



6. Presentation of the Financial Statements, the report of the Board of Directors and the auditor's report for the year 2016

Review by the President and CEO at the Annual General Meeting

Ari Lehtoranta, President and CEO

March 17, 2017

A background image showing a business meeting. In the center, a person's hand is pointing at a tablet displaying a bar chart. To the left, another person is holding a smartphone. The scene is brightly lit, suggesting an office or conference room environment. The text is overlaid on a semi-transparent white box on the left side of the image.

Contents

Overview of year 2016

Employees and management

Key financials

Market outlook, guidance for 2017 and dividend proposal





Overview of year 2016

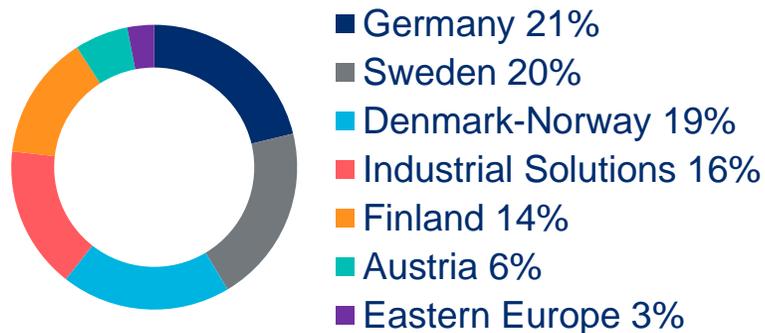


Caverion in brief

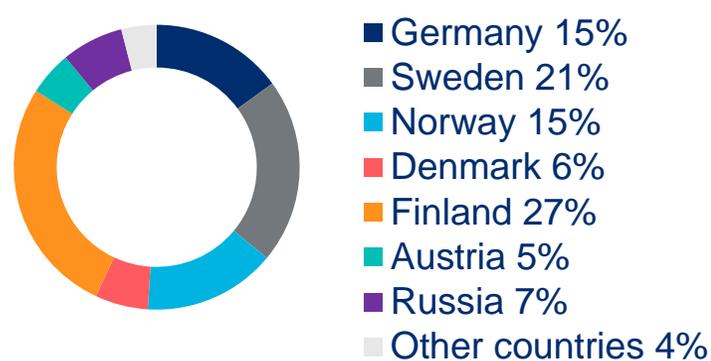
Caverion designs, builds, operates and maintains user-friendly and energy-efficient solutions for buildings, infrastructure and industrial plants.



Revenue by division 2016



Personnel by countries (16,913 employees) 12/2016



		
Heating and Sanitation	Cooling	Information and Communication Services
		
Ventilation and Air Conditioning	Security and Safety	Industrial Installations
		
Electricity	Automation	Process Piping



Business units: Services and Projects

Services (48% of Group revenue in 2016)

Technical Maintenance (35%)

- Small and mid size maintenance agreements
- Single or multiple technologies
- E.g. ServiFlex and ServiFlex+ agreements
- Some 25,000 agreements

Managed Services (13%)

- At its widest form Managed Life Cycle Solutions
- Executed by Caverion or our subcontractors
- Some 100 agreements

Projects (52% of Group revenue in 2016)

Technical Installation (33%)

- Small and mid size projects
- Single or multiple technologies
- Some 3,000 projects

Large Projects (19%)

- Contract size > EUR 5m
- Integrated solutions with customisation
- Life Cycle focus
- Some 50 projects of this type

Number of competitors

Barriers of entry, complexity, margin potential, risk level



2016: Year of restructuring – Key operational events

Restructuring actions

- Jobs impacted was 1,060 with main focus in Sweden, Denmark-Norway, Germany and Group Services.
- Full effect visible in 2017

Space Saga campaign

- Our first common marketing campaign reached almost million views during 2016.
- The campaign will continue in 2017.



Reorganisation of project business

- Establishment of Group-level Projects business unit and project management offices (PMOs) in divisions

Acquisitions completed

- Arneg Kühlmöbel, cooling technology in Austria
- Sähkötaso Esitystekniikka, AV solutions in Finland
- YIT Kuntatekniikka, Technical Maintenance in Mikkeli

Improvement in work safety

- Accident frequency rate* improved to the level of 6.3 (2015: 8.3)

* number of accidents per one million working hours



Financial summary of 2016 – A year of restructuring

Order backlog

- Order backlog decreased by 3.6% from the previous year and amounted to EUR 1,408m (1,461).
- A stricter project tendering process was implemented since Q2/2016.

