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# KONE Q1 2017

Interim Report for January–March

# KONE's January–March 2017 review

## January–March 2017: Continued sales growth in a mixed operating environment

- Orders received declined by 1.5% to EUR 1,913 (1–3/2016: 1,942) million. At comparable exchange rates, the decline was 1.2%.
- Net sales grew by 3.5% to EUR 1,810 (1,748) million. At comparable exchange rates, the growth was 3.3%.
- Operating income (EBIT) was EUR 217.7 (221.4) million or 12.0% (12.7%) of net sales.
- Cash flow from operations (before financing items and taxes) was EUR 305.3 (305.7) million.

### Business outlook [specified]

KONE's net sales is estimated to grow by 0–3% at comparable exchange rates as compared to 2016. The operating income (EBIT) is expected to be in the range of EUR 1,200–1,290 million, assuming that translation exchange rates would remain at approximately the average level of January–March 2017.

*KONE previously estimated its net sales to grow by -1–3% at comparable exchange rates as compared to 2016. KONE's previous outlook for its operating income (EBIT) was EUR 1,180–1,300 million, assuming that translation exchange rates would have remained at approximately the average level of January 2017.*

## KEY FIGURES

		1–3/2017	1–3/2016	Change	1–12/2016
Orders received	MEUR	1,913.0	1,942.3	-1.5%	7,621.0
Order book	MEUR	9,129.0	8,529.7	7.0%	8,591.9
Sales	MEUR	1,810.3	1,748.3	3.5%	8,784.3
Operating income (EBIT)	MEUR	217.7	221.4	-1.7%	1,293.3
Operating income margin (EBIT margin)	%	12.0	12.7		14.7
Income before tax	MEUR	243.7	242.7	0.4%	1,330.3
Net income	MEUR	187.7	188.1	-0.2%	1,022.6
Basic earnings per share	EUR	0.36	0.37	-1.3%	2.00
Cash flow from operations (before financing items and taxes)	MEUR	305.3	305.7		1,509.5
Interest-bearing net debt	MEUR	-1,182.8	-1,037.6		-1,687.6
Total equity/total assets	%	40.7	38.6		46.8
Return on equity	%	30.1	33.1		38.1
Net working capital (including financing items and taxes)	MEUR	-1,148.0	-1,107.9		-1,054.8
Gearing	%	-53.9	-52.7		-60.4



## KONE's January–March 2017 review

Henrik Ehrnrooth, President and CEO:

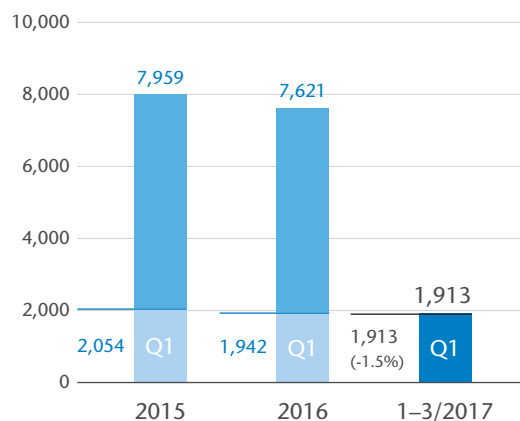
**"I am pleased with the solid start to the year in a mixed operating environment.** Our performance was strong on a broad basis although the result was burdened by price pressures seen in 2016 and by increasing raw material costs. I am also happy that the active development of our services business is delivering continued good growth. Our cash flow remained strong, which shows that we have maintained healthy business fundamentals and strong execution throughout our businesses. We saw good developments in the new equipment business in many regions. In the Americas, the new equipment orders grew significantly supported by the well-received 2016 product launches and positive development continued also in EMEA. In China, our sales and orders continued to decline year-on-year. However, order volumes were stable year-on-year and prices started to stabilize after having declined throughout 2016.

**The new phase in our strategy has begun with good momentum.** It is still early days in the new strategic phase, but so far our Winning with Customers strategy has been well received by both the customers and KONE's employees. During the quarter, we launched new ground-breaking services for elevators and escalators. Our new KONE Care™ service offering is an improved way of bringing value to our customers. It provides the ability to tailor services to the individual needs of customers. We also launched our new 24/7 Connected Services, which utilize the IBM Watson IoT platform. With these launches, we started a new era in services by bringing intelligence and predictability to the maintenance business. For our customers, it means a significant improvement in safety, transparency and predictability. These are some of the first steps that we are taking to drive even stronger differentiation in the service business. Thanks to the encouraging results of our new services and product launches, we continue to increase our development activity throughout KONE.

**For 2017, we have specified our business outlook** as the first quarter of the year is now behind us. We now expect sales growth of 0–3% at comparable rates, and the operating income to be in the range of EUR 1,200–1,290 million, assuming that the translation exchange rates would remain at the average level of January–March 2017. I am convinced that as a result of our development actions and strong execution, we will continue our solid performance in the coming quarters despite the headwinds we are facing this year."

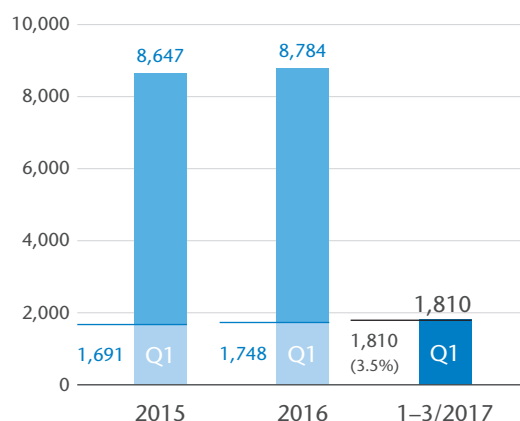
## Key Figures

### Orders received (MEUR)



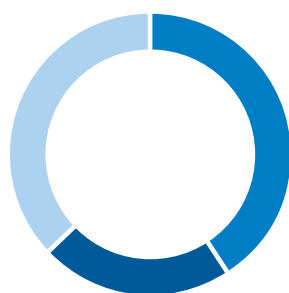
- In January–March 2017, orders received declined by 1.5% at historical exchange rates (1.2% at comparable exchange rates).
- At comparable rates, new equipment orders received declined slightly with a decline in the volume business and growth in major projects.
- At comparable rates, modernization orders received grew slightly with growth in the volume business and a decline in major projects.
- Orders received saw a positive development in the EMEA region and significant growth in the Americas region. In Asia-Pacific, orders received declined significantly.
- Margin of orders received declined slightly year-on-year but remained at a good level.

