

# Corporate Governance Statement 2017

CAVERION CORPORATION  
PUBLIC

**Caverion**

---

# Table of contents

|   |    |
|---|----|
| <b>INTRODUCTION</b> .....   | 3  |
| <b>REGULATORY FRAMEWORK</b> .....   | 3  |
| <b>GOVERNING BODIES</b> .....   | 3  |
| <b>MAIN FEATURES OF THE INTERNAL CONTROL<br/>AND RISK MANAGEMENT SYSTEM RELATING TO<br/>THE FINANCIAL REPORTING PROCESS</b> ..... | 12 |
| <b>OTHER INFORMATION</b> .....  | 15 |

## INTRODUCTION

This Corporate Governance Statement has been prepared based on the Finnish Corporate Governance Code 2015 for listed companies and the applicable legislation and regulations. It describes the key principles of corporate governance at Caverion Corporation. Caverion complies with the recommendations of the Code without exceptions. The Code is publicly available on the website [www.cgfinland.fi/en](http://www.cgfinland.fi/en).

The Corporate Governance Statement is issued separately from the Board of Directors' Report for the financial period 1 January – 31 December 2017. The Statement and the Board of Directors' Report are available on Caverion's website [www.caverion.com](http://www.caverion.com).

This Statement has been reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Caverion's Auditor, PricewaterhouseCoopers Oy, has verified that this Statement has been issued, and that the description in the Statement of the main features of internal control and risk management systems relating to the Company's financial reporting process is consistent with the description included in the Company's financial statements.

## REGULATORY FRAMEWORK

Caverion follows good corporate governance practices in accordance with the laws and regulations that apply to publicly

listed companies in Finland. In addition to the Corporate Governance Code, the key regulations are the Companies Act, the Securities Market Act, the Market Abuse Regulation (MAR), the rules and regulations issued by the Financial Supervisory Authority, and the rules and instructions for listed companies issued by Nasdaq Helsinki Ltd.

Company specific rules on governance are described in the Articles of Association of the Company (Articles).

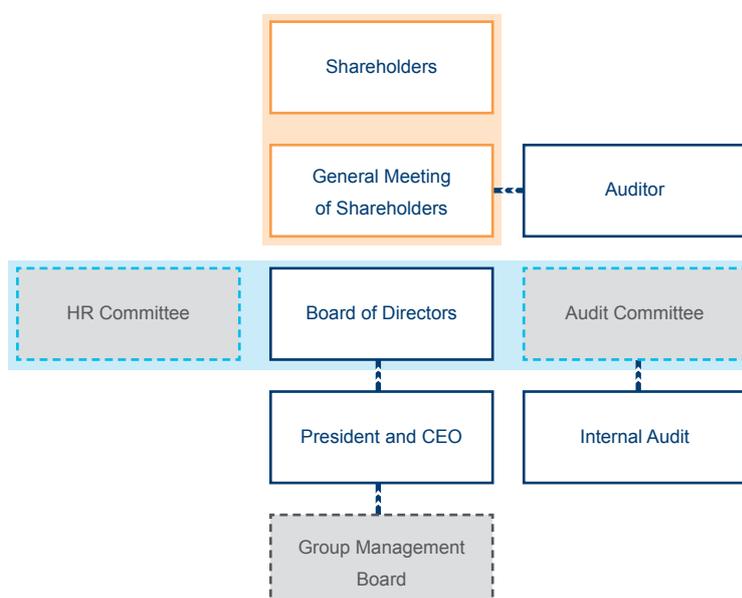
Caverion prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, the Finnish Securities Markets Act as well as the applicable Finnish Financial Supervision Authority's standards and the rules of the Nasdaq Helsinki Ltd. The Board of Directors' Report and Caverion Corporation's Financial Statements are prepared in accordance with the Finnish Accounting Act and the guidelines and statements of the Finnish Accounting Board.

## GOVERNING BODIES

In accordance with the Articles and the Companies Act, the governing bodies of Caverion Corporation are the General Meeting of Shareholders, the Board of Directors and the President and CEO (supported by the Group Management Board).

The Board is supported in its work by its two Committees, the Human Resources Committee and the Audit Committee. The President and CEO is assisted by the Group Management Board.

### Governing bodies of Caverion Corporation



---

## GENERAL MEETING OF SHAREHOLDERS

The shareholders exercise the ultimate decision making authority in the General Meeting of Shareholders.

### Annual General Meeting

An Annual General Meeting (the "AGM") is held once a year before the end of March. The competence of the General Meeting of Shareholders is set out in the Companies Act and the Articles.

The AGM decides on the matters stipulated in the Finnish Companies Act and the Articles. Such matters include:

- Adoption of the financial statements and the consolidated financial statements
- Use of the profit shown on the balance sheet
- Discharging the members of the Board and the President and CEO from liability
- Election and remuneration of the Chairman, Vice Chairman and members of the Board
- Election and remuneration of the Auditor

The Board convenes the AGM by publishing a notice not earlier than three (3) months and no later than three (3) weeks before the meeting, and always at least nine (9) days before the record date as defined in the Companies Act.

The notice is published as a stock exchange release and on Caverion's website. The notice is delivered directly to shareholders when required by law. The agenda of the AGM, proposals for decision and meeting documents are available on Caverion's website at least three (3) weeks before the meeting.

The minutes of the AGM are available to shareholders on Caverion's website and at Caverion's head office within two (2) weeks after the meeting. The resolutions of the AGM are also published as a stock exchange release without delay after the meeting.

### Extraordinary General Meeting

An Extraordinary General Meeting may be convened by the Board when considered necessary or when required by law. Furthermore, the Auditor, or shareholder(s) together holding a minimum of one tenth of all shares of Caverion, have the right to request in writing that an Extraordinary General Meeting shall be convened to discuss a specific matter.