EBITDA

- EBITDA excl. restr. costs was EUR 15.6 million. Affected by project write-downs of EUR 59.0 million.
- EBITDA was EUR -11.4 (91.5) million. Affected by restructuring costs of EUR 26.9 million.



Revenue

- Revenue was EUR 2,364m (2,443).
- The revenue growth was largest in Finland compared to the previous year. Revenue was affected by a stricter tendering process and project write-downs.

Working capital and free cash flow

- Working capital was EUR -2.6 (-15.4) million – meeting the targeted negative working capital.
- Free cash flow was EUR -72.1 (53.9) million in January–December.

Earnings per share

- Earnings per share amounted to -0.25 (0.37) EUR per share in January–December.





Employees and management



16,913 employees at the end of December

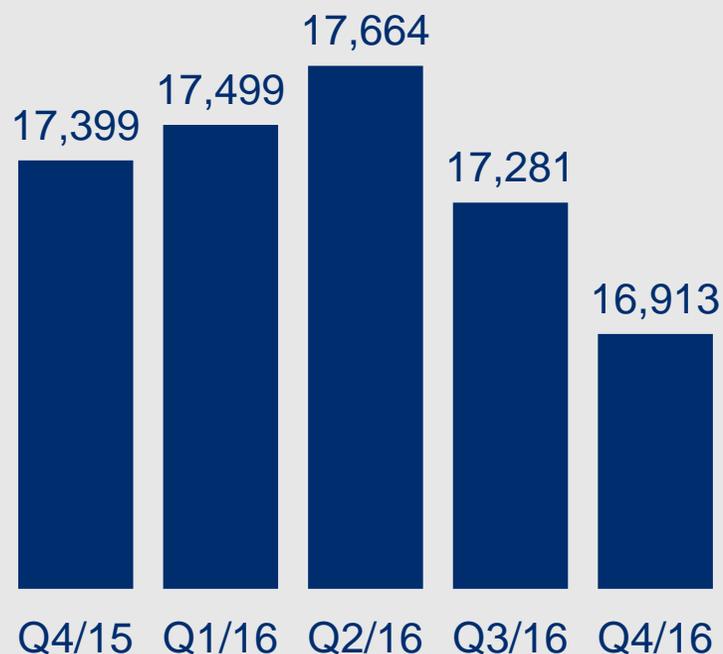
Adjusting overcapacity and developing competitiveness

- Jobs impacted by the restructuring actions in 2016 was 1,060 with the main focus in divisions Sweden, Denmark-Norway and Germany and in Group Services.
- New resources required in parallel to fulfil critical competence gaps.

Group-wide efforts to develop a Caverion way of working

- Work safety, well-being and code of conduct of all employees as a constant priority
- Strengthening project management and leadership capabilities
- Short-term project and service incentive plans to drive performance

Number of employees
(end of period)



Employees by division 12/2016



- Denmark-Norway 20%
- Sweden 19%
- Industrial Solutions 16%
- Germany 14%
- Finland 14%
- Eastern Europe 11%
- Austria 5%



