

Corporate Governance Statement 2018

CAVERION CORPORATION
PUBLIC

Caverion

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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.

The Corporate Governance Statement is issued separately from the Board of Directors' Report for the financial period 1 January – 31 December 2018. The Statement and the Board of Directors' Report are available on Caverion's website www.caverion.com.

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

Caverion's Auditor, Ernst & Young 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 (the "Articles").

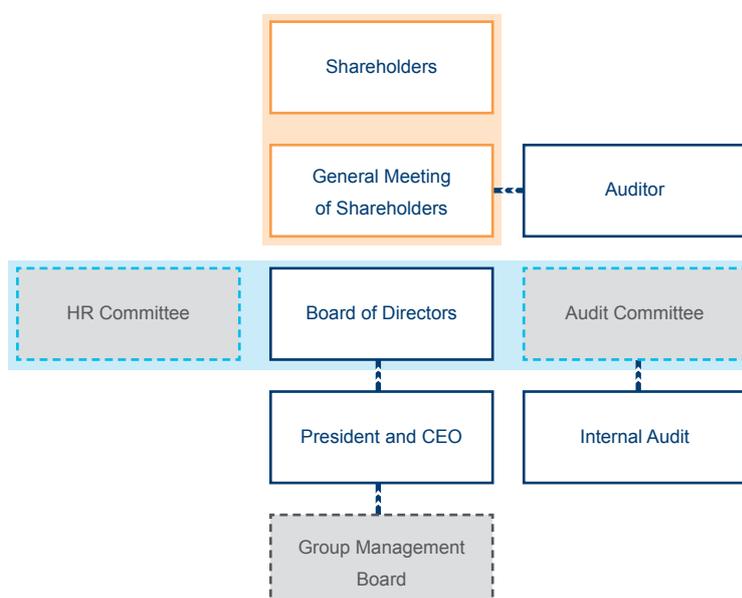
Caverion prepares Consolidated Financial Statements and Interim Reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, the Finnish Securities Markets Act as well as the applicable Finnish Financial Supervision Authority's standards and the rules of 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 HR 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 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 (the “EGM”) 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 2018

The AGM 2018 was held on 26 March 2018 in Helsinki, Finland. A total of 350 shareholders representing 54.4 percent of the shares and voting rights in the company participated in person or by proxy. A majority of the Board members, the candidate for Board membership, the Auditor in Charge and the candidate for Auditor were present.

[The decisions of the AGM 2018](#) are available on Caverion’s website.

No Extraordinary General Meetings were held in 2018.

AUDITOR

The statutory task of independent external auditing is to verify that the Financial Statements and the Board of Directors’ 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. The 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 that shall be an auditing firm approved by the Central Chamber of Commerce. 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 2018

PricewaterhouseCoopers Oy (PwC) acted as the Company’s Auditor until the AGM 2018. Ernst & Young Oy (EY) was elected as the Company’s Auditor by the AGM 2018. Antti Suominen, Authorised Public Accountant, was appointed the Auditor in Charge.

The audit fees paid in 2018 amounted to 0.8 million euros (EUR 0.8 million in 2017) and the fees for other services rendered by the Auditor amounted to 0.6 million euros (EUR 0.7 million in 2017)¹.

¹ These amounts include costs of both Auditors

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

According to the Related Party Transactions Policy of Caverion, a Board and GMB member (including the CEO) 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 2018

The AGM 2018 elected a Chairman, Vice Chairman and six (6) members to the Board of Directors: Michael Rosenlew (Chairman), Markus Ehrnrooth (Vice Chairman), Jussi Aho, Joachim Hallengren, Antti Herlin, Thomas Hinnerskov and Anna Hyvönen were re-elected and Mats Paulsson was elected as a new member. Eva Lindquist was not up for re-election in the AGM.

