KONE

KONE Q1 2018

Interim Report for January–March

KONE's January–March 2018 review:

Orders received grew in all regions, EBIT margin continued to be burdened

January–March 2018

- Orders received declined by 0.2% to EUR 1,909 (1–3/2017: 1,913) million. At comparable exchange rates, orders grew by 6.8%.
- Sales grew by 3.3% to EUR 2,008 (1,943) million. At comparable exchange rates, sales grew by 10.6%.
- Operating income (EBIT) was EUR 211.5 (245.8) million or 10.5% (12.6%) of sales. The adjusted EBIT was EUR 218.3 million or 10.9% of sales.*
- Cash flow from operations (before financing items and taxes) was EUR 179.0 (305.3) million.

KONE published on March 19, 2018 restated 2017 financials as a result of adoption of new IFRS 15 and IFRS 9. In this Interim Report all 2017 financials are restated applying IFRS 15 and IFRS 9 retrospectively. The earlier published restated information on 2017 financials has been slightly corrected. The corrections are not considered material and do not impact consolidated statement of income or cash flow. More information on page 27.

Business outlook

In 2018, KONE's sales is estimated to grow by 3–7% at comparable exchange rates as compared to the restated 2017 sales. The adjusted EBIT is expected to be in the range of EUR 1,100–1,200 million, assuming that foreign exchange rates would remain at the end of March 2018 level for the remainder of the year. Foreign exchange rates are estimated to impact EBIT negatively by approximately EUR 40 million. The pressure on the adjusted EBIT margin is expected to start to ease towards the end of 2018 as a result of pricing and productivity actions that have been taken.

KONE previously estimated its sales to grow at around a similar rate as in 2017 at comparable exchange rates. The adjusted EBIT margin was expected to continue to decline in 2018 as witnessed in 2017. However, the margin pressure was expected to start to ease towards the end of 2018 as a result of pricing and productivity actions that have been taken.

KEY FIGURES

		1–3/2018	1–3/2017	Change	1–12/2017
Orders received	MEUR	1,908.7	1,913.0	-0.2%	7,554.0
Order book	MEUR	7,786.6	7,960.5	-2.2%	7,357.8
Sales	MEUR	2,008.0	1,943.4	3.3%	8,796.7
Operating income (EBIT)	MEUR	211.5	245.8	-14.0%	1,192.3
Operating income margin (EBIT margin)	%	10.5	12.6		13.6
Adjusted EBIT*	MEUR	218.3	245.8	-11.2%	1,205.5
Adjusted EBIT margin*	%	10.9	12.6		13.7
Income before tax	MEUR	223.7	271.8	-17.7%	1,250.4
Net income	MEUR	172.2	208.7	-17.5%	960.2
Basic earnings per share	EUR	0.33	0.40	-17.5%	1.86
Cash flow from operations (before financing items and taxes)	MEUR	179.0	305.3		1,263.3
Interest-bearing net debt	MEUR	-1,001.3	-1,182.8		-1,690.2
Equity ratio	%	43.9	42.5		50.0
Return on equity	%	25.6	31.4		32.1
Net working capital (including financing items and taxes)	MEUR	-735.9	-995.3		-772.6
Gearing	%	-42.5	-49.9		-55.8

* In September 2017, KONE introduced a new alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. Restructuring costs related to the Accelerate program are excluded from the calculation of the adjusted EBIT.

Henrik Ehrnrooth, President and CEO:

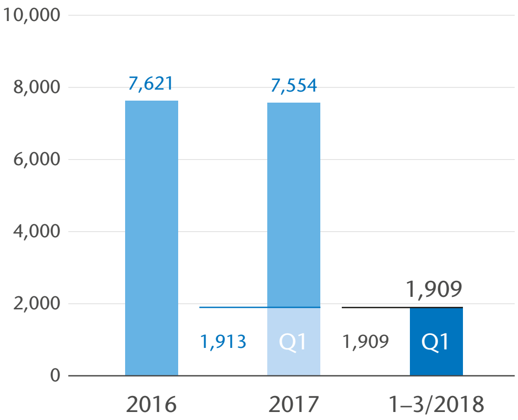
“We started the year with good growth in both orders received and sales, while profitability continued to be burdened by several headwinds. Our orders received and sales grew in all regions and all businesses at comparable exchange rates. In the new equipment business, our orders received saw the strongest growth in EMEA, but activity also picked up in the Asia-Pacific region. New equipment sales growth was exceptionally strong due to a very high number of project starts during the quarter. Our good momentum continued in services with solid progress in both maintenance and modernization. As anticipated, our profitability was burdened by the price pressure seen earlier in China, combined with higher raw material prices and the adverse effects of foreign exchange rates. However, the margin of the orders received continued to stabilize.