### Annual General Meeting 2017

The AGM 2017 was held on 17 March 2017 in Helsinki, Finland. A total of 393 shareholders representing 54.7 percent of the shares and voting rights in the company participated in person or by proxy. A majority of the Board members and candidates for Board membership, and the Auditor in Charge were present.

[The decisions of the AGM 2017](#) are available on Caverion's website.

No Extraordinary General Meetings were held in 2017.

## AUDITOR

The statutory task of independent external auditing is to verify that the financial statements and the Board of Director's Report provide accurate and adequate information on Caverion's results and financial position for the financial year. As part of the annual auditing, the Auditor audits the accounting and administration of Caverion. Caverion's Auditor also audits the consolidated financial statements of Group and other relationships between the Group companies.

The Auditor issues a statutory Auditor's Report to Caverion's shareholders in connection with Caverion's financial statements. The Auditor reports to the Audit Committee on a regular basis and attends its meetings.

The AGM elects the Auditor based on the proposal prepared by the Audit Committee. According to the Articles, Caverion has one (1) Auditor. The Auditor's term shall cover the current financial year at the time of election and expire at the end of the next AGM following election. The aggregate duration of the consecutive terms of the Auditor in Charge may not exceed seven (7) years.

### Auditor 2017

PricewaterhouseCoopers Oy (PWC) was elected as the Company's auditor by the AGM 2017. Heikki Lassila was appointed the Auditor in Charge. He has acted as the Auditor in Charge of the Company since 2013. The audit fees paid in 2017 amounted to 0.8 million euros (EUR 0.7 million in 2016) and the fees for other services rendered by PWC amounted to 0.7 million euros (EUR 0.4 million in 2016).

---

## BOARD OF DIRECTORS

### Composition

According to the Articles, the Board of Directors consists of the Chairman, the Vice Chairman and three (3) to six (6) members elected in the AGM for a term ending at the following AGM.

The majority of the Board members shall be independent of the Company and at least two (2) of the members representing this majority shall also be independent of the significant shareholders.

### Preparation of the proposal for the Composition of the Board

The proposal for the candidates to be elected to the Board is prepared by the Human Resources Committee of the Board. When considering the composition of the Board, the Human Resources Committee applies the following diversity principles determined by the Board:

1. Consider candidates who are highly qualified based on their international business experience, leadership, functional expertise, cultural understanding and personal skills and qualities;
2. Consider board composition that supports Caverion Group's business now and in the future; consider diversity criteria including gender, age, ethnicity, experience, education and geographic background aiming at the increased diversity of thinking; and
3. In addition to its own search, when needed, engage qualified independent external advisors to conduct a search for candidates that meet the board's skills and diversity criteria to help achieve its diversity aspirations.

The Board aspires towards a board composition where each gender is represented by at least one-third of the independent Board members.

### Operations of the Board

The duties of the Board are those specified in the Companies Act, according to which the Board is responsible for overseeing that the management and operations, and the supervision of accounting and financial matters of Caverion are appropriately organised.

The duty of the Board is to promote the interests of shareholders and the Company by overseeing the administration and proper organisation of operations. The Articles do not define other duties for the Board. The Board has authority to act in all matters not reserved by law or the Articles to another governing body.

The Board has adopted for itself a [Charter](#), which defines its tasks and activities in more detail.

The Board convenes according to a pre-determined schedule, or whenever it deems it necessary.

The Board evaluates its performance and the independence of the Board members annually.

### Related party transactions

A Board member may not take part in decision-making in matters regarding

- agreements between such a member and any entity within Caverion Group,
- agreements between any entity within Caverion Group and third parties where such member has a material interest in the matter which may conflict with the interest of Caverion or any other entity within Caverion Group, and
- agreements between any entity within Caverion Group and a legal entity which such member may represent, either individually or together with any other person; provided, however, that this point does not apply where the party contracting with Caverion is a company within Caverion Group. The term "agreement" as used here includes litigation or other legal proceedings arising from or relating to such agreements.

### Board of Directors 2017

The AGM 2017 elected a Chairman, Vice Chairman and six (6) members to the Board of Directors: Michael Rosenlew (Chairman), Markus Ehrnrooth (Vice Chairman), Anna Hyvönen and Eva Lindqvist were re-elected, Jussi Aho, Joachim Hallengren, Antti Herlin and Thomas Hinnerskov were elected as new members. Ari Puheloinen was not up for re-election in the AGM.

## Biographical details of Board of Directors in 2017

| Name                            | Born | Nationality         | Education   | Main occupation                               | Member                      |
|---------------------------------|------|---------------------|---|---|-----------------------------|
| Michael Rosenlew (Chairman)     | 1959 | Finnish             | M.Sc. (Econ)                                      | Professional board member                     | as of EGM 2013              |
| Markus Ehnrooth (Vice Chairman) | 1985 | Finnish and Swedish | M.Sc. (Tech), B.Sc. Political Science (Econ)      | Entrepreneur                                  | as of AGM 2015              |
| Jussi Aho                       | 1968 | Finnish             | M.Sc. (Civil Engineering)                         | CEO of Fira Group Oy                          | as of AGM 2017              |
| Joachim Hallengren              | 1964 | Swedish             | M.Sc. (Civil Engineering)                         | CEO of Bonava AB                              | as of AGM 2017              |
| Antti Herlin                    | 1956 | Finnish             | D.Sc. (Econ.) h.c., D.Arts h.c., D.Sc. (Tech) h.c | Chairman of the Board of KONE Corporation     | as of AGM 2017 <sup>1</sup> |
| Thomas Hinnerskov               | 1971 | Danish              | M.Sc. (Finance and Accounting)                    | Executive VP of KONE Central and North Europe | as of AGM 2017              |
| Anna Hyvönen                    | 1968 | Finnish             | Tech. Lic.  | Managing Director of Vianor Holding Oy        | as of EGM 2013              |
| Eva Lindqvist                   | 1958 | Swedish             | M.Sc. (Eng.)                                      | Professional board member                     | as of EGM 2013              |
| Ari Puheloinen                  | 1951 | Finnish             | General (ret.)                                    | General Staff Officer                         | until AGM 2017              |

Detailed information about the [Board members](#) can be found from Caverion's website.

