Annual Review 2018

Services and solutions for buildings and industries

Caverion designs, builds, operates and maintains user-friendly and energy-efficient technical solutions for buildings, industries and infrastructures. Our services and solutions are used in commercial, public and residential buildings, infrastructure and industrial processes, among others, ensuring business continuity, safe, healthy and comfortable conditions, optimised performance of the property and cost control.

The company's revenue for 2018 amounted to approximately EUR 2.2 billion. Caverion has approximately a total of 15,000 employees in Northern, Central and Eastern Europe. Our head office is located in Vantaa, Finland. The Caverion share (CAV1V) is listed in Nasdaq Helsinki.

Caverion's technical disciplines are the following: Heating and Sanitation, Ventilation and Air Conditioning, Cooling, Electricity, Information and Communication Services, Security and Safety, Automation, and Industrial installations.

Strong market position continues

Caverion is among Europe's leading providers of technical solutions for buildings and industries. Our market position remained strong in 2018. The company is ranked among the five largest players in all of our largest operating countries: Finland, Sweden, Norway, Denmark, Germany and Austria.

Caverion has two business units: Services and Projects.

Services

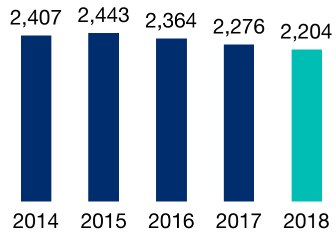
Caverion provides its customers complete services, ranging from technical maintenance and facility management to smart solutions, and energy and advisory services. Being a forerunner in technology, digitalisation, and energy efficiency, supported by wide service network and remote management, we can offer our customers flexible and high-quality service. Our goal is to be a leading service company and customers' trusted partner, and grow faster than the market.

In Finland Caverion is the leading industrial maintenance company. Our service offering covers the maintenance of production processes: from individual services to comprehensive maintenance partnerships.

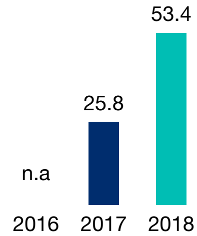
Projects

Caverion delivers building technology projects for customers' renovations and new investments. Our competitive edges in the Projects business are based on our international footprint, full range of technical solutions, design and build competence, and integrated life cycle deliveries including the maintenance as well. We are building project productivity and quality through professional project management, prefabrication, and being a forerunner in digitalising project planning and execution (BIM). Our goal is to be a selective master of projects with profitable project business supporting service growth.

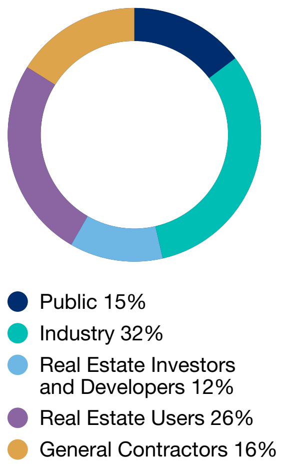
Revenue (EUR million)



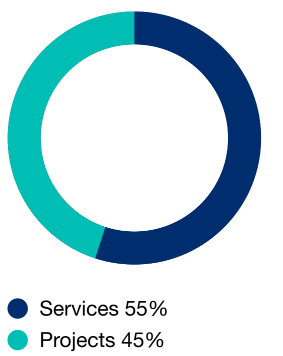
Adjusted EBITDA (EUR million)



Revenue breakdown by client segment in 2018



Revenue by business unit in 2018



Revenue
2,204.1
EUR million

Listed
in Nasdaq Helsinki

15,000
employees

30,000
spaces in service

Over
10,000
spaces remotely monitored

91%
of business ISO 14001 enviromental certified

Head-quartered in Finland

5.2
work safety (LTIFR)

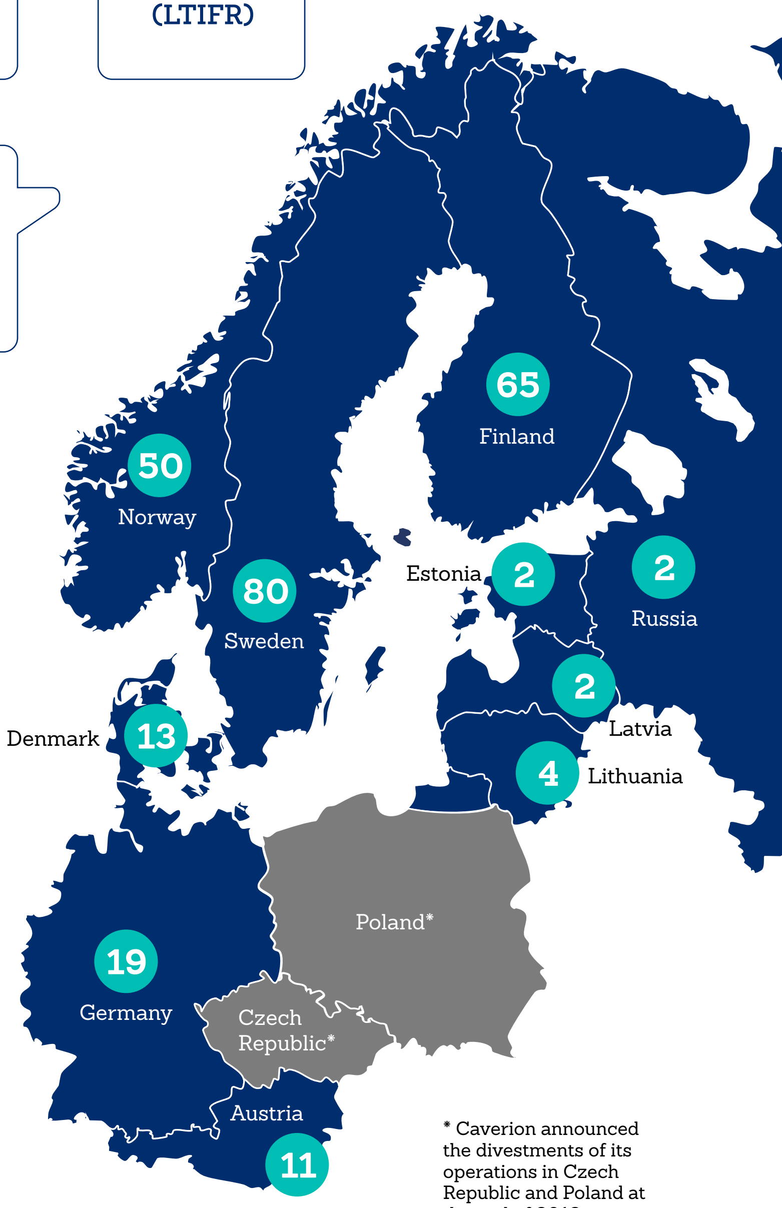
Number of localities

Personnel by division at the end of 2018

- Germany 15%
- Sweden 20%
- Norway 16%
- Finland 17%
- Industrial Solutions 11%
- Austria 6%
- Denmark 6%
- Eastern Europe 9%
- Group Services 1%

Revenue by division in 2018

- Germany 20%
- Sweden 20%
- Norway 17%
- Finland 15%
- Industrial Solutions 10%
- Austria 8%
- Denmark 6%
- Eastern Europe 3%



* Caverion announced the divestments of its operations in Czech Republic and Poland at the end of 2018.

From the CEO

2018 was still a challenging year for Caverion, but we are headed in the right direction and about to realise the goals of our strategy. Both of our business units improved their margins from last year.

Strong development in services

The profitability and performance of the Services business have developed according to our expectations. The Services business has grown its share in revenue and was 57% at the end of the year. During the year, we established several long-term facility management partnerships. Large international clients are notably more interested in comprehensive cross-border service agreements. In these types of partnerships, our strengths really get to shine – the ability to serve a client with consistency and quality but with flexibility and utilising local resources.

Still challenges in old projects

The Projects business improved materially its performance compared to two previous years, but still remained negative due to non-performing old projects. At the end of 2018, slightly above 10 percent of our projects order backlog was from projects initiated in 2016 or earlier. We expect this figure to be only a few percent at the end of the first half of 2019. Our current project backlog is on a healthier basis, and new projects are showing signs of a more stable and better profitability. At the start of the year, Caverion had three large Industrial Solutions projects on its risk list for 2018. The number of disputes and overdue receivables decreased during the year.

Caverion settled two out of three large Industrial Solutions projects from its risk list for 2018.

Settlement with German authorities

An important event for the second quarter was that Caverion managed to settle for its part with the Bundeskartellamt (German Federal Cartel Office) the cartel case investigated by the authority since 2014. Caverion Deutschland GmbH was imposed an anti-trust fine of EUR 40.8 million, which related to anti-competitive practices between 2005 and 2013.

Our strategy is proceeding with determination

In implementing our "Fit for Growth" strategy, we have made determined progress, although a bit slower than hoped for, through four strategic Must-Wins: Excellent Customer Experience, Top Performance at Every Level, Winning Team and Best Solutions. In 2018, we focused particularly on performance management in both businesses. The Fit phase will continue in the first half of 2019 – after that I am expecting that most of the divisions have got fit.

Our improved cash flow was a highlight of the year and a clear sign that our financial performance is getting better. Our operating cash flow before financial and tax items improved to EUR 21.6 (-8.7) million, although it was impacted by the German cartel fine and the related costs paid in August 2018. Excluding the fine and the related costs, our operating cash flow improved materially by EUR 72.3 million compared to previous year. Also our financial position strengthened during the year, enabling investments in digitalisation and potential acquisitions.

Our improved cash flow is a clear sign that our financial performance is getting better.

As part of implementing our strategy, we sold three units at the end of 2018 and at the start of 2019: The piping and tank business and the related Ylivieska workshop of the Industrial Solutions division as well as small subsidiaries in Poland and the Czech Republic. Going forward, Caverion has operations in ten countries where our market position is very good. Also the future market outlook is positive.

I believe that both Services and Projects will continue to improve their results and our profitability will improve clearly in the current year. The level of ambition in our financial targets remains unchanged, but our financial targets have been converted to reflect the IFRS 16 Leases standard. The standard will impact our financial figures starting from the first quarter of 2019.

Safer work environment, improved customer loyalty

In 2018, we continued our long-term work to ensure a safe work environment. The accident frequency rate continued to improve and was 5.2 (5.7). Although we are among the highest performers in our field in terms of work safety, there are still areas that need development in our work safety culture. We have challenged all Caverion people to join this work – to proactively carry responsibility for their own safety and that of their colleagues. To promote sustainability, we have also defined a new set of KPIs.

The environmental impacts of our own operations are small. The most significant way for us to impact energy efficiency and mitigating climate change is through our clients. We already have plenty of good experiences and references in this area. As digitalisation and other technology are developing and the demand for them is growing, the development against climate change can create major business opportunities for Caverion.

Our customer loyalty (NPS) continued its positive development, and we will continue building a more customer-focused service company and excellent customer experience.

I wish to express my humble thanks to all of you – shareholders, employees, customers, financiers and other stakeholders – for your trust in us and your support in the past year. Caverion has faced challenges for several years now. I believe that our new strategic focus and efforts to boost efficiency will soon be reflected, besides cash flow, also in our financial result , making Caverion a company living up to the expectations and the "First choice in digitalising environments".

Ari Lehtoranta
President and CEO
Caverion Corporation

Strategy: Fit for growth

Our Fit for growth strategy for 2018–2020 is built around the digitalisation of industry and the revolutions the development brings. Caverion is in good position in creating the digital future for its customers and our vision is to be the "First choice in digitalising environments" for customers, employees and partners in industry.

Our strategy is divided into two phases: Fit and Growth. In the first Fit phase, we concentrate on improving our current activities and financial performance. We will move to the second phase, Growth, from the second part of the year 2019 onwards. Our main target during this phase will be to further accelerate growth in Services and exceed market growth.

During the whole strategy period, we continue our selective approach in Projects business. It means that we offer our expertise only for projects meeting certain criteria. We are also enhancing the monitoring of projects. Projects will still remain important as they act as a gateway to Services and contribute to maintaining the company's technical forerunner position.

Performance management leading to results

In both business units, Caverion is concentrating on performance management. With its help, we unify our ways of working, improve profitability, boost the Group's cash conversion, and implement the selective approach in Projects business. In addition, performance management drives savings also in procurement, material logistics and fixed costs.

In 2018, we concentrated on improving our current activities and financial performance.

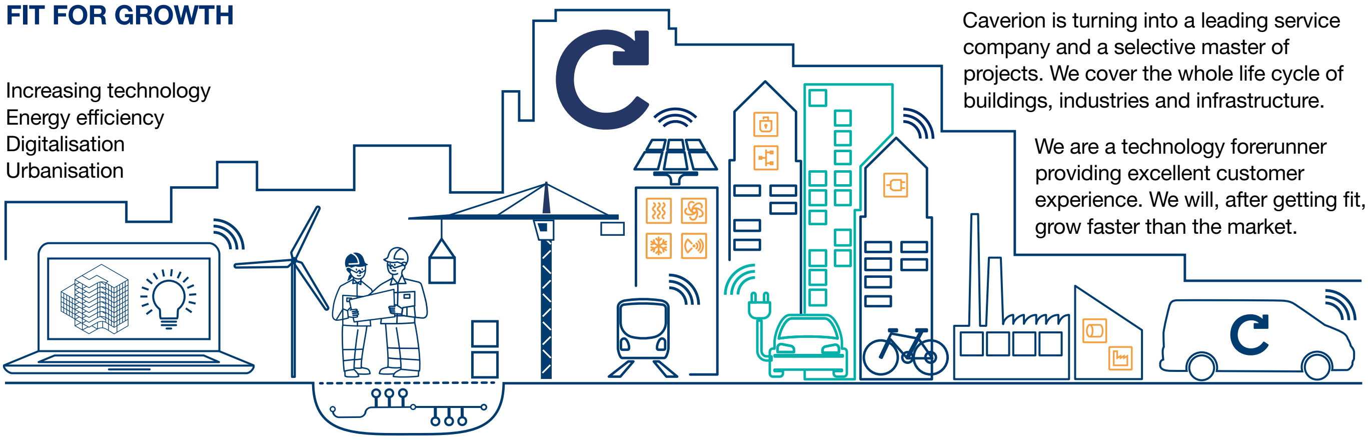
Read more about the strategy execution in the Board of Directors' Report, page 10.

MEGATRENDS

Increasing technology	Today technology accounts for approximately 40-60% of built environments' investment cost; integration of technologies requires expertise.
Energy efficiency	Both legal requirements and financial aspects increase the demand for energy efficient solutions and renewable energy sources.
Digitalisation	The growing digitalisation of built environments creates possibility to manage data and conditions during the whole life cycle.
Urbanisation	Creating safe and reliable built environments for citizens and communities in a profitable manner.

FIT FOR GROWTH

Increasing technology
Energy efficiency
Digitalisation
Urbanisation



Caverion is turning into a leading service company and a selective master of projects. We cover the whole life cycle of buildings, industries and infrastructure.

We are a technology forerunner providing excellent customer experience. We will, after getting fit, grow faster than the market.

MISSION Smart solutions and happy customers

VISION First choice in digitalising environments

MUST-WINS

Excellent customer experience | Best solutions | Top performance at every level | Winning team

VALUES

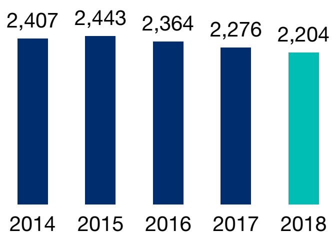
Step ahead | Cooperation | Responsibility | High performance

MUST-HAVES

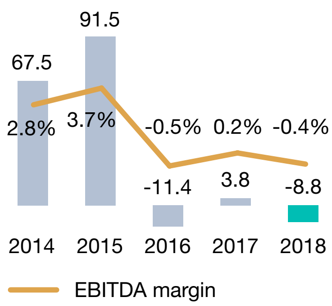
Safety | Quality | Sustainability

Progress in reaching financial targets and dividend payout

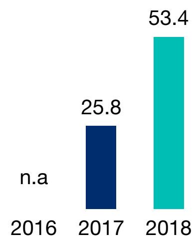
Revenue (EUR million)



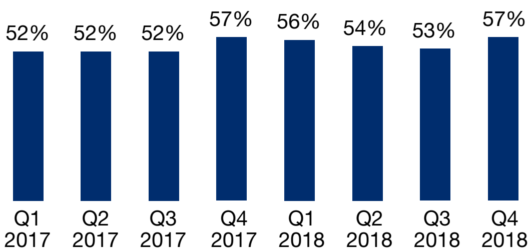
EBITDA (EUR million)



Adjusted EBITDA (EUR million)

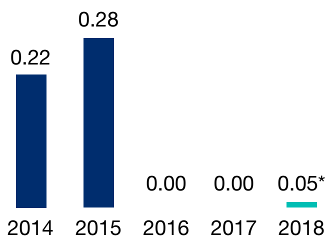


Development of Services business
Share of revenue



Read more about our progress with financial targets in the Board of Directors Report, page 10.

Dividend payout
Dividend per share, EUR



* Proposal by the Board of Directors

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Operating environment in 2018

The overall market situation was positive and stable throughout the period. Demand developed favourably in the Finnish, Norwegian and German markets. In Sweden, the activity levels in projects showed signs of gradual slowing down. In the Industrial Solutions division, the market was stable in industrial maintenance. The markets for Denmark, Eastern Europe and Austria also remained stable.

Services

The demand for Services continued being strong. There is a trend towards a deeper collaboration between customers and service providers in order to gain business benefits instead of mere cost savings. International customers are looking for unified operating models across countries, especially in the Nordic region. There is an increasing interest for services supporting sustainability, such as energy management.

Projects

The market for Projects remained positive. In the residential construction market segment, there were indications of the market slowing down. In the non-residential construction segment, which is more relevant for Caverion, the market remained strong. Customer demand for total technical deliveries and public–private partnership models (PPP) has been increasing, mainly driven by risk management. The requirements for increased energy efficiency, better indoor climate and tightening environmental legislation are increasing the costs of building systems investments. There have been some shortages in project manager and installer resources in growth centers.

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 2018

Caverion's year 2018 was marked with a focus on the implementation of the new "Fit for Growth" strategy launched in late 2017. The key points of the strategy, the related financial targets and the progress made in key actions in 2018 are described in more detail under "Group strategy and financial targets".

Caverion's year 2018 started according to expectations. Caverion continued its selective approach in its Projects business and strengthening its Services business. Both the Services and the Projects business unit improved their performance and there was positive development in most divisions during the first half of the year. The adjusted EBITDA continued to improve, although being periodically impacted by project write-downs from older projects as well as one-off legal and strategy-related costs.

An important event for the second quarter was that Caverion managed to settle for its part with the Bundeskartellamt (German Federal Cartel Office) the cartel case investigated by the authority since 2014. Caverion Deutschland GmbH was imposed an anti-trust fine of EUR 40.8 million, which related to anti-competitive practices between 2005 and 2013. The fine was booked as an expense in the second quarter and paid in the third quarter. In the second quarter, Caverion also successfully strengthened its financial position through a directed share issue totalling EUR 60 million.

As the year progressed, Caverion continued its actions to improve profitability. The adjusted EBITDA margin improved quarter by quarter in 2018 compared to the previous year. Both business units improved their margins in 2018 from last year. Finland, Norway and Austria continued to deliver good profitability in 2018, with Industrial Solutions and Sweden clearly improving. Excluding non-recurring items, the result of Industrial Solutions was strong. In Denmark and Eastern Europe, restructuring actions were continued, which impacted their profitability compared to the previous year.

At the start of the year, Caverion had three large Industrial Solutions projects on its risk list for 2018. The number of disputes and overdue receivables decreased during the year. Caverion settled two of the three large Industrial Solutions projects from its risk list for 2018.

Caverion published its guidance for 2018 on February 7, 2018 and updated it with IFRS 15 restated figures in a stock exchange release on 21 March 2018, after which the guidance remained valid for the rest of the year. According to the guidance Caverion estimated that the Group's revenue for 2018 will decrease compared to the previous year (2017: EUR 2,275.8 million) and that the Group's adjusted EBITDA will more than double in 2018 (2017: EUR 25.8 million).

The Group's revenue decreased in 2018 compared to the previous year and amounted to EUR 2,204.1 (2,275.8) million, while the adjusted EBITDA more than doubled to EUR 53.4 (25.8) million. The reported EBITDA amounted to EUR -8.8 (3.8) million, impacted by the German anti-trust fine of EUR 40.8 million and other items affecting comparability.

A highlight of the year was the improving cash flow. Operating cash flow before financial and tax items improved to EUR 21.6 (-8.7) million in 2018. Excluding the German cartel fine and related costs, the operating cash flow improved materially by EUR 72.3 million compared to the previous year. The Group's capital structure and financial position strengthened. The Group's gearing was 2.7 (27.2) percent and the equity ratio 30.2 (25.8) percent at the end of December. Net debt amounted to only EUR 6.9 (64.0) million at the end of December and the net debt/EBITDA ratio was 0.2x (2.9x).

Caverion made several divestments of non-core units during the year. These included the sale of Caverion's operations in Leppävirta, Finland and in the Mongstad unit in Norway as well as the project piping and tank business and the related Ylivieska workshop of the Industrial Solutions division. Furthermore, Caverion announced the sale of its small subsidiaries in Poland and Czech Republic in the end of December. After these divestments, Caverion has operations in ten European countries. Caverion also made one acquisition to strengthen its service business. Caverion announced on 19 November 2018 that Caverion Suomi Oy had signed an agreement to acquire the entire share capital of Jetitek Oy from the management of the company.