We can clearly see that our Winning with Customers strategy is taking us in the right direction. When we put a stronger emphasis on creating value for our customers, it creates exciting opportunities. We are strengthening our differentiation by introducing services and solutions which meet the individual needs of our customers. For example, we are seeing strong interest in our new KONE Care and KONE 24/7 Connected Services. They are now available in over 15 countries and the roll-out continues. During the quarter, we expanded 24/7 Connected Services to also include escalators. In addition, to speed-up our ability to serve our customers in constantly better ways, we have made continued progress with our Accelerate program, which was launched last year.

With the strong momentum in our services business and good growth in orders received in the past few quarters, we are seeing healthy sales growth in 2018. We expect that due to the healthy sales growth outlook combined with our pricing and productivity actions, the margin pressure will ease towards the end of the year. I’m confident that this development together with the good momentum in our strategy execution is taking us towards our strategic targets.”

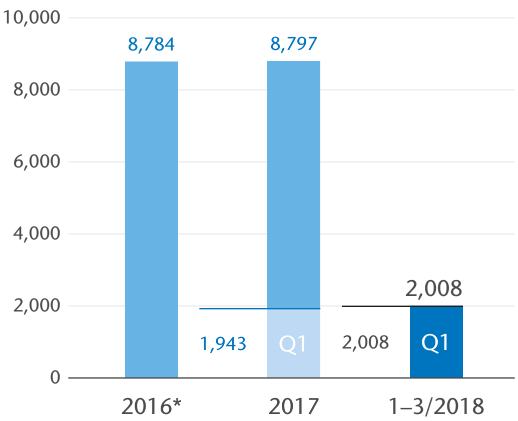
Key Figures

Orders received (MEUR)



- **In January–March 2018**, orders received declined by 0.2% (at comparable exchange rates, orders received grew by 6.8%).
- At comparable rates, orders received grew in all regions and businesses.
- At comparable rates, new equipment orders received grew clearly with growth in both volume business and in major projects. Modernization orders also grew clearly driven by significant growth in major projects.
- Margin of orders received continued to stabilize.

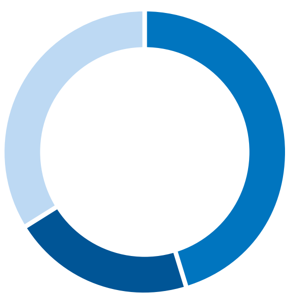
Sales (MEUR)



- **In January–March 2018**, sales grew by 3.3% (10.6% at comparable exchange rates).
- New equipment sales grew by 6.2% (14.6% at comparable exchange rates). Services (maintenance and modernization) sales grew by 0.6% (6.8% at comparable rates), with maintenance sales declining by 0.3% (but growing by 5.4% at comparable rates) and modernization sales growing by 2.8% (10.3% at comparable rates).
- Sales in the EMEA region grew by 16.5% (19.8% at comparable rates). In the Americas region, sales declined by 9.3% (but grew by 3.5% at comparable rates). In the Asia-Pacific region, sales declined by 3.1% (but grew by 4.1% at comparable rates).

*) 2016 not restated with IFRS 15 and IFRS 9 changes

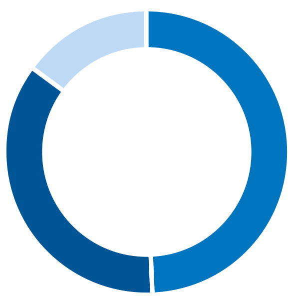
Sales by region



EMEA 46% (40%)
Americas 21% (24%)
Asia-Pacific 34% (36%)

1–3/2018 (1–3/2017)

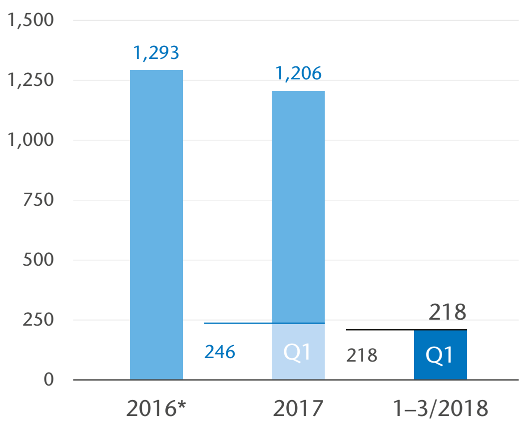
Sales by business



New equipment 50% (48%)
Maintenance 36% (37%)
Modernization 15% (15%)

1–3/2018 (1–3/2017)

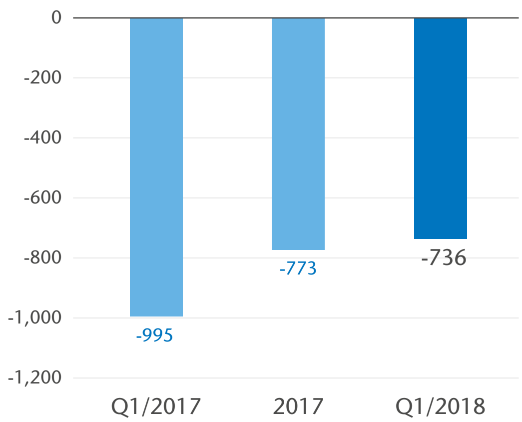
Adjusted EBIT (MEUR)



