Q4
Financial Statement Release
2018

Caverion

Caverion Corporation Financial Statement Release 5 February 2019 at 8.00 a.m. EET

Caverion Corporation's Financial Statement Release for 1 January – 31 December 2018

Strong improvement in full-year cash flow, turnaround in profitability progressing

1 October – 31 December 2018

- **Revenue:** EUR 587.6 (592.3) million.
- **Adjusted EBITDA:** EUR 11.0 (-5.2) million, or 1.9 (-0.9) percent of revenue.
- **EBITDA:** EUR -1.3 (10.3) million, or -0.2 (1.7) percent of revenue, impacted particularly by capital gains and losses from divestments and restructuring costs totalling EUR -7.4 (17.2) million.
- **Operating cash flow before financial and tax items:** EUR 53.7 (66.9) million.
- **Earnings per share, undiluted:** EUR -0.12 (-0.02) per share.
- **Net debt/EBITDA***: 0.2x (2.9x).

1 January – 31 December 2018

- **Revenue:** EUR 2,204.1 (2,275.8) million.
- **Adjusted EBITDA:** EUR 53.4 (25.8) million, an improvement of 106.7 percent. Adjusted EBITDA margin of 2.4 (1.1) percent of revenue.
- **EBITDA:** EUR -8.8 (3.8) million, or -0.4 (0.2) percent of revenue, impacted by the German anti-trust fine of EUR 40.8 million and other costs.
- **Operating cash flow before financial and tax items:** EUR 21.6 (-8.7) million. Excluding the impact of the German fine of EUR 40.8 million and related costs, an improvement of EUR 72.3 million compared to the previous year.
- **Earnings per share, undiluted:** EUR -0.40 (-0.24) per share.
- **EUR 60 million share issue completed in June to support strategic flexibility.**

Unless otherwise noted, the figures in brackets refer to the corresponding period in the previous year. The figures for 2017 have been restated according to IFRS 15.
* Based on calculation principles confirmed with the lending parties.

KEY FIGURES

EUR million	10–12/18	10–12/17	Change	1–12/18	1–12/17	Change
Order backlog	1,494.3	1,491.0	0.2%	1,494.3	1,491.0	0.2%
Revenue	587.6	592.3	-0.8%	2,204.1	2,275.8	-3.2%
Adjusted EBITDA	11.0	-5.2		53.4	25.8	106.7%
Adjusted EBITDA margin, %	1.9	-0.9		2.4	1.1	
EBITDA	-1.3	10.3		-8.8	3.8	
EBITDA margin, %	-0.2	1.7		-0.4	0.2	
Operating profit	-8.7	2.5		-35.9	-26.6	-35.2%
Operating profit margin, %	-1.5	0.4		-1.6	-1.2	
Result for the period	-15.8	-1.4		-48.1	-27.0	-78.4%
Earnings per share, undiluted, EUR	-0.12	-0.02		-0.40	-0.24	-66.0%
Operating cash flow before financial and tax items	53.7	66.9	-19.7%	21.6	-8.7	
Working capital				-54.6	-30.8	-77.0%
Interest-bearing net debt				6.9	64.0	-89.2%
Net debt/EBITDA*				0.2	2.9	
Gearing, %				2.7	27.2	
Equity ratio, %				30.2	25.8	
Personnel, end of period				14,950	16,216	-7.8%

* Based on calculation principles confirmed with the lending parties.

DIVIDEND PROPOSAL

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.

Ari Lehtoranta, President and CEO:

“After the first full year of implementation of our 2020 strategy, the results from the “Fit” phase are becoming visible. Our adjusted EBITDA more than doubled and amounted to EUR 53.4 (25.8) million in January–December. The adjusted EBITDA for the fourth quarter was EUR 11.0 (-5.2) million, or 1.9 (-0.9) percent of revenue. It was still impacted by a high amount of write-downs and costs from old projects initiated in 2016 or earlier.

A highlight of the year was our improving cash flow. Our operating cash flow before financial and tax items improved to EUR 21.6 (-8.7) million during 2018, although impacted by the German cartel fine payment of EUR 40.8 million in August. Excluding the fine and related costs, our operating cash flow improved materially by EUR 72.3 million compared to the previous year.

Revenue for 2018 was EUR 2,204.1 (2,275.8) million, down by 3.2 percent compared to the previous year. Taking into account the completed divestments, our revenue was at about the same level as last year in local currencies. Revenue for the Services business increased by 2.5 percent while revenue for the Projects business decreased by 5.6 percent in local currencies. Revenue for the fourth quarter was EUR 587.6 (592.3) million. Measured in local currencies, revenue increased by 0.5 percent and the Services business continued to grow by 1.5 percent.

Our 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. The profitability of the Services business increased according to our expectations. Order intake in Services has been developing well and we have won several important long-term facility management contracts. The overall performance improvement in our Services business and the investments we have made both in sales and in digitalisation make the outlook going forward positive.

Although we materially improved our performance in the Projects business compared to two previous years, its profitability for the full year 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. I am satisfied that we are observing better and more stable profitability in our new projects at the same time. We furthermore settled two out of three large Industrial Solutions projects from our risk list during the year. In the fourth quarter, due to an updated risk evaluation based on a delay of an arbitration decision, we booked a write-down in receivables totalling EUR 4.4 million in the third large project on our risk list for 2018. I expect the Projects business to continue markedly improving its result in 2019, although there are still project risks remaining especially from old projects.

Following our strategy, we divested three non-core units at year-end 2018 and the beginning of 2019. These included the divestment of the project piping and tank business and the related Ylivieska workshop of the Industrial Solutions division and the sale of our small subsidiaries in Poland and Czech Republic. After these divestments, Caverion has operations in ten European countries. We also made one acquisition during the fourth quarter to strengthen our Services business. The acquisition of Jetitek Oy in Finland extends our cooling services.

By division, Finland and Austria continued to deliver strong results in the fourth quarter. Excluding non-recurring items, the result of Industrial Solutions was also strong. Sweden continued its positive development, along with the Services business in Germany and Norway. In Germany, the overall performance was still burdened by write-downs from old projects and restructuring. In Denmark and Eastern Europe, our restructuring actions were continued, which impacted their quarterly profitability compared to the previous year.

Our financial position strengthened during the year, which now enables investments in digitalisation and possible bolt-on acquisitions in key areas in Services. Our net debt amounted to only EUR 6.9 million at the end of December and the net debt/EBITDA ratio was 0.2x. We also refinanced our bank loans and revolving credit facilities in the beginning of February 2019.

The implementation of the IFRS 16 Leases standard will impact our financial figures as of the Q1/2019 interim report. Consequently, we converted our existing financial targets until the end of 2020 to reflect the impacts of IFRS 16. The level of ambition in our financial targets remains unchanged.

The implementation of the “Fit” phase of our strategy will continue during the first half of 2019. While we are experiencing strong improvements in several fronts both in Services and Projects, we will still streamline our operations in certain divisions. For the full year of 2019, I expect a further clear improvement in our profitability.”

