

The background of the entire page is a nighttime photograph of a construction site in a city. Several large tower cranes are visible, their booms extending upwards. In the center, a building is under construction, with its steel framework and some concrete floors visible. The building is illuminated with green and white lights. In the background, a city skyline is visible with various skyscrapers, some of which are lit up with red and yellow lights. The overall scene is a vibrant depiction of urban development at night.

# KONE Q4 2016

Financial Statement Bulletin



# KONE's January–December 2016 review

## October–December 2016: Solid profit development continued

- In October–December 2016, orders received totaled EUR 1,839 (10–12/2015: 1,947) million. Orders received declined by 5.5% at historical exchange rates and by 2.9% at comparable exchange rates.
- Net sales grew by 1.2% to EUR 2,593 (2,562) million. At comparable exchange rates, net sales grew by 3.6%.
- Operating income (EBIT) was EUR 392.2 (378.5) million or 15.1% (14.8%) of net sales.
- Cash flow from operations (before financing items and taxes) was EUR 409.8 (403.5) million.

## January–December 2016: All businesses contributed to the growth in operating income

- In January–December 2016, orders received totaled EUR 7,621 (1–12/2015: 7,959) million. Orders received declined by 4.2% at historical exchange rates and by 1.6% at comparable exchange rates. The order book stood at EUR 8,592 (December 31, 2015: 8,210) million at the end of December 2016.
- Net sales grew by 1.6% to EUR 8,784 (8,647) million. At comparable exchange rates the growth was 3.9%.
- Operating income (EBIT) was EUR 1,293 (1,241) million or 14.7% (14.4%) of net sales.
- Cash flow from operations (before financing items and taxes) was EUR 1,509 (1,474) million.
- In 2017, KONE's net sales is estimated to grow by -1% to 3% at comparable exchange rates as compared to 2016. The operating income is expected to be in the range of 1,180–1,300 million, assuming that translation exchange rates would remain at approximately the average level of January 2017.
- The Board proposes a dividend of 1.55 per class B share for the year 2016.

## KEY FIGURES

		10–12/2016	10–12/2015	change	1–12/2016	1–12/2015	change
Orders received	MEUR	1,839.2	1,947.2	-5.5%	7,621.0	7,958.9	-4.2%
Order book	MEUR	8,591.9	8,209.5	4.7%	8,591.9	8,209.5	4.7%
Sales	MEUR	2,593.2	2,561.8	1.2%	8,784.3	8,647.3	1.6%
Operating income (EBIT)	MEUR	392.2	378.5	3.6%	1,293.3	1,241.5	4.2%
Operating income (EBIT)	%	15.1	14.8		14.7	14.4	
Cash flow from operations (before financing items and taxes)	MEUR	409.8	403.5		1,509.5	1,473.7	
Net income	MEUR	298.1	372.7		1,022.6	1,053.1	
Basic earnings per share	EUR	0.58	0.71		2.00	2.01	
Interest-bearing net debt	MEUR	-1,687.6	-1,512.6		-1,687.6	-1,512.6	
Total equity/total assets	%	46.8	45.4		46.8	45.4	
Gearing	%	-60.4	-58.7		-60.4	-58.7	



## KONE's January–December 2016 review

Henrik Ehrnrooth, President and CEO, in conjunction with the Financial Statements Bulletin

"I am pleased with the good ending to the year. Our execution remained strong in the final quarter of 2016, and I was particularly satisfied with the healthy growth in the operating income and the accelerated growth in our services business. Orders received stayed at a good level at EUR 1,839 million, although they declined by 5.5% at historical and by 2.9% at comparable currencies. The marked decline of orders received in China was largely compensated by growth in all other regions. Sales reached a record level of EUR 2,593 million growing by 1.2% at historical and by 3.6% at comparable currencies. The operating income reached an all-time-high of EUR 392 million driven by positive development in all businesses. The relative operating income improved to 15.1% of net sales. In addition, our cash flow remained strong at EUR 410 million.

During the fourth quarter, market trends remained varied. The new equipment market in China continued to be challenging. In monetary value, the market declined clearly due to the intense price pressure as well as the continued shift in customer preferences towards lower-specification products. In unit terms, the market declined slightly. In the EMEA region and North America, new equipment markets developed more positively. The service markets continued to grow across regions.

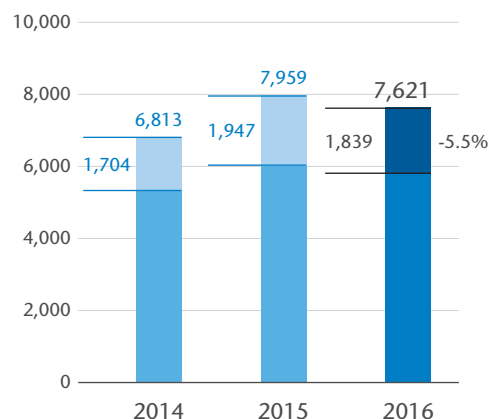
Our development programs launched in 2014 were successfully completed during the fourth quarter of 2016. I am pleased with our solid development towards our strategic targets during this three-year-period. One of the highlights was the development in our customer loyalty, which improved clearly. Thanks to the continued trust from our customers and partners, we also continued to grow profitably and faster than the market in all businesses. In addition, I am satisfied that our employee engagement continued to develop positively during the three-year period. I would like to express my thanks to all our employees for their commitment and actions in making KONE an even more competitive company. With the completion of the development programs, KONE enters a new strategic phase for 2017–2020 called "Winning with Customers". The objective is to drive differentiation further by putting the needs of our customers and users at the center of all development.

Looking ahead into 2017, the market environment is expected to remain varied. The new equipment market in China has been declining for two years already. In 2017, we expect the market to decline by around 0–5% in unit terms and the competition to remain intense. However, we expect to see slight growth in the new equipment market in all other regions and continued positive development in the service markets. In 2017, our sales is expected to grow by -1% to 3% at comparable rates. The operating income is expected to be in the range of EUR 1,180–1,300 million, assuming that the translation exchange rates would remain at the average level of January 2017. Despite some of the headwinds we are seeing in many large markets, I am confident that we can continue to improve our overall competitiveness and execution in the coming year."



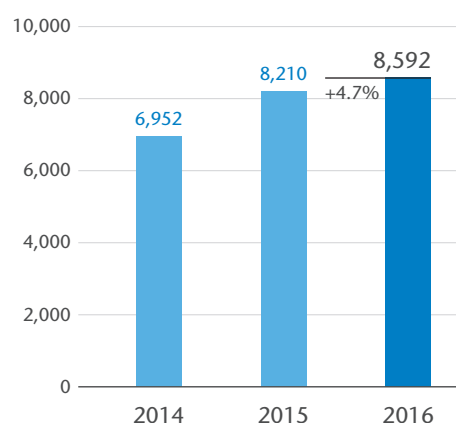
## Key Figures

### Orders received (MEUR)



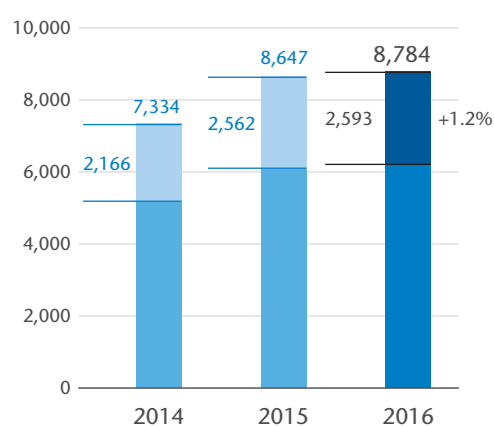
- **In October–December 2016** orders received declined by 5.5% at historical exchange rates (-2.9% at comparable exchange rates).
  - New equipment orders declined somewhat, with clear decline in the volume business and a rather stable development in the major projects business. In modernization, orders received grew somewhat.
  - At comparable exchange rates, orders received grew slightly in the EMEA region and significantly in North America. In Asia-Pacific, orders declined significantly.
- 
- **In 2016**, KONE's orders received declined somewhat in new equipment with clear decline in the volume business and clear growth in major projects. Also in modernization, orders received grew clearly.
  - At comparable rates, orders received grew somewhat in the EMEA region, clearly in the Americas and declined clearly in the Asia-Pacific region.

### Order book (MEUR)



- The order book grew by 4.7% at historical rates (by 5.4% at comparable exchange rates).
  - **In October–December 2016** the relative margin of orders received declined slightly but remained at a good level.
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- **In 2016**, the relative margin of orders received declined slightly during the second half of the year, but the order book margin remained at a healthy level.

