Caverion

Q4

Financial Statement Release 2017

Caverion Corporation Financial Statement Release February 7, 2018 at 8.00 a.m. EET

Caverion Corporation's Financial Statement Release for January 1 – December 31, 2017

Turnaround and new strategy paving the way for the future

October 1 – December 31, 2017

- **Revenue:** EUR 590.3 (606.0) million
- **EBITDA excluding restructuring costs:** EUR 3.7 (-10.5) million, or 0.6 (-1.7) percent of revenue
- **EBITDA:** EUR 8.6 (-22.2) million, or 1.5 (-3.7) percent of revenue
- **Free cash flow:** EUR 82.0 (28.0) million
- **Earnings per share, undiluted:** EUR -0.03 (-0.17) per share

January 1 – December 31, 2017

- **Order backlog:** EUR 1,491.0 (1,408.1) million
- **Revenue:** EUR 2,282.8 (2,364.1) million
- **EBITDA excluding restructuring costs:** EUR 18.3 (15.6) million, or 0.8 (0.7) percent of revenue
- **EBITDA:** EUR 11.0 (-11.4) million, or 0.5 (-0.5) percent of revenue
- **Working capital:** EUR 6.1 (-2.6) million
- **Free cash flow:** EUR -8.5 (-72.1) million
- **Earnings per share, undiluted:** EUR -0.19 (-0.25) per share

Unless otherwise noted, the figures in brackets refer to the corresponding period in the previous year.

KEY FIGURES

EUR million	10–12/17	10–12/16	Change	1–12/17	1–12/16	Change
Order backlog				1,491.0	1,408.1	5.9%
Revenue	590.3	606.0	-2.6%	2,282.8	2,364.1	-3.4%
EBITDA excluding restructuring costs	3.7	-10.5		18.3	15.6	17.5%
EBITDA margin excluding restructuring costs, %	0.6	-1.7		0.8	0.7	
EBITDA	8.6	-22.2		11.0	-11.4	
EBITDA margin, %	1.5	-3.7		0.5	-0.5	
Operating profit	0.8	-29.2		-19.3	-40.8	52.7%
Operating profit margin, %	0.1	-4.8		-0.8	-1.7	
Result for the period	-2.6	-21.7	88.2%	-20.9	-31.7	34.2%
Earnings per share, undiluted, EUR	-0.03	-0.17	83.9%	-0.19	-0.25	25.3%
Free cash flow	82.0	28.0	192.9%	-8.5	-72.1	88.2%
Working capital				6.1	-2.6	
Interest-bearing net debt				64.0	145.5	-56.0%
Gearing, %				24.4	78.7	
Personnel, end of period				16,216	16,913	-4.1%

DIVIDEND PROPOSAL

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

Word from the President and CEO Ari Lehtoranta

"Caverion's turnaround programme continued in 2017. For the full year of 2017, our EBITDA excluding restructuring costs improved to EUR 18.3 (15.6) million. Our result for the year was far from satisfactory. Even though we continued implementing numerous corrective actions to improve our project business performance, we were forced to book write-downs and negative forecast changes in a number of older projects. During the year it became evident that while our newer projects are already showing better performance, it takes some time before the impacts of our corrective actions are more visible in our results. At the same time we started to build a new stronger Caverion and implement our "Fit for Growth" strategy, which is paving our way for the future.

In the fourth quarter of 2017, we continued our selective approach towards the Projects business and the further strengthening of our Services business. Our EBITDA excluding restructuring costs was EUR 3.7 (-10.5) million. The result was still impacted by project write-downs of EUR 5.7 (39.9) million and other one-off costs, as an example, legal costs for settling risk projects, as well as a capital gain from the sale of the non-core product business under the Krantz brand in Germany. The result was also impacted by negative forecast changes in other older projects and our more prudent revenue recognition related to change orders in projects. Performance in the Projects business unit was poor. On the other hand, the Services business unit continued to improve its performance.

Caverion's revenue for the fourth quarter of 2017 was EUR 590.3 (606.0) million. In accordance with our target, the Services business grew by 4.1 percent. The revenue of the Projects business decreased by 10.1 percent due to our more selective project business tendering. The growth in Services led to our highest ever Q4 order backlog. Our Services order backlog increased by 18.5 percent year-on-year, while in Projects the order backlog decreased by 2.8 percent. In addition to being selective in tendering, we closed down several poor-performing project units during the year. This is part of our strategic transformation. For the full year of 2017, our revenue was EUR 2,282.8 (2,364.1) million.

By division, Denmark-Norway improved its performance significantly in the fourth quarter. Divisions Finland and Austria also delivered further increasing results. The result in Industrial Solutions improved gradually from the previous quarters. The result in Germany was positive due to the Krantz capital gain, while the underlying performance was still negative due to project write-downs and negative forecast changes. Sweden materially improved its performance but the result remained negative.

About one third of projects in our project order backlog have been started in 2016 or earlier and there are some risks remaining until these projects are completed. However, we believe that the remaining project risks mainly relate to three completed Large Projects in Industrial Solutions, the impacts of which will be separately reported under "Items affecting comparability". The project business should materially improve its result in 2018.

