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KONE Interim report for January–March 2017

APRIL 27, 2017

HENRIK EHRNROOTH, PRESIDENT & CEO

ILKKA HARA, CFO

Q1 2017 highlights

- Solid start for the year: continued sales growth and strong cash generation
- Despite good progress, profitability burdened by several headwinds
- New groundbreaking services launched successfully



Q1 2017 key figures



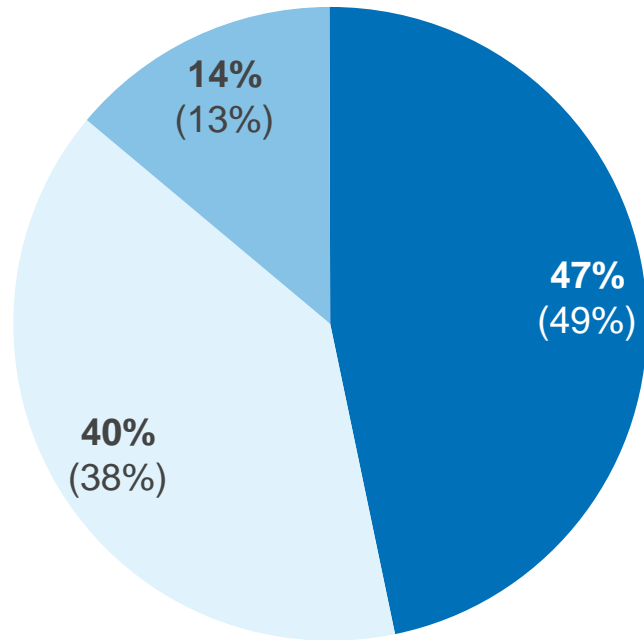
CONTINUED SALES GROWTH IN A MIXED OPERATING ENVIRONMENT

		Q1/2017	Q1/2016	Historical change	Comparable change
Orders received	MEUR	1,913.0	1,942.3	-1.5%	-1.2%
Order book	MEUR	9,129.0	8,529.7	7.0%	5.0%
Sales	MEUR	1,810.3	1,748.3	3.5%	3.3%
Operating income (EBIT)	MEUR	217.7	221.4	-1.7%	
Operating income margin (EBIT %)	%	12.0	12.7		
Cash flow from operations (before financing items and taxes)	MEUR	305.3	305.7		
Basic earnings per share	EUR	0.36	0.37		

Q1 2017 sales split

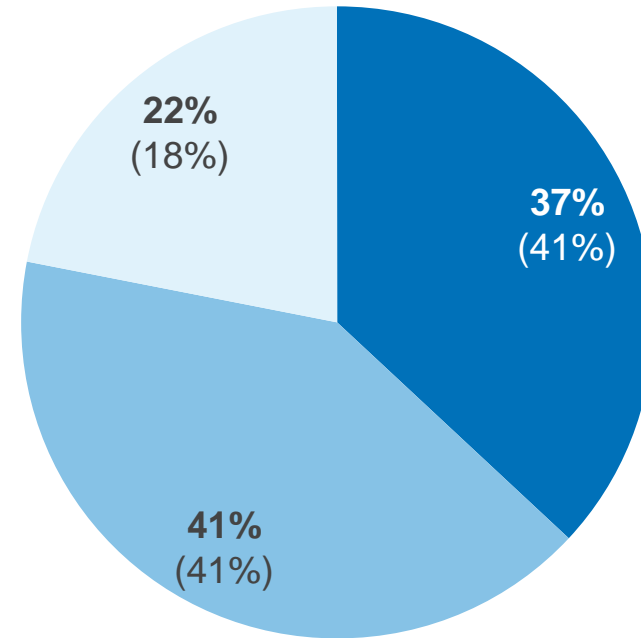
SHARE OF SERVICES AND THE AMERICAS OUT OF TOTAL SALES GREW

BY BUSINESS



■ New equipment
 ■ Maintenance
 ■ Modernization

BY AREA



■ Asia-Pacific
 ■ EMEA (Europe, Middle East and Africa)
 ■ Americas

1-3/2016 figures in brackets.
 Figures in charts are rounded and at historical exchange rates.

Q1 business overview



POSITIVES

- Continued good growth in services in all geographic areas
- Solid development in orders received in many markets supported by successful 2016 product launches
- New strategy has been well received and there is good momentum to drive the differentiation in a customer-centric way
- Renewed high-rise elevator test laboratory opened in Tytyri, Finland
- Stabilization in the new equipment market in China

HEADWINDS

- Profitability burdened by the combination of price pressure witnessed in China in 2016 and higher material costs
- Continued intense competition in many large markets

Winning with customers: bringing our strategy to life



24/7 Connected Services

- ✓ We bring more intelligence to maintenance services by using the IBM Watson IoT platform
- ✓ Considerable benefits to our customers:
 - ✓ Safety
 - ✓ Transparency
 - ✓ Predictability

New KONE Care™

- ✓ New maintenance services respond to the individual and changing needs of our customers
- ✓ Designed together with our customers