### Sales (MEUR)

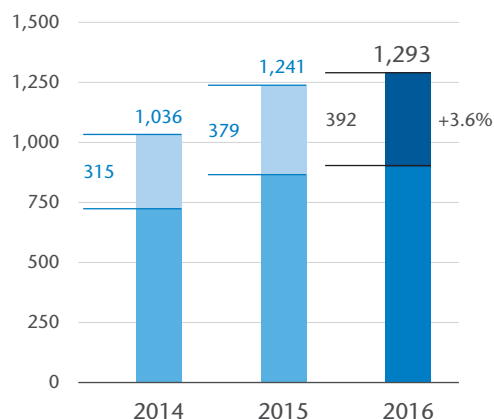


- **During October–December 2016** net sales grew by 1.2% at historical exchange rates (by 3.6% at comparable exchange rates).
  - New equipment sales declined by 3.4% (by 0.3% at comparable rates). Service (maintenance and modernization) sales grew by 7.7% (9.0%), with maintenance sales growing by 5.9% (7.2%) and modernization sales by 10.8% (12.4%).
  - Sales in the EMEA region grew by 7.3% at historical rates (by 9.4% at comparable exchange rates), 14.3% in the Americas region (14.3%), and declined by 10.4% in the Asia-Pacific region (-6.9%).
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- **In 2016**, new equipment sales declined by 2.9% (at comparable rates, sales grew by 0.2%). Service (maintenance and modernization) sales grew by 7.5% (8.8%), with maintenance sales growing by 5.0% (6.2%) and modernization sales by 13.8% (15.4%).
  - Sales in the EMEA region grew by 3.2% at historical rates (by 4.9% at comparable exchange rates), 13.1% in the Americas region (13.5%), and declined by 4.3% in the Asia-Pacific region (-0.7%).



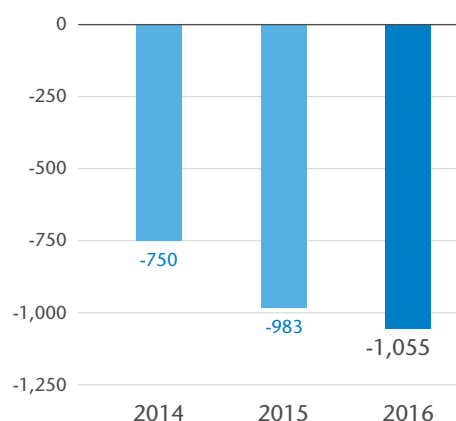
## Key Figures

### EBIT (MEUR)



- **In October–December 2016** operating income was 15.1% of net sales (10–12/2015: 14.8%).
- The growth in operating income was driven by positive development in all businesses, and geographically, the EMEA and Americas regions contributed to the growth.
- **In 2016**, operating income was 14.7% of net sales (1–12/2015: 14.4%).
- Operating income grew driven by a positive development in all businesses. The growth was driven by a broad-based positive development across geographical regions, in Europe and North America in particular.
- Unfavorable translation exchange rates clearly burdened the growth in operating income with a negative impact of EUR 44 million.

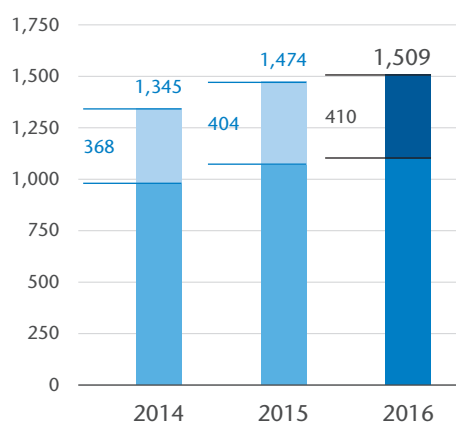
### Net working capital<sup>1)</sup> (MEUR)



- **In 2016**, net working capital improved as a result of an improved level of advances received relative to inventories.

<sup>1)</sup> Including financing items and taxes

### Cash flow<sup>2)</sup> (MEUR)



- **In October–December 2016** cash flow from operations was EUR 409.8 (10–12/2015: 403.5) million.

- **In 2016**, cash flow generated from operations was strong. The cash flow was driven by growth in operating income and continued favorable development in working capital.

<sup>2)</sup> Cash flow from operations before financing items and taxes



## KONE's January–December 2016 review

### Accounting principles

The information presented in this report is based on the audited KONE 2016 Financial Statements. KONE Corporation's financial statement bulletin has been prepared in line with IAS 34, 'Interim Financial Reporting'. KONE has applied the same accounting principles in the preparation of the financial statement bulletin as in the Financial Statements for 2016.

### October–December 2016 review

#### Operating environment in October–December

In the fourth quarter of 2016, the global new equipment market volumes were rather stable compared to the previous year's corresponding period. The new equipment market in China declined slightly in units and clearly in monetary value. The new equipment market in the Europe, Middle East and Africa (EMEA) region was rather stable, while the market in North America continued to grow slightly. Modernization demand continued to see growth across regions. Also the maintenance market continued to grow globally, with the strongest rate of growth seen in the Asia-Pacific region and more moderate development in Europe and North America.

**In the EMEA region**, the new equipment market in Central and North Europe declined from a high comparison level. The most positive development was seen in the residential segment. Of the larger markets in the area, Germany grew significantly, while the market in Great Britain declined significantly due to continued market uncertainty. In South Europe, the new equipment market grew slightly and remained uncertain in the Middle East. The modernization market grew significantly in Central and North Europe, while in South Europe, modernization demand declined slightly. The maintenance market continued to grow in the EMEA region, although the rate of growth varied between countries.

**In North America**, the new equipment market continued to grow slightly. The market in the United States grew slightly from a high level, driven by positive development in both residential and commercial segments. Also the modernization and maintenance markets saw slight growth in North America.

**In the Asia-Pacific region**, new equipment market volumes were rather stable in the fourth quarter. The new equipment market in China, the largest market in the region, declined slightly in units. In monetary value, it declined clearly. The residential construction segment declined slightly, while the commercial segment was rather stable. The infrastructure segment continued to grow driven by stimulus measures. In China, the higher-tier cities continued to develop positively, while the development in lower-tier cities was weaker. However, the situation varied across cities. The new equipment market in India declined due to overall economic uncertainty during the quarter. The Southeast Asian new equipment markets grew, but the situation varied by country. The new equipment market in Australia declined slightly but remained at a

high level, while the modernization market continued to grow. The maintenance market in Asia-Pacific continued to develop positively across the region.

In the fourth quarter, trends in the pricing environment remained varied. In China, pricing competition in new equipment remained intense. In the EMEA region, pricing in new equipment remained rather challenging in the South European markets in particular. In North America, new equipment pricing continued to develop positively. In maintenance and modernization, the pricing environment continued to be characterized by strong competition in the EMEA region, particularly in South Europe and also in some of the Central and North European markets. Also in North America, pricing competition remained rather intense in maintenance but continued to develop positively in modernization.

#### Financial performance in October–December

**Orders received** declined by 5.5% as compared to October–December 2015 and totaled EUR 1,839 (10–12/2015: 1,947) million. At comparable exchange rates, KONE's orders received declined by 2.9%.

New equipment orders declined somewhat, with clear decline in the volume business and a rather stable development in the major projects business. In modernization, orders received grew somewhat. The relative margin of orders received declined slightly, but remained at a good level. Orders received consist predominantly of new equipment and modernization orders. Maintenance contracts are not included in orders received, but the figure includes orders related to the maintenance business, such as repairs.

Orders received grew slightly at comparable exchange rates in the EMEA region with slight growth in Central and North Europe and some decline in South Europe and Middle East. In the Americas region, KONE's orders received grew significantly driven by a continued positive development in the United States. Orders received saw a significant decline in the Asia-Pacific region. Orders received grew slightly outside China but declined strongly in China.

**KONE's net sales** grew by 1.2% as compared to October–December 2015, and totaled EUR 2,593 (10–12/2015: 2,562) million. At comparable exchange rates KONE's net sales grew by 3.6%.

New equipment sales accounted for EUR 1,437 (1,488) million and represented a decrease of 3.4% over the comparison period. At comparable exchange rates, new equipment sales decreased by 0.3%.

Service (maintenance and modernization) sales grew by 7.7% and totaled EUR 1,156 (1,073) million. At comparable exchange rates, service sales grew by 9.0%. Maintenance sales was EUR 733.6 (692.4) million and grew by 5.9% at historical and by 7.2% at comparable exchange rates. Maintenance sales include elevator and escalator maintenance as well as KONE's automatic doors business. Modernization sales grew



## KONE's January–December 2016 review

### SALES BY AREA, MEUR

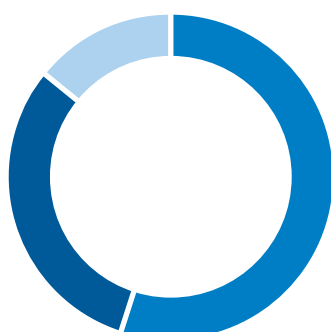
	1-12/2016	1-12/2015	Historical change	Comparable change
EMEA <sup>1)</sup>	3,476.8	3,369.6	3.2%	4.9%
Americas	1,658.5	1,466.0	13.1%	13.5%
Asia-Pacific	3,648.9	3,811.8	-4.3%	-0.7%
<b>Total</b>	<b>8,784.3</b>	<b>8,647.3</b>	<b>1.6%</b>	<b>3.9%</b>

<sup>1)</sup> EMEA = Europe, Middle East, Africa

### SALES BY BUSINESS, MEUR

	1-12/2016	1-12/2015	Historical change	Comparable change
New equipment	4,793.0	4,934.8	-2.9%	0.2%
Maintenance	2,772.5	2,641.5	5.0%	6.2%
Modernization	1,218.7	1,071.0	13.8%	15.4%
<b>Total</b>	<b>8,784.3</b>	<b>8,647.3</b>	<b>1.6%</b>	<b>3.9%</b>