We continued to realise savings from the completed restructuring actions and discretionary fixed cost savings. Our personnel expenses decreased by 4.9 percent and other operating expenses by 4.6 percent from the previous year in January–December. This is satisfying, while taking into account that we simultaneously had turnaround related one-off costs.

One of the highlights of the fourth quarter was our improved financial position. Our cash flow and working capital improved substantially. Our free cash flow was EUR 82.0 (28.0) million. We were able to free up cash, for example, by making an important settlement agreement regarding the Berlin Airport project. Through the agreement we agreed on all existing change orders in the project so far and on the finalisation of the project. Our working capital decreased to EUR 6.1 million from EUR 75.7 million at the end of the third quarter. Our net debt reduced to EUR 64.0 (145.5) million and the gearing to 24.4 (78.7) percent. I am happy about the improved cash flow as it is a good indicator of the direction of the underlying business.

We took forward the implementation of our new strategy, in particular the actions of the "Top Performance at Every Level" Must-Win. This programme has different performance management sub-streams touching all pivotal areas of our operations. Our main focus will be the implementation of this Must-Win during the "Fit" phase of our strategy. We will also develop further our service and digital solutions offering.

Looking forward into 2018, our market environment remains favourable. At the same time, our customer satisfaction has improved, our personnel is getting good feedback on their competences and service mindset and our renewed leadership team is in place to take next important steps in improving our performance."

OUTLOOK FOR 2018

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 market is 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.

Turnaround programme – Items affecting EBITDA and operating profit*

EUR million	10–12/17	10–12/16	1–12/17	1–12/16
EBITDA	8.6	-22.2	11.0	-11.4
EBITDA margin, %	1.5	-3.7	0.5	-0.5
Items affecting EBITDA and operating profit				
- Project write-downs**	5.7	39.9	31.2	59.0
- Restructuring costs	-4.9	11.7	7.3	26.9

** The effect of the risk from overdue trade receivables and the utilisation risk excluded for 2017.*
*** 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.*

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%

INFORMATION SESSION, WEBCAST AND CONFERENCE CALL

Caverion will hold a news conference and webcast on the Financial Statement Release on Wednesday, February 7, 2018, at 11:00 a.m. (Finnish Time, EET) at the Glo Hotel Kluuvi (VideoWall meeting room), Kluuvikatu 4, 2nd floor, Helsinki, Finland. The news conference can also be viewed live on Caverion’s website at www.caverion.com/investors. It is also possible to participate in the event through a conference call by calling the assigned number +44 (0)330 336 9105 at 10:55 a.m. (Finnish time, EET) at the latest. Participant code for the conference call is “5038191 / Caverion”. More practical information on the news conference can be found on Caverion's website, www.caverion.com/investors.

Financial information to be published in 2018

The Annual Report, including the financial statements for 2017, will be published on Caverion's website and IR App in English and Finnish during week 9/2018, at the latest. Interim/Half-yearly Reports will be published on April 24, July 25 and October 25, 2018.

Financial reports and other investor information are available on Caverion's website, www.caverion.com/investors, and IR App. The materials may also be ordered by sending an e-mail to IR@caverion.com.