All Board members have international professional experience in various types of positions and/or they are or have been executives or members of the Board of Directors in publicly listed or private companies. All members elected in AGM 2017 have a university degree, the majority being technical or economics. The Board members represent three (3) different nationalities. Women count for twenty five per cent (two out of eight) of the Board. The members' length of service in Caverion's Board is evenly spread, half of the members have served at least three (3) years and the other half one (1) year.

The Board convened fifteen (15) times in 2017 and made six (6) unanimous resolutions without convening. The secretary to the Board was the Group General Counsel. The average participation in the meetings was 83.6 per cent. Each member's participation in the meetings is given in the table on the right.

| Member                          | Number of meetings participated | Participation (%) |
|---------------------------------|---------------------------------|-------------------|
| Michael Rosenlew (Chairman)     | 15/15                           | 100               |
| Markus Ehnrooth (Vice Chairman) | 15/15                           | 100               |
| Jussi Aho                       | 10/11                           | 91                |
| Joachim Hallengren              | 10/11                           | 91                |
| Antti Herlin <sup>2</sup>       | 4/10                            | 40                |
| Thomas Hinnerskov               | 9/11                            | 82                |
| Anna Hyvönen                    | 12/15                           | 80                |
| Eva Lindqvist                   | 14/15                           | 93                |
| Ari Puheloinen <sup>3</sup>     | 3/4                             | 75                |

<sup>1</sup> Based on the amendment to the Articles, the term of Antti Herlin started at the registration of the amendment of the Articles in the Trade Register on 29 March 2017.

<sup>2</sup> Member of the Board as of 29 March 2017

<sup>3</sup> Member of the Board until AGM 2017

In addition to its other duties, the Board focused in its work in 2017 in monitoring the Company's financial result and status, enhancements in the financial reporting processes, review of revenue recognition and project write-downs, working capital management, monitoring the implementation of the Caverion's strategy and approving the strategy for 2018-2020, enhancement and monitoring of occupational safety procedures. It also paid attention to the development of compliance, risk management and internal controls. The Board approved Caverion's fully updated Code of Conduct.

The Board assessed the independence of its members and concluded that all members are independent of the Company and, excluding Markus Ehrnrooth and Antti Herlin, also independent of its significant shareholders.

The Caverion shares owned by the Board members and the entities in which they exercise control on 31 December 2017 and 31 December 2016 are:

|                                     | 31.12.2017 | 31.12.2016 |
|-------------------------------------|------------|------------|
| Michael Rosenlew<br>(Chairman)      | 119 200    | 45 200     |
| Markus Ehrnrooth<br>(Vice Chairman) | 0          | 0          |
| Jussi Aho                           | 0          | -          |
| Joachim Hallengren                  | 17 000     | -          |
| Antti Herlin                        | 18 900 180 | -          |
| Thomas Hinnerskov                   | 40 000     | -          |
| Anna Hyvönen                        | 2 000      | 0          |
| Eva Lindqvist                       | 1 500      | 1 500      |

## BOARD COMMITTEES

The Board has two (2) committees supporting its work: the Audit Committee and the Human Resources Committee. The Board elects the members and the Chairman of the committees from among its members for a term until the following AGM. Both committees have Charters approved by the Board. The committees assist the Board in its duties by preparing and reviewing in more detail matters falling within the competence of the Board. The committees prepare minutes of their meetings and report to the Board. The committees do not have decision-making powers independent of the Board.

## AUDIT COMMITTEE

### Composition

The Audit Committee has three (3) to five (5) members. The majority of the members shall be independent of Caverion and at least one (1) member shall be independent of Caverion's significant shareholders. The members shall have complementary expertise and business management experience as well as industry experience. The Audit Committee as a whole shall have sufficient expertise required for the performance of the responsibilities of the Audit Committee.

### Operations of the Audit Committee

The Audit Committee assists the Board in its task to ensure the proper governance of the Company, in particular, by considering the accounting and financial reporting, the Company's internal control system, risk management and the work of the Internal Audit and external auditors. The Audit Committee addresses concerns pertaining to control matters as may be detected by the management or the Internal Audit or external auditors of the Company. These are reported to the Board by the Audit Committee. The Audit Committee monitors that appropriate action is taken by the management to rectify identified shortcomings.

The Audit Committee monitors compliance with laws and regulations, and the policies and guidelines approved in the Group, the Caverion Guidelines.

The responsibilities and duties of the Audit Committee are defined in more detail in the [Charter](#) approved by the Board.

The Audit Committee convenes according to a pre-determined schedule, or whenever it deems it necessary.

## Audit Committee in 2017

Markus Ehrnrooth (Chairman), Eva Lindqvist and Michael Rosenlew were re-elected as members of the Audit Committee in Board's annual assembly meeting following the AGM. In addition, Thomas Hinnerskov was elected as a new member. Michael Rosenlew was the Chairman until the AGM 2017 and Markus Ehrnrooth thereafter. The secretary to the Committee was the CFO.

All of the Audit Committee members are independent of the Company. All members, except Markus Ehrnrooth, are also independent of Caverion's significant shareholders.