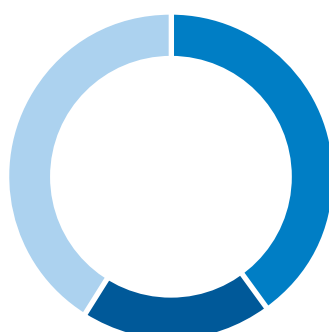
#### Sales by business



■ New equipment 55% (57%)  
 ■ Maintenance 31% (31%)  
 ■ Modernization 14% (12%)

1-12/2016 (1-12/2015)

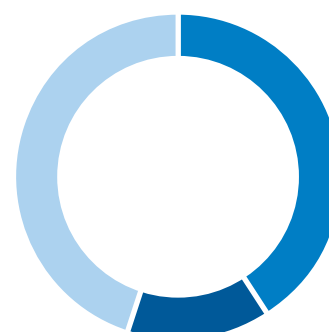
#### Sales by area



■ EMEA 40% (39%)  
 ■ Americas 19% (17%)  
 ■ Asia-Pacific 41% (44%)

1-12/2016 (1-12/2015)

#### Personnel by area



■ EMEA 41% (42%)  
 ■ Americas 14% (13%)  
 ■ Asia-Pacific 45% (45%)

December 31, 2016: 52,104  
 (December 31, 2015: 49,734)

by 10.8% and totaled EUR 422.2 (381.1) million. At comparable exchange rates, modernization sales grew by 12.4%.

Sales in the EMEA region grew by 7.3% and totaled EUR 1,105 (1,030) million. At comparable exchange rates, sales grew by 9.4%. Sales in the Americas region accounted for EUR 535.6 (468.6) million and represented an increase of 14.3% over the comparison period. At comparable exchange rates, the growth was 14.3%. Sales in the Asia-Pacific region

declined by 10.4% and totaled EUR 952.2 (1,063) million. At comparable exchange rates, the decline was 6.9%.

**KONE's operating income (EBIT)** for the October–December 2016 period totaled EUR 392.2 (378.5) million or 15.1% (14.8%) of net sales. The growth in operating income was driven by positive development in all businesses, and geographically, the EMEA and Americas regions contributed to the growth. The progress made in product and cost competitiveness as well as focused pricing actions helped in offsetting the



## KONE's January–December 2016 review

intense price pressure that was seen in many markets. KONE continued to increase activity in areas that support the growth of the business, particularly in growth markets as well as R&D, process development and IT. Unfavorable translation exchange rates burdened the growth in operating income with a negative impact of EUR 14 million.

**Cash flow from operations** in October–December 2016 (before financing items and taxes) was EUR 409.8 (403.5) million. The cash flow remained strong, driven mainly by the positive development in operating income. Net working capital was stable at a good level as a result of advance payments received that remained favorable relative to inventories.

### January–December 2016 review

#### Operating environment

In 2016, the global new equipment market declined slightly due to a decline in the large Chinese new equipment market. Of the other markets, the new equipment markets in the EMEA region saw slight growth, and also the new equipment demand in North America grew slightly from a high level. The modernization market grew globally with positive development across regions. Also the maintenance market continued to grow globally. The fastest rate of growth was seen in Asia-Pacific, while the growth rate was lower in the more mature markets.

In the EMEA region, the new equipment market in Central and North Europe grew slightly, driven by the residential segment in particular. Of the larger markets, Germany continued to develop positively, while uncertainty in Great Britain increased in the second half of 2016. In South Europe, the new equipment market was rather stable and showed positive signs in demand. However, the market remained at a low level. The new equipment market in France and Italy was stable at a low level, while the market in Spain continued to grow, albeit from a low level. In the Middle East, the new equipment market was rather stable. The modernization market grew clearly in Central and North Europe, in Germany in particular. In South Europe, the modernization market showed signs of recovery compared to the previous year. The maintenance market grew in the EMEA region, although the growth rate varied by country.

In North America, the new equipment market grew slightly from a high level. The growth was driven by the United States, which saw a broad-based positive development across segments. Also the modernization demand continued to grow slightly in North America. In maintenance, the market saw slight growth, but competition remained rather intense.

In the Asia-Pacific region, the new equipment market declined slightly in 2016 due to the decline in China. In China, the new equipment market declined clearly in monetary value. In unit terms, the market declined somewhat. Both residential and commercial segments declined, while the smaller

infrastructure segment grew significantly, supported by government stimulus actions. The market environment in China varied clearly between regions. The higher-tier cities continued to see a rather strong level of demand, while the development was weaker in the lower-tier cities. In other areas of the Asia-Pacific region, the new equipment market in India grew slightly compared to the previous year, while the Southeast Asian markets were mixed. In Australia, the new equipment market remained at a high level, while the modernization market continued to grow. Maintenance markets in Asia-Pacific continued to grow.

KONE competes with various companies in all geographic areas. Particularly in services, the market environment is fragmented with numerous smaller and larger competitors. In 2016, the pricing environment remained varied. In China, pricing competition in the new equipment market intensified compared to the previous year. In the EMEA region, the pricing environment in new equipment remained rather challenging in the South European markets in particular. The pricing of new equipment in North America continued to improve. In maintenance, the pricing environment was characterized by strong competition in the EMEA region, particularly in South Europe and also in some of the Central and North European markets. In North America, price competition remained rather intense in maintenance, but slightly eased in modernization.

#### Orders received and order book

Orders received declined by 4.2% in 2016 and totaled EUR 7,621 (1–12/2015: 7,959) million. At comparable exchange rates, KONE's orders received decreased by 1.6%. In 2016, KONE's orders received declined somewhat in new equipment with clear decline in the volume business and clear growth in major projects. Also in modernization, orders received grew clearly. The orders received consist predominantly of new equipment and modernization orders. Maintenance contracts are not included in orders received, but the figure includes orders related to the maintenance business, such as repairs.

The order book grew by 4.7% compared to the end of 2015 and stood at a level of EUR 8,592 (December 31, 2015: 8,210) million at the end of 2016. At comparable exchange rates, the increase was 5.4%. The relative margin of orders received declined slightly during the second half of the year, but the order book margin remained at a healthy level. A focused pricing strategy as well as good progress in overall product competitiveness, including cost, have helped in sustaining healthy relative margins. Cancellations of orders remained at a very low level.

KONE's new equipment orders received in the elevator and escalator units amounted to approximately 158,000 units (2015: approximately 161,000 units).

**Orders received in the EMEA region** grew somewhat at comparable exchange rates as compared to 2015. New



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equipment orders grew somewhat in the region. They grew in Central and North Europe, with Germany and the Nordic countries contributing most to the growth. In South Europe, new equipment orders were stable with significant growth in Spain, clear growth in Italy, and slight decline in France. In the Middle East, new equipment orders grew somewhat. KONE's modernization order intake in the EMEA region grew clearly as compared to 2015, with positive development across the region.

**Orders received in the Americas region** grew clearly at comparable rates as compared to 2015. New equipment orders received grew somewhat, due to a positive development in the United States in particular. In modernization, orders received saw significant growth in the region.

**Orders received in the Asia-Pacific region** declined clearly at comparable rates as compared to the previous year. New equipment orders received declined clearly in the region with significant decline in China, the largest contributor in the region. In the rest of Asia-Pacific, the situation was mixed. In India, new equipment orders grew slightly, while in Australia orders declined clearly. Modernization orders received grew clearly in the Asia-Pacific region.

### Net sales

Net sales increased in 2016 by 1.6% as compared to the prior year, and totaled EUR 8,784 (1–12/2015: 8,647) million. At comparable exchange rates the increase was 3.9%. The sales consolidated from the companies acquired in 2016 did not have a material impact on KONE's net sales for the financial period.

New equipment sales accounted for EUR 4,793 (4,935) million and represented a decrease of 2.9% over the comparison period. At comparable exchange rates, new equipment sales grew by 0.2%.

KONE delivered approximately 136,000 new elevator and escalator units in 2016 (2015: approximately 137,000 elevator and escalator units).

Service (maintenance and modernization) sales increased by 7.5%, and totaled EUR 3,991 (3,713) million. At comparable exchange rates, service sales grew by 8.8%. Maintenance sales grew by 5.0% at historical and by 6.2% at comparable exchange rates, and totaled EUR 2,773 (2,642) million. Modernization sales increased by 13.8%, and totaled EUR 1,219 (1,071) million. At comparable exchange rates, modernization sales increased by 15.4%.

KONE's elevator and escalator maintenance base continued to grow by over 6% and was clearly over 1,100,000 units at the end of 2016 (close to 1,100,000 units at the end of 2015). The growth of the maintenance base was driven, in particular, by a continued good level of conversions of new equipment deliveries to the maintenance base. Acquisitions also contributed to the growth. In 2016, the balance of maintenance contracts that were won from or lost to competition was still slightly negative, but it was at a better level than at the

end of the previous year. Another factor burdening the growth of the maintenance base was the usual impact from equipment taken out of use due to building closures.

The share of new equipment sales was 55% (57%) and the share of service sales 45% (43%) of total sales, with maintenance representing 31% (31%) and modernization 14% (12%) of total sales. The geographical distribution of net sales was 40% (39%) EMEA, 19% (17%) Americas and 41% (44%) Asia-Pacific. The largest individual countries in terms of net sales were China, the United States, France and Germany. China's share was approximately 30%, United States' share approximately 15%, France's and Germany's share approximately 5% of KONE's total net sales in 2016.