### Sales (MEUR)



- In January–March 2017, net sales increased by 3.5% at historical exchange rates (3.3% at comparable exchange rates).
- New equipment sales declined by 1.6% at historical exchange rates (-1.3% at comparable exchange rates). Service sales grew by 8.5% (7.7%), with maintenance sales growing by 7.9% (7.1%) and modernization sales by 10.3% (9.5%).
- Sales in the EMEA region grew by 4.5% at historical exchange rates (5.0% at comparable rates). Sales grew by 23.3% (19.6%) in the Americas region and declined by 6.1% (-5.8%) in the Asia-Pacific region.

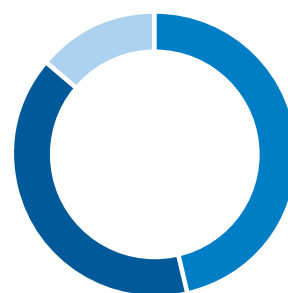
### Sales by region



- EMEA 41% (41%)
- Americas 22% (18%)
- Asia-Pacific 37% (41%)

1–3/2017 (1–3/2016)

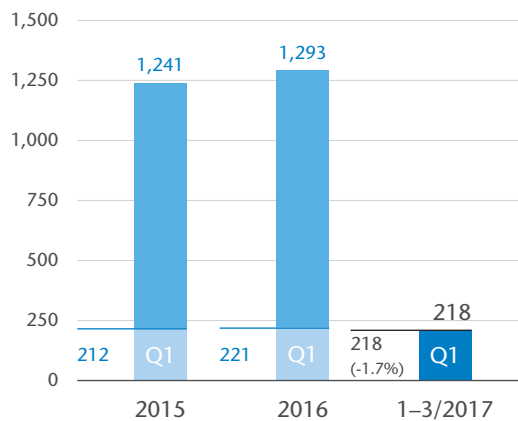
### Sales by business



- New equipment 47% (49%)
- Maintenance 40% (38%)
- Modernization 14% (13%)

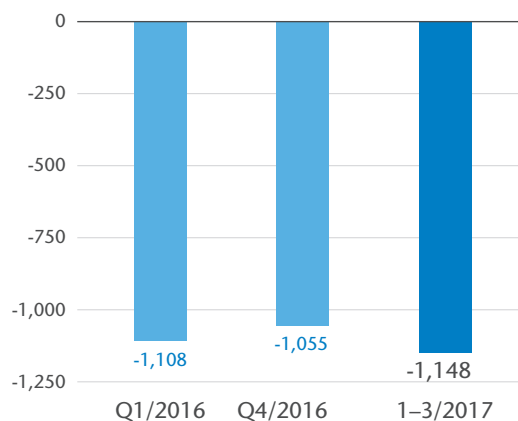
1–3/2017 (1–3/2016)

## EBIT (MEUR)



- In January–March 2017, operating income was 12.0% of net sales (1–3/2016: 12.7%)
- The progress was good in the service business and, geographically, in the EMEA and Americas regions. However, profitability was burdened by the price pressure seen in new equipment orders in China in 2016 combined with rising material costs as well as higher R&D and IT spend.
- Translation exchange rates had a negative impact of EUR 0.3 million on the operating income.

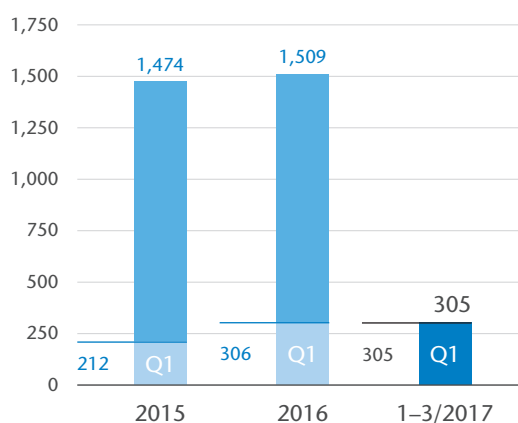
## Net working capital<sup>1)</sup> (MEUR)



- In January–March 2017, net working capital improved from an already good level.
- The improvement in net working capital was driven by a continued good level of advance payments relative to inventories. Other net working capital items were rather stable.

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

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



- In January–March 2017, cash flow from operations remained strong at EUR 305.3 million.
- Net working capital continued to contribute positively to the cash flow.

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

# KONE's January–March 2017 review

## KONE's operating environment

### Operating environment by region

	New equipment market 1–3/2017	Maintenance market 1–3/2017	Modernization market 1–3/2017
<b>Total market</b>	Stable	+	+
<b>EMEA</b>	+	+	+
Central and North Europe	+	+	+
South Europe	+	+	+
Middle East	+	+	++
<b>North America</b>	+	+	+
<b>Asia-Pacific</b>	Stable	+++	+++
China	Stable	+++	+++

--- Significant decline (>10%), -- Clear decline (5–10%), - Slight decline (<5%), Stable, + Slight growth (<5%), ++ Clear growth (5–10%), +++ Significant growth (>10%)

Not fully comparable with previously used terminology

### January–March 2017

The **global new equipment market** was rather stable compared to the first quarter of 2016 when measured in units. In **Asia-Pacific**, the new equipment volumes were stable. The new equipment market in **China** was stable in units, but continued to decline year-on-year in monetary value. The residential segment in China was impacted by the government's housing restriction measures, while the development in the commercial segment was slightly better. The infrastructure segment continued to grow driven by stimulus measures. Demand remained relatively stable in the higher-tier cities despite restrictions and there were some signs of improving demand in the lower-tier cities. In the rest of Asia-Pacific, the new equipment markets declined slightly. In the **EMEA region**, the new equipment market developed positively. New equipment demand in Central and North Europe grew with the residential segment continuing to see the most positive development. In South Europe, the market continued to see slight growth from a low level, whereas the picture remained mixed in the Middle East. In **North America**, the new equipment market growth was driven by the U.S., which saw a positive development across segments and areas.