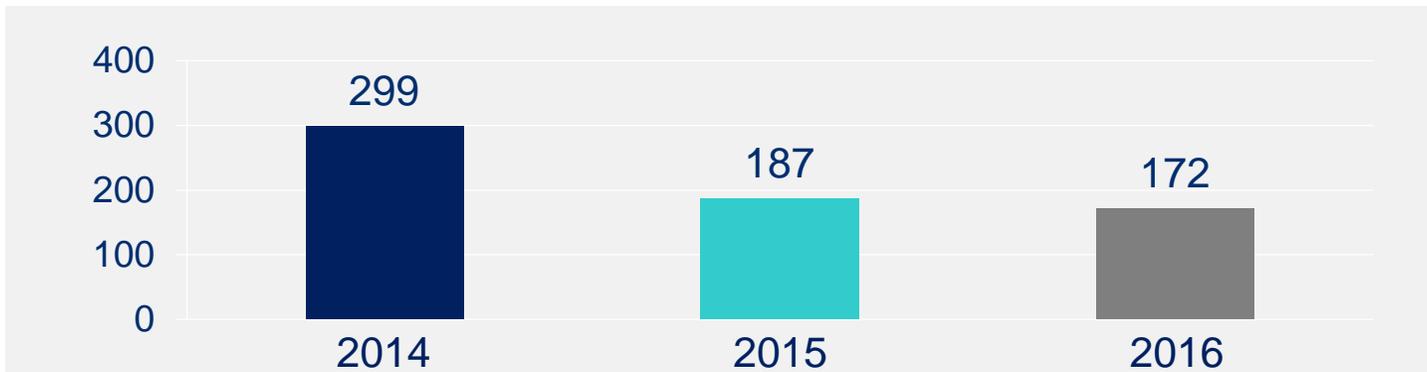
Positive development in work safety

LTIFR has developed very well during 2016 to a level of 6.3 (2015: 8.3)

Caverion Group LTIFR, rolling 12 months



Caverion Group total LTIs (based on monthly figures)

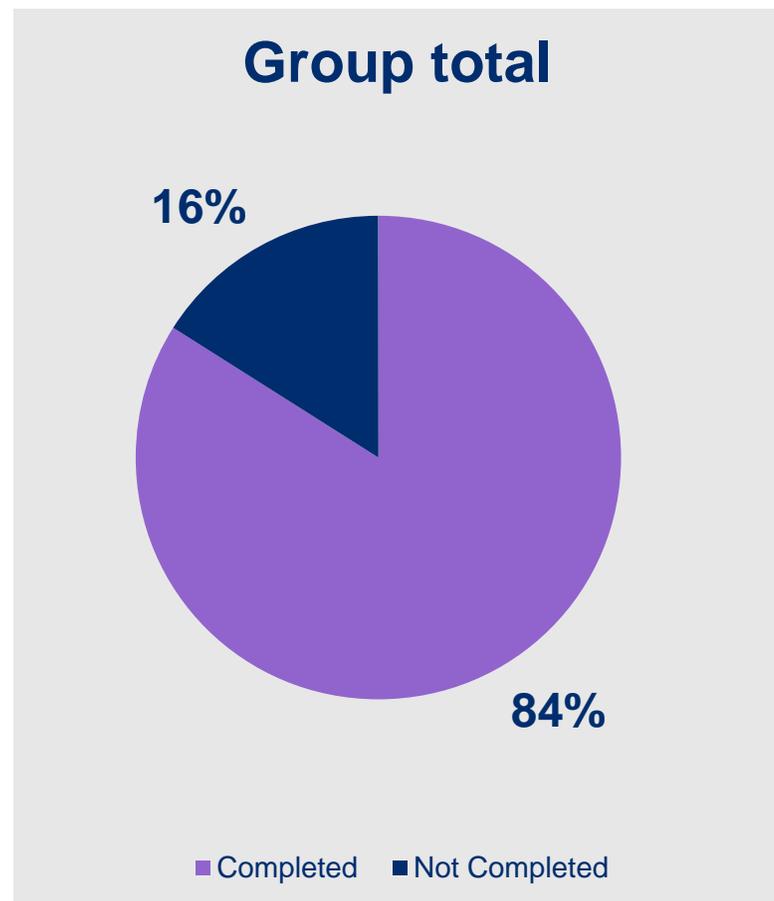


- LTIFR refers to Lost Time Injury Frequency Rate, the number of lost time injuries occurring in a workplace per 1 million man-hours worked.
- LTI's (Lost Time Injuries in pieces) include all sudden on-the-job injuries that require a person with employment contract to be absent from work for at least one full day.
- Severity: Average number of lost workdays per LTI was 11.5 in December 2016 (rolling 12m).