**Sales in the EMEA region** grew by 3.2% and totaled EUR 3,477 (3,370) million. At comparable exchange rates, the growth was 4.9%. New equipment sales grew somewhat, maintenance sales grew slightly and modernization sales grew clearly.

**Sales in the Americas region** grew by 13.1% and totaled EUR 1,659 (1,466) million. At comparable exchange rates, the growth was 13.5%. Sales grew significantly in new equipment and in modernization. Maintenance sales grew somewhat.

**Sales in the Asia-Pacific region** declined by 4.3% and totaled EUR 3,649 (3,812) million. At comparable exchange rates, the decline was 0.7% with some decline in new equipment but significant growth in maintenance and very strong growth in modernization.

### Financial result

KONE's operating income (EBIT) grew in 2016 and reached EUR 1,293 (1–12/2015: 1,241) million or 14.7% (14.4%) of net sales. Operating income grew driven by a positive development in all businesses. The growth was driven by a broad-based positive development across geographical regions, in Europe and North America in particular. The progress made in product cost competitiveness as well as focused pricing actions helped in offsetting the intense price pressure that was seen in many markets. KONE continued to increase activity in areas that support the growth of the business, particularly in growth markets as well as R&D, process development and IT. Unfavorable translation exchange rates clearly burdened the growth in operating income with a negative impact of EUR 44 million.

Net financing items was EUR 35.8 (122.4) million. Net financing items consist mainly of interest income from investments. In the comparison period, an extraordinary dividend received from Toshiba Elevator and Building Systems Corporation (TELCO), amounting to EUR 118.2 million, had a strongly positive impact on financing income. In addition, in the comparison period the revaluation of option liabilities related to the acquisitions burdened the net financing items.

KONE's income before taxes was EUR 1,330 (1,364) million. Taxes totaled EUR 307.7 (311.4) million. This represents an effective tax rate of 23.1% (22.8%) for the financial year. In the comparison period, the effective tax rate was favorably



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impacted by the extraordinary dividend from Toshiba Elevator and Building Systems Corporation (TELC). Net income for the period under review was EUR 1,023 (1,053) million.

Basic earnings per share was EUR 2.00 (2.01).

### Financial position and cash flow

KONE's financial position was very strong at the end of December 2016.

Cash flow from operations during January–December 2016 (before financing items and taxes) was EUR 1,509 (1–12/2015: 1,474) million. The cash flow was driven by growth in operating income and continued favorable development in net working capital.

Net working capital improved and was at the end of December 2016 EUR –1,055 (December 31, 2015: –983.4) million, including financing items and taxes. This was a result of an improved level of advances received relative to inventories.

Interest-bearing net debt at the end of December 2016 was EUR –1,688 (December 31, 2015: –1,513) million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,086 (1,903) million at the end of the reporting period. Interest-bearing liabilities were EUR 405.5 (406.1) million, including a net pension liability of EUR 176.7 (169.2) million and short-term loans of EUR 15.4 (12.0) million. In addition, the interest-bearing net debt includes EUR 10.5 (192.4) million of option liabilities from acquisitions. The interest-bearing debt was impacted by the payment of the option liability related to GlantKONE during 2016. Gearing was –60.4%, compared with –58.7% at the end of 2015. KONE's total equity/total assets ratio was 46.8% at the end of December 2016 (December 31, 2015: 45.4%).

Equity per share was EUR 5.42 (4.94).

### Capital expenditure and acquisitions

KONE's capital expenditure, including acquisitions, totaled EUR 226.6 (1–12/2015: 157.6) million. Capital expenditure, excluding acquisitions, was mainly related to facilities and equipment in R&D, IT, operations and production. Acquisitions accounted for EUR 99.2 (64.9) million of this figure.

In 2016, KONE's larger acquisitions included a majority stake in Citylift in Spain, City Elevator Company in the United States, thyssenkrupp Hissit Oy, the Finnish subsidiary of thyssenkrupp, and Capital Elevator Services in the United States. In addition, KONE completed other smaller acquisitions of maintenance businesses in Europe and in the United States during the reporting period. The acquisitions completed during the reporting period did not individually or as a whole have a material impact on the result or financial position of KONE.

During the reporting period, KONE completed the acquisition of the remaining 20% stake in its Chinese subsidiary GiantKONE for approximately EUR 180 million. KONE has fully consolidated GiantKONE in its consolidated financial statements since December 2011, and therefore the acquisition did not have an impact on KONE's sales or operating income.

### Research and development

Research and development expenses totaled EUR 140.5 (1–12/2015: EUR 121.7) million, representing 1.6% (1.4%) of net sales. R&D expenses include the development of new product and service concepts and the further development of existing solutions and services. KONE's elevators and escalators are based on industry-leading energy efficient technology.

KONE's customers and users are at the center of the company's research and development efforts. KONE's vision is to deliver the best People Flow® experience by providing ease, effectiveness and experiences to its customers and thus improving the flow of urban life. KONE aims to offer industry-leading solutions that provide the best value for customers over the lifecycle through latest technologies and strong partnerships.

During the reporting year, KONE started co-operation with IBM. KONE will use IBM's Watson IoT Cloud Platform to collect and store equipment data, build applications and develop new solutions in order to create added value to its customers with cloud-based services. KONE also expanded its relationship with Salesforce in 2016 to further improve its customer service. Salesforce's Service Cloud Lightning will enable KONE to deliver faster, smarter and more personalized service for its customers worldwide.

In 2016, KONE continued to enhance its offering, launching both a number of new solutions as well as enhancements to its existing solutions. In the United States and Canada, KONE introduced the KONE MonoSpace® 500 volume elevator offering. In China and the rest of the Asia-Pacific region, KONE released several updates and enhancements to its existing elevators in both commercial and residential segments. In addition, KONE further extended its elevator range in India. In order to comply with various new safety standard requirements, KONE launched an updated offering and made updates to KONE NanoSpace™ and KONE ProSpace™ residential segment elevators in Europe. In modernization, KONE extended its offering in Europe with the launch of the KONE HydroMod™ 200 modernization solution for hydraulic elevators.

Globally KONE enhanced its People Flow Intelligence offering by launching a next generation destination product for office segment, and improving the KONE Access solution by making it fully compatible with almost any other access control system in the building.

During the reporting year, KONE also opened a new U.S. manufacturing and R&D facility in Allen, Texas. The new facility houses the supply operations of the KONE Americas region as well as a research and development center, including a test tower.

In 2016, KONE was ranked 56th out of the 100 most innovative companies in the world by business magazine Forbes (2015: 48th). KONE was included in the Forbes' list for the sixth consecutive year and was the only elevator and escalator company featured on the list in 2016. In addition, KONE received recognition for its design during 2016. KONE was



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awarded three design awards: the iF Design Award for KONE Card Collector and two Red Dot Product Design Awards, for KONE DT6 ride comfort measurement tool and KONE Ron-del Light, a new solution for elevator car lighting. This was the fourth time that KONE was recognized in the iF Design Awards.

### Changes in the organization and in the Executive Board

In 2016, KONE announced changes in the organization and in the Executive Board.

KONE's internal management structure changed as of April 1, 2016. Pierre Liautaud, who has previously served as Executive Vice President for West and South Europe as well as Africa since 2011, also assumed responsibility for the Middle East. This change will enable synergies between the Middle East and Africa, and thus support KONE's growth strategy in both regions.

Thomas Hinnerskov joined KONE on September 1, 2016 as Executive Vice President for Central and North Europe and Member of the Executive board. He reports to Henrik Ehrnrooth, President and CEO. Thomas Hinnerskov succeeds Noud Veeger, who left KONE as of April 2, 2016.

Ilkka Hara joined KONE as CFO and member of the Executive Board on August 8, 2016. He reports to Henrik Ehrnrooth, President and CEO. Ilkka Hara succeeds Eriikka Söderström, who left KONE as of July 31, 2016.

Axel Berkling was appointed as Executive Vice President for the Asia-Pacific region and member of the Executive Board as of October 1, 2016. He reports to Henrik Ehrnrooth, President and CEO. The Asia-Pacific region covers KONE's business in this geography excluding China. Axel Berkling succeeds Neeraj Sharma who has decided to pursue other interests outside KONE.

### Personnel

The objective of KONE's personnel strategy is to help the company meet its business targets. The main goals of this strategy are to further secure the availability, engagement, motivation and continuous development of the company's personnel. All of KONE's activities are guided by ethical principles. The personnel's rights and responsibilities include the right to a safe and healthy working environment, personal well-being as well as the prohibition of any kind of discrimination.

One of the five development programs launched at the beginning of 2014 was defined as "A Winning Team of True Professionals". The development program as such was successfully completed in 2016. The program involved various initiatives, which targeted to help all employees perform at their best, to enhance the systematic development of field competences, and to ensure the attraction of the right talent to all positions. KONE saw positive development across initiatives and will continue its active work with these topics going forward as well.

In 2016, performance discussions were completed for 95% of KONE's eligible personnel and a record number of 97% had a documented individual development plan in place. During the year, KONE paid special attention to how to improve the quality of performance discussion, including preparation for the discussions, constructive two-way discussions, employee coaching and encouraging employees to use their strengths even better.