**Global service markets** continued to grow. In modernization, the large European and North American modernization markets continued to see slight growth, while the smaller Asia-Pacific market grew significantly. Also the maintenance market continued to see growth across regions, with the strongest rate of growth seen in the Asia-Pacific region and slight growth in Europe and North America.

**Pricing trends** remained varied during the first quarter. In China, competition remained intense in new equipment, but pricing stabilized compared to the previous quarter. 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 services, 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. In North America, pricing competition also remained rather intense in maintenance but continued to develop positively in modernization.

## Orders received and order book

### Orders received

MEUR	1-3/2017	1-3/2016	Historical change <sup>1)</sup>	Comparable change <sup>2)</sup>	1-12/2016
Orders received	1,913.0	1,942.3	-1.5%	-1.2%	7,621.0

<sup>1)</sup> Change at historical foreign exchange rates

<sup>2)</sup> Change at comparable foreign exchange rates

### January–March 2017

Orders received declined by 1.5% as compared to January–March 2016 and totaled EUR 1,913 million. At comparable exchange rates, KONE's orders received declined by 1.2%.

New equipment orders declined slightly with a decline in the volume business and growth in major projects. In modernization, orders received grew slightly with growth in the volume business and decline in major projects. The relative margin of orders received declined slightly year-on-year, 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 in the EMEA region** grew slightly at comparable exchange rates as compared to January–March 2016. The growth in new equipment orders was driven by Central and North Europe, where orders saw clear growth. In South Europe and the Middle East, new equipment orders declined.

KONE's modernization orders received in the EMEA region grew clearly with growth in Central and North Europe and South Europe.

**Orders received in the Americas region** saw significant growth at comparable rates as compared to January–March 2016. The growth was driven by new equipment orders received, which saw significant growth driven by a positive development in the United States in particular. In modernization, orders received declined clearly in the region.

**Orders received in the Asia-Pacific region** declined significantly at comparable rates as compared to January–March 2016. The decline in new equipment orders received in the region was driven by significant decline of orders in China. In units, the new equipment orders in China were stable year-on-year. Also in the rest of Asia-Pacific, new equipment orders declined. In modernization, orders received grew across the region.

Terminology: Slight <5%, clear 5–10%, significant >10%. Not fully comparable with previously used terminology

### Order book

MEUR	March 31, 2017	March 31, 2016	Historical change <sup>1)</sup>	Comparable change <sup>2)</sup>	Dec 31, 2016
Order book	9,129.0	8,529.7	7.0%	5.0%	8,591.9

<sup>1)</sup> Change at historical foreign exchange rates

<sup>2)</sup> Change at comparable foreign exchange rates

The order book grew by 7.0% compared to the end of March 2016 and stood at a level of EUR 9,129 million at the end of the reporting period. At comparable exchange rates, the increase was 5.0%. 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 despite the strong price pressure seen in many markets. Cancellations of orders remained at a very low level.

## Net sales

### By region

MEUR	1-3/2017	1-3/2016	Historical change <sup>1)</sup>	Comparable change <sup>2)</sup>	1-12/2016
EMEA	744.5	712.4	4.5%	5.0%	3,476.8
Americas	391.0	317.0	23.3%	19.6%	1,658.5
Asia-Pacific	674.7	718.9	-6.1%	-5.8%	3,648.9
<b>Total</b>	<b>1,810.3</b>	<b>1,748.3</b>	<b>3.5%</b>	<b>3.3%</b>	<b>8,784.3</b>

<sup>1)</sup> Change at historical foreign exchange rates

<sup>2)</sup> Change at comparable foreign exchange rates

### By business

MEUR	1-3/2017	1-3/2016	Historical change <sup>1)</sup>	Comparable change <sup>2)</sup>	1-12/2016
New equipment	846.0	859.8	-1.6%	-1.3%	4,793.0
Services	964.2	888.5	8.5%	7.7%	3,991.2
Maintenance	719.7	666.9	7.9%	7.1%	2,772.5
Modernization	244.5	221.7	10.3%	9.5%	1,218.7
<b>Total</b>	<b>1,810.3</b>	<b>1,748.3</b>	<b>3.5%</b>	<b>3.3%</b>	<b>8,784.3</b>

<sup>1)</sup> Change at historical foreign exchange rates

<sup>2)</sup> Change at comparable foreign exchange rates

### January–March 2017

KONE's net sales grew by 3.5% as compared to January–March 2016, and totaled EUR 1,810 million. At comparable exchange rates, KONE's net sales grew by 3.3%. Sales growth was driven by services. Among the geographical regions, growth was strongest in Americas and weakest in Asia-Pacific.

**Sales in the EMEA region** grew by 4.5% at historical and 5.0% at comparable exchange rates and totaled EUR 744.5 million. New equipment and maintenance sales saw clear growth and modernization sales grew slightly.

**In the Americas**, sales grew by 23.3% and reached EUR 391.0 million. At comparable exchange rates, sales grew by

19.6%. New equipment and modernization sales grew significantly and maintenance sales grew clearly.

**In Asia-Pacific**, sales declined by 6.1% at historical and 5.8% by comparable exchange rates and totaled EUR 674.7 million. New equipment sales declined significantly while modernization sales grew clearly and maintenance sales grew significantly.

The share of new equipment sales was 47% (49%) and the share of service sales was 53% (51%) of total sales, with maintenance representing 40% (38%) and modernization 14% (13%).

The geographical distribution of net sales was 41% (41%) EMEA, 22% (18%) Americas and 37% (41%) Asia-Pacific.

Terminology: Slight <5%, clear 5–10%, significant >10%. Not fully comparable with previously used terminology



## Financial result

### Financial result

	1-3/2017	1-3/2016	Change	1-12/2016
Operating income, MEUR	217.7	221.4	-1.7%	1,293.3
Operating income margin, %	12.0%	12.7%		14.7%
Income before taxes, MEUR	243.7	242.7	0.4%	1,330.3
Net income, MEUR	187.7	188.1	-0.2%	1,022.6
Basic earnings per share, EUR	0.36	0.37	-1.3%	2.00

KONE's operating income (EBIT) declined slightly to EUR 217.7 million or 12.0% of net sales. Profitability was burdened by the price pressure seen in new equipment orders in China in 2016 combined with rising material costs. This was partly compensated by good development in services and, geographically, in the EMEA and Americas regions. KONE also continued to increase fixed costs in areas that support the growth of the business, particularly in growth markets as well as R&D, process

development and IT. Translation exchange rates had a negative impact of EUR 0.3 million on the operating income.