Biographical details of Board of Directors 2018

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 and Sanoma Corporation	as of AGM 2017
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
Mats Paulsson	1958	Swedish	M.Sc. (Civil Engineering)	Interim CEO of Eledda Acquisition AB	as of AGM 2018
Eva Lindqvist	1958	Swedish	M.Sc. (Eng.)	Professional board member	until AGM 2018

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 board of directors in publicly listed or private companies. All members elected in AGM 2018 have a university degree, all being technical or economics. The Board members represent three (3) different nationalities. Women count for 12.5 per cent of the Board. Three (3) members have served in Caverion's Board for at least three (3) years and the other members for one to two (1-2) years.

The Board convened eleven (11) times in 2018 and made five (5) unanimous resolutions without convening. The secretary to the Board was the Group General Counsel. The average participation in the meetings was 96 per cent. Each member's participation in the meetings is given in the following table:

Member	Number of meetings participated	Participation (%)
Michael Rosenlew (Chairman)	11/11	100
Markus Ehnrooth (Vice Chairman)	11/11	100
Jussi Aho	9/11	82
Joachim Hallengren	10/11	91
Antti Herlin	10/11	91
Thomas Hinnerskov	11/11	100
Anna Hyvönen	11/11	100
Mats Paulsson	9/9	100
Eva Lindqvist	2/2	100

In addition to its other duties, the Board focused in its work in 2018 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 Company's strategy for 2018-2020, and enhancement and monitoring of occupational safety procedures. It also continued to focus on the development of compliance, risk management and internal controls. To this effect, a fully revised Authorities Policy & Approval Matrix was approved and issued in 2018.

The Board approved a new long term incentive programme for the key employees of the Group, the Matching Share Plan 2018-2022. The Board further resolved on a directed share issue of 9 524 000 new shares. In addition, the Board approved a number of divestment and acquisition transactions completed during 2018.

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

The Caverion shares owned by the Board members or the entities in which they exercise control on 31 December 2018 and 31 December 2017 are:

	31.12.2018	31.12.2017
Michael Rosenlew (Chairman)	156 130	119 200
Markus Ehrnrooth (Vice Chairman)	0	0
Jussi Aho	0	0
Joachim Hallengren	17 000	17 000
Antti Herlin ²	20 500 180	18 900 180
Thomas Hinnerskov	40 000	40 000
Anna Hyvönen	2 000	2 000
Mats Paulsson	0	-

² Antti Herlin, indirectly holds a controlling interest in a significant shareholder of Caverion

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 2018

Markus Ehrnrooth (Chairman), Thomas Hinnerskov and Michael Rosenlew were re-elected as members of the Audit Committee in the Board's annual assembly meeting following the AGM. In addition, Mats Paulsson was elected as a new member. The secretary to the Committee was the Group 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 2018. Each member's participation in the meetings is given in the following table:

Member	Number of meetings participated	Participation (%)
Michael Rosenlew	8/8	100
Markus Ehrnrooth	8/8	100
Thomas Hinnerskov	8/8	100
Mats Paulsson ³	6/6	100
Eva Lindqvist ⁴	2/2	100

The Audit Committee had three focus areas for 2018:

- Project management performance management
- Compliance
- Internal Control

Progress in the focus areas was reviewed in the Audit Committee meetings during 2018. The Group CFO and Head of Legal and Compliance 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 audits of subsidiary companies and the rectification of issues raised in these reports, major legal and compliance cases and issues relating to risk management. The Audit Committee also followed the implementation of the General Data Protection Regulation (GDPR) in Caverion.

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 Code.

The Human Resources Committee assists the Board 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 Human Resources 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 Human Resources 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.

³ Member of the Audit Committee as of AGM 2018

⁴ Member of the Audit Committee until AGM 2018

Human Resources Committee 2018

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

All of the Human Resources Committee members are independent of the Company. All members, except Antti Herlin, are also independent of Caverion's significant shareholders.

The Human Resources Committee convened five (5) times in 2018. Each member's participation in the meetings is the following:

Member	Number of meetings participated	Participation (%)
Michael Rosenlew	5/5	100
Jussi Aho	4/5	80
Joachim Hallengren	5/5	100
Anna Hyvönen	5/5	100
Antti Herlin ⁵	3/4	75

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.

CEO in 2018

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 2018 Remuneration Statement.