CAVERION CORPORATION

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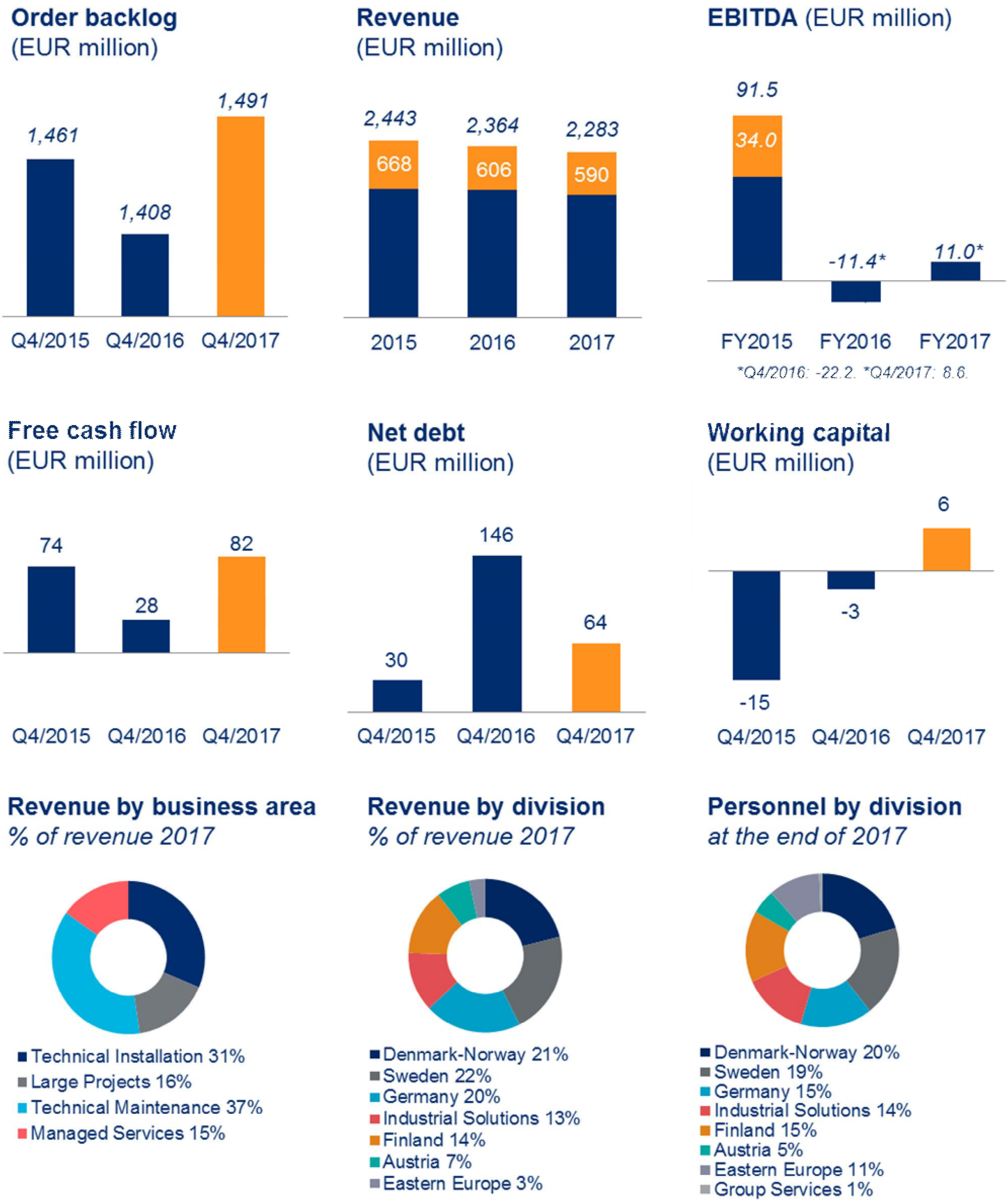
GROUP FINANCIAL DEVELOPMENT

Key Figures



Operating environment in the fourth quarter and during 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.

Revised guidance for 2017

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). Previous profitability guidance was that the Group’s EBITDA excluding restructuring costs will more than double in 2017 (2016: EUR 15.6 million). The previous revenue guidance remained unchanged, according to which Caverion estimated that the Group’s revenue will remain at the previous year's level in 2017 (2016: EUR 2,364 million).

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, the impacts of which will be separately reported under “Items affecting comparability”. Estimated risk areas also include the outcome of the decision on competition law investigation in Germany.

Turnaround programme – Items affecting EBITDA and operating profit*

EUR million	10–12/17	10–12/16	1–12/17	1–12/16
EBITDA	8.6	-22.2	11.0	-11.4
EBITDA margin, %	1.5	-3.7	0.5	-0.5
Items affecting EBITDA and operating profit				
- Project write-downs**	5.7	39.9	31.2	59.0
- Restructuring costs	-4.9	11.7	7.3	26.9

** The effect of the risk from overdue trade receivables and the utilisation risk excluded for 2017.*

*** 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

October–December

Revenue for October–December was EUR 590.3 (606.0) million. Revenue decreased by 2.6 percent compared to the previous year. There was a negative impact for the period especially from the Group's more selective approach towards the Projects business. Revenue increased from the previous year in Austria, Germany and Denmark-Norway, while it decreased in other divisions. Project write-downs also affected revenue for the period. The result was also impacted by the Group's more prudent revenue recognition in particular related to change orders.

At previous year's exchange rates revenue was EUR 596.5 million and decreased by 1.6 percent compared to the previous year. Changes in the Swedish crown accounted for EUR -0.6 million, the Norwegian crown for EUR -5.7 million and the Russian rouble for EUR -0.1 million.

Revenue of the Services business was EUR 333.4 (320.3) million in October–December, an increase of 4.1 percent from the corresponding period last year. Services business revenue consisted of the Technical Maintenance revenue of EUR 236.5 (235.8) million and the Managed Services revenue of EUR 96.9 (84.5) million. Revenue decreased in the Projects business by 10.1 percent from the corresponding period last year due to more selective tendering. Revenue of the Projects business was EUR 256.9 (285.7) million in October–December, consisting of the Technical Installation revenue of EUR 177.3 (198.9) million and Large Projects revenue of EUR 79.6 (86.8) million.

Services business accounted for 56.5 (52.9) percent of Group revenue and Projects business for 43.5 (47.1) percent of Group revenue in October–December.