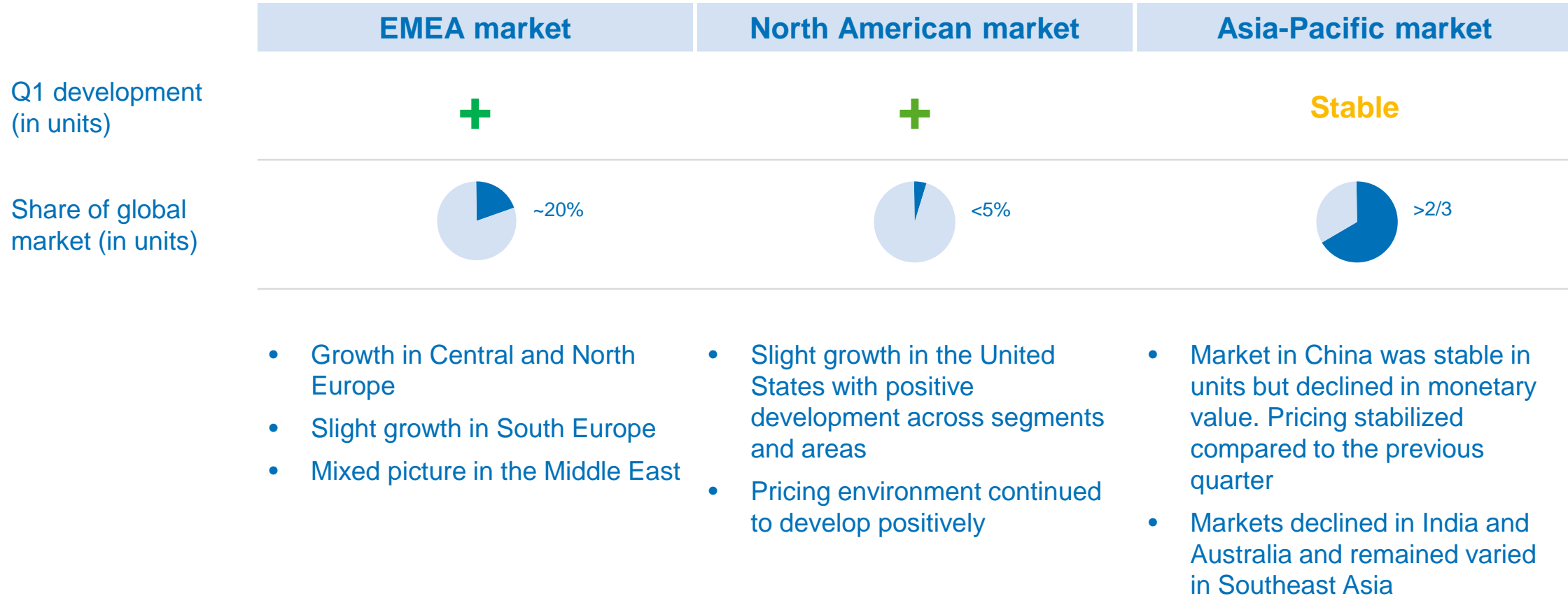
Market development



New equipment market development in Q1



GLOBAL MARKET VOLUMES WERE RATHER STABLE



+ = slight growth (<5%), ++ = clear growth (5-10%), +++ = significant growth (>10%)

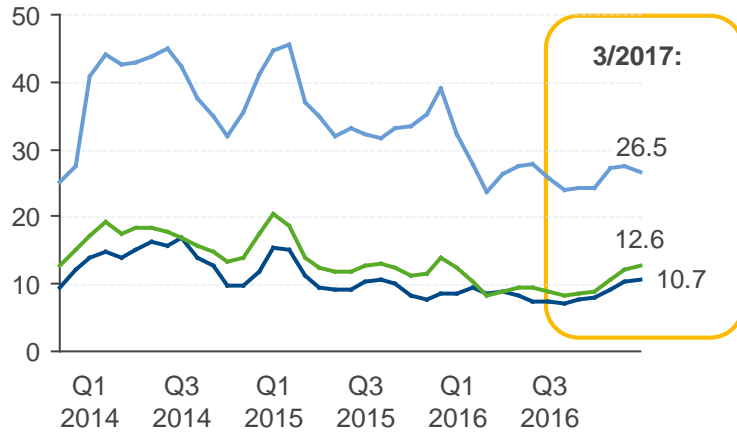
Chinese property market



GOOD START TO THE YEAR IN THE LOWER-TIER CITIES IN PARTICULAR

Inventories

- Inventories continued to be healthy in higher-tier cities
- Inventories still somewhat elevated in lower-tier cities

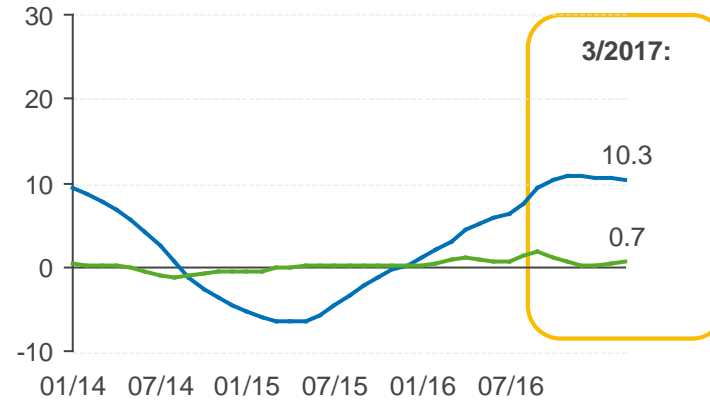


Newly built area for sale / monthly sales 3-m MVA
 — Tier-1 — Tier-2 — sample of lower-tier cities

Sources: China NBS, CREIS, E-house, KONE estimates

Housing sales and prices

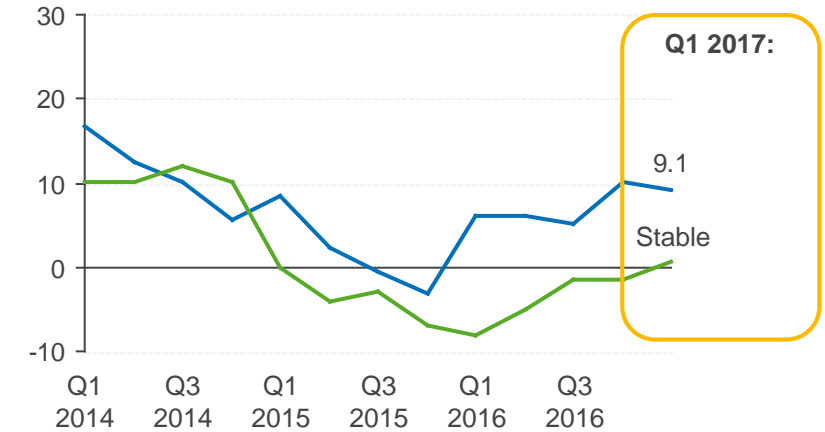
- Authorities introduced further restrictions in Q1 to cool down the housing market in several cities
- Sales area grew strongly in lower-tier cities



— Housing prices, Y-o-Y — M-o-M

E&E market

- Real estate investment remained on a good level
- Stable market in E&E units ordered. Stabilization in prices compared to previous quarter