- **In January–March 2018**, operating income was 10.5% of sales (1–3/2017: 12.6%). The adjusted EBIT margin was 10.9%.
- Profitability was burdened by the price pressure seen in earlier new equipment orders in China combined with increasing raw material costs. The headwinds were partly compensated by productivity improvements and focused pricing actions. Healthy sales growth in all regions and all businesses at comparable exchange rates contributed positively to the operating income.
- Translation exchange rates had a negative impact of around EUR 20 million on the operating income.
- Restructuring costs related to the Accelerate program were EUR 6.9 million and are excluded from the calculation of the adjusted EBIT.

*) 2016 not restated with IFRS 15 and IFRS 9 changes

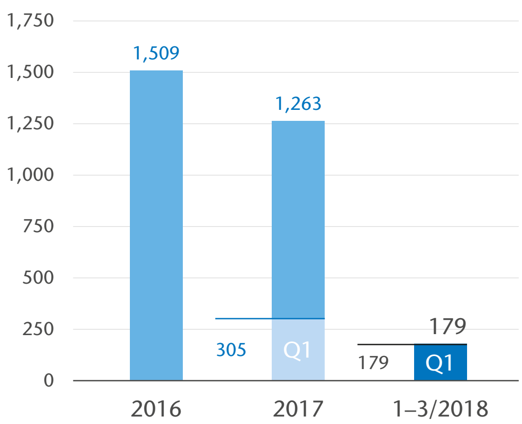
Net working capital[1] (MEUR)



- **In the end of March 2018**, net working capital was slightly less negative than at the beginning of the year.
- Around EUR 70 million of the change in net working capital compared to the end of March 2017 resulted from changes in foreign exchange rates.

1) Including financing items and taxes

Cash flow[2] (MEUR)



- **In January–March 2018**, cash flow from operations declined against a strong comparison period.

2) Cash flow from operations before financing items and taxes

KONE's January–March 2018 review

KONE's operating environment

Operating environment by region

	New equipment market in units 1–3/2018	Maintenance market 1–3/2018	Modernization market 1–3/2018
Total market	+	+	+
EMEA	+	+	+
Central and North Europe	Stable	+	Stable
South Europe	+	+	Stable
Middle East	+	+	++
North America	+	+	+
Asia-Pacific	+	++	+++
China	Stable	++	+++

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

January–March 2018

The global new equipment market grew slightly in units compared to the first quarter of 2017. **In Asia-Pacific**, the new equipment volumes grew slightly. **In China**, the new equipment market was rather stable in units with both the residential and commercial segments relatively stable, while the infrastructure segment grew slightly. The market decline in the higher-tier cities continued due to the government housing restriction measures. The market in the lower-tier cities grew slightly. **In the rest of Asia-Pacific**, the new equipment markets returned to slight growth driven by the Indian market in particular. **In the EMEA region**, the new equipment market grew slightly. New equipment market in Central and North Europe was rather stable at a high level, while in South Europe, the market continued to see slight growth from a low level. In the Middle East, the market grew despite uncertainty in the region. **In North America**, the new equipment market continued to grow slightly from a high level.

Global service markets continued to develop positively. Both the maintenance and the modernization markets continued to see growth across the regions, with the strongest rate of growth seen in China and a more moderate development in Europe and North America.

Pricing trends remained varied during the first quarter. In China, competition remained intense but pricing was rather stable in new equipment. In the EMEA region, the pricing environment continued to be characterized by strong competition, particularly in South Europe and the Middle East while the maintenance pricing improved slightly in Central and North Europe. In North America, pricing environment continued to be more favorable than in the other regions.

Orders received and order book

Orders received

MEUR	1–3/2018	1–3/2017	Change	Comparable change¹⁾	1–12/2017
Orders received	1,908.7	1,913.0	-0.2%	6.8%	7,554.0

[1] Change at comparable foreign exchange rates

Orders received consist predominantly of new equipment and modernization orders. Maintenance contracts are not included in orders received, but the figures include orders related to the maintenance business, such as repairs.

January–March 2018

Orders received declined by 0.2% as compared to January–March 2017 and totaled EUR 1,909 million. At comparable exchange rates, KONE's orders received grew by 6.8%.

At comparable rates, new equipment orders grew clearly with growth in both the volume business and in major projects. In modernization, orders received grew clearly with slight growth in the volume business and significant growth in major projects. The relative margin of orders continued to stabilize. KONE has taken focused pricing actions and continued to make progress in improving productivity to compensate for the cost pressure stemming from higher raw material prices.