The Audit Committee convened eight (8) times during 2017. Each member's participation in the meetings is given in the following table:

| Member                         | Number of meetings participated | Participation (%) |
|--------------------------------|---------------------------------|-------------------|
| Michael Rosenlew <sup>6</sup>  | 8/8                             | 100               |
| Markus Ehrnrooth <sup>7</sup>  | 8/8                             | 100               |
| Eva Lindqvist                  | 7/8                             | 88                |
| Thomas Hinnerskov <sup>8</sup> | 7/7                             | 100               |

The Audit Committee had three focus areas for 2017:

- Financial reporting
- Compliance
- Internal Control

Progress in the focus areas was reviewed in each of the Audit Committee meetings during 2017. The CFO and Head of Legal and Governance were responsible for the implementation and progress in the focus areas.

Besides these specific focus areas and its regular duties, the Audit Committee focused on working capital management and the Group's financing-related issues, upcoming IFRS changes, in particular on IFRS 15 and IFRS 16 and their impacts on the Company, the Internal Audit reports on the audits of core processes of the projects business and the rectification of issues raised in these reports, major legal and compliance cases and issues relating to risk management. The Audit Committee also reviewed the Group Finance business plan for 2017-2020.

## HUMAN RESOURCES COMMITTEE

### Composition

The Human Resources Committee has three (3) to five (5) members. The majority of the members shall be independent of Caverion.

### Operations of the Human Resources Committee

Caverion's Human Resources Committee carries out the duties of both the Remuneration Committee and Nomination Committee described in the Corporate Governance Code.

The Human Resources Committee assists the Board of Directors in developing and monitoring effective remuneration principles, in making proposals on compensation and incentive systems for key personnel, and evaluating appropriate performance management, succession planning and talent development processes and programs.

Furthermore the Committee prepares proposals to the Board on the appointments of the President and CEO and the members of the Group Management Board, and the terms and conditions of their employment, and monitors and evaluates their performance. The Committee also prepares a proposal for the composition of Board members and their remuneration to be presented to the AGM.

The responsibilities and duties of the Human Resources Committee are defined in more detail in the [Charter](#) approved by the Board.

The Human Resources Committee convenes according to a pre-determined schedule, or whenever it deems it necessary.

<sup>6</sup> Chairman of the Audit Committee until AGM 2017  
<sup>7</sup> Chairman of the Audit Committee as of AGM 2017  
<sup>8</sup> Member of the Audit Committee as of AGM 2017

## Human Resources Committee 2017

Michael Rosenlew (Chairman) and Anna Hyvönen were re-elected to the Human Resources Committee in Board's annual assembly meeting following the AGM. In addition, Jussi Aho and Joachim Hallengren were elected as new members. The secretary to the Committee was the Head of Human Resources.

All of the Human Resources Committee members are independent of the Company.

The Human Resources Committee convened four (4) times in 2017. Each member's participation in the meetings is the following:

| Member                           | Number of meetings participated | Participation (%) |
|----------------------------------|---------------------------------|-------------------|
| Michael Rosenlew                 | 4/4                             | 100               |
| Anna Hyvönen                     | 4/4                             | 100               |
| Jussi Aho <sup>9</sup>           | 3/3                             | 100               |
| Joachim Hallengren <sup>10</sup> | 2/3                             | 67                |
| Ari Puheloinen <sup>11</sup>     | 1/1                             | 100               |

The Human Resources Committee focused in its work on the development of the incentive programmes, on Group management resourcing and succession planning, and on the preparation work for the suggestion of candidates to be proposed to the AGM as Board members.

## PRESIDENT AND CEO

The President and CEO is appointed by the Board. The CEO manages the Company's day-to-day operations in accordance with the guidelines and instructions issued by the Board. The CEO is responsible for ensuring that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The Board determines the CEO's compensation and sets his short and long term incentive targets.

## President and CEO in 2017

Ari Lehtoranta (born 1963, Finnish citizen, M.Sc. (Eng.)) has been the President and CEO of Caverion since 1 January 2017.

Information on the remuneration of the President and CEO can be found in the 2017 Remuneration Statement.

Ari Lehtoranta and entities over which he exercises control held 561,510 Caverion's shares as of 31 December 2017 (553,310 shares in 2016).

## GROUP MANAGEMENT BOARD

Caverion's Group Management Board (GMB) members are appointed by the Board.

The GMB assists the President and CEO in operational planning and management, and in preparing matters that are presented to the Board. Among other duties, the GMB prepares the Group's strategic and annual planning, monitors and supervises the implementation of the strategy and plans, and the financial reporting, and prepares major investments and acquisitions. Development of cooperation within the Group functions and promoting common development projects are also among the GMB's key duties. The GMB meets regularly once a month.

The GMB is chaired by the President and CEO and is responsible for the decisions made by the GMB. The GMB members are in charge of the implementation of the decisions in their own areas of responsibility. The CEO appoints a secretary to the GMB.

## GMB in 2017

On 31 December 2017 the GMB consisted of thirteen (13) members.

The GMB had a strong focus on cash flow management and improvement of profitability, and in assuring the quality of the financial reporting and forecasting in the projects and services business. The rectification of issues raised by the Internal Audit based on the audits of core processes of the projects business was at the core. The GMB also continued its work to enhance governance, compliance and risk management. Occupational Safety was continuously a key priority.

The development of the Group's new strategy for 2018-2020 was been driven by the GMB under close supervision by the Board of Directors. The strategy process engaged a significant number of management and experts in Caverion. The new strategy was launched in November 2017 in the Capital Markets Day.