Group strategy and financial targets

There were no changes during the year to the financial targets and the strategy introduced in November 2017. Caverion's vision is to be the **"First choice in digitalising environments"** for its customers, employees and partners. After the first year of implementation, the results from the "Fit" phase of Caverion's 2020 strategy and especially from the "Top Performance at Every Level" Must-Win were becoming visible in 2018.

For the Services business, the new performance management actions introduced regular meeting practices, efficient information sharing and regular tracking and reporting of achievements. Performance management is now in active use in Sweden, Finland, Denmark, Norway and Germany, with many examples of performance improvements and utilisation of best practices. For example, Germany significantly reduced its invoicing backlog and Sweden unified its price lists in 2018. Focus on the Services growth is also visible. The revenue of the Services business unit increased by 2.5 percent in local currencies despite divestments and closing of the poor-performing service units. Caverion won several new service contracts from large nationally operating companies and also some international contracts with customers operating in multiple Caverion countries.

There were visible improvements also in Projects business performance. Projects are now selected through a common categorisation model and a harmonised tender approval process is in place. The number of project units was decreased and comprehensive project management trainings were held. However, performance of the Projects business was still burdened by several non-performing projects started in 2016 or earlier.

Excellent Customer Experience Must-Win also brought results. Customer loyalty measured by NPS (net promoter score) improved for the second year in a row.

The table below describes Caverion's financial targets and the progress in them during 2018:

Financial targets (until the end of 2020)	Progress in 2018
Cash conversion = Operating cash flow before financial and tax items / EBITDA > 100%	– EUR 72.3 million y-o-y improvement in the operating cash flow in 2018*
Profitability: EBITDA over 6% of revenue	– 106.7% improvement in adjusted EBITDA in 2018 – Adjusted EBITDA margin improved to 2.4 (1.1) percent in 2018
Debt leverage: Net debt/EBITDA < 2.5x	– Improved to a level of 0.2x (2.9x) as per 12/2018
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.	– Services business revenue growth 2.5% in local currencies in 2018 – The share of Services continued to grow, in 2018 > 55% of revenue – Caverion's FIT divisions already on the growth path
Dividend policy: distribute at least 50% of the result for the year after taxes, however, taking profitability and leverage level into account.	**Dividend distribution**: The Board of Directors proposes to the Annual General Meeting to be held on March 25, 2019 that a dividend of EUR 0.05 per share be paid. The Annual General Meeting held on March 26, 2018 decided that no dividend was paid for the financial year 2017.

* *Excluding the impact of the German fine of EUR 40.8 million and related costs*

Caverion's target is to continue improving its profitability in 2019 by further actions. In Services, the focus will be on improvements in productivity, pricing and procurement. Caverion will also build upon its remote center capabilities to further support the digitalisation of its operations. In Projects, Caverion will continue the further implementation and development of its common tools.

Group financial development 2018

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.

Order backlog

Order backlog amounted to EUR 1,494.3 million at the end of December, up by 0.2 percent from the end of December in the previous year (EUR 1,491.0 million). At comparable exchange rates the order backlog increased by 1.2 percent. The order backlog reporting was changed during the period due to the harmonisation of reporting of long-term Services contracts in Sweden, which increased the order backlog for the period by EUR 50.1 million. As part of the harmonisation, the fixed portion of the longer contracts has now been included in the order backlog for the whole contract period.

The Services order backlog increased compared to last year. The Projects order backlog declined, which 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 poorly-performing project units. Caverion continued to focus on the tendering process with a target to uplift the project margin, particularly in new Projects business orders.

Revenue

Revenue for January–December was EUR 2,204.1 (2,275.8) million, a decrease of 3.2 percent compared to the same period in the previous year. Revenue was impacted by fluctuations in currency exchange rates and the sale of the Krantz business in the last quarter of 2017. There was also a negative impact from the Group's more selective approach towards the Projects business.

At the previous year's exchange rates, revenue was EUR 2,246.3 million and decreased by 1.3 percent compared to the previous year. Changes in the Swedish krona accounted for EUR 28.7 million, the Norwegian krone for EUR 10.9 million and the Russian rouble for EUR 2.7 million.

Revenue increased from the previous year in Austria, Finland and Norway, while it decreased in other divisions. In local currencies, revenue in Eastern Europe was in line with the previous year. The revenue in Germany in 2018 is not fully comparable with the previous year, as Caverion sold its product business under the Krantz brand in Germany in 2017.

The revenue of the Services business unit was EUR 1,213.0 (1,209.0) million in January–December, an increase of 0.3 percent from the corresponding period last year, or 2.5 percent in local currencies. The revenue of the Projects business unit was EUR 991.1 (1,066.8) million in January–December, a decrease of 7.1 percent, or 5.6 percent in local currencies, due to more selective tendering.

The Services business unit accounted for 55.0 (53.1) percent of Group revenue, and the Projects business unit for 45.0 (46.9) percent of Group revenue in January–December. The Group adopted the new revenue recognition principles according to IFRS 15 as of 1 January 2018. The IFRS 15 standard requires that revenue is recognised from any variable consideration at its estimated amount, if it is highly probable that no significant reversal of revenue will occur. Under the previous revenue recognition standards, revenue was recognised from variable consideration when it was assessed probable to occur. Revenue from variable considerations is thus to be recognised more prudently under IFRS 15 than under previous revenue recognition standards. Caverion issued a separate stock exchange release on 21 March 2018 regarding its IFRS 15 restated figures.

Distribution of revenue by Division and Business Unit

Revenue, EUR million	1–12/ 2018	%	1–12/ 2017*	%	Change
Norway	377.4	17.1%	367.0	16.1%	2.8%
Denmark	129.2	5.9%	142.7	6.3%	-9.5%
Sweden	443.1	20.1%	492.2	21.6%	-10.0%
Germany	436.7	19.8%	468.6	20.6%	-6.8%
Industrial Solutions	229.2	10.4%	248.3	10.9%	-7.7%
Finland	336.3	15.3%	317.3	13.9%	6.0%
Austria	176.8	8.0%	161.9	7.1%	9.2%
Eastern Europe	75.5	3.4%	77.8	3.4%	-3.0%
Group, total	**2,204.1**	**100.0%**	**2,275.8**	**100.0%**	**-3.2%**
Services business unit	1,213.0	55.0%	1,209.0	53.1%	0.3%
Projects business unit	991.1	45.0%	1,066.8	46.9%	-7.1%

** 2017 figures IFRS 15 restated*

Profitability

EBITDA

Adjusted EBITDA was EUR 53.4 (25.8) million, or 2.4 (1.1) percent of revenue in January–December. EBITDA for January–December was EUR -8.8 (3.8) million, or -0.4 (0.2) percent of revenue.

In the adjusted EBITDA calculation, the write-downs, expenses and/or income from separately identified major risk projects amounted to EUR 9.3 million in January–December. The Group's restructuring costs amounted to EUR 5.3 million, which related to Germany, Denmark, Sweden and Eastern Europe. The capital gains and losses from divestments totalled EUR 5.5 million. These included a capital loss from the divestment of the Leppävirta workshop totalling EUR 1.0 million, a capital loss and transaction costs from the divestment of the project piping and tank business and the related Ylivieska workshop of the Industrial Solutions division totalling EUR 3.6 million and sales price adjustments related to the Krantz divestment totalling EUR 0.9 million. The other items amounted to EUR 42.1 million in January–December, including the German anti-trust fine and related legal and other costs.

Both business units improved their margins in 2018 from last year and there was positive development in most divisions. Finland, Norway and Austria continued to deliver good profitability in 2018, with Industrial Solutions and Sweden clearly improving. Sweden continued its positive development, along with the Services business in Germany. In Germany, the overall performance was still burdened by write-downs from old projects and restructuring. The profitability in Germany in 2018 is not comparable with the previous year due to the sale of the product business under the Krantz brand and the German anti-trust fine. The only divisions with a slightly weaker profitability than last year were Denmark and Eastern Europe. The profitability of these divisions was impacted by restructuring actions and write-downs from a few old projects.

Caverion announced on 12 June 2018 that it had managed to settle its part with the Bundeskartellamt (German Federal Cartel Office) in a cartel case that had been investigated by the authority since 2014. According to the final decision of the Bundeskartellamt announced on 3 July 2018, Caverion Deutschland GmbH was imposed an anti-trust fine of EUR 40.8 million, which related to anti-competitive practices between 2005 and 2013. The fine was booked as an expense during the second quarter and paid during the third quarter.

Costs related to materials and supplies decreased to EUR 570.6 (638.4) million and external services to EUR 425.0 (433.0) million in January–December. Personnel expenses decreased by 5.1 percent and other operating expenses increased by 19.0 percent from the previous year due to the anti-trust fine. Personnel expenses for January–December amounted to a total of EUR 892.9 (940.4) million. Other operating expenses increased to EUR 328.4 (276.1) million. The Group's external legal costs relating to the German anti-trust case and the three Industrial Solutions projects, which were reported separately, amounted to a total of EUR 4.7 million. Other operating income was EUR 4.1 (15.9) million. The capital gain from the Krantz divestment is reported under other operating income in 2017 and it amounted to EUR 12.3 million.

EBITDA is defined as Operating profit + Depreciation, amortisation and impairment. Adjusted EBITDA = EBITDA before items affecting comparability (IAC). Items affecting comparability (IAC) in 2018 are material items or transactions, which are relevant for understanding the financial performance of Caverion when comparing the profit of the current period with that of the 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 included three completed Large Projects from Industrial Solutions, the financial effects of which were reported under category (2) above. The German anti-trust fine and related legal and other costs are reported under in category (4) above.

Operating profit

Operating profit for January–December was EUR -35.9 (-26.6) million, or -1.6 (-1.2) percent of revenue, impacted by the German anti-trust fine of EUR 40.8 million and other items affecting comparability.

Depreciation, amortisation and impairment amounted to EUR 27.1 (30.4) million in January–December, of which EUR 3.5 (2.0) million were allocated intangibles related to acquisitions and EUR 23.6 (28.4) 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 -43.9 (-32.3) million, result for the period to EUR -48.1 (-27.0) million, and earnings per share to EUR -0.40 (-0.24) in January–December, impacted by the German anti-trust fine of EUR 40.8 million and other items affecting comparability. Net financing expenses in January–December were EUR -7.9 (-5.7) million. In connection with the process of closing an old project company in Russia, the company's internal loan denominated in euros in Russia was reclassified from equity to liabilities and the translation loss of EUR 4.8 million was booked in financing expenses in the fourth quarter of 2018. The booking had no cash flow effect.

The Group's effective tax rate was -9.8 (16.5) percent in January–December, impacted by the German anti-trust fine. The anti-trust fine has been treated as a non-tax deductible expense.

Capital expenditure, acquisitions and disposals

Gross capital expenditure on non-current assets totalled EUR 17.5 (20.4) million during January–December, representing 0.8 (0.9) percent of revenue. Investments in information technology totalled EUR 7.3 (13.3) million during January–December. IT investments were focused on building a harmonised IT infrastructure 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 10.2 (7.1) million. Information on acquisitions and disposals during 2018 is presented under "Caverion's year 2018".

Research and development

The Group's expenses related to research and development activities related to product and service development amounted to approximately EUR 0.9 (2.8) million in 2018, representing 0.0 (0.1) percent of revenue. Investments in research and development amounted to EUR 3.7 million in 2016, representing 0.2 percent of revenue.

Cash flow, working capital and financing

The Group's operating cash flow before financial and tax items amounted to EUR 21.6 (-8.7) million in January-December. The cash flow was impacted by the German cartel fine payment of EUR 40.8 million in August. Excluding the fine and related costs, the operating cash flow improved materially by EUR 72.3 million compared to the previous year. The Group's free cash flow improved to EUR 2.9 (-8.5) million.

The Group's working capital improved to EUR -54.6 (-30.8) million at the end of December. The amount of POC receivables decreased to EUR 207.4 (226.5) million and trade receivables to EUR 311.6 (333.9) million at the end of December. There was also positive development in old overdue trade receivables compared to the previous year. Working capital tied to risk projects in Industrial Solutions continued to decline and a similar trend was observable in Germany during the fourth quarter. The German anti-trust fine was paid during the third quarter.

Caverion's cash and cash equivalents amounted to EUR 51.2 (29.2) 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.

On 14 June 2018, Caverion announced the launch of a directed share issue of new shares in order to maintain a strong balance sheet and to retain strategic flexibility after the payment of the anti-trust fine. On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors, corresponding to approximately 7.36 percent of all the shares and votes in the Company immediately prior to the share issue. Approximately 17 percent of the shares were allocated to international investors. The share issue was priced at EUR 6.30 per share, raising gross proceeds of EUR 60 million. The subscription price represented a discount of 6.5 percent on the closing price on 14 June 2018. The total number of issued shares in the Company following the share issue is 138,920,092, and the number of shares outstanding is 135,655,641.

The Group's gross interest-bearing loans and borrowings amounted to EUR 58.1 (93.2) million at the end of December, and the average interest rate after hedges was 2.59 percent. Approximately 86 percent of the loans have been raised from banks and other financial institutions, and approximately 11 percent from insurance companies. A total of EUR 27.2 million of the interest-bearing loans and borrowings will fall due during the next 12 months. The Group's net debt amounted to EUR 6.9 (64.0) million at the end of December. At the end of December, the Group's gearing was 2.7 (27.2) percent and its equity ratio 30.2 (25.8) percent. On 9 June 2017, Caverion 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. In June 2018, Caverion paid EUR 4.6 million in annual interest on this hybrid bond (no interest was paid in 2017).

Caverion's external loans are subject to a financial covenant based on the ratio of the Group's net debt to EBITDA. The financial covenant shall not exceed 3.5:1. At the end of December, the Group's Net debt to EBITDA was 0.2x according to the confirmed calculation principles. Caverion agreed with its lending parties in June that the German anti-trust fine and related legal and advisory fees are excluded from the calculation of EBITDA related to the Group's financial covenant Net Debt to EBITDA.

Estimated Projects business risks for 2019

During 2018, Caverion settled two of the three large Industrial Solutions projects from its risk list. Due to an updated risk evaluation based on a delay of an arbitration decision, Caverion booked a write-down in receivables totalling EUR 4.4 million during the fourth quarter in the third and final large Industrial Solutions project on its risk list for 2018.

In 2018, although Caverion materially improved its performance in Projects compared to two previous years, the profitability of the Projects business remained negative for the full year. The Projects business is expected to further improve its result in 2019, although there are still project risks remaining in 2019 especially from older projects.

In 2019, Caverion will report only one old risk project from Germany in adjusted EBITDA, the completion of which has been delayed. In addition to this, at the end of 2018 slightly above 10 percent of Caverion's order backlog in the Projects business was from projects started in 2016 or earlier. Caverion expects this figure to be only a few percent at the end of the first half of 2019, when finalising the Fit phase of its strategy. Caverion estimates that there are still risks related especially to these old projects.
More information on project and other risks is given under "Most significant business risks and risk management".

Board of Directors, Auditors, President and CEO

Board of Directors

The Annual General Meeting of Caverion was held on 26 March 2018. 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 Mats Paulsson as members of the Board of Directors for a term continuing until the end of the next Annual General Meeting.

At the beginning of 2018 until the closing of the Annual General Meeting the previous Board of Directors consisted of Chairman Michael Rosenlew, Vice Chairman Markus Ehrnrooth as well as Jussi Aho, Joachim Hallengren, Thomas Hinnerskov, Antti Herlin, Anna Hyvönen and Eva Lindqvist 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 Authorised Public Accountants Ernst & Young Oy, auditing firm, to audit the company's governance and accounts in 2018. The auditor with the main responsibility is Antti Suominen, 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	12/2018	12/2017	Change
Sweden	2,955	3,150	-6%
Norway	2,438	2,486	-2%
Finland	2,513	2,444	3%
Germany	2,268	2,453	-8%
Industrial Solutions	1,603	2,023	-21%
Eastern Europe	1,350	1,754	-23%
Denmark	860	952	-10%
Austria	857	840	2%
Group Services	106	114	-7%
Group, total	**14,950**	**16,216**	**-8%**

Caverion Group employed 15,672 (16,607) people on average in January–December 2018 and 17,381 people in January–December 2016. At the end of December, the Group employed 14,950 (16,216) people. Personnel expenses for January–December 2018 amounted to EUR 892.9 (940.4) million. Personnel expenses amounted to EUR 989.1 million in 2016.

Caverion continued to develop the competences needed by the businesses during the period. Some new resources were also needed to fulfil critical competence gaps. Caverion continued to hire trainees and apprentices to develop into experts. Special attention continued to be paid to project management and the strengthening of managerial capabilities. Development activities 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 and leadership development. Further performance and utilisation improvement measures were continued in a number of divisions. Talent and succession planning continued, as well as the implementation of harmonised people processes. The safety of employees continues to be a focus area. Accident frequency rate in the end of December decreased by 9 percent from the previous year to 5.2 (5.7).

Changes in Caverion's Group Management and organisation structure

Caverion announced the following changes in Caverion's Group Management Board and organisation structure on 4 May 2018. Juha Mennander (born 1965) was appointed as the Head of Division Sweden as of 1 June 2018 and he still continues as a member of the Group Management Board. Juha Mennander also acts as the Head of Group Market Operations until further notice. Michael Kaiser (born 1962) was appointed as the Head of Caverion Projects Business Unit and a member of the Group Management Board as of 1 June 2018. In order to focus and simplify Caverion's management structure, Caverion decided to reorganise its Eastern European operations. Niclas Sacklén, the former Head of Division Eastern Europe, left the Group Management Board as of 1 July 2018. Going forward, Caverion's Baltic operations will report to Ville Tamminen, Head of Division Finland. The financial reporting of Russia, Poland and the Baltics continued under "Eastern Europe" until the end of 2018. In 2019, Russia and the Baltics will be reported under "Other countries".

Frank Krause (born 1963) was appointed as the Head of Division Germany and a member of the Group Management Board as of 1 January 2019. Carsten Sørensen (born 1972) was appointed as the Head of Caverion Division Denmark and a member of the Group Management Board as of 1 January 2019.

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 sudden unexpected changes which also affect Caverion may always occur. Caverion estimates that the trade related and political risks are increasing globally, but their effect on Caverion is estimated to be limited in the short term.

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 are in place, and appropriate risk reservations are being made. Given the specific risks related to project business, the Group Projects Business Unit was established at the beginning of 2017, which is dedicated to the overall improvement of project risk management, to steering the project portfolio, and to improving project management capabilities. Despite all the actions taken, there is a risk that some project risks will materialise, which could have a negative impact on Caverion's financial performance and position. Project risk assessment is part of the standard project management processes in the company, and it is possible that risks may be identified in projects which are currently running and in 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 made a large amount of project write-downs during 2016–2017. In 2018, the profitability of the Projects business was still burdened by write-downs especially from older projects started in 2016 or earlier. For 2019, there are still certain project risks remaining from older projects. At the end of 2018, slightly above 10 percent of the projects order backlog was from such projects. Caverion expects this figure to be only a few percent at the end of the first half of 2019, when finalising the Fit phase of its strategy. 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 probable 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 with write-offs realised 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 carries out risk assessments related to POC and trade receivables in its project portfolio on an ongoing basis. 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 ruled out 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.

In June 2018, Caverion reached a settlement for its part with the German Federal Office (FCO) in a cartel case that had been investigated by the authority since 2014. The investigation concerns several companies providing technical building services in Germany. Caverion Deutschland GmbH (and its predecessors) was found to have participated in anti-competitive practices between 2005 and 2013. According to the FCO's final decision issued on 3 July 2018, Caverion Deutschland GmbH was imposed a fine of EUR 40.8 million. There is a risk that civil claims may be presented against Caverion Deutschland GmbH in relation to this matter. It is not possible to evaluate the magnitude of the risk at this time. Caverion will disclose any relevant information on the potential civil law claims as required under the applicable regulations.

As part of Caverion's co-operation with the authorities in the cartel matter, the company identified activities between 2009 and 2011 that were likely to fulfil the criteria of corruption or other criminal commitment in one of its client projects executed in that time. Caverion has brought its findings to the attention of the authorities and supports them in further investigating 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 required under the applicable regulations.

Caverion has made significant efforts to promote compliance in order to avoid any infringements in the future. As part of the programme all employees must complete an e-learning module and further training is given across the organisation. All employees are required to comply with Caverion's Code of Conduct, which has a policy of zero tolerance on anti-competitive practices, corruption, bribery or any unlawful action.

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 agreed with its lending parties in June that the German anti-trust fine and the related legal and advisory fees are excluded from the calculation of EBITDA related to Group's financial covenant Net Debt to EBITDA. It is possible that Caverion may also need amendments to its financial covenant 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 guarantees to customers or other stakeholders, especially for 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 situation. 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. In 2018–2019, Caverion is making a transition to a new IT vendor providing comprehensive IT outsourcing services. Such a transition always includes risks.

Financial risks have been described in more detail in the 2018 Financial Statements under Note 5.5 and in the financial tables to the Financial Statement Release under Note 6.

Authorisations

Repurchase of own shares

The Annual General Meeting of the Caverion Corporation, held on 26 March 2018, authorised the Board of Directors to decide on the repurchase and/or on the acceptance as pledge of the company's own shares. The authorisation covers the repurchase and/or acceptance as pledge of a maximum of 12,000,000 of the 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. At the end of the reporting period on 31 December 2018, this authorisation represented 8.64% of the total number of shares and voting rights. The Board of Directors did not use the authorisation on the repurchase of own shares in 2018.

As part of the implementation of the Matching Share Plan in 2018, the company accepted as a pledge the shares acquired by those key employees who took a loan from the company. As a result, Caverion had 654,312 Caverion Corporation shares as a pledge at the end of the reporting period on 31 December 2018, representing 0.47% of the total number of shares and voting rights.