Orders received in the EMEA region grew clearly at comparable exchange rates as compared to January–March 2017. The significant growth in new equipment orders was driven by positive development across the region, with the exception of the Nordic countries, where new equipment orders declined clearly. KONE's modernization orders in the region grew slightly driven by South Europe and the Middle East.

In the Americas region, orders received saw slight growth at comparable rates as compared to January–March 2017. New equipment orders received declined slightly in the region, while modernization orders grew significantly.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–March 2017. New equipment orders grew slightly and modernization orders grew significantly across the region. In China, new equipment orders grew slightly in both units and in monetary value. Like-for-like prices contributed positively to the orders received while mix developed negatively.

Terminology: Slight <5%, clear 5–10%, significant >10%

Order book

MEUR	March 31, 2018	March 31, 2017	Change	Comparable change¹⁾	Dec 31, 2017
Order book	7,786.6	7,960.5	-2.2%	5.9%	7,357.8

[1] Change at comparable foreign exchange rates

The order book declined slightly compared to the end of March 2017 but stood at a strong level of EUR 7,787 million at the end of the reporting period. At comparable exchange rates, the order book grew clearly.

The order book margin remained at a healthy level. Cancellations of orders remained at a very low level.

Sales

By region

MEUR	1–3/2018	1–3/2017	Change	Comparable change[1)]	1–12/2017
EMEA	914.4	785.0	16.5%	19.8%	3,594.5
Americas	420.5	463.4	-9.3%	3.5%	1,778.5
Asia-Pacific	673.1	695.0	-3.1%	4.1%	3,423.7
Total	2,008.0	1,943.4	3.3%	10.6%	8,796.7

[1)] Change at comparable foreign exchange rates

By business

MEUR	1–3/2018	1–3/2017	Change	Comparable change[1)]	1–12/2017
New equipment	997.7	939.0	6.2%	14.6%	4,653.9
Services	1,010.3	1,004.4	0.6%	6.8%	4,142.8
Maintenance	717.6	719.7	-0.3%	5.4%	2,887.3
Modernization	292.7	284.7	2.8%	10.3%	1,255.6
Total	2,008.0	1,943.4	3.3%	10.6%	8,796.7

[1)] Change at comparable foreign exchange rates

January–March 2018

KONE's sales grew by 3.3% as compared to January–March 2017, and totaled EUR 2,008 million. At comparable exchange rates, KONE's sales grew by 10.6%. Sales growth was strongest in new equipment business due to a high number of projects in which work started at customer sites triggering the start of revenue recognition according to the new IFRS 15 principles.

Sales in the EMEA region grew by 16.5% and totaled EUR 914.4 million. At comparable exchange rates, the growth was 19.8%. New equipment sales grew significantly, and maintenance and modernization sales grew clearly in the region.

In the Americas, sales declined by 9.3% and totaled EUR 420.5 million. At comparable exchange rates, sales grew by 3.5%. In new equipment sales was stable, while in maintenance sales grew slightly and modernization sales grew clearly.

In Asia-Pacific, sales declined by 3.1% and totaled EUR 673.1 million. At comparable exchange rates, sales grew by 4.1%. New equipment sales grew slightly, maintenance sales grew clearly and modernization sales grew significantly.

Terminology: Slight <5%, clear 5–10%, significant >10%

Financial result

Financial result

	1–3/2018	1–3/2017	Change	1–12/2017
Operating income, MEUR	211.5	245.8	-14.0%	1,192.3
Operating income margin, %	10.5	12.6		13.6
Adjusted EBIT, MEUR	218.3	245.8	-11.2%	1,205.5
Adjusted EBIT margin, %	10.9	12.6		13.7
Income before taxes, MEUR	223.7	271.8	-17.7%	1,250.4
Net income, MEUR	172.2	208.7	-17.5%	960.2
Basic earnings per share, EUR	0.33	0.40	-17.5%	1.86

KONE's operating income (EBIT) declined to EUR 211.5 million or 10.5% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 218.3 million or 10.9% of sales.

Profitability was burdened by the price pressure seen earlier in the new equipment orders in China combined with increasing material costs. The headwinds were partly compensated by productivity improvements and focused pricing actions. Healthy sales growth in all regions and all businesses at comparable exchange rates contributed positively to the operating income.

Translation exchange rates had a negative impact of around EUR 20 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 6.9 million.

Basic earnings per share was EUR 0.33.

Cash flow and financial position

Cash flow and financial position

	1–3/2018	1–3/2017	1–12/2017
Cash flow from operations (before financing items and taxes), MEUR	179.0	305.3	1,263.3
Net working capital (including financing items and taxes), MEUR	-735.9	-995.3	-772.6
Interest-bearing net debt, MEUR	-1,001.3	-1,182.8	-1,690.2
Gearing, %	-42.5	-49.9	-55.8
Equity ratio, %	43.9	42.5	50.0
Equity per share, EUR	4.55	4.58	5.41

KONE's financial position was very strong at the end of March 2018.