Income before taxes was EUR 243.7 million. Taxes totaled EUR 56.1 (54.6) million, taking into account taxes proportionate to the amount estimated for the financial year. This represents an effective tax rate of 23.0% (22.5%) for the full financial year. Net income for the period under review declined slightly to EUR 187.7 million. Basic earnings per share was EUR 0.36.

## Cash flow and financial position

### Cash flow and financial position

	1-3/2017	1-3/2016	1-12/2016
Cash flow from operations (before financing items and taxes), MEUR	305.3	305.7	1,509.5
Net working capital (including financing items and taxes), MEUR	-1,148.0	-1,107.9	-1,054.8
Interest-bearing net debt, MEUR	-1,182.8	-1,037.6	-1,687.6
Gearing	-53.9%	-52.7%	-60.4%
Total equity / total assets	40.7%	38.6%	46.8%
Equity per share, EUR	4.25	3.75	5.42

Cash flow from operations (before financing items and taxes) during January–March 2017 remained strong at EUR 305.3 million. Net working capital improved from an already good level to EUR -1,148 million at the end of March 2017, including financing items and taxes. The improvement in net working capital was driven by a good level of advance payments relative to inventories. Other net working capital items were rather stable during the quarter.

KONE's financial position was very strong at the end of March 2017. Interest-bearing net debt was EUR -1,183 million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 1,590 (2,086) million at the end of the reporting period. Interest-bearing liabilities were EUR 414.4 (405.5) million, including a net pension liability of EUR 179.9 (176.7) million and short-term loans of EUR 20.2 (15.4) million.

## Capital expenditure and acquisitions

### Capital expenditure & acquisitions

MEUR	1-3/2017	1-3/2016	1-12/2016
On fixed assets	19.3	26.6	99.6
On leasing agreements	4.5	6.4	27.8
On acquisitions	0.7	22.2	99.2
<b>Total</b>	<b>24.5</b>	<b>55.2</b>	<b>226.6</b>

KONE's capital expenditure and acquisitions totaled EUR 24.5 million in January–March 2017. Capital expenditure was mainly related to facilities and equipment in R&D, IT, operations and production.

Acquisitions totaled EUR 0.7 million in January–March 2017. KONE completed only a couple of small acquisitions of maintenance businesses in Europe.

## Research and development

### R&D expenditure

MEUR	1-3/2017	1-3/2016	1-12/2016
R&D expenditure, MEUR	36.6	30.2	140.5
As percentage of sales, %	2.0%	1.7%	1.6%

Research and development expenses totaled EUR 36.6 million, representing 2.0% of net sales in January–March 2017. R&D expenses include the development of new product and service concepts as well as the further development of existing solutions and services.

KONE's vision is to deliver the Best People Flow® experience by providing ease, effectiveness and experiences to its customers and users. In line with its strategy, Winning with Customers, the objective of KONE's solution and service development is to drive differentiation further by putting the needs of customers and users at the center of all development. By closer collaboration with customers and partners, KONE will increase the speed of bringing new services and solutions to the market.

During January–March 2017, KONE launched the new KONE Care™, a unique elevator maintenance offering designed to meet individual customer needs, and new 24/7 Connected Services, which bring more intelligent services to elevators and escalators. With KONE Care™, which can be fully customized to meet the individual needs of our customers, KONE brings new levels of flexibility to elevator maintenance. KONE's 24/7

Connected Services uses the IBM Watson Internet of Things platform to bring new added value to customers and enables elevator data to be monitored and analyzed to improve equipment performance. Both the new KONE service offering and 24/7 Connected Services will be commercially broadly available during 2017 with the roll-out continuing throughout 2018.

In addition, KONE launched several updates to its existing product offering during the reporting period. The next generation of the inclined KONE Travel Master™ autowalk was launched providing easy and safe access for environments with demanding people flow needs. In India, KONE launched a small-machine-room, gearless elevator KONE Neo™ for the residential segment. Furthermore, KONE released various updates to its existing offering

in different geographic regions.

In March, KONE unveiled its renewed high-rise elevator testing facility in Tytyri, Finland. The test lab reaches a depth of 350 meters and hosts the world's tallest elevator test shaft. As a result, KONE can develop and test the ultimate high-rise innovations and technologies under extreme conditions.

### HIGHLIGHTS Q1/2017

- KONE revolutionized elevator maintenance with its new customizable KONE Care™ service offering and 24/7 Connected Services
- KONE opened its renewed high-rise test laboratory in Tytyri, Finland

## Personnel

### KONE employees

	1-3/2017	1-3/2016	1-12/2016
Number of employees at the end of period	52,270	50,107	52,104
Average number of employees	52,161	49,889	50,905

### Geographical distribution of KONE employees

	1-3/2017	1-3/2016	1-12/2016
EMEA	21,531	21,033	21,432
Americas	7,040	6,478	7,039
Asia-Pacific	23,699	22,597	23,634
<b>Total</b>	<b>52,270</b>	<b>50,107</b>	<b>52,104</b>

The objective of KONE's personnel strategy is to help the company meet its business targets. The main goals 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.

KONE's new strategy, Winning with Customers, focuses on putting the needs of our customers and users at the center of all development at KONE in order to drive differentiation. Our people are the key to success in the new phase of our strategy, which requires us to develop and acquire new competences in the fields of digitalization, partnering, understanding customers' businesses and project management. In line with the new strategy, our aim is to be even more service-minded and open to innovation together with our customers and partners. The new strategy was launched in January 2017, and strategy communications started across KONE countries during the first quarter.

KONE's annual employee engagement survey was completed during the first quarter of 2017 with a record of 93%

of KONE's personnel responding to the survey. The first discussions around the survey results and action planning started during the first quarter. In addition, KONE's annual performance management round was carried out during the quarter

with a record number of employee performance discussions completed. In order to help all employees perform at their best, training and support was provided to both managers and employees in order to ensure mutually beneficial performance discussions.

During the reporting period, talent attraction activities continued with the KONE International Trainee Program (ITP). The program offers a number of trainee positions across KONE countries and is meant for university students who are at least halfway through their studies. KONE received

more than 2,000 applications for the positions from all around the world.