KONE continued its efforts on competence development during the reporting period. KONE offered over 3,600 training programs and online modules and several new trainings programs were launched during the year. At the end of 2016, KONE had over 30 training centers around the world. During the reporting year, special emphasis was given to local training capabilities, active school collaboration and development of training tools. KONE also continued to develop online learning with its e-learning platform in use in nearly all KONE countries with 124,000 completed courses in 2016. In addition, employee development through internal job rotation opportunities remained a focus area at KONE through the "Visit a job" concept. The concept has proved to be an efficient way to improve on-the-job learning and boost cross-unit collaboration. The short-term job rotation opportunities were warmly welcomed by employees with over 400 "Visit a job" rotations during 2016.

In 2016, talent attraction activities continued with a specific focus on strengthening KONE's global school collaboration. During 2016, co-operation started successfully with 75 new schools around the world. In addition to increased school collaboration, the number of trainee and internship positions at KONE increased clearly.

KONE's eleventh global employee survey was carried out in December 2016. The survey results will be published during the first quarter of 2017 and concrete actions plans will be made based on the results.

During the year, improving safety at work remained a high priority area at KONE. The IIFR (Industrial Injury Frequency Rate) improved further and was 2.1 in 2016 (2015: 2.3). The average lost days per incident improved as well to 32.5 days (2015: 38). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 70%. KONE's fifth annual Safety Week was held in all KONE units in May 2016 with the theme "Safety is our business". Various safety related activities were held during the week, both for internal and external stakeholders.

KONE had 52,104 (December 31, 2015: 49,734) employees at the end of December 2016. The average number of employees was 50,905 (1–12/2015: 48,469). Employee costs for the reporting period totaled EUR 2,634 (2,446) million. The geographical distribution of KONE employees was 41% (December 31, 2015: 42%) in EMEA, 14% (13%) in the Americas and 45% (45%) in Asia-Pacific.



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### Environment

For KONE, environmental responsibility is a combination of offering its customers innovative solutions that are both energy- and cost-efficient, and reducing the adverse environmental impacts of its own operations. In KONE's long-term environmental targets, the company aims to be a leading provider of low-carbon People Flow® solutions and to have efficient low-carbon operations. KONE strives to further strengthen its position as the industry leader in sustainability by supporting green building initiatives and the ongoing transformation of the urban environment into smart eco-cities globally.

The most significant environmental impact of KONE's business globally relates to the amount of electricity used by KONE's solutions during their lifetime, underlining the importance of eco-efficient innovations. Accordingly, KONE focuses on further improving the energy efficiency of its elevators, escalators, and building doors. KONE also continuously aims to minimize its operational carbon footprint and to ensure that its suppliers comply with corresponding requirements and environmental targets. The most significant impact of KONE's operational carbon footprint relates to logistics, the company's vehicle fleet, and the electricity consumption of KONE's facilities.

In line with its Environmental Excellence program, KONE continued to develop the energy efficiency of its solutions in 2016. During the fourth quarter of 2016, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard. KONE E MonoSpace® and KONE Z MiniSpace™ elevators achieved the highest A-class classification during 2016 in addition to ten elevators classified earlier. Also KONE TransitMaster™ 140 escalator achieved the highest A+++ classification for escalators in addition to KONE TravelMaster™ 110 escalator classified already in the previous year.

During the fourth quarter of 2016, CDP, an international non-profit organization focusing on environmental performance, identified KONE as a world leader for its actions in response to climate change. For the second year running, KONE was awarded a position on the global CDP Climate A List out of thousands of companies assessed by CDP. During 2016, KONE also received recognition as a leading supplier for action on climate change and was recognized on the new global CDP Supplier A List. The Supplier A List includes the best 2% of companies responding to CDP's supplier program at the request of 75 multinational purchasers, including KONE's customers.

In July and December 2016, KONE was confirmed as a constituent of the FTSE4Good Index, a global sustainability index measuring the performance of companies that demonstrate strong environmental, social and governance practices. KONE performed particularly well in environmental themes, reaching top marks in both climate change and pollution as well as resource related issues.

KONE published its Sustainability Report 2015 in June 2016. The report follows the Global Reporting Initiative G4 reporting guidelines when applicable. The most significant environmental achievements in 2015 included reductions in reported greenhouse gas emissions from the company's own operations. KONE's 2015 carbon footprint relative to overall operations (net sales) decreased by 4.4% compared to 2014, with sales growth calculated at comparable exchange rates. KONE's greenhouse gas reporting has been assured by an objective third party. In November 2016, KONE's Sustainability Report 2015 was chosen as the best report of the year in the NGO's Choice category of Sustainability Reporting Award Finland. This year the choice was made by Greenpeace Finland. According to the feedback from the jury, sustainability is strongly integrated into KONE's values and business operations.

### Other events

In 2007 a decision was issued by the European Commission concerning alleged local anticompetitive practices before early 2004 in Germany, Luxembourg, Belgium and the Netherlands by leading elevator and escalator companies, including KONE's local subsidiaries. Also, the Austrian Cartel Court issued in 2007 a decision concerning anticompetitive practices that had taken place before mid-2004 in local Austrian markets by leading elevator and escalator companies, including KONE's local subsidiary. As announced by KONE earlier, a number of civil damage claims by certain companies and public entities, relating to the two 2007 decisions, are pending in related countries. The claims have been made against various companies concerned by the decisions, including certain KONE companies. All claims are independent and are progressing procedurally at different stages. The total capital amount claimed jointly and severally from all of the defendants together was EUR 237 million at the end of December 2016 (December 31, 2015: EUR 262 million). KONE's position is that the claims are without merit. No provision has been made.

### Most significant risks

KONE is exposed to risks that may arise from its operations or changes in the operating environment. The risk factors described below can potentially have an adverse effect on KONE's business operations and financial position and, as a result, on the value of the company. Other risks, which are currently either unknown or considered immaterial to KONE may, however, become material in the future.

### STRATEGIC RISKS

A weakening of the global economic environment could result in a deterioration of the market environment and the competitive situation in the industry. In particular, a stronger than anticipated decline or a prolonged weakness of the construction market could result in a significant decline in the new



## KONE's January–December 2016 review

equipment market and a more challenging market environment for services. In particular, a sustained market decline in China, which accounts for approximately 30% of KONE's sales, could have an adverse effect on KONE's growth and profitability.

Digitalization, and the resulting new customer requirements as well as potential new competition, ecosystems and business models, could have a significant impact on the elevator and escalator industry. A failure to anticipate or address changes in the external market environment could result in a deterioration of KONE's growth, competitiveness, market share or profitability.

KONE operates in an industry with various local regulatory requirements. Sudden or unanticipated changes in regulations, equipment codes or standards may result in a need for process or technology adjustments, which could adversely impact KONE's profit development in affected countries. In addition, an increase in geopolitical tensions or a rise in regulatory protectionism could result in more challenging market conditions in affected countries. Such developments could have an adverse impact on KONE's operations.

A significant part of KONE's component suppliers and global supply capacity is located in China, both in the elevator and in the escalator business. Therefore KONE's operations may be adversely impacted by changes in trade agreements or introduction of restrictions to trade.

### OPERATIONAL RISKS

As one of the leading companies in the industry, KONE has a strong brand and reputation, meaning that reputation or brand issues could have an impact on KONE's business and financial performance. Such reputation risks could materialize e.g. in the case of an incident or a product quality issue. Issues with product integrity or quality could also have an impact on KONE's financial performance.

KONE operates in certain high growth markets, where focused management of rapid business growth is required. This applies in particular to the availability of skilled personnel, the adequate supply of components and materials, and the ability to ensure the quality of delivered products and services. Failure to adequately manage resourcing, quality of delivery, or other critical aspects in projects, could have an adverse impact on KONE's profitability.

KONE's business activities are dependent on the uninterrupted operation, quality and reliability of its manufacturing facilities, sourcing channels, operational service solutions and logistics processes. KONE's operations also utilize information technology extensively and its business is dependent on the quality and availability of information. Thus, in addition to physical risks, KONE is exposed to cyber security risks as operational information systems and products may be vulnerable to interruption, loss of data or malfunctions which can result in disruptions in processes and equipment availability and therefore impact KONE's business. Such cyber incidents could be caused by, including but not limited to, cyber-attacks, com-

puter malware, denial of service attacks, fraudulent attempts and data breaches.

The majority of components used in KONE's supply chain are sourced from external suppliers, which exposes KONE to component price risk as well as raw material price risk. Therefore stronger than anticipated increases in raw material and component prices may have a significant impact on KONE's profitability.

### FINANCIAL RISKS

The majority of KONE's sales is denominated in other currencies than the euro, which exposes KONE to risks arising from foreign exchange rate fluctuations. KONE is also exposed to counterparty risks related to financial institutions through the significant amounts of liquid funds that are deposited with financial institutions in the form of financial investments and in derivatives. Additionally, KONE is exposed to risks related to the liquidity and payment schedules of its customers, which may lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 2016.

### Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on March 7, 2016. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2015.

The number of Members of the Board of Directors was confirmed as eight. Re-elected as Members of the Board were Matti Alahuhta, Anne Brunila, Antti Herlin, Iris Herlin, Jussi Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikäinen.