Cash flow from operations (before financing items and taxes) during January–March 2018 declined to EUR 179.0 million against a strong comparison period. This was mainly due to the decrease in the operating income as well as an increase in net working capital. In the comparison period, change in net working capital contributed positively to cash flow.

Net working capital including financing items and taxes was EUR -735.9 million at the end of March 2018 and was slightly less negative than in the beginning of the year.

Interest-bearing net debt was EUR -1,001 million at the end of March 2018. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 1,367 (December 31, 2017: 2,065) million at the end of the reporting period. Interest-bearing liabilities were EUR 374.6 (387.4) million, including a net pension liability of EUR 149.9 (152.2) million and short-term loans of EUR 33.7 (30.1) million. In addition, the interest-bearing net debt includes EUR 10.3 (10.3) million of option liabilities from acquisitions. Gearing was -42.5% and equity ratio was 43.9% at the end of March 2018.

Equity per share was EUR 4.55.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	1–3/2018	1–3/2017	1–12/2017
On fixed assets	16.8	19.3	94.6
On leasing agreements	2.7	4.5	21.7
On acquisitions	3.3	0.7	35.1
Total	22.8	24.5	151.3

KONE's capital expenditure and acquisitions totaled EUR 22.8 million in January–March 2018. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production.

Acquisitions totaled EUR 3.3 million in January–March 2018. During the reporting period, KONE completed small acquisitions of maintenance businesses in Europe.

Research and development

R&D expenditure

	1–3/2018	1–3/2017	Change	1–12/2017
R&D expenditure, MEUR	36.3	36.6	-0.6%	158.4
As percentage of sales, %	1.8	1.9		1.8

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.

Research and development expenditures totaled EUR 36.3 million, representing 1.8% of sales in January–March 2018. R&D expenditures include the development of new product and service concepts as well as further development of existing solutions and services.

During January–March 2018, KONE introduced a new digital platform, which uses state-of-the-art technologies and is open to third-party solutions. KONE's digital platform connects customers, users and employees to equipment and data transforming the people flow experience in buildings and cities. By using open application programming interfaces (APIs) KONE's approach makes it easy to manage different devices and integrate them with new and existing systems. In connection with the launch of the platform, KONE introduced a renewed products and services portfolio utilizing the platform and consisting of three layers: 1) KONE's core solutions 2) Advanced People Flow Solutions 3) People Flow Planning and Consulting Services.

In January–March 2018, KONE 24/7 Connected Services, a KONE core solution using advanced IoT technologies, was made available for escalators. The service, which was already launched for elevators in Q1 2017, is compatible with both KONE and non-KONE equipment and brings safety, transparency and intelligence to escalator service. KONE 24/7 Connected Services have been piloted in selected markets around the world and the roll-out will continue throughout 2018.

In India, KONE enhanced its offering by launching new elevator models, U MonoSpace®, a machine-room-less elevator, and U MiniSpace™, a small-machineroom elevator. Additionally, the machine-roomless A MonoSpace® elevator was launched for the low-rise residential segment.

In addition, KONE launched several updates to its existing product offering during the reporting period. In modernization, enhancements were made to the residential, medical and office segment. In China, KONE updated its midrange commercial and office segment offering. In Europe, Middle East and Africa, the KONE EcoSpace product range was extended to cover higher residential buildings. Enhancements were made also to the Destination 880 control system.

HIGHLIGHTS Q1/2018

- KONE introduced a new digital platform and renewed products and services portfolio
- In India, KONE enhanced its offering with new elevator models U MonoSpace® and U MiniSpace™
- KONE 24/7 Connected Services was made available for escalators

Personnel

KONE employees

	1–3/2018	1–3/2017	1–12/2017
Number of employees at the end of period	55,384	52,270	55,075
Average number of employees	55,325	52,161	53,417

Geographical distribution of KONE employees

	1–3/2018	1–3/2017	1–12/2017
EMEA	22,159	21,531	22,013
Americas	7,415	7,040	7,320
Asia-Pacific	25,810	23,699	25,742
Total	55,384	52,270	55,075

The main goals of KONE's personnel strategy are to secure the availability, engagement, motivation and continuous development of the company's personnel. All KONE's activities are guided by ethical principles. Employee rights and responsibilities include the right to a safe and healthy working environment, personal well-being, freedom of association, collective bargaining, non-discrimination and the right to a working environment in which harassment of any kind is not tolerated.

We strive to have the best professionals with the right competencies in each position. We facilitate this effort as well as increase the motivation, engagement and continuous development of the personnel through regular performance discussions. During the first quarter of 2018, we concentrated on performance discussions to ensure goal setting and achievement reviews from the past year. Goals were set to more than 40,000 employees in the new Workday platform.

