December 31, 2017	331.6	8.1	38.5	46.7

2016 EUR million	Goodwill	Allocations from business combinations	Other intangible assets	Total other intangible assets
Historical cost at January 1, 2016	**336.6**	**71.0**	**62.8**	**133.9**
Increases			23.4	23.4
Acquisitions	4.1	2.7	0.1	2.8
Decreases		–12.9	–0.6	–13.5
Reclassifications between classes		0.0	1.0	1.0
Translation differences		–0.3	0.2	–0.1
Historical cost at December 31, 2016	**340.7**	**60.5**	**86.9**	**147.4**
Accumulated amortisation and impairment at January 1, 2016	**–0.9**	**–60.6**	**–25.8**	**–86.4**
Amortisation and impairment		–6.1	–15.2	–21.3
Translation differences		0.2	–0.1	0.1
Accumulated amortisation of decreases and reclassifications		12.9	0.2	13.2
Accumulated amortisation and impairment at December 31, 2016	**–0.9**	**–53.5**	**–40.9**	**–94.4**
Carrying value January 1, 2016	335.7	10.5	37.0	47.5
Carrying value December 31, 2016	339.8	7.0	46.0	53.0

Allocations from business combinations:	2017	2016
Customer relations and contract bases	4.2	3.3
Order backlog	3.6	3.7
Prohibition of competition clause	0.2	
Total	**8.1**	**7.0**

Accounting principles

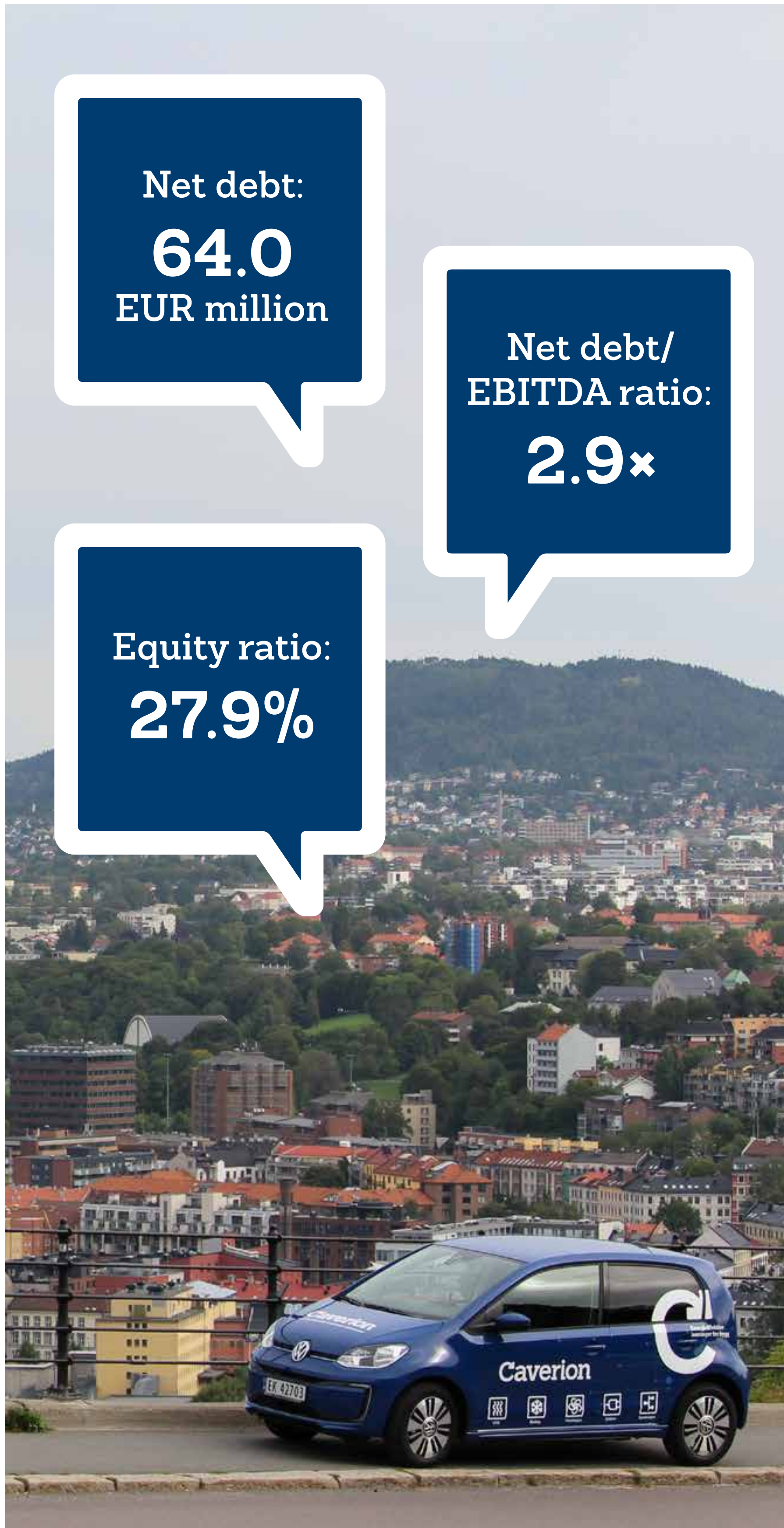
An intangible asset is initially recognised in the balance sheet at acquisition cost when the acquisition cost can be reliably determined and the economic benefits are expected to flow from the asset to the Group. Intangible assets with a known or estimated limited useful life are expensed in the income statement on a straight-line basis over their useful life.

Other intangible assets acquired in connection with business acquisitions are recognised separately from goodwill if they meet the definition of an asset: they are separable or are based on contractual or other legal rights. Intangible assets recognised in connection with business acquisitions include e.g. the value of customer agreements and associated customer relationships, prohibition of competition agreements and the value of acquired technology. The value of customer agreements and associated customer relationships is determined using the cash flows estimated according to the durability and duration of the assumed customer relations.

Impairment of tangible and intangible assets

At each closing date, Group evaluates whether there is an indication that an asset may be impaired. If any such indication exists, the recoverable amount of said asset is estimated. In addition, the recoverable amount is assessed annually for each of the following assets regardless of whether there is any indication of impairment: goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use. The need for impairment is assessed at the level of cash-generating units.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the value in use. The value in use is determined based on the discounted future net cash flows estimated to be recoverable from the assets in question or cash-generating units. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of the asset is higher than its recoverable amount. The impairment loss is recognised immediately in the income statement and is initially allocated to the goodwill allocated to the cash-generating unit and thereafter to other assets pro rata on the basis of their carrying amounts. An impairment loss is reversed when the circumstances change and the amount recoverable from the asset has changed since the date when the impairment loss was recorded. However, impairment losses are not reversed beyond the carrying amount of the asset that would have been determined had no impairment loss been recognised in prior years. Impairment losses on goodwill are never reversed. ■



5 Capital structure

In this section

This section comprises the following notes describing Caverion's capital structure for 2017:

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5.1 Capital management

The objective of capital management in Caverion Group is to maintain an optimal capital structure, maximise the return on the respective capital employed and to minimise the cost of capital within the limits and principles stated in the Treasury Policy. The capital structure is modified primarily by directing investments and working capital employed.

Caverion's business model is asset light and typically requires little investments. Caverion's targeted operational capex level (excluding acquisitions) should not exceed 1 percent of revenue. Acquisitions are only allowed for divisions performing well and in areas where adding complementing capabilities or assets to existing footprint especially in Services. Caverion aims to 100 per cent cash conversion (operating cash flow before financial and tax items/EBITDA) to ensure healthy cash flow.

Caverion's management evaluates and monitors continuously the amount of funding required in the Group's business activities to ensure it has adequate liquid funds to finance its operations, repay its loans at maturity and pay annual dividends. The funding requirements have been evaluated based on annual budget, monthly financial forecast and short-term, timely cash planning. The Caverion's Group Treasury is responsible for maintaining sufficient funding, availability of different funding sources and controlled maturity profile of external loans. Caverion targets a net debt to EBITDA ratio of less than 2.5 times.

Cash management and funding is centralised in the Caverion's Group Treasury. With a centralised cash management, the use of liquid funds can be optimised between different units of the Group.

Caverion's aim is to distribute at least 50% of the result for the year after taxes, however, taking profitability and leverage level into account.

Capital

EUR million	2017	2016
Share capital	1.0	1.0
Hybrid capital	100.0	
Other equity	161.4	183.6
Equity attributable to owners of the parent company	**262.4**	**184.6**
Non-controlling interest	0.4	0.4
Total equity	**262.7**	**185.0**
Non-current borrowings	57.7	127.6
Current borrowings	35.5	65.7
Total interest-bearing debt	**93.2**	**193.3**
Total capital	**355.9**	**378.2**
Total interest-bearing debt	93.2	193.3
Cash and cash equivalents	29.2	47.7
Net debt	**64.0**	**145.5**
Net debt to EBITDA [1)]	2.9	2.8
Gearing ratio, %	24.4	78.7
Equity ratio, %	27.9	18.7

[1)] The Net Debt to EBITDA has been calculated according to confirmed calculation principles with lending parties.

5.2 Shareholders' equity

Share capital and treasury shares

	Number of outstanding shares	Share capital EUR million	Treasury shares EUR million
Jan 1, 2017	**125,083,764**	**1.0**	**–3.2**
Transfer of treasury shares			
Return of treasury shares			
Dec 31, 2017	**125,083,764**	**1.0**	**–3.2**
Jan 1, 2016	**125,084,001**	**1.0**	**–3.2**
Transfer of treasury shares			
Return of treasury shares	–237		
Dec 31, 2016	**125,083,764**	**1.0**	**–3.2**

The total number of Caverion Corporation's shares was 125,596,092 and the share capital amounted to EUR 1.0 million on December 31, 2017.

All the issued and subscribed shares have been fully paid to the company. Shares do not have a nominal value.

Treasury shares

Caverion held 512,328 treasury shares throughout the whole financial year 2017.

The consideration paid for the treasury shares amounted to EUR 3.2 million on Dec 31, 2017 and is disclosed as a separate fund in equity. The consideration paid on treasury shares decreases the distributable equity of Caverion Corporation. Caverion Corporation holds the own shares as treasury shares and has the right to return them to the market in the future.

Translation differences

Translation differences include the exchange rate differences recognised in group consolidation. In addition, the portion of the gains and losses of effective hedges on the net investment in foreign subsidiaries, which are hedged with currency forwards, is recognised in equity. There were no hedges of a net investment in a foreign operation in years 2017 and 2016.

Fair value reserve

Fair value reserve includes movements in the fair value of the available-for-sale financial assets and the derivative instruments used for cash flow hedging.

Hybrid capital

On June 9, 2017 Caverion Corporation issued a EUR 100 million hybrid bond, an instrument subordinated to the company's other debt obligations and treated as equity in the IFRS financial statements. Interest payment can be postponed, if Caverion does not distribute dividends or any other equity to its shareholders. The hybrid bond does not confer to its holders the rights of a shareholder and does not dilute the holdings of current shareholders. The coupon of the hybrid bond is 4.625 per cent per annum until June 16, 2020. The hybrid bond does not have a maturity date but the issuer is entitled to redeem the hybrid for the first time on June 16, 2020, and subsequently, on each coupon interest payment date. If the hybrid bond is not redeemed on June 16, 2020, there will be a step-up of 500 basis points in the coupon. The accrued unrecognised interest on the bond was EUR 2.5 million at 31 December 2017.

The interest from the hybrid bond must be paid to the investors if Caverion Corporation pays dividends. If dividends are not paid, a separate decision regarding interest payment on the hybrid bond will be made. The hybrid bond is initially recognised at fair value less transaction costs and subsequently the bond is measured at cost. If interest is paid to the hybrid bond, it is debited directly to equity, net of any related income tax benefit.

According to IAS 33, interest accrued in local books has been taken into account as an expense in earnings per share calculation as described in Calculation of key figures.

Dividends

The Annual General Meeting, held on March 17, 2017, decided that no dividend was to be paid for the financial year 2016.

The Board of Directors proposes to the Annual General Meeting to be held on March 26, 2018 that no dividend will be paid for the financial year 2017.

5.3 Change in net debt

Net debt is defined as the total of interest-bearing liabilities less cash and cash equivalents.

This section sets out an analysis of net debt and the movements in net debt for each of the period presented. This is the new requirement according to IAS 7 starting from 1 January 2017 and due to that comparative information is not presented.