KONE continued to focus on employee development during the reporting period. Mobile learning games were tested for technical training, e.g. in the field of maintenance trouble shooting. In addition, the first fully virtual installation management program was launched, with participation around the world.

#### HIGHLIGHTS Q1/2017

- The new strategy was launched in January 2017 and strategy communications started across KONE
- KONE's annual employee engagement survey was completed during the first quarter of 2017 with a record response rate

## Environment

One of KONE's strategic targets is to be a leader in sustainability, and we strive for continuous improvement in everything we do. Improving resource efficiency is one of our top priorities and we work continuously to do things in a smart way. We have a strong track record in developing eco-innovations, and we pay special attention to the use of natural resources across the value chain.

According to KONE's environmental targets for 2017–2021, we aim to be the leading provider of low-carbon People Flow® solutions with efficient low-carbon operations. Our Environmental Excellence program supports the ongoing transformation of the built environment into smart eco-cities, low-carbon communities and net zero energy buildings.

In March 2017, we finalized the calculations of our 2016 carbon footprint. KONE's carbon footprint relative to net sales decreased by 4.1% compared to 2015, with sales growth calculated at comparable exchange rates. KONE's target is to reduce the carbon footprint relative to net sales by 3% annually. KONE's 2016 absolute operational carbon footprint amounted to 311,000 tons of carbon dioxide equivalent

(2015: 310,500; figure restated). The carbon footprint of scope 1 and 2 greenhouse gas emissions relative to net sales decreased by 5.4%. In absolute terms, the scope 1 and 2 carbon footprint decreased by 0.6%. The most significant impact

of KONE's operational carbon footprint relates to logistics, our vehicle fleet, and electricity consumption. The major achievements in reducing our carbon footprint in 2016 were related to energy efficiency improvements, particularly in the use of green electricity. The share of green electricity used at KONE facilities increased to 28% in 2016 (2015: 19%). KONE's data for scope 1, 2, and 3 greenhouse gas emissions, excluding waste, has been externally assured.

During the reporting period, KONE was recognized as a leading supplier for

action on climate change by CDP (Carbon Disclosure Project). In addition to achieving a top position on CDP's global A List of climate change disclosure and performance in late 2016, KONE was now awarded a position on CDP's global Supplier A List for the second year running. The Supplier A List includes the best 3% of companies responding at the request of 89 multinational purchasers, including KONE's customers.

### HIGHLIGHTS Q1/2017

- KONE's 2016 carbon footprint relative to net sales decreased 4.1% compared to 2015
- KONE was recognized as a leading supplier for action on climate change by CDP

## 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 234 million at the end of March 2017 (December 31, 2016: EUR 237 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 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, computer 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.



## Risk management

Risk	Mitigation actions
Weakening of the economic environment, in China in particular, and its impact on the global market environment	KONE strives to continuously develop its competitiveness in all regions and businesses. KONE has a wide geographic presence and a balanced business portfolio.
Failure to anticipate changes in the market environment, including new customer requirements, competition, ecosystems and business models enabled by digitalization.	KONE aims to be the industry leader by investing into research and development and having an open innovation approach. KONE also closely follows emerging market and industry trends.
Sudden changes in regulation, codes and standards, including a rise in regulatory protectionism.	In order to mitigate the risk of unanticipated changes in the regulatory environment, KONE is actively involved in the development of regulations, codes and standards.
Disruption in the global supply chain, in China in particular.	KONE actively develops business continuity management capabilities in order to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations and financial strength of its key suppliers. The aim is also to secure the availability of alternative sourcing channels for critical components and services. KONE also has a global property damage and business interruption insurance program in place.
Product integrity and quality issues as well as issues with reputation	To mitigate product risks, KONE has processes in place for product design, supply, manufacturing, installation and maintenance involving strict quality control. In addition, KONE aims at transparent and reliable communication to prevent reputational risks. In addition, KONE has stringent corporate governance principles.
Availability of adequate operational resources	KONE manages these risks through proactive project and resource planning and strict quality control processes.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems in development and operation, to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers, and trusted and well-known technology partners to manage the risks through the control framework.
Changes in raw material prices	In order to reduce the impact of material and sourcing price fluctuations, KONE aims to enter into fixed-price contracts with its major suppliers for a significant part of its raw material and component purchases.
Financial risks	Centralized risk management in accordance with the KONE Treasury Policy. More information in notes 2.4 and 5.3 of KONE's Financial Statements 2016.

## Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 28, 2017. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1-December 31, 2016.

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, Iiris 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. Matti Alahuhta was independent of significant shareholders

until March 31, 2017 and independent of both the company and of significant shareholders from April 1, 2017.

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 37,000 (previously 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.

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 auditors.

## Dividend 2016

The General Meeting approved dividends in line with the Board of Directors' proposal of EUR 1.5475 for each of the 76,208,712 class A shares and EUR 1.55 for each of the out-

standing 437,076,029 class B shares. The date of record for dividend distribution was March 2, 2017 and dividends were paid on March 9, 2017.

## Share-based incentives

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 450 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 their ownership has been set.

In 2013, KONE granted a conditional option program. The stock options 2013 were listed on the 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, no class B shares were subscribed for with the 2013 option rights. On March 31, 2017 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 March 1, 2017, EUR 22.45 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 the 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, no class B shares were subscribed for with the 2014 option rights. On March 31, 2017, a maximum of 1,353,870 shares could 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 March 1, 2017, EUR 26.65 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. The share subscription period began on April 1, 2017 since 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. The stock options 2015 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2017. The number of stock options was 1,500,000 and 131,000 of them are held by KONE Corpora-

tion's subsidiary. 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. Each stock option entitles its holder to subscribe for one (1) new class B KONE share at the price of, from March 1, 2017, EUR 32.05 per share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019.

## Share capital and market capitalization

### Share capital and market capitalization\*

	March 31, 2017	Dec 31, 2016
Number of class B shares	449,960,170	449,960,170
Number of class A shares	76,208,712	76,208,712
Total shares	526,168,882	526,168,882
Share capital	65,771,110	65,771,110
Market capitalization	21,127	21,851

\* 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

### Shares in KONE's possession

	1–3/2017
Shares in KONE's possession at the start of the period	12,884,141
Changes in own shares during the period	0
Shares in KONE's possession at the end of the period	12,884,141

At the end of March 2017, 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.