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 12,000,000 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 recognised 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 that may be acquired. This authorisation applies to a maximum of 12,500,000 company's own shares. At the end of the reporting period on 31 December 2018, this authorisation represented 9.00% of the total number of shares and voting rights. The Board of Directors was authorised to decide on the purpose and the terms and conditions for such transfers. The authorisation is valid until 31 March 2019.

The Board of Directors used the share issue authorisation in 2018. On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors.

Information about shares in Caverion Corporation

Updated lists of Caverion's largest shareholders and ownership structure by sector as per December 31, 2018 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, 2018 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.

The number of shares was 125,596,092 and the share capital was EUR 1,000,000 on 1 January 2018. Caverion held 512,328 treasury shares on 1 January 2018. At the end of the reporting period, the total number of shares in Caverion was 138,920,092. Caverion held 3,264,451 treasury shares on 31 December 2018, representing 2.35% of the total number of shares and voting rights. The number of shares outstanding was 135,655,641 at the end of December 2018.

On 14 June 2018, Caverion announced the launch of a directed share issue of new shares to maintain a strong balance sheet and to retain strategic flexibility after the payment of the anti-trust fine. On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors, corresponding to approximately 7.36 percent of all the shares and votes in the Company immediately prior to the share issue. The share issue was priced at EUR 6.30 per share, raising gross proceeds of EUR 60 million.

In a stock exchange release on 7 February 2018, Caverion's Board of Directors announced the establishment of a new share-based incentive plan directed at the key employees of the Group ("Matching Share Plan 2018–2022"). The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long-term, to encourage the key employees to personally invest in the company's shares, to retain them at the company, and to offer them a competitive reward plan that is based on acquiring, receiving and holding the company's shares. The prerequisite for participating in the Plan is that a key employee shall acquire company shares up to the number and in the manner determined by the Board of Directors. The plan participant may not participate in the Performance Share Plan 2018–2020 simultaneously with participating in the Matching Share Plan. The rewards from the plan will be paid in four instalments, one instalment each in 2019, 2020, 2021 and 2022. However, the reward payment will be deferred, if a yield of the share has not reached the pre-set minimum yield level by the end of the matching period in question. In connection with the technical execution of the plan a total of 3,800,000 new shares were subscribed for in Caverion Corporation's share issue directed to the company itself without payment, and were entered into the Trade Register on 19 February 2018. A maximum total of 1,280,000 shares held by the company were, in deviation from the shareholders' pre-emptive right, offered in the share issue for subscription to the key employees participating in the Matching Share Plan. The share subscription period ended on 23 February 2018. A total of 1,047,877 Caverion Corporation shares were subscribed for in the share issue pursuant to the primary and secondary subscription right and the total capital raised amounted to EUR 6.67 million. The subscription price was 6.37 euros per share.

Caverion's Board of Directors approved the establishment of a new share-based long-term incentive plan for key employees of the Group in December 2018. The new plan is based on a performance share plan (PSP) structure. The Board approved at the same time the commencement of a new plan period 2019–2021 in the Restricted Share Plan (RSP) structure, a complementary share-based incentive structure for specific situations. The first plan (PSP 2019–2021) within the new PSP structure commences at the beginning of 2019 and the potential share rewards thereunder will be paid in the spring 2022 provided that the performance targets set by the Board are achieved. PSP 2019–2021 may include a maximum of approximately 75 key employees of Caverion Group. However, the individuals who currently participate in Caverion's top management Matching Share Plan, including the members of Caverion's Group Management Board, are not included in this plan. The performance target KPI's are the relative total shareholder return of the Company's share and earnings per share. If all targets will be met, the share rewards based on PSP 2019–2021 will comprise a maximum of approximately 1.3 million Caverion shares (gross before the deduction of applicable taxes). More information on the incentive plans is presented in the Consolidated Financial Statements for 2018 under Note 6.2 "Share-based payments".

Caverion has not made any decision regarding the issue of option rights or other special rights entitling to shares.

Trading in shares

The opening price of Caverion's share was EUR 5.93 at the beginning of 2018. The closing rate on the last trading day of the review period on 28 December was EUR 5.09. The share price decreased by 14 percent during January–December. The highest price of the share during the review period January–December was EUR 7.54, the lowest was EUR 4.74 and the average price was EUR 6.37. Share turnover on Nasdaq Helsinki in January–December amounted to 41.4 million shares. The value of share turnover was EUR 263.8 million (source: Nasdaq Helsinki).

Caverion's shares are also traded in other market places, such as Cboe, Aquis and Turquoise. During January–December, 9.8 million Caverion Corporation shares changed hands in alternative public market places, corresponding to approximately 16.7 percent of the total share trade. Of the alternative market places, Caverion shares changed hands particularly through Cboe. Furthermore, during January–December, 7.3 million Caverion Corporation shares changed hands in OTC trading outside Nasdaq Helsinki, corresponding to approximately 12.4 percent of the total share trade (source: Fidessa Fragmentation Index).

The market capitalisation of the Caverion Corporation at the end of the review period was EUR 690.5 million. Market capitalisation has been calculated excluding the 3,264,451 shares held by the company as per 31 December 2018.

Outlook for 2019

Guidance for 2019

Caverion estimates that the Group's Services business revenue and its relative share of the Group's total revenue will increase in 2019, while the Projects business revenue will decrease. The Group's Adjusted EBITDA for 2019 will be over EUR 120 million. The guidance takes into account the adoption of IFRS 16 in 2019, which has an estimated annual impact of adding around 2 percentage points to the Group's EBITDA margin.

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

Items affecting comparability (IAC) in 2019 are material items or transactions, which are relevant for understanding the financial performance of Caverion when comparing the profit of the current period with that of the previous periods. These items can include (1) capital gains and losses and transaction costs related to divestments and acquisitions; (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 included three completed Large Projects from Industrial Solutions, the financial effects of which were reported under category (2). The German anti-trust fine and related legal and other costs were reported under category (4). In 2019, major risk projects only include one risk project in Germany reported under category (2).

In its adjusted EBITDA guidance Caverion applies a 2 percent threshold.

Adjusted EBITDA Items affecting comparability

EUR million	1–12/18	1–12/17
EBITDA	-8.8	3.8
EBITDA margin, %	-0.4	0.2
Items affecting EBITDA		
– Write-downs, expenses and income from major risk projects	9.3	27.1
– Restructuring costs	5.3	7.3
– Capital gains and losses from divestments	5.5	-12.3
– Other items*	42.1	
Adjusted EBITDA	53.4	25.8
Adjusted EBITDA margin, %	2.4	1.1

** Including the German anti-trust fine and related legal and other costs.*

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 digital solutions is expected to increase. Customer focus on core operations continues to open up outsourcing and maintenance opportunities for Caverion. There is a trend towards a deeper collaboration in order to gain business benefits instead of mere cost savings. International customers are looking for unified operating models across countries, especially within the Nordic region. There is an increasing interest for services supporting sustainability, such as energy management.

Projects

The Projects market in the non-residential construction market segment is expected to remain stable. Good demand is expected to continue from both private and public sectors. Customer demand for total technical deliveries and public–private partnership models (PPP) is increasing, mainly driven by risk management. However, price competition is expected to remain tight. Low interest rates and the availability of financing continue to support investments. The requirements for increased energy efficiency, better indoor climate and tightening environmental legislation are increasing the costs of building systems investments.

Disclosure on non-financial information 2018

Caverion creating value for customers and society

Caverion's technological capabilities cover all building systems and selected infrastructure and industrial technologies. Caverion operates an asset-light business model. Human capital is the most important asset for Caverion. Everything Caverion delivers to its customers is produced by its about 15,000 highly skilled employees. Making this human capital serve its customers 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 circular economy 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 service offering.

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 related investments.

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 is the about 30,000 facilities under Caverion's service. Caverion also offers 24/7 remote monitoring services for buildings.

Caverion operated in 12 countries during 2018. 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 its thousands of B2B customers, employees, shareholders, partners and suppliers, and the whole society.

Business success through efficiency, leadership and professional growth

Caverion's business success is achieved through its employees. The objective of people-related strategic focus areas is to help Caverion meet its business targets.

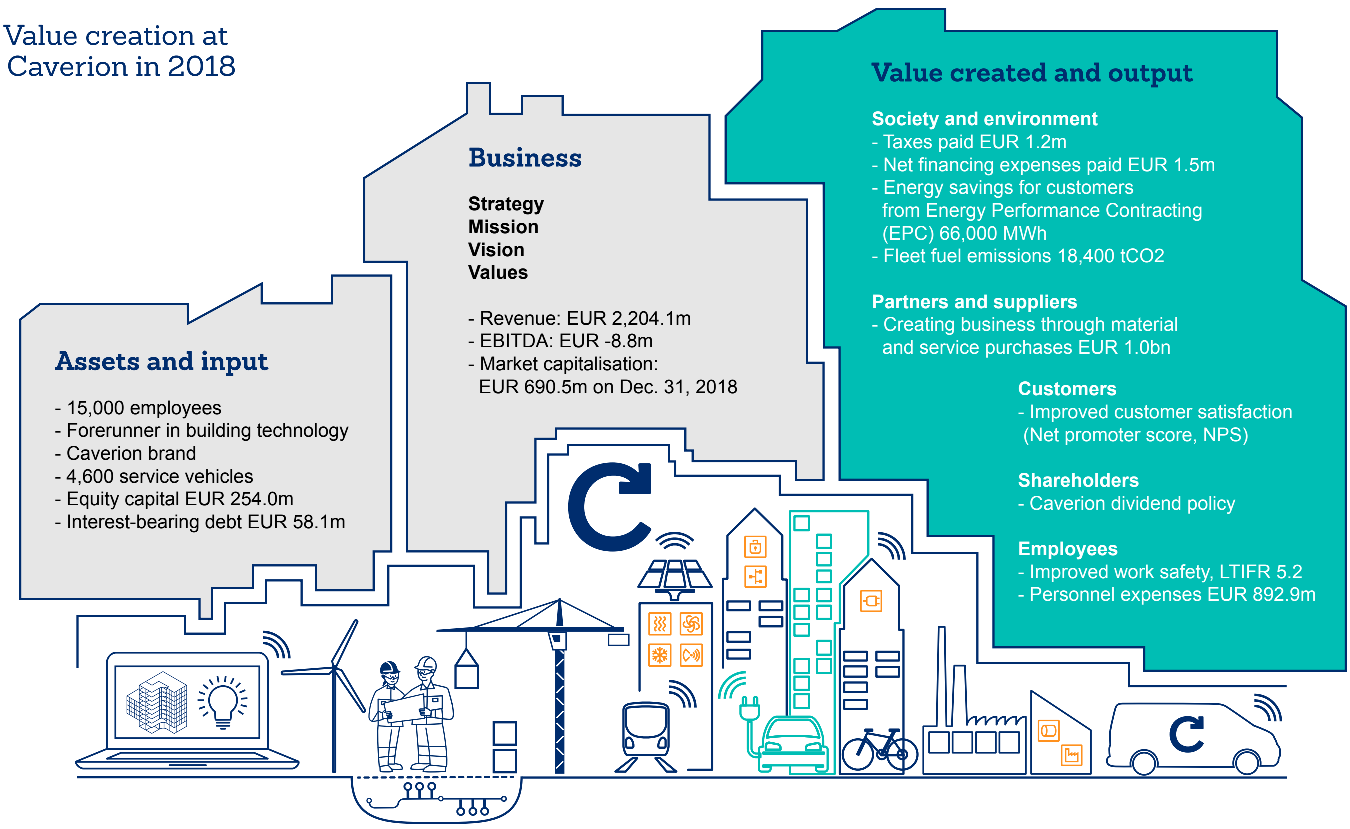
The main targets are to further secure the availability of talent, employee engagement and motivation, as well as the professional growth and learning of Caverion's personnel.

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.

An excellent safety record is a competitive asset and also a sign of quality of Caverion's operations. Caverion aims to ensure that all of its employees have the skills necessary for the safe performance of their own work and take safety as their personal responsibility. Continuous follow-up of the key safety reactive and proactive performance indicator are a part of the management's agenda at all levels.

Value creation at Caverion in 2018



Caverion focuses on preventive safety work. Safety starts with the right attitude, anticipation of risks, and active reporting of safety observations.

Caverion wants to do more; to be not just compliant but to foster a proactive culture based on listening to employees, carrying out projects based on proposals from employees, and agreeing on procedures. The goal is to internalise the safety culture.

In 2018 Caverion started a Group-wide campaign to improve the safety culture by focusing on the following areas:

- Visible leadership: Management demonstrates a credible and visible commitment to safety. It consists of setting a good example and making safety a priority in daily matters;
- Individual responsibility: Employees of the company are in charge of both their own safety and that of their colleagues and they contribute to safety with their knowledge and by sharing their experience;
- Open dialogue: Caverion employees commit to behaving safely and being responsible for their own and other colleagues' safety. They comply with rules and regulations, act sensibly in the face of risk and dangers, and learn from mistakes.

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 and development discussions: Caverion uses the performance and development discussion process to set and review individual strategy-related targets and development plans for all employees;
- Professional growth: Caverion offers its employees an opportunity for continuous learning and development. Caverion uses the 70/20/10 model that is 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 were defined 2017 in order to crystallise what kind of leadership is expected at Caverion. The principles guide the development of all leadership trainings;
- 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 related targets. Caverion encourages continuous feedback to ensure clarity on tasks and achievements throughout the year. This is essential for Caverion in order to be able to offer the best possible solutions and services to its customers.

Approximately thousand 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.

In 2018 Caverion focused heavily on developing project management competences by launching a training portfolio for Project Managers in all divisions. The implementation will continue in 2019.

A new type of Pulse survey was piloted with approximately 6,000 employees in 2018 to follow up on employee engagement. Pulse can track the same focus area over time, providing data in between the broader surveys. The set of questions will always be quick and easy to complete. The survey enables, for example, leaders to measure the progress of strategical focus areas and how Caverion's strategy is understood and implemented.

The leadership skills were actively developed and a new Group-wide self-leadership programme Mirror was piloted during autumn 2018. This programme was designed to grow mindful and empathetic leaders through self-awareness. The target of the Mirror programme was to improve competencies to lead in an uncertain world and strengthen communicative and collaborative leadership. The Caverion-level leadership development programme for new leaders, License to Lead, was developed during 2018 and implementation will start at the beginning of 2019 in all divisions.

Respect for human rights

In accordance with Caverion's 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 gender equality and diversity. Human rights arising out of international treaties are respected. Caverion applies a zero tolerance approach to discrimination, harassment, or any unlawful action. Company-wide Code of Conduct was revised in 2017 and the Code of Conduct training was rolled out to all employees with a completion rate of 93%. The training is part of Caverion employee onboarding during the first week of employment.

Caverion utilises a separate Supplier Code of Conduct with its collaboration partners. The Supplier Code of Conduct was revised in September 2018. Suppliers, subcontractors, and other business partners shall:

- Respect human rights arising out of international treaties, in particular the United Nations' Universal Declaration of Human Rights;
- Comply with fundamental conventions as defined by the International Labour Organization;
- Ascertain that its own suppliers comply with requirements that meet or exceed the requirements laid down in Caverion's Supplier Code of Conduct.

Caverion operates primarily in developed, transparent markets. 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 their observations of suspected misconduct. In addition, reports can be submitted via email that is read by the Chief Compliance Officer.

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 in its power to reject bribery, corruption and white collar crimes.

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. In addition, reports can be submitted via email. The right and obligation to report any misconduct is supported by the non-retaliation policy set out in the Code of Conduct. Caverion has a zero tolerance approach to any corruption or bribery.

In 2018 Caverion reached a settlement for its part with the German Federal Office (FCO) in a cartel case that had been investigated by the authority since 2014. More information on this case and other business risks are presented under "Most significant business risks and risk management".

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 tender preparation and procurement activities. Caverion has established a Compliance Programme that includes clear milestones in order to ensure that all business of Caverion is conducted legally, ethically, and in a compliant manner.

Caverion has furthermore established a Group-level Compliance unit headed by the Chief Compliance Officer and consisting of a compliance network. The role of the compliance network is to enhance a culture of integrity and responsibility and build leadership capabilities by rolling out the Caverion Compliance Programme to local teams and functions. This includes a focus on raising awareness through compliance training. 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 through the ethical reporting channel.

Environmental matters with focus on climate change

Group-level material environmental themes and KPIs were reviewed by Caverion in 2018. The energy savings Caverion achieved for its customers have the most significant environmental impact. Caverion strives to increase the amount of customer energy savings through, for example, Energy Performance Contracting (EPC), also mitigating climate change by offering a wide range of energy efficiency and life cycle solutions for industries, infrastructure, and buildings. Of Caverion's own operations, the fuel consumption of car fleet has the most significant environmental footprint. Caverion service fleet in 2018 was 4,600 vehicles. 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 fuel-efficient diesel cars in its service and business car fleet. In 2018, 96% of Caverion's fleet fuel consumption was diesel fuel. In addition, an increasing number of gas, hybrid and full electric business cars are in use. Caverion continuously follows the development of technology and is open to increasing the number of alternative eco-friendly vehicles for wider use in the future. Caverion is working on an updated Group-level car policy and emission limits to meet the requirements of the new and improved Worldwide Harmonised Light Vehicle Test Procedure (WLTP) standard for measuring vehicle emissions. During 2018 Caverion Finland already set a WLTP CO_2 emission limit for passenger cars to 180 g/km.

An efficient planning of routes and an economical way of driving are important to Caverion. In 2018 the focus was on reducing the number of store pick-ups, which reduces the driving kilometres and emissions. Increasing the use of mobile solutions in field work has continued. This contributes to the reduction of unnecessary driving. In 2018 Caverion service fleet CO_2 emissions were 18,400 tCO_2.

Caverion's business does not involve significant environmental risks. Caverion's own operations are not extensively energy intensive. Waste generated and chemicals used in Caverion's operations are recycled and disposed according to regulatory requirements. For most part, the environmental impact of Caverion's operations relates to localised noise or dust. Caverion continuously follows legislation changes in the EU area and in the other operating countries. The new bonus-malus system of Sweden, as an example, creates a monetary incentive to renew the vehicle fleet in order to meet more ambitious emission limits. Otherwise the consequence would be a higher tax for vehicles with high emissions. Furthermore, Caverion needs to take into consideration the fact that a high proportion of its fuel consumption is diesel. Legislation changes for diesel use could have an effect on Caverion's vehicle fleet in the future.

The revised Caverion Group material environmental KPIs since 2018 onwards are Customer energy savings (MWh) and CO_2 emissions of vehicle fleet.

Caverion sustainability KPI's, targets and performance 2018

Material theme	KPI	Actions	2017	2018	Target	Status
Environment	Customers' energy savings from EPC's (MWh)	Caverion is providing Energy Performance Contracting (EPC) services for customers.	N/A	66,000	Annual increase	On track
Environment	CO_2 Emissions of service vehicle fleet (tCO_2 / revenue mEUR)	Caverion divisions are renewing vehicle fleet. More efficient logistics planning.	N/A	8.4	Annual decrease	On track
Health & Safety	LTIFR	Active analyzing of accidents and near misses. Continue training employees with special focus on managers.	5.7	5.2	< 5	On track
Health & Safety	Sick leave (%)	Actively monitored and proactive activities with support from Health services. Focus on leadership.	4.1	4.5	< 5	On target
Our people	Voluntary turnover rate (%)	Listening to employees, focus on leadership, performance management and communication.	12	11	Declining trend	On target

Key figures

Consolidated income statement, Jan 1–Dec 31	2018	2017 Restated	2016	2015	2014
Revenue, EUR million	2,204.1	2,275.8	2,364.1	2,443.0	2,406.6
EBITDA, EUR million [1]	-8.8	3.8	-11.4	91.5	67.5
EBITDA margin, % [1]	-0.4	0.2	-0.5	3.7	2.8
Adjusted EBITDA, EUR million [1]	53.4	25.8	-	-	-
Adjusted EBITDA margin, % [1]	2.4	1.1	-	-	-
Operating profit, EUR million	-35.9	-26.6	-40.8	65.0	44.2
Operating profit margin, %	-1.6	-1.2	-1.7	2.7	1.8
Result before taxes, EUR million	-43.9	-32.3	-43.5	61.3	36.5
% of revenue	-2.0	-1.4	-1.8	2.5	1.5
Result for the period, EUR million	-48.1	-27.0	-31.7	46.6	27.6
% of revenue	-2.2	-1.2	-1.3	1.9	1.1

Consolidated statement of financial position, EUR million	Dec 31, 2018	Dec 31, 2017 Restated	Dec 31, 2016 Restated	Dec 31, 2015	Dec 31, 2014
Total assets	1,024.5	1,093.2	1,163.3	1,157.7 [2]	1,133.5 [2]
Working capital	-54.6	-30.8	-32.3	-15.4 [2]	-21.1 [2]
Interest-bearing net debt	6.9	64.0	145.5	29.8	50.2

Key ratios and other data	2018	2017 Restated	2016 Restated	2015	2014
Equity ratio, %	30.2	25.8	16.9	26.4 [2]	24.4 [2]
Gearing ratio, %	2.7	27.2	88.8	11.7 [2]	21.4 [2]
Return on equity, %	-19.7	-13.5	-20.0	19.0 [2]	11.4 [2]
Operating cash flow before financial and tax items, EUR million	21.6	-8.7	-22.4	85.8	113.5
Order backlog, EUR million	1,494.3	1,491.0	1,408.1	1,461.4	1,323.6
Personnel, average for the period	15,672	16,607	17,381	17,324	17,490
Personnel at the end of the period	14,950	16,216	16,913	17,399	17,355

Share-related key figures, Jan 1–Dec 31	2018	2017 Restated	2016 Restated	2015	2014
Earnings per share, basic, EUR	-0.40	-0.24	-0.25	0.37	0.22
Earnings per share, diluted, EUR	-0.40	-0.24	-0.25	0.37	0.22
Equity per share, EUR	1.9	1.9	1.3	2.0	1.9
Dividend per share, EUR	0.05 [3]	-	-	0.28	0.22
Dividend per earnings, %	-	-	-	75.2	100.1
Effective dividend yield, %	1.0	-	-	3.1	3.3
Price per earnings (P/E ratio)	-12.9	-24.7	-31.2	24.2	30.3
Share price trend					
Share price on Dec 31, EUR	5.09	5.89	7.92	9.03	6.65
Low, EUR	4.74	5.76	5.50	6.67	5.37
High, EUR	7.54	8.28	9.38	9.69	8.92
Average, EUR	6.37	7.19	6.86	8.69	7.03
Share capitalisation on Dec 31, EUR million	690.5	736.7	990.7	1,129.5	831.8
Share turnover trend					
Share turnover, thousands	41,403	51,196	63,831	36,439	50,953
Share turnover, %	31.6	40.9	51.0	29.1	40.6
Number of shares outstanding at the end of period, thousands	135,656	125,084	125,084	125,084	125,087
Weighted average number of shares, thousands	131,087	125,084	125,084	125,085	125,381
Weighted average number of shares, dilution adjusted, thousands	131,087	125,084	125,084	125,085	125,381

[1] Alternative performance measure (APM). Caverion presents APMs to improve the analysis of business and financial performance and to 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 the following page.