January–December

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	10–12/ 2017	%	10–12/ 2016	%	Change	1–12/ 2017	%	1–12/ 2016	%	Change
Denmark-Norway	126.8	21%	124.5	21%	2%	481.5	21%	455.8	19%	6%
Sweden	128.0	22%	135.0	22%	-5%	492.2	22%	531.8	22%	-7%
Germany	119.8	20%	116.6	19%	3%	465.3	20%	506.6	21%	-8%
Industrial Solutions	68.2	12%	80.5	13%	-15%	287.3	13%	317.7	13%	-10%
Finland	81.1	14%	85.2	14%	-5%	317.3	14%	320.7	14%	-1%
Austria	45.3	8%	42.0	7%	8%	161.9	7%	153.0	6%	6%
Eastern Europe	21.2	4%	22.1	4%	-4%	77.2	3%	78.7	3%	-2%
Group, total	590.3	100%	606.0	100%	-3%	2,282.8	100%	2,364.1	100%	-3%
Projects business	256.9	44%	285.7	47%	-10%	1,087.6	48%	1,233.6	52%	-12%
- Technical Installation	177.3	30%	198.9	33%	-11%	716.2	31%	782.3	33%	-8%
- Large Projects	79.6	13%	86.8	14%	-8%	371.4	16%	451.3	19%	-18%
Services business	333.4	56%	320.3	53%	4%	1,195.2	52%	1,130.6	48%	6%
- Technical Maintenance	236.5	40%	235.8	39%	0%	850.5	37%	817.8	35%	4%
- Managed Services	96.9	16%	84.5	14%	15%	344.6	15%	312.8	13%	10%

Profitability

EBITDA

October–December

EBITDA excluding restructuring costs was EUR 3.7 (-10.5) million, or 0.6 (-1.7) percent of revenue in October–December. EBITDA for October–December was EUR 8.6 (-22.2) million, or 1.5 (-3.7) percent of revenue.

Division Denmark-Norway improved its performance significantly in the fourth quarter. Divisions Finland and Austria also delivered further increasing results. The result in Industrial Solutions improved gradually from the previous quarters. The result in Germany was positive due to a capital gain from the sale of Krantz product business, while the underlying performance was still negative due to project write-downs. Performance in the Projects business unit was poor. On the other hand, the Services business unit continued to improve its performance.

Profitability was burdened by project business write-downs and other one-off costs. Caverion made risk project write-downs totalling EUR 5.7 (39.9) million. These write-downs were negative forecast changes and cost overruns related to earlier identified risk projects. The result was also impacted by negative forecast changes in older projects and the Group's more prudent revenue recognition related to change orders in projects.

Costs related to materials and supplies decreased to EUR 163.1 (168.9) million and external services to EUR 116.5 (123.1) million in October–December. Personnel expenses decreased by 7.8 percent and other operating expenses by 2.3 percent from the previous year. Personnel expenses for October–December amounted to a total of EUR 239.4 (259.6) million. Other operating expenses decreased to EUR 75.3 (77.1) million. Other operating income was EUR 12.6 (0.6) 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.

January–December

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

October–December

Operating profit for October–December was EUR 0.8 (-29.2) million, or 0.1 (-4.8) percent of revenue.

Depreciation, amortisation and impairment amounted to EUR 7.8 (7.0) million in October–December, of which EUR 0.6 (1.1) million were allocated intangibles related to acquisitions and EUR 7.2 (5.9) million were other depreciations, amortisation and impairments, the majority of which related to IT.

January–December

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.

Cash flow, working capital and financing

The Group's free cash flow improved in the fourth quarter and amounted to EUR 82.0 (28.0) million in October-December. 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.

PERSONNEL

Personnel by division, end of period	12/17	9/17	Change	12/17	12/16	Change
Denmark-Norway	3,253	3,325	-2%	3,253	3,330	-2%
Sweden	3,150	3,216	-2%	3,150	3,557	-11%
Germany	2,453	2,490	-1%	2,453	2,452	0%
Industrial Solutions	2,208	2,265	-3%	2,208	2,357	-6%
Finland	2,444	2,448	0%	2,444	2,439	0%
Austria	840	841	0%	840	811	4%
Eastern Europe	1,754	1,787	-2%	1,754	1,841	-5%
Group Services	114	111	3%	114	126	-10%
Group, total	16,216	16,483	-2%	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.

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.

SIGNIFICANT SHORT-TERM RISKS AND UNCERTAINTIES

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 and in the financial tables to this Financial Statements Release under note 5.

RESOLUTIONS PASSED AT THE ANNUAL GENERAL MEETING

The Annual General Meeting of Caverion, held on March 17, 2017, adopted the Financial Statements for the year 2016 and discharged the members of the Board of Directors and the President and CEO from liability. In addition, the Annual General Meeting resolved on the use of the profit shown on the balance sheet and the payment of dividend, the amendment of the Articles of Association, the composition of members of the Board of Directors and their remuneration, the election of the auditor and its remuneration as well as authorised the Board of Directors to decide on the repurchase of the company's own shares and share issues.

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.

The stock exchange release on the resolutions passed at the Annual General Meeting is available on Caverion's website at http://www.caverion.com/about-us/media/releases.