Ari Lehtoranta and corporations over which he exercises control held 789 731 Caverion's shares on 31 December 2018 (561 510 shares in 2017).

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 2018

On 31 December 2018 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 continued to be at the core. The GMB also continued its work to enhance governance, compliance and risk management. Occupational safety was continuously a key priority.

The implementation of the Group's strategy for 2018-2020 has been driven by the GMB under close supervision by the Board. The strategy implementation has progressed according to plan. Performance management has been a major focus area across the Group during the Fit phase of the Fit for Growth strategy.

⁵ Member of the Human Resources Committee as of AGM 2018

The GMB members during 2018 were:

Name	Position, born, education	Notes
Ari Lehtoranta	President and CEO, born 1963, M.Sc. (Eng.)	
Martti Ala-Härkönen	Chief Financial Officer (CFO), Head of Finance, Strategy and IT, born 1965, Dr.Sc. (Econ.), Lic.Sc. (Tech.)	
Knut Gaaserud	Head of Division Norway, born 1967, M.Sc. (Tech.)	
Thomas Hietto	Head of business unit Services, born 1967, M.Sc. (Tech.), M.Sc. (Management)	
Michael Højgaard	Head of Division Denmark, born 1961, B.Sc Eng. (Hon), Graduate Diploma in Business Administration	
Michael Kaiser	Head of business unit Projects, born 1962, M.Sc. (Eng.)	As of 1.6.2018
Werner Kühn	Executive Vice President & CEO, Division Germany, born 1959, Post Graduate Degree in Business Informatics	
Juha Mennander	Head of Division Sweden, Head of Market Operations, born 1965, M.Sc. (Tech)	Head of Division Sweden as of 1.6.2018
Minna Schrey-Hyppänen	Head of Human Resources, born 1966, M.Sc. (Econ.), M.Sc. (Eng)	
Manfred Simmet	Senior Vice President & CEO, Division Austria, born 1966, Engineer	
Ville Tamminen	Head of Division Finland, born 1974, LL.M with court training	
Sakari Toikkanen	Head of Division Industrial Solutions, born 1967, Lic (Tech.)	
Anne Viitala	Head of Legal & Compliance, born 1959, LL.M, trained on the bench, eMBA	
Jarno Hacklin	Head of business unit Projects, born 1978, Bachelor of Engineering	Until 31.5.2018
Niclas Sacklén	Senior Vice President & CEO, Division Eastern Europe, born 1969, Master of Business Administration, Bachelor of Science (Eng.),	Until 30.6.2018
Klas Tocklin	Executive Vice President & CEO, Division Sweden, born 1963, B.Sc. (Eng)	Until 31.5.2018

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

The Caverion shares owned by the GMB members and the entities in which they exercise control on 31 December 2018 and 31 December 2017:

	31.12.2018	31.12.2017
Ari Lehtoranta	789 731	561 510
Martti Ala-Härkönen	102 912	15 000
Knut Gaaserud	66 440	506
Jarno Hacklin ⁶	-	4 000
Thomas Hietto	87 912	0
Michael Højgaard	0	-
Michael Kaiser ⁷	89 856	-
Werner Kühn	0	54 000
Juha Mennander	49 950	-
Niclas Sacklén ⁸	-	0
Minna Schrey-Hyppänen	50 450	1 000
Manfred Simmet	51 827	2 377
Ville Tamminen	66 934	0
Klas Tocklin ⁹	-	771
Sakari Toikkanen	16 382	16 382
Anne Viitala	49 750	300

⁶ until 31.5.2018

⁷ as of 1.6.2018

⁸ until 30.6 .2018

⁹ until 31.5.2018

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:

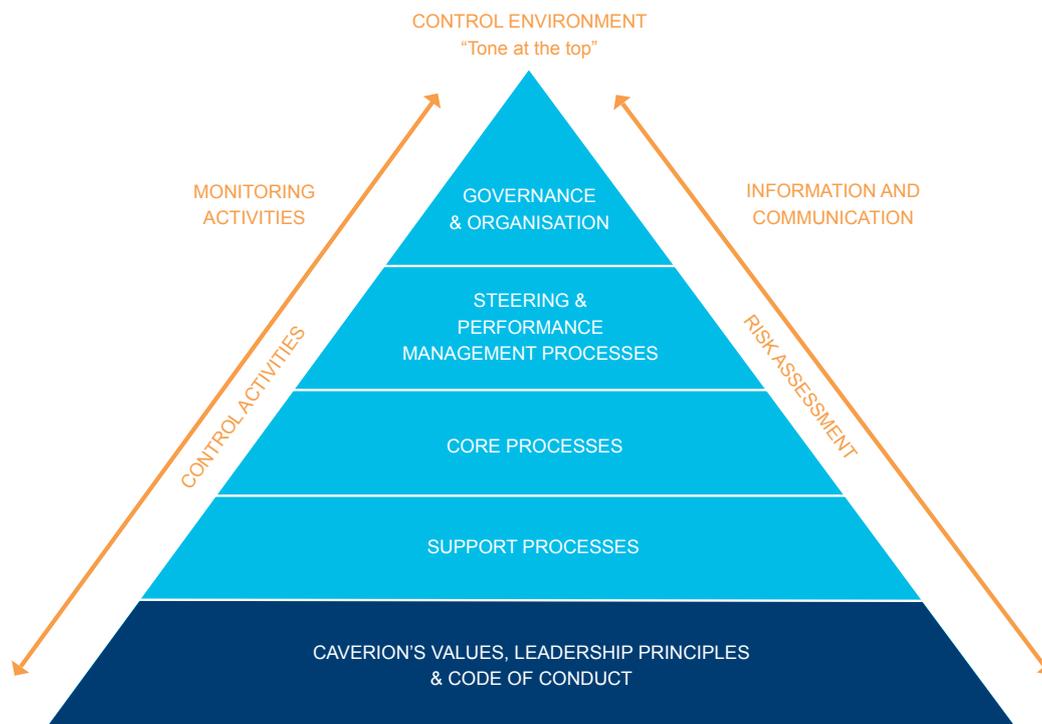
- Effectiveness and efficiency of the operations
- Reliability and transparency of the financial reporting
- Compliance with applicable laws and regulations, and Caverion’s operating principles and policies

CONTROL ENVIRONMENT

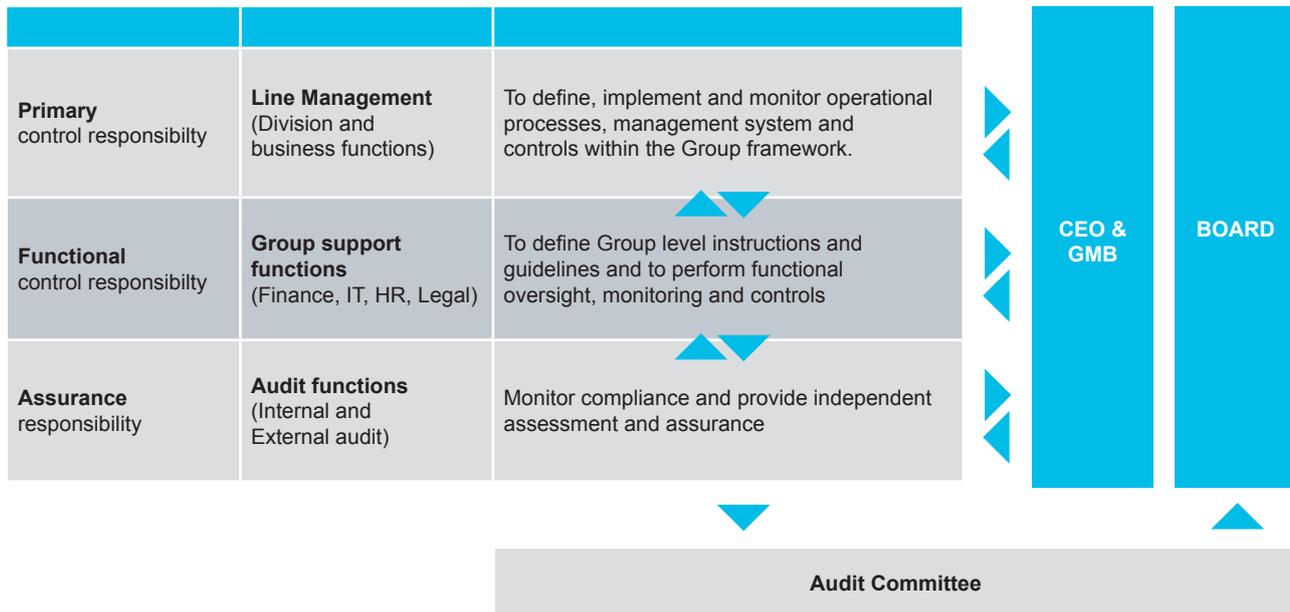
Caverion issued in 2017 the Internal Control Framework, which describes the system of internal control in Caverion. Internal control is embedded in the operations of the Company on all organisational levels. The internal control system covers all the policies, processes, procedures and organisational 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. This work and the related analyses continued in 2018. The development of the Group’s forecasting culture at all levels of the organisation also continued in 2018. Specific focus was put in early 2018 into the adoption of the new revenue recognition standard IFRS 15 and its effects to the Group’s reporting and forecasting principles. A similar project continued throughout the year in preparing to the up-coming new Leases standard IFRS 16 (to be adopted in financial reporting in 2019).