— REI Y-o-Y — E&E market Y-o-Y in units

Service market development in Q1



CONTINUED GROWTH ACROSS REGIONS

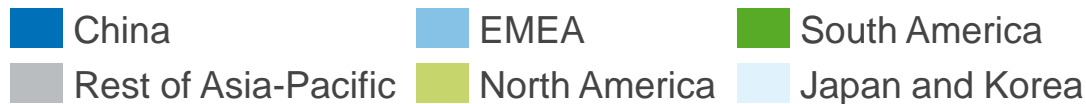
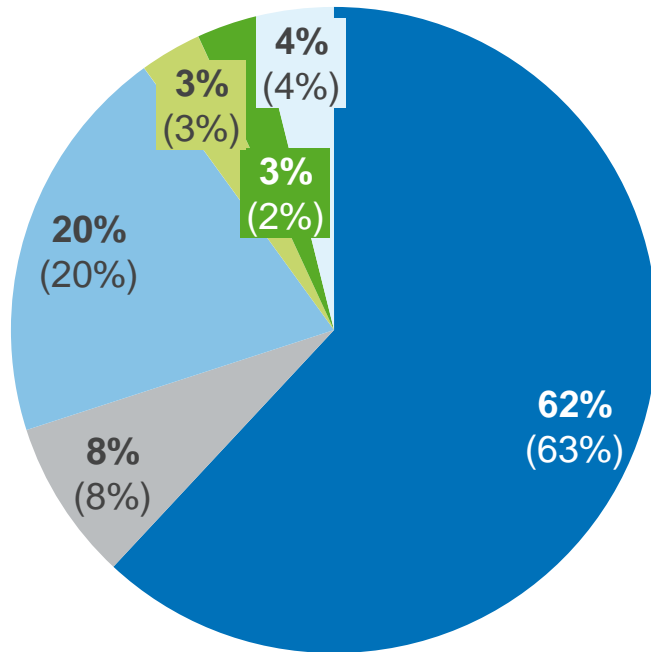
	EMEA market	North American market	Asia-Pacific market
Maintenance			
Q1 development	+	+	+++
Share of global market (in units)	 >40%	 <10%	 ~40%
	<ul style="list-style-type: none"> Pricing environment remained tough especially in South Europe 	<ul style="list-style-type: none"> Price competition remained rather intense 	<ul style="list-style-type: none"> Continued good growth across the region
Modernization			
Q1 development	+	+	+++
Share of global market (in monetary value)	 ~1/3	 ~25%	 >15%
	<ul style="list-style-type: none"> Slight growth across the region 	<ul style="list-style-type: none"> Slight growth with continued favorable development in the pricing environment 	<ul style="list-style-type: none"> Strong market growth

+ = slight growth (<5%), ++ = clear growth (5-10%), +++ = significant growth (>10%)

The global new equipment market declined slightly in 2016

NEW EQUIPMENT MARKET

825,000 units (2015: 840,000 units)



- In monetary value, the global new equipment market declined clearly in 2016 due to a significant decrease in the average selling price per unit in China.
- China represents ~50% of the global new equipment market in monetary value
- Global market share stable at 19% (in units)
- Market share growth in EMEA; in other markets KONE's market share was rather stable

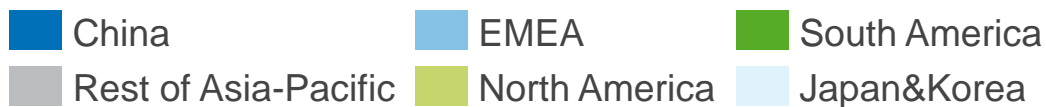
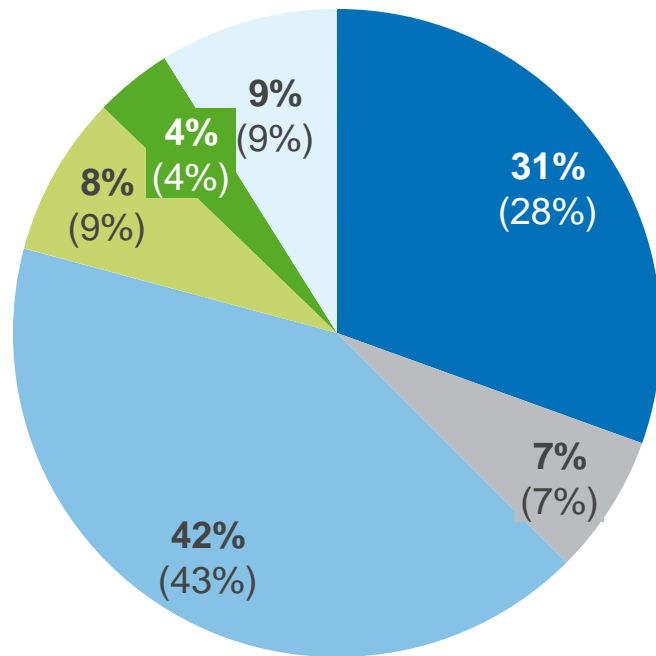
Based on KONE's estimate. Figures have been rounded.

The service markets continued to grow in 2016



EQUIPMENT BASE

>14 M (13.5 M) units



- The global maintenance market continued to grow driven by China in particular
- KONE improved its market position in maintenance to shared #3 globally

- Also the global modernization market continued to grow
- In modernization, KONE grew clearly faster than the market

Based on KONE's estimate. Figures have been rounded.