At its meeting held after the General Meeting, the Board of Directors elected from among its members Antti Herlin as its Chairman and Jussi Herlin as Vice Chairman.

Jussi Herlin was elected as Chairman and Anne Brunila, Antti Herlin and Ravi Kant as members of the Audit Committee. Anne Brunila and Ravi Kant are independent of both the company and of significant shareholders.

Antti Herlin was elected as Chairman and Matti Alahuhta, Jussi Herlin and Juhani Kaskeala as members of the Nomination and Compensation Committee. Juhani Kaskeala is independent of both the company and of significant shareholders and Matti Alahuhta is independent of significant shareholders.

The General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 44,000 for the Vice Chairman and EUR 33,000 for Board Members. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings. For Committee Members residing outside of Finland, a compensation of EUR 2,000 for attendance at Committee meetings was approved. Of the annual remuneration, 40 percent will be paid in class B shares of KONE Corporation and the rest in cash.



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The General Meeting approved the authorization for the Board of Directors to repurchase KONE's own shares. Altogether no more than 52,440,000 shares may be repurchased, of which no more than 7,620,000 may be class A shares and 44,820,000 class B shares. The authorization shall remain in effect for a period of one year from the date of decision of the General Meeting.

Authorized public accountants PricewaterhouseCoopers Oy and Niina Vilske were nominated as the Company's auditors.

The General Meeting approved dividends of EUR 1.3975 for each of the 76,208,712 class A shares and EUR 1.40 for each of the outstanding 436,957,058 class B shares. The date of record for dividend distribution was March 9, 2016 and dividends were paid on March 16, 2016.

### Share capital and market capitalization

In 2013, KONE granted a conditional option program. The stock options 2013 were listed on Nasdaq Helsinki Ltd. as of April 1, 2015. The total number of stock options was 750,000 and 55,000 of them are held by KONE Corporation's subsidiary. During the reporting period, 749,438 new KONE class B shares were subscribed for with the 2013 option rights. On December 31, 2016 a maximum of 514,278 shares could be subscribed for with the remaining outstanding option rights. Each option entitles its holder to subscribe for two (2) new class B shares at the price of, from December 31, 2016, EUR 24.00 per share. The share subscription period for the stock option 2013 is April 1, 2015–April 30, 2017.

In December 2013, KONE granted a conditional 2014 option program. The stock options 2014 were listed on Nasdaq Helsinki Ltd. as of April 1, 2016. The total number of stock options was 1,500,000 and 133,000 of them are held by KONE Corporation's subsidiary. During the reporting period, 13,130 class B shares were subscribed for with the 2014 option rights. On December 31, 2016, a maximum of 1,353,870 shares can be subscribed for with the remaining outstanding option rights. Each option entitles its holder to subscribe for one (1) new class B KONE share at the price of, from December 31, 2016, EUR 28.20 per share. The share subscription period for the stock options 2014 is April 1, 2016–April 30, 2018.

In December 2014, KONE granted a conditional 2015 option program. Stock options 2015 are granted according to the decision of the Board of Directors on December 18, 2014 to approximately 560 key employees. The decision was based on the authorization received from the Shareholders' meeting on March 1, 2010. A maximum total of 1,500,000 options are granted. The original share subscription price for the option was EUR 36.20 per share and it is further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. The effective subscription price as per December 31, 2016 is EUR 33.60. Each stock option entitles its holder to subscribe for one (1) new or an existing company's own class B KONE share. The share subscription period for the stock options 2015 will be April 1, 2017–April 30, 2019. The share subscription period begins

accordingly on April 1, 2017 as the financial performance of the KONE Group for the financial years 2015–2016 based on the total consideration of the Board of Directors was equal to or better than the average performance of the key competitors of KONE.

KONE has two separate share-based incentive plans. One plan is targeted for the senior management of KONE including the President & CEO, members of the Executive Board and other top management, consisting of approximately 60 individuals. A second plan is targeted for other key personnel of KONE, totaling approximately 425 individuals. The potential reward is based on the annual growth in sales and operating income (EBIT) in both plans. However, KONE's Board of Directors has the possibility to change the basis of the target setting annually. The potential reward is to be paid as a combination of KONE class B shares and a cash payment equivalent to the taxes and similar charges that are incurred from the receipt of shares. Plans include conditions preventing participants from transferring and participants are obliged to return the shares and the cash payments if employment or service contract is terminated during a period of two years following the ending of each earning period. As part of the plan for the senior management, a long term target for the their ownership has been set.

On December 31, 2016, KONE's share capital was EUR 65,771,110.26 comprising 449,960,170 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 21,851 million on December 31, 2016, disregarding own shares in the Group's possession. Market capitalization is calculated on the basis of both the listed B shares and the unlisted A shares excluding treasury shares. Class A shares are valued at the closing price of the class B shares at the end of the reporting period.

### Shares in KONE's possession

During January–December 2016, KONE used its authorization to repurchase own shares. In April, 391,662 class B shares in the company's possession were assigned to the share-based incentive plan and 2,923 class B shares as a part of the board members' annual remuneration. In May, KONE bought back in total 1,000,000 of its own class B shares. In August, 21,752, in October 5,554 and in December, 10,876 class B shares were returned to KONE Corporation by virtue of the term of KONE Corporation's share-based incentive program for the years 2013–2015. At the end of December 2016, the Group had 12,884,141 class B shares in its possession. The shares in the Group's possession represent 2.9% of the total number of class B shares. This corresponds to 1.1% of the total voting rights.

### Shares traded on the Nasdaq Helsinki Ltd.

The Nasdaq Helsinki Ltd. traded 194.7 million KONE Corporation's class B shares in January–December 2016, equivalent to a turnover of EUR 8,075 million. The daily average trading volume was 769,607 shares (1–12/2015: 1,032,543). The share price on December 31, 2016 was EUR 42.57. The



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volume weighted average share price during the period was EUR 41.47. The highest quotation during the period under review was EUR 47.89 and the lowest EUR 35.50. In addition to the Nasdaq Helsinki Stock Exchange, KONE's class B share is traded also on various alternative trading platforms. The volume of KONE's B shares traded on the Nasdaq Helsinki Stock Exchange represented approximately 28.7% of the total volume of KONE's class B shares traded in January–December 2016 (source: Fidessa Fragmentation Index, <http://fragmentation.fidessa.com>).

The number of registered shareholders was 56,441 at the beginning of the review period and 57,471 at its end. The number of private households holding shares totaled 53,693 at the end of the period, which corresponds to approximately 13.2% of the listed B shares.

According to the nominee registers, 50.1% of the listed class B shares were owned by foreign shareholders on December 31, 2016. Other foreign ownership at the end of the period totaled 1.4%. Thus a total of 51.5% of KONE's listed class B shares were owned by international investors, corresponding to approximately 19.1% of the total votes in the company.

### Flagging notifications

During January–December 2016, BlackRock, Inc. announced several notices to KONE Corporation in accordance with the Finnish Securities Market Act, Chapter 9, Section 10. The notices were announced on January 6, January 7, January 8, March 17, March 18, March 21, April 29, September 1, October 20 and October 28. All notices have been released as stock exchange releases and are available on KONE Corporation's internet pages at [www.kone.com](http://www.kone.com). According to the latest notification, released on October 31, 2016, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on October 27, 2016.

### Market outlook 2017

In new equipment, the market in China is expected to decline by 0–5% in units ordered and also the competition to continue intense. In the rest of Asia-Pacific, the market is expected to grow. The market in North America and Europe, Middle East and Africa region is expected to grow slightly.

The modernization market is expected to grow slightly in Europe and in North America, and to develop strongly in Asia-Pacific.

Maintenance markets are expected to see the strongest growth rate in Asia-Pacific, and to grow slightly also in other regions.

### Business outlook 2017

KONE's net sales is estimated to grow by -1% to 3% at comparable exchange rates as compared to 2016.

The operating income (EBIT) is expected to be in the range of EUR 1,180–1,300 million, assuming that translation exchange rates would remain at approximately the average level of January 2017.

The sales outlook is based on KONE's maintenance base and order book as well as the market outlook.

KONE's operating income outlook is based on the current sales forecast combined with factors impacting profitability. In 2017, profitability is expected to be impacted by factors such as improved quality and productivity, pricing and business mix, a slight decrease in the margin of orders received in 2016 as well as cost pressures resulting from increased material costs and R&D and IT spend.

### The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2016 was EUR 1,896,466,275.82 of which the net profit for the financial year is EUR 870,373,574.84.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.5475 be paid on the outstanding 76,208,712 class A shares and EUR 1.55 on the outstanding 437,076,029 class B shares, resulting in a total amount of proposed dividends of EUR 795,400,826.77.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,101,065,449.05 be retained and carried forward.

The Board proposes that the dividends be payable on March 9, 2017. All the shares existing on the dividend record date are entitled to dividend for the year 2016 except for the own shares held by the parent company.