OUTLOOK FOR 2019

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.

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/or 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	10–12/18	10–12/17	1–12/18	1–12/17
EBITDA	-1.3	10.3	-8.8	3.8
EBITDA margin, %	-0.2	1.7	-0.4	0.2
Items affecting EBITDA				
- Write-downs, expenses and income from major risk projects	4.4	1.7	9.3	27.1
- Restructuring costs	3.1	-4.9	5.3	7.3
- Capital gains and losses from divestments	4.3	-12.3	5.5	-12.3
- Other items*	0.6		42.1	
Adjusted EBITDA	11.0	-5.2	53.4	25.8
Adjusted EBITDA margin, %	1.9	-0.9	2.4	1.1

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

UPDATED FINANCIAL TARGETS

Caverion has today on 5 February 2019 published a stock exchange release on its updated financial targets. As a result of the modified 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. The converted IFRS 16 financial targets (until the end of 2020) with key changes are listed below.

Cash conversion (unchanged) = Operating cash flow before financial and tax items / EBITDA > 100%
Profitability: Adjusted EBITDA over 8% of revenue (earlier target: EBITDA over 6% of revenue)
Debt leverage (unchanged)**:** Net debt / EBITDA* < 2.5x
Growth (unchanged)**:** - Revenue growth target will be given by the end of 2019. - Services growth > market growth. - Long-term target beyond 2020: Services generate over two-thirds of Group revenue.
Dividend policy (unchanged)**:** distribute at least 50% of the result for the year after taxes, however, taking profitability and leverage level into account.

* Based on calculation principles confirmed with the lending parties. The confirmed calculation principles exclude the effects of the IFRS 16 standard and contain certain adjustments. If IFRS 16 adjusted figures were applied in the calculation, the target would be adjusted accordingly.

INFORMATION SESSION, WEBCAST AND CONFERENCE CALL

Caverion will hold a news conference and webcast on the Financial Statement Release on Tuesday, 5 February 2019, at 10:00 a.m. (Finnish time, EET) at the Glo Hotel Kluuvi (VideoWall meeting room), Kluuvikatu 4, 2nd floor, Helsinki, Finland. The news conference can also be viewed live on Caverion's website at www.caverion.com/investors. It is also possible to participate in the event through a conference call by calling the assigned number +44 (0)330 336 9105 at 9:55 a.m. (Finnish time, EET) at the latest. The participant code for the conference call is "2066048 / Caverion". More practical information on the news conference can be found on Caverion's website, www.caverion.com/investors.

Financial information to be published in 2019

The Annual Review, including the financial statements for 2018, will be published on Caverion's website and IR App in English and Finnish during week 9/2019, at the latest. Interim/Half-yearly Reports will be published on April 26, July 24 and October 29, 2019.

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

Caverion will arrange a Capital Markets Day in Helsinki on 5 November 2019 at 9:00 a.m. (EET). Further information on the programme will be published closer to the date.

CAVERION CORPORATION

For further information, please contact:

Martti Ala-Härkönen, Chief Financial Officer, Caverion Corporation, tel. +358 40 737 6633, martti.ala-harkonen@caverion.com

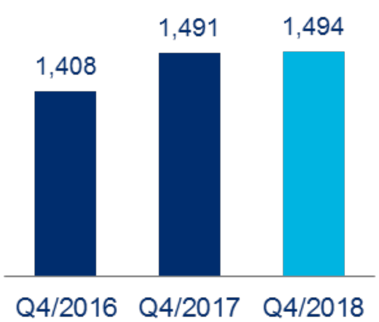
Milena Hæggström, Head of Investor Relations, Caverion Corporation, tel. +358 40 5581 328, milena.haeggstrom@caverion.com

Distribution: Nasdaq Helsinki, principal media, www.caverion.com

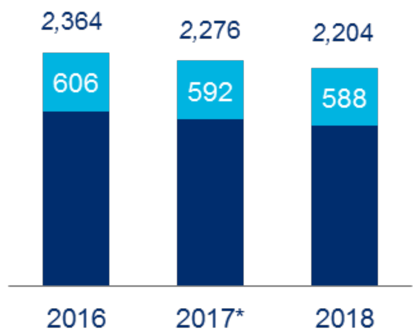
GROUP FINANCIAL DEVELOPMENT

Key Figures

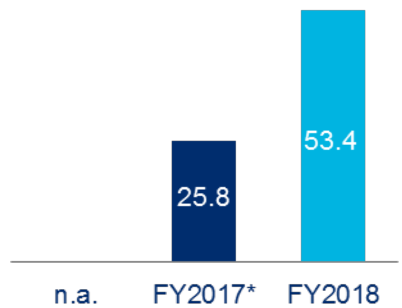
Order backlog
(EUR million)



Revenue
(EUR million)

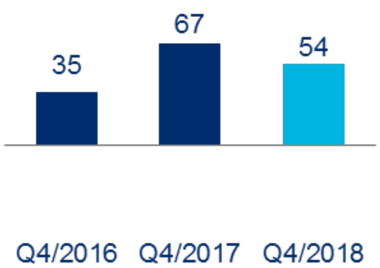


Adjusted EBITDA
(EUR million)

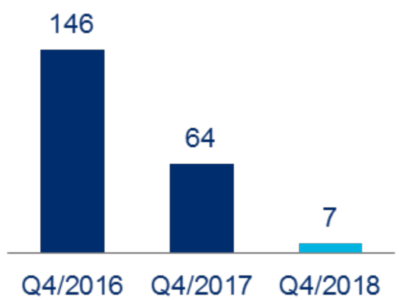


Q4/2018: 11.0, Q4/2017: -5.2.

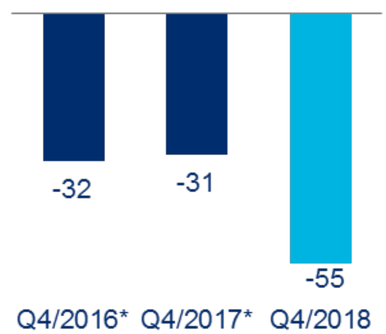
Operating cash flow before financial and tax items
(EUR million)



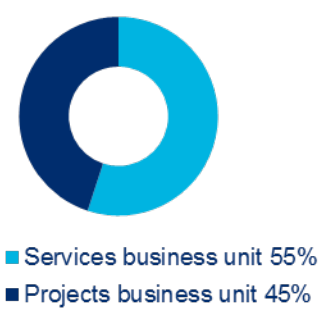
Net debt
(EUR million)



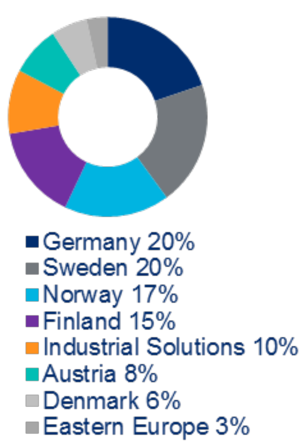
Working capital
(EUR million)



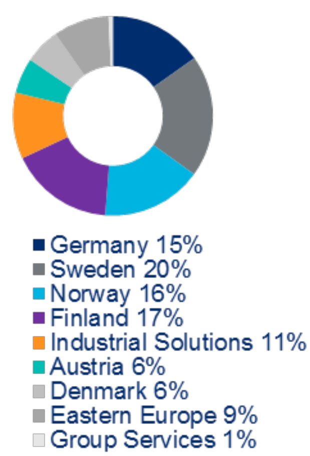
Revenue by business unit
% of revenue 1-12/2018



Revenue by division
% of revenue 1-12/2018



Personnel by division
at the end of December 2018



** figures IFRS 15 restated.*

Operating environment during the fourth quarter and 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.