KONE's market positions in 2016



STRONG MARKET POSITIONS IN NEW EQUIPMENT; CHALLENGER IN MAINTENANCE

Market position, KONE's estimate	EMEA	North America	China	Rest of Asia- Pacific
New equipment	#2	#4	#1	#1
Maintenance	#3	#4	#1	#2



Q1 Financials

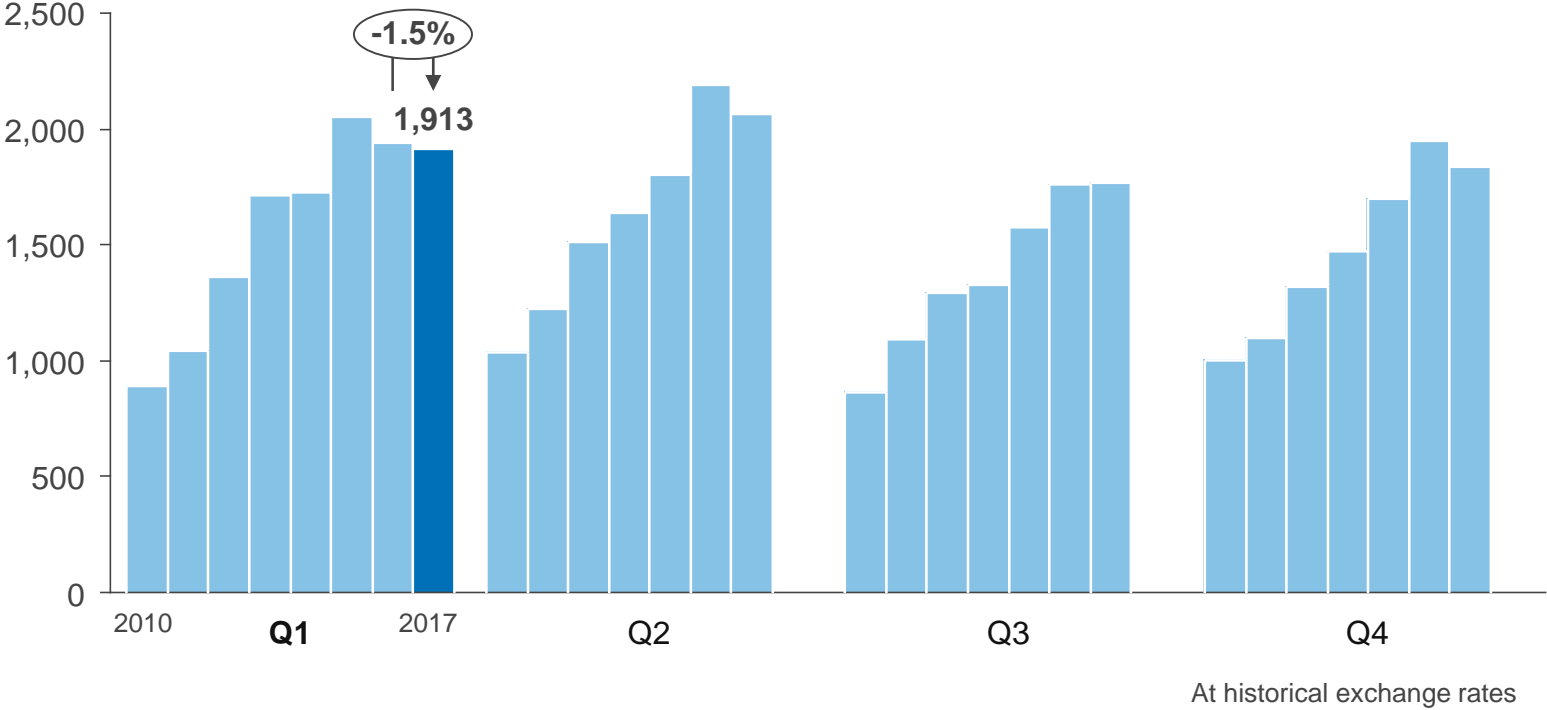


Orders received

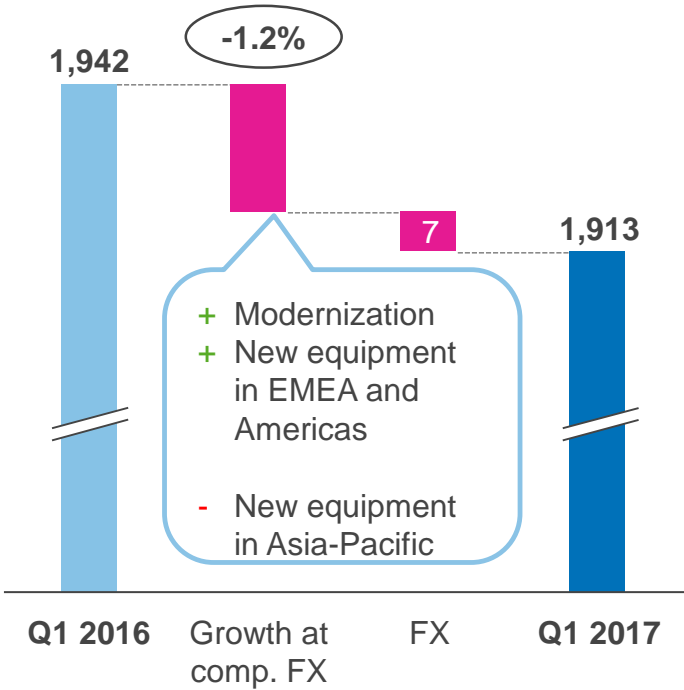


GOOD DEVELOPMENT IN AMERICAS AND EMEA

MEUR



- The relative margin of orders received declined slightly but remained at a good level