### Annual General Meeting 2017

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Tuesday, February 28, 2017 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 26, 2017

KONE Corporation's Board of Directors



## Consolidated statement of income

MEUR	10-12/2016	%	10-12/2015	%	1-12/2016	%	1-12/2015	%
<b>Sales</b>	2,593.2		2,561.8		8,784.3		8,647.3	
Costs and expenses	-2,172.4		-2,157.7		-7,384.5		-7,305.9	
Depreciation and amortization	-28.6		-25.6		-106.5		-100.0	
<b>Operating income</b>	392.2	15.1	378.5	14.8	1,293.3	14.7	1,241.5	14.4
Share of associated companies' net income	0.2		-0.0		1.2		0.6	
Financing income	10.6		130.3		66.8		198.9	
Financing expenses	-13.7		-33.7		-31.0		-76.5	
<b>Income before taxes</b>	389.3	15.0	475.0	18.5	1,330.3	15.1	1,364.4	15.8
Taxes	-91.3		-102.4		-307.7		-311.4	
<b>Net income</b>	298.1	11.5	372.7	14.5	1,022.6	11.6	1,053.1	12.2
<b>Net income attributable to:</b>								
Shareholders of the parent company	297.5		364.6		1,023.7		1,032.3	
Non-controlling interests	0.6		8.1		-1.1		20.7	
<b>Total</b>	298.1		372.7		1,022.6		1,053.1	
<b>Earnings per share for profit attributable to the shareholders of the parent company, EUR</b>								
Basic earnings per share, EUR	0.58		0.71		2.00		2.01	
Diluted earnings per share, EUR	0.58		0.71		1.99		2.00	

## Consolidated statement of comprehensive income

MEUR	10-12/2016	10-12/2015	1-12/2016	1-12/2015
<b>Net income</b>	298.1	372.7	1,022.6	1,053.1
<b>Other comprehensive income, net of tax:</b>				
Translation differences	52.4	32.1	-23.2	177.4
Hedging of foreign subsidiaries	-15.7	-7.4	-8.6	-23.5
Cash flow hedges	-16.0	-12.1	-13.7	-10.7
<b>Items that may be subsequently reclassified to statement of income</b>	20.7	12.6	-45.5	143.2
Remeasurements of employee benefits	31.3	2.1	-9.9	-11.6
<b>Items that will not be reclassified to statement of income</b>	31.3	2.1	-9.9	-11.6
<b>Total other comprehensive income, net of tax</b>	51.9	14.7	-55.3	131.6
<b>Total comprehensive income</b>	350.0	387.3	967.3	1,184.6
<b>Total comprehensive income attributable to:</b>				
Shareholders of the parent company	349.4	379.2	968.4	1,163.9
Non-controlling interests	0.6	8.1	-1.1	20.7
<b>Total</b>	350.0	387.3	967.3	1,184.6



# Condensed consolidated statement of financial position

## Assets

MEUR		Dec 31, 2016	Dec 31, 2015
<b>Non-current assets</b>			
Goodwill		1,371.8	1,306.7
Other intangible assets		292.9	271.5
Tangible assets		368.3	345.4
Loan receivables and other interest-bearing assets	I	7.4	7.0
Investments		129.9	122.7
Employee benefits	I	-	8.4
Deferred tax assets	II	318.4	299.7
<b>Total non-current assets</b>		<b>2,488.5</b>	<b>2,361.4</b>
<b>Current assets</b>			
Inventories	II	1,373.5	1,326.7
Accounts receivable	II	1,573.7	1,480.2
Deferred assets and income tax receivables	II	429.8	434.0
Current deposits and loan receivables	I	1,496.6	1,350.6
Cash and cash equivalents	I	589.2	552.7
<b>Total current assets</b>		<b>5,462.8</b>	<b>5,144.2</b>
<b>Total assets</b>		<b>7,951.3</b>	<b>7,505.6</b>

## Equity and liabilities

MEUR		Dec 31, 2016	Dec 31, 2015
<b>Equity</b>			
		2,795.6	2,575.5
<b>Non-current liabilities</b>			
Loans	I	203.1	32.5
Employee benefits	I	176.7	169.2
Deferred tax liabilities	II	154.2	140.9
<b>Total non-current liabilities</b>		<b>534.0</b>	<b>342.6</b>
<b>Provisions</b>	II	<b>183.2</b>	<b>173.6</b>
<b>Current liabilities</b>			
Loans	I	25.8	204.4
Advance payments received	II	1,976.9	1,829.4
Accounts payable	II	743.3	728.9
Accruals and income tax payables	II	1,692.5	1,651.3
<b>Total current liabilities</b>		<b>4,438.5</b>	<b>4,414.0</b>
<b>Total equity and liabilities</b>		<b>7,951.3</b>	<b>7,505.6</b>

Items designated " I " comprise interest-bearing net debt.

Items designated " II " comprise net working capital.



# Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2016	65.7	100.3	140.7	-16.2	272.1	-103.6	-210.6	2,279.1		48.0	2,575.5
Net income for the period									1,023.7	-1.1	1,022.6
Other comprehensive income:											
Translation differences					-23.2						-23.2
Hedging of foreign subsidiaries					-8.6						-8.6
Cash flow hedges				-13.7							-13.7
Remeasurements of employee benefits						-9.9					-9.9
Transactions with shareholders and non-controlling interests:											
Profit distribution								-718.2			-718.2
Increase in equity (option rights)	0.1		18.3								18.4
Purchase of own shares							-39.3				-39.3
Change in non-controlling interests								9.1		-34.2	-25.1
Option and share-based compensation			7.1				13.1	-3.1			17.1
Dec 31, 2016	65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	1,566.7	1,023.7	12.7	2,795.6

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2015	65.6	100.3	127.0	-5.5	118.3	-92.0	-150.8	1,855.0		44.5	2,062.4
Net income for the period									1,032.3	20.7	1,053.1
Other comprehensive income:											
Translation differences					177.4						177.4
Hedging of foreign subsidiaries					-23.5						-23.5
Cash flow hedges				-10.7							-10.7
Remeasurements of employee benefits						-11.6					-11.6
Transactions with shareholders and non-controlling interests:											
Profit distribution								-616.3			-616.3
Increase in equity (option rights)	0.1		13.7								13.8
Purchase of own shares							-71.2				-71.2
Change in non-controlling interests										-17.3	-17.3
Option and share-based compensation							11.4	8.0			19.4
Dec 31, 2015	65.7	100.3	140.7	-16.2	272.1	-103.6	-210.6	1,246.7	1,032.3	48.0	2,575.5



# Condensed consolidated statement of cash flows

MEUR	10-12/2016	10-12/2015	1-12/2016	1-12/2015
Operating income	392.2	378.5	1,293.3	1,241.5
Change in working capital before financing items and taxes	-10.9	-0.6	109.7	132.3
Depreciation and amortization	28.6	25.6	106.5	100.0
<b>Cash flow from operations before financing items and taxes</b>	<b>409.8</b>	<b>403.5</b>	<b>1,509.5</b>	<b>1,473.7</b>
Cash flow from financing items and taxes	-92.7	32.2	-331.0	-27.0
<b>Cash flow from operating activities</b>	<b>317.1</b>	<b>435.7</b>	<b>1,178.4</b>	<b>1,446.7</b>
Cash flow from investing activities	-37.5	-41.3	-197.6	-155.0
<b>Cash flow after investing activities</b>	<b>279.6</b>	<b>394.4</b>	<b>980.8</b>	<b>1,291.8</b>
Purchase of own shares	-	-	-39.3	-71.2
Increase in equity (option rights)	6.9	0.2	18.4	13.5
Profit distribution	-	-	-718.2	-616.3
Change in deposits and loans receivable, net	-307.1	-360.0	-154.2	-373.3
Change in loans payable and other interest-bearing debt	143.7	-4.1	-20.9	-15.9
Changes in non-controlling interests	-0.2	-	-26.7	-18.4
<b>Cash flow from financing activities</b>	<b>-156.8</b>	<b>-363.9</b>	<b>-941.0</b>	<b>-1,081.4</b>
<b>Change in cash and cash equivalents</b>	<b>122.8</b>	<b>30.5</b>	<b>39.8</b>	<b>210.3</b>
Cash and cash equivalents at beginning of period	464.2	518.8	552.7	336.1
Translation difference	2.1	3.4	-3.3	6.2
<b>Cash and cash equivalents at end of period</b>	<b>589.2</b>	<b>552.7</b>	<b>589.2</b>	<b>552.7</b>

## CHANGE IN INTEREST-BEARING NET DEBT

MEUR	10-12/2016	10-12/2015	1-12/2016	1-12/2015
Interest-bearing net debt at beginning of period	-1,368.7	-1,137.6	-1,512.6	-911.8
Interest-bearing net debt at end of period	-1,687.6	-1,512.6	-1,687.6	-1,512.6
<b>Change in interest-bearing net debt</b>	<b>-318.9</b>	<b>-375.0</b>	<b>-175.0</b>	<b>-600.8</b>



# Notes for the interim report

## KEY FIGURES

		1-12/2016	1-12/2015
Basic earnings per share	EUR	2.00	2.01
Diluted earnings per share	EUR	1.99	2.00
Equity per share	EUR	5.42	4.94
Interest-bearing net debt	MEUR	-1,687.6	-1,512.6
Total equity/total assets	%	46.8	45.4
Gearing	%	-60.4	-58.7
Return on equity	%	38.1	45.4
Return on capital employed	%	34.1	41.7
Total assets	MEUR	7,951.3	7,505.6
Assets employed	MEUR	1,108.0	1,062.9
Net working capital (including financing and tax items)	MEUR	-1,054.8	-983.4

The calculation formulas of key figures are presented in KONE's Annual Review for 2016.