	Liabilities from financing activities				
EUR million	Non-current borrowings including repayments	Finance leases	Current loans	Cash and cash equivalents	Net debt
Net debt as at 1 January 2017	**154.1**	**4.1**	**35.0**	**47.7**	**145.5**
Change in net debt. cash:					
Proceeds from non-current borrowings					
Repayment of non-current borrowings	–68.7	–1.6			
Change in current liabilities			–30.0		
Change in cash and cash equivalents				–13.9	
Change in net debt, non-cash:					
Foreign exchange adjustments [1)]		–0.1		–4.6	
Other non-cash changes	0.3				
Net debt as at 31 December 2017	**85.7**	**2.5**	**5.0**	**29.2**	**64.0**

[1)] The cash flow statements of foreign subsidiaries are translated into euro using the financial year's average foreign currency exchange rates, and the cash and cash equivalent are translated using the exchange rates quoted on the balance sheet date.

5.4 Financial assets and liabilities by category

2017 EUR million	Available for sale investments	Loans and other receivables	Held for trading	Derivatives in hedge accounting	Finance liabilities	Carrying value
Valuation	Fair value	Measured at amortised cost	Fair value	Fair value	Measured at amortised cost	
Non-current financial assets						
Available for sale investments	1.2					1.2
Trade receivables and other receivables		0.1				0.1
Current financial assets						
Trade receivables and other receivables		616.5				616.5
Derivatives (hedge accounting not applied)			0.3			0.3
Cash and cash equivalents		29.2				29.2
Total	**1.2**	**645.8**	**0.3**			**647.3**
Non-current financial liabilities						
Loans from financial institutions					49.9	49.9
Pension loans					6.7	6.7
Other loans					0.5	0.5
Finance lease liabilities					0.6	0.6
Total non-current interest-bearing liabilities					**57.7**	**57.7**
Trade payables and other liabilities					0.1	0.1
Derivatives (hedge accounting not applied)			0.3			0.3
Current financial liabilities						
Loans from financial institutions					20.0	20.0
Commercial papers					5.0	5.0
Pension loans					8.7	8.7
Finance lease liabilities					1.9	1.9
Total current interest-bearing liabilities					**35.5**	**35.5**
Trade payables and other liabilities					484.8	484.8
Derivatives (hedge accounting not applied)			0.2			0.2
Total			**0.4**		**578.1**	**578.6**

2016 EUR million	Available for sale investments	Loans and other receivables	Held for trading	Derivatives in hedge accounting	Finance liabilities	Carrying value
Valuation	Fair value	Measured at amortised cost	Fair value	Fair value	Measured at amortised cost	
Non-current financial assets						
Available for sale investments	1.2					1.2
Trade receivables and other receivables		1.2				1.2
Current financial assets						
Trade receivables and other receivables		640.4				640.4
Derivatives (hedge accounting not applied)			0.2			0.2
Cash and cash equivalents		47.7				47.7
Total	**1.2**	**689.3**	**0.2**			**690.7**
Non-current financial liabilities						
Loans from financial institutions					109.6	109.6
Pension loans					15.3	15.3
Other loans					0.5	0.5
Finance lease liabilities					2.1	2.1
Total non-current interest-bearing liabilities					**127.6**	**127.6**
Trade payables and other liabilities					0.1	0.1
Derivatives (hedge accounting not applied)			0.5			0.5
Current financial liabilities						
Loans from financial institutions					20.0	20.0
Commercial papers					35.0	35.0
Pension loans					8.7	8.7
Other loans					0.0	0.0
Finance lease liabilities					2.1	2.1
Total current interest-bearing liabilities					**65.7**	**65.7**
Trade payables and other liabilities					489.1	489.1
Derivatives (hedge accounting not applied)			0.3			0.3
Total			**0.8**		**682.5**	**683.3**

The carrying amount of financial assets and liabilities except for non-current loans approximate their fair value. The fair value of non-current loans amounted to EUR 58.3 (128.9) million at the end of 2017. The fair values of non-current loans are based on discounted cash flows and are categorised within level 2 of the fair value hierarchy. Discount rate is defined to be the rate that Group was to pay for an equivalent external loan at the year-end. It consists of a risk-free market rate and company and maturity related risk premium of 1.50%–2.71% p.a (1.00%–2.60% in 2016).

Available for sale investments consist of as follows:	2017	2016
Quoted shares (Level 1 in fair value hierarchy)	0.7	0.7
Unquoted shares (Level 3 in fair value hierarchy)	0.5	0.5
Total	**1.2**	**1.2**

Fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily funds and OMXH equity investments classified as available for sale. The available-for-sale investments categorised in Level 3 are non-listed equity instruments and they are measured at acquisition cost less any impairment or prices obtained from a broker as their fair value cannot be measured reliably.

Accounting principles

FINANCIAL ASSETS

Classification and measurement

The financial assets are classified at initial recognition into the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the basis of the purpose for which they have been acquired.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets or derivatives held for trading that do not meet the criteria for hedge accounting. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives and other financial assets at fair value through profit and loss are initially measured at fair value, and transaction costs are expensed in the income statement. Subsequent to initial recognition, they are measured at fair value. Assets in this category are classified as non-current assets (Receivables) if expected to be settled after and current assets (Trade and other receivables) if expected to be settled within 12 months.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current. These assets are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method less any impairment. The group's loans and receivables comprise loans receivables, trade receivables, cash and cash equivalents and other receivables.

Cash and cash equivalents include cash in hand, bank deposits withdrawable on demand and liquid short-term investments with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These assets are initially recognised at fair value, plus any transaction costs. Subsequent to initial recognition, they are carried at fair value. They are non-current financial assets as Group intends not to dispose of them within the 12 months.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date which is the date on which the Caverion Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Caverion Group has transferred substantially all risk and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within finance income and expenses in the period in which they arise. Interest income from loans and receivables are presented in the income statement within finance income in the period in which they arise. Dividend income from financial assets is recognised in the income statement as part of financial income when the Caverion Group's right to receive payments is established.

Changes in the fair value of available for sale investments are recognised in other comprehensive income and are presented in the fair value reserves under shareholders' equity, net of tax. When investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement within financial income or expenses.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

IMPAIRMENT OF FINANCIAL ASSETS

Assets carried at amortised costs

The Caverion Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset ("a loss event"). That loss event must impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired includes: default or delinquency in interest or principal payments, significant financial difficulty, restructuring of an amount due to the Caverion Group, indications that a debtor will enter bankruptcy or other financial reorganisation, observable data indicating that there is measurable decrease in expected cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement within other operating expenses and reflected in an allowance account. The Caverion Group considers evidence of impairment at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

Risks related to trade and other operative receivables are described in note 3.2.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

Assets classified as available for sale

For investments classified as available for sale. a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income

statement. Impairment losses recognised initially in the income statement on investments are not reversed through the income statement.

Financial liabilities

Borrowings are recorded on the settlement date and initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost and any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Other borrowing costs are expensed in the period during which they are incurred. Fees paid on the establishment of loan facilities are recognised as expenses over the period of the facility to which it relates. Borrowings are derecognised when its contractual obligations are discharged or cancelled, or expire. Borrowings are classified as current liabilities if payment is due within 12 months or less. If not, they are presented as non-current. ■

5.5 Financial risk management

Caverion Group is exposed in its business operations to liquidity risk, credit risk, foreign exchange risk and interest rate risk. The objective of Caverion's financial risk management is to minimise the uncertainty which the changes in financial markets cause to its financial performance.

Risk management is carried out by Caverion Group Treasury in co-operation with divisions under policies approved by the Board of Directors of Caverion Group. Financing activities are carried out by finance personnel and management in the divisions and subsidiaries. Responsibilities in between the Group Treasury and divisions are defined in the Group's treasury policy. Divisions are responsible for providing the Group Treasury timely and accurate information on financial position, cash flows and foreign exchange position in order to ensure the Group's efficient cash and liquidity management, funding and risk management. In addition, the Group's treasury policy defines main principles and methods for financial risk management, cash management and specific financing-related areas e.g. commercial guarantees, relationships with financiers and customer financing.

Interest rate risk

Caverion has interest-bearing receivables in its cash and cash equivalents but otherwise its revenues and cash flows from operating activities are mostly independent of changes in market interest rates.

Caverion's exposure to cash flow interest rate risk arises mainly from current and non-current loans and related interest rate derivatives. Borrowing issued at floating interest rates expose Caverion to cash flow interest rate risk, which is hedged by interest rate derivatives. To manage the interest rate risk, the Board of Directors of the Caverion Group has defined an average interest rate fixing term target for the Group's net debt (excluding cash). At the reporting date the average interest rate fixing term of net debt (excluding cash) was 5.4 months.

Interest rate derivatives are used to hedge the re-pricing risk of floating-rate loans. Nominal hedged amount is EUR 50 (70) million and its reference interest rate is 6 month Euribor. The hedged cash flows will realise within three subsequent reporting periods (note 5.6). Hedge accounting under IAS 39 for these interest rate swaps ceased to meet hedge effectiveness criteria and hedge accounting was discontinued during the financial year 2016. The fair value of interest rate swap agreements is derived from the discounted future cash flows. Fair values of derivatives are recognised in the income statement within financial income and expenses according to accounting policies in 2016–2017.

The weighted average effective interest rate of the whole loan portfolio after hedges was 2.53% (1.91%) at the end of December 2017. Interest rate derivatives increase the average effective interest rate of the loan portfolio by 0.27 (0.16) percentage points at the end of December 2017. Fixed-rate loans after hedges accounted for approximately 20 percent of the Group's borrowings.

In addition, to the targeted average interest rate fixing term of net debt the Caverion Group management monitors monthly the effect of the possible change in interest rate level on the Caverion Group's financial result. The monitored number is the effect of one percentage point rise in interest rate level on yearly net interest expenses.

Interest rate risk sensitivity

	Result before taxes	
EUR million	2017	2016
Interest rate of net debt 1 percentage point higher	–0.2	–0.6
The effect of fair valuation of interest rate derivatives for which hedge accounting is not applied, when interest rates rise by 1 percentage point	0.7	1.3

Net debt includes interest-bearing liabilities and cash and cash equivalents. Sensitivities are calculated based on the situation at the balance sheet date.

Financial counterparty risk

The financial instruments the group has agreed with banks and financial institutions contain a risk of the counterparty being unable to meet their obligations. The Group Treasury is responsible for the counterparty risk of derivative instruments and financial investment products.

Counterparties to the financial instruments are chosen based on the Caverion Group management's estimate on their reliability. Board of Directors of the Caverion Group accepts the main banks used by the Caverion Group and counterparties to derivative instruments. CFO accepts counterparties to short-term investments. Short-term investments related to liquidity management are made according to the Caverion's treasury policy. No impairment has been recognised on derivative instruments or investment products in the reporting period. The Caverion Group's management does not expect any credit losses from non-performance by counterparties to investment products or derivative instruments.

As a result of partial demerger of YIT Corporation registered on 30 June 2013, a secondary liability has been generated to Caverion Corporation, a new company established in the partial demerger, for those liabilities that have been generated before the registration of the demerger and remain with YIT Corporation after the demerger. Caverion Corporation has a secondary liability relating to the Group guarantees that remain with YIT Corporation after the demerger, if YIT Corporation falls into default. These Group

guarantees amounted to EUR 60.9 (266.8) million at the end of December 2017.

Refinancing and liquidity risk

Refinancing risk is defined as a risk that funds are not available or the costs of refinancing maturing debt is high at the time a debt needs to be refinanced. The objective of liquidity risk management is to maintain a sufficient liquidity reserve in all situations. Liquidity and refinancing risk is managed by diversifying the maturities of external loans and monitoring the proportion of short-term debt (maturing in less than one year's time) and the long-term liquidity forecast for the Group. The Group shall always have liquidity reserve available to meet the need for debt repayments falling due during the calendar year and to cover the potential funding need over the planning period of business operations including planned capital expenditure. Adequate liquidity is maintained by keeping sufficient amount of unused committed credit facilities as a reserve.

Caverion Group's interest-bearing loans and borrowings amounted to 93.2 (193.3) million at the end of December. A total of EUR 35.5 million of the interest-bearing loans and borrowings will fall due during the next 12 months. Approximately 75 percent of the loans have been raised from banks and other financial institutions, approximately 5 percent directly from the money markets, and approximately 17 percent from insurance companies.

On June 9, 2017 Caverion Corporation issued a EUR 100 million hybrid bond, an instrument subordinated to the company's other debt obligations and treated as equity in the IFRS financial statements. The hybrid bond does not confer to its holders the rights of a shareholder and does not dilute the holdings of current shareholders. The coupon of the hybrid bond is 4.625 per cent per annum until June 16, 2020. The hybrid bond does not have a maturity date but the issuer is entitled to redeem the hybrid for the first time on June 16, 2020, and subsequently, on each coupon interest payment date. If the hybrid bond is not redeemed on June 16, 2020, there will be a step-up of 500 basis points in the coupon. The hybrid bond strengthened Caverion Group's capital structure and financial position. At the end of December, the Group's gearing was 24.4 (78.7) percent and equity ratio 27.9 (18.7) percent.