[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
Adjusted EBITDA =	EBITDA before items affecting comparability (IAC) [1)]
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 (%) =	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
Return on equity (%) =	Result for the period x 100 / 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 =	Result for the financial year (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 financial year (attributable for equity holders) – hybrid capital expenses and accrued unrecognised interests after tax / Weighted average number of shares, dilution adjusted
Equity per share =	Shareholders' equity / Number of outstanding shares at the end of the period
Dividend per share =	Dividend per share for the period / Adjustment ratios of share issues during the period and afterwards
Dividend per earnings (%) =	Dividend per share x 100 / Earnings per share
Effective dividend yield (%) =	Dividend per share x 100 / Share price on December 31
Price / earnings ratio (P/E ratio) =	Share price on December 31 / Earnings per share
Average price =	Total EUR value of all shares traded / Average number of all shares traded during the accounting period
Market capitalisation =	(Number of shares – treasury shares) x share price on the closing date
Share turnover =	Number of shares traded during the accounting period
Share turnover (%) =	Number of shares traded x 100 / Average number of outstanding shares

[1)] 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 German anti-trust fine and there-related legal and other costs fall under "Items affecting comparability (IAC)" in category (4) i.e. "other items that according to Caverion management's assessment are not related to normal business operations".

Shareholders

At the end of December 2018, the number of registered shareholders in Caverion was 26,583 (2017: 28,561). At the end of December 2018, a total of 33.2 percent of the shares were owned by nominee-registered and non-Finnish investors (2017: 32.2%).

Updated lists of Caverion's largest shareholders, the holdings of public insiders and ownership structure by sector as per December 31, 2018, 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, 2018

Shareholder	Shares, pcs	% of all shares
1. Funds held by Antti Herlin, including directly held shares	20,500,180	14.8
2. Structor S.A.	17,565,000	12.6
3. Varma Mutual Pension Insurance Company	9,721,407	7.0
4. Mandatum companies	4,479,018	3.2
5. Ilmarinen Mutual Pension Insurance Company	4,020,000	2.9
6. Caverion Oyj	3,264,451	2.3
7. Nordea funds	3,112,458	2.2
8. Fondita funds	3,071,618	2.2
9. Aktia funds	2,118,860	1.5
10. The State Pension Fund	1,850,000	1.3
11. Säästöpankki funds	1,715,108	1.2
12. Elo Pension Company	1,060,000	0.8
13. Evli funds	1,051,357	0.8
14. Brotherus Ilkka	1,048,265	0.8
15. OP funds	846,740	0.6
16. Odin funds	838,905	0.6
17. Foundation of Brita Maria Renlunds minne	817,000	0.6
18. Funds held by Ari Lehtoranta, including directly held shares	789,731	0.6
19. Kaleva Mutual Insurance Company	483,836	0.3
20. Wihuri funds	290,400	0.2
20 largest, total	78,644,334	56.6
Other shareholders	33,210,620	23.9
Nominee registered total	27,065,138	19.5
All shares	**138,920,092**	**100.0**

Ownership structure by sector on December 31, 2018

Sector	Shareholders	% of owners	Shares	% of all shares
Nominee registered and non-Finnish holders	125	0.5	46,146,248	33.2
Households	24,938	93.8	23,416,641	16.9
General government	21	0.1	17,202,016	12.4
Financial and insurance corporations	66	0.2	15,710,986	11.3
Non-profit institutions	305	1.1	5,518,446	4.0
Non-financial corporations and housing corporations	1,128	4.2	30,925,755	22.3
Total	**26,583**	**100.0**	**138,920,092**	**100.0**

Public insider ownership of Caverion Group on December 31, 2018

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	20,470,000	20,500,180
Hinnerskov Thomas	Member	40,000	-	40,000
Hyvönen Anna	Member	2,000	-	2,000
Paulsson Mats	Member	-	-	-
Rosenlew Michael	Chairman of the Board	-	156,130	156,130
Total		**78,180**	**20,637,130**	**20,715,310**

Group Management Board		Direct Holdings	Holdings of controlled companies	Total
Ala-Härkönen Martti	Head of Finance, Strategy and IT, Chief Financial Officer (CFO)	102,912	-	102,912
Gaaserud Knut	Head of Division Norway	66,440	-	66,440
Hietto Thomas	Head of Business Unit Services	87,912	-	87,912
Højgaard Michael	Head of Division Denmark	-	-	-
Kaiser Michael	Head of Business Unit Projects	89,856	-	89,856
Kühn Werner	Executive Vice President & CEO, Division Germany	-	-	-
Lehtoranta Ari	President and CEO	239,731	550,000	789,731
Mennander Juha	Executive Vice President & CEO, Division Sweden	49,950	-	49,950
Schrey-Hyppänen Minna	Head of Human Resources	50,450	-	50,450
Simmet Manfred	Senior Vice President & CEO, Division Austria	51,827	-	51,827
Tamminen Ville	Head of Division Finland	66,934	-	66,934
Toikkanen Sakari	Head of Division Industrial Solutions (interim)	16,382	-	16,382
Viitala Anne	Head of Legal & Governance	49,750	-	49,750
Total		**872,144**	**550,000**	**1,422,144**

Subsidiaries

Company name	Domicile	Holding of Caverion Group, %	Holding of Caverion Corporation, %
Caverion Suomi Oy	Helsinki	100.00	100.00
Caverion GmbH	Munich	100.00	100.00
Caverion Industria Oy	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 Oy	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	
Caverion Lietuva UAB	Vilnius	100.00	
Caverion Huber Invest Oy	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 Oy	Helsinki	100.00	
OOO Peter Industry Service	St. Petersburg	100.00	
Jetitek Oy	Rovaniemi	100.00	
Oy Botnia Mill Service Ab [1)]	Kemi	49.83	
Kiinteistö Oy 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 does not have subsidiaries with material non-controlling interests based on Group's view.

Consolidated income statement

EUR million	Note	1.1.-31.12.2018	%	1.1.-31.12.2017 Restated	%
Revenue	2.1	**2,204.1**		**2,275.8**	
Other operating income	2.2	4.1		15.9	
Materials and supplies		-570.6		-638.4	
External services		-425.0		-433.0	
Employee benefit expenses	2.2	-892.9		-940.4	
Other operating expenses	2.2	-328.4		-276.1	
Share of results in associated companies	5.7	0.0		0.0	
Depreciation, amortisation and impairment	2.3	-27.1		-30.4	
Operating profit		**-35.9**	-1.6	**-26.6**	-1.2
Financial income		0.7		0.9	
Exchange rate differences (net)		-4.3		0.2	
Financial expenses		-4.3		-6.9	
Financial income and expenses	2.4	-7.9		-5.7	
Result before taxes		**-43.9**	-2.0	**-32.3**	-1.4
Income taxes	2.5	-4.3		5.3	
Result for the financial year		**-48.1**	-2.2	**-27.0**	-1.2
Attributable to:					
Owners of the parent		-48.2		-27.0	
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	-0.40		-0.24	
Earnings per share, diluted, EUR		-0.40		-0.24	

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

Consolidated statement of comprehensive income

EUR million	Note	1.1.-31.12.2018	1.1.-31.12.2017 Restated
Result for the period		**-48.1**	**-27.0**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Change in the fair value of defined benefit pension		0.4	1.6
- Deferred tax		0.0	0.0
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging	5.5	0.1	0.1
Change in fair value of investments	5.4	0.0	0.1
- Deferred tax		-0.2	
Translation differences		2.6	-2.5
Other comprehensive income, total		**2.9**	**-0.6**
Total comprehensive income		**-45.2**	**-27.6**
Attributable to:			
Owners of the parent		-45.2	-27.6
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, 2018	Dec 31, 2017 Restated	Jan 1, 2017 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	4.3	15.9	21.9	28.3
Goodwill	4.2	334.4	331.6	339.8
Other intangible assets	4.3	34.6	46.7	53.0
Investments in associated companies	5.7	0.1	0.1	0.1
Investments	5.4	1.2	1.2	1.2
Receivables	3.2	6.4	2.1	3.3
Deferred tax assets	3.5	9.9	27.4	19.3
Total non-current assets		**402.6**	**430.9**	**445.1**
Current assets				
Inventories	3.1	16.9	17.6	30.7
Trade receivables	3.2	311.6	333.9	363.4
POC receivables	3.2	207.4	226.5	229.6
Other receivables	3.2	31.7	47.5	40.4
Income tax receivables		3.2	7.5	6.4
Cash and cash equivalents		51.2	29.2	47.7
Total current assets		**621.9**	**662.3**	**718.2**
TOTAL ASSETS		**1,024.5**	**1,093.2**	**1,163.3**
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	5.2			
Share capital		1.0	1.0	1.0
Treasury shares		-3.2	-3.2	-3.2
Translation differences		-5.5	-8.0	-5.6
Fair value reserve		-0.2	-0.5	-0.7
Hybrid capital		100.0	100.0	
Unrestricted equity reserve		66.0		
Retained earnings		95.5	146.0	172.1
		253.6	235.3	163.6
Non-controlling interests		0.4	0.4	0.4
Total equity		**254.0**	**235.6**	**163.9**
Non-current liabilities				
Deferred tax liabilities	3.5	33.1	51.6	51.1
Pension obligations	5.8	43.9	44.2	45.4
Provisions	3.4	6.9	7.0	7.1
Interest-bearing debts	5.4	30.9	57.7	127.6
Other liabilities	3.3	0.2	0.4	0.6
Total non-current liabilities		**115.0**	**160.8**	**231.7**
Current liabilities				
Trade payables	3.3	184.1	215.5	214.1
Advances received	3.3	182.6	179.9	192.5
Other payables	3.3	231.8	237.3	258.7
Income tax liabilities		5.3	5.8	6.5
Provisions	3.4	24.6	22.7	30.1
Interest-bearing debts	5.4	27.2	35.5	65.7
Total current liabilities		**655.5**	**696.8**	**767.7**
Total liabilities		**770.5**	**857.6**	**999.3**
TOTAL EQUITY AND LIABILITIES		**1,024.5**	**1,093.2**	**1,163.3**

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

Consolidated statement of cash flows

EUR million	Note	1.1.-31.12.2018	1.1.-31.12.2017 Restated
Cash flow from operating activities			
Result for the financial year		-48.1	-27.0
Adjustments for:			
Depreciation, amortisation and impairment		27.1	30.4
Reversal of accrual-based items		5.3	-4.7
Financial income and expenses		7.9	5.7
Gains on the sale of tangible and intangible assets		2.9	-12.3
Taxes		4.3	-5.3
Total adjustments		47.5	13.7
Change in working capital:			
Change in trade and other receivables		59.4	8.3
Change in inventories		0.0	11.9
Change in trade and other payables		-37.1	-15.6
Total change in working capital		**22.3**	**4.6**
Operating cash flow before financial and tax items		**21.6**	**-8.7**
Interest paid		-4.5	-6.7
Other financial items, net		2.3	1.1
Interest received		0.6	0.8
Dividends received		0.1	0.2
Taxes paid		-1.2	-3.4
Net cash generated from operating activities		**18.9**	**-16.7**
Cash flow from investing activities			
Acquisition of subsidiaries and businesses, net of cash	4.1	-4.6	-2.4
Disposals of subsidiaries and businesses, net of cash	4.1	-1.8	23.1
Purchases of property, plant and equipment	4.3	-5.1	-4.2
Purchases of intangible assets	4.3	-6.9	-13.2
Proceeds from sale of tangible and intangible assets		0.9	0.2
Proceeds from sale of investments			0.1
Net cash used in investing activities		**-17.5**	**3.6**
Cash flow from financing activities			
Change in loan receivables		-3.1	1.2
Repayment of borrowings	5.3	-28.7	-68.7
Change in current liabilities, net	5.3	-5.0	-30.0
Repayment of finance lease debts	5.4	-2.2	-2.2
Share issue		60.0	
Share issue costs		-0.8	
Share subscriptions		6.7	
Proceeds from hybrid capital	5.2		100.0
Hybrid capital expenses and interests		-4.6	-1.0
Dividends paid		0.0	0.0
Net cash used in financing activities		**22.2**	**-0.7**
Net change in cash and cash equivalents		**23.6**	**-13.9**
Cash and cash equivalents at the beginning of the financial year		29.2	47.7
Foreign exchange rate effect on cash and cash equivalents		-1.7	-4.6
Cash and cash equivalents at the end of the financial year		**51.2**	**29.2**

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

Consolidated statement of changes in equity

		Attributable to owners of the parent									
EUR million	**Note**	**Share capital**	**Retained earnings**	**Translation differences**	**Fair value reserve**	**Treasury shares**	**Unrestricted equity reserve**	**Hybrid capital**	**Total**	**Non-controlling interests**	**Total equity**
Equity December 31, 2017		**1.0**	**146.0**	**-8.0**	**-0.5**	**-3.2**		**100.0**	**235.3**	**0.4**	**235.6**
Change in accounting principle, IFRS 9			-0.8						**-0.8**		**-0.8**
Equity January 1, 2018		**1.0**	**145.2**	**-8.0**	**-0.5**	**-3.2**		**100.0**	**234.4**	**0.4**	**234.8**
Comprehensive income 1-12/2018											
Result for the period			-48.2						**-48.2**	0.0	**-48.2**
Other comprehensive income:											
Change in fair value of defined benefit pension			0.4						**0.4**		**0.4**
- Deferred tax			0.0						**0.0**		**0.0**
Cash flow hedges	5.5				0.1				**0.1**		**0.1**
Change in fair value of investments	5.4		-0.3		0.3				**0.0**		**0.0**
- Deferred tax					-0.2				**-0.2**		**-0.2**
Translation differences				2.6					**2.6**		**2.6**
Comprehensive income 1-12/2018, total			**-48.1**	**2.6**	**0.3**				**-45.2**	**0.0**	**-45.2**
Dividend distribution	5.2									0.0	**0.0**
Share issue	5.2						60.0		**60.0**		**60.0**
Share issue costs after taxes							-0.7		**-0.7**		**-0.7**
Share-based payments	6.2		2.0						**2.0**		**2.0**
Share subscriptions	5.2						6.7		**6.7**		**6.7**
Hybrid capital interests after taxes	5.2		-3.7						**-3.7**		**-3.7**
Equity on December 31, 2018		**1.0**	**95.5**	**-5.5**	**-0.2**	**-3.2**	**66.0**	**100.0**	**253.6**	**0.4**	**254.0**

EUR million	Note	Attributable to owners of the parent: Share capital	Retained earnings	Translation differences	Fair value reserve	Treasury shares	Hybrid capital	Total	Non-controlling interests	Total equity
Equity January 1, 2017 (restated)		**1.0**	**172.1**	**-5.6**	**-0.7**	**-3.2**		**163.6**	**0.4**	**163.9**
Comprehensive income 1-12/2017										
Result for the period			-27.0					**-27.0**	0.0	**-27.0**
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				-2.5				**-2.5**		**-2.5**
Comprehensive income 1-12/2017, total			**-25.3**	**-2.5**	**0.2**			**-27.6**	**0.0**	**-27.6**
Dividend distribution	5.2								0.0	**0.0**
Share-based payments	6.2		0.1					**0.1**		**0.1**
Hybrid capital	5.2						100.0	**100.0**		**100.0**
Hybrid capital transaction costs after taxes	5.2		-0.8					**-0.8**		**-0.8**
Equity on December 31, 2017 (restated)		**1.0**	**146.0**	**-8.0**	**-0.5**	**-3.2**	**100.0**	**235.3**	**0.4**	**235.6**

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 Torpantie 2, 01650 Vantaa, 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, Torpantie 2, 01650 Vantaa.

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 4, 2019 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, 2018. 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 2018 have been prepared under the historical cost convention, except for 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
- Revenue from contracts with customers
- 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 2018	Income statement January–December 2017	Statement of financial position December 31, 2018	Statement of financial position December 31, 2017
1 EUR =	CZK	25.6455	26.3231	25.7240	25.535
	DKK	7.4532	7.4385	7.4673	7.4449
	NOK	9.6002	9.3316	9.9483	9.8403
	PLN	4.2612	4.2561	4.3014	4.1770
	RUB	74.0687	65.9183	79.7153	69.3920
	SEK	10.2584	9.6377	10.2548	9.8438

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, 2018, and have not been applied in preparing these consolidated financial statements. Only new IFRS 16 Leases standard is expected to have a significant effect on the consolidated financial statements of the Group.

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, which Caverion will utilise and the lease expense will be recognised into income statement. Caverion does not have any material contracts as lessor.

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 has performed an assessment of the impacts of IFRS 16 standard, which is subject to changes arising from the finalisation of the ongoing analysis. Based on the current analysis of its existing agreements, most operating leases will be recognised into the balance sheet. For some contracts the reasonably certain lease period affecting the balance sheet recognition according to IFRS 16 differs from the non-cancellable period implied in IAS 17. The new IFRS 16 standard will have significant impact on Group's balance sheet and related key ratios, such as the equity ratio and gearing. Based on the current analysis, the impact of IFRS 16 adoption is expected to increase the Group's interest-bearing liabilities and right-of-use assets by about EUR 140 million. The standard will also have impact on Group's income statement. The impacted operating lease cost will be divided into the depreciation of the right-of-use asset and interest cost associated with the lease liability resulting in an improved EBITDA, having an estimated annual increase of around 2 percentage points on the Group's EBITDA margin. The effect to profit for the period will be insignificant. The adoption of the new IFRS 16 standard also impacts the presentation of the consolidated statement of cash flows. Operating cash flow before financial and tax items will be increased with the impacted lease payments and Cash flow from financing activities and Interests paid will be decreased, respectively.

Caverion will adopt the standard as of the effective date of January 1, 2019. The Group will apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Caverion will report financial figures according to IFRS 16 for the first time in its Q1 interim report for 2019 on 26 April 2019.

Amendments to IAS 19 (Plan amendment, Curtailment or Settlement)

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. The IAS 19 amendment is not expected to have a material impact on consolidated financial statements. Caverion will apply the amendment as from January 1, 2019.

New standards and amendments adopted

IFRS 15, 'Revenue from contracts with customers'

Caverion has adopted IFRS 15 (Revenue from contracts with customers), effective on January 1, 2018, using the full retrospective method of adoption. IFRS 15 establishes a 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. It replaces IAS 11, 'Construction contracts,' IAS 18, 'Revenue' and related interpretations.

The most significant impact from adopting IFRS 15 relates to the new requirements for the determination of the transaction price. The IFRS 15 standard requires that revenue is recognised from any variable consideration at its estimated amount, if it is *highly probable* that no significant reversal of revenue will occur. Under the previous revenue recognition standards, revenue was recognised from variable consideration when it was assessed *probable* to occur. Revenue from variable considerations is thus to be recognised more prudently under IFRS 15 than under previous revenue recognition standards.

Restated comparative key figures for financial year 2017 were published in March 2018. The effect of adopting IFRS 15 on consolidated income statement and on consolidated statement of financial position is presented below.