Estimated Projects business risks for 2019

During 2018, Caverion settled two of the three large Industrial Solutions projects from its risk list for 2018. 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 "Significant short-term risks and uncertainties".

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

October–December

Revenue for October–December was EUR 587.6 (592.3) million, a decrease of 0.8 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 and project write-downs. A write-down in receivables totalling EUR 4.4 million in the third and final large Industrial Solutions project on the risk list for 2018 affected revenue for the period. At the previous year's exchange rates, revenue was EUR 595.4 million and increased by 0.5 percent compared to the previous year. Changes in the Swedish krona accounted for EUR 6.7 million, the Norwegian krone for EUR 0.6 million and the Russian rouble for EUR 0.4 million.

Revenue increased in Austria, Finland, Norway and Eastern Europe, while it decreased in other divisions. In local currencies, revenue in Sweden 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 remained flat and was EUR 337.2 (337.2) million in October–December, an increase of 1.5 percent in local currencies. The revenue of the Projects business unit was EUR 250.4 (255.1) million in October–December, a decrease of 1.9 percent, or 0.8 percent in local currencies, due to more selective tendering.

The Services business unit accounted for 57.4 (56.9) percent of Group revenue, and the Projects business unit for 42.6 (43.1) percent of Group revenue in October–December.

January–December

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.

Caverion adopted a new way of reporting its business unit revenue as of 2018. Previously, Caverion reported revenue according to the classification of its contracts as follows: the Projects business, consisting of the Large Projects and Technical Installation business areas and the Services business, consisting of the Technical

Maintenance and Managed Services business areas. As of 2018, Caverion adopted business unit monitoring based on a profit center structure, whereby each profit center belongs to either the Projects or Services business unit. The new profit center structure enables improved financial steering at Caverion. Caverion provides comparative figures for the new Business Unit structure for each quarter of financial year 2017. Based on the new classification, the Services business unit accounted for 53.1 per cent of Group revenue in 2017 and the Projects business unit for 46.9 per cent, while based on the previous classification the Services business accounted for 52.5 per cent of Group revenue in 2017 and the Projects business for 47.5 per cent.

Distribution of revenue by Division and Business Unit

Revenue, EUR million	10–12/ 2018	%	10–12/ 2017*	%	Change	1–12/ 2018	%	1–12/ 2017*	%	Change
Norway	107.9	18.4%	95.2	16.1%	13.3%	377.4	17.1%	367.0	16.1%	2.8%
Denmark	30.1	5.1%	37.5	6.3%	-19.8%	129.2	5.9%	142.7	6.3%	-9.5%
Sweden	123.8	21.1%	128.0	21.6%	-3.2%	443.1	20.1%	492.2	21.6%	-10.0%
Germany	102.3	17.4%	121.7	20.6%	-15.9%	436.7	19.8%	468.6	20.6%	-6.8%
Industrial Solutions	55.9	9.5%	62.2	10.5%	-10.2%	229.2	10.4%	248.3	10.9%	-7.7%
Finland	95.5	16.3%	81.1	13.7%	17.7%	336.3	15.3%	317.3	13.9%	6.0%
Austria	48.3	8.2%	45.3	7.6%	6.7%	176.8	8.0%	161.9	7.1%	9.2%
Eastern Europe	23.7	4.0%	21.2	3.6%	11.9%	75.5	3.4%	77.8	3.4%	-3.0%
Group, total	587.6	100.0%	592.3	100.0%	-0.8%	2,204.1	100.0%	2,275.8	100.0%	-3.2%
Services business unit	337.2	57.4%	337.2	56.9%	0.0%	1,213.0	55.0%	1,209.0	53.1%	0.3%
Projects business unit	250.4	42.6%	255.1	43.1%	-1.9%	991.1	45.0%	1,066.8	46.9%	-7.1%

*2017 figures IFRS 15 restated

Profitability

EBITDA

October–December

Adjusted EBITDA was EUR 11.0 (-5.2) million, or 1.9 (-0.9) percent of revenue in October–December. EBITDA for October–December was EUR -1.3 (10.3) million, or -0.2 (1.7) percent of revenue.

In the adjusted EBITDA calculation, the write-downs, expenses and/or income from separately identified major risk projects amounted to EUR 4.4 million in October–December. The Group's restructuring costs amounted to EUR 3.1 million, which related to Germany, Denmark, Sweden and Eastern Europe. The capital gains and losses from divestments totalled EUR 4.3 million. These included 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 0.7 million. The other items of EUR 0.6 million were legal and other costs related to the German anti-trust fine.

By division, Finland and Austria continued to deliver strong results in the fourth quarter. Excluding non-recurring items, the result of Industrial Solutions was also strong. Sweden continued its positive development, along with the Services business in Germany and Norway. In Germany, the overall performance was still burdened by write-downs from old projects and restructuring. In Denmark and Eastern Europe, restructuring actions were continued, which impacted their quarterly profitability compared to the previous year.

Costs related to materials and supplies decreased to EUR 154.6 (163.1) million and external services increased to EUR 123.1 (116.5) million in October–December. Personnel expenses decreased by 2.8 percent and other operating expenses increased by 6.5 percent from the previous year. Personnel expenses for October–December amounted to a total of EUR 232.8 (239.4) million. Other operating expenses increased to EUR 80.5 (75.6) 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 0.6 million. Other operating income was EUR 2.2

(12.6) million. The capital gain from the Krantz divestment is reported under other operating income in 2017 and it amounted to EUR 12.3 million.

January–December

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. Excluding non-recurring items, the result of Industrial Solutions was also strong. 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

October–December

The operating profit for October–December was EUR -8.7 (2.5) million, or -1.5 (0.4) percent of revenue.

Depreciation, amortisation and impairment amounted to EUR 7.4 (7.8) million in October–December, of which EUR 2.1 (0.6) million were allocated intangibles related to acquisitions and EUR 5.3 (7.2) million were other depreciations, amortisation and impairments, the majority of which related to IT.

January–December

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.