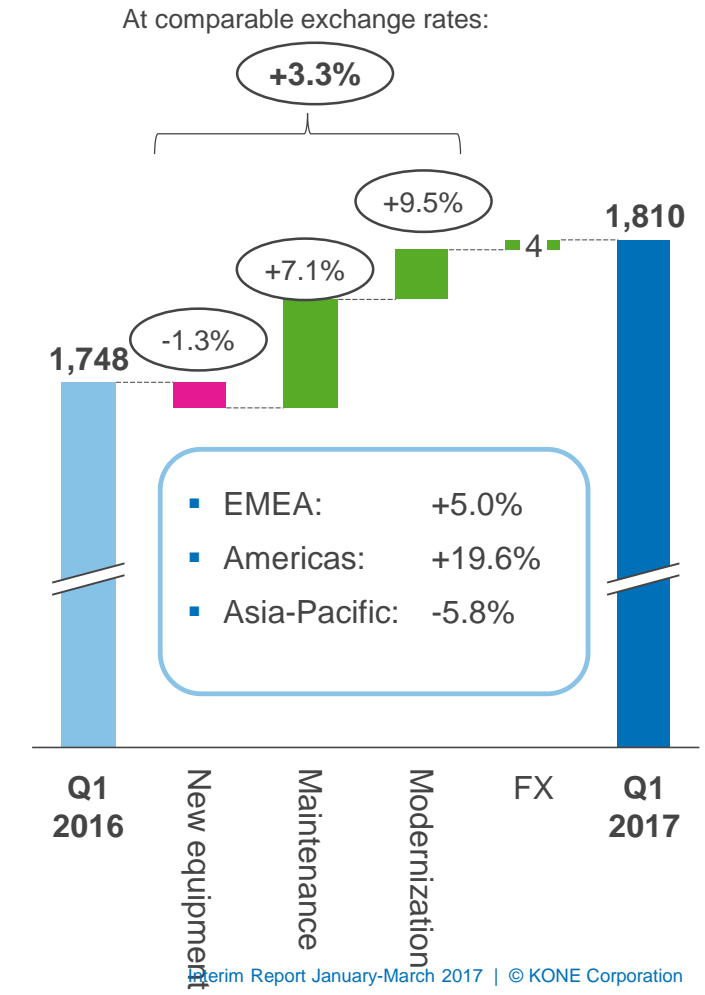
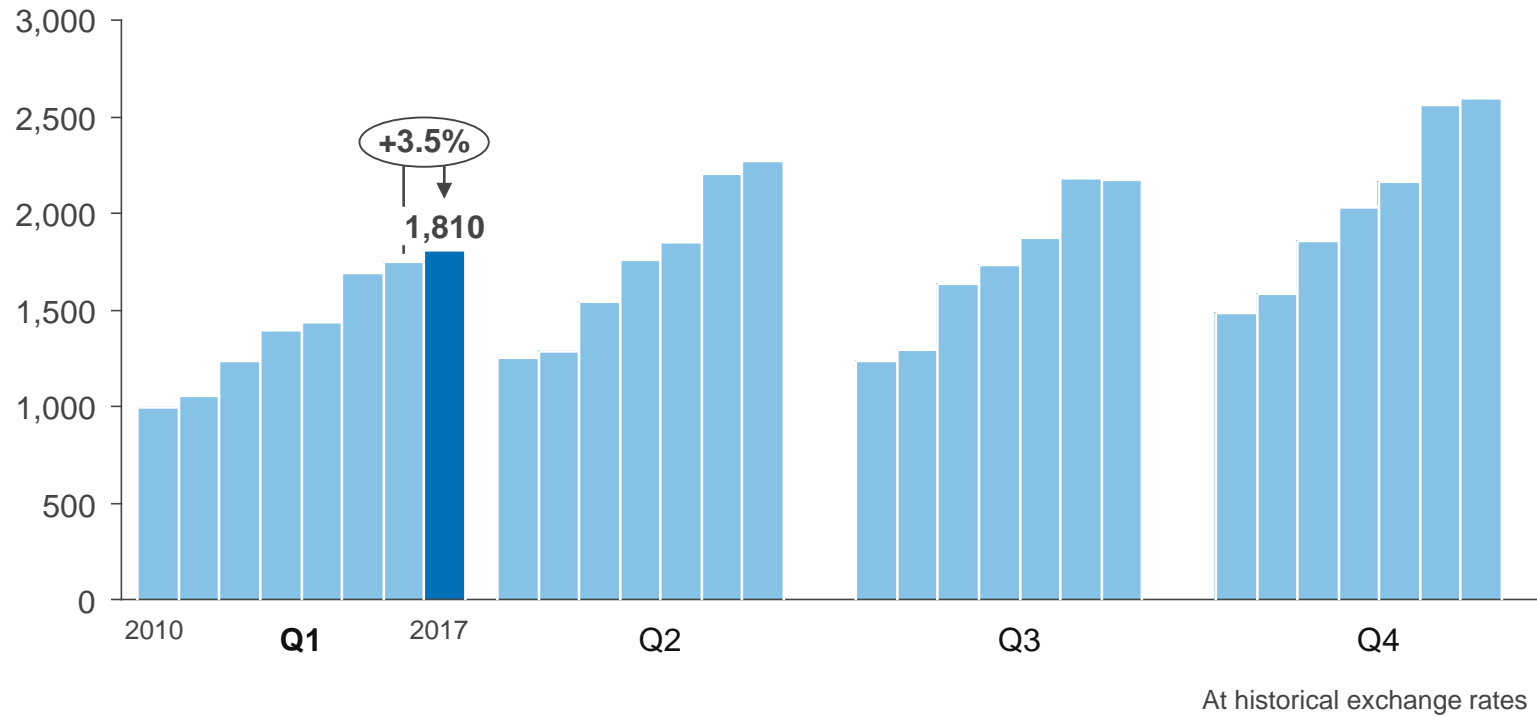