The Board of Directors held its organisational meeting on March 17, 2017. At the meeting the Board decided on the composition of the Human Resources Committee and the Audit Committee. A description of the committees' tasks and charters are available on Caverion's website at www.caverion.com/investors - Corporate Governance.

DIVIDENDS AND DIVIDEND POLICY

The Annual General Meeting, held on March 17, 2017, decided according to the proposal of the Board of Directors that no dividend will 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.

SHARES AND SHAREHOLDERS

Caverion Corporation is a public limited company organised under the laws of the Republic of Finland, incorporated on June 30, 2013. The company 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.

Share capital and number of shares

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.

Authorisations of the Board of Directors

Authorising Caverion's Board of Directors to decide on the repurchase of own shares of the company

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.

Authorising Caverion's Board of Directors to decide on share issues

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 authorised 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.

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.

Number of shareholders and flagging notifications

At the end of December 2017, the number of registered shareholders in Caverion was 28,561 (9/2017: 28,660). At the end of December 2017, a total of 32.2 percent of the shares were owned by nominee-registered and non-Finnish investors (9/2017: 34.9%).

Caverion Corporation has on December 12, 2017 received an announcement under Chapter 9, Section 5 of the Finnish Securities Markets Act, according to which the holding of Antti Herlin, a member of the Board of Directors in Caverion Corporation, in Caverion Corporation through Security Trading Oy (“Security Trading”, a company owned by Antti Herlin) has exceeded the threshold of 15 percent. According to the announcement, the combined holding of Antti Herlin and Security Trading in Caverion has on December 11, 2017 increased to 18,900,180 shares, corresponding to 15.05% per cent of Caverion’s shares and voting rights. The direct holding of Security Trading in Caverion has increased to 18,870,000 shares, corresponding to 15.02% per cent of Caverion’s shares and voting rights.

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.

Board of directors' proposal for the distribution of distributable equity

The distributable equity of the parent company Caverion Corporation on December 31, 2017 is (EUR):

Retained earnings	139,103,157.86
Result 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.

SIGNATURE OF THE REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

Helsinki, February 6, 2018

Caverion Corporation

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

FINANCIAL STATEMENT RELEASE JANUARY 1–DECEMBER 31, 2017: FINANCIAL TABLES

Condensed consolidated income statement

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Revenue	**590.3**	**606.0**	**2,282.8**	**2,364.1**
Other operating income	12.6	0.6	15.9	1.9
Materials and supplies	-163.1	-168.9	-638.4	-648.2
External services	-116.5	-123.1	-433.0	-450.8
Employee benefit expenses	-239.4	-259.6	-940.4	-989.1
Other operating expenses	-75.3	-77.1	-275.8	-289.2
Share of results of associated companies			0.0	-0.1
Depreciation, amortisation and impairment	-7.8	-7.0	-30.4	-29.5
Operating profit	**0.8**	**-29.2**	**-19.3**	**-40.8**
% of revenue	0.1	-4.8	-0.8	-1.7
Financial income and expense, net	-1.6	-1.0	-5.7	-2.6
Result before taxes	**-0.8**	**-30.2**	**-25.1**	**-43.5**
% of revenue	-0.1	-5.0	-1.1	-1.8
Income taxes	-1.8	8.5	4.2	11.8
Result for the period	**-2.6**	**-21.7**	**-20.9**	**-31.7**
% of revenue	-0.4	-3.6	-0.9	-1.3
Attributable to				
Equity holders of the parent company	-2.6	-21.7	-20.9	-31.7
Non-controlling interests		0.0	0.0	0.0
Earnings per share attributable to the equity holders of the parent company				
Earnings per share, EUR	-0.03	-0.17	-0.19	-0.25
Diluted earnings per share, EUR	-0.03	-0.17	-0.19	-0.25

Consolidated statement of comprehensive income

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Result for the review period	**-2.6**	**-21.7**	**-20.9**	**-31.7**
Other comprehensive income				
Items that will not be reclassified to profit/loss				
- Change in fair value of defined benefit pension	0.7	-2.7	1.6	-4.2
-- Deferred tax	0.0	1.3	0.0	1.3
Items that may be reclassified subsequently to profit/loss				
- Cash flow hedges	0.1	0.0	0.1	
- Change in fair value of for available for sale investments	-0.0	0.0	0.1	0.0
- Translation differences	-1.4	0.6	-2.6	1.0
Other comprehensive income, total	**-0.4**	**-0.8**	**-0.7**	**-1.9**
Total comprehensive result	**-3.0**	**-22.5**	**-21.5**	**-33.6**
Attributable to				
Equity holders of the parent company	-3.0	-22.5	-21.6	-33.6
Non-controlling interests		0.0	0,0	0.0