### Trading on the KONE share

		1-3/2017	1-3/2016	1-12/2016
Shares traded on the Nasdaq Helsinki Ltd., million		51.1	59.8	194.7
Average daily trading volume		797,958	980,008	769,607
Volume-weighted average share price	EUR	41.53	39.57	41.47
Highest share notation	EUR	45.71	43.35	47.89
Lowest share notation	EUR	39.77	35.50	35.50
Share notation at the end of period	EUR	41.16	42.36	42.57

In addition to the Nasdaq Helsinki Ltd., 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 25.4% of the total volume of KONE's class B shares traded in January–March 2017 (source: Fidessa Fragmentation Index, [www.fragmentation.fidessa.com](http://www.fragmentation.fidessa.com)).

The number of registered shareholders was 57,471 at the beginning of the review period and 61,025 at its end. The

number of private households holding shares totaled 57,045 at the end of the period, which corresponds to approximately 13.3% of the listed B shares.

According to the nominee registers 49.2% of the listed class B shares were owned by foreign shareholders on March 31, 2017. Other foreign ownership at the end of the period totaled 1.3%. Thus a total of 50.5% of KONE's listed class B shares were owned by international investors, corresponding to approximately 18.8% of the total votes in the company.

## Flagging notifications

During January–March 2017, The Capital Group Companies, Inc. announced a notice to KONE Corporation in accordance with the Finnish Securities Market Act, Chapter 9, Section 10. The notice was announced on March 10. The notice has been released as a stock exchange release and is available on KONE Corporation's internet pages at [www.kone.com](http://www.kone.com). According to

the notification, released on March 13, 2017, the total number of KONE Corporation shares owned by The Capital Group Companies, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on March 9, 2017.

## Outlook

### Market outlook 2017

North America		EMEA		Asia-Pacific	
New equipment	Services	New equipment	Services	New equipment	Services
Slight growth	Maintenance Slight growth  Modernization Slight growth	Slight growth	Maintenance Slight growth  Modernization Slight growth	China To decline by 0–5% in units, competition to continue intense  Outside China Growth	Maintenance Strong growth  Modernization Strong growth

### 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 in the 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 (specified)

KONE's net sales is estimated to grow by 0–3% at comparable exchange rates as compared to 2016.

The operating income (EBIT) is expected to be in the range of EUR 1,200–1,290 million, assuming that translation exchange rates would remain at approximately the average level of January–March 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 negative factors are expected to be more pronounced in the coming quarters than during the first quarter.

#### Previous business outlook

*KONE's net sales is estimated to grow by -1–3% 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.*

Helsinki, April 27, 2017

KONE Corporation's Board of Directors

## Accounting Principles

*KONE Corporation's Interim Report for January–March 2017 has been prepared in line with IAS 34, 'Interim Financial Reporting' and should be read in conjunction with KONE's financial statements for 2016, published on January 26, 2017. KONE has applied the same accounting principles in the preparation of this Interim Report as in its Financial Statements for 2016, except for the adoption of new standards and interpretations effective during 2017 that are relevant to its operations. The changes did not have a material impact on the Interim Report. The information presented in this Interim Report has not been audited.*



# Consolidated statement of income

MEUR	1-3/2017	%	1-3/2016	%	1-12/2016	%
<b>Sales</b>	1,810.3		1,748.3		8,784.3	
Costs and expenses	-1,564.2		-1,501.4		-7,384.5	
Depreciation and amortization	-28.4		-25.5		-106.5	
<b>Operating income</b>	217.7	12.0	221.4	12.7	1,293.3	14.7
Share of associated companies' net income	0.3		0.3		1.2	
Financing income	28.5		23.3		66.8	
Financing expenses	-2.8		-2.3		-31.0	
<b>Income before taxes</b>	243.7	13.5	242.7	13.9	1,330.3	15.1
Taxes	-56.1		-54.6		-307.7	
<b>Net income</b>	187.7	10.4	188.1	10.8	1,022.6	11.6
<b>Net income attributable to:</b>						
Shareholders of the parent company	185.4		187.8		1,023.7	
Non-controlling interests	2.2		0.3		-1.1	
<b>Total</b>	187.7		188.1		1,022.6	
<b>Earnings per share for profit attributable to the shareholders of the parent company, EUR</b>						
Basic earnings per share, EUR	0.36		0.37		2.00	
Diluted earnings per share, EUR	0.36		0.37		1.99	

## Consolidated statement of comprehensive income

MEUR	1-3/2017	1-3/2016	1-12/2016
<b>Net income</b>	187.7	188.1	1,022.6
<b>Other comprehensive income, net of tax:</b>			
Translation differences	-3.8	-79.0	-23.2
Hedging of foreign subsidiaries	5.6	11.8	-8.6
Cash flow hedges	4.4	-1.0	-13.7
<b>Items that may be subsequently reclassified to statement of income</b>	6.2	-68.2	-45.5
Remeasurements of employee benefits	-3.2	-15.1	-9.9
<b>Items that will not be reclassified to statement of income</b>	-3.2	-15.1	-9.9
<b>Total other comprehensive income, net of tax</b>	3.0	-83.3	-55.3
<b>Total comprehensive income</b>	190.6	104.8	967.3
<b>Total comprehensive income attributable to:</b>			
Shareholders of the parent company	188.4	104.5	968.4
Non-controlling interests	2.2	0.3	-1.1
<b>Total</b>	190.6	104.8	967.3

# Condensed consolidated statement of financial position

## Assets

MEUR		March 31, 2017	March 31, 2016	Dec 31, 2016
<b>Non-current assets</b>				
Goodwill		1,369.9	1,300.0	1,371.8
Other intangible assets		287.2	266.8	292.9
Tangible assets		369.7	347.4	368.3
Loan receivables and other interest-bearing assets	I	7.3	6.7	7.4
Investments		134.2	125.4	129.9
Employee benefits	I	-	9.1	-
Deferred tax assets	II	319.5	299.2	318.4
<b>Total non-current assets</b>		<b>2,487.8</b>	<b>2,354.6</b>	<b>2,488.5</b>
<b>Current assets</b>				
Inventories	II	1,516.2	1,428.6	1,373.5
Accounts receivable	II	1,502.5	1,421.6	1,573.7
Deferred assets	II	427.5	445.8	368.4
Income tax receivables	II	60.5	47.8	61.4
Current deposits and loan receivables	I	1,053.3	962.3	1,496.6
Cash and cash equivalents	I	536.6	483.4	589.2
<b>Total current assets</b>		<b>5,096.5</b>	<b>4,789.3</b>	<b>5,462.8</b>
<b>Total assets</b>		<b>7,584.3</b>	<b>7,143.9</b>	<b>7,951.3</b>