Sales



SOLID SALES GROWTH DRIVEN BY SERVICES

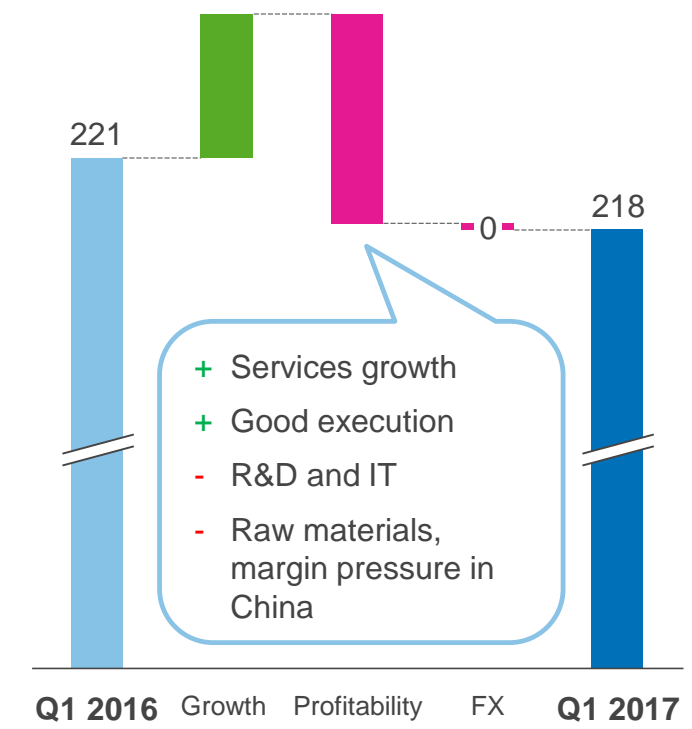
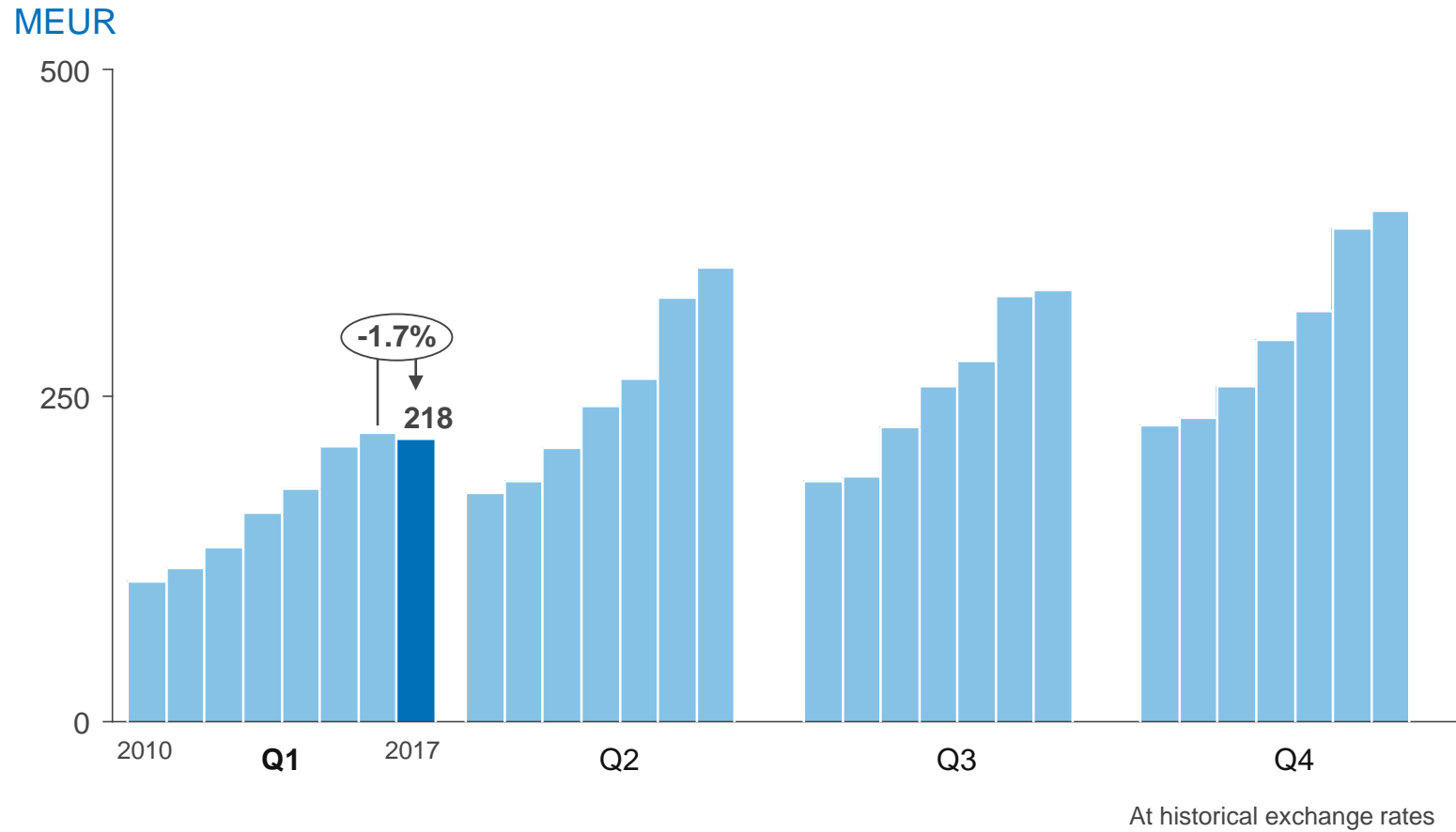
MEUR



Operating income

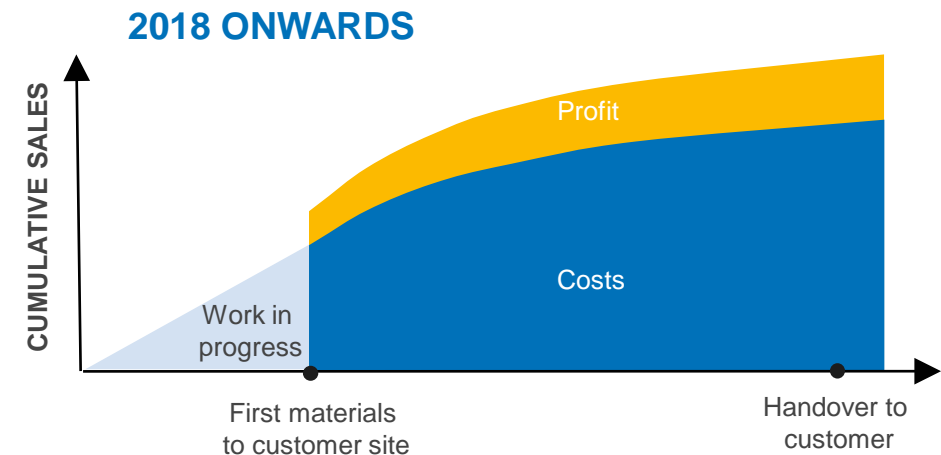
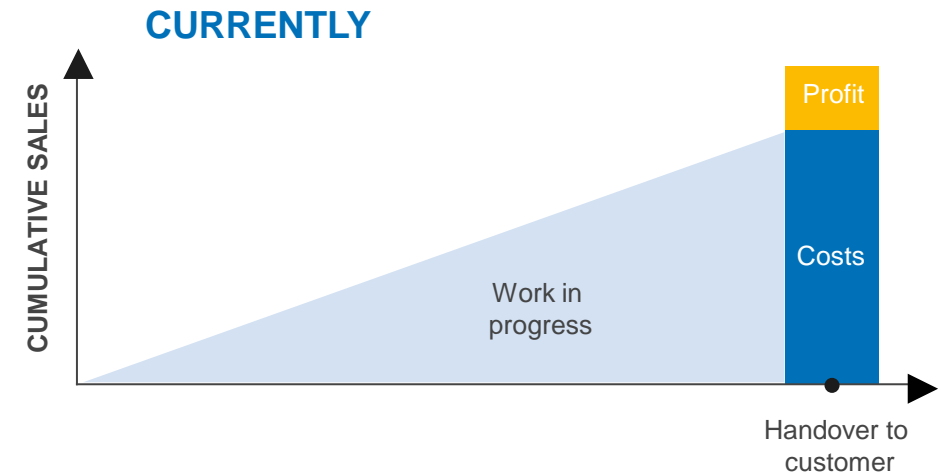