Caverion made several divestments of non-core units during the year. Caverion Industria Oy and a group of Finnish 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. All 33 employees of Caverion's Leppävirta unit were transferred as part of the sale. Furthermore, the asset sale included e.g. machinery and appliances, material inventory and work in progress. Caverion booked a capital loss of EUR 1.0 million from the asset sale, which is taken into account as an item affecting comparability in the adjusted EBITDA calculation. The transaction price was not disclosed. Furthermore, the Mongstad unit in Division Norway was sold through a management buy-out as of 1 November 2018. Mongstad is a unit including a large workshop with deliveries to industry and offshore. The value of the transaction was not disclosed.

Caverion announced on 23 November 2018 that it had signed an agreement to sell the project piping and tank business and the related Ylivieska workshop of the Industrial Solutions division to Mimir Invest, a Swedish private equity investor. The divestment was completed on 31 December 2018. The revenue of the business to be sold was approximately EUR 45 million in 2018. The business to be transferred from Caverion and its supporting business processes employ a total of 324 people. The transaction value was not disclosed.

Furthermore, Caverion announced the sale of its small subsidiaries in Poland and Czech Republic in the end of December. The buyer of the Polish subsidiary was the technology group STRABAG SE. The revenue of Caverion Polska Sp. Z o.o. was approximately EUR 12 million in 2017, and the number of employees totalled 170 people. The buyer of the subsidiary in Czech Republic was KART, spol. s r.o., part of conglomerate CEZ Group. The revenue of the company to be sold, Caverion Česká republika s.r.o., was approximately EUR 2.4 million in 2017, and the number of employees approximately 40 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.

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. Jetitek is a Finnish service company specialised in energy-efficient cooling solutions. Jetitek's revenue was EUR 16 million and it employed 52 people in 6 different locations in Finland in 2018. The value of the transaction was not disclosed.

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.

During the fourth quarter, operating cash flow before financial and tax items was EUR 53.7 (66.9) 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.

Caverion refinanced its bank loans and revolving credit facilities at the beginning of February 2019. More information is presented under “Events after the reporting period”.

Changes in external financial reporting in 2018

Caverion adopted a new way of reporting its business unit revenue as of 2018. Previously, Caverion reported revenue according to the classification of its contracts as follows: the Projects business, consisting of the Large Projects and Technical Installation business areas and the Services business, consisting of the Technical Maintenance and Managed Services business areas. As of 2018, Caverion adopted business unit monitoring based on a profit center structure, whereby each profit center belongs to either the Projects or Services business unit. The new profit center structure enables improved financial steering at Caverion. Caverion provides comparative figures for the new Business Unit structure for each quarter of financial year 2017. Based on the new classification, the Services business unit accounted for 53.1 per cent of Group revenue in 2017 and the Projects business unit for 46.9 per cent, while based on the previous classification the Services business accounted for 52.5 per cent of Group revenue in 2017 and the Projects business for 47.5 per cent. The comparative figures for 2017 are presented in the table below.

REVENUE BASED ON BUSINESS UNIT BREAKDOWN

Revenue, EUR million	1–3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1–12/ 2017	%
Services business unit	297.0	290.8	284.0	337.2	1,209.0	53%
Projects business unit	277.6	272.5	261.6	255.1	1,066.8	47%

PREVIOUSLY REPORTED REVENUE BASED ON BUSINESS AREA BREAKDOWN

Revenue, EUR million	1–3/ 2017 Restated	4-6/ 2017 Restated	7-9/ 2017 Restated	10-12/ 2017 Restated	1–12/ 2017 Restated	%
Services business	292.7	289.3	279.8	333.4	1,195.2	53%
- Technical Maintenance	208.7	208.3	197.0	236.5	850.5	37%
- Managed Services	84.1	80.9	82.8	96.9	344.6	15%
Projects business	281.9	274.1	265.8	258.9	1,080.6	47%
- Technical Installation	177.3	184.3	177.3	177.3	716.2	31%
- Large Projects	104.6	89.7	88.5	81.6	364.5	16%

Caverion announced in a stock exchange release on 6 November 2017 that would be reworking its division structure by separating its Denmark-Norway division operations into two divisions Denmark and Norway. The changes took place as of 1 January 2018.

The revenue and result in Germany in 2018 are not fully comparable with the previous year, as Caverion sold its product business under the Krantz brand in Germany to STEAG Energy Services GmbH at the end of 2017. The sale became effective on 31 December 2017. As a part of Caverion Germany, Krantz employed approximately 230 people and its revenue was approximately EUR 45 million in 2017. The capital gain from the divestment was reported under other operating income for the period and it amounted to EUR 12.3 million.

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 will therefore 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, quarterly Adjusted EBITDA for 2017 as well as its guidance for 2018 according to IFRS 15.

The adoption of the new IFRS 15 accounting principles had a negative impact on revenue of EUR -7.0 million, and a similar impact on EBITDA and operating profit of EUR -7.3 million for the financial year 2017. The Group's equity ratio decreased from 27.9 percent to 25.8 percent as at 31 December 2017, and gearing increased from 24.4 percent to 27.2 percent. The negative impact on the Group's retained earnings amounted to EUR 27.2 million as at 31 December 2017. Additional information is presented in the financial tables under "IFRS 15 restated figures".

PERSONNEL

Personnel by division, end of period	12/18	9/18	Change	12/18	12/17	Change
Sweden	2,955	2,975	-1%	2,955	3,150	-6%
Norway	2,438	2,469	-1%	2,438	2,486	-2%
Finland	2,513	2,487	1%	2,513	2,444	3%
Germany	2,268	2,280	-1%	2,268	2,453	-8%
Industrial Solutions	1,603	1,955	-18%	1,603	2,023	-21%
Eastern Europe	1,350	1,518	-11%	1,350	1,754	-23%
Denmark	860	915	-6%	860	952	-10%
Austria	857	851	1%	857	840	2%
Group Services	106	106	0%	106	114	-7%
Group, total	14,950	15,556	-4%	14,950	16,216	-8%

Caverion Group employed 15,672 (16,607) people on average in January–December 2018. 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.

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 Board 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.

SIGNIFICANT SHORT-TERM RISKS AND UNCERTAINTIES

Caverion is exposed to different types of strategic, operational, political, market, customer, financial and other risks. The market environment is currently positive in markets relevant for Caverion, but 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 this Financial Statement Release under Note 6.

RESOLUTIONS PASSED AT THE ANNUAL GENERAL MEETING

The Annual General Meeting of Caverion, held on 26 March 2018, adopted the Financial Statements for the year 2017 and discharged the members of the Board of Directors and the President and CEO from liability. In addition, the Annual General Meeting resolved on the use of the profit shown on the balance sheet and the payment of dividend, the composition of the Board of Directors and their remuneration, the election of a new auditor and its remuneration as well as authorised the Board of Directors to decide on the repurchase and/or on the acceptance as pledge of the company's own shares and share issues.

The Annual General Meeting elected a Chairman, Vice Chairman and six ordinary members to the Board of Directors. Michael Rosenlew was elected as the Chairman of the Board of Directors, Markus Ehrnrooth as the Vice Chairman and Jussi Aho, Joachim Hallengren, Thomas Hinnerskov, Antti Herlin, Anna Hyvönen and Mats Paulsson as members of the Board of Directors for a term continuing until the end of the next Annual General Meeting. The stock exchange release on the resolutions passed at the Annual General Meeting is available on Caverion's website at http://www.caverion.com/about-us/media/releases.