Impact on consolidated income statement

EUR million	1.1.-31.12.2017 Reported	IFRS 15 Restatement	1.1.-31.12.2017 Restated
Revenue	2,282.8	-7.0	2,275.8
Other operating income	15.9		15.9
Materials and supplies	-638.4		-638.4
External services	-433.0		-433.0
Employee benefit expenses	-940.4		-940.4
Other operating expenses	-275.8	-0.3	-276.1
Share of results of associated companies	0.0		0.0
Depreciation, amortisation and impairment	-30.4		-30.4
Operating profit	**-19.3**	**-7.3**	**-26.6**
% of revenue	-0.8		-1.2
Financial income	0.9		0.9
Exchange rate differences (net)	0.2		0.2
Financial expenses	-6.9		-6.9
Financial income and expenses	-5.7		-5.7
Result before taxes	**-25.1**	**-7.3**	**-32.3**
% of revenue	-1.1		-1.4
Income taxes	4.2	1.1	5.3
Result for the review period	**-20.9**	**-6.1**	**-27.0**
% of revenue	-0.9		-1.2
Attributable to			
Equity holders of the parent company	-20.9	-6.1	-27.0
Non-controlling interests	0.0		0.0
Earnings per share attributable to the equity holders of the parent company			
Earnings per share, basic, EUR	-0.19		-0.24
Earnings per share, diluted, EUR	-0.19		-0.24

Impact on consolidated statement of financial position

EUR million	Dec 31, 2017 Reported	IFRS 15 Restatement	Dec, 31 2017 Restated	Jan 1, 2017 Reported	IFRS 15 Restatement	Jan, 1 2017 Restated
ASSETS						
Non-current assets						
Property, plant and equipment	21.9		21.9	28.3		28.3
Goodwill	331.6		331.6	339.8		339.8
Other intangible assets	46.7		46.7	53.0		53.0
Shares in associated companies	0.1		0.1	0.1		0.1
Available-for-sale financial assets	1.2		1.2	1.2		1.2
Receivables	2.1		2.1	3.3		3.3
Deferred tax assets	17.6	9.8	27.4	10.6	8.7	19.3
Total non-current assets	**421.1**	**9.8**	**430.9**	**436.4**	**8.7**	**445.1**
Current assets						
Inventories	17.6		17.6	30.7		30.7
Trade receivables	347.3	-13.4	333.9	378.2	-14.9	363.4
Accrued income from long-term contracts	249.7	-23.2	226.5	244.4	-14.8	229.6
Other receivables	47.5		47.5	40.4		40.4
Income tax receivables	7.5		7.5	6.4		6.4
Cash and cash equivalents	29.2		29.2	47.7		47.7
Total current assets	**698.9**	**-36.6**	**662.3**	**747.9**	**-29.7**	**718.2**
TOTAL ASSETS	**1,120.0**	**-26.8**	**1,093.2**	**1,184.3**	**-21.0**	**1,163.3**
EQUITY AND LIABILITIES						
Equity attributable to equity holders of the parent company						
Share capital	1.0		1.0	1.0		1.0
Treasury shares	-3.2		-3.2	-3.2		-3.2
Translation differences	-8.1	0.1	-8.0	-5.5	0.0	-5.6
Fair value reserve	-0.5		-0.5	-0.7		-0.7
Hybrid capital	100.0		100.0			
Retained earnings	173.2	-27.2	146.0	193.1	-21.0	172.1
	262.4	-27.1	235.3	184.6	-21.0	163.6
Non-controlling interests	0.4		0.4	0.4		0.4
Total equity	**262.7**	**-27.1**	**235.6**	**185.0**	**-21.0**	**163.9**
Non-current liabilities						
Deferred tax liabilities	51.6		51.6	51.1		51.1
Pension liabilities	44.2		44.2	45.4		45.4
Provisions	7.0		7.0	7.1		7.1
Interest-bearing debts	57.7		57.7	127.6		127.6
Other liabilities	0.4		0.4	0.6		0.6
Total non-current liabilities	**160.8**		**160.8**	**231.7**		**231.7**
Current liabilities						
Trade payables	215.5		215.5	214.1		214.1
Advances received	179.9		179.9	192.5		192.5
Other payables	237.3		237.3	258.7		258.7
Income tax liabilities	5.8		5.8	6.5		6.5
Provisions	22.4	0.3	22.7	30.1	0.0	30.1
Interest-bearing debts	35.5		35.5	65.7		65.7
Total current liabilities	**696.4**	**0.3**	**696.8**	**767.6**	**0.0**	**767.7**
TOTAL EQUITY AND LIABILITIES	**1,120.0**	**-26.8**	**1,093.2**	**1,184.3**	**-21.0**	**1,163.3**

IFRS 9, 'Financial instruments'

New IFRS 9, 'Financial instruments' -standard has been applied as of 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 main impact of the IFRS 9 application for Caverion comes from the new expected credit loss model applied to assess impairment loss for the doubtful trade receivables. The new impairment model requires recognition of impairment provisions based on expected credit losses (ECL), resulting in an increase in allowance for doubtful trade receivables. The credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables and an expected default rate. The lifetime expected credit loss allowance total was recognised as an adjustment of EUR 0.8 million net of tax to the opening balance of retained earnings in the year 2018, and thereafter the changes in expected credit losses will be recognised in profit and loss.

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 (FVTOCI) and fair value through profit and loss (FVTPL). 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.

On the date of initial application, 1 January 2018, financial instruments were as follows:

	Measurement Category		Carrying amount, 1 January 2018		
EUR million	Original (IAS 39)	New (IFRS 9)	New EUR million	Original EUR million	Difference EUR million
Non-current financial assets					
Investments (Level 1 in fair value hierarchy)	Available for sale	Fair value through profit and loss	0.7	0.7	-
Investments (Level 3 in fair value hierarchy)	Available for sale	Fair value through other comprehensive income	0.5	0.5	-
Trade receivables and other receivables	Loans and receivables	Amortised cost	0.1	0.1	-
Current financial assets					
Trade receivables and other receivables	Loans and receivables	Amortised cost	578.9	579.9	-1.0
Derivatives (hedge accounting not applied)	Held for trading	Fair value through profit and loss	0.3	0.3	-
Cash and cash equivalents	Loans and receivables	Amortised cost	29.2	29.2	-
Non-current financial liabilities					
Interest-bearing liabilities	Financial liabilities valued at amortised cost	Amortised cost	49.9	49.9	-
Trade payables and other liabilities	Financial liabilities valued at amortised cost	Amortised cost	0.1	0.1	-
Derivatives (hedge accounting not applied)	Held for trading	Fair value through profit and loss	0.3	0.3	-
Current financial liabilities					
Interest-bearing liabilities	Financial liabilities valued at amortised cost	Amortised cost	35.5	35.5	-
Trade payables and other liabilities	Financial liabilities valued at amortised cost	Amortised cost	484.8	484.8	-
Derivatives (hedge accounting not applied)	Held for trading	Fair value through profit and loss	0.2	0.2	-

For Caverion, the new classification and measurement guidance changes the terminology used for financial instruments but the impact on financial reporting is limited. There is no substantial transition adjustment recognised in the opening balance of retained earnings for 2018.

Hedge accounting is not applied in current hedging relationships.

Caverion has applied the new rules commenced on 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 have not been restated.

IFRS 2, 'Share-based payment transactions'

Caverion has adopted amendments to IFRS 2 (Classification and Measurement of Share-Based Payment Transactions) as from January 1, 2018. The amendment clarifies the measurement and accounting treatment of cash-settled share-based payments. When an employer is committed to the net settlement feature and thereby withholds and pays to the tax authority an amount for the employee's tax obligation associated with a share-based payment, the whole award should be treated as if it were equity-settled. The adoption of the IFRS 2 amendment had no material impact on consolidated financial statements.

2 Financial performance

In this section
This section comprises the following notes describing Caverions's financial performance in 2018:

2.1 Revenue from contracts with customers

The disaggregation of revenue is set out below by Business Units and by division. The reportable segment of Caverion is group and thus, no reconciliation between segments and revenue from contracts with customers is presented.

Disaggregated revenue information

EUR million	2018	%	2017 Restated	%
Business units				
Services	1,213.0	55%	1,209.0	53%
Projects	991.1	45%	1,066.8	47%
Total revenue from contracts with customers	**2,204.1**	**100%**	**2,275.8**	**100%**
Revenue by division				
Sweden	443.1	20%	492.2	22%
Germany	436.7	20%	468.6	21%
Norway	377.4	17%	367.0	16%
Finland	336.3	15%	317.3	14%
Industrial Solutions	229.2	10%	248.3	11%
Austria	176.8	8%	161.9	7%
Denmark	129.2	6%	142.7	6%
Eastern Europe	75.5	3%	77.8	3%
Total revenue from contracts with customers	**2,204.1**	**100%**	**2,275.8**	**100%**

Revenue from contracts with customers is recognised mainly over time.

Contract balances

EUR million	Dec 31, 2018	Dec 31, 2017 Restated	Jan 1, 2017 Restated
Contract assets			
POC receivables	207.4	226.5	229.6
Work in progress	2.3	4.2	14.7
Contract liabilities			
Advances received [1)]	182.6	179.9	192.5
Accrued expenses from long-term contracts	20.2	20.5	25.7

[1)] Advances received consist of advances received in cash and advances relating to percentage of completion method.

Amounts included in the contract liabilities at the beginning of the year are mainly recognised as revenue during the financial year. Revenue recognised from performance obligations satisfied in the previous years wasn't material during 2018 or 2017.

Performance obligations

A performance obligation is a distinct good or service within a contract that customer can benefit on stand-alone basis.

In Projects and Services business, performance obligation is satisfied by transferring control of a work delivered to a customer. At Caverion, control is transferred mainly over time and payment is generally due within 14-45 days.

In most of the contracts that Caverion has with its customers only one performance obligation is identified. Many contracts include different building systems (e.g. heating, sanitation, ventilation, air conditioning and electricity) that the customer has ordered from Caverion. All the different building systems (i.e. disciplines) could be distinct, because the customer could benefit from those on their own or together with other resources that are readily available. However, those aren't concluded to be distinct in the context of the contract while based on the management's view, the customer has wanted to get all the building systems as a whole and the customer has requested for all technical solutions / services as one package. In addition, Caverion provides also project management services and is responsible for managing the project, which integrates the different goods and services as one total deliverable/combine output to the customer, which has been agreed in the contract and from the commercial point there are no separable risks related to the different parts of the project, as the project has one total price for the full delivery and the possible sanctions are defined at the contract level.

Services business consists of Technical Maintenance, Advisory Services and Managed Services. In Services business performance obligations are maintenance agreements and separate repair orders which are distinct.

Remaining performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December is as follows:

EUR million	2018	2017
Within one year	917.4	964.9
More than one year	576.8	526.1

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. 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.

Contracts under percentage of completion method are recognized 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 or evaluated based on physical stage of completion. Invoicing which exceeds the revenue recognized based on the stage of completion is recognized in advances received. Invoicing which is less than the revenue recognized on the percentage of completion basis is deferred and presented as related accrued income. Costs in excess of the stage of completion are capitalised as work in progress and costs below the stage of completion are recorded as accrued expenses from long-term contracts.

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.

Revenue is recognised from any variable consideration at its estimated amount, if it is *highly probable* that no significant reversal of revenue will occur.

Caverion's customer contracts do not usually include any significant financing components.

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	2018	2017
Wages and salaries	710.2	738.2
Pension costs	68.6	71.4
Share-based compensations	1.9	0.2
Other indirect employee costs	112.3	130.6
Total	**892.9**	**940.4**
Average number of personnel	**15,672**	**16,607**

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	2018	2017 Restated
Loss on disposal of tangible and intangible assets	3.4	0.0
Expenses for leased office facilities	33.5	34.6
Other expenses for leases	51.2	50.5
Voluntary indirect personnel expenses	10.7	10.9
Other variable expenses for work in progress	55.5	48.0
Travel expenses	40.5	41.9
IT expenses	43.8	43.9
Premises expenses	8.3	8.7
Other fixed expenses [1]	81.6	37.6
Total of other operating expenses	**328.4**	**276.1**
Other operating income [2]	4.1	15.9
Total of other operating items	**324.3**	**260.2**

[1] Other fixed expenses include consulting, legal, administrative, marketing and other fixed costs. In 2018, other fixed expenses include German anti-trust fine and related costs (EUR 42.1 million in total).

[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 0.9 (2.6) million in 2018. Research expenditure is expensed in the income statement as incurred.

Audit fee

Annual General Meeting, held on March 26th 2018, elected Authorised Public Accountants Ernst & Young Oy as the company's auditor until the end of the next Annual General Meeting. PricewaterhouseCoopers Oy acted as the company's auditor during financial year 2017 and during 2018 until Annual General Meeting 2018 was held. The auditor's remuneration will be paid according to invoice approved by Caverion.

EUR million	2018	2017
Ernst & Young		
Audit fee	0.6	
Statement	0.1	
Tax services	0.0	
Other services	0.2	
PricewaterhouseCoopers		
Audit fee	0.2	0.8
Statement	0.0	0.0
Tax services	0.2	0.2
Other services	0.0	0.5
Others	0.1	0.1
Total	**1.5**	**1.6**

Expenses for non-audit services Ernst & Young Oy has provided to Caverion Group entities in Finland amounted to EUR 0.3 million during the financial year 2018. The services included auditors' statements (EUR 0.1 million), tax services (EUR 0.0 million) and other services (EUR 0.2 million).

Restructuring costs

EUR million	2018	2017
Personnel related costs	3.8	4.4
Rents	1.4	1.1
Other restructuring costs	0.1	1.8
Total	**5.3**	**7.3**

In June 2016, Caverion launched a large restructuring program, which continued rest of the year and during years 2017 and 2018. 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.

2.3 Depreciation, amortisation and impairment

EUR million	2018	2017
Depreciation and amortisation by asset category		
Intangible assets		
Allocations from business combinations	3.5	2.0
Other intangible assets	17.0	20.5
Tangible assets	6.5	7.8
Total	**27.1**	**30.4**

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	3–10 years
Other intangible assets	2–5 years

Tangible assets:

Buildings:	40 years
Machinery and equipment:	3–7 years
Other tangible assets:	10–40 years

2.4 Financial income and expenses

EUR million	2018	2017
Financial income		
Dividend income on investments	0.0	0.2
Interest income on loans and other receivables	0.5	0.7
Other financial income on loans and other receivables	0.1	0.1
Financial income, total	**0.7**	**0.9**
Financial expenses		
Interest expenses on liabilities at amortised cost [1]	-3.0	-4.5
Other financial expenses on liabilities at amortised cost	-1.4	-2.3
Interest expenses on finance leases	-0.1	-0.2
Changes in fair values on financial instruments at fair value through profit and loss account	0.1	0.1
Financial expenses, total	**-4.3**	**-6.9**
Exchange rate gains	28.6	28.3
Exchange rate losses [2]	-32.9	-28.1
Exchange rate differences, net	**-4.3**	**0.2**
Financial expenses, net	**-7.9**	**-5.7**

[1] Interest expenses on liabilities at amortised cost include EUR 0.2 (0.3) million interest expenses on derivatives.

[2] In connection with the process of closing an old project company in Russia, the company's internal loan denominated in euros in Russia was reclassified from equity to liabilities and the translation loss of EUR 4.8 million was booked in financing expenses in the fourth quarter of 2018. The booking had no cash flow effect.

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	2018	2017 Restated
Tax expense for current year	4.9	2.4
Tax expense for previous years	0.2	-0.8
Change in deferred tax assets and liabilities	-0.8	-6.9
Total income taxes	**4.3**	**-5.3**

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	2018	2017 Restated
Result before taxes	**-43.9**	**-32.3**
Income taxes at the tax rate in Finland (20.0%)	-8.8	-6.5
Effect of different tax rates outside Finland	-6.3	-1.0
Tax exempt income and non-deductible expenses [1)]	14.6	2.9
Impact of the changes in the tax rates on deferred taxes [2)]	-0.4	-0.6
Impact of losses for which deferred taxes is not recognised	3.8	0.4
Unrecognized losses from previous years	0.0	-0.1
Reassessment of deferred taxes	1.2	0.5
Taxes for previous years	0.2	-0.8
Income taxes in the income statement	**4.3**	**-5.3**

[1)] German anti-trust fine (EUR 40.8 million) affecting the non-deductible expenses in the year 2018

[2)] In 2018, the effect of the change of tax rate mainly in Norway from 23.0% to 22.0% and in Sweden from 22.0% to 21.4% in 2019. In 2017, the effect of the change of tax rate mainly in Norway from 24.0% to 23.0% in 2018.

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

	2018	2017 Restated
Result for the financial year, EUR million	-48.2	-27.0
Hybrid capital expenses and accrued unrecognised interest after tax, EUR million	-3.7	-2.8
Adjusted result for the financial year, EUR million	**-51.9**	**-29.8**
Weighted average number of shares (1,000 shares)	131,087	125,084
Earnings per share, basic, EUR	**-0.40**	**-0.24**

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 2018 and 2017.

3 Working capital and deferred taxes

In this section
This section comprises the following notes describing Caverion's working capital and deferred taxes for 2018:

EUR million	2018	2017
Inventories	16.9	17.6
Trade and POC receivables	518.9	560.4
Other current receivables	31.3	46.0
Trade and POC payables	-204.4	-236.1
Other current liabilities	-234.8	-239.0
Advances received	-182.6	-179.9
Working capital	**-54.6**	**-30.8**

3.1 Inventories

EUR million	2018	2017
Raw materials and consumables	13.3	13.3
Work in progress	2.3	4.2
Advance payments	1.2	0.2
Total	**16.9**	**17.6**

The Group didn't make any write-downs of inventories during financial years 2018 and 2017.

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	2018 Carrying value	2017 Carrying value Restated
Trade receivables	311.6	333.9
POC-receivables	207.4	226.5
Loan receivables	0.0	1.0
Prepayments and other accrued income	16.6	27.8
Other receivables	15.1	18.8
Total	**550.7**	**608.0**

Trade receivables average amount was EUR 272.5 (299.9) million in 2018.

Non-current receivables amounted to EUR 6.4 (2.1) million in 2018, out of which EUR 4.1 (0.0) million were loan receivables, EUR 2.3 (2.1) million defined benefit pension plan assets and EUR 0.0 (0.0) million other receivables.

Trade receivables aging profile

Age analysis of trade receivables December 31, 2018

EUR million	Carrying amount	Impaired	Gross
Not past due [1)]	241.1	-0.8	242.0
1 to 90 days	51.4	-0.6	52.0
91 to 180 days	5.4	-0.1	5.5
181 to 360 days	6.4	-0.8	7.2
Over 360 days	7.2	-4.0	11.2
Total	**311.6**	**-6.3**	**317.9**

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	24.1	-3.9	28.0
Total	**333.9**	**-6.3**	**340.2**

[1)] Not past due trade receivables include IFRS 9 credit risk allowance.

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 0.2 (1.0) million. The Group's maximum exposure to credit risk at the balance sheet date (December 31, 2018) is the carrying amount of the financial assets. There are EUR 13.6 (32.9) million overdue receivables that are more than 180 days old. Majority of these receivables are 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.

Current receivables include 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. In addition to impairment losses recognized based on the evidence that the receivable cannot be collected in full, IFRS 9 establishes a new model for recognition and measurement of impairments in loans and receivables – the so-called expected credit losses model. Caverion has chosen to apply a simplified credit loss matrix for trade receivables as the trade receivables do not contain significant financing component. The provision matrix is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. The lifetime expected credit loss provision is calculated by multiplying the gross carrying amount of outstanding trade receivables by an expected default rate. The changes in expected credit losses are recognized in other operating expenses in consolidated income statement.

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 reliably estimated impairment losses are included in the cost estimate of a 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	2018 Carrying value	2017 Carrying value
Non-current liabilities		
Liabilities of derivative instruments	0.1	0.3
Other liabilities	0.0	0.1
Total non-current payables	**0.2**	**0.4**
Current liabilities		
Trade payables	184.1	215.5
Accrued expenses	114.3	127.4
Accrued expenses from long-term contracts	20.2	20.5
Advances received [1]	182.6	179.9
Other payables	97.3	89.4
Total current payables	**598.5**	**632.7**

[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, 2018	**14.6**	**3.2**	**5.0**	**2.1**	**4.9**	**29.7**
Translation differences	-0.1	-0.1	-0.2	0.0		-0.4
Provision additions	5.0	4.1	4.0	2.1	0.8	16.1
Released during the period	-3.2	-3.5	-4.3	-0.3	-1.5	-12.8
Reversals of unused provisions	0.0	0.0	-0.1	-0.1	-0.1	-0.2
Acquisitions through business combinations	0.0					0.0
Business disposals	0.0	-0.2	-0.8		0.0	-1.0
December 31, 2018	**16.4**	**3.5**	**3.6**	**3.7**	**4.1**	**31.4**
Non-current provisions	4.8		0.1		1.9	6.9
Current provisions	11.6	3.5	3.5	3.7	2.2	24.6
Total	**16.4**	**3.5**	**3.6**	**3.7**	**4.1**	**31.4**

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	5.8	6.2	0.9	1.9	18.0
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**	**3.2**	**5.0**	**2.1**	**4.9**	**29.7**
Non-current provisions	4.7		0.4		1.9	7.0
Current provisions	9.9	3.2	4.6	2.1	3.0	22.7
Total	**14.6**	**3.2**	**5.0**	**2.1**	**4.9**	**29.7**

The recognition of provisions involves estimates concerning probability and quantity. As of December 31, 2018 the provisions amounted to EUR 31.4 (29.7) 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	2018	2017 Restated
Deferred tax asset	9.9	27.4
Deferred tax liability	-33.1	-51.6
Deferred tax liability, net	**-23.2**	**-24.2**
Changes in deferred tax assets and liabilities:		
Deferred tax liability, net January 1	-24.2	-31.7
Translation difference	-0.2	0.8
Changes recognised in income statement	0.8	6.9
Changes recognised in comprehensive income	0.1	0.0
Changes recognised in equity	0.9	0.2
Acquisitions and allocations	-0.5	-0.5
Deferred tax liability, net December 31	**-23.2**	**-24.2**

Changes in deferred tax assets and liabilities before the offset

2018 EUR million	January 1	Translation difference	Recognised in the income statement	Recognised in comprehensive income	Recognised in equity	Acquisitions and allocations	December 31
Deferred tax assets:							
Provisions	3.7	0.0	0.3	0.2			4.2
Tax losses carried forward	26.0	-0.4	13.3				38.9
Pension obligations	7.6	0.0	-0.2	0.1			7.5
Percentage of completion method	10.1	0.0	-9.8				0.3
Other items	2.0	0.0	-0.3	-0.1			1.6
Total deferred tax assets	**49.4**	**-0.4**	**3.2**	**0.2**	**0.0**	**0.0**	**52.4**
Deferred tax liabilities:							
Allocation of intangible assets [1]	32.6	-0.1	-0.1			0.5	32.9
Accumulated depreciation differences	3.1	0.0	-0.3				2.8
Pension obligations	0.4		0.0	0.1			0.5
Percentage of completion method	36.3	-0.1	2.0				38.2
Other items	1.2	0.0	0.9		-0.9		1.2
Total deferred tax liabilities	**73.6**	**-0.2**	**2.4**	**0.1**	**-0.9**	**0.5**	**75.6**

2017 EUR million	January 1	Translation difference	Recognised in the income statement	Recognised in comprehensive income	Recognised in equity	Acquisitions and allocations	December 31
Deferred tax assets:							
Provisions	4.8	-0.1	-0.9				3.7
Tax losses carried forward	15.0	-0.2	11.2				26.0
Pension obligations	8.0	-0.1	-0.2	0.0			7.6
Percentage of completion method	9.6	0.0	0.6				10.1
Other items	2.8	-0.1	-0.9	0.0	0.2	0.0	2.0
Total deferred tax assets	**40.2**	**-0.6**	**9.6**	**0.0**	**0.2**	**0.0**	**49.4**
Deferred tax liabilities:							
Allocation of intangible assets [1]	33.7	-1.1	-0.4			0.5	32.6
Accumulated depreciation differences	2.3	0.0	0.8				3.1
Pension obligations	0.4	0.0	0.0				0.4
Percentage of completion method	34.7	-0.3	2.0				36.3
Other items	0.8	0.0	0.4	0.0			1.2
Total deferred tax liabilities	**71.9**	**-1.4**	**2.7**	**0.0**	**0.0**	**0.5**	**73.6**

[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 3.9 (0.7) million has been recognized on accumulated losses, of which some part is not approved by tax authorities in 2018.