Caverion's external loans are subject to a financial covenant based on the ratio of the Group's net debt to EBITDA. Caverion and its core banks agreed on changes in the loan documentation in connection with the hybrid transaction in June. The project write-downs made in 2017 burdened the company's EBITDA and the financial covenant level in 2017. Caverion concluded amendments with its lending parties related to the maximum level of the financial covenant and confirmed the EBITDA calculation principles related to the Group's financial covenant in 2017. In December, it was agreed with the core banks that the covenant maximum level is not tested at the end of December 2017. Financial covenant shall not exceed 3.5:1 after the end of December 2017. At the end of December, the Group's Net debt to EBITDA was 2.9x according to the confirmed calculation principles.

To manage liquidity risk the Caverion Group uses cash and cash equivalents, Group accounts with overdraft facilities, credit facilities and commercial papers. Caverion's cash and cash equivalents amounted to EUR 29.2 (47.7) million at the end of December 2017. In addition, Caverion has undrawn overdraft facilities amounting to EUR 19 million and undrawn committed revolving credit facilities amounting to EUR 100 million. The committed revolving credit facilities are valid until May 2020.

The following table describes the contractual maturities of financial liabilities. The amounts are undiscounted. Interest cash flows of floating rate loans and derivative instruments are based on the interest rates prevailing on December 31, 2017 (December 31, 2016). Cash flows of foreign currency denominated loans are translated into euro at the reporting date. Cash flows of foreign currency forward contracts are translated into euro at forward rates.

Contractual maturity analysis of financial liabilities and interest payments at December 31, 2017

EUR million	2018	2019	2020	2021	2022	2023-	Total
Loans from financial institutions	21.6	21.1	30.4				**73.1**
Commercial papers	5.0						**5.0**
Pension loans	8.8	6.7					**15.5**
Finance lease liabilities	1.9	0.6	0.1	0.0			**2.6**
Other financial liabilities						0.5	**0.5**
Trade and other payables	484.8						**484.8**
Interest rate derivatives, hedge accounting not applied	0.2	0.1	0.0				**0.4**
Foreign currency derivatives	0.2						**0.2**

Contractual maturity analysis of financial liabilities and interest payments at December 31, 2016

EUR million	2017	2018	2019	2020	2021	2022-	Total
Loans from financial institutions	22.6	22.3	21.9	11.5	60.3		**138.5**
Commercial papers	35.0						**35.0**
Pension loans	8.8	8.8	6.7				**24.3**
Finance lease liabilities	2.1	1.8	0.4	0.0	0.0		**4.3**
Other financial liabilities						0.5	**0.5**
Trade and other payables	489.1						**489.1**
Interest rate derivatives, hedge accounting not applied	0.3	0.2	0.1	0.0			**0.6**
Foreign currency derivatives	0.1						**0.1**

Foreign exchange risk

The Caverion Group operates internationally and is exposed to foreign exchange risks arising from the currencies of the countries in which it operates. Risk arises mainly from the recognised assets and liabilities and net investments in foreign operations. In addition, commercial contracts in the subsidiaries cause foreign exchange risk, but the contracts are mainly denominated in the entity's own functional currencies.

The objective of foreign exchange risk management is to reduce uncertainty caused by foreign exchange rate movements on income statement through measurement of cash flows and commercial receivables and payables. By the decision of Board of Directors of Caverion Group, the investments in foreign operations are not hedged for foreign exchange translation risk.

Foreign currency denominated net investments at the balance sheet date

EUR milllon	2017 Net investment	2017 EUR stregthens by 10%, effect on equity	2017 EUR weakens by 10%, effect on equity	2016 Net investment	2016 EUR stregthens by 10%, effect on equity	2016 EUR weakens by 10%, effect on equity
SEK	–8.3	–0.8	0.8	5.5	0.6	–0.6
NOK	0.0	0.0	0.0	–2.6	–0.3	0.3
DKK	4.3	0.4	–0.4	8.6	0.9	–0.9
Other currencies	3.0	0.3	–0.3	5.4	0.5	–0.5

Here net investment comprises equity invested in foreign subsidiaries and internal loans that qualify for net investment classification deducted by possible goodwill in the subsidiaries balance sheet.

According to the Caverion Group's Treasury policy, all group companies are responsible for identifying and hedging the foreign exchange risk related to the foreign currency denominated cash flows. All firm commitments over EUR 0.2 million must be hedged, by intra-group transactions with the Caverion Group Treasury. The Caverion Group Treasury hedges the net position with external counterparties but does not apply hedge accounting to derivatives hedging foreign exchange risk. Accordingly, the fair value changes of derivative instruments are recognised in consolidated income statement. In 2017 the most significant currencies in the Caverion Group, that relate to commercial agreements and their hedges are Swedish Crown and Norwegian Crown. If the euro had strengthened by 10% against the Swedish Crown at the reporting date, valuation of the foreign exchange contracts would have caused a pre-tax foreign exchange gain of EUR 0.1 million. The similar strengthening against the Norwegian Crown would have caused a pre-tax foreign exchange gain of EUR 0.3 million.

Excluding foreign exchange differences due to derivatives relating to the commercial agreements and translation risk, the strengthening or weakening of the Euro would not have a significant impact on the Caverion Group's result.The sensitivity analysis comprises the foreign exchange derivative contracts made for hedging, both the internal and external loans and receivables, which offset the effect of changes in foreign exchange rates.

5.6 Derivative instruments

All derivatives are hedges according to Caverion Group's Treasury Policy, but hedge accounting as defined in IAS 39, is applied only on certain derivative contracts. Foreign exchange forward contracts are mainly designated as hedges of financial items and have been charged to P/L in finance income/expenses. Foreign exchange forward contracts mature in 2018. The average interest rate fixing term of Group's interest-bearing loans has been increased by interest rate derivatives. The changes in the fair value of derivatives with hedge accounting applied for are recognised in fair value reserve in equity and the changes in fair value for derivatives with hedge accounting not applied for, are recognised in profit and loss account. Hedge accounting for valid interest rate swaps ceased to meet hedge effectiveness criteria and hedge accounting was discontinued during the financial year 2016.

Group's derivative instruments are subject to offsetting, enforceable master netting arrangements or similar agreements. In certain circumstances – e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions. Master netting agreements do not meet the criteria for offsetting in the statement of financial position and amounts are presented on a gross basis. Other financial assets or liabilities for example trade receivables or trade payables do not include any amounts subject to netting agreements.

Fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair values for the derivative instruments categorised in Level 2 have been defined as follows: The fair values of foreign exchange forward and forward rate agreements have been defined by using the market prices at the closing day. The fair values of interest rate swaps are based on discounted cash flows.

Nominal values

EUR million	2017	2016
Foreign exchange forward contracts, hedge accounting not applied	77.0	26.9
Interest rate forward contracts		
Hedge accounting applied		
Interest rate swaps		
Hedge accounting not applied		
Interest rate swaps	50.0	70.0

Fair values

EUR million	2017 Positive fair value (carrying value)	2017 Negative fair value (carrying value)	2017 Net value	2016 Positive fair value (carrying value)	2016 Negative fair value (carrying value)	2016 Net value
Foreign exchange forward contracts						
Hedge accounting not applied	0.3	–0.2	0.1	0.2	–0.3	–0.1
Interest rate derivatives						
Hedge accounting applied						
Hedge accounting not applied						
Interest rate swaps		–0.3	–0.3		–0.5	–0.5
Total	**0.3**	**–0.5**	**–0.2**	**0.2**	**–0.8**	**–0.6**
Netting fair values of derivative financial instruments subject to netting agreements	0.0	0.0		–0.2	0.2	
Net total	**0.3**	**–0.5**	**–0.1**	**0.0**	**–0.6**	**–0.6**

Accounting principles

Derivatives are initially recognised at fair value on the date the Caverion Group becomes party to an agreement and are subsequently re-measured at their fair value. Directly attributable transaction costs are recognised in the income statement. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Currency forward contracts are used for hedging against the currency exposure of exchange rates and resulting changes in fair value are included in operating profit or financial income and expenses based on their nature in the financial period in which they were incurred. Interest rate swaps are used to hedge against changes in market interest rates. Changes in the fair value of interest rate swaps, that do not meet the hedge accounting criteria under IAS 39, are entered in financing income or expenses in the financial period in which they were incurred. Derivatives are classified as non-current liabilities when their contractual maturity is more than 12 months (Other liabilities) and current liabilities when maturity is less than 12 months (Trade and other payables).

Derivative instruments used in hedge accounting that meet the hedge accounting criteria under IAS 39 are entered in the balance sheet at fair value on the day that the Caverion Group becomes counterpart to the agreement. The Caverion Group has applied hedge accounting to hedge the benchmark rate of floating rate loans (cash flow hedging). The Caverion Group documents at inception of the transaction the relationship between the hedged item and the hedging instruments and assesses both at hedge inception and on an ongoing basis, of whether the derivatives

are highly effective in offsetting changes in cash flows of hedged items. The effectiveness is assessed at each balance sheet date at minimum. The effective portion of changes in the fair value of derivative instruments, that qualify for cash flow hedges is recognised in other comprehensive income and accumulate in the fair value reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within financial income and expenses. Gains and losses accumulated in shareholders' equity are reclassified to income statement within financial income or expenses in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria of hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction occurs. Nevertheless, if the hedged forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within financial income or expense. ■

5.7 Investments in associated companies

EUR million	2017	2016
Historical costs on January 1	0.1	0.2
Share of the profit	0.0	–0.1
Historical costs on December 31	**0.1**	**0.1**

The carrying amounts of the shares in associated companies do not include goodwill.

EUR million	Company	Domicile	Assets	Liabilities	Revenue	Profit/loss	Ownership
2017	Arandur Oy	Vantaa	4.0	3.7	5.0	0.0	33%
2016	Arandur Oy	Vantaa	3.8	3.5	5.3	0.0	33%

Sales of goods and services sold to associated companies were EUR 1.2 (1.3) million in 2017.

Accounting principles

The consolidated financial statements include associated companies in which the Group either holds 20%–50% of the voting rights or in which the Group otherwise has significant influence but not control. Investments in associated companies are accounted for using the equity method: they are initially recorded at cost, and the carrying amount is increased or decreased by Caverion's share of the profit or loss of the associates. The Group determines at each reporting date whether there is any indication of impairment.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When Group's share of losses in an associate exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in each associate. ■

5.8 Employee benefit obligations

Obligations in the statement of financial position:

EUR million	2017	2016
Defined benefit plans	44.2	45.4
Liability in the statement of financial position	44.2	45.4
Pension asset in the statement of financial position	–2.0	–2.1
Net liability	**42.2**	**43.3**

Income statement charge:

EUR million	2017	2016
Defined benefit plans	–1.0	–0.3
Included in financial expenses	–0.8	–0.8
Income statement charge, total (income (+) / expense(–))	**–1.8**	**–1.1**

Remeasurements, included in other comprehensive income:

EUR million	2017	2016
Defined benefit plans	–0.3	–3.0
Change in foreign exchange rates	2.0	–1.3
Included in other comprehensive income. total	**1.6**	**–4.2**

Defined benefit pension plans

The Group has defined benefit pension plans in Norway, Germany, Austria and Finland. In all plans the pension liability has been calculated based on the number the years employed and the salary level. Most of the pension plans are managed in insurance companies, which follow the local pension legislation in their management.

The amounts recognised in the statement of financial position are determined as follows:

EUR million	2017	2016
Present value of funded obligations	5.8	5.9
Fair value of plan assets	–7.8	–8.1
Net deficit of funded plans	**–2.0**	**–2.1**
Present value of unfunded obligations	44.2	45.4
Total net deficit of defined benefit pension plans	**42.2**	**43.3**
Liability in the statement of financial position	44.2	45.4
Receivable in the statement of financial position	–2.0	–2.1

The movement in the net defined benefit obligation over the year is as follows:

EUR million	Present value of obligation	Fair value of plan assets	Total net obligation
At January 1, 2017	**51.3**	**–8.1**	**43.3**
Current service cost	0.7	0.1	0.8
Interest expense	0.9	–0.1	0.8
Past service costs			
Gains on settlements			
Remeasurements:			
Return on plan assets. excluding interest expense			
Gain (–) / loss (+) from change in demographic assumptions			
Gain (–) / loss (+) from change in financial assumptions	0.5		0.5
Experience gains (–) / losses (+)	–0.1		–0.1
Exchange difference	–0.6		–0.6
Employers' contributions	–0.1		–0.1
Acquired pension liability	–0.3		–0.3
Benefit payments from plans	–2.3	0.3	–2.0
At December 31, 2017	**50.0**	**–7.8**	**42.2**

EUR million	Present value of obligation	Fair value of plan assets	Total net obligation
At January 1, 2016	**48.6**	**–8.1**	**40.5**
Current service cost	0.8	0.1	0.9
Interest expense	1.0	–0.2	0.8
Past service costs	–0.7		–0.7
Gains on settlements			
Remeasurements:			
Return on plan assets, excluding interest expense			
Gain (–) / loss (+) from change in demographic assumptions	0.5		0.5
Gain (–) / loss (+) from change in financial assumptions	2.9	–0.1	2.8
Experience gains (–) / losses (+)	–0.3		–0.3
Exchange difference	0.3		0.3
Employers' contributions			
Acquired pension liability	0.2		0.2
Benefit payments from plans	–2.0	0.3	–1.7
At December 31, 2016	**51.3**	**–8.1**	**43.3**

The weighted average duration of the defined benefit plan obligation in Caverion Group is 15 (15) years.