KONE's strategy, Winning with Customers, focuses on putting the needs of our customers and users at the center of all development at KONE. People are key to the strategy's success, which requires us to develop and obtain new competences in the fields of leadership, digitalization, partnering, understanding customers' businesses and project management. During the first quarter of 2018 we launched a new Leadership Fundamentals program for all new people leaders at KONE. The nine-week long program includes online studies, extensive feedback and a workshop. Additionally, we continued strengthening our training capability by opening new learning centers in Malaysia and India, adding up to a total of 37 KONE training centers globally.

HIGHLIGHTS Q1/2018

- A new Leadership Fundamentals program for all new people leaders launched
- New learning centers opened in Malaysia and India

A key focus area within the KONE personnel strategy is attracting the best talent, as well as talent with new competences. During the reporting period, we received more than 2,000 applications to the KONE International Trainee Program (ITP), which offers several trainee positions across the KONE countries and is meant for university students who are at least halfway through their studies. Furthermore, KONE organized several training sessions to the Talent Acquisition teams on targeting new competencies and increasing diversity through recruitment.

Environment

KONE's environmental targets for 2017–2021 are to be the leading provider of low-carbon People Flow® solutions and to have efficient low-carbon operations. Our Environmental Excellence program supports the transformation of the built environment into smart eco-cities, low-carbon communities, and net zero energy buildings. Improving resource efficiency is one of our top priorities.

In March 2018, we finalized the calculations of our 2017 carbon footprint. KONE's target is to reduce the carbon footprint relative to sales by 3% annually. KONE's overall carbon footprint relative to sales decreased by 0.2% compared to 2016 with sales growth calculated at comparable exchange rates. The carbon footprint of scope 1 and 2 greenhouse gas emissions relative to sales decreased by 2.6%, which equals 87% of the 3% target. KONE's 2017 absolute operational carbon footprint amounted to 319,600 tonnes of carbon dioxide equivalent (2016: 305,300; figure restated). The most significant impact of KONE's operational carbon footprint relates to logistics, which amounted to 50% of our operational greenhouse gas emissions in 2017. Other significant areas are our vehicle fleet (30%) and electricity/district heat consumption at KONE's facilities (11%).

The main achievements in reducing our carbon footprint in 2017 are related to energy efficiency, for example the use of green electricity (30% of all electricity consumption), and reductions in greenhouse gas emissions from business air travel. The main reason for not meeting the 3% overall carbon footprint reduction target in 2017 is related to increased logistics emissions, resulting from e.g. longer transportation distances. KONE's carbon footprint data has been externally assured.

During the reporting period, KONE achieved approved BVB (Byggvarubedömningen) assessments for its KONE MonoSpace® 500 and KONE MonoSpace 700 elevators in Sweden as the first elevator company. BVB is a non-profit organization consisting of Sweden's major property owners and building contractors, promoting the use of sustainable building materials by conducting environmental assessments based on the chemical content and lifecycle aspects of products.

HIGHLIGHTS Q1/2018

- KONE's 2017 overall operational carbon footprint reduced by 0.2% relative to sales. KONE's Scope 1 and 2 carbon footprint reduced by 2.6% relative to sales.
- Approved BVB environmental assessments achieved for KONE MonoSpace® 500 and KONE MonoSpace® 700 in Sweden.

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 205 million at the end of March 2018 (December 31, 2017: EUR 219 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 deterioration of the market environment and the competitive situation in the industry. More specifically, a material decline or prolonged weakness within the construction industry could result in a significant decline for the new equipment market and a more challenging environment for services. In particular, a sustained market decline in China, which accounts for over 25% of KONE's sales, could have an adverse effect on KONE's growth and profitability.

Digitalization, and, as a result, new customer requirements, potential new competition, ecosystems, business models and structural changes in key markets, could have a significant impact on the elevator and escalator industry. 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 unforeseen changes in regulations, 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 portion of KONE's component suppliers and global supply capacity is located in China, for both the elevator and escalator businesses. Therefore, KONE's operations may be adversely impacted by changes in trade agreements or by the introduction of trade restrictions.

Operational risks

As one of the leading companies in the industry, KONE has a strong brand and reputation. Issues that impact the company's reputation or brand could have an effect on KONE's business and financial performance. Such reputational risks could materialize; for example, in the case of an incident, a major delivery issue or a product quality issue. Matters concerning 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 and transformation 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 products and services which are delivered. Failure to adequately manage resourcing, quality and the timeliness of delivery, or other critical aspects in projects, could have an adverse impact on KONE's profitability.

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 prices for raw materials and components may have a significant impact on KONE's profitability.

Hazard, security and incidental risks

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. In addition, KONE's operations extensively utilize information technology and its business is dependent on the quality, integrity 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 or manipulation of data, or malfunctions which can result in disruptions in processes and equipment availability and therefore impact KONE's business. Any breach of sensitive employee or customer data may also result in significant penalties as well as reputational damage. Such cyber incidents could be caused by, including but not limited to, cybercrime, cyber-attacks, computer malware, information theft, fraud, misappropriation, or inadvertent actions from our employees and vendors.