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 2018:

4.1 Acquisitions and disposals

Acquisitions

Assets and liabilities of the acquired businesses (including fair value adjustments)

EUR million	2018	2017
Intangible assets	2.9	3.2
Tangible assets	0.1	0.4
Inventories	0.1	0.4
Investments	0.1	
Trade and other receivables	6.3	0.4
Deferred tax assets		0.0
Cash and cash equivalents	1.2	0.5
Total assets	**10.8**	**4.9**
Interest-bearing debts	0.0	
Trade payables	0.2	
Advances received	4.1	
Provisions		0.2
Deferred tax liabilities	0.6	0.5
Other liabilities	2.6	1.0
Total liabilities	**7.6**	**1.7**
Net assets	**3.2**	**3.2**
Acquisition cost paid in cash	**5.4**	**2.9**
Contingent consideration	**0.6**	**0.4**
Goodwill	**2.8**	**0.1**

Year 2018

Caverion Suomi Oy signed an agreement In November 2018 to acquire the entire share capital of Jetitek Oy from the management of the company. Jetitek is a Finnish service company specialised in energy-efficient cooling solutions that offers total deliveries of refrigeration systems and their design and dimensioning as well as maintenance, repair, and alterations. Jetitek's revenue amounted to EUR 16 million in 2018, and it employs 52 people in 6 different locations in Finland. The acquisition was completed in the end of November 2018. Jetitek Oy will be merged into Caverion Suomi Oy in 2019.

Transaction costs amounted to EUR 0.1 million and were expensed during the financial year.

Year 2017

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 year 2017, 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	2018	2017
Goodwill		8.3
Other intangible assets	0.4	
Tangible assets	4.6	1.6
Inventories	1.8	1.2
Trade and other receivables	0.5	5.1
Deferred tax assets	0.0	
Cash and cash equivalents		
Total assets	**7.4**	**16.2**
Interest-bearing debts	1.5	
Pension liabilities		0.4
Provisions		0.3
Other liabilities	3.9	5.9
Total liabilities	**5.4**	**6.6**
Net assets	**1.9**	**9.6**
Consideration paid in cash	**-0.5**	**23.1**
Contingent consideration	**-0.9**	**-1.2**
Gain/loss on sales	**-3.3**	**12.3**

Year 2018

Caverion made several divestments of non-core units during financial year 2018.

Caverion Industria Oy and a Finnish group of buyers agreed on the asset sale of Caverion's operations in Leppävirta, Finland, during the third quarter. The sale was closed in the end of August 2018. All 33 employees of Caverion's Leppävirta unit were transferred as old employees in the sale. The asset sale included e.g. machinery and appliances, material inventory and work in progress. Furthermore, the Mongstad unit in Division Norway was sold through a management buy-out as of 1 November 2018. Mongstad unit includes a large workshop with deliveries to industry and offshore.

Caverion signed in November 2018 an agreement to sell the project piping and tank business and the related Ylivieska workshop of the Industrial Solutions division to Mimir Invest. The divestment was completed in the end December 2018. The transaction value was not disclosed. The revenue of the sold business was approximately EUR 45 million in 2018. The business transferred from Caverion and its supporting business processes employed a total of 324 people.

Furthermore, Caverion announced the sale of its small subsidiaries in Poland and Czech Republic in the end of December 2018. The buyer of the Polish subsidiary was the technology group STRABAG SE. The revenue of Caverion Polska Sp. Z o.o. was EUR 13 million and total assets amounted to EUR 5 million in 2018. The number of employees totalled 177 people. The buyer of the subsidiary in Czech Republic was KART, spol. s r.o., part of conglomerate CEZ Group. The revenue of Caverion Česká republika s.r.o. was EUR 2.8 million and total assets amounted to EUR 0.7 million in 2018. The number of employees was 39 people. The divestments have no material impact on the financial position and performance of Caverion Group. The sale of the subsidiary in the Czech Republic was completed on 2 January 2019. The closing in Poland is subject to customary conditions including merger clearance. It is expected to be completed during Q1/2019. The transaction prices were not disclosed. After these divestments, Caverion has operations in ten European countries.

Year 2017

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	2018	2017
Finland	75.2	72.4
Sweden	41.8	41.8
Norway	69.7	69.7
Denmark	7.6	7.6
Industrial Solutions	41.8	41.8
Germany	77.7	77.7
Austria	18.3	18.3
Poland	2.4	2.4
Total goodwill	**334.4**	**331.6**

There was no goodwill allocated to the division Industrial Solutions project piping business that was sold during the financial year 2018. During the financial year EUR 2.8 million of goodwill was recorded in relation to the aquisition of Jetitek Oy in division Finland.

During the financial year 2017 EUR 0.1 million goodwill related to Enegia acquisition and EUR 8.3 million related to Krantz business disposal were recorded. In addition, Swedish Industrial Solutions business was transferred from Industrial Solutions to division Sweden and as a part of this transfer also related goodwill, amounting to EUR 5.2 million, was 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 two 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 and inflation. 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 country-specific WACC components are risk-free interest rate, market risk premium and credit spread. Common components for all tested CGUs are comparable peer industry beta, group capital structure and size premium based on Caverion Group's size.

Impairment testing

Assumptions used in goodwill impairment testing 2018	CGU 1 = Finland	CGU 2 = Sweden	CGU 3 = Norway	CGU 4 = Denmark	CGU 5 = Industrial Services	CGU 6 = Germany	CGU 7 = Austria	CGU 8 = Poland
Pre-tax WACC	7.79%	7.68%	8.55%	7.59%	7.79%	7.72%	8.14%	10.50%
Recoverable amount exceeds balance sheet value	>50%	>50%	>50%	>50%	>50%	0-20%	>50%	>50%
Recoverable amount in different sensitivity analysis scenarios in relation to balance sheet value								
Revenue -10% and operating profit -1%	>50%	>50%	>50%	>50%	>50%	Impairment	>50%	>50%
WACC -2%-points	>50%	>50%	>50%	>50%	>50%	Impairment	>50%	>50%
Long-term growth rate -0,5%-points	>50%	>50%	>50%	>50%	>50%	0-20%	>50%	>50%
All the above	>50%	>50%	>50%	>50%	>50%	Impairment	>50%	>20-50%

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			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 2018 or in 2017. In 2018 testing recoverable amount exceeded the balance sheet value in Germany slightly and in other CGUs substantially. In 2017 all CGUs exceeded tested balance sheet values substantially.

Values for sensitivity analysis in separate scenarios (1, 2, 3), with which recoverable amount = balance sheet value, Germany	Basic assumption	Change in value
Revenue in the forecast period (scenario 1)	0.4% average growth	-2.1%-p.
Average EBITDA percentage in the forecast period (scenario 1)	3.5%	-0,2%-p.
Pre-tax WACC (scenario 2)	7.7%	+0.7%-p.
Terminal growth assumption (scenario 3)	1%	-0.8%-p.

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. 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

2018

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets [1]	Advance payments	Total
Historical cost at January 1, 2018	**1.0**	**15.4**	**65.8**	**18.1**	**0.3**	**100.5**
Translation differences	0.0	0.0	-0.9	0.0		-0.9
Increases		1.4	3.3	0.9	0.1	5.8
Acquisitions			0.1			0.1
Decreases	-0.1	-0.8	-3.3	-0.9		-5.2
Business disposals	-0.4	-3.2	-4.8			-8.4
Reclassifications between classes			-1.7	-0.1	-0.3	-2.0
Historical cost at December 31, 2018	**0.5**	**12.8**	**58.5**	**17.9**	**0.1**	**89.9**
Accumulated depreciation and impairment at January 1, 2018		**-11.6**	**-53.0**	**-14.0**		**-78.6**
Translation differences		0.0	0.7	0.0		0.7
Depreciation		-0.4	-4.7	-1.5		-6.5
Accumulated depreciation of increases and acquisitions						
Accumulated depreciation of decreases and business disposals		1.9	5.9	0.9		8.6
Reclassification between classes			1.9			1.9
Accumulated depreciation and impairment at December 31, 2018		**-10.1**	**-49.3**	**-14.6**		**-73.9**
Carrying value January 1, 2018	1.0	3.8	12.8	4.0	0.3	21.9
Carrying value December 31, 2018	0.5	2.7	9.2	3.4	0.1	15.9

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

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

Carrying value of finance lease assets amounting to EUR 0.9 (1.0) 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

2018

EUR million	Goodwill	Allocations from business combinations	Other intangible assets [1]	Total other intangible assets
Historical cost at January 1, 2018	**332.5**	**61.4**	**98.6**	**160.0**
Increases			6.9	6.9
Acquisitions	2.8	2.9		2.9
Decreases			-5.5	-5.5
Business disposals			-0.6	-0.6
Reclassifications between classes			-2.0	-2.0
Translation differences		-0.9	-0.4	-1.2
Historical cost at December 31, 2018	**335.3**	**63.5**	**97.0**	**160.5**
Accumulated amortisation and impairment at January 1, 2018	**-0.9**	**-53.3**	**-60.0**	**-113.4**
Amortisation and impairment		-3.5	-17.0	-20.6
Translation differences		0.7	0.2	1.0
Accumulated amortisation of increases and acquisitions				
Accumulated amortisation of decreases and reclassifications			6.8	6.8
Accumulated amortisation of business disposals			0.2	0.2
Accumulated amortisation and impairment at December 31, 2018	**-0.9**	**-56.1**	**-69.8**	**-126.0**
Carrying value January 1, 2018	331.6	8.1	38.5	46.7
Carrying value December 31, 2018	334.4	7.4	27.2	34.5

2017

EUR million	Goodwill	Allocations from business combinations	Other intangible assets [1]	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			0.0
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

Allocations from business combinations:	2018	2017
Customer relations and contract bases	4.3	4.2
Order backlog	1.6	3.6
Prohibition of competition clause	0.1	0.2
Patent	1.2	
Total	**7.4**	**8.1**

[1] Other intangible assets consist mainly of IT infrastructure, systems and solutions.

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 intangible 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, value of acquired technology and industry related process competence. The value of customer agreements and their associated customer relationships and industry related process competence 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 2018:

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 executed a directed share issue of new shares in June 2018 in order to maintain a strong balance sheet and to retain strategic flexibility after the payment of the German anti-trust fine. On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors, raising gross proceeds of EUR 60.0 million

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.

The 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	2018	2017 Restated
Share capital	1.0	1.0
Hybrid capital	100.0	100.0
Unrestricted equity reserve	66.0	
Other equity	86.6	134.3
Equity attributable to owners of the parent company	**253.6**	**235.3**
Non-controlling interest	0.4	0.4
Total equity	**254.0**	**235.6**
Non-current borrowings	30.9	57.7
Current borrowings	27.2	35.5
Total interest-bearing debt	**58.1**	**93.2**
Total capital	**312.0**	**328.8**
Total interest-bearing debt	58.1	93.2
Cash and cash equivalents	51.2	29.2
Net debt	**6.9**	**64.0**
Net debt to EBITDA [1)]	0.2	2.9
Gearing ratio, %	2.7	27.2
Equity ratio, %	30.2	25.8

[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, 2018	**125,083,764**	**1.0**	**-3.2**
Transfer of treasury shares	1,047,877		
Directed share issue	9,524,000		
Dec 31, 2018	**135,655,641**	**1.0**	**-3.2**
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**

The total number of Caverion Corporation's shares was 138,920,092 (125,596,092) and the share capital amounted to EUR 1.0 (1.0) million on December 31, 2018. All the issued and subscribed shares have been fully paid to the company. Shares do not have a nominal value.

Treasury shares

Caverion held 3,264,451 (512,328) treasury shares on December 31, 2018.

The consideration paid for the treasury shares amounted to EUR 3.2 million on December 31, 2018 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 2018 and 2017.

Fair value reserve

Fair value reserve includes movements in the fair value of the investments, that are not held for trading, and the derivative instruments used for cash flow hedging.

Hybrid capital

In June 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 accrued unrecognised interest on the bond was EUR 2.5 (2.5) million at 31 December 2018.

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. In June 2018, Caverion paid EUR 4.6 million (no interests paid in 2017) in hybrid bond annual interest. 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.

Unrestricted equity reserve

Caverion announced in a stock exchange release on 7 February 2018 the establishment of a new share-based incentive plan directed at the key employees of the Group ("Matching Share Plan 2018-2022"). In connection with the technical execution of the plan a total of 3,800,000 new shares were subscribed for in Caverion Corporation's share issue directed to the company itself without payment, and were entered into the Trade Register on 19 February 2018. A maximum total of 1,280,000 shares held by the company were, in deviation from the shareholders' pre-emptive right, offered in the share issue for subscription to the key employees participating in the Matching Share Plan. The subscription price was 6.37 euros per share and a total of 1,047,877 Caverion Corporation shares were subscribed for in the share issue pursuant to the primary and secondary subscription right. The total capital raised amounted to EUR 6.67 million and was recorded in entirety into the unrestricted equity reserve.

Caverion executed a directed share issue of new shares in June 2018 in order to maintain a strong balance sheet and to retain strategic flexibility after the payment of the German anti-trust fine. On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors, corresponding to approximately 7.36 percent of all the shares and votes in the Company immediately prior to the share issue. The share issue was priced at EUR 6.30 per share, raising gross proceeds of EUR 60.0 million. The subscription price was recorded in its entirety into the unrestricted equity reserve of the company.

The total number of issued shares in the Company following the share issue is 138,920,092, and the number of shares outstanding is 135,655,641.

Dividends

The Annual General Meeting, held on March 26, 2018, decided that no dividend was to be paid for the financial year 2017.

The Board of Directors proposes to the Annual General Meeting to be held on March 25, 2019 that a dividend of EUR 0.05 per share will be paid for the financial year 2018.

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 according to IAS 7 starting from 1 January 2017.

	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 2018	**85.7**	**2.5**	**5.0**	**29.2**	**64.0**
Change in net debt, cash:					
Proceeds from non-current borrowings	0.0	0.6			
Repayment of non-current borrowings	-28.7	-2.2			
Change in current liabilities			-5.0		
Change in cash and cash equivalents				23.6	
Change in net debt, non-cash:					
Foreign exchange adjustments [1]		0.0		-1.7	
Other non-cash changes	0.1				
Net debt as at 31 December 2018	**57.1**	**0.9**	**0.0**	**51.2**	**6.9**

[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.

	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		0.7			
Repayment of non-current borrowings	-68.7	-2.2			
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

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 (FVTOCI) and fair value through profit and loss (FVTPL). Standard has been applied as of 1 January 2018.

2018

EUR million Valuation	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying value
Non-current financial assets				
Investments	0.8	0.4		1.2
Trade receivables and other receivables			4.1	4.1
Current financial assets				
Trade receivables and other receivables			533.7	533.7
Derivatives (hedge accounting not applied)	0.3			0.3
Cash and cash equivalents			51.2	51.2
Total	**1.1**	**0.4**	**589.0**	**590.5**
Non-current financial liabilities				
Loans from financial institutions			30.0	30.0
Other loans			0.5	0.5
Finance lease liabilities			0.4	0.4
Total non-current interest-bearing liabilities			**30.9**	**30.9**
Trade payables and other liabilities			0.1	0.1
Derivatives (hedge accounting not applied)	0.1			0.1
Current financial liabilities				
Loans from financial institutions			20.0	20.0
Pension loans			6.7	6.7
Other loans			0.0	0.0
Finance lease liabilities			0.5	0.5
Total current interest-bearing liabilities			**27.2**	**27.2**
Trade payables and other liabilities			464.0	464.0
Derivatives (hedge accounting not applied)	1.1			1.1
Total	**1.2**		**522.1**	**523.3**

2017 (restated) 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		579.9				579.9
Derivatives (hedge accounting not applied)			0.3			0.3
Cash and cash equivalents		29.2				29.2
Total	**1.2**	**609.1**	**0.3**			**610.7**
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**

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 31.4 (58.3) million at the end of 2018. 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% - 2.0% p.a (1.50% - 2.71% in 2017).

Investments consist of as follows:	2018	2017
Quoted shares (level 1 in fair value hierarchy)	0.8	0.7
Unquoted shares (level 3 in fair value hierarchy)	0.4	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. 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 according to IFRS 9: at fair value through profit or loss, at fair value through other comprehensive income and amortised cost. The classification depends on the objective of the business model and characteristics of contractual cash flows of the item.

´Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets or derivatives 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. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise. 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.

Amortised cost

Group's non-derivative financial assets and cash and cash equivalents are classified to amortised cost category. This category comprise loans receivables, trade receivables, cash and cash equivalents and other receivables. These are included in current assets, except for maturities greater than 12 months after the reporting period, which 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. Due to the nature of short-term receivables and other receivables, their book value is expected to equal to the fair value.

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.

Financial assets at fair value through other comprehensive income

Equity investments in non-listed investments, that are not held for trading, are classified as equity instruments designated at fair value through other comprehensive income.

These assets are initially recognised at fair value, plus any transaction costs. Subsequent to initial recognition, they are carried at fair value. Changes in the fair value 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 never recycled to income statement.

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 items at amortised cost 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.

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, 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. 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.

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 4.5 (5.4) months.

Interest rate derivatives are used to hedge the re-pricing risk of floating-rate loans. Nominal hedged amount is EUR 30 (50) million and its reference interest rate is 6 month Euribor. The hedged cash flows will realise within two 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. After implementation of IFRS 9, the hedge accounting for these interest rate swaps has not been applied. 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 2017-2018.

The weighted average effective interest rate of the whole loan portfolio after hedges was 2.59% (2.53%) at the end of December 2018. Interest rate derivatives increase the average effective interest rate of the loan portfolio by 0.25 (0.27) percentage points at the end of December 2018. Fixed-rate loans after hedges accounted for approximately 14 (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	2018	2017
Interest rate of net debt 1 percentage point higher	0.1	-0.2
The effect of fair valuation of interest rate derivatives for which hedge accounting is not applied, when interest rates rise by 1 percentage point	0.3	0.7

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 conterparties 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 60.3 (60.9) million at the end of December 2018.

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.

On 14 June 2018, Caverion announced the launch of a directed share issue of new shares in order to maintain a strong balance sheet and to retain strategic flexibility after the payment of the anti-trust fine. Strategic flexibility for Caverion means, among other things, a continuation of the shift towards the Services business, support for strategic projects and operational development, investments in digitalisation, and a solid cash position to finance bolt-on acquisitions in selected areas in services, especially in well-performing divisions. On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors, corresponding to approximately 7.36 percent of all the shares and votes in the Company immediately prior to the share issue. Approximately 17 percent of the shares were allocated to international investors. The share issue was priced at EUR 6.30 per share, raising gross proceeds of EUR 60 million. The subscription price represented a discount of 6.5 percent on the closing price on 14 June 2018. The total number of issued shares in the Company following the share issue is 138,920,092, and the number of shares outstanding is 135,655,641.

Caverion Group's interest-bearing loans and borrowings amounted to 58.1 (93.2) million at the end of December. A total of EUR 27.2 (35.5) million of the interest-bearing loans and borrowings will fall due during the next 12 months. Approximately 86 (75) percent of the loans have been raised from banks and approximately 11 (17) percent from insurance companies. The Group's net debt amounted to EUR 6.8 (64.0) million at the end of December. At the end of December, the Group's gearing was 2.7 (27.2) percent and its equity ratio 30.2 (25.8) percent. On 9 June 2017, Caverion 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. In June 2018, Caverion paid EUR 4.6 million in annual interest on this hybrid bond (no interest was paid in 2017).

Caverion's external loans are subject to a financial covenant based on the ratio of the Group's net debt to EBITDA. The financial covenant shall not exceed 3.5:1. At the end of December, the Group's Net debt to EBITDA was 0.2x (2.9x) according to the confirmed calculation principles. Caverion agreed with its lending parties in June that the German anti-trust fine and related legal and advisory fees are excluded from the calculation of EBITDA related to the Group's financial covenant Net Debt to EBITDA.

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 51.2 (29.2) million at the end of December 2018. In addition, Caverion has undrawn overdraft facilities amounting to EUR 19 (19) million and undrawn committed revolving credit facilities amounting to EUR 100 (100) million. The committed revolving credit facilities are valid until May 2020. Further information on refinancing of the revolving credit facilities see note 6.4, Events after reporting period.