The Board of Directors held its organisational meeting on 26 March 2018. At the meeting the Board decided on the composition of the Human Resources Committee and the Audit Committee. A description of the committees' tasks and charters are available on Caverion's website at www.caverion.com/investors - Corporate Governance.

DIVIDENDS AND DIVIDEND POLICY

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

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

SHARES AND SHAREHOLDERS

The Caverion Corporation is a public limited company organised under the laws of the Republic of Finland, incorporated on 30 June 2013. The company has a single series of shares, and each share entitles its holder to one vote at the General Meeting of the company and to an equal dividend. The company's shares have no nominal value.

Share capital and number of shares

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. More detailed information about the Matching Share Plan 2018−2022 and the related share issues and transfers was published in stock exchange releases on 7 February 2018, 19 February 2018, 1 March 2018 and 8 March 2018.

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).

The Restricted Share Plan is based on a rolling plan structure originally announced on 18 December 2015 and the commencement of each new plan within the structure is conditional on a separate Board approval. Share allocations within the Restricted Share Plan will be made for individually selected key employees in specific situations. Each RSP 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 potential share rewards based on the Restricted Share Plans for 2016−2018, 2017−2019, 2018−2020 as well as 2019−2021 total a maximum of approximately 371,000 shares (gross before the deduction of applicable payroll tax). Of these plans, a maximum of approximately 66,000 shares will be delivered at the earliest in the spring of 2019, a maximum of approximately 85,000 shares in both the spring of 2020 and 2021 and a maximum of 135,000 shares in the spring of 2022.

Caverion's Board of Directors approved the previous rolling long-term share-based incentive plan for the Group's senior management and key employees in December 2015. The share-based incentive plan consisted of a Performance Share Plan (PSP) as the main structure, supported by a Restricted Share Plan as a complementary structure for specific situations. Both plans consisted of annually commencing individual plans, each lasting a three-year period. The Board of Directors decided to continue the said incentive structure in December 2016 and in December 2017. The targets set for the first and second Performance Share Plan 2016–2018 and 2017−2019 were not met, and no rewards thereof were 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.

More information on the incentive plans was released in stock exchange releases on 18 December 2015, 21 December 2016 and 21 December 2017 and 18 December 2018.

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

Authorisations of the Board of Directors

Authorising Caverion's Board of Directors to decide on the repurchase and/or on the acceptance as pledge of own shares of the company

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. The shares may be repurchased other than pro rata to the shareholders' existing holdings. The share purchase will decrease the company's distributable unrestricted equity. The authorisation is valid for eighteen months from the date of the resolution of the Annual General Meeting. The Board of Directors 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.

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

The Annual General Meeting authorised the Board of Directors to decide on share issues. The authorisation may be used in full or in part by issuing a maximum of 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. 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.

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.

Number of shareholders and flagging notifications

At the end of December 2018, the number of registered shareholders in Caverion was 26,583 (9/2018: 26,781). At the end of December 2018, a total of 33.2 percent of the shares were owned by nominee-registered and non-Finnish investors (9/2018: 33.3%).

On 15 June 2018, Caverion received a notification under Chapter 9, Section 5 of the Finnish Securities Markets Act, according to which the holding of Varma Mutual Pension Insurance Company (“Varma”) in the Caverion Corporation has increased above the threshold of 5 per cent. The holding increased above the threshold on 15 June 2018 due to Varma’s participation in Caverion’sshare issue. According to the announcement, the holding of Varma in Caverion is 9,721,407 shares on 15 June 2018, corresponding to 7.00 per cent of Caverion’s shares and voting rights.

On 15 June 2018, Caverion received a notification of managers' transactions, according to which Antti Herlin, a member of the Board of Directors in the Caverion Corporation through Security Trading Oy (“Security Trading”, a company owned by Antti Herlin) has purchased shares in the Caverion Corporation on 15 June 2018. The aggregated transactions represented a volume of 1,400,000 shares with a volume weighted average price of EUR 6.3 per share. The holding of Security Trading Oy after the share subscriptions equals thus 14.74 per cent of Caverion’s shares and voting rights after the directed share issue announced on 14 June 2018, which corresponded to the pro-rata holding prior to the share issue.

On 19 February 2018, Caverion received a notification under Chapter 9, Section 5 of the Finnish Securities Markets Act, according to which the holding of Antti Herlin, a member of the Board of Directors in the Caverion Corporation through Security Trading Oy (“Security Trading”, a company owned by Antti Herlin) has decreased below the threshold of 15 per cent. According to the announcement, the holding decreased below the threshold on 19 February 2018 due to dilution related to Caverion Corporation's share issue to the Company itself. According to the announcement, the combined holding of Antti Herlin and Security Trading in Caverion is 19,050,180 shares on 19 February 2018, corresponding to 14.72 per cent of Caverion’s shares and voting rights. According to the announcement, the direct holding of Security Trading in Caverion was 19,020,000 shares on 19 February 2018, corresponding to 14.699 per cent of Caverion’s shares and voting rights at the time.

Updated lists of Caverion’s largest shareholders and ownership structure by sector as per 31 December 2018, are available on Caverion’s website at www.caverion.com/investors.

Board of directors' proposal for the distribution of distributable equity

The distributable equity of the parent company Caverion Corporation on December 31, 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.

SIGNATURE OF THE REPORT OF THE BOARD OF DIRECTORS 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

FINANCIAL STATEMENT RELEASE 1 JANUARY – 31 DECEMBER 2018: FINANCIAL TABLES

The Financial Statement Release is based on the audited Financial Statements for 2018.

Condensed consolidated income statement

EUR million	10-12/2018	10-12/2017 Restated	1-12/2018	1-12/2017 Restated
Revenue	**587.6**	**592.3**	**2,204.1**	**2,275.8**
Other operating income	2.2	12.6	4.1	15.9
Materials and supplies	-154.6	-163.1	-570.6	-638.4
External services	-123.1	-116.5	-425.0	-433.0
Employee benefit expenses	-232.8	-239.4	-892.9	-940.4
Other operating expenses	-80.5	-75.6	-328.4	-276.1
Share of results of associated companies			0.0	0.0
Depreciation, amortisation and impairment	-7.4	-7.8	-27.1	-30.4
Operating result	**-8.7**	**2.5**	**-35.9**	**-26.6**
% of revenue	-1.5	0.4	-1.6	-1.2
Financial income and expense, net	-5.9	-1.6	-7.9	-5.7
Result before taxes	**-14.6**	**0.9**	**-43.9**	**-32.3**
% of revenue	-2.5	0.2	-2.0	-1.4
Income taxes	-1.2	-2.3	-4.3	5.3
Result for the period	**-15.8**	**-1.4**	**-48.1**	**-27.0**
% of revenue	-2.7	-0.2	-2.2	-1.2
Attributable to				
Equity holders of the parent company	-15.8	-1.4	-48.2	-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	-0.12	-0.02	-0.40	-0.24
Diluted earnings per share, EUR	-0.12	-0.02	-0.40	-0.24