Financial risks

The majority of KONE's sales are denominated in currencies other 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 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 impact cash flow or 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 KONE's Financial Statements for 2017.

Risk management

Risk	Mitigation actions
Weakening of the economic environment, particularly in China	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 in research and development and by taking an open innovation approach. KONE also closely follows emerging industry and market trends.
Sudden changes in regulation, or a rise in protectionism	In order to mitigate the risk of unforeseen changes in the regulatory environment, KONE actively monitors the development of regulations and evaluates its global footprint.
Disruption in the global supply chain, particularly in China	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, business continuity management capabilities and financial strength of its key suppliers. In addition, KONE aims 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 for transparent and reliable communication, to prevent reputational risks and to manage potential incidents. KONE also has stringent corporate governance principles in place.
Availability of adequate operational resources	KONE manages these risks through proactive project and resource planning as well as strict quality control processes.
Changes in raw material prices	In order to reduce the impact of material and sourcing price fluctuations, KONE aims for fixed-price contracts with its major suppliers, for a significant portion of raw material and component purchases.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems which are both in development and in operation, in order to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers and trusted, well-known technology partners to manage the risks through the control framework. KONE conducts tests, reviews and exercises to identify areas of risk and to ensure the appropriate preparedness. The company continues to invest in its cyber security capabilities based on these findings.
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 2017.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 26, 2018. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2017.

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. Matti Alahuhta and Juhani Kaskeala are independent of both the company and of significant shareholders.

The General Meeting confirmed an annual compensation of EUR 55,000 (previously 54,000) for the Chairman of the Board, EUR 45,000 (44,000) for the Vice Chairman and EUR 40,000 (37,000) 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 Heikki Lassila were nominated as auditors.

Dividend

The General Meeting approved dividends in line with the Board of Director's proposal of EUR 1.6475 for each of the 76,208,712 class A shares and EUR 1.65 for each of the outstanding 438,568,899 class B shares. The date of record for dividend distribution was February 28, 2018 and dividends were paid on March 7, 2018.

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 in both plans is based on annual targets that are decided by the Board. These annual targets are set with the aim to take KONE towards the long-term financial targets. 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 the shares received 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 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 2014 option rights. On March 31, 2018, a maximum of 869,698 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 February 27, 2018, EUR 25.00 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 stock options 2015 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2017. The total number of stock options was 1,500,000 and 131,000 of them are held by KONE Corporation's subsidiary. During the reporting period, no class B shares were subscribed for with 2015 option rights. On March 31, 2018, a maximum of 1,355,925 shares could be subscribed for with the remaining outstanding option rights. Each stock option entitles its holder to subscribe for one (1) new class B KONE share at the price of, from February 27, 2018, EUR 30.40 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, 2018	Dec 31, 2017
Number of class B shares	450,971,695	450,971,695
Number of class A shares	76,208,712	76,208,712
Total shares	527,180,407	527,180,407
Share capital, EUR	65,897,551	65,897,551
Market capitalization, MEUR*	20,864	23,052

* 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

	1–3/2018
Shares in KONE's possession at the beginning of the period	12,402,796
Changes in own shares during the period	–
Shares in KONE's possession at the end of the period	12,402,796

At the end of March 2018, the Group had 12,402,796 class B shares in its possession. The shares in the Group's possession represent 2.8% of the total number of class B shares. This corresponds to 1.0% of the total voting rights.

Shares traded on the Nasdaq Helsinki Ltd.

Trading on the KONE share

		1–3/2018	1–3/2017	1–12/2017
Shares traded on the Nasdaq Helsinki Ltd., million		48.0	51.1	175.3
Average daily trading volume		761,261	797,958	698,221
Volume-weighted average share price	EUR	43.63	41.53	43.73
Highest share notation	EUR	47.07	45.71	47.70
Lowest share notation	EUR	39.49	39.77	39.77
Share notation at the end of period	EUR	40.53	41.16	44.78

In addition to the Nasdaq Helsinki Ltd., KONE's class B share is also traded on various alternative trading platforms. The volume of KONE's B shares traded on the Nasdaq Helsinki Stock Exchange represented approximately 23.7% of the total volume of KONE's class B shares traded in January–March 2018 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 61,139 at the beginning of the review period and 63,211 at its end. The number of private households holding shares totaled 59,396 at the end of the period, which corresponds to approximately 13.1% of the listed B shares. At the end of March, 2018 a total of 51.7% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–March 2018, BlackRock, Inc. announced a notice in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notice, which was announced on March 29, has been released as a stock exchange release and is available on KONE Corporation's internet pages at www.kone.com. According to the notification, the total number of shares owned by BlackRock, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on March 28, 2018.