<sup>9</sup> Member of the HR Committee as of AGM 2017

<sup>10</sup> Member of the HR Committee as of AGM 2017

<sup>11</sup> Member of the HR Committee until AGM 2017

## GMB members during 2017

| Name                                | Position, born, education  |
|-------------------------------------|--|
| Ari Lehtoranta                      | President and CEO, born 1963, M.Sc. (Eng.)   |
| Martti Ala-Härkönen                 | Head of Finance, Chief Financial Officer (CFO), born 1965, Dr.Sc. (Econ.), Lic.Sc. (Tech.)                                     |
| Jarno Hacklin <sup>12</sup>         | Head of business unit Projects, born 1978, Bachelor of Engineering   |
| Matti Malmberg <sup>13</sup>        | Head of business unit Services, born 1960, M.Sc.   |
| Thomas Hietto <sup>14</sup>         | Head of business unit Services, born 1967, M.Sc. (Tech.), M.Sc. (Management)   |
| Merja Eskola <sup>15</sup>          | Senior Vice President, Human Resources, born 1961, MBA (E-business), BBA (Foreign Trade)                                       |
| Minna Schrey-Hyppänen <sup>16</sup> | Head of Human Resources, born 1966, M.Sc. (Econ.), M.Sc. (Eng)   |
| Anne Viitala <sup>17</sup>          | Head of Legal & Governance, born 1959, LL.M, trained on the bench, eMBA  |
| Knut Gaaserud                       | Head of Division Norway, born 1967, M.Sc. (Tech.)  |
| Werner Kühn                         | Executive Vice President & CEO, Division Germany, born 1959, Post Graduate Degree in Business Informatics                      |
| Juhani Pitkääkoski <sup>18</sup>    | Head of Division Industrial Solutions, born 1958, LL.M.,   |
| Erkki Huusko <sup>19</sup>          | Head of Division Industrial Solutions, born 1957, B. Eng., eMBA  |
| Sakari Toikkanen                    | Head of Division Industrial Solutions (interim), Head of Strategy & IT & Communications born 1967, Lic (Tech.)                 |
| Niclas Sacklén                      | Senior Vice President & CEO, Division Eastern Europe, born 1969, Master of Business Administration Bachelor of Science (Eng.), |
| Manfred Simmet                      | Senior Vice President & CEO, Division Austria, born 1966, Engineer   |
| Ville Tamminen <sup>20</sup>        | Head of Division Finland, born 1974, LL.M. trained on the bench  |
| Klas Tocklin                        | Executive Vice President & CEO, Division Sweden, born 1963, B.Sc.  |

More detailed background information regarding the [GMB members](#) is presented on Caverion's website.

<sup>12</sup> Head of Division Finland until 8 January 2017

<sup>13</sup> until 30 June 2017

<sup>14</sup> as of 1 July 2017

<sup>15</sup> until 25 June 2017

<sup>16</sup> as of 26 June 2017

<sup>17</sup> as of 9 January 2017

<sup>18</sup> until 18 January 2017

<sup>19</sup> from 19 January 2017 until 20 June 2017

<sup>20</sup> as of 9 January 2017

The Caverion shares owned by the GMB members and the entities in which they exercise control on 31 December 2017 and 31 December 2016:

|                                     | 31.12.2017 | 31.12.2016 |
|-------------------------------------|------------|------------|
| Ari Lehtoranta                      | 561 510    | -          |
| Martti Ala-Härkönen                 | 15 000     | 15 000     |
| Jarno Hacklin                       | 4 000      | 6 586      |
| Thomas Hietto <sup>21</sup>         | 0          | -          |
| Minna Schrey-Hyppänen <sup>22</sup> | 1 000      | -          |
| Anne Viitala <sup>23</sup>          | 300        | -          |
| Knut Gaaserud                       | 506        | 506        |
| Werner Kühn                         | 54 000     | 38 500     |
| Sakari Toikkanen                    | 16 382     | 23 382     |
| Niclas Sacklén                      | 0          | 0          |
| Manfred Simmet                      | 2 377      | 2 377      |
| Ville Tamminen <sup>24</sup>        | 0          | -          |
| Klas Tocklin                        | 771        | 771        |

<sup>21</sup> as of 1 July 2017

<sup>22</sup> as of 26 June 2017

<sup>23</sup> as of 9 January 2017

<sup>24</sup> as of 9 January 2017

## MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE FINANCIAL REPORTING PROCESS

In Caverion, the objective of the internal control and risk management system pertaining to the financial reporting process is to provide reasonable assurance on the achievement of the following objectives:

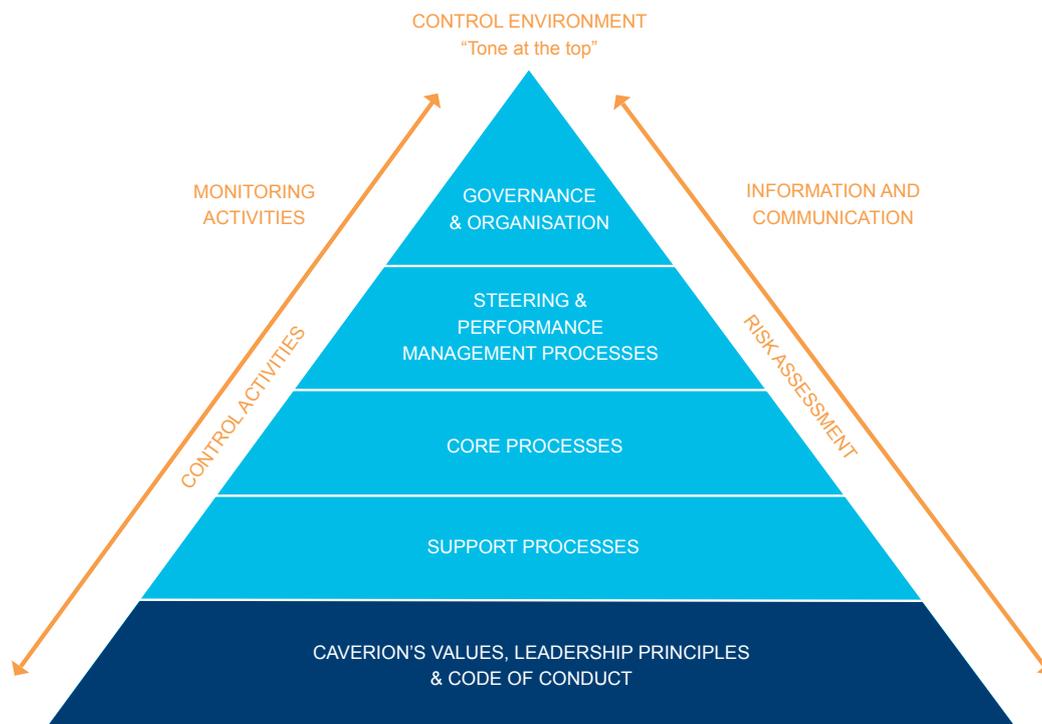
- Effectiveness and efficiency of the operations
- Reliability and transparency of the financial reporting
- Compliance with applicable laws and regulations, and Caverion’s operating principles and policies