## QUARTERLY FIGURES

		Q4/2016	Q3/2016	Q2/2016	Q1/2016	Q4/2015	Q3/2015	Q2/2015	Q1/2015
Orders received	MEUR	1,839.2	1,771.7	2,067.8	1,942.3	1,947.2	1,764.5	2,193.5	2,053.8
Order book	MEUR	8,591.9	8,699.0	8,763.6	8,529.7	8,209.5	8,350.7	8,627.4	8,529.6
Sales	MEUR	2,593.2	2,170.2	2,272.6	1,748.3	2,561.8	2,184.2	2,210.4	1,690.9
Operating income	MEUR	392.2	331.1	348.6	221.4	378.5	325.9	325.2	211.9
Operating income	%	15.1	15.3	15.3	12.7	14.8	14.9	14.7	12.5

		Q4/2014	Q3/2014	Q2/2014	Q1/2014	Q4/2013	Q3/2013	Q2/2013	Q1/2013
Orders received	MEUR	1,703.8	1,577.2	1,801.9	1,729.7	1,473.2	1,327.2	1,638.2	1,712.4
Order book	MEUR	6,952.5	6,995.8	6,537.2	6,175.4	5,587.5	5,642.1	5,874.4	5,823.1
Sales	MEUR	2,165.8	1,877.9	1,848.9	1,441.8	2,033.0	1,739.2	1,761.7	1,398.7
Operating income	MEUR	315.3	277.5	263.2	179.6	292.8	257.5	242.8	160.4
Operating income	%	14.6	14.8	14.2	12.5	14.4	14.8	13.8	11.5

		Q4/2012	Q3/2012	Q2/2012	Q1/2012	Q4/2011	Q3/2011	Q2/2011	Q1/2011
Orders received	MEUR	1,321.3	1,295.6	1,513.4	1,365.9	1,098.8	1,095.4	1,226.2	1,044.7
Order book	MEUR	5,050.1	5,283.7	5,305.3	4,842.8	4,348.2	4,143.2	3,947.7	3,737.5
Sales	MEUR	1,857.7	1,633.7	1,544.1	1,241.3	1,588.8	1,296.2	1,286.4	1,053.8
Operating income	MEUR	257.4	226.4	210.3 <sup>1)</sup>	134.6	233.0	188.9	184.5	118.7
Operating income	%	13.9	13.9	13.6 <sup>1)</sup>	10.8	14.7	14.6	14.3	11.3

		Q4/2010	Q3/2010	Q2/2010	Q1/2010	Q4/2009	Q3/2009	Q2/2009	Q1/2009
Orders received	MEUR	1,006.3	865.2	1,042.8	894.7	813.5	766.5	953.9	898.5
Order book	MEUR	3,597.8	3,657.9	3,933.7	3,638.5	3,309.1	3,603.4	3,754.1	3,753.1
Sales	MEUR	1,488.8	1,235.9	1,258.9	1,003.0	1,426.8	1,127.3	1,168.6	1,021.0
Operating income	MEUR	227.3	184.8	175.7	108.6	202.7	160.1	146.3 <sup>2)</sup>	91.2
Operating income	%	15.3	15.0	14.0	10.8	14.2	14.2	12.5 <sup>2)</sup>	8.9

<sup>1)</sup> Excluding a MEUR 37.3 cost related to the support function development and cost adjustment programs.

<sup>2)</sup> Excluding a MEUR 33.6 restructuring cost related to the fixed cost adjustment program.



## Notes for the interim report

### SALES BY GEOGRAPHICAL REGIONS

MEUR	1-12/2016	%	1-12/2015	%
EMEA <sup>1)</sup>	3,476.8	40	3,369.6	39
Americas	1,658.5	19	1,466.0	17
Asia-Pacific	3,648.9	41	3,811.8	44
<b>Total</b>	<b>8,784.3</b>		<b>8,647.3</b>	

<sup>1)</sup> EMEA = Europe, Middle East, Africa

### ORDERS RECEIVED

MEUR	1-12/2016	1-12/2015
	7,621.0	7,958.9

### ORDER BOOK

MEUR	Dec 31, 2016	Dec 31, 2015
	8,591.9	8,209.5

### CAPITAL EXPENDITURE AND ACQUISITIONS

MEUR	1-12/2016	1-12/2015
In fixed assets	99.6	76.4
In leasing agreements	27.8	16.3
In acquisitions	99.2	64.9
<b>Total</b>	<b>226.6</b>	<b>157.6</b>

### DEPRECIATION AND AMORTIZATION

MEUR	1-12/2016	1-12/2015
Depreciation and amortization of fixed assets	76.9	72.1
Amortization of acquisition-related intangible assets	29.5	27.9
<b>Total</b>	<b>106.5</b>	<b>100.0</b>

### R&D EXPENDITURE

MEUR	1-12/2016	1-12/2015
	140.5	121.7
R&D Expenditure as percentage of sales	1.6	1.4

### NUMBER OF EMPLOYEES

	1-12/2016	1-12/2015
Average	50,905	48,469
At the end of the period	52,104	49,734



## Notes for the interim report

### COMMITMENTS

MEUR	Dec 31, 2016	Dec 31, 2015
Guarantees		
Others	11.2	6.9
Operating leases	315.6	277.7
<b>Total</b>	<b>326.8</b>	<b>284.6</b>

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,411 (1,323) million as of December 31, 2016.

KONE leases cars, machinery & equipment and buildings under operating leases with varying terms.

#### The future minimum lease payments under non-cancellable operating leases

MEUR	Dec 31, 2016	Dec 31, 2015
Less than 1 year	73.1	73.6
1–5 years	162.6	153.8
Over 5 years	79.9	50.3
<b>Total</b>	<b>315.6</b>	<b>277.7</b>

### INVESTMENTS

The shares held include a 19.9% holding in Toshiba Elevator and Building Systems Corporation (TELC). TELC is an investment in equity instruments that does not have a quoted price in an active market. The fair value of TELC shares cannot be reliably measured because the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed. TELC is classified as an available-for-sale investment and measured at cost.

Investments include also non-current loans receivable and smaller available-for-sale investments in other companies without public quotation. These investments are measured at cost since the fair values cannot be reliably measured.



## Notes for the interim report

### DERIVATIVES

Fair values of derivative financial instruments	Derivative assets	Derivative liabilities	Fair value, net	Fair value, net
MEUR	Dec 31, 2016	Dec 31, 2016	Dec 31, 2016	Dec 31, 2015
Foreign exchange forward contracts and swaps	33.9	-39.9	-6.0	5.0
Cross-currency swaps	-	-	-	6.5
Electricity price forward contracts	-	-0.4	-0.4	-1.2
<b>Total</b>	<b>33.9</b>	<b>-40.3</b>	<b>-6.4</b>	<b>10.3</b>

Nominal values of derivative financial instruments	Dec 31, 2016	Dec 31, 2015
MEUR		
Foreign exchange forward contracts and swaps	2,629.3	2,717.0
Cross-currency swaps	-	138.9
Electricity price forward contracts	1.6	2.6
<b>Total</b>	<b>2,630.9</b>	<b>2,858.5</b>

The fair values of foreign exchange forward contracts and swaps as well as the fair values of cross-currency swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2). For electricity price forward contracts, there exists a stock exchange price.

The fair values are represented on the balance sheet on a gross basis and can be set off on conditional terms. No collaterals or pledges have been given as a security against any liabilities or received against any assets arising from derivatives or other financial instruments. Financial contracts are executed only with counterparties that have high credit ratings. The credit risk of these counterparties as well as the present creditworthiness of KONE are considered when calculating the fair values of outstanding financial assets and liabilities.

## Shares and shareholders

Dec 31, 2016	Class A shares	Class B shares	Total
Number of shares	76,208,712	449,960,170	526,168,882
Own shares in possession <sup>1)</sup>		12,884,141	
Share capital, EUR			65,771,110
Market capitalization, MEUR			21,851
Number of B shares traded (millions), 1–12/2016		194.7	
Value of B shares traded, MEUR, 1–12/2016		8,075	
Number of shareholders	3	57,471	57,471
	Close	High	Low
Class B share price, EUR, Jan–Dec 2016	42.57	47.89	35.50

<sup>1)</sup> During January–December 2016, KONE used its authorization to repurchase own shares. In April, 391,662 class B shares in the company's possession were assigned to the share-based incentive plan and 2,923 class B shares as a part of the board members' annual remuneration. In May, KONE bought back in total 1,000,000 of its own class B shares. In August, 21,752, in October 5,554 and in December 10,876 class B shares were returned to KONE Corporation by virtue of the term of the KONE Corporation's share-based incentive program for the years 2013–2015.



At KONE, our mission is to improve the flow of urban life. As a global leader in the elevator and escalator industry, KONE provides elevators, escalators and automatic building doors, as well as solutions for maintenance and modernization to add value to buildings throughout their life cycle. Through more effective People Flow®, we make people's journeys safe, convenient and reliable, in taller, smarter buildings.

In 2016, KONE had annual net sales of EUR 8.8 billion, and at the end of the year over 52,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd. in Finland. [www.kone.com](http://www.kone.com)

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