CONTINUED STRONG EXECUTION; SEVERAL HEADWINDS BURDENED PROFITABILITY



IFRS 15: Heads-up on upcoming changes

- Sales recognition will change in 2018 due to the adoption of new IFRS 15 principles
- The change concerns the volume new equipment and modernization businesses (close to half of KONE's sales impacted)
 - Currently: sales recognized upon handover to the customer
 - 2018 onwards: gradual recognition of sales during the project duration
- In major projects, sales have already been recognized gradually during the project duration
- Q1 2018 will already be reported in line with the new principles, comparison figures for 2017 will be disclosed before the publication of Q1 2018 results



IFRS 15: Main impacts on KONE financials



Part of the profits from ongoing projects booked straight to equity

- Order book decreases by roughly EUR 1 billion*
- Inventory decreases by over 50%*
- Equity increases

This impacts also other working capital items

- Advance payments decrease by roughly 30%*
- Receivables increase somewhat and there are minor changes to deferred tax assets and liabilities
- As a whole, there will be over 10% less of negative working capital*

Other impacts include

- Less seasonality in sales and profit recognition and shorter lead time from order to sales
- Higher equity ratio and lower ROE

No impact on cash flow

* Based on the preliminary estimates for the restated opening balance sheet for 2017

Market and business outlook for 2017



Market outlook for 2017

NEW EQUIPMENT MARKETS

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

MAINTENANCE MARKETS

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

MODERNIZATION MARKETS

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



Business outlook for 2017 (specified)

SALES

- KONE's net sales is estimated to grow by 0–3% at comparable exchange rates as compared to 2016 (previously -1–3%).

OPERATING INCOME

- 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 (previously EUR 1,180–1,300 million).



Q1 summary

- Solid start to the year in a mixed operating environment
- There are both headwinds and tailwinds for the remainder of 2017
- New strategy has been well received and there is good momentum to drive the differentiation in a customer-centric way



SAVE THE DATE

**KONE CAPITAL MARKETS DAY
SEPTEMBER 29, 2017
LONDON**

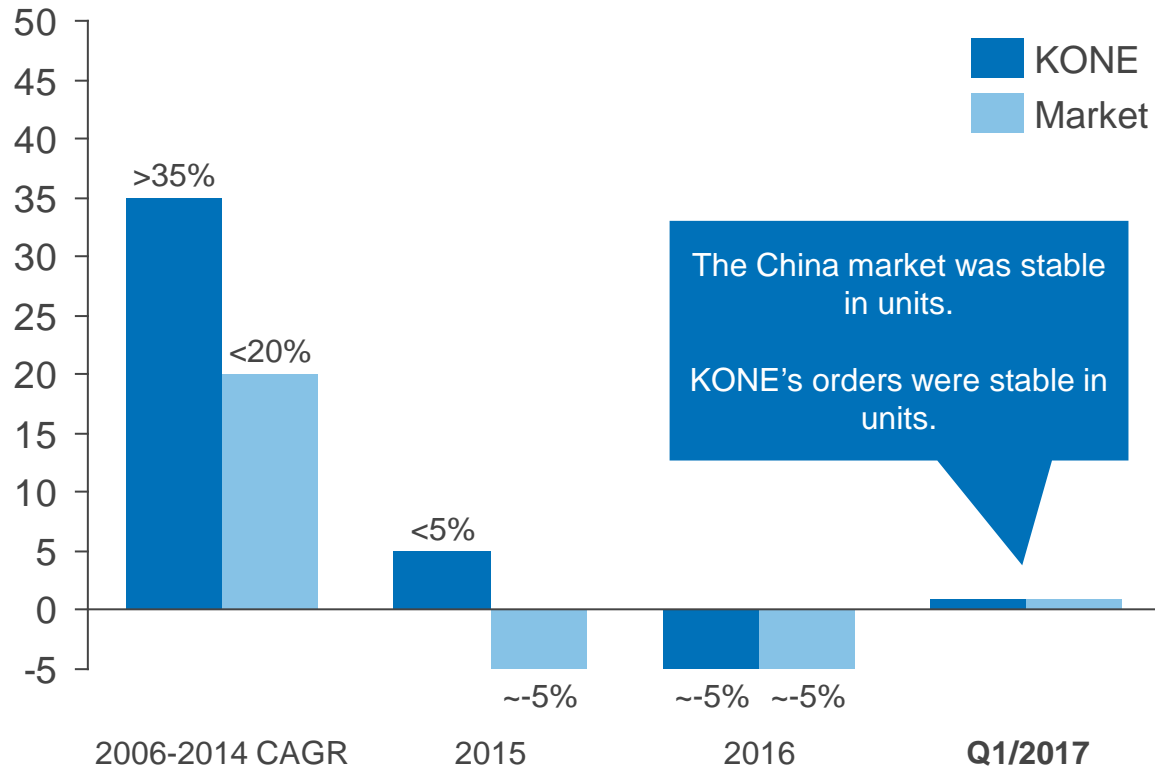
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APPENDIX