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, 2018 (December 31, 2017). 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, 2018

EUR million	2019	2020	2021	2022	2023	2024-	Total
Loans from financial institutions	21.1	30.4					**51.5**
Commercial papers							
Pension loans	6.7						**6.7**
Finance lease liabilities	0.5	0.2	0.1				**0.9**
Other financial liabilities	0.0	0.0				0.5	**0.5**
Trade and other payables	464.0						**464.0**
Interest rate derivatives, hedge accounting not applied	0.1	0.0					**0.1**
Foreign currency derivatives	1.1						**1.1**

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**

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	2018 Net investment	2018 EUR stregthens by 10%, effect on equity	2018 EUR weakens by 10%, effect on equity	2017 Net investment	2017 EUR stregthens by 10%, effect on equity	2017 EUR weakens by 10%, effect on equity
SEK	-10.6	-1.1	1.1	-8.3	-0.8	0.8
NOK	10.0	1.0	-1.0	0.0	0.0	0.0
DKK	4.0	0.4	-0.4	4.3	0.4	-0.4
Other currencies	-7.2	-0.7	0.7	3.0	0.3	-0.3

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.

In connection with the process of closing an old project company in Russia, the company's internal loan denominated in euros was reclassified from equity to liabilities. If the euro had strengthened by 10% against the Russian rouble at the reporting date, it would have increased a pre-tax foreign exchange loss by EUR 0.9 million. This would not have caused any cash flow effect.

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 2018 the most significant currency in the Caverion Group that relate to commercial agreements and their hedges was Swedish 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 loss of EUR 0.2 million.

Excluding foreign exchange differences due to derivatives relating to the commercial agreements, reclassified internal loan in Russia 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 IFRS 9, is not applied for valid 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 2019. 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 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	2018	2017
Foreign exchange forward contracts, hedge accounting not applied	88.6	77.0
Interest rate forward contracts		
Hedge accounting not applied		
Interest rate swaps	30.0	50.0

Fair values

EUR million	2018 Positive fair value (carrying value)	2018 Negative fair value (carrying value)	2018 Net value	2017 Positive fair value (carrying value)	2017 Negative fair value (carrying value)	2017 Net value
Foreign exchange forward contracts						
Hedge accounting not applied	0.3	-1.1	-0.8	0.3	-0.2	0.1
Interest rate derivatives						
Hedge accounting applied						
Interest rate swaps		-0.1	-0.1		-0.3	-0.3
Total	**0.3**	**-1.2**	**-0.9**	**0.3**	**-0.5**	**-0.2**
Netting fair values of derivative financial instruments subject to netting agreements	-0.2	0.2		0.0	0.0	
Net total	**0.1**	**-1.0**	**-0.9**	**0.3**	**-0.5**	**-0.1**

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 IFRS 9, 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 IFRS 9 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 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	2018	2017
Historical costs on January 1	0.1	0.1
Share of the profit	0.0	0.0
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
2018	Arandur Oy	Vantaa	4.2	3.9	5.0	0.0	33%
2017	Arandur Oy	Vantaa	4.0	3.7	5.0	0.0	33%

Sales of goods and services sold to associated companies were EUR 1.1 (1.2) million in 2018.

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	2018	2017
Defined benefit plans	43.9	44.2
Liability in the statement of financial position	43.9	44.2
Pension asset in the statement of financial position	-2.3	-2.0
Net liability	**41.6**	**42.2**

Income statement charge:

EUR million	2018	2017
Defined benefit plans	-1.0	-1.0
Included in financial expenses	-0.6	-0.8
Income statement charge, total (income (+) / expense(-))	**-1.6**	**-1.8**

Remeasurements, included in other comprehensive income:

EUR million	2018	2017
Defined benefit plans	0.2	-0.3
Change in foreign exchange rates	0.3	2.0
Included in other comprehensive income. total	**0.4**	**1.6**

Defined benefit pension plans

The Group has a 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	2018	2017
Present value of funded obligations	5.2	5.8
Fair value of plan assets	-7.5	-7.8
Net deficit of funded plans	**-2.3**	**-2.0**
Present value of unfunded obligations	43.9	44.2
Total net deficit of defined benefit pension plans	**41.6**	**42.2**
Liability in the statement of financial position	43.9	44.2
Receivable in the statement of financial position	**-2.3**	**-2.0**

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, 2018	**50.0**	**-7.8**	**42.2**
Current service cost	1.0		1.0
Interest expense	0.6		0.6
Past service costs			
Gains on settlements			
Remeasurements:			
Return on plan assets. excluding interest expense			
Gain (-) / loss (+) from change in demographic assumptions	0.6		0.6
Gain (-) / loss (+) from change in financial assumptions	3.1		3.1
Experience gains (-) / losses (+)	-3.9		-3.9
Exchange difference	-0.1		-0.1
Employers' contributions	-0.4		-0.4
Acquired pension liability			0.0
Benefit payments from plans	-1.9	0.3	-1.5
At December 31, 2018	**49.1**	**-7.5**	**41.6**

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**

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

The significant actuarial assumptions were as follows:

2018	Discount rate	Salary growth rate	Pension growth rate
Finland	1.70%	1.60%	1.90%
Norway	2.60%	2.75%	2.25%
Germany	1.80%	3.00%	2.25%
Austria	1.80%	-	2.25%

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%

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

2018	Impact on defined benefit obligation [1]		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 6.1%	Increase by 6.7%
Salary growth rate	0.50%	Increase by 0.3%	Decrease by 0.2%
Pension growth rate	0.50%	Increase by 6.2%	Decrease by 5.9%

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%

[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	2018	%	2017	%
Equity instruments	4.2	56	5.5	70
Debt instruments	2.1	28	0.9	12
Property	0.0	0	0.0	0
Cash and cash equivalents	1.2	16	1.4	18
Total plan assets	**7.5**	**100**	**7.8**	**100**

Employer contributions are expected to be zero in year 2019.

Multi-employer plan in Sweden

In Sweden, Caverion participates in a multi-employer defined benefit plan in Alecta insurance company. 908 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 6.3 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	2018	2017
Finance lease liabilities fall due in as follows:		
Minimum lease payments		
No later than 1 year	0.5	1.9
1-5 years	0.4	0.6
Total minimum lease payments	**0.9**	**2.6**
Present value of minimum lease payments		
No later than 1 year	0.5	1.9
1-5 years	0.4	0.6
Total present value of minimum lease payments	**0.9**	**2.5**
Future finance charges	0.0	0.1
Finance expenses charged to income statement	0.1	0.2

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	2018	2017
No later than 1 year	43.1	48.1
1-5 years	77.6	83.3
Later than 5 years	18.9	12.5
Total	**139.5**	**143.8**

The lease payments of non-cancellable operating leases charged to income statement amounted to EUR 63.7 (65.9) million in 2018.

The Group has leased the office facilities. The lease agreements of office facilities have weighted average validity period of 7 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 weighted average duration of 4 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	2018	2017
Guarantees given on behalf of associated companies	0.0	0.2
Other commitments		
Other contingent liabilities	0.2	0.2
Accrued unrecognised interest on hybrid bond	2.5	2.5

The Group parent company has guaranteed obligations of its subsidiaries. On December 31, 2018 the total amount of these guarantees was EUR 435.3 (473.9) 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 June 2018, Caverion reached a settlement for its part with the German Federal Office (FCO) in a cartel case that had been investigated by the authority since 2014. The investigation concerns several companies providing technical building services in Germany. Caverion Deutschland GmbH (and its predecessors) was found to have participated in anti-competitive practices between 2005 and 2013. According to the FCO's final decision issued on 3 July 2018, Caverion Deutschland GmbH was imposed a fine of EUR 40.8 million. There is a risk that civil claims may be presented against Caverion Deutschland GmbH in relation to this matter. It is not possible to evaluate the magnitude of the risk at this time. Caverion will disclose any relevant information on the potential civil law claims as required under the applicable regulations.

As part of Caverion's co-operation with the authorities in the cartel matter, the company identified activities between 2009 and 2011 that were likely to fulfil the criteria of corruption or other criminal commitment in one of its client projects executed in that time. Caverion has brought its findings to the attention of the authorities and supports them in further investigating 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 required under the applicable 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 60.3 (60.9) million at the end of December 2018.

6 Others

In this section

This section comprises the following notes:

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	2018	2017
Salaries and other short-term employee benefits	4.8	4.3
Post-employment benefits	0.1	0.1
Total	**4.9**	**4.4**

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	2018	2017
President and CEO		
Lehtoranta Ari, President and CEO as from Jan 1, 2017	0.7	0.7
Members of the Board of Directors		
Aho Jussi	0.1	0.0
Ehrnrooth Markus	0.1	0.1
Hallengren Joachim	0.1	0.0
Herlin Antti	0.1	0.0
Hinnerskov Thomas	0.1	0.0
Hyvönen Anna	0.1	0.1
Lindqvist Eva, member of the Board as from June 30, 2013 until March 26, 2018	0.0	0.1
Paulsson Mats, member of the Board as from March 26, 2018	0.0	
Puheloinen Ari, member of the Board as from March 16, 2015 until March 17, 2017		0.0
Rosenlew Michael, Chairman of the Board as from March 17, 2017	0.1	0.1
Total	**0.5**	**0.5**

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.

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 2018
Group Management Board members excluding President and CEO [1)]	3.1	0.2	0.4	3.6

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

In addition to the above compensation, some of the Group Management Board members are part of country specific group pension arrangements.

In addition, the termination of employment related compensation based on agreements in 2018 is estimated at a total of EUR 823,579 during 2018 and 2019.

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 management and key personnel 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 originally in December 2015. The Board of Directors decided to continue the said incentive structure in December 2016 and 2017. The first plans commenced thus at the beginning of 2016 followed by the second and third plan in the beginning of 2017 and 2018. The share-based incentive plan consists of a Performance Share Plan (PSP) as the main structure supported by a Restricted Share Plan (RSP) 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 targets set for the Performance Share Plan 2018-2020 were partially met and estimated share rewards comprising approximately a total value corresponding to 84,000 shares (gross before the deduction of applicable payroll tax) will be delivered in February 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 in both the spring of 2020 and 2021.

In addition, Caverion announced in February 2018 the establishment of a new share-based incentive plan directed at the key employees of the Group ("Matching Share Plan 2018-2022"). The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long-term, to encourage the key employees to personally invest in the company's shares, to retain them at the company, and to offer them a competitive reward plan that is based on acquiring, receiving and holding the company's shares. The prerequisite for participating in the Plan is that a key employee shall acquire company shares up to the number and in the manner determined by the Board of Directors. The new Matching Share Plan includes four matching periods, all beginning on 1 March 2018 and ending on 28 February 2019, 29 February 2020, 28 February 2021 and 28 February 2022. The plan participant may not participate in the Performance Share Plan 2018-2020 simultaneously with participating in the Matching Share Plan.

The rewards from the plan will be paid in four instalments, one instalment each in 2019, 2020, 2021 and 2022. However, the reward payment will be deferred, if a yield of the share has not reached the pre-set minimum yield level by the end of the matching period in question. The deferred reward will be paid as soon as practicable after the pre-set minimum yield level has been reached. If the pre-set minimum yield level has not been reached by the end of reward instalment specific grace periods ending in 2021-2022, no reward from a matching period in question will be paid.

A participant is entitled to choose whether he or she wants to receive the potential reward partly in the company shares and partly in cash or fully in shares. The shares paid as reward may be transferred after a reward instalment specific restriction period of up to two years. Should the reward payment be deferred, such deferral will not lengthen the relevant restriction period.

The target group of the plan consists of approximately 20 people, including the members of the Group Management Board. The rewards to be paid on the basis of the Matching Share Plan correspond to the value of an approximate maximum total of 2,520,000 Caverion Corporation shares (including also the proportion to be paid in cash).

In connection with the technical execution of the plan a total of 3,800,000 new shares were subscribed for in Caverion Corporation's share issue directed to the company itself without payment, and were entered into the Trade Register on 19 February 2018. A maximum total of 1,280,000 shares held by the company were, in deviation from the shareholders' pre-emptive right, offered in the share issue for subscription to the key employees participating in the Matching Share Plan. A total of 1,047,877 Caverion Corporation shares were subscribed for in the share issue pursuant to the primary and secondary subscription right and the total capital raised amounted to EUR 6.67 million. The subscription price was 6.37 euros per share. The company provided the participants a possibility to finance the acquisition of the company's shares through an interest-bearing loan from the company, which some of the participants utilised. By the end of December 2018 the total outstanding amount of these loans amounted approximately to EUR 4.1 million.

	Performance share plan 2016-2020		
Plan	**Performance period 2018-2020**	**Performance period 2017-2019**	**Matching share plan 2018-2022**
Issuing date	Dec 17, 2015	Dec 17, 2015	Feb 6, 2018
Maximum number of shares	850,000	662,000	2,520,000
Dividend adjustment	Yes	Yes	Yes
Grant date	Feb 28, 2018	Feb 17, 2017	Mar 1, 2018
Beginning of earning period	Jan 1, 2018	Jan 1, 2017	Mar 1, 2018
End of earning period	Dec 31, 2018	Dec 31, 2017	Dec 31, 2022
End of restriction period	Feb 28, 2021	Feb 28, 2020	Jul 1, 2022
Vesting conditions	Earnings per share (EPS), operating cash flow before financial and tax items, continued employment	Revenue and earnings per share (EPS), continued employment	Minimum yield of the share, continued employment
Maximum contractual life, years	3.0	3.0	4,8
Remaining contractual life, years	2.2	1.2	4,0
Number of persons at the end of the reporting year	97	97	17
Payment method	Cash and shares	Cash and shares	Cash and shares

Changes in plan during the period

January 1, 2018			
Outstanding at the beginning of the reporting period	-	400,600	-
Changes during the period			
Granted	418,300		2,310,108
Forfeited	36,700	59,800	207,691
December 31, 2018			
Outstanding at the end of the period	381,600	340,800	2,102,417

	Restricted share plan 2016-2020		
Plan	**Performance period 2018-2020**	**Performance period 2017-2019**	**Performance period 2016-2018**
Issuing date	Dec 17, 2015	Dec 17, 2015	Dec 17, 2015
Maximum number of shares	85,000	85,000	66,200
Dividend adjustment	No	No	No
Grant date	Jun 12 2018	Jun 16, 2017	Jan 1, 2017
Beginning of earning period	Jan 1, 2018	Jan 1, 2017	Jan 1, 2016
End of earning period	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
End of restriction period	Feb 28, 2021	Feb 28, 2020	Feb 28, 2019
Vesting conditions	Continued employment	Continued employment	Continued employment
Maximum contractual life, years	3.2	3.2	3.2
Remaining contractual life, years	2.2	1.2	0.2
Number of persons at the end of the reporting year	11	14	2
Payment method	Cash and shares	Cash and shares	Cash and shares

Changes in plan during the period

January 1, 2018			
Outstanding at the beginning of the reporting period	-	47,500	62,000
Changes during the period			
Granted	50,000	27,000	
Forfeited		5,000	
December 31, 2018			
Outstanding at the end of the period	50,000	69,500	62,000

Costs recognised for the share-based incentive plans

The consolidated financial statements include costs from share plans amounting to EUR 1.9 (0.2) million. EUR 1.3 (0.2) million of the cost recognised is related to the Group management board.

Performance and Restricted Share Plan 2019-2021

Caverion's Board of Directors approved the establishment of a new share-based long-term incentive plan for key employees of the Group in December 2018. The new plan is based on a performance share plan structure. The Board approved at the same time the commencement of a new plan period 2019-2021 in the Restricted Share Plan structure, a complementary share-based incentive structure for specific situations.

The first plan (PSP 2019-2021) within the new PSP structure commences at the beginning of 2019 and the potential share rewards thereunder will be paid in the spring 2022 provided that the performance targets set by the Board are achieved. PSP 2019-2021 may include a maximum of approximately 75 key employees of Caverion Group. However, the individuals who currently participate in Caverion's top management Matching Share Plan, including the members of Caverion's Group Management Board, are not included in this plan. The performance target KPI's are the relative total shareholder return of the Company's share and earnings per share. If all targets will be met, the share rewards based on PSP 2019-2021 will comprise a maximum of approximately 1.3 million Caverion shares (gross before the deduction of applicable taxes).

Accounting principles

Caverion has share-based incentive plans for its management and key employees.

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 prerequisite for participating in the Matching Share Plan is that a key employee acquires company shares up to the number and in the manner determined by the Board of Directors. The plan participant may not participate in the Performance Share Plan 2018-2020 simultaneously with participating in the Matching Share Plan. Receiving of reward is tied to the continuance of participant's employment or service upon reward payment.

The equity-settled and cash-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.

6.3 Related party transactions

Caverion announced in February 2018 the establishment of a new share-based incentive plan directed for the key employees of the Group ("Matching Share Plan 2018-2022"). The company provided the participants a possibility to finance the acquisition of the company's shares through an interest-bearing loan from the company, which some of the participants utilised. By the end of December 2018 the total outstanding amount of these loans amounted approximately to EUR 4.1 million. The loans will be repaid in full on 31 December 2023, at the latest. Company shares have been pledged as a security for the loans.

Share-based incentive plans have been described in more detail in note 6.2 Share-based payments.

6.4 Events after the reporting period

Caverion agreed on 4 February 2019 with its lending parties on refinancing of the bank loans and revolving credit facility. The new facilities agreement consists of a EUR 100 million revolving credit facility and a EUR 50 million term loan with a bullet maturity of 3 years and the possibility to extend the maturity by one additional year. With this arrangement Caverion prolonged its loan maturity and strengthened its long term liquidity.

Caverion published a stock exchange release on its updated financial targets on 5 February 2019. As a result of the retrospective adoption of the new IFRS 16 Leases standard effective from 1 January 2019, Caverion converts its strategic financial targets until the end of 2020 to comply with the IFRS 16 accounting principles. Caverion Group will not restate its financial figures for the financial periods prior to the first date of adoption of IFRS 16.

Income statement, Parent company, FAS

EUR	Note	1.1.2018-31.12.2018	1.1.2017-31.12.2017
Other operating income	1	60,390,911.41	59,848,844.93
Personnel expenses	2	-11,630,490.97	-11,701,558.98
Depreciation, amortization and impairments	3	-2,569,729.84	-2,653,761.75
Other operating expenses	4	-54,562,176.41	-51,799,730.00
Operating profit / loss		**-8,371,485.81**	**-6,306,205.80**
Financial income and expenses	5	-20,728,858.95	868,527.19
Profit/loss before appropriations and taxes		**-29,100,344.76**	**-5,437,678.61**
Appropriations	6	9,040,399.39	8,997,909.45
Income taxes	7	6.21	-9,308.24
Profit/loss for the financial period		**-20,059,939.16**	**3,550,922.60**

Balance sheet, Parent company, FAS

EUR	Note	Dec 31, 2018	Dec 31, 2017
Assets			
Non-current assets			
Intangible assets	8	3,802,270.57	12,324,665.65
Tangible assets	8	714,611.54	203,689.97
Investments	9	501,558,514.59	428,282,569.52
Total non-current assets		**506,075,396.70**	**440,810,925.14**
Current assets			
Non-current receivables	10	64,129,980.88	60,000,000.00
Current receivables	11	89,632,492.68	87,310,537.62
Cash and cash equivalents		37,005,271.75	13,742,194.20
Total current assets		**190,767,745.31**	**161,052,731.82**
Total assets		**696,843,142.01**	**601,863,656.96**
Equity and liabilities			
Equity	12		
Share capital		1,000,000.00	1,000,000.00
Unrestricted equity reserve		66,676,176.49	
Retained earnings		146,960,595.01	142,317,146.41
Profit/loss for the period		-20,059,939.16	3,550,922.60
Fair value reserve		-98,554.08	-164,256.68
Treasury shares		-3,213,988.55	-3,213,988.55
Total equity		**191,264,289.71**	**143,489,823.78**
Appropriations	13	**684,023.94**	**724,423.33**
Liabilities			
Non-current liabilities	15	200,609,699.42	156,942,425.27
Current liabilities	16	304,285,128.94	300,706,984.58
Total liabilities		**504,894,828.36**	**457,649,409.85**
Total equity and liabilities		**696,843,142.01**	**601,863,656.96**

Cash flow statement, Parent company, FAS

EUR	1.1.2018–31.12.2018	1.1.2017–31.12.2017
Cash flow from operating activities		
Profit / loss before appropriations and taxes	-29,100,344.76	-5,437,678.61
Adjustments for:		
Depreciation, amortization and impairments	2,569,729.84	2,653,761.75
Other adjustments	1,807,066.89	1,923,008.74
Financial income and expenses	20,728,858.95	-868,527.19
Cash flow before change in working capital	**-3,994,689.08**	**-1,729,435.31**
Change in working capital		
Change in trade and other current receivables	1,817,811.84	4,479,419.38
Change in trade and other current payables	1,312,160.84	-761,918.08
Cash flow before financial items and taxes	**-864,716.40**	**1,988,065.99**
Cash flow from operating activities		
Interest paid and other financial expenses	-36,388,058.18	-34,391,750.56
Dividends received		3,289,000.00
Interest received and other financial income	36,190,296.08	33,308,078.74
Income taxes paid/received	944,300.53	470,452.31
Cash flow from operating activities	**-118,177.97**	**4,663,846.48**
Cash flow from investing activities		
Purchases of tangible and intangible assets	-6,998,261.25	-12,266,161.47
Proceeds from the sales of tangible and intangible assets	11,707,915.63	15,142,385.35
Change in non-current loan receivables		120,000.00
Change in current loan receivables	-4,981,608.76	-49,684,409.21
Investments in subsidiaries	-22,785,860.67	-13,200,000.00
Cash flow from investing activities	**-23,057,815.05**	**-59,888,185.33**
Cash flow from financing activities		
Group contributions received	9,000,000.00	11,400,000.00
Repayment of non-current borrowings	-26,666,666.68	-68,666,666.66
Share Issue	66,676,176.49	
Change in non-current loan receivables	-4,129,980.88	
Proceeds from non-current borrowings		100,000,000.00
Change in short-term financing	1,559,541.64	-8,410,465.30
Cash flow from financing activities	**46,439,070.57**	**34,322,868.04**
Net change in cash and cash equivalents	**23,263,077.55**	**-20,901,470.81**
Cash and cash equivalents at the beginning of the financial year	13,742,194.20	34,643,665.01
Cash and cash equivalents at the end of the financial year	37,005,271.75	13,742,194.20

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 the 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	3–5 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 recognised as an expense over the period of the facility to which they relate. Borrowings are derecognised 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 2019. 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 recognised 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	1.1.2018-31.12.2018	1.1.2017-31.12.2017
Service income	60,390.9	59,848.8
Total	**60,390.9**	**59,848.8**

2. Information concerning personnel and key management

1,000 EUR	1.1.2018-31.12.2018	1.1.2017-31.12.2017
Personnel expenses		
Wages and salaries	8,771.7	9,425.4
Pension expenses	1,656.3	1,776.1
Other indirect personnel costs	1,202.5	500.1
Total	**11,630.5**	**11,701.6**
Average number of personnel during the financial period	78.0	80.1
Salaries and fees to the management		
President and CEO	792.0	792.0
Members of the Board of Directors	494.4	454.9
Total	**1,286.4**	**1,246.9**

3. Depreciation, amortization and impairments

1,000 EUR	1.1.2018-31.12.2018	1.1.2017-31.12.2017
Amortization of intangible assets	2,547.0	2,627.3
Depreciation of buildings and structures	16.1	16.1
Depreciation of machinery and equipment	6.7	10.3
Total	**2,569.7**	**2,653.8**

4. Other operating expenses

1,000 EUR	1.1.2018-31.12.2018	1.1.2017-31.12.2017
Fees paid to the Auditor of the company		
Audit fee	256.7	310.7
Tax services	0.7	10.1
Other services	178.5	520.7
Total	**435.9**	**841.5**

PriceWaterhouseCoopers Oy, Authorized Public Accountants, operated as the company's auditor until March 26th, 2018 after which Ernst & Young Oy was selected as the company's auditor.