Outlook

Market outlook 2018

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 slightly or to be stable in units, competition to remain intense Outside China Growth	Maintenance Strong growth Modernization Strong growth

Market outlook 2018

In new equipment, the market in China is expected to decline slightly or to be stable in units ordered and competition to remain intense. In the rest of Asia-Pacific, the market is expected to grow. The markets in both North America as well as in the Europe, Middle East and Africa region are expected to grow slightly.

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

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

Business outlook 2018

In 2018, KONE's sales is estimated to grow by 3–7% at comparable exchange rates as compared to the restated 2017 sales. The adjusted EBIT is expected to be in the range of EUR 1,100–1,200 million, assuming that foreign exchange rates would remain at the end of March 2018 level for the remainder of the year. Foreign exchange rates are estimated to impact EBIT negatively by approximately EUR 40 million. The pressure on the adjusted EBIT margin is expected to start to ease towards the end of 2018 as a result of pricing and productivity actions that have been taken.

The outlook is based on KONE's maintenance base and order book as well as the market outlook. The main factors continuing to pressure the adjusted EBIT margin in 2018 are the decrease in the margin of orders received witnessed in 2017, in China in particular, and the higher raw material prices. Higher raw material prices are estimated to impact KONE's 2018 EBIT negatively by approximately EUR 100 million. The margin pressure is expected to start to ease towards the end of 2018 as a result of pricing actions taken and general productivity improvements as well as the first savings from the Accelerate program. New equipment business outside China and the service business are expected to continue to develop positively.

Previous business outlook

KONE previously estimated its sales to grow at around a similar rate as in 2017 at comparable exchange rates. The adjusted EBIT margin was expected to continue to decline in 2018 as witnessed in 2017. However, the margin pressure was expected to start to ease towards the end of 2018 as a result of pricing and productivity actions that have been taken.

Helsinki, April 25, 2018

KONE Corporation's Board of Directors

Accounting Principles

KONE Corporation's Interim Report for January–March 2018 has been prepared in line with IAS 34, 'Interim Financial Reporting' and should be read in conjunction with KONE's financial statements for 2017, published on January 25, 2018. KONE has applied the same accounting principles in the preparation of this Interim Report as in its Financial Statements for 2017, except for the adoption of new standards and interpretations effective during 2018 that are relevant to its operations. More information for adoption of IFRS 15 and IFRS 9 is presented in page 27. In this Interim Report all comparison figures presented for year 2017 have been restated applying IFRS 15 and IFRS 9 retrospectively. Changes of other standards or interpretations 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	1–3/2018	%	1–3/2017	%	1–12/2017	%
Sales	2,008.0		1,943.4		8,796.7	
Costs and expenses	-1,767.5		-1,669.2		-7,490.1	
Depreciation and amortization	-29.0		-28.4		-114.3	
Operating income	211.5	10.5	245.8	12.6	1,192.3	13.6
Share of associated companies' net income	-0.1		0.3		-0.2	
Financing income	15.3		28.5		72.2	
Financing expenses	-2.9		-2.8		-13.9	
Income before taxes	223.7	11.1	271.8	14.0	1,250.4	14.2
Taxes	-51.4		-63.1		-290.2	
Net income	172.2	8.6	208.7	10.7	960.2	10.9
Net income attributable to:						
Shareholders of the parent company	170.7		206.5		955.8	
Non-controlling interests	1.5		2.3		4.4	
Total	172.2		208.7		960.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR						
Basic earnings per share, EUR	0.33		0.40		1.86	
Diluted earnings per share, EUR	0.33		0.40		1.86	

Consolidated statement of comprehensive income

MEUR	1–3/2018	1–3/2017	1–12/2017
Net income	172.2	208.7	960.2
Other comprehensive income, net of tax:			
Translation differences	-21.0	-5.6	-204.9
Hedging of foreign subsidiaries	9.3	5.6	52.8
Cash flow hedges	7.0	4.4	39.6
Items that may be subsequently reclassified to statement of income	-4.6	4.3	-112.5
Changes in fair value	3.8	4.6	-12.2
Remeasurements of employee benefits	-0.8	-3.2	8.3
Items that will not be reclassified to statement of income	3.0	1.4	-3.9
Total other comprehensive income, net of tax	-1.7	5.7	-116.4
Total comprehensive income	170.6	214.5	843.8
Total comprehensive income attributable to:			
Shareholders of the parent company	169.1	212.2	839.4
Non-controlling interests	1.5	2.3	4.4
Total	170.6	214.5	843.8

Condensed consolidated statement of financial position

Assets

MEUR		March 31, 2018	March 31, 2017	Dec 31, 2017
Non-current assets				
Goodwill		1,316.2	1,369.9	1,325.5
Other intangible assets		267.4	287.2	274.5
Tangible assets		370.2	369.7	377.0
Loan receivables and other interest-bearing assets	I	0.7	7.3	0.7
Investments		139.3	155.1	134.3
Employee benefits	I	8.3		11.5
Deferred tax assets	II	260.9	