Condensed consolidated statement of financial position

EUR million	31.12.2017	31.12.2016
Assets		
Non-current assets		
Property, plant and equipment	21.9	28.3
Goodwill	331.6	339.8
Other intangible assets	46.7	53.0
Shares in associated companies	0.1	0.1
Other investments	1.2	1.2
Other receivables	2.1	3.3
Deferred tax assets	17.6	10.6
Current assets		
Inventories	17.6	30.7
Trade receivables	347.3	378.2
POC receivables	249.7	244.4
Other receivables	47.5	40.4
Income tax receivables	7.5	6.4
Cash and cash equivalents	29.2	47.7
Total assets	**1,120.0**	**1,184.3**
Equity and liabilities		
Equity attributable to equity holders of the parent company		
Share capital	1.0	1.0
Hybrid capital	100.0	
Other equity	161.4	183.6
Non-controlling interest	0.4	0.4
Equity	**262.7**	**185.0**
Non-current liabilities		
Deferred tax liabilities	51.6	51.1
Pension liabilities	44.2	45.4
Provisions	7.0	7.1
Interest-bearing debts	57.7	127.6
Other liabilities	0.4	0.6
Current liabilities		
Advances received	179.9	192.5
Trade payables	215.5	214.1
Other payables	237.3	258.7
Income tax liabilities	5.8	6.5
Provisions	22.4	30.1
Interest-bearing debts	35.5	65.7
Total equity and liabilities	**1,120.0**	**1,184.3**

Working capital

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**

Consolidated statement of changes in equity

	Equity attributable to owners of the parent								
EUR million	Share capital	Retained earnings	Cumulative translation differences	Fair value reserve	Treasury shares	Hybrid capital	Total	Non-controlling interest	Total equity
Equity on January 1, 2017	**1.0**	**193.1**	**-5.5**	**-0.7**	**-3.2**		**184.7**	**0.4**	**185.0**
Comprehensive income									
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				0.1			0.1		0.1
Change in fair value of available for sale assets				0.1			0.1		0.1
Translation differences			-2.6				-2.6		-2.6
Comprehensive income, total		**-19.2**	**-2.6**	**0.2**			**-21.6**	**0.0**	**-21.5**
Transactions with owners									
Dividend distribution								0.0	0.0
Share-based payments		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**

EUR million	Equity attributable to owners of the parent Share capital	Retained earnings	Cumulative translation differences	Fair value reserve	Treasury shares	Total	Non-controlling interest	Total equity
Equity on January 1, 2016	**1.0**	**262.8**	**-6.5**	**-0.7**	**-3.2**	**253.4**	**0.4**	**253.7**
Comprehensive income								
Result 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								
Change in fair value of available for sale assets				0.0		0.0		0.0
Translation differences			1.0			1.0		1.0
Comprehensive income, total		**-34.6**	**1.0**	**0.0**		**-33.6**	**0.0**	**-33.6**
Transactions with owners								
Dividend distribution		-35.1				-35.1		-35.1
Share-based payments					0.0	0.0		0.0
Transactions with owners, total		**-35.1**				**-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**

Condensed consolidated statement of cash flows

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Cash flows from operating activities				
Result for the period	-2.6	-21.7	-20.9	-31.7
Adjustments to result	-7.0	4.5	14.5	32.8
Change in working capital	76.5	52.4	-2.4	-23.5
Operating cash flow before financial and tax items	**66.9**	**35.2**	**-8.7**	**-22.4**
Financial items, net	-1.3	-1.3	-4.6	-2.2
Taxes paid	0.9	-1.5	-3.4	-12.4
Net cash from operating activities	**66.5**	**32.4**	**-16.7**	**-37.0**
Cash flows from investing activities				
Acquisition of subsidiaries and businesses, net of cash	-0.9	0.1	-2.4	-4.2
Disposal of businesses	23.1		23.1	
Capital expenditure and other investments, net	-8.0	-5.8	-17.1	-33.1
Net cash used in investing activities	**14.2**	**-5.7**	**3.6**	**-37.4**
Cash flow from financing activities				
Change in current liabilities, net	-55.2	-65.0	-28.8	34.6
Proceeds from borrowings		60.0		80.0
Repayments of borrowings	-11.0	-11.0	-68.7	-24.9
Proceeds from financial leasing debts		2.8		2.8
Payments of financial leasing debts	-0.5	-3.0	-2.2	-3.7
Hybrid capital			100.0	
Hybrid capital costs and interests			-1.0	
Dividends paid and other distribution of assets			0.0	-35.1
Net cash used in financing activities	**-66.7**	**-16.2**	**-0.7**	**53.8**
Change in cash and cash equivalents	**13.9**	**10.5**	**-13.9**	**-20.6**
Cash and cash equivalents at the beginning of the period	18.4	37.0	47.7	68.1
Change in the foreign exchange rates	-3.1	0.2	-4.6	0.2
Cash and cash equivalents at the end of the period	**29.2**	**47.7**	**29.2**	**47.7**

Free cash flow

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Operating cash flow before financial and tax items	66.9	35.2	-8.7	-22.4
Taxes paid	0.9	-1.5	-3.4	-12.4
Net cash used in investing activities	14.2	-5.7	3.6	-37.4
Free cash flow	**82.0**	**28.0**	**-8.5**	**-72.1**

Notes to the Financial Statement Release

1 Accounting principles

Caverion Corporation's Financial Statement Release for January 1 – December 31, 2017 has been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The information presented in the Financial Statement Release is based on the audited Financial Statements for 2017. Caverion has applied the same accounting principles in the preparation of the Financial Statement Release as in its Financial Statements for 2017. In the Financial Statement Release the figures are presented in million euros subject to rounding, which may cause some rounding inaccuracies in column and total sums.