The significant actuarial assumptions were as follows:

2017	Discount rate	Salary growth rate	Pension growth rate
Finland	1.80%	1.4–1.7%	1.7–2.0%
Norway	2.30%	2.50%	2.25%
Germany	1.80%	3.00%	2.25%
Austria	1.80%	1.50%	2.25%

2016	Discount rate	Salary growth rate	Pension growth rate
Finland	1.80%	1.4 –1.7%	1.7–2.0%
Norway	2.50%	2.25%	
Germany	1.80%	3.00%	2.25%
Austria	1.80%		2.25%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

2017	Impact on defined benefit obligation [1]		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 8.1%	Increase by 9.2%
Salary growth rate	0.50%	Increase by 0.2%	Decrease by 0.2%
Pension growth rate	0.25%	Increase by 3.6%	Decrease by 3.4%

2016	Impact on defined benefit obligation [1]		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 4.2–8.3%	Increase by 4.6–9.5%
Salary growth rate	0.50%	Increase by 0.0%	Decrease by 0.0%
Pension growth rate	0.25–0.50%	Increase by 1.9–3.6%	Decrease by 1.8–3.5%

[1] Based on the sensitivity analyses of the Group's most significant pension arrangements. The impacts of the other pension arrangements are similar.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

Plan assets are comprised as follows:

EUR million	2017	%	2016	%
Equity instruments	5.5	70	5.5	68
Debt instruments	0.9	12	0.9	12
Property				
Cash and cash equivalents	1.4	18	1.7	20
Total plan assets	**7.8**	**100**	**8.1**	**100**

The investments positions included in pension plans are managed by insurance companies using theirs investment policy to cover the duration and cash flow of the pension obligation.

Employer contributions are expected to be zero in year 2018.

Multi-employer plan in Sweden

In Sweden, Caverion participates in a multi-employer defined benefit plan in Alecta insurance company. 922 employees of Caverion Sverige AB are insured through this pension plan. This multi-employer plan has not been able to deliver sufficient information for defined benefit accounting purposes, thus Caverion has accounted for this pension plan as a contribution plan.

Alecta's possible surplus may be credited to employer, company or to employee. The expected contributions to the plan for the next annual reporting period are EUR 6.1 million.

Through its defined benefit pension plans the group is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields – A decrease in corporate bond yields will increase plan liabilities.
Inflation risk – some of the group pension obligations are linked to inflation, and higher inflation will lead to higher liabilities.
Life expectancy – The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Accounting principles

The Caverion Group has several different pension schemes both defined benefit and defined contribution pension plans, in accordance with local regulations and practices in countries where it operates.

Contributions to defined contribution pension plans are recognised in the income statement in the financial period during which the charge is due. The Caverion Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

The Group has defined benefit pension plans in Norway, Austria, Germany and Finland. Obligations connected with the Group's defined benefit plans are calculated annually by independent actuaries using the projected unit credit method. The discount rate used in calculating the present value of the pension obligation is the market rate of high-quality corporate bonds. The maturity of the bonds used to determine the reference rate substantially corresponds to the maturity of the related pension obligation. In defined benefit plans, the pension liability recognised on the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. Pension expenditure is expensed in the income statement, allocating the costs over the employment term of the employees. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement.

Occupational pensions in Sweden have been insured under a pension scheme shared with numerous employers. It has not been possible to acquire sufficient information on these pension obligation for allocating the liabilities and assets by employers. Occupational pensions in Sweden have been treated on a defined contribution basis.

The present value of pension obligations depends on various factors that are determined on an actuarial basis using a number of assumptions, including the discount rate. Changes in the assumptions rate have an effect on the carrying amount of pension obligation. The discount rate used is the market rate of high-quality corporate bonds or the interest rate of treasury notes for the currency in which the benefits will be realised. The maturity of the instruments used to determine the reference rate used corresponds substantially to the maturity of the related pension obligation. Other assumptions are based on actuarial statistics and prevailing market conditions. ■

5.9 Lease agreements

Finance lease liabilities

EUR million	2017	2016
Finance lease liabilities fall due in as follows:		
Minimum lease payments		
No later than 1 year	1.9	2.1
1–5 years	0.6	2.1
Total minimum lease payments	**2.6**	**4.3**
Present value of minimum lease payments		
No later than 1 year	1.9	2.0
1–5 years	0.6	2.1
Total present value of minimum lease payments	**2.5**	**4.1**
Future finance charges	0.1	0.1
Finance expenses charged to income statement	0.2	0.1

Main finance lease agreements are the agreements of cars, audiovisual equipment, machinery and equipment both in production and offices.

Other lease agreements

Group as lessee

The future minimum lease payments under non-cancellable operating leases:

EUR million	2017	2016
No later than 1 year	48.1	52.3
1–5 years	83.3	104.5
Later than 5 years	12.5	20.7
Total	**143.8**	**177.5**

The lease payments of non-cancellable operating leases charged to income statement amounted to EUR 65.9 million in 2017.

The Group has leased the office facilities. The lease agreements of office facilities have average validity period of 5 years. Some of the agreements include the possibility of continuing after the initial expiry date. The index, renewal, and other terms of the lease agreements of office facilities are dissimilar to each other. Operating leases include also the liabilities of operating lease agreements of service cars and employee cars, which have the average duration of four years.

Accounting principles

Group as lessee

Leases concerning assets in which the Caverion Group holds a significant portion of the risks and rewards of ownership are classified as financial leases. A financial lease is recognised in the balance sheet at the lease's commencement at the lower of the fair value of the leased asset and the present value of minimum lease payments. Assets acquired under financial leases are depreciated over the shorter of the useful life of the asset and the lease term. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to income statement over the lease period so as to procure a constant periodic rate of interest on the remaining balance of the liability for each period. The liabilities arising from financial leases are included in the financial liabilities.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are treated as operating leases. Payments made under operating leases (net of any incentives received) are expensed in the income statement on a straight-line basis over the period of the lease. ■

5.10 Commitments and contingent liabilities

EUR million	2017	2016
Guarantees given on behalf of associated companies	0.2	0.2
Other commitments		
Other contingent liabilities	0.2	0.2
Accrued interest on hybrid bond	2.5	

The Group parent company has guaranteed obligations of its subsidiaries. On December 31, 2017 the total amount of these guarantees was EUR 473.9 (533.0) million. These consist of counter guarantees for external guarantees and parent company guarantees given according to general contracting practices.

Group companies are engaged in legal proceedings which are connected to ordinary business operations. The outcomes of the proceedings are difficult to predict, but if a case is deemed to require a provision that has been made on the basis of a best estimate.

In addition, the investigation of violations of competition law related regulations in the technical services industry in Germany continues. As part of the investigation, German authorities have searched information from various technical services providers, including Caverion. Caverion co-operates with the local authorities. Based on the currently available information, it is still not possible to evaluate the magnitude of the potential risk for Caverion related to these issues. It is possible that the costs, sanctions and indemnities can be material.

As part of the co-operation with the authorities Caverion has identified activities during 2009–2011 which are likely to fulfil the criteria of corruption or other criminal conduct in connection with one of its client projects executed at the time. Caverion has brought its findings to the immediate attention of authorities and supports them fully to further investigate the case. It is possible that these suspected infringements may cause considerable damage to Caverion in terms of fines, civil claims as well as legal expenses. However, the end result and magnitude of the potential damages cannot be assessed at this time. Caverion is monitoring the situation and will disclose any relevant information as required under the relevant regulations.

Entities participating in the demerger are jointly and severally responsible for the liabilities of the demerging entity which have been generated before the registration of the demerger. As a consequence, a secondary liability up to the allocated net asset value was generated to Caverion Corporation, incorporated due to the partial demerger of YIT Corporation, for those liabilities that were generated before the registration of the demerger and remain with YIT Corporation after the demerger. Creditors of YIT Corporation's major financial liabilities have waived their right to claim for settlement from Caverion Corporation on the basis of the secondary liability. Caverion Corporation has a secondary liability relating to the Group guarantees which remain with YIT Corporation after the demerger. These Group guarantees amounted to EUR 60.9 (266.8) million at the end of December 2017.

6 Others

In this section

This section comprises the following notes:

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6.2 Share-based payments 58

6.1 Key management compensation

Key management includes members of the Board of Directors and Group Management Board of Caverion Corporation. The compensation paid to key management for employee services is presented below:

EUR million	2017	2016
Salaries and other short-term employee benefits	4.3	4.4
Post-employment benefits	0.1	0.1
Total	**4.4**	**4.5**

Information on share-incentive schemes has been presented in note 6.2, Share-based payments.

Compensation paid for the members of the Board of Directors and President and CEO

EUR million	2017	2016
President and CEO		
Strand Fredrik, President and CEO as to May 17, 2016		0.3
Toikkanen Sakari, President and CEO as from May 18 as to Dec 31, 2016		0.2
Lehtoranta Ari, President and CEO as from Jan 1, 2017	0.7	
Total	**0.7**	**0.5**
Members of the Board of Directors		
Aho Jussi	0.0	
Ehrnrooth Markus	0.1	0.1
Hallengren Joachim	0.0	
Herlin Antti	0.0	
Hinnerskov Thomas	0.0	
Hyvönen Anna	0.1	0.1
Lehtoranta Ari, Chairman of the Board as to Nov 15, 2016		0.1
Lindqvist Eva	0.1	0.1
Puheloinen Ari	0.0	0.1
Rosenlew Michael, Chairman of the Board as from Mar 17, 2017	0.1	0.1
Total	**0.5**	**0.4**

Termination compensation, pensions and retirement age of the President and CEO

The notice period for both parties is six months. Severance pay (if the company terminates the agreement) is compensation amounting to 12 months' base salary as monthly payments after the termination date. Ari Lehtoranta has a supplementary defined contribution pension plan, annual contribution being 20% of the base salary. Retirement age is 63 years.

Other members of the Group Management Board do not have any supplementary executive pension schemes and the statutory retirement age applies.

The Group has continued the previous President and CEO's Fredrik Strand's severance payment until November 2017 according to the agreement. The amount of the severance payment paid in 2017 was EUR 0.5 million.

Remuneration of the President and CEO and Group Management Board

President and CEO Ari Lehtoranta's total monthly salary is 55,000 EUR including fringe benefits. In 2017 Ari Lehtoranta was granted 50,000 shares of Restricted Share Plan 2016 according to the terms and conditions of Caverion's long-term incentive plan approved by the Board of Directors.

EUR million	Fixed base salary	Fringe benefits	Short-term Incentive	Total 2017
Group Management Board members excluding President and CEO [1]	2.9	0.1	0.1	3.2

[1] Includes the members' total remuneration for the period they have been members of the Group Management Board.

Additional information of Management remuneration is presented in parent company financial statements.

6.2 Share-based payments

Caverion has long-term share-based incentive plans for the company's key senior executives. The performance share plans form a part of the incentive and commitment programme for the executives of Caverion Group. The key aim is to align the interests of the shareholders and the executives in order to promote shareholder value creation and to support Caverion in its targets. In addition, the aim is to commit the key executives to the company and its strategic targets and to offer them a competitive reward plan based on the ownership of the company's shares.

Board of Directors approved a rolling long-term share-based incentive plan for the Group's senior management in December 2015. The Board of Directors decided to continue the said incentive structure in December 2016. The first plans commenced thus at the beginning of 2016 followed by the second plan in the beginning of 2017. The share based incentive plan consists of a Performance Share Plan (PSP) as the main structure supported by a Restricted Share Plan as a complementary structure for specific situations.

Both plans consist of annually commencing individual plans, each with a three-year period. The commencement of each new plan is subject to a separate decision of the Board. Each three-year performance share plan period consists of a one-year operative financial performance period, followed by a two-year share price performance period.