Consolidated statement of comprehensive income

EUR million	10-12/2018	10-12/2017 Restated	1-12/2018	1-12/2017 Restated
Result for the review period	**-15.8**	**-1.4**	**-48.1**	**-27.0**
Other comprehensive income				
Items that will not be reclassified to profit/loss				
- Change in fair value of defined benefit pension plans	1.3	0.7	0.4	1.6
-- Deferred tax	0.0	0.0	0.0	0.0
Items that may be reclassified subsequently to profit/loss				
- Cash flow hedges	0.0	0.1	0.1	0.1
- Change in fair value of other investments	0.0	0.0	0.0	0.1
-- Deferred tax	0.0	0.0	-0.2	0.0
- Translation differences	2.5	-1.3	2.6	-2.5
Other comprehensive income, total	**3.8**	**-0.4**	**2.9**	**-0.6**
Total comprehensive result	**-12.0**	**-1.8**	**-45.2**	**-27.6**
Attributable to				
Equity holders of the parent company	-12.0	-1.8	-45.2	-27.6
Non-controlling interests	0.0	0.0	0.0	0.0

Condensed consolidated statement of financial position

EUR million	Dec 31, 2018	Dec 31, 2017 Restated
Assets		
Non-current assets		
Property, plant and equipment	15.9	21.9
Goodwill	334.4	331.6
Other intangible assets	34.6	46.7
Shares in associated companies	0.1	0.1
Other investments	1.2	1.2
Other receivables	6.4	2.1
Deferred tax assets	9.9	27.4
Current assets		
Inventories	16.9	17.6
Trade receivables	311.6	333.9
POC receivables	207.4	226.5
Other receivables	31.7	47.5
Income tax receivables	3.2	7.5
Cash and cash equivalents	51.2	29.2
Total assets	**1,024.5**	**1,093.2**
Equity and liabilities		
Equity attributable to equity holders of the parent company		
Share capital	1.0	1.0
Hybrid capital	100.0	100.0
Other equity	152.6	134.3
Non-controlling interest	0.4	0.4
Equity	**254.0**	**235.6**
Non-current liabilities		
Deferred tax liabilities	33.1	51.6
Pension liabilities	43.9	44.2
Provisions	6.9	7.0
Interest-bearing debts	30.9	57.7
Other liabilities	0.2	0.4
Current liabilities		
Advances received	182.6	179.9
Trade payables	184.1	215.5
Other payables	231.8	237.3
Income tax liabilities	5.3	5.8
Provisions	24.6	22.7
Interest-bearing debts	27.2	35.5
Total equity and liabilities	**1,024.5**	**1,093.2**

Working capital

EUR million	Dec 31, 2018	Dec 31, 2017 Restated
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**

Consolidated statement of changes in equity

	Equity attributable to owners of the parent									
EUR million	Share capital	Retained earnings	Cumulative translation differences	Fair value reserve	Treasury shares	Unrest-ricted equity reserve	Hybrid capital	Total	Non-controlling interest	Total equity
Equity on 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 on January 1, 2018	**1.0**	**145.2**	**-8.0**	**-0.5**	**-3.2**		**100.0**	**234.4**	**0.4**	**234.8**
Comprehensive income										
Result for the period		-48.2						-48.2	0.0	-48.2
Other comprehensive income:										
Change in fair value of defined benefit pension plans		0.4						0.4		0.4
-Deferred tax		0.0						0.0		0.0
Cash flow hedges				0.1				0.1		0.1
Change in fair value of investments		-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, total		**-48.1**	**2.6**	**0.3**				**-45.2**	**0.0**	**-45.2**
Dividend distribution									0.0	0.0
Share issue						60.0		60.0		60.0
Share issue costs after taxes						-0.7		-0.7		-0.7
Share-based payments		2.0						2.0		2.0
Share subscriptions						6.7		6.7		6.7
Hybrid capital interests after taxes		-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	Share capital	Retained earnings	Cumulative translation differences	Fair value reserve	Treasury shares	Hybrid capital	Total	Non-controlling interest	Total equity
	Equity attributable to owners of the parent								
Equity on January 1, 2017 (restated)	**1.0**	**172.1**	**-5.6**	**-0.7**	**-3.2**		**163.6**	**0.4**	**163.9**
Comprehensive income									
Result for the period		-27.0					-27.0	0.0	-27.0
Other comprehensive income:									
Change in fair value of defined benefit pension plans		1.6					1.6		1.6
-Deferred tax		0.0					0.0		0.0
Cash flow hedges				0.1			0.1		0.1
Change in fair value of available for sale assets				0.1			0.1		0.1
Translation differences			-2.5				-2.5		-2.5
Comprehensive income, total		**-25.3**	**-2.5**	**0.2**			**-27.6**	**0.0**	**-27.6**
Dividend distribution								0.0	0.0
Share-based payments		0.1					0.1		0.1
Hybrid capital						100.0	100.0		100.0
Hybrid capital transaction costs after taxes		-0.8					-0.8		-0.8
Equity on December 31, 2017	**1.0**	**146.0**	**-8.0**	**-0.5**	**-3.2**	**100.0**	**235.3**	**0.4**	**235.6**

Condensed consolidated statement of cash flows

EUR million	10-12/2018	10-12/2017 Restated	1-12/2018	1-12/2017 Restated
Cash flows from operating activities				
Result for the period	-15.8	-1.4	-48.1	-27.0
Adjustments to result	20.4	-6.2	47.5	13.7
Change in working capital	49.1	74.5	22.3	4.6
Operating cash flow before financial and tax items	**53.7**	**66.9**	**21.6**	**-8.7**
Financial items, net	-0.2	-1.3	-1.5	-4.6
Taxes paid	1.2	0.9	-1.2	-3.4
Net cash from operating activities	**54.6**	**66.5**	**18.9**	**-16.7**
Cash flows from investing activities				
Acquisition of subsidiaries and businesses, net of cash	-4.2	-0.9	-4.6	-2.4
Disposal of businesses	-0.3	23.1	-1.8	23.1
Capital expenditure and other investments, net	-3.5	-8.0	-11.1	-17.1
Net cash used in investing activities	**-8.1**	**14.2**	**-17.5**	**3.6**
Cash flow from financing activities				
Change in loan receivables, net	1.1	-0.2	-3.1	1.2
Change in current liabilities, net		-55.0	-5.0	-30.0
Repayments of borrowings	-11.0	-11.0	-28.7	-68.7
Payments of financial leasing debts	-0.2	-0.5	-2.2	-2.2
Share issue			60.0	
Share issue costs			-0.8	
Share subscriptions			6.7	
Hybrid capital				100.0
Hybrid capital costs and interests			-4.6	-1.0
Dividends paid and other distribution of assets			0.0	0.0
Net cash used in financing activities	**-10.1**	**-66.7**	**22.2**	**-0.7**
Change in cash and cash equivalents	**36.5**	**13.9**	**23.6**	**-13.9**
Cash and cash equivalents at the beginning of the period	18.7	18.4	29.2	47.7
Change in the foreign exchange rates	-4.0	-3.1	-1.7	-4.6
Cash and cash equivalents at the end of the period	**51.2**	**29.2**	**51.2**	**29.2**