## Equity and liabilities

MEUR		March 31, 2017	March 31, 2016	Dec 31, 2016
<b>Equity</b>				
		2,195.8	1,969.2	2,795.6
<b>Non-current liabilities</b>				
Loans	I	203.9	34.2	203.1
Employee benefits	I	179.9	190.9	176.7
Deferred tax liabilities	II	155.9	137.6	154.2
<b>Total non-current liabilities</b>		<b>539.7</b>	<b>362.7</b>	<b>534.0</b>
<b>Provisions</b>	II	<b>163.4</b>	<b>161.5</b>	<b>183.2</b>
<b>Current liabilities</b>				
Loans	I	30.6	198.8	25.8
Advance payments received	II	2,182.7	2,044.7	1,976.9
Accounts payable	II	644.2	586.7	743.3
Accruals	II	1,755.5	1,738.7	1,610.0
Income tax payables	II	72.5	81.6	82.5
<b>Total current liabilities</b>		<b>4,685.4</b>	<b>4,650.5</b>	<b>4,438.5</b>
<b>Total equity and liabilities</b>		<b>7,584.3</b>	<b>7,143.9</b>	<b>7,951.3</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
<b>Jan 1, 2017</b>	65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	2,590.5		12.7	2,795.6
Net income for the period									185.4	2.2	187.7
Other comprehensive income:											
Translation differences					-3.8						-3.8
Hedging of foreign subsidiaries					5.6						5.6
Cash flow hedges				4.4							4.4
Remeasurements of employee benefits						-3.2					-3.2
Transactions with shareholders and non-controlling interests:											
Profit distribution								-795.4			-795.4
Increase in equity (option rights)											-
Purchase of own shares											-
Change in non-controlling interests										-0.3	-0.3
Option and share-based compensation			3.3					1.9			5.2
<b>March 31, 2017</b>	65.8	100.3	169.4	-25.5	242.1	-116.7	-236.7	1,797.0	185.4	14.6	2,195.8

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
<b>Jan 1, 2016</b>	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									187.8	0.3	188.1
Other comprehensive income:											
Translation differences					-79.0						-79.0
Hedging of foreign subsidiaries					11.8						11.8
Cash flow hedges				-1.0							-1.0
Remeasurements of employee benefits						-15.1					-15.1
Transactions with shareholders and non-controlling interests:											
Profit distribution								-718.2			-718.2
Increase in equity (option rights)											-
Purchase of own shares											-
Change in non-controlling interests										1.7	1.7
Option and share-based compensation								5.5			5.5
<b>March 31, 2016</b>	65.7	100.3	140.7	-17.2	204.9	-118.7	-210.6	1,566.3	187.8	50.0	1,969.2

## 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
<b>Jan 1, 2016</b>	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
<b>Dec 31, 2016</b>	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

# Condensed consolidated statement of cash flows

MEUR	1-3/2017	1-3/2016	1-12/2016
Operating income	217.7	221.4	1,293.3
Change in working capital before financing items and taxes	59.2	58.8	109.7
Depreciation and amortization	28.4	25.5	106.5
<b>Cash flow from operations before financing items and taxes</b>	<b>305.3</b>	<b>305.7</b>	<b>1,509.5</b>
Cash flow from financing items and taxes	-50.0	-38.7	-331.0
<b>Cash flow from operating activities</b>	<b>255.3</b>	<b>267.0</b>	<b>1,178.4</b>
Cash flow from investing activities	-27.0	-53.6	-197.6
<b>Cash flow after investing activities</b>	<b>228.4</b>	<b>213.4</b>	<b>980.8</b>
Purchase of own shares	-	-	-39.3
Increase in equity (option rights)	-	-	18.4
Profit distribution	-729.8	-658.4	-718.2
Change in deposits and loans receivable, net	443.1	375.8	-154.2
Change in loans payable and other interest-bearing debt	4.7	4.4	-20.9
Changes in non-controlling interests	-	-	-26.7
<b>Cash flow from financing activities</b>	<b>-282.0</b>	<b>-278.1</b>	<b>-941.0</b>
<b>Change in cash and cash equivalents</b>	<b>-53.6</b>	<b>-64.8</b>	<b>39.8</b>
Cash and cash equivalents at beginning of period	589.2	552.7	552.7
Translation difference	1.0	-4.5	-3.3
<b>Cash and cash equivalents at end of period</b>	<b>536.6</b>	<b>483.4</b>	<b>589.2</b>

## CHANGE IN INTEREST-BEARING NET DEBT

MEUR	1-3/2017	1-3/2016	1-12/2016
Interest-bearing net debt at beginning of period	-1,687.6	-1,512.6	-1,512.6
Interest-bearing net debt at end of period	-1,182.8	-1,037.6	-1,687.6
<b>Change in interest-bearing net debt</b>	<b>504.8</b>	<b>475.0</b>	<b>-175.0</b>



# Notes for the interim report

## KEY FIGURES

		1-3/2017	1-3/2016	1-12/2016
Basic earnings per share	EUR	0.36	0.37	2.00
Diluted earnings per share	EUR	0.36	0.37	1.99
Equity per share	EUR	4.25	3.75	5.42
Interest-bearing net debt	MEUR	-1,182.8	-1,037.6	-1,687.6
Total equity/total assets	%	40.7	38.6	46.8
Gearing	%	-53.9	-52.7	-60.4
Return on equity	%	30.1	33.1	38.1
Return on capital employed	%	26.2	28.3	34.1
Total assets	MEUR	7,584.3	7,143.9	7,951.3
Assets employed	MEUR	1,013.0	931.6	1,108.0
Net working capital (including financing items and taxes)	MEUR	-1,148.0	-1,107.9	-1,054.8

The calculation formulas of key figures are presented in KONE's Financial Statements for 2016.