5. Financial income and expenses

1,000 EUR	1.1.2018–31.12.2018	1.1.2017–31.12.2017
Dividend income		
From Group companies	740.1	3,289.0
Interest income from non-current investments		
From Group companies	2,439.5	2,348.3
From others	69.1	
Total	**2,508.6**	**2,348.3**
Other interest and financial income		
From Group companies	4,321.9	3,115.7
From other companies	55.4	23.0
Total	**4,377.3**	**3,138.7**
Impairment on investment assets		
Subsidiary shares	-20,000.0	
Total	**-20,000.0**	
Other interest and financial expenses		
Interest expenses to Group companies	-458.9	-508.6
Interest expenses to others	-6,417.7	-5,408.3
Other expenses to others	-2,081.8	-2,347.5
Valuation of interest rate derivatives at fair value	90.4	67.9
Total	**-8,868.0**	**-8,196.5**
Exchange rate gains	28,703.6	28,657.1
Change in the fair value of derivatives	-972.3	265.9
Exchange rate losses	-27,218.2	-28,633.8
Total	**513.1**	**289.1**
Total financial income and expenses	**-20,728.9**	**868.5**

6. Appropriations

1,000 EUR	1.1.2018–31.12.2018	1.1.2017–31.12.2017
Change in the difference between planned and taxation depreciation	40.4	-2.1
Group contributions received	9,000.0	9,000.0

7. Income taxes

1,000 EUR	1.1.2018-31.12.2018	1.1.2017–31.12.2017
Income taxes on operating activities, current year		-58.2
Income taxes on operating activities, previous years	0.0	48.9
Total	**0.0**	**-9.3**

Notes to the balance sheet, Parent company

8. Changes in fixed assets

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Intangible assets		
Intangible rights		
Acquisition cost at Jan 1	12,627.6	11,212.8
Additions	295.7	1,414.8
Disposals	-2,133.5	
Acquisition cost at Dec 31	10,789.8	12,627.6
Accumulated amortization and impairments Jan 1	-9,098.4	-6,471.0
Amortization for the period	-2,547.0	-2,627.3
Accumulated amortization for disposals	2,133.5	
Accumulated amortization and impairments Dec 31	-9,511.8	-9,098.4
Book value at December 31	**1,278.0**	**3,529.2**
Advance payments and construction in progress		
Acquisition cost at Jan 1	8,795.4	14,701.4
Additions	6,168.8	10,851.4
Disposals	-12,440.0	-16,757.3
Acquisition cost at Dec 31	2,524.3	8,795.4
Book value at December 31	**2,524.3**	**8,795.4**
Total intangible assets	**3,802.3**	**12,324.7**
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	-72.4	-56.3
Depreciation for the period	-16.1	-16.1
Accumulated depreciation and impairments Dec 31	-88.5	-72.4
Book value at December 31	**72.4**	**88.5**
Machinery and equipment		
Acquisition cost at Jan 1	181.7	181.7
Additions	533.7	
Disposals		
Acquisition cost at Dec 31	715.4	181.7
Accumulated depreciation and impairments Jan 1	-176.4	-166.1
Depreciation for the period	-6.7	-10.3
Accumulated depreciation and impairments Dec 31	-183.1	-176.4
Book value at December 31	**532.4**	**5.4**
Total tangible assets	**714.6**	**203.7**

9. Investments

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Shares in Group companies		
Acquisition cost at Jan 1	428,282.6	415,082.6
Additions	93,275.9	13,200.0
Disposals	-20,000.0	
Acquisition cost at Dec 31	501,558.5	428,282.6
Total investments	**501,558.5**	**428,282.6**

10. Non-current receivables

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Receivables from Group companies		
Loan receivables	60,000.0	60,000.0
Receivables from associated personnel		
Loan receivables	4,130.0	
Total non-current receivables	**64,130.0**	**60,000.0**

Loan arrangements with Group key personnel are descriped in more detail in Note 19 Salaries and fees to the management

11. Current receivables

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Receivables from group companies		
Trade receivables	21,841.2	24,324.3
Loan receivables	55,563.6	50,582.0
Other receivables	10,307.3	9,548.9
Receivables, external		
Trade receivables	20.5	
Other receivables	265.8	477.6
Accrued income	1,634.1	2,377.8
Total	**89,632.5**	**87,310.5**
Accrued income consists of:		
Accrued financial expenses	661.1	1,167.5
Tax receivables	6.5	950.8
Other receivables	966.4	259.5
Total	**1,634.1**	**2,377.8**

12. Equity

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Share capital Jan 1	1,000.0	1,000.0
Share capital Dec 31	1,000.0	1,000.0
Unrestricted equity reserve Jan 1		
Share issue	66,676.2	
Unrestricted equity reserve Dec 31	66,676.2	
Retained earnings Jan 1	142,654.1	139,009.7
Share-based incentive plans	1,092.5	93.4
Retained earnings Dec 31	143,746.6	139,103.2
Net profit for the financial period	-20,059.9	3,550.9
Fair value reserve Jan 1	-164.3	-295.7
Cash flow hedges	65.7	131.4
Fair value reserve Dec 31	-98.6	-164.3
Total equity	**191,264.3**	**143,489.8**
Distributable funds at Dec 31		
Retained earnings	143,746.6	139,103.2
Net profit for the financial period	-20,059.9	3,550.9
Unrestricted equity reserve	66,676.2	
Fair value reserve	-98.6	-164.3
Distributable funds from shareholders' equity	**190,264.3**	**142,489.8**

Treasury shares of Caverion Corporation

December 31, 2018 parent company had treasury shares as follows:

	Number	Total number of shares	% of total share capital and voting rights
	3,264,451	138,920,092	2.35%

On 15 June 2018, the Company announced that it had directed a share issue of 9,524,000 new shares in the Company to institutional investors, corresponding to approximately 7.36 percent of all the shares and votes in the Company immediately prior to the share issue. Approximately 17 percent of the shares were allocated to international investors. The share issue was priced at EUR 6.30 per share, raising gross proceeds of EUR 60 million. The subscription price represented a discount of 6.5 percent on the closing price on 14 June 2018. The total number of issued shares in the Company following the share issue is 138,920,092, and the number of shares outstanding is 135,655,641.

In a stock exchange release on 7 February 2018, Caverion's Board of Directors announced the establishment of a new share-based incentive plan directed at the key employees of the Group ("Matching Share Plan 2018-2022"). In connection with the technical execution of the plan a total of 3,800,000 new shares were subscribed for in Caverion Corporation's share issue directed to the company itself without payment, and were entered into the Trade Register on 19 February 2018. A maximum total of 1,280,000 shares held by the company were, in deviation from the shareholders' pre-emptive right, offered in the share issue for subscription to the key employees participating in the Matching Share Plan. The share subscription period ended on 23 February 2018. A total of 1,047,877 Caverion Corporation shares were subscribed for in the share issue pursuant to the primary and secondary subscription right and the total capital raised amounted to EUR 6.67 million. The amount of shares increased by 2,752,123 shares during the financial year.

13. Appropriations

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Accumulated depreciation difference Jan 1	724.4	722.3
Increase / Decrease	-40.4	2.1
Accumulated depreciation difference Dec 31	**684.0**	**724.4**

14. Deferred tax receivables and liabilities

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Deferred tax assets		
Tax losses	158.4	
Total	**158.4**	
Deferred tax liabilities		
Accumulated depreciation difference	136.8	144.9
Total	**136.8**	**144.9**

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

15. Non-current liabilities

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Liabilities to Group companies		
Other loans	70,490.1	6,666.7
Liabilities, external		
Loans from credit institutions	30,000.0	50,000.0
Hybrid bond	100,000.0	100,000.0
Derivative liabilities	119.6	275.8
Total	**200,609.7**	**156,942.4**

16. Current liabilities

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Liabilities to Group companies		
Trade payables	858.4	1,253.1
Accrued expenses	398.4	212.6
Other liabilities	268,688.7	262,148.8
Liabilities, external		
Loans from credit institutions	20,000.0	20,000.0
Commercial papers		4,999.6
Trade payables	3,487.9	4,286.6
Other current liabilities	1,057.4	240.2
Accrued expenses	9,794.4	7,566.0
Total	**304,285.1**	**300,707.0**
Accrued expenses consist of:		
Personnel expenses	2,206.5	2,466.5
Interest expenses	2,718.3	2,844.2
Accrued expenses to group companies	398.4	212.6
Other expenses	4,869.6	2,255.3
Total	**10,192.8**	**7,778.7**

17. Commitments and contingent liabilities

1,000 EUR	Dec 31, 2018	Dec 31, 2017
Leasing commitments		
Payable during the next fiscal year	2,647.6	1,107.5
Payable during subsequent years	22,993.7	4,358.0
Total	**25,641.4**	**5,465.6**
Guarantees		
On behalf of Group companies		
Contractual work guarantees	417,262.4	446,446.3
Loan guarantee	6,666.7	15,333.3
Leasing commitment guarantees	7,024.9	7,814.8
Factoring related guarantees	4,325.0	4,288.8

18. Derivative instruments

1,000 EUR	Dec 31, 2018	Dec 31, 2017
External foreign currency forward contracts		
Fair value	-854.5	136.4
Value of underlying instruments	88,645.8	77,020.0
Internal foreign currency forward contracts		
Fair value	-6.1	-24.7
Value of underlying instruments	2,822.3	4,487.3
Interest rate swaps		
Fair value	-119.3	-275.8
Value of underlying instruments	30,000.0	50,000.0

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 prepares the proposal on the remuneration of the Board of Directors for the Annual General Meeting. The Human Resources Committee also prepares the general remuneration principles, short- and long-term incentive schemes and the compensation policy of Caverion Group which is approved by the Board of Directors.

The Board of Directors appoints the President and CEO and approves his/her terms of employment including 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 the manager's manager. The Chairman of the Board approves the remuneration of the Group Management Board members.

Remuneration of the Board of Directors

Based on the decisions of Caverion Corporation's Annual General Meeting on March 26, 2018, 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 part of 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	Human Resources committee meetings	Meeting fees	Total 2018	Total 2017
Jussi Aho	46,800		2,200	4,950	53,950	44,115
Markus Ehrnrooth	60,000	3,850		6,050	69,900	69,326
Joachim Hallengren	46,800		2,750	5,500	55,050	43,565
Antti Herlin	46,800		2,200	5,500	54,500	37,809
Thomas Hinnerskov	46,800	3,850		6,050	56,700	45,215
Anna Hyvönen	46,800		2,750	6,050	55,600	55,600
Eva Lindqvist	11,143	1,100		1,100	13,343	57,800
Mats Paulsson	35,843	2,750		4,950	43,543	
Ari Puheloinen						12,035
Michael Rosenlew	79,200	3,850	2,750	6,050	91,850	89,465
Total	**420,186**	**15,400**	**12,650**	**46,200**	**494,436**	**454,930**

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, the 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 approves the terms 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. Potential incentives are approved by the Board of Directors and they are paid out 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 and maximum incentive opportunity are defined on the role based 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. Individual targets, their relative weighting and achievement of the previously agreed targets are set and reviewed in these discussions.

The maximum short-term incentive paid to the President and CEO may equal to 100% of the annual fixed base salary. The maximum short-term incentive paid to the members of the Group Management Board may equal at maximum level to 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 remuneration of management and key personnel of Caverion Group. The 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 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.

Share-based long-term incentive plan 2018-2020

Caverion's Board of Directors approved a share-based long-term incentive plan in its December 2017 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 2018-2020 consists of a one-year operative financial performance period (2018), followed by a two-year share price performance period. The potential reward is based on the targets set for Cash Flow from Operations and Earnings per share (EPS) at the end of 2018. The targets set for the Performance Share Plan 2018-2020 were partially met and estimated share rewards comprising approximately a total value corresponding to 84,000 shares (gross before the deduction of applicable payroll tax) will be delivered in February 2021.

Matching Share Plan 2018-2022

Caverion's Board of Directors approved a new share-based long-term incentive plan "Matching Share Plan 2018-2022" in its February 2018 meeting. The prerequisite for participating in the Plan is that a key employee shall acquire company shares up to the number and in the manner determined by the Board of Directors. The Plan includes four matching periods, all beginning on 1 March 2018 and ending on 28 February 2019, 29 February 2020, 28 February 2021 or 28 February 2022. The plan participant may not participate in the Performance Share Plan 2018-2020 simultaneously with participating in the Matching Share Plan.

The rewards from the plan will be paid in four instalments, one instalment each in 2019, 2020, 2021 and 2022. However, the reward payment will be deferred, if a yield of the share has not reached the pre-set minimum yield level by the end of the matching period in question. If the pre-set minimum yield level has not been reached by the end of reward instalment specific grace periods ending in 2021-2022, no reward from a matching period in question will be paid.

Remuneration of 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 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 2018, 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 1.1.2018-31.12.2018 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.

Remuneration paid to the President and CEO in 2018

Ari Lehtoranta's base salary and fringe benefits as the President and CEO during 1.1.-31.12.2018 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 on January 1st, 2017.

EUR	Fixed base salary	Fringe benefits	Short-term incentive payment	Defined contribution pension scheme	Total 2018
Ari Lehtoranta Jan 1-Dec 31 2018	659,760	240		132,000	792,000

President and CEO's pension costs		Total 2018
Ari Lehtoranta	Statutory pension scheme	107,184
Ari Lehtoranta	Defined contribution pension cheme	132,000

A regularly updated table on the Group Management Board members' holdings of shares is available in 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, 2018.

Caverion announced on 7 February 2018 in a stock exchange release the establishment of a new share-based incentive plan directed for the key employees of the Group ("Matching Share Plan 2018-2022"). The company provided the participants a possibility to finance the acquisition of the company's shares through an interest-bearing loan from the company, which some of the participants utilised. By the end of December 2018 the total outstanding amount of these loans amounted approximately to EUR 4.1 million. The loans will be repaid in full on 31 December 2023, at the latest. Company shares have been pledged as a security for the loans.

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 the parent company Caverion Corporation on December 31, 2018 is (EUR):

Retained earnings	143,746,606.46
Result for the period	-20,059,939.16
Retained earnings, total	**123,686,667.30**
Unrestricted equity reserve	66,676,176.49
Fair value reserve	-98,554.08
Distributable equity, total	**190,264,289.71**

The Board of Directors proposes to the Annual General Meeting to be held on March 25, 2019 that a dividend of EUR 0.05 per share be paid.

Signatures to the Board of Directors' Report and Financial Statements

Vantaa, February 4, 2019

Caverion Corporation
Board of Directors

Michael Rosenlew
Chairman

Markus Ehrnrooth
Vice Chairman

Jussi Aho
Joachim Hallengren
Antti Herlin

Thomas Hinnerskov
Anna Hyvönen
Mats Paulsson

Ari Lehtoranta
President and CEO

The Auditor's Note

Our auditor's report has been issued today

Vantaa, February 4, 2019

Ernst & Young Oy
Authorised Public Accountants

Antti Suominen
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

We have audited the financial statements of Caverion Oyj (business identity code 2534127-4) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows 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 financial statements in Finland and comply with statutory requirements.

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

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 Financial Statements section of our report.

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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5 (1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 2.2 to the consolidated financial statements.

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

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the Key Audit Matter
Revenue recognition *The accounting principles and disclosures concerning revenue recognition are disclosed in Note 2.1.* In accordance with its accounting principles Caverion applies the percentage-of-completion method ("POC method") for recognizing significant portion of its revenues. The recognition of revenue by applying POC method and the estimation of the outcome of projects require significant management judgment in estimating the stage of completion and the cost-to-complete. From the financial statement perspective, significant judgment is required especially when the project execution and the associated revenues extend over two or more financials years. The areas where significant judgment is required are more prone to the risk that the assumptions may be deliberately misappropriated. Based on above, revenue recognition was a key audit matter. This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement included: ◦ Assessing of the Group's accounting policies over revenue recognition of sales contracts. ◦ Examination of the project documentation such as contracts, legal opinions and other written communication. ◦ Analytical procedures and review of financial KPI's as well as development of projects by - reviewing the changes in estimated revenues, costs and reserves, and - discussing with the different levels of the organization including project, business area, division and group management. ◦ Analyzing key elements in management's estimates such as the estimated future costs-to-complete and the estimated time necessary to complete the project. ◦ Evaluating the appropriateness of the Group's disclosures in respect of revenue recognition.

Key audit matter	How our audit addressed the Key Audit Matter
Valuation of goodwill *The accounting principles and disclosures concerning goodwill are disclosed in Note 4.2.* The annual impairment test was a key audit matter because the assessment process is judgmental, it is based on assumptions relating to market or economic conditions extending to the future, and because of the significance of the goodwill to the financial statements. As of balance sheet date 31 December 2018, the value of goodwill amounted to 334 million euro representing 33 % of the total assets and 132 % of the total equity. The valuation of goodwill is based on management's estimate about the value-in-use calculations of the cash generating units. There are number of underlying assumptions used to determine the value-in-use, including the revenue growth, EBITDA and discount rate applied on net cash-flows. Estimated value-in-use may vary significantly when the underlying assumptions are changed and the changes in above-mentioned individual assumptions may result in an impairment of goodwill.	Our audit procedures regarding the valuation of goodwill included involving valuation specialists to assist us in evaluating methodologies and underlying assumptions applied by the management. In evaluation of methodologies, we compared the principles applied by the management on the requirements set in IAS 36 Impairment of assets standard and confirmed the accuracy of the impairment calculations. The key assumptions applied by the management were compared to ◦ approved budgets and forecasts, ◦ information available in external sources, as well as ◦ our independently calculated industry averages such as weighted average cost of capital used in discounting the cash-flows. In addition, we compared the sum of discounted cash flows to Caverion's market capitalization. We also assessed the sufficiency of the disclosures as well as whether the disclosures about the sensitivity of the impairment assessment are appropriate.

Key audit matter	How our audit addressed the Key Audit Matter
Valuation of trade receivables *The accounting principles and disclosures concerning trade receivables are disclosed in Note 3.2.* Valuation of trade receivables was a key audit matter because the valuation of overdue trade receivables requires management to make significant judgments. As of balance sheet date 31 December 2018, the carrying value of trade receivables amounted to 312 million euros, of which 19 million euros were trade receivables overdue for more than 90 days. The carrying value of trade receivables shown in the balance sheet as of 31 December 2018 is a result of gross receivables deducted by reserve for bad debts which is based on management's judgment. Valuation of aged trade receivables requires management to evaluate probability of the recoverability of receivables and to record a reserve based on judgment for receivables for which payment is not likely.	On the group level we evaluated the valuation methods applied on trade receivables as well as performed quarterly analyses of overdue and undue gross receivable balance development and corresponding movement in bad debt reserve. In addition, we analyzed management's assessment of the recoverability of the most significant overdue receivables considering. ◦ the customer payment pattern, ◦ legal opinions, and ◦ recent communications with the counterparties. We have also discussed the valuation with the group's business and financial management as well as with the legal management. On subsidiary level our audit procedures regarding the valuation of trade receivables included analysis of the aging of receivables as well as evaluation the recoverability of individual aged receivable balances by sending balance confirmation requests or by testing of subsequent cash receipts.

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 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 cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 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

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 26 March 2018.

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 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 and 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 other information that we obtained prior to the date of this auditor's report, 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.

Vantaa, 4 February 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Antti Suominen
Authorized Public Accountant

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