The targets set for the first and second Performance Share Plan 2016–2018 and 2017–2019 were not met during earning periods (2016 and 2017) and no rewards will therefore be paid. The potential share rewards based on the Restricted Share Plans for 2016–2018 and 2017–2019 total a maximum of approximately 151,200 shares (gross before the deduction of applicable payroll tax).

	Performance share plan 2016–2020		Restricted share plan 2016–2020	
Plan	Performance period 2017–2019	Performance period 2016–2018	Performance period 2017–2019	Performance period 2016–2018
Issuing date	Dec 17, 2015	Dec 17, 2015	Dec 17, 2015	Dec 17, 2015
Maximum number of shares	662,000	662,000	85,000	66,200
Dividend adjustment	Yes	Yes	No	No
Grant date	Feb 17, 2017	Feb 15, 2016	Jun 16, 2017	Jan 1, 2017
Beginning of earning period	Jan 1, 2017	Jan 1, 2016	Jan 1, 2017	Jan 1, 2016
End of earning period	Dec 31, 2017	Dec 31, 2016	Dec 31, 2019	Dec 31, 2018
End of restriction period	Feb 28, 2020	Feb 28, 2019	Feb 28, 2020	Feb 28, 2019
Vesting conditions	Revenue and earnings per share (EPS), continued employment	Revenue and earnings per share (EPS), continued employment	continued employment	continued employment
Maximum contractual life, years	3.0	3.0	3.2	3.2
Remaining contractual life, years	2.2	1.2	2.2	1.2
Number of persons at the end of the reporting year	106	61	8	2
Payment method	Cash and shares	Cash and shares	Cash and shares	Cash and shares
Changes in plan during the period				
January 1, 2017				
Outstanding at the beginning of the reporting period	0	219,800	0	0
Changes during the period				
Granted	424,900		60,000	62,000
Forfeited	24,300	14,400	12,500	
December 31, 2017				
Outstanding at the end of the period	400,600	205,400	47,500	62,000

In addition, the Group had a long-term share-based incentive plan for its key personnel for years 2014–2016. The targets set for this plan were not met.

In December 2017 Caverion's Board of Directors approved the commencement of a new plan period for 2018–2020 for the senior management of the Group. The share-based incentive plan consists of Performance Share Plan as the main structure supported by Restricted Share Plan as a complementary structure for specific situations. Any potential share rewards will be delivered in the spring 2021. Performance Share Plan 2018–2020 may include a maximum of approximately 120 members of senior management and key employees of Caverion Group. The three-year plan period consists of a one-year operative financial performance period, followed by a two-year share price performance period. The potential share reward is based on the targets set for the year 2018 for earnings per share and operating cash flow before financial and tax items. If all targets will be met, the share rewards based on Performance Share Plan 2018–2020 will comprise a maximum of 850,000 Caverion shares (gross before the deduction of applicable payroll tax). Final participant selection and maximum share allocations will be decided early 2018.

Costs recognised for the share-based incentive plan

The consolidated financial statements include cost from Restricted Share Plan amounting to EUR 0.2 (–0.5) million. The accrued liabilities related to cash-settled part of the compensation amounted to EUR 0.1 (0.0) million in 2017. EUR 0.2 (–0.2) million of the cost recognised is related to the Group management board.

Accounting principles

The Performance Share Plan contains a maximum value for the share reward payable to an individual participant. If the value of the share reward would at the time of payment exceed a maximum value set by the Board, the exceeding portion of the reward will not be paid. A person participating in the plan has the possibility to earn a share reward only if his/her employment continues until the payment of the reward.

Share allocations within the Restricted Share Plan will be made for individually selected key employees in special situations. Under the complementary Restricted Share Plan each individual plan consists of a three-year vesting period after which the allocated share rewards will be delivered to the participants provided that their employment with Caverion continues until the delivery of the share reward.

The equity-settled share-based payments are valued based on the market price of Caverion share as of the grant date and are recognised as an employee benefit expense over the vesting period with corresponding entry in the equity. The liability resulting from the cash-settled share-based transactions is measured based on the market price of Caverion share as of the balance sheet date and accrued as an employee benefit expense with corresponding entry in the current liabilities until the settlement date. ■

Key figures

Consolidated income statement, Jan 1–Dec 31	2017	2016	2015	2014
Revenue, EUR million	2,282.8	2,364.1	2,443.0	2,406.6
EBITDA, EUR million	11.0	–11.4	91.5	67.5
EBITDA margin, %	0.5	–0.5	3.7	2.8
EBITDA excluding restructuring costs, EUR million [1]	18.3	15.6	–	–
EBITDA margin excluding restructuring costs, % [1]	0.8	0.7	–	–
Operating profit, EUR million	–19.3	–40.8	65.0	44.2
Operating profit margin, %	–0.8	–1.7	2.7	1.8
Result before taxes, EUR million	–25.1	–43.5	61.3	36.5
% of revenue	–1.1	–1.8	2.5	1.5
Result for the period, EUR million	–20.9	–31.7	46.6	27.6
% of revenue	–0.9	–1.3	1.9	1.1

Consolidated statement of financial position, EUR million	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Total assets	1,120.0	1,184.3	1,157.7 [2]	1,133.5 [2]
Working capital	6.1	–2.6	–15.4 [2]	–21.1 [2]
Interest-bearing net debt	64.0	145.5	29.8	50.2

Key ratios and other data	2017	2016	2015	2014
Equity ratio, %	27.9	18.7	26.4 [2]	24.4 [2]
Gearing ratio, %	24.4	78.7	11.7 [2]	21.4 [2]
Return on equity, %	–9.3	–14.5	19.0 [2]	11.4 [2]
Operating cash flow before financial and tax items, EUR million	–8.7	–22.4	85.8	113.5
Order backlog, EUR million	1,491.0	1,408.1	1,461.4	1,323.6
Personnel, average for the period	16,607	17,381	17,324	17,490
Personnel at the end of the period	16,216	16,913	17,399	17,355

Share-related key figures, Jan 1–Dec 31	2017	2016	2015	2014
Earnings per share, basic, EUR	–0.19	–0.25	0.37	0.22
Earnings per share, diluted, EUR	–0.19	–0.25	0.37	0.22
Equity per share, EUR	2.1	1.5	2.0	1.9
Dividend per share, EUR	– [3]	–	0.28	0.22
Dividend per earnings, %	–	–	75.2	100.1
Effective dividend yield, %	–	–	3.1	3.3
Price per earnings (P/E ratio)	–31.1	–31.2	24.2	30.3
Share price trend				
Share price on Dec 31, EUR	5.89	7.92	9.03	6.65
Low, EUR	5.76	5.50	6.67	5.37
High, EUR	8.28	9.38	9.69	8.92
Average, EUR	7.19	6.86	8.69	7.03
Share capitalisation on Dec 31, EUR million	736.7	990.7	1,129.5	831.8
Share turnover trend				
Share turnover, thousands	51,196	63,831	36,439	50,953
Share turnover, %	40.9	51.0	29.1	40.6
Number of shares outstanding at the end of period, thousands	125,084	125,084	125,084	125,087
Weighted average number of shares, thousands	125,084	125,084	125,085	125,381
Weighted average number of shares, dilution adjusted, thousands	125,084	125,084	125,085	125,381

[1] Comparatives cannot be calculated as restructuring costs have not been reported separately in 2015 and 2014.

[2] Key figures have been corrected to reflect prior period adjustments made in 2016.

[3] Board of Directors' proposal to the Annual General Meeting

Calculation of key figures

EBITDA =	Operating profit (EBIT) + depreciation, amortisation and impairment
EBITDA excluding restructuring costs =	Operating profit (EBIT) + depreciation, amortisarion and impairment + restructuring costs
Working capital =	Inventories + trade and POC receivables + other current receivables – trade and POC payables – other current payables – advances received – current provisions
Interest-bearing net debt =	Interest-bearing liabilities – cash and cash equivalents
Equity ratio (%) =	$\frac{\text{Equity + non-controlling interest} \times 100}{\text{Total assets – advances received}}$
Gearing ratio (%) =	$\frac{\text{Interest-bearing liabilities – cash and cash equivalents} \times 100}{\text{Shareholder's equity + non-controlling interest}}$
Return on equity (%) =	$\frac{\text{Result for the period} \times 100}{\text{Total equity (average of the figures for the accounting period)}}$
Average number of employees =	The average number of employees at the end of previous financial year and of each calendar month during the accounting period
Earnings / share, basic =	$\frac{\text{Result for the financial year (attributable for equity holders) – hybrid capital expenses and accrued unrecognised interests after tax}}{\text{Weighted average number of shares outstanding during the period}}$
Earnings / share, diluted =	$\frac{\text{Result for the financial year (attributable for equity holders) – hybrid capital expenses and accrued unrecognised interests after tax}}{\text{Weighted average number of shares, dilution adjusted}}$
Equity per share =	$\frac{\text{Shareholders' equity}}{\text{Share issue-adjusted number of outstanding shares at the end of period}}$
Dividend per share =	$\frac{\text{Dividend per share for the period}}{\text{Adjustment ratios of share issues during the period and afterwards}}$
Dividend per earnings (%) =	$\frac{\text{Dividend per share} \times 100}{\text{Earnings per share}}$
Effective dividend yield (%) =	$\frac{\text{Dividend per share} \times 100}{\text{Share price on December 31}}$
Price / earnings ratio (P/E ratio) =	$\frac{\text{Share price on December 31}}{\text{Earnings per share}}$
Average price =	$\frac{\text{Total EUR value of all shares traded}}{\text{Average number of all shares traded during the accounting period}}$
Market capitalisation =	(Number of shares – treasury shares) × share price on the closing date
Share turnover =	Number of shares traded during the accounting period
Share turnover (%) =	$\frac{\text{Number of shares traded} \times 100}{\text{Average number of outstanding shares}}$

Shareholders

At the end of December 2017, the number of registered shareholders in Caverion was 28,561 (2016: 30,539). At the end of December 2017, a total of 32.2 percent of the shares were owned by nominee-registered and non-Finnish investors (2016: 35.1%).

Updated lists of Caverion's largest shareholders, the holdings of public insiders and ownership structure by sector as per December 31, 2017, are available on Caverion's website at www.caverion.com/investors.

No shareholder, member or other person is controlling Caverion as meant in the Securities Markets Act section 2 paragraph 4. Caverion is not subject to any arrangements which separate the possession of the securities and the economic rights vested in them. The Board of Directors is not aware of any shareholder agreements or other similar type of arrangements having effect on Caverion shareholders or that might have a significant impact on share price.

Caverion Corporation's essential financing agreements include a change of control clause which is applicable in case more than 50 percent of company's shares are acquired by a single entity or parties controlled by it.

Largest shareholders on December 31, 2017

Shareholder	Shares, pcs	% of all shares
1. Funds held by Antti Herlin, including directly held shares	18,900,180	15.0
2. Structor S.A.	17,565,000	14.0
3. Ilmarinen Mutual Pension Insurance Company	5,488,946	4.4
4. Varma Mutual Pension Insurance Company	5,005,706	4.0
5. Mandatum companies	3,845,272	3.1
6. Fondita funds	3,465,000	2.8
7. Nordea funds	2,425,269	1.9
8. The State Pension Fund	1,850,000	1.5
9. Elo Pension Company	1,611,089	1.3
10. Aktia funds	1,518,860	1.2
11. Säästöpankki funds	1,190,237	0.9
12. Brotherus Ilkka	1,048,265	0.8
13. Odin funds	860,359	0.7
14. Evli funds	734,013	0.6
15. Funds held by Ari Lehtoranta, including directly held shares	561,510	0.4
16. Caverion Oyj	512,328	0.4
17. Kaleva Mutual Insurance Company	482,285	0.4
18. Alandia companies	427,932	0.3
19. OP funds	415,207	0.3
20. Foundation of Brita Maria Renlunds minne	412,000	0.3
20 largest, total	68,319,458	54.4
Other shareholders	35,853,190	28.5
Nominee registered total	21,423,444	17.1
All shares	**125,596,092**	**100.0**

Ownership structure by sector on December 31, 2017

Sector	Shareholders	% of owners	Shares	% of all shares
Nominee registered and non-Finnish holders	123	0.4	40,392,660	32.2
Households	26,762	93.7	24,065,802	19.2
General government	25	0.1	14,998,783	11.9
Financial and insurance corporations	56	0.2	13,532,630	10.8
Non-profit institutions	346	1.2	5,810,415	4.6
Non-financial corporations and housing corporations	1,249	4.4	26,795,802	21.3
On common and special accounts	0	0.0	0	0.0
Total	**28,561**	**100.0**	**125,596,092**	**100.0**