## QUARTERLY FIGURES

		Q1/2017	Q4/2016	Q3/2016	Q2/2016	Q1/2016
Orders received	MEUR	1,913.0	1,839.2	1,771.7	2,067.8	1,942.3
Order book	MEUR	9,129.0	8,591.9	8,699.0	8,763.6	8,529.7
Sales	MEUR	1,810.3	2,593.2	2,170.2	2,272.6	1,748.3
Operating income	MEUR	217.7	392.2	331.1	348.6	221.4
Operating income margin	%	12.0	15.1	15.3	15.3	12.7

		Q4/2015	Q3/2015	Q2/2015	Q1/2015	Q4/2014	Q3/2014	Q2/2014	Q1/2014
Orders received	MEUR	1,947.2	1,764.5	2,193.5	2,053.8	1,703.8	1,577.2	1,801.9	1,729.7
Order book	MEUR	8,209.5	8,350.7	8,627.4	8,529.6	6,952.5	6,995.8	6,537.2	6,175.4
Sales	MEUR	2,561.8	2,184.2	2,210.4	1,690.9	2,165.8	1,877.9	1,848.9	1,441.8
Operating income	MEUR	378.5	325.9	325.2	211.9	315.3	277.5	263.2	179.6
Operating income margin	%	14.8	14.9	14.7	12.5	14.6	14.8	14.2	12.5

		Q4/2013	Q3/2013	Q2/2013	Q1/2013	Q4/2012	Q3/2012	Q2/2012	Q1/2012
Orders received	MEUR	1,473.2	1,327.2	1,638.2	1,712.4	1,321.3	1,295.6	1,513.4	1,365.9
Order book	MEUR	5,587.5	5,642.1	5,874.4	5,823.1	5,050.1	5,283.7	5,305.3	4,842.8
Sales	MEUR	2,033.0	1,739.2	1,761.7	1,398.7	1,857.7	1,633.7	1,544.1	1,241.3
Operating income	MEUR	292.8	257.5	242.8	160.4	257.4	226.4	210.3 <sup>1)</sup>	134.6
Operating income margin	%	14.4	14.8	13.8	11.5	13.9	13.9	13.6 <sup>1)</sup>	10.8

		Q4/2011	Q3/2011	Q2/2011	Q1/2011	Q4/2010	Q3/2010	Q2/2010	Q1/2010
Orders received	MEUR	1,098.8	1,095.4	1,226.2	1,044.7	1,006.3	865.2	1,042.8	894.7
Order book	MEUR	4,348.2	4,143.2	3,947.7	3,737.5	3,597.8	3,657.9	3,933.7	3,638.5
Sales	MEUR	1,588.8	1,296.2	1,286.4	1,053.8	1,488.8	1,235.9	1,258.9	1,003.0
Operating income	MEUR	233.0	188.9	184.5	118.7	227.3	184.8	175.7	108.6
Operating income margin	%	14.7	14.6	14.3	11.3	15.3	15.0	14.0	10.8

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

## Net working capital

MEUR	March 31, 2017	March 31, 2016	Dec 31, 2016
<b>Net working capital</b>			
Inventories	1,516.2	1,428.6	1,373.5
Advance payments received	-2,182.7	-2,044.7	-1,976.9
Accounts receivable	1,502.5	1,421.6	1,573.7
Deferred assets and income tax receivables	488.0	493.6	429.8
Accruals and income tax payables	-1,828.0	-1,820.3	-1,692.5
Provisions	-163.4	-161.5	-183.2
Accounts payable	-644.2	-586.7	-743.3
Net deferred tax assets/liabilities	163.6	161.6	164.1
<b>Total net working capital</b>	<b>-1,148.0</b>	<b>-1,107.9</b>	<b>-1,054.8</b>

## Key exchange rates in euros

		March 31, 2017		March 31, 2016	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.3399	7.3642	7.1821	7.3514
US Dollar	USD	1.0646	1.0691	1.1020	1.1385
British Pound	GBP	0.8565	0.8555	0.7689	0.7916
Australian Dollar	AUD	1.4146	1.3982	1.5088	1.4807

## Derivatives

Fair values of derivative financial instruments	Derivative assets	Derivative liabilities	Fair value, net	Fair value, net	Fair value, net
MEUR	March 31, 2017	March 31, 2017	March 31, 2017	March 31, 2016	Dec 31, 2016
Foreign exchange forward contracts and swaps	31.3	-27.3	4.1	-19.0	-6.0
Electricity price forward contracts	-	-0.5	-0.5	-1.1	-0.4
<b>Total</b>	<b>31.3</b>	<b>-27.8</b>	<b>3.5</b>	<b>-20.2</b>	<b>-6.4</b>

### Nominal values of derivative financial instruments

MEUR	March 31, 2017	March 31, 2016	Dec 31, 2016
Foreign exchange forward contracts and swaps	2,685.0	2,532.8	2,629.3
Electricity price forward contracts	1.4	2.3	1.6
<b>Total</b>	<b>2,686.4</b>	<b>2,535.1</b>	<b>2,630.9</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.

## 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.

### Commitments

MEUR	March 31, 2017	March 31, 2016	Dec 31, 2016
Guarantees			
Others	9.7	2.6	11.2
Operating leases	318.1	261.2	315.6
<b>Total</b>	<b>327.8</b>	<b>263.8</b>	<b>326.8</b>

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,472 (1,333) million as of March 31, 2017.

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

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

MEUR	March 31, 2017	March 31, 2016	Dec 31, 2016
Less than 1 year	73.5	71.8	73.1
1–5 years	163.7	144.5	162.6
Over 5 years	80.9	45.0	79.9
<b>Total</b>	<b>318.1</b>	<b>261.2</b>	<b>315.6</b>



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## KONE's financial reporting schedules 2017

Interim Report January 1–June 30, 2017	Wednesday, July 19, 2017
Interim Report January 1–September 30, 2017	Thursday, October 26, 2017
KONE Capital Markets Day	Friday, September 29, 2017

## KONE as a company

*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)*

This bulletin contains forward-looking statements that are based on the current expectations, known factors, decisions and plans of the management of KONE. Although the management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions as well as fluctuations in exchange rates.