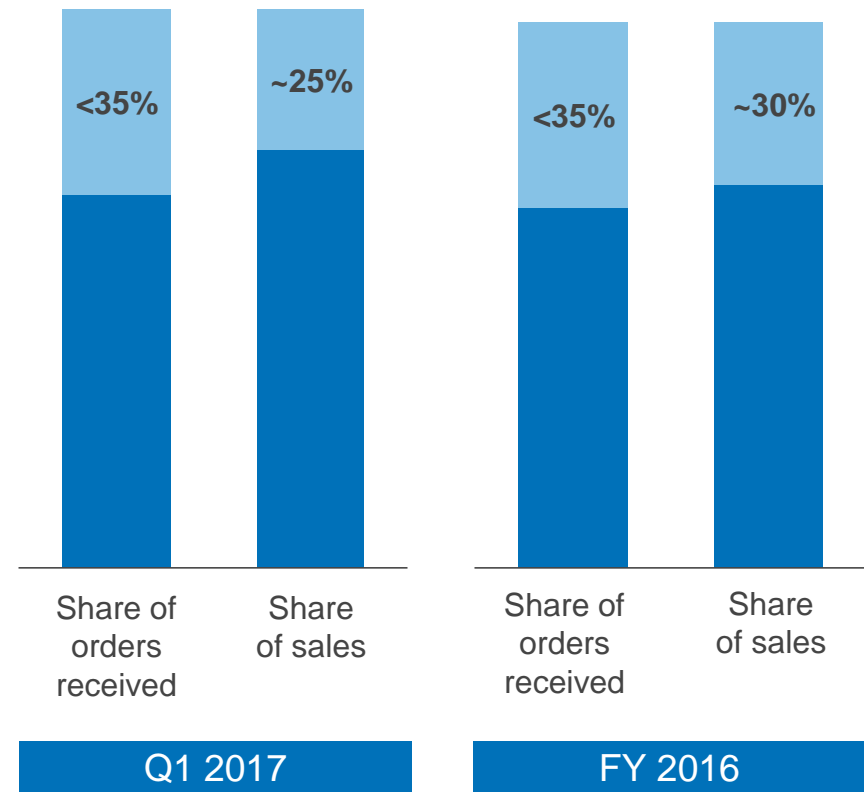
NEW EQUIPMENT MARKET

New equipment orders received in units vs. market development



CHINA'S SHARE OF KONE'S ORDERS AND SALES

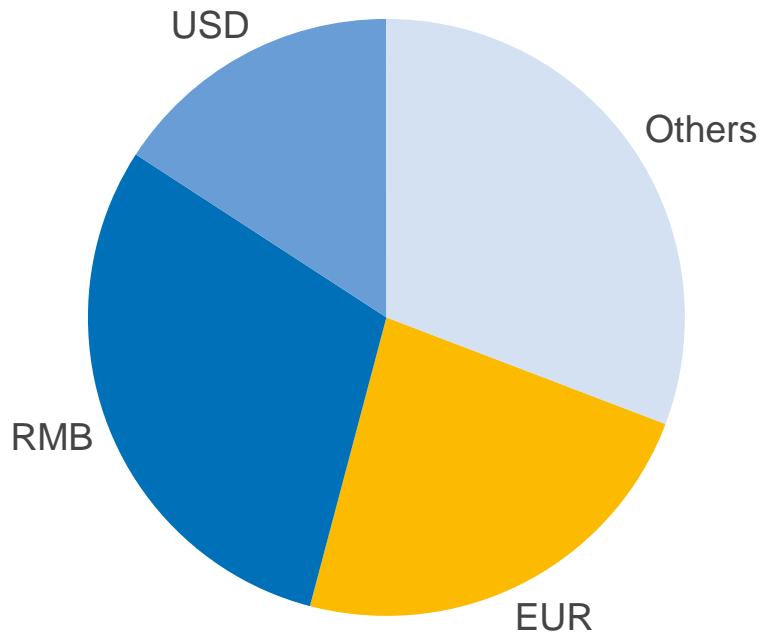
In monetary value



Currencies



SALES BY CURRENCY 1–12/2016



CURRENCY IMPACT

(MEUR)	Q1	2016
Sales	+4	-195
EBIT	-0.3	-44
Orders received	-7	-211

MAIN CURRENCIES, RATES

	Q1 average rates	2016 average rates	2016 end rates
EUR / RMB	7.3399	7.3199	7.3202
EUR / USD	1.0646	1.1021	1.0541
EUR / GBP	0.8565	0.8159	0.8562
EUR / AUD	1.4146	1.4807	1.4596

Q1 2017 Balance sheet – assets employed



MEUR	Mar 31, 2017	Mar 31, 2016	Dec 31, 2016
Assets employed			
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
Investments	134.2	125.4	129.9
Net working capital	-1,148.0	-1,107.9	-1,054.8
Assets employed total	1,013.0	931.6	1,108.0
Financed by			
Equity	2,195.8	1,969.2	2,795.6
Net debt	-1,182.8	-1,037.6	-1,687.6
Equity and net debt total	1,013.0	931.6	1,108.0

Q1 2017 Net working capital



MEUR	Mar 31, 2017	Mar 31, 2016	Dec 31, 2016
Net working capital			
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
Other non-interest-bearing assets	488.0	493.6	429.8
Net deferred tax assets / liabilities	-1,828.0	161.6	-1,692.5
Provisions	-163.4	-161.5	-183.2
Accounts payable	-644.2	-586.7	-743.3
Other non-interest-bearing liabilities	163.6	-1,820.3	164.1
Net working capital total	-1,148.0	-1,107.9	-1,054.8

Q1 2017 Consolidated cash flow



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
Cash flow from operations before financing items and taxes	305.3	305.7	1,509.5
Financing items and taxes	-50.0	-38.7	-331.0
Cash flow from operating activities	255.3	267.0	1,178.4
Investing activities	-27.0	-53.6	-197.6
Purchase of own shares	-	-	-39.3
Increase in equity (option rights)	-	-	18.4
Profit distribution	-729.8	-658.4	-718.2
Changes in non-controlling interest	-	-	-26.7
Free cash flow	-501.4	-445.0	214.9