Public insider ownership of Caverion Group on December 31, 2017

Board of Directors		Direct Holdings	Holdings of controlled companies	Total
Aho Jussi	Member	–	–	–
Ehrnrooth Markus	Vice Chairman of the Board	–	–	–
Hallengren Joachim	Member	6,000	11,000	17,000
Herlin Antti	Member	30,180	18,870,000	18,900,180
Hinnerskov Thomas	Member	40,000	–	40,000
Hyvönen Anna	Member	2,000	–	2,000
Lindqvist Eva	Member	1,500	–	1,500
Rosenlew Michael	Chairman of the Board	–	119,200	119,200
Total		**79,680**	**19,000,200**	**19,079,880**

Group Management Board		Direct Holdings	Holdings of controlled companies	Total
Ala-Härkönen Martti	Head of Finance, Strategy and IT, Chief Financial Officer (CFO)	15,000	–	15,000
Gaaserud Knut	Head of Division Norway	506	–	506
Hacklin Jarno	Head of business unit Projects	4,000	–	4,000
Hietto Thomas	Head of business unit Services	–	–	–
Kühn Werner	Executive Vice President & CEO, Division Germany	54,000	–	54,000
Lehtoranta Ari	President and CEO from January 1, 2017	11,510	550,000	561,510
Sacklén Niclas	Senior Vice President and CEO, Division Eastern Europe	–	–	–
Schrey-Hyppänen Minna	Head of Human Resources	1,000	–	1,000
Simmet Manfred	Senior Vice President & CEO, Division Austria	2,377	–	2,377
Tamminen Ville	Head of Division Finland	–	–	–
Tocklin Klas	Executive Vice President & CEO, Division Sweden	771	–	771
Toikkanen Sakari	Head of Division Industrial Solutions (interim)	16,382	–	16,382
Viitala Anne	Head of Legal & Governance	300	–	300
Total		**105,846**	**550,000**	**655,846**

Subsidiaries

Company name	Domicile	Holding of Caverion Group, %	Holding of Caverion Corporation, %
Caverion Suomi Ltd	Helsinki	100.00	100.00
Caverion GmbH	Munich	100.00	100.00
Caverion Industria Ltd	Helsinki	100.00	100.00
Caverion Sverige AB	Solna	100.00	100.00
Caverion Norge AS	Oslo	100.00	100.00
Caverion Danmark A/S	Fredericia	100.00	100.00
Caverion Österreich GmbH	Vienna	100.00	100.00
Caverion Emerging Markets Ltd	Helsinki	100.00	100.00
Caverion Internal Services AB	Solna	100.00	100.00
Caverion Eesti AS	Tallinn	100.00	
Caverion Latvija SIA	Riga	100.00	
UAB Caverion Lietuva	Vilnius	100.00	
Caverion Huber Invest Ltd	Helsinki	100.00	
Caverion Česká rebublika s.r.o	Prague	100.00	
Caverion Polska Sp.z.o.o.	Warsaw	100.00	
Caverion Deutschland GmbH	Munich	100.00	
Duatec GmbH	Munich	100.00	
OOO Duatec RUS	Moscow	100.00	
MISAB Sprinkler & VVS AB	Solna	100.00	
ZAO Caverion St. Petersburg	St. Petersburg	100.00	
OOO Caverion Elmek	Moscow	100.00	
Teollisuus Invest Ltd	Helsinki	100.00	
OOO Peter Industry Service	St. Petersburg	100.00	
Ltd Botnia Mill Service Ab [1)]	Kemi	49.83	
Kiinteistö Ltd Leppävirran Teollisuustalotie 1	Leppävirta	60.00	

[1)] Oy Botnia Mill Service Ab is fully consolidated due to Caverion Group's controlling interest based on shareholder's agreement.

Caverion doesn't have subsidiaries with material non-controlling interests based on Group's view.

Income statement, Parent company, FAS

EUR	Note	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Other operating income	1	59,848,844.93	57,942,916.48
Personnel expenses	2	–11,701,558.98	–10,707,456.14
Depreciation, amortization and impairments	3	–2,653,761.75	–2,292,434.06
Other operating expenses	4	–51,799,730.00	–47,230,229.91
OPERATING PROFIT / LOSS		**–6,306,205.80**	**–2,287,203.63**
Financial income and expenses	5	868,527.19	20,812,117.51
PROFIT / LOSS BEFORE APPROPRIATIONS AND TAXES		**–5,437,678.61**	**18,524,913.88**
Appropriations	6	8,997,909.45	11,545,916.81
Income taxes	7	–9,308.24	–2,022,257.75
PROFIT FOR THE FINANCIAL PERIOD		**3,550,922.60**	**28,048,572.94**

Balance sheet, Parent company, FAS

EUR	Note	Dec 31, 2017	Dec 31, 2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	8	12,324,665.65	19,443,160.52
Tangible assets	8	203,689.97	230,112.97
Investments	9	428,282,569.52	415,082,569.52
TOTAL NON-CURRENT ASSETS		**440,810,925.14**	**434,755,843.01**
CURRENT ASSETS			
Non-current receivables	10	60,000,000.00	60,120,000.00
Current receivables	11	87,310,537.62	44,158,340.88
Cash and cash equivalents		13,742,194.20	34,643,665.01
TOTAL CURRENT ASSETS		**161,052,731.82**	**138,922,005.89**
TOTAL ASSETS		**601,863,656.96**	**573,677,848.90**
EQUITY AND LIABILITIES			
EQUITY	12		
Share capital		1,000,000.00	1,000,000.00
Retained earnings		142,317,146.41	114,175,153.47
Profit for the period		3,550,922.60	28,048,572.94
Fair value reserve		–164,256.68	–295,661.98
Treasury shares		–3,213,988.55	–3,213,988.55
TOTAL EQUITY		**143,489,823.78**	**139,714,075.88**
APPROPRIATIONS	13	**724,423.33**	**722,332.78**
LIABILITIES			
Non-current liabilities	15	156,942,425.27	125,808,401.88
Current liabilities	16	300,706,984.58	307,433,038.36
TOTAL LIABILITIES		**457,649,409.85**	**433,241,440.24**
TOTAL EQUITY AND LIABILITIES		**601,863,656.96**	**573,677,848.90**

Cash flow statement, Parent company, FAS

EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Cash flow from operating activities		
Profit / loss before appropriations and taxes	–5,437,678.61	18,524,913.88
Adjustments for:		
Depreciation, amortization and impairments	2,653,761.75	2,292,434.06
Other adjustments	1,923,008.74	273,119.87
Financial income and expenses	–868,527.19	–20,812,117.51
Cash flow before change in working capital	**–1,729,435.31**	**278,350.30**
Change in working capital		
Change in trade and other current receivables	4,479,419.38	–299,755.23
Change in non-current receivables		6,100.00
Change in trade and other current payables	–761,918.08	2,372,920.22
Cash flow before financial items and taxes	**1,988,065.99**	**2,357,615.29**
Cash flow from operating activities		
Interest paid and other financial expenses	–34,391,750.56	–20,388,316.99
Dividends received	3,289,000.00	20,007,446.52
Interest received and other financial income	33,308,078.74	21,594,811.43
Income taxes paid	470,452.31	–4,643,449.76
Cash flow from operating activities	**4,663,846.48**	**18,928,106.49**
Cash flow from investing activities		
Purchases of tangible and intangible assets	–12,266,161.47	–10,118,198.40
Proceeds from the sale of tangible and intangible assets	15,142,385.35	
Change in non-current loan receivables	120,000.00	120,000.00
Change in current loan receivables	–49,684,409.21	–421,513.95
Investments in subsidiaries	–13,200,000.00	–13,500,000.00
Cash flow from investing activities	**–59,888,185.33**	**–23,919,712.35**
Cash flow from financing activities		
Group contributions received	11,400,000.00	17,500,000.00
Repayment of non-current borrowings	–68,666,666.66	–22,000,000.00
Proceeds from non-current borrowings	100,000,000.00	80,000,000.00
Change in short-term financing	–8,410,465.30	–48,818,719.22
Dividends paid		–35,023,520.28
Cash flow from financing activities	**34,322,868.04**	**–8,342,239.50**
Net change in cash and cash equivalents	**–20,901,470.81**	**–13,333,845.36**
Cash and cash equivalents at the beginning of the financial year	34,643,665.01	47,977,510.37
Cash and cash equivalents at the end of the financial year	13,742,194.20	34,643,665.01

Notes to the financial statements, Parent company

Caverion Corporation accounting principles

The financial statements have been prepared in accordance with the Finnish accounting standards (FAS).

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the date of transaction. The balance sheet has been translated using the European Central Bank rates on the closing date.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "Financial income and expenses".

Valuation of assets

Intangible and tangible assets are recognized in the balance sheet at original acquisition cost less planned depreciation and amortization and possible impairment.

Planned depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of assets are the following:

Intangible assets	2–5 years
Buildings and structures	10 years
Machinery and equipment	3 years

Investments in subsidiaries as well as other investments are recognized at original acquisition cost or at fair value if fair value is lower than acquisition cost.

Income recognition

The parent company's income consists of services provided to Group subsidiaries. These service sales are booked to other operating income. The income is recognized once the services have been provided.

Future expenses and losses

Future expenses and losses which relate to the current or previous financial years and which are likely or certain to materialize and do not relate to a likely or certain future income, are recognized as an expense in the appropriate income statement category. When the precise amount or timing of the expenses is not known, they are recorded as provisions in the balance sheet.

Accrual of pension costs

The pension cover of the parent company is handled by external pension insurance companies. Pension costs are recognized in the income statement in the year to which these contributions relate.

Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the reporting period end. These are classified as non-current. The assets are recognized at acquisition cost, and transaction costs are expensed in the income statement over the period of the loan to which they relate.

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of the business. If collection is expected in 12 months or less, they are classified as current. If not, they are classified as non-current.

Cash and cash equivalents include cash in hand, bank deposits withdrawable on demand and other liquid short-term investments with original maturities of three months or less.

Financial liabilities and other liabilities

Hybrid bond is presented as a financial liability in the balance sheet of the parent company's financial statements. Borrowings are recorded on the settlement date at acquisition cost, and transaction costs are expensed in the financing expenses of the statement of income over the period of the liability to which they relate. Other borrowing costs are expensed in the period during which they are incurred. Fees paid on the establishment of loan facilities are recognized as an expense over the period of the facility to which they relate. Borrowings are derecognized when their contractual obligations are discharged, cancelled or expire.

Borrowings are classified as current liabilities if payment is due within 12 months or less. If not, they are classified as non-current.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of the business from suppliers. Accounts payable are classified as current liabilities if payment is due within 12 months or less. If not, they are presented as non-current liabilities. Trade payables are recognized at acquisition cost.

Derivative instruments

Derivative contracts that are used to hedge currency and interest rate risks are valued at fair value. The fair values of interest rate swaps and foreign exchange derivatives are presented in Note 18 Derivative instruments.

Foreign exchange derivatives are used to hedge against changes in forecasted foreign currency denominated cash flows and changes in value of receivables and liabilities in foreign currency. Foreign exchange derivatives are valued employing the market forward exchange rates quoted on the balance sheet date. Foreign exchange gains and losses related to business operations are included in operating profit. Foreign exchange gains and losses associated with financing are reported in financial income and expenses. Foreign exchange derivatives mature within 2018. Hedge accounting is not applied to foreign exchange derivatives.

Interest rate derivatives are used to hedge against changes in market interest rates. The fair values of interest rate derivatives are derived by discounting the contractual future cash flows to the present value. The change in fair value of interest rate derivatives, for which hedge accounting is not applied, are recognized in the income statement within financial income and expenses during the period in which they incur. The changes in the fair value of derivative instruments that qualify for cash flow hedges are recognized in the fair value reserve in equity. Hedge accounting for interest rate swaps ceased to meet hedge effectiveness criteria and hedge accounting was discontinued during the financial year 2016. The accounting principles related to derivative instruments and hedge accounting are described more specifically in the Group's accounting principles in the section: Derivative instruments.

Income taxes

Income taxes relating to the financial year are recognized in the income statement. Deferred taxes have not been booked in the parent company's financial statements.