ESMA (European Securities and Markets Authority) issued guidelines regarding Alternative Performance Measures ("APM") to be implemented at the latest during second quarter of 2016. Caverion presents APMs to improve the analysis of business and financial performance and enhance the comparability between reporting periods. APMs presented in this report should not be considered as a substitute for measures of performance in accordance with the IFRS. Calculation of key figures is presented on page 27.

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's 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. However, it will have a negative impact amounting to EUR 20-25 million on the Group's retained earnings. This is mainly because under previously applied revenue recognition practices revenue from variable consideration was recognised on a basis that was valid under previous revenue recognition standards but differs from the requirements in IFRS 15. More detailed information will be disclosed in Caverion's 2017 Financial Statements.

New IFRS 9, 'Financial instruments' –standard will be applied from 1 January 2018. The new standard includes guidance on the classification and measurement of financial instruments, new hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. The new guidance will not have a significant impact on the classification and measurement of Group's financial assets, impairment provisions for financial assets nor on hedge accounting applied.

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 the current shareholders. 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.

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.

2 Key figures

	12/2017	12/2016
Revenue, EUR million	2,282.8	2,364.1
EBITDA, EUR million	11.0	-11.4
EBITDA margin, %	0.5	-0.5
EBITDA excluding restructuring costs, EUR million	18.3	15.6
EBITDA margin excluding restructuring costs, %	0.8	0.7
Operating profit, EUR million	-19.3	-40.8
Operating profit margin, %	-0.8	-1.7
Result before taxes, EUR million	-25.1	-43.5
% of revenue	-1.1	-1.8
Result for the review period, EUR million	-20.9	-31.7
% of revenue	-0.9	-1.3
Earnings per share, basic, EUR	-0.19	-0.25
Earnings per share, diluted, EUR	-0.19	-0.25
Equity per share, EUR	2.1	1.5
Financial income and expenses, net, EUR million	-5.7	-2.6
Equity ratio, %	27.9	18.7
Interest-bearing net debt, EUR million	64.0	145.5
Gearing ratio, %	24.4	78.7
Total assets, EUR million	1,120.0	1,184.3
Free cash flow	-8.5	-72.1
Working capital, EUR million	6.1	-2.6
Gross capital expenditures, EUR million	20.4	38.2
% of revenue	0.9	1.6
Order backlog, EUR million	1,491.0	1,408.1
Personnel, average for the period	16,607	17,381
Number of outstanding shares at the end of the period (thousands)	125,084	125,084
Average number of shares (thousands)	125,084	125,084

3 Financial development by quarter

EUR million	10-12/ 2017	7-9/ 2017	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016
Revenue	590.3	545.1	565.1	582.3	606.0	582.0	615.5	560.6
EBITDA	8.6	8.7	-13.0	6.8	-22.2	13.8	-14.4	11.5
EBITDA margin, %	1.5	1.6	-2.3	1.2	-3.7	2.4	-2.3	2.0
EBITDA excluding restructuring costs	3.7	13.8	-6.0	6.8	-10.5	19.5	-6.8	-
EBITDA margin excluding restructuring costs, %	0.6	2.5	-1.1	1.2	-1.7	3.3	-1.1	-
Operating profit	0.8	1.2	-20.5	-0.8	-29.2	5.0	-21.5	4.8
Operating profit margin, %	0.1	0.2	-3.6	-0.1	-4.8	0.9	-3.5	0.9

	10-12/ 2017	7-9/ 2017	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016
Earnings per share, basic, EUR	-0.03	-0.01	-0.13	-0.02	-0.17	0.02	-0.13	0.03
Earnings per share, diluted, EUR	-0.03	-0.01	-0.13	-0.02	-0.17	0.02	-0.13	0.03
Equity per share, EUR	2.1	2.1	2.1	1.5	1.5	1.7	1.6	1.8
Financial income and expenses, net, EUR million	-1.6	-1.4	-1.6	-1.2	-1.0	-0.9	-0.2	-0.6
Equity ratio, %	27.9	27.0	28.1	19.2	18.7	20.5	21.1	23.5
Interest-bearing net debt, EUR million	64.0	141.3	98.6	164.9	145.5	169.7	130.6	59.2
Gearing ratio, %	24.4	53.2	37.2	90.1	78.7	81.5	63.6	26.7
Total assets, EUR million	1,120.0	1,176.8	1,133.0	1,137.3	1,184.3	1,216.0	1,169.7	1,130.6
Free cash flow	82.0	-43.8	-28.2	-18.5	28.0	-38.8	-32.6	-28.8
Working capital, EUR million	6.1	75.7	31.0	17.3	-2.6	56.1	15.3	15.6
Gross capital expenditures, EUR million	7.3	5.2	2.9	5.0	6.1	7.6	17.3	7.1
% of revenue	1.2	1.0	0.5	0.9	1.0	1.3	2.8	1.3
Order backlog, EUR million	1,491.0	1,460.4	1,512.7	1,543.5	1,408.1	1,450.9	1,554.2	1,589.4
Personnel at the end of the period	16,216	16,483	16,750	16,679	16,913	17,281	17,664	17,499
Number of outstanding shares at end of period (thousands)	125,084	125,084	125,084	125,084	125,084	125,084	125,084	125,085
Average number of shares (thousands)	125,084	125,084	125,084	125,084	125,084	125,084	125,084	125,086