## CONTROL ENVIRONMENT

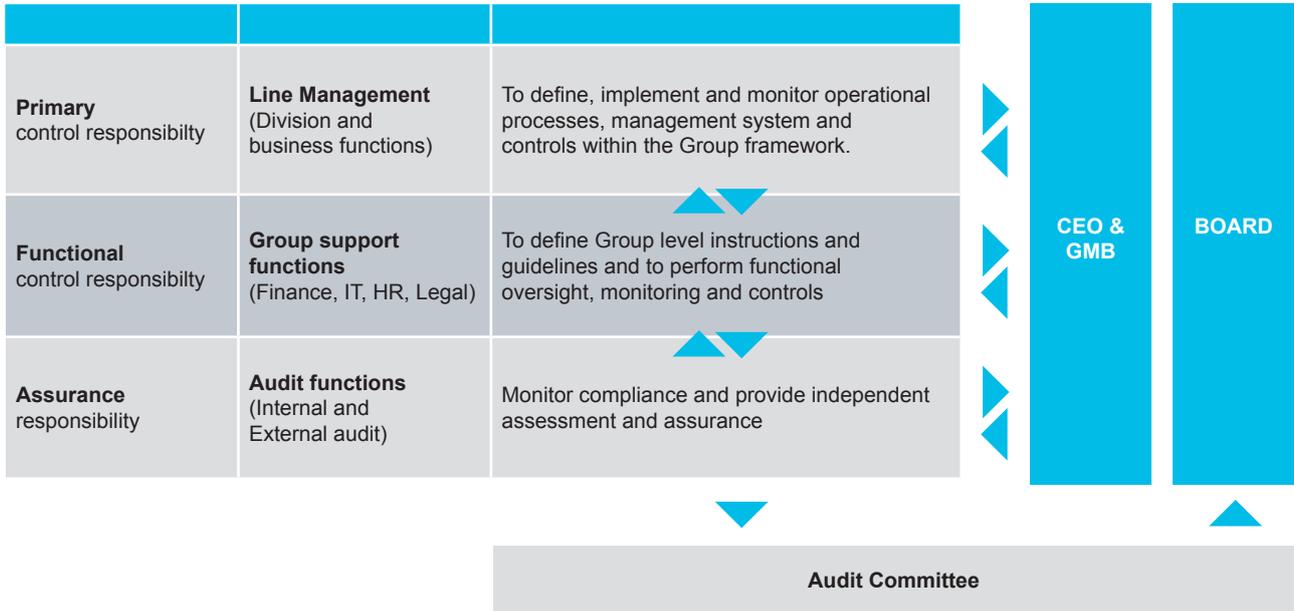
Caverion issued in 2017 the Internal Control Framework, which describes the system of internal control in Caverion. Internal control is embedded in the operations of the Company on all organisational levels. The internal control system covers all the policies, processes, procedures and organisational structures of the company which assist operative management and other personnel, and ultimately the Board in reasonably ensuring that the Company achieves its objectives for internal control.

The Code of Conduct and management system of Caverion form the foundation for the control environment, and the awareness and implementation of control activities across the organisation. Caverion seeks to comply with applicable laws and regulations in all its operations. Additionally, Caverion’s operations are guided by Caverion’s Code of Conduct and other internal policies and guidelines (“Caverion Guidelines”). Business management is responsible for the internal control of the operations in their respective sector. Caverion strives to ensure that everyone in Caverion is familiar with and compliant with the laws, regulations and principles relating to their own work. The President and CEO and management are responsible for driving a compliant and ethical business environment, and assuring correct financial reporting.

### Caverion's system of internal control



The overall division of responsibilities for Caverion’s internal control is illustrated in the below figure:



According to Caverion’s management system, the operations are organised in matrix into two business units, Projects and Services, and into divisions, supported by Group support functions. The **primary control responsibility** lies with the heads of the business functions and divisions who are responsible for establishing and maintaining effective and adequate internal controls over financial reporting. As a **functional control responsibility**, Caverion’s finance function in the lead of the CFO has the responsibility to ensure that the Company’s accounting methods comply with legal requirements and regulations, and that the financial matters are handled reliably. The finance function and process owners have a key role in developing the system of internal control and reporting practices.

The audit functions, external auditor and internal audit, have the **assurance responsibility** with regard to internal control.

The Audit Committee monitors the financial reporting process and the effectiveness of the controls therein. Furthermore, the Board regularly assesses the adequacy and effectiveness of Caverion’s internal controls and risk management.

## RISK ASSESSMENT

The internal control activities are aligned with Caverion’s risk management processes. The objective of risk assessment regarding financial reporting is to identify, evaluate and prioritise the most significant threats to the reliability of internal and external reporting at the Group level, the reporting at division/region/unit level, at function level and/or at process levels. The assessment of risk also includes risks related to fraud. Processes related to financial reporting are subject to on-going risk assessment by the Group and division business controllers, financial controllers and other finance staff as part of their regular duties.