Free cash flow

EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Operating cash flow before financial and tax items	53.7	66.9	21.6	-8.7
Taxes paid	1.2	0.9	-1.2	-3.4
Net cash used in investing activities	-8.1	14.2	-17.5	3.6
Free cash flow	**46.8**	**82.0**	**2.9**	**-8.5**

Notes to the Financial Statement Release

1 Accounting principles

Caverion Corporation's Financial Statement Release for January 1 – December 31, 2018 has been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The information presented in the Financial Statement Release is based on the audited Financial Statements for 2018. Caverion has applied the same accounting principles in the preparation of the Financial Statement Release as in its Financial Statements for 2018.

In the Financial Statement Release the figures are presented in million euros subject to rounding, which may cause some rounding inaccuracies in column and total sums.

Caverion adopted IFRS 15 (Revenue from contracts with customers), effective on January 1, 2018, using the full retrospective method of adoption. 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 have been published in a stock exchange release on 21 March 2018. The effect of adopting IFRS 15 on condensed consolidated income statement and on condensed consolidated statement of financial position for fourth quarter and financial year 2017 is presented on pages 29-30.

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 is coming 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 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. Changes in the classification of financial assets based on the new business-model driven classification of financial assets according to IFRS 9:

	Classification under IAS 39	Classification under IFRS 9
Investments	Available for sale	FVTPL or FVTOCI
Trade receivables and other receivables	Loans and receivables	Amortised cost
Derivatives (hedge accounting not applied)	Held for trading	FVTPL
Cash and cash equivalents	Loans and receivables	Amortised cost

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.

Group has performed an impact assessment of IFRS 16, 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 in 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 a significant impact on the 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 an impact on the 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.

ESMA (European Securities and Markets Authority) issued guidelines regarding Alternative Performance Measures ("APM") to be implemented at the latest during the second quarter of 2016. 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 page 33.

IFRS 15 restated figures

Condensed consolidated income statement

EUR million	10-12/2017 Reported	IFRS 15 Resta-tement	10-12/2017 Restated	1-12/2017 Reported	IFRS 15 Resta-tement	1-12/2017 Restated
Revenue	**590.3**	**2.0**	**592.3**	**2,282.8**	**-7.0**	**2,275.8**
Other operating income	12.6		12.6	15.9		15.9
Materials and supplies	-163.1		-163.1	-638.4		-638.4
External services	-116.5		-116.5	-433.0		-433.0
Employee benefit expenses	-239.4		-239.4	-940.4		-940.4
Other operating expenses	-75.3	-0.3	-75.6	-275.8	-0.3	-276.1
Share of results of associated companies				0.0		0.0
Depreciation, amortisation and impairment	-7.8		-7.8	-30.4		-30.4
Operating profit	**0.8**	**1.7**	**2.5**	**-19.3**	**-7.3**	**-26.6**
% of revenue	0.1		0.4	-0.8		-1.2
Financial income and expense, net	-1.6		-1.6	-5.7		-5.7
Result before taxes	**-0.8**	**1.7**	**0.9**	**-25.1**	**-7.3**	**-32.3**
% of revenue	-0.1		0.2	-1.1		-1.4
Income taxes	-1.8	-0.5	-2.3	4.2	1.1	5.3
Result for the review period	**-2.6**	**1.2**	**-1.4**	**-20.9**	**-6.1**	**-27.0**
% of revenue	-0.4		-0.2	-0.9		-1.2
Attributable to						
Equity holders of the parent company	-2.6	1.2	-1.4	-20.9	-6.1	-27.0
Non-controlling interests	0.0		0.0	0.0		0.0
Earnings per share attributable to the equity holders of the parent company						
Earnings per share, basic, EUR	-0.03		-0.02	-0.19		-0.24
Diluted earnings per share, EUR	-0.03		-0.02	-0.19		-0.24

Condensed consolidated statement of financial position

EUR million	Dec 31, 2017 Reported	IFRS 15 Restatement	Dec 31, 2017 Restated
Assets			
Non-current assets			
Property, plant and equipment	21.9		21.9
Goodwill	331.6		331.6
Other intangible assets	46.7		46.7
Shares in associated companies	0.1		0.1
Other investments	1.2		1.2
Other receivables	2.1		2.1
Deferred tax assets	17.6	9.8	27.4
Current assets			
Inventories	17.6		17.6
Trade receivables	347.3	-13.4	333.9
POC receivables	249.7	-23.2	226.5
Other receivables	47.5		47.5
Income tax receivables	7.5		7.5
Cash and cash equivalents	29.2		29.2
Total assets	**1,120.0**	**-26.8**	**1,093.2**
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	1.0		1.0
Hybrid capital	100.0		100.0
Other equity	161.4	-27.1	134.3
Non-controlling interest	0.4		0.4
Equity	**262.7**	**-27.1**	**235.6**
Non-current liabilities			
Deferred tax liabilities	51.6		51.6
Pension liabilities	44.2		44.2
Provisions	7.0		7.0
Interest-bearing debts	57.7		57.7
Other liabilities	0.4		0.4
Current liabilities			
Advances received	179.9		179.9
Trade payables	215.5		215.5
Other payables	237.3		237.3
Income tax liabilities	5.8		5.8
Provisions	22.4	0.3	22.7
Interest-bearing debts	35.5		35.5
Total equity and liabilities	**1,120.0**	**-26.8**	**1,093.2**

2 Key figures

	12/2018	12/2017 Restated
Revenue, EUR million	2,204.1	2,275.8
EBITDA, EUR million	-8.8	3.8
EBITDA margin, %	-0.4	0.2
Adjusted EBITDA, EUR million	53.4	25.8
Adjusted EBITDA margin, %	2.4	1.1
Operating profit, EUR million	-35.9	-26.6
Operating profit margin, %	-1.6	-1.2
Result before taxes, EUR million	-43.9	-32.3
% of revenue	-2.0	-1.4
Result for the review period, EUR million	-48.1	-27.0
% of revenue	-2.2	-1.2
Earnings per share, basic, EUR	-0.40	-0.24
Earnings per share, diluted, EUR	-0.40	-0.24
Equity per share, EUR	1.9	1.9
Equity ratio, %	30.2	25.8
Interest-bearing net debt, EUR million	6.9	64.0
Gearing ratio, %	2.7	27.2
Total assets, EUR million	1,024.5	1,093.2
Operating cash flow before financial and tax items, EUR million	21.6	-8.7
Working capital, EUR million	-54.6	-30.8
Gross capital expenditures, EUR million	17.5	20.4
% of revenue	0.8	0.9
Order backlog, EUR million	1,494.3	1,491.0
Personnel, average for the period	15,672	16,607
Number of outstanding shares at the end of the period (thousands)	135,656	125,084
Average number of shares (thousands)	131,087	125,084