Notes to the income statement, Parent company

1. OTHER OPERATING INCOME

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Service income	59,848.8	57,942.9
Total	**59,848.8**	**57,942.9**

2. INFORMATION CONCERNING PERSONNEL AND KEY MANAGEMENT

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Personnel expenses		
Wages and salaries	9,425.4	9,079.8
Pension expenses	1,776.1	1,680.9
Other indirect personnel costs	500.1	–53.3
Total	**11,701.6**	**10,707.5**
Average number of personnel during the financial period	80.1	94.5
Salaries and fees to the management		
President and CEO	792.0	594.2
Members of the Board of Directors	454.9	375.9
Total	**1,246.9**	**970.1**

3. DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Amortization of intangible assets	2,627.3	2,241.4
Depreciation of buildings and structures	16.1	16.1
Depreciation of machinery and equipment	10.3	34.9
Total	**2,653.8**	**2,292.4**

4. OTHER OPERATING EXPENSES

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Fees paid to the Auditor of the company		
PriceWaterhouseCoopers Oy, Authorised Public Accountants		
Audit fee	310.7	223.5
Tax services	10.1	8.2
Other services	520.7	55.7
Total	**841.5**	**287.4**

5. FINANCIAL INCOME AND EXPENSES

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Dividend income		
From Group companies	3,289.0	20,007.4
Interest income from non-current investments		
From Group companies	2,348.3	1,922.3
Other interest and financial income		
From Group companies	3,115.7	1,564.4
From other companies	23.0	30.5
Total	**3,138.7**	**1,594.9**
Other interest and financial expenses		
Interest expenses to Group companies	–508.6	–409.1
Interest expenses to others	–5,408.3	–1,362.9
Other expenses to others	–2,347.5	–862.0
Valuation of interest rate derivatives at fair value	67.9	–179.4
Total	**–8,196.5**	**–2,813.5**
Exchange rate gains	28,657.1	18,108.0
Change in the fair value of derivatives	265.9	–109.4
Exchange rate losses	–28,633.8	–17,897.6
Total	**289.1**	**101.0**
Total financial income and expenses	**868.5**	**20,812.1**

6. APPROPRIATIONS

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Change in the difference between planned and taxation depreciation	–2.1	145.9
Group contributions received	9,000.0	11,400.0

7. INCOME TAXES

1,000 EUR	1.1.2017–31.12.2017	1.1.2016–31.12.2016
Income taxes on operating activities, current year	–58.2	–2,022.3
Income taxes on operating activities, previous years	48.9	
Total	**–9.3**	**–2,022.3**

Notes to the balance sheet, Parent company

8. CHANGES IN FIXED ASSETS

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Intangible assets		
Intangible rights		
Acquisition cost at Jan 1	11,212.8	9,745.7
Additions	1,414.8	1,467.1
Disposals		
Acquisition cost at Dec 31	12,627.6	11,212.8
Accumulated amortization and impairments Jan 1	–6,471.0	–4,229.6
Amortization for the period	–2,627.3	–2,241.4
Accumulated amortization and impairments Dec 31	–9 098.4	–6,471.0
Book value at December 31	**3,529.2**	**4,741.8**
Advance payments and construction in progress		
Acquisition cost at Jan 1	14,701.4	5,225.3
Additions	10,851.4	19,940.1
Disposals	–16,757.3	–10,464.0
Acquisition cost at Dec 31	8,795.4	14,701.4
Book value at December 31	**8,795.4**	**14,701.4**
Total intangible assets	**12,324.7**	**19,443.1**
Tangible assets		
Land and water areas		
Acquisition cost at Jan 1	109.8	109.8
Additions		
Disposals		
Acquisition cost at Dec 31	109.8	109.8
Book value at December 31	**109.8**	**109.8**
Buildings and structures		
Acquisition cost at Jan 1	160.9	160.9
Additions		
Disposals		
Acquisition cost at Dec 31	160.9	160.9
Accumulated depreciation and impairments Jan 1	–56.3	–40.2
Depreciation for the period	–16.1	–16.1
Accumulated depreciation and impairments Dec 31	–72.4	–56.3
Book value at December 31	**88.5**	**104.6**

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Machinery and equipment		
Acquisition cost at Jan 1	181.7	181.7
Additions		
Disposals		
Acquisition cost at Dec 31	181.7	181.7
Accumulated depreciation and impairments Jan 1	–166.1	–131.1
Depreciation for the period	–10.3	–34.9
Accumulated depreciation and impairments Dec 31	–176.4	–166.1
Book value at December 31	**5.4**	**15.7**
Total tangible assets	**203.7**	**230.1**

9. INVESTMENTS

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Shares in Group companies		
Acquisition cost at Jan 1	415,082.6	401,582.6
Additions	13,200.0	13,500.0
Disposals		
Acquisition cost at Dec 31	428,282.6	415,082.6
Total investments	**428,282.6**	**415,082.6**

10. NON-CURRENT RECEIVABLES

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Receivables from Group companies		
Loan receivables	60,000.0	60,120.0
Total non-current receivables	**60,000.0**	**60,120.0**

11. CURRENT RECEIVABLES

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Receivables from group companies		
Trade receivables	24,324.3	28,666.6
Loan receivables	50,582.0	897.6
Other receivables	9,548.9	11,858.7
Receivables, external		
Other receivables	477.6	191.5
Accrued income	2,377.8	2,544.0
Total	**87,310.5**	**44,158.3**
Accrued income consists of:		
Accrued financial expenses	1,167.5	688.2
Tax receivables	950.8	1,430.6
Other receivables	259.5	425.2
Total	**2,377.8**	**2,544.0**

12. EQUITY

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Share capital Jan 1	1,000.0	1,000.0
Share capital Dec 31	1,000.0	1,000.0
Retained earnings Jan 1	139,009.7	145,985.5
Treasury share reserve		–0.8
Share-based incentive plans	93.4	
Dividend distribution		–35,023.5
Retained earnings Dec 31	**139,103.2**	**110,961.2**
Net profit for the financial period	3,550.9	28,048.6
Fair value reserve Jan 1	–295.7	–295.7
Cash flow hedges	131.4	
Fair value reserve Dec 31	–164.3	–295.7
Total equity	**143,489.8**	**139,714.1**
Distributable funds at Dec 31		
Retained earnings	139,103.2	110,961.2
Net profit for the financial period	3,550.9	28,048.6
Fair value reserve	–164.3	–295.7
Distributable funds from shareholders' equity	**142,489.8**	**138,714.1**

Treasury shares of Caverion Corporation

December 31, 2017 parent company had treasury shares as follows:

	Number	Total number of shares	% of total share capital and voting rights
	512,328	125,596,092	0.41%

Caverion Corporation has not acquired or received own shares during the financial year 2017.

13. APPROPRIATIONS

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Accumulated depreciation difference Jan 1	722.3	868.2
Increase / Decrease	2.1	–145.9
Accumulated depreciation difference Dec 31	**724.4**	**722.3**

14. DEFERRED TAX RECEIVABLES AND LIABILITIES

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Deferred tax assets		
Other temporary differences		307.0
Total		**307.0**
Deferred tax liabilities		
Accumulated depreciation difference	144.9	144.2
Other temporary differences		80.9
Total	**144.9**	**225.1**

Deferred taxes have not been recognized in the parent company's financial statements.

15. NON-CURRENT LIABILITIES

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Liabilities to Group companies		
Other loans	6,666.7	15,333.3
Liabilities, external		
Loans from credit institutions	50,000.0	110,000.0
Hybrid bond	100,000.0	
Derivative liabilities	275.8	475.1
Total	**156,942.4**	**125,808.4**

16. CURRENT LIABILITIES

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Liabilities to Group companies		
Trade payables	1,253.1	854.4
Accrued expenses	212.6	3,186.1
Other liabilities	262,148.8	240,638.4
Liabilities, external		
Loans from credit institutions	20,000.0	20,000.0
Commercial papers	4,999.6	34,993.7
Trade payables	4,286.6	1,818.5
Other current liabilities	240.2	1,387.8
Accrued expenses	7,566.0	4,554.0
Total	**300,707.0**	**307,433.0**
Accrued expenses consist of:		
Personnel expenses	2,466.5	2,920.5
Interest expenses	2,844.2	226.1
Accrued expenses for group companies	212.6	3,186.1
Other expenses	2,255.3	1,407.4
Total	**7,778.7**	**7,740.1**

17. COMMITMENTS AND CONTINGENT LIABILITIES

1,000 EUR	Dec 31, 2017	Dec 31, 2016
Leasing commitments		
Payable during the next fiscal year	1,107.5	979.9
Payable during subsequent years	4,358.0	4,845.0
Total	**5,465.6**	**5,824.9**
Guarantees		
On behalf of Group companies		
Contractual work guarantees	446,446.3	509,005.6
Loan guarantee	15,333.3	24,000.0
Leasing commitment guarantees	7,814.8	12,720.0
Factoring related guarantees	4,288.8	

18. DERIVATIVE INSTRUMENTS

1,000 EUR	Dec 31, 2017	Dec 31, 2016
External foreign currency forward contracts		
Fair value	136.4	–133.6
Value of underlying instruments	77,020.0	26,915.6
Internal foreign currency forward contracts		
Fair value	–24.7	–20.7
Value of underlying instruments	4,487.3	3,457.3
Interest rate swaps		
Fair value	–275.8	–475.1
Value of underlying instruments	50,000.0	70,000.0

Derivative instruments are categorized to be on Level 2 in the fair value hierarchy.
The fair values for the derivative instruments categorized in Level 2 have been defined as follows:

The fair values of foreign exchange forward agreements have been defined by using the market prices at the closing day of the fiscal year. Hedge accounting for interest rate swaps ceased to meet hedge effectiveness criteria and hedge accounting was discontinued during the financial year 2016. The fair value of interest rate swaps are based on discounted cash flows.

There were no transfers between the levels of the fair value hierarchy during the period.

19. SALARIES AND FEES TO THE MANAGEMENT

Decision-making procedure regarding remuneration

Caverion Corporation's Annual General Meeting decides on the remuneration of the Board of Directors. The Human Resources Committee of the Board of Directors is responsible for preparing the remuneration of the Board of Directors proposed for the Annual General Meeting. The Human Resources Committee also prepares general remuneration principles, short- and long-term incentive schemes and the compensation policy of Caverion Group which the Board of Directors approves.
The Board of Directors appoints the President and CEO and approves his/her terms of employment and remuneration. The Board of Directors also appoints the members of the Group Management Board. According to Caverion guidelines all individual remuneration decisions have to be approved by applying the manager's manager principle. Regarding Group Management Board members, the Chairman of the Board approves Group Management Board members' remuneration decisions.

Remuneration of the Board of Directors

Based on the decisions of the Caverion Corporation's Annual General Meeting on March 17, 2017, the members of the Board of Directors are entitled to the following fees:

- Chairman of the Board of Directors EUR 6,600 per month (EUR 79,200 per year)
- Vice Chairman of the Board of Directors EUR 5,000 per month (EUR 60,000 per year)
- Members of the Board of Directors EUR 3,900 per month (EUR 46,800 per year)

A meeting fee of EUR 550 is paid for each Board and Committee meeting attended in addition to the associated travel costs. None of the Board members have an employment relationship or service contract with Caverion Group and they are not covered by any of Caverion Group's short- or long-term incentive schemes or pension plans.

Fees paid to the members of the Board of Directors

EUR	Board membership	Audit committee meetings	Personnel committee meetings	Board meetings	Total 2017	Total 2016
Jussi Aho	36,965		1,650	5,500	44,115	
Markus Ehrnrooth	57,226	4,400		7,700	69,326	57,250
Joachim Hallengren	36,965		1,100	5,500	43,565	
Antti Herlin	35,609			2,200	37,809	
Thomas Hinnerskov	36,965	3,850		4,400	45,215	
Anna Hyvönen	46,800		2,200	6,600	55,600	56,150
Ari Lehtoranta						78,100
Eva Lindqvist	46,800	3,850		7,150	57,800	57,250
Ari Puheloinen	9,835		550	1,650	12,035	56,150
Michael Rosenlew	75,165	4,400	2,200	7,700	89,465	71,000
Total	**382,330**	**16,500**	**7,700**	**48,400**	**454,930**	**375,900**

Management remuneration

The remuneration paid to the Group's Management Board members consists of:

- Fixed base salary
- Fringe benefits
- Short-term incentive scheme, such as annual performance bonus plan, and
- Long-term incentive schemes, such as share-based incentive plans

Short term incentive schemes

The basis of remuneration at Caverion is a fixed base salary, in addition to which Group's management and most of the salaried employees are included in a performance based short-term incentive plan. The aim of the annual short-term incentive plan is to reward the management and selected employees based on the achievement of pre-defined and measurable financial and strategic targets. The Board of Directors ratifies the rules of the short-term incentive plan every year, according to which possible incentives are paid. Performance of the Group, the President and CEO as well as Group Management Board members is evaluated by the Board of Directors. The amount of possible incentives is approved by the Board of Directors after the financial statements have been prepared.