As part of the Audit Committee’s focus area financial reporting, Caverion largely renewed its whole management reporting during 2017. The renewal process included the Group management report and specific reports developed for the services and projects businesses. Specific focus was put to analysing project writedowns, remaining project-related risks, restructuring costs and other one-off costs in 2017. A similarly large effort was put to develop the Group’s forecasting culture at all levels of the organisation, especially in the projects business. The enhanced financial reporting and forecasting principles of the projects business were published in the in the Group’s new Project Management Guideline. Specific reviews were also completed to assess the Group’s run-rate performance at the Group level and in divisions.

In the latter part of 2017, in line with the Group’s new “Fit for Growth” strategy, the focus related to financial reporting shifted to rolling out the Group’s performance management program at the

---

operative level of the services and projects business. This included a review and harmonisation of operative and financial KPIs related to projects and services and roll out action-based management systematics. Besides services and projects, the performance management program includes streams related to procurement and material logistics, and fixed costs. The implementation of the program continues as a strategic priority in 2018.

## CONTROL ACTIVITIES

Caverion's financial management and accounting processes include policies, procedures and controls which are necessary to ensure the reliability of financial reporting. Caverion's subsidiary companies carry out financial reporting in a harmonised way across all Group companies, based on mandatory policies and procedures, using a common chart of accounts and a harmonised set of management and accounting systems.

All Caverion's key subsidiary companies use Caverion's common ERP (Enterprise Resource Planning) system SAP and harmonised reporting templates. The only exception is division Eastern Europe, where the common ERP system is so far in use only in Lithuania. The ERP system together with the Group's common consolidation and reporting system HFM provide a harmonised platform for the Group's financial accounting and monthly reporting. All major interfaces are standardised and reasonably automated between different systems in the financial reporting process.

The international financial reporting standards (IFRS) are applied in the Group. The maintenance and interpretation of accounting standards is centralised to Group Finance. Monthly closing, data transfers, reconciliation and control procedures are defined in detail for the financial reporting process.

Caverion's common policies and processes aim to increase the overall controllability of the financial reporting process and to ensure that financial statements fulfil the requirements set in the IFRS standards and other applicable principles.

Project management and project accounting are among Caverion's most important processes, also from financial reporting point of view. Several improvements in project management and accounting were implemented during 2017, as an example, an enhanced project forecasting process, roll out of early warning signals and a new project categorisation model. Project manager trainings were also in focus. Project managers are responsible for managing Caverion's projects, including compliance with the updated Project Management Guidelines and Project Forecasting Principles, in order to ensure accurate and reliable input into financial accounting and financial information. The Project Management Office (PMO) network further supports project managers in project management processes, for example, in project risk management and in monthly project review processes.

## INFORMATION AND COMMUNICATION

Information and communication practices within Caverion aim at providing the required personnel and management access to adequate and timely information on accounting and reporting as well as on related controls. Information regarding control requirements is communicated through the Group's common policies, dedicated guidelines and process level procedure descriptions.

The CFO, supported by Investor Relations, is responsible for the disclosure of financial information and fulfilment of the communication obligations of a listed company. Investor Relations holds the responsibility over planning and implementation of investor communications and daily contact with investors and analysts.

## MONITORING

Caverion's internal control and risk management system is subject to both on-going and periodical monitoring activities to gain reasonable assurance over its appropriateness and effectiveness. On-going monitoring is built into the normal, recurring operating activities of operations and is the responsibility of corporate management, divisions, business units and group functions.

The CFO is responsible for maintaining and developing Caverion's controlling processes so that management at all levels receives reliable and adequate financial information in a timely manner. The actual financial performance against business plans, budgets and performance indicators is followed up through the monthly reporting process. In connection with the monthly reporting, each division and the Group update and analyse, as necessary, the forecast for the next month, on-going quarter and the full year.

Monthly business and financial performance reviews are held shortly after the reporting deadline. Monthly business and financial performance reviews are mandatory and held at different levels of the organisation. A monthly business review is also with each division, after which the monthly financial result is reviewed in the Group's Management Board meeting. These reviews include an assessment of essential items impacting actual figures and forecasted performance going forward as well as a review of essential events, risks and opportunities. Standard minimum agendas are mandatory for monthly review meetings covering topics relevant to financial and operational monitoring.

---

Internal and external audits are performed based on annually approved, risk based audit plans, and audit findings are reported both to management and to the Audit Committee. The Board receives monthly financial information on the Group and Division level and approves all externally communicated financial reports. The Audit Committee follows up regularly the operation of the Finance organisation.

## OTHER INFORMATION

### Risk Management

Risk management is part of Caverion's business management, supervision and reporting systems and an integral part of internal controls. The purpose of risk management is:

- to provide a systematic approach to managing risks in all of Caverion's operations to enable the achievement of the Company's strategic and financial targets in a controlled manner, and
- to secure continuous operations in the changing business environment.

Caverion's Risk Management Policy describes the framework and main principles of risk management, and the roles and responsibilities in regard to risk management. To support the implementation of the policy, dedicated risk management standards are included in other Group level policies and guidelines, such as Decision-making and authorisation in Caverion Group, Treasury Policy, Information Security Policy, Project Management Guideline and Work Safety Guidelines.

Risk management covers the identification and assessment of risks as well as contingency planning for all major risk categories. A group-wide risk assessment is carried out annually. As a result of the assessment, the most important risks are reported based on their probability and possible effects. The risk reports are reviewed by the Management Boards of the Group and the divisions, and reported to the Audit Committee and Board of Directors of Caverion.

Operative and event risks are reported on business unit, division and Group level on a monthly basis as a part of the normal monitoring of financial performance. Operative risks are related to the nature of the business, and they can be managed by developing the operating practices and the decision-making system.

Financial risks are reported on business unit, division and Group level on a monthly basis as a part of the normal monitoring of financial performance. In addition, quarterly reports are submitted to the Board's Audit Committee. The risks related to the financial reporting process are identified and assessed annually.