Code of Conduct training

84% of all employees completed the e-training in 2016



- Training is based on the Code of Conduct of the company.
- Themes for e-training in 2016:
 - Conflicts of Interests
 - Gifts
 - Competition law
- Objectives for 2017:
 - Increasing the participation rate
 - Increasing small group trainings

Caverion
CODE OF CONDUCT



Management Board



Ari Lehtoranta
President and CEO



Martti Ala-Härkönen
Finance



Sakari Toikkanen
Strategy & IT &
Communications



Merja Eskola
HR & People



Anne Viitala
Legal & Governance



Jarno Hacklin
Projects



Matti Malmberg
Services
Thomas Hietto as of 1/7/2017

Divisions



Manfred Simmet
Austria



Werner Kühn
Germany



Knut Gaaserud
Denmark-Norway



Erkki Huusko
Industrial Solutions



Niclas Sacklén
Eastern Europe



Klas Tocklin
Sweden



Ville Tamminen
Finland



A worker in a high-visibility uniform and cap is looking at a mobile device on an escalator. The background shows a modern building interior with other people walking. The image is overlaid with a blue semi-transparent filter.

Key financials



Examples of contracts received in 2016



Technical Maintenance and Managed Services

Orion's properties in Espoo, Turku, Salo and Kuopio.

Value: not disclosed



Managed Services and Technical Maintenance

17 hospitals and health care centers in Stockholm, Sweden owned by Locum.

Value: over EUR 10 million



Technical Installation

Tunnel technology for Strabag Infrastructure & Safety Solutions, Austria

Value: EUR 5 million



Examples of contracts received in 2016 – Managed Life Cycle

Kalvebod Brygge, Denmark

- Managed Life Cycle Project (PPP) for a new office building in Copenhagen, Denmark
- One of the largest orders Caverion has ever received
- Total Technical Solutions, followed by operation, service and maintenance throughout a 20-year contract period
- Responsibility for the energy management, effectiveness, usability, safety, and condition of the property throughout its life cycle

- **Contract value:** over EUR 80 million
- **Service areas:** Design & Engineering, Project Management, Project Execution, Technical Maintenance and Managed Services
- **Lifespan:** Project phase Q1/2016-Q2/2018, maintenance until 2038
- **Client:** A. Enggaard and Nordea



Examples of contracts received in 2016 – Managed Life Cycle

Nummi service centre, Hämeenlinna, Finland

- Implementation of the service centre as a life cycle project for the City of Hämeenlinna
 - Carried out in cooperation with YIT
 - Total Technical Solutions covering all building systems.
 - Once completed, Caverion will be responsible for the Technical Maintenance and Managed Services for a 20-year period.
- **Contract value:** over EUR 16 million
 - **Service areas:** Design & Engineering, Project Management, Project Execution, Technical Maintenance and Managed Services
 - **Lifespan:** Building will be completed in the summer of 2018. Caverion will be responsible for operation and maintenance until 2038, with a possible 5-year extension option.



Revenue development

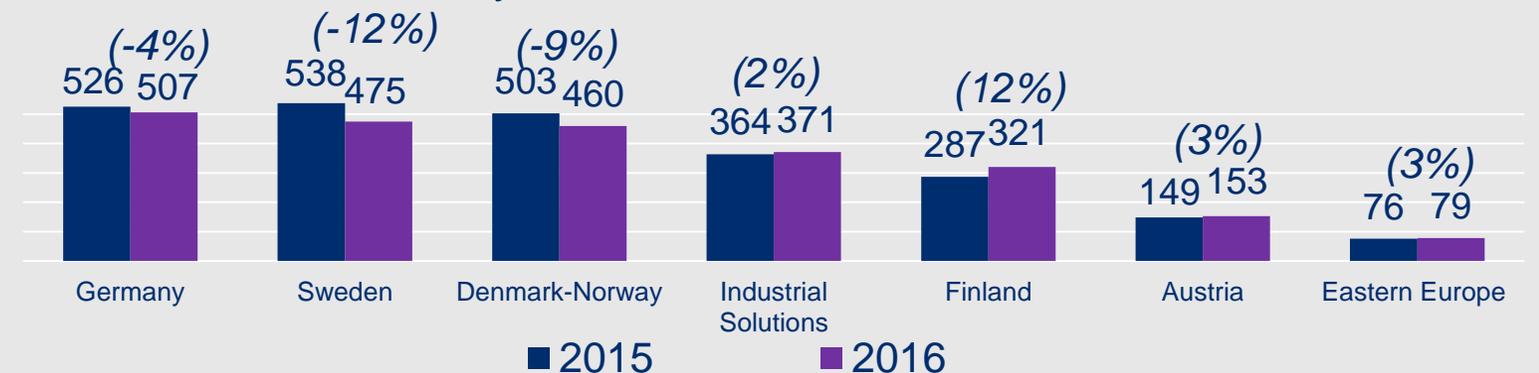
Group revenue, EUR million



- Revenue was EUR 2,364 (2,443) million in 2016.