The amount of the possible incentive payment is based on the achievement of the set financial performance targets, such as the Group's and/or division's and / or unit's financial result, strategic targets and/or development objectives set separately. Individual target incentive opportunity and maximum incentive opportunity are based on role responsibilities. Possible incentive payments can vary from zero payment to the pre-defined maximum incentive payment based on the achievement of targets set.

Performance and development discussions are an essential part of the annual incentive plan and performance development process at Caverion. In these discussions, individual targets, their relative weighting and achievement of the previously agreed targets are reviewed.

The maximum short-term incentive paid to the President and CEO may equal 100% of the annual fixed base salary. The maximum short-term incentive plan paid to the members of the Group Management Board may equal 70% of the annual fixed base salary.

Long-term incentive schemes

Long-term incentive schemes at Caverion are determined by the Board of Directors and they are part of the management remuneration at Caverion Group. The key aim is to align the interests of the shareholders and the executives in order to promote shareholder value creation and to support Caverion in becoming a leading service company and a selective master of projects by covering the whole life cycle of buildings, industries and infrastructure. In addition, the aim is to commit the key executives to the company and its strategic targets and to offer them a competitive reward plan based on the ownership of the company's shares.

Share-based long-term incentive plan 2014-2016

The Board of Directors approved Performance share plan 2014–2016 in its May 2014 meeting. The plan consisted of one three-year performance period in 2014–2016, followed by a one-year vesting period. The targets set for the plan were not met and therefore no reward will be paid to the participants of the plan.

Share-based long-term incentive plan 2016–2018

Caverion's Board of Directors approved a share-based long-term incentive plan in its December 2015 meeting. The plan consists of a Performance Share Plan, complemented with a Restricted Share Plan for special situations. Both plans consist of annually commencing individual plans, each with a three-year period. The commencement of each new plan is subject to a separate decision of the Board.

The Performance Share Plan 2016–2018 consists of a one-year operative financial performance period (2016), followed by a two-year share price performance period. The potential reward has been based on the targets set for Group revenue and Earnings per share (EPS) until the end of 2016. The targets set for the Performance Share Plan 2016–2018 were not met and therefore no reward will be paid to the participants of the plan.

Share-based long-term incentive plan 2017–2019

Caverion's Board of Directors approved a share-based long-term incentive plan in its December 2016 meeting. The plan consists of a Performance Share Plan, complemented with a Restricted Share Plan for special situations. Both plans consist of annually commencing individual plans, each with a three-year period. The commencement of each new plan is subject to a separate decision of the Board.

The Performance Share Plan 2017–2019 consists of a one-year operative financial performance period (2017), followed by a two-year share price performance period. The potential reward is based on the targets set for Group revenue and Earnings per share (EPS) until the end of 2017. The targets set for the Performance Share Plan 2017–2019 were not met and therefore no reward will be paid to the participants of the plan.

Remuneration paid to the President and CEO

The Board of Directors decides on the remuneration, benefits and other terms of the Managing Director agreement of the President and CEO. The remuneration paid to the President and CEO consists of fixed base salary, fringe benefits, annual short-term incentive plan, long-term incentive plan and other possible benefits such as a defined contribution pension scheme. The President and CEO's annual short-term incentive can be up to 100% of the annual fixed base salary. In 2017, 50% of the total incentive opportunity was based on Group's EBITDA and 50% on Group's cash flow. These measures are based on Caverion's strategic targets.

Ari Lehtoranta's pension, retirement age and termination compensation

The contractual retirement age of the President and CEO Ari Lehtoranta is 63 years. He has a supplementary defined contribution pension plan. During 1.1.2017–31.12.2017 the cost of his total pension scheme was EUR 132,000.

The President and CEO's notice period for both parties is six months. Severance pay (if the company terminates the agreement) is compensation amounting to 12 months' base salary as monthly payments after the termination date.

The company has continued the previous President and CEO's Mr. Fredrik Strand's severance payment until November 2017 according to the agreement. The amount of the severance payment paid in 2017 was 458,804 euros.

Remuneration paid to the President and CEO in 2017

Ari Lehtoranta's base salary and fringe benefits as the President and CEO during 1.1.–31.12.2017 were in total EUR 660,000. Ari Lehtoranta has been granted 50,000 Restricted Share Units according to the terms and conditions of the Caverion's long-term incentive plan approved by the Board of Directors.

	Fixed base salary	Fringe benefits	Short-term incentive payment	Total pension scheme	Total 2017
Ari Lehtoranta 1.1.–31.12.2017	659,760	240		132,000	792,000

President and CEO's pension costs		Total 2017
Ari Lehtoranta	Statutory pension scheme	111,540
Ari Lehtoranta	Defined contribution pension scheme	132,000

A regularly updated table on the Group Management Board members' holdings of shares is available in the Insider Register.

Loans to associated parties

The President and CEO and the members of the Board of Directors did not have cash loans from the company or its subsidiaries on December 31, 2017.

Signatures to the Board of Directors' report and Financial statements and Auditor's note

Board of Directors' proposal for the distribution of distributable equity

The distributable equity of Caverion Corporation on 31 December 2017 is (EUR):

Retained earnings	139,103,157.86
Profit for the period	3,550,922.60
Retained earnings, total	**142,654,080.46**
Fair value reserve	–164,256.68
Distributable equity, total	**142,489,823.78**

The Board of Directors proposes to the Annual General Meeting that no dividend will be paid for 2017.

Signatures to the Board of Directors Report and Financial Statements

Helsinki, February 6, 2018

Caverion Oyj
Board of Directors

Michael Rosenlew
Chairman

Markus Ehrnrooth
Vice Chairman

Jussi Aho Joachim Hallengren Antti Herlin

Thomas Hinnerskov Anna Hyvönen Eva Lindqvist

Ari Lehtoranta
President and CEO

The Auditor's Note

Our auditor's report has been issued today

Helsinki, February 7, 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Heikki Lassila
Authorised Public Accountant

Auditor's Report
(Translation of the Finnish Original)

To the Annual General Meeting of Caverion Oyj

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Caverion Oyj (business identity code 2534127–4) for the year ended 31 December 2017. The financial statements comprise:

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

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

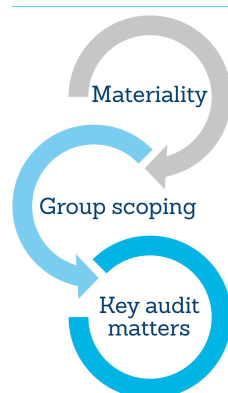
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.2 to the Financial Statements.

Our Audit Approach

Overview



- Overall group materiality: 5,7 million euro, which represents 0,25% of group's revenue.

- The group audit scope included the significant reporting units in Austria, Denmark, Finland, Germany, Norway and Sweden, covering the vast majority of revenue, assets and liabilities.

- Revenue recognition
- Valuation of trade receivables past due 360 days
- Valuation of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	5,7 million euro
How we determined it	0,25% of group's revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the most appropriate benchmark given the performance of the group this year. We chose 0,25% which corresponds to our understanding of the company and its business environment and is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component auditors from other PwC network firms operating under our instruction. We performed audits of the financial information at 9 reporting units in Austria, Denmark, Finland, Germany, Norway and Sweden which are considered significant either because of their individual financial significance or due to their specific nature. These audits covered a vast majority of revenue, assets and liabilities of the Group. We also carried out specific audit procedures over group functions and areas of significant judgement, including goodwill, taxes and material claims at the Group's head office. For the remaining reporting units, we performed analytical procedures.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Revenue recognition	
Refer to note 2.1 in the consolidated financial statements for the accounting principles of revenue recognition and detail of revenues recognized. Revenue recognition, especially related to the group's project business, is significant to the financial statements based on the degree of management judgment and accounting estimates required to account for revenue. Revenue is recognised using the percentage of completion method, where progress is determined in most cases by comparing actual costs incurred to date with the total estimated costs of the contract. Various factors of uncertainty related to future events affect the projections made regarding the total revenues and costs related to a project, for example contracts may be amended while their execution is in progress. The judgments related to revenue recognition reflect both management's experience of similar projects and its expectations regarding future events. Significant management judgements relate to possible sales contract additions and cost estimates, and accordingly our audit procedures were focused on these areas.	We assessed the group's revenue recognition policies for compliance with the applicable accounting standards. Our testing of revenue included both testing of the company's controls, as well as substantive audit procedures targeted at selected contracts. Our testing of controls focused on the IT systems and process level controls used by the company. Our substantive testing of the revenue and project margin on projects focused on the estimates and assumptions applied by management. Our procedures included, on a sample basis, the following: ◦ Agreeing total project revenue estimates to sales contracts, and amendments as appropriate. ◦ Testing the accuracy of the cost estimates by examining supporting documents and discussing the progress and the specific risks of the contracts with project management. ◦ Recalculating the project completion stage by comparing actual costs incurred to date in the accounting records, with the total estimated costs of the contract. ◦ Performing retrospective test of contracts completed during the financial year, whereby historical margin estimates were compared to actual outcomes.

Key audit matter in the audit of the group	How our audit addressed the key audit matter

Valuation of trade receivables past due over 360 days

Refer to note 3.2 in the consolidated financial statements for the related disclosures.

At 31 December 2017 the group's accounts receivable balance past due over 360 days amounted to 37,5 million euro.

As described in note 3.2 to the consolidated financial statements, an allowance for impairment of 100 per cent is recognised for amounts which are overdue more than 360 days. Any deviation from the above rule is allowed only in specific circumstances.

Our audit focused on receivables past due over 360 days, because the balance is significant and the valuation requires special judgment by the management, including expectations about the future.

Our audit procedures included an evaluation of the significant judgments made by management not to impair the trade receivables past due over 360 days. For this purpose, we examined documentation supporting the valuation of these trade receivables and discussed the judgements and the status of the collection process with business, finance and legal management of the entity and the group.

We also tested the group's disclosures about the trade receivables and the related risks, such as credit risk, and the aging of trade receivables in notes 3.2 and 5.4 in the consolidated financial statements.

Key audit matter in the audit of the group	How our audit addressed the key audit matter

Valuation of Goodwill

Refer to note 4.2 in the consolidated financial statements for details of goodwill.

At 31 December 2017 the group's goodwill balance amounted to 331,6 million euro.

The company tests goodwill for potential impairment annually and whenever there is an indication that the carrying value may be impaired. The recoverable amount is compared to the carrying value of the goodwill in the cash generating units.

The recoverable amounts are determined using the Value In Use model. Value In Use calculations are subject to significant management judgement, especially regarding future cash flows and discount rates.

Our audit procedures were focused on the valuation of goodwill due to the size of the goodwill balance and the high level of management judgement involved.

We evaluated the assumptions used by the management in the impairment calculation.

We tested the methodology applied in the Value In Use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model.

We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the latest Board approved budgets.

We tested the key underlying assumptions for the cash flow forecasts, including revenue and profitability forecasts, discount rate used and the implied growth rate beyond the forecasted period.

We compared the financial year 2017 actual results to the result forecasts included in the impairment test in 2016.

We considered whether the sensitivity analysis performed by management around key drivers of the cash flow forecast was appropriate by considering the likelihood of the movements of these key assumptions.

We additionally assessed the discount rates applied within the model for appropriateness.

We also considered the appropriateness of the related disclosures provided in note 4.2 in the Group financial statements.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material

misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Appointment

We have acted as Auditors appointed by the annual general meeting since 30 June 2013. Our appointment represents a total period of uninterrupted engagement of 5 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

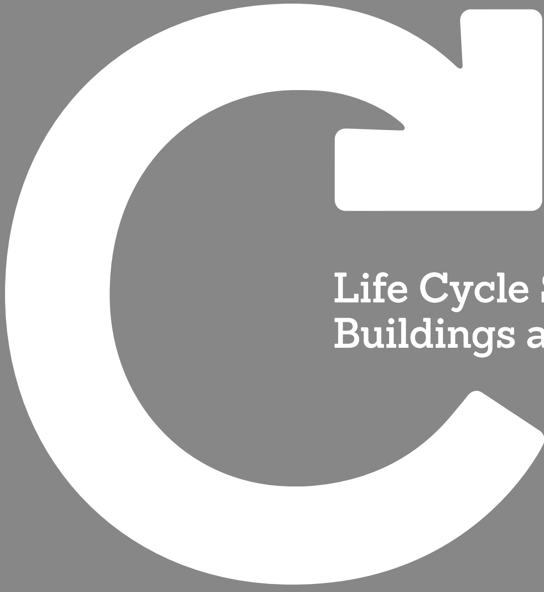
- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 7 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountant

Heikki Lassila
Authorised Public Accountant



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Buildings and Industries

Caverion Corporation
P.O.Box 59
FI-00621 Helsinki
Tel. +358 10 4071
www.caverion.com
annualreport2017.caverion.com