The Board guides and supervises the planning and implementation of risk management. The Audit Committee assists the Board in the supervision of the reporting and accounting processes of the Group, including internal control, risk management and Internal Audit. The President and CEO has the overall responsibility for risk management. The Compliance and Risk Management unit organises and plans, develops, coordinates and supervises risk management as well as its implementation and communication in the entire Group.

The [major risks](#) relevant to Caverion's business are described on Caverion's website.

### Risk management 2017

During 2017, the focus in risk management was to improve risk management relating to projects.

The Project Management Guideline was developed during 2017 covering important areas such as risk based project categorisation. The step-wise sales phase approvals are based on the project category. The higher the project category, the more comprehensive the tender reviews are. Project reporting and project monitoring are also based on the project category. Due to its importance, project risk management is covered as an individual topic in the guideline.

Specific guidelines for financial forecasting of projects were also implemented during 2017. The financial forecasting process has an elementary role in identifying and managing risks in projects.

### Internal Audit

Internal Audit is independent of business operations and has an assurance responsibility in addition to the external auditor. Internal Audit reports directly to the Audit Committee and administratively to the Head of Legal & Governance. Internal Audit's role is to assure that the relevant laws and regulations, approved policies and guidelines (Caverion Guidelines) and best practices are followed in the Group, and that financial reporting process produces reliable information on the effectiveness of business operations. Internal Audit's operations are based on the Internal Audit Charter. The Audit Committee confirms the internal audit plan periodically.

Internal Audit reviews and evaluates the appropriateness and functioning of the Group's internal control system, appropriateness and efficiency of operations, reliability of financial information and reporting, and compliance with regulations and operating principles. The operations of Internal Audit are risk based, and the focus is on operational audits.

## Internal Audit 2017

Caverion's Internal Audit has continued to be outsourced to EY in 2017. Internal Audit has followed an annual plan confirmed by the Audit Committee. In 2017, the main focus has continued to be on audits of core business processes:

- Follow up of the implementation of the management action plan of the "Execute Projects" process audit, which was completed in the end of 2016;
- Audit of the "Manage Sales" process in projects business with a number of recommendations.

In addition, regular internal audits to subsidiary companies were conducted.

Management action plans to address the audit findings and recommendations are drawn based on the key findings and the implementation is systematically followed by management and the Audit Committee.

## Compliance 2017

Several enhancements in the field of compliance were implemented in 2017.

The Company's Group level policies and guidelines were structured and relaunched as Caverion Guidelines consisting of the common ethical, governance and operative policies and guidelines that have to be followed by everyone working for Caverion. As part of the Caverion Guidelines, the Compliance Framework describing the approach to compliance was issued.

A fully renewed Code of Conduct was issued and an annual e-learning completed with an overall completion rate of 93%. The target is that the whole organisation completes the e-learning every year and it is also part of the on-boarding of new employees.

The Group's Ethics & Compliance Committee monitors the implementation of the Compliance Programme and handles all misconduct related notifications. The committee convened three (3) times in 2017.

## Compliance

Caverion is committed to complying with the applicable laws and regulations and the Caverion Guidelines in accordance with Caverion's Code of Conduct updated in 2017. Caverion has zero tolerance for corruption, bribery, anti-competitive practices, discrimination, harassment or any unlawful action. Everyone working for Caverion must follow the Code of Conduct at all times in his and her personal tasks and operations within Caverion.

Caverion has a Compliance function independent of the business operations. The Chief Compliance Officer reports directly to the Audit Committee and administratively to the Head of Legal & Governance. The Compliance function's role is to strengthen the effectiveness of compliance within the Company, and to develop and promote ethical business culture.

The Compliance function's role is to lead the Compliance Programme, define compliance policies, provide compliance oversight and report on compliance related issues of significance to senior management and the Board. The Compliance function works closely together with the management and support functions to identify and manage compliance risks.

According to Caverion's Code of Conduct, every employee is responsible for complying with the Code and for contributing towards its implementation. The Code of Conduct defines how suspected misconduct should be reported, how it is investigated and how the issue proceeds. Any reports of suspected misconduct are investigated confidentially without undue delay in the lead of the Chief Compliance Officer who reports to the Audit Committee on the investigation and outcome of reported cases.

## Main procedures relating to insider administration

Inside information within the Company and transactions on Caverion's financial instruments by persons discharging managerial responsibilities in the Company and their closely associated persons and entities are managed in accordance with the Market Abuse Regulation ("MAR") and other applicable laws and regulations relating to insiders, as well as Nasdaq Helsinki Ltd's Insiders Guidelines.

The company maintains a list of persons discharging managerial responsibilities in Caverion (managers), including their closely associated persons and entities, who are under the obligation to notify the company and the Financial Supervisory Authority of their transactions on the company's financial instruments within three business days of the execution of the transaction. The Company is under the obligation to disclose these transactions in a stock exchange release during the same period. The Company's managers refer to the members of Caverion's Board of Directors and the President and CEO.

The Group General Counsel is responsible for the coordination and supervision of insider matters in Caverion. Insider matters are handled by the Group Legal function.

The main procedures relating to insider administration are described in Caverion's [Insider Guidelines](#), which are published on Caverion's website.

---

## Related party transactions

Caverion's related parties include members of the Board, the President and CEO and members of the Group Management Board, their close family members, as well as companies in which the individuals mentioned exercise control.

The Board has adopted a policy to be followed in evaluating and monitoring transactions eventually concluded between Caverion and its related parties. The policy aims to ensure that any conflicts of interest are taken into account appropriately in the decision-making process of Caverion. Caverion maintains a register of the parties considered related parties.

### Related party transactions 2017

During 2017 no related party transactions were concluded between the Caverion Group entities and related parties. More information on related party transactions is available in Notes to the consolidated financial statements 2017.