- Growth was largest in Finland compared to the previous year.

Revenue breakdown by division, EUR million

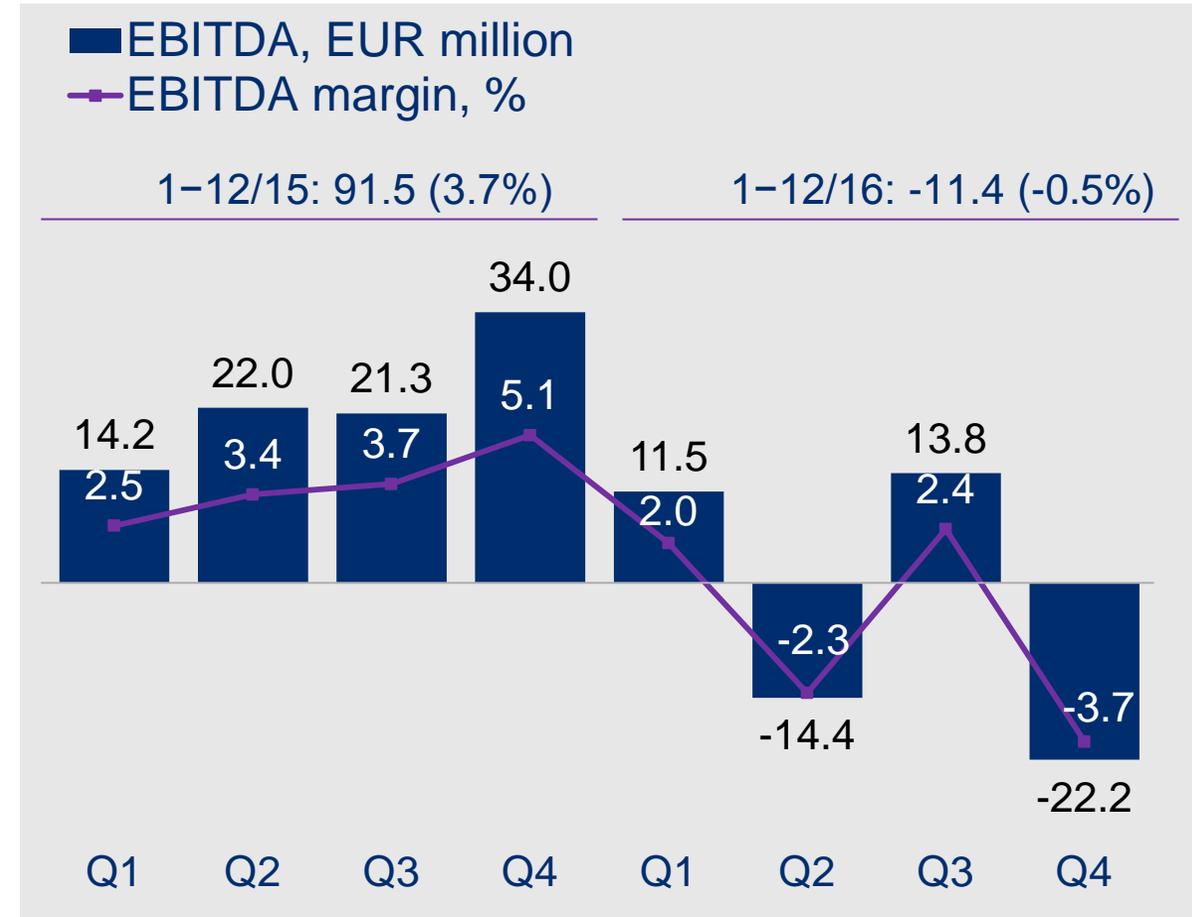


- The project write-downs since Q2/2016 had a negative effect on revenue.