4 Calculation of key figures

Key figures on financial performance

Equity ratio (%) =	Equity + non-controlling interest x 100 Total assets - advances received
Gearing ratio (%) =	Interest-bearing liabilities - cash and cash equivalents x 100 Shareholder's equity + non-controlling interest
Interest-bearing net debt =	Interest-bearing liabilities - cash and cash equivalents
Working capital =	Inventories + trade and POC receivables + other current receivables - trade and POC payables - other current payables - advances received - current provisions
Free cash flow =	Operating cash flow before financial and tax items – taxes paid – net cash used in investing activities

Share-related key figures

Earnings / share, basic =	Result for the period (attributable for equity holders) - hybrid capital expenses and accrued unrecognised interests after tax Weighted average number of shares outstanding during the period
Earnings / share, diluted =	Result for the period (attributable for equity holders) - hybrid capital expenses and accrued unrecognised interests after tax Weighted average dilution adjusted number of shares outstanding during the period
Equity / share =	Shareholders' equity Number of outstanding shares at the end of period

Alternative performance measures (APMs) reported by Caverion

EBITDA =	Operating profit (EBIT) + depreciation, amortisation and impairment
EBITDA excluding restructuring costs =	Operating profit (EBIT) + depreciation, amortisation and impairment + restructuring costs

5 Financial risk management

Caverion's main financial risks are liquidity risk, credit risk and market risks including foreign exchange and interest rate risk. The objectives and principles of financial risk management are defined in the Treasury Policy approved by the Board of Directors. Financial risk management is carried out by Group Treasury in co-operation with the Group's subsidiaries.

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 external loans are subject to a financial covenant based on the ratio of the Group's net debt to EBITDA. The covenant ratio is continuously monitored and evaluated against actual and forecasted EBITDA and net debt figures.

The table below presents the maturity structure of interest-bearing liabilities. The amounts are undiscounted. Cash flows of foreign-denominated liabilities are translated into euro at the reporting date.

EUR million	2018	2019	2020	Total
Interest-bearing liabilities	35.5	27.2	30.5	93.2

6 Financial assets and liabilities

Those financial assets and liabilities whose carrying amounts do not correspond to their fair values are presented in the table below.

	Dec 31, 2017	Dec 31, 2017	Dec 31, 2016	Dec 31, 2016
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Non-current liabilities				
Loans from financial institutions	49.9	50.6	109.6	111.0
Pension loans	6.7	6.6	15.3	15.2
Other financial loans	0.5	0.5	0.5	0.5
Finance lease liabilities	0.6	0.6	2.1	2.2

Fair values for non-current loans are based on discounted cash flows. The discount rate used is the rate at which the Group could draw a similar external loan at the balance sheet date and it consists of a risk-free market rate and a company-specific risk premium in accordance with the maturity of the loan.

The carrying amounts of all other financial assets and liabilities are reasonably close to their fair values.

Derivative instruments

Nominal amounts		
EUR million	Dec 31, 2017	Dec 31, 2016
--Interest rate derivatives	50.0	70.0
--Foreign exchange forwards	77.0	26.9

Fair values		
EUR million	Dec 31, 2017	Dec 31, 2016
--Interest rate derivatives		
positive fair value		
negative fair value	-0.3	-0.5
--Foreign exchange forwards		
positive fair value	0.3	0.2
negative fair value	-0.2	-0.3

The fair values of the derivative instruments have been defined as follows: The fair values of foreign exchange forward agreements have been defined by using market prices on the closing day. The fair values of interest rate swaps are based on discounted cash flows.

Hedge accounting for interest rate swaps ceased to meet the hedge effectiveness criteria and hedge accounting was discontinued during the financial year 2016.

7 Commitments and contingent liabilities

EUR million	Dec 31, 2017	Dec 31, 2016
Guarantees given on behalf of associated companies	0.2	0.2
Parent company's guarantees on behalf of its subsidiaries	473.9	533.0
Other commitments		
- Operating leases	143.8	177.5
- Other contingent liabilities	0.2	0.2
Accrued interest on hybrid bond	2.5	

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 million at the end of December 2017.

The short-term risks and uncertainties relating to the operations have been described above under "Short-term risks and uncertainties". It is possible that especially the infringements in compliance may 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.