In 2018, in line with the Group’s new “Fit for Growth” strategy, the focus related to financial reporting was very much in

rolling out the Group's performance management programme 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 of action-based management systematics throughout divisions. In addition, the implementation of the programme included designing and rolling out harmonised dashboards used in financial steering at the operative unit level. Besides services and projects, the performance management program includes streams related to procurement and material logistics, and fixed costs.

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. In 2018, Caverion completed a new design to its consolidation and reporting system HFM. The newly designed HFM will be taken into use in early 2019.

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. In 2018, as a preparation to the adoption of the leases standard IFRS 16 as of early 2019, Caverion took into use a new software suitable for following out and analysing the Group's operative leasing contracts and there-related financials.

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 further implemented in 2018, 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

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 & Compliance. 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 2018

Caverion's Internal Audit has continued to be outsourced. EY acted as the internal auditor until end of 2017. PwC was appointed as the internal auditor as of 2018. Internal Audit has followed an annual plan confirmed by the Audit Committee. In 2018, the main focus has continued to be on audits of core business processes, especially in the follow up of the implementation of the management action plan of the "Execute Projects" process audit, and the audit of the "Manage Sales" process in projects business.

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

Caverion is committed to complying with the applicable laws and regulations and the Caverion Guidelines in accordance with Caverion's Code of Conduct. 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 her/his 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 & Compliance. 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, strengthen the effectiveness of compliance within the Company, develop and promote ethical business culture, 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 of Conduct 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.

Compliance 2018

Several enhancements in the field of compliance were implemented in 2018.

A new Chief Compliance Officer was appointed as of April 1, 2018. The Chief Compliance Officer established a compliance plan that includes clear milestones in order to ensure that all business of Caverion is conducted in legally, ethically, and compliant manner. The Chief Compliance Officer is attending division management board meetings to support in the implementation of the Caverion Compliance Programme, raise awareness and provide information about compliance topics.

The Caverion compliance network is headed by the Chief Compliance Officer. The role of the compliance network is to enhance a culture of integrity responsibility and build leadership capabilities through the integration of the Caverion Compliance Programme into local geographies and functions. This includes a focus on raising awareness through compliance trainings.

The Supplier Code of Conduct was fully updated in 2018.

The Group's Ethics & Compliance Committee monitors the implementation of the Compliance Programme and handles all misconduct related notifications.

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 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 (3) 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 (GMB), 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 2018

Related party transactions during 2018 are described in the Financial Statements. More information on related party transactions is available in Notes to the consolidated financial statements 2018, note 6.3.