Profitability materially affected by restructuring actions and project write-downs

- EBITDA excl. restructuring costs was EUR 15.6 million for 2016 (EBITDA 2015: 91.5).
- Restructuring costs were EUR 26.9 million for 2016.
- Not included in restructuring costs but affecting EBITDA:
 - Project write-downs with a negative impact on EBITDA of EUR 59.0 million for 2016



Actions to improve project business



Actions completed in 2016-Q1/2017

- Reorganisation of project business
 - Establishment of Group-level Projects business unit and project management offices (PMOs) in divisions
 - Centralisation of all Large Projects activities to professional project management teams
- Detailed analysis of risk project portfolios
- Decision authorisation model improved and tender margin requirements increased
- New common procurement tool in Sweden and Norway

Further improvement actions in Q1/2017 →

- Strengthened steering of Projects business – Performance management
 - Focus on up-to-date project business Key Performance Indicators (KPI) and forecasting
 - Improved steering processes for projects
 - Common risk management process covering the whole project life cycle
- Improved mandatory project manager trainings



Restructuring done supports 2017, however certain risks remain

Cost reductions

- The total amount of jobs impacted was 1,060 with majority in Sweden, Denmark-Norway and Germany as well as Group Services.
- Full effect of the actions will be visible in 2017
- Cost reduction in development projects, consultancy and travel.

Estimated savings

- Savings impact ~ EUR 40 million in 2017 (additional savings for 2017 vs. 2016 ~ EUR 22 million)
- Improved performance by about EUR 18 million in 2016

Estimated key risk areas going into 2017

- Identified performance risks in projects EUR 20m
- Utilisation risk up to EUR 10m
- Risks related to overdue trade receivables up to EUR 10m