3 Financial development by quarter

EUR million	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017 Restated	7-9/2017 Restated	4-6/2017 Restated	1-3/2017 Restated
Revenue	587.6	524.9	564.8	526.8	592.3	545.6	563.3	574.6
EBITDA	-1.3	14.3	-31.7	9.9	10.3	9.6	-14.1	-2.0
EBITDA margin, %	-0.2	2.7	-5.6	1.9	1.7	1.8	-2.5	-0.3
Adjusted EBITDA	11.0	18.5	12.9	10.9	-5.2	18.8	4.5	7.8
Adjusted EBITDA margin, %	1.9	3.5	2.3	2.1	-0.9	3.4	0.8	1.4
Operating profit	-8.7	8.1	-38.7	3.4	2.5	2.2	-21.6	-9.6
Operating profit margin, %	-1.5	1.5	-6.9	0.7	0.4	0.4	-3.8	-1.7

	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017 Restated	7-9/2017 Restated	4-6/2017 Restated	1-3/2017 Restated
Earnings per share, basic, EUR	-0.12	0.03	-0.32	0.01	-0.02	0.00	-0.14	-0.08
Earnings per share, diluted, EUR	-0.12	0.03	-0.32	0.01	-0.02	0.00	-0.14	-0.08
Equity per share, EUR	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.2
Equity ratio, %	30.2	30.9	28.2	27.7	25.8	24.8	25.8	16.7
Interest-bearing net debt, EUR million	6.9	50.2	10.2	47.2	64.0	141.3	98.6	164.9
Gearing ratio, %	2.7	18.9	3.9	19.4	27.2	59.5	41.7	106.4
Total assets, EUR million	1,024.5	1,037.5	1,092.3	1,048.5	1,093.2	1,148.5	1,104.5	1,110.4
Operating cash flow before financial and tax items, EUR million	53.7	-37.0	-15.0	19.8	66.9	-37.5	-25.9	-12.1
Working capital, EUR million	-54.6	-3.2	-57.2	-41.4	-30.8	37.0	-8.6	-21.3
Gross capital expenditures, EUR million	9.2	0.9	3.2	4.2	7.3	5.2	2.9	5.0
% of revenue	1.6	0.2	0.6	0.8	1.2	1.0	0.5	0.9
Order backlog, EUR million	1,494.3	1,552.3	1,596.8	1,540.0	1,491.0	1,460.4	1,512.7	1,543.5
Personnel at the end of the period	14,950	15,556	15,751	15,687	16,216	16,483	16,750	16,679
Number of outstanding shares at end of period (thousands)	135,656	135,656	135,656	126,132	125,084	125,084	125,084	125,084
Average number of shares (thousands)	135,656	135,656	127,477	125,438	125,084	125,084	125,084	125,084

4 Calculation of key figures

Key figures on financial performance

Equity ratio (%) =
$$\frac{\text{(Equity + non-controlling interest) x 100}}{\text{Total assets - advances received}}$$

Gearing ratio (%) =
$$\frac{\text{(Interest-bearing liabilities - cash and cash equivalents) x 100}}{\text{Shareholders' equity + non-controlling interest}}$$

Interest-bearing net debt = Interest-bearing liabilities - cash and cash equivalents

Working capital = Inventories + trade and POC receivables + other current receivables - trade and POC payables - other current payables - advances received - current provisions

Free cash flow = Operating cash flow before financial and tax items – taxes paid – net cash used in investing activities

Share-related key figures

Earnings / share, basic =
$$\frac{\text{Result for the period (attributable for equity holders) - hybrid capital expenses and accrued unrecognised interests after tax}}{\text{Weighted average number of shares outstanding during the period}}$$

Earnings /share, diluted=
$$\frac{\text{Result for the period (attributable for equity holders) - hybrid capital expenses and accrued unrecognised interests after tax}}{\text{Weighted average dilution adjusted number of shares outstanding during the period}}$$

Equity / share =
$$\frac{\text{Shareholders' equity}}{\text{Number of outstanding shares at the end of the period}}$$

Alternative performance measures (APMs) reported by Caverion

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

Adjusted EBITDA = EBITDA before items affecting comparability (IAC)

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

5 Related party transactions

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.

6 Financial risk management

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

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

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

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

EUR million	2019	2020	2021->	Total
Interest-bearing liabilities	27.2	30.2	0.6	58.1

7 Financial assets and liabilities

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

EUR million	Dec 31, 2018 Carrying amount	Dec 31, 2018 Fair value	Dec 31, 2017 Carrying amount	Dec 31, 2017 Fair value
Non-current liabilities				
Loans from financial institutions	30.0	30.5	49.9	50.6
Pension loans			6.7	6.6
Other financial loans	0.5	0.5	0.5	0.5
Finance lease liabilities	0.4	0.4	0.6	0.6

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

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

Derivative instruments

Nominal amounts EUR million	Dec 31, 2018	Dec 31, 2017
Interest rate derivatives	30.0	50.0
Foreign exchange forwards	88.6	77.0

Fair values EUR million	Dec 31, 2018	Dec 31, 2017
Interest rate derivatives		
positive fair value		
negative fair value	-0.1	-0.3
Foreign exchange forwards		
positive fair value	0.3	0.3
negative fair value	-1.1	-0.2

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

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

8 Commitments and contingent liabilities

EUR million	Dec 31, 2018	Dec 31, 2017
Guarantees given on behalf of associated companies	0.0	0.2
Parent company's guarantees on behalf of its subsidiaries	435.3	473.9
Other commitments		
- Operating leases	139.5	143.8
- Other contingent liabilities	0.2	0.2
Accrued unrecognised interest on hybrid bond	2.5	2.5

Entities participating in the demerger are jointly and severally responsible for the liabilities of the demerging entity which have been generated before the registration of the demerger. As a consequence, a secondary liability up to the allocated net asset value was generated to Caverion Corporation, incorporated due to the partial demerger of YIT Corporation, for those liabilities that were generated before the registration of the demerger and remain with YIT Corporation after the demerger. Creditors of YIT Corporation's major financial liabilities have waived their right to claim for settlement from Caverion Corporation on the basis of the secondary liability. Caverion Corporation has a secondary liability relating to the Group guarantees which remain with YIT Corporation after the demerger. These Group guarantees amounted to EUR 60.3 million at the end of December 2018.

The short-term risks and uncertainties relating to the operations have been described above under "Short-term risks and uncertainties". It is possible that especially the infringements in compliance may cause considerable damage to Caverion in terms of fines, civil claims as well as legal expenses. However, the magnitude of the potential damage cannot be assessed at the moment.

9 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 modified 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. More information is provided under “Updated financial targets”.