Restructuring costs 2016:
EUR 26.9m

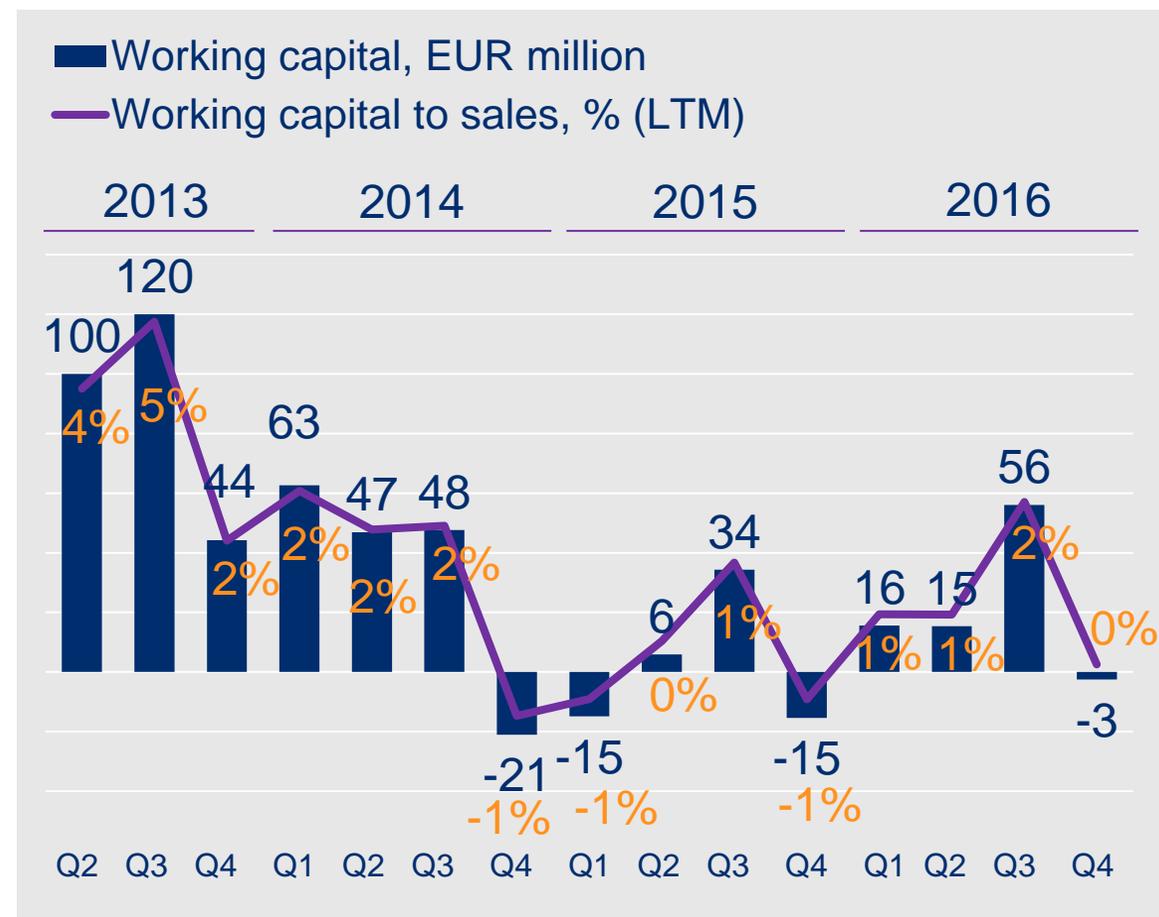


- Q1: 7%
- Q2: 28%
- Q3: 21%
- Q4: 43%



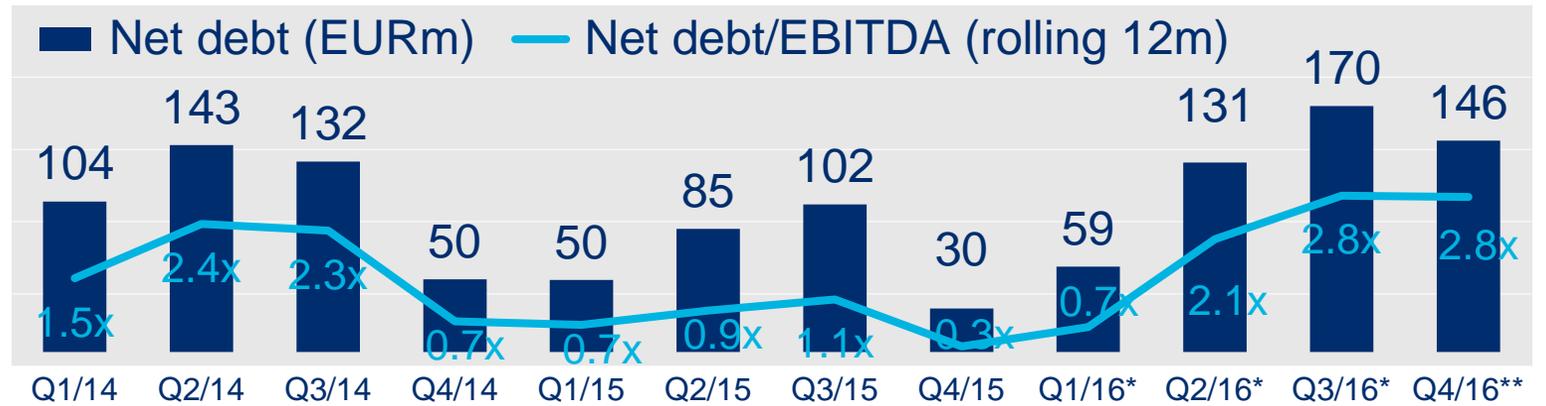
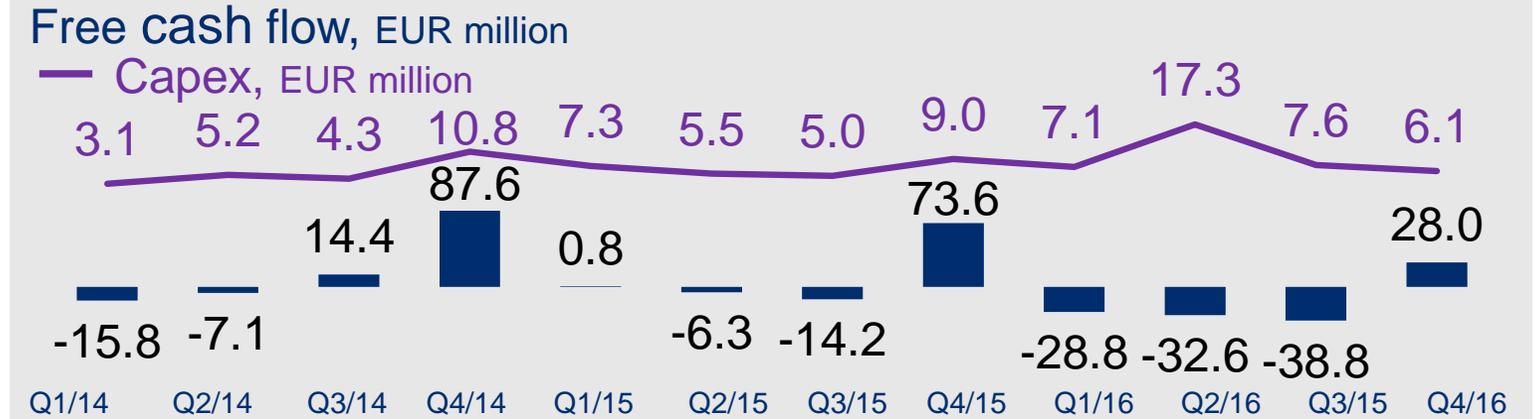
Negative working capital according to the financial target

- Working capital was EUR -2.6 million at the end of December (9/2016: EUR 56.1 million).
- Working capital improved by EUR 58.7 million in Q4/2016 compared to Q3/2016, driven by intensified focus on invoicing and receivables management. Also the project write-downs reduced working capital in Q4/2016.
- Caverion succeeded in diminishing the amount of its POC receivables by EUR 88 million in Q4/2016 compared to end of Q3/2016.
 - POC receivables amounted to EUR 244.4 (12/2015: 254.0) million at the end of 2016.



Cash flow, investments and leverage

- Free cash flow was EUR -72.1m (53.9) in 2016.
- Cash flow deteriorated from last year mainly due to the low profitability, impacted by restructuring costs. Free cash flow was also impaired due to increase in working capital, higher level of IT investments and completed acquisitions.
- Capital expenditure (incl. acquisitions) totalled EUR 38.2m (26.9) in 2016.
- Short-term financing under control, but leverage situation deteriorated from last year.



* The Net Debt/EBITDA for Q1-Q3/2016 calculated excluding restructuring costs

** In connection with the financing arrangement agreed on December 22, 2016, Caverion and its lending parties confirmed the EBITDA calculation principles related to the Group's financial covenant (Net Debt/EBITDA). The Net Debt/EBITDA for Q4/2016 has been calculated accordingly.





Market outlook, guidance for 2017 and dividend proposal



Market outlook for Caverion's business in 2017

Services

- The underlying demand for Technical Maintenance and Managed Services is expected to remain strong.
- The need for new services and the demand for Life Cycle Solutions are expected to increase.
- There are opportunities for Caverion in outsourced operations and maintenance especially within public authorities, industries and utilities.

Projects

- The Technical Installation and Large Projects markets are expected to remain good and stable but price competition tight in Technical Installation projects.
- In the Large Projects market, new tenders for buildings and industry are expected to remain on a good level and even to somewhat increase.
- The demand for Design & Build of Total Technical Solutions is expected to develop favourably in large and technically demanding projects. Good demand from both the public and private sector is expected to continue.



Guidance for 2017 and dividend proposal

Revenue

Caverion estimates that the Group's revenue will remain at the previous year's level in 2017 (2016: EUR 2,364 million).

EBITDA excluding restructuring costs

Caverion estimates that the Group's EBITDA excluding restructuring costs will more than double in 2017 (2016: EUR 15.6 million).



Dividend

- Dividend policy: Dividend pay-out at least 50 per cent of the net profit for the period.
- The Board of Directors proposes to the AGM that no dividend be paid for 2016.



Share price development

(July 1, 2013 – March 6, 2017)



Market cap of EUR 853 million as per March 6, 2017

30,137 shareholders at the end of February 2017



Key figures

EUR million	2016	2015	Change
Order backlog	1,408.1	1,461.4	-3.6%
Revenue	2,364.1	2,443.0	-3.2%
EBITDA excluding restructuring costs	15.6	-	
EBITDA margin excluding restructuring costs, %	0.7	-	
EBITDA	-11.4	91.5	
EBITDA margin, %	-0.5	3.7	
Operating profit	-40.8	65.0	
Operating profit margin, %	-1.7	2.7	
Earnings per share, basic, EUR	-0.25	0.37	
Working capital	-2.6	-15.4	-83.4%
Free cash flow	-72.1	53.9	
Interest-bearing net debt	145.5	29.8	
Gearing, %	78.7	11.7	
Personnel, end of period	16,913	17,399	-2.8%





Life Cycle Solutions for
Buildings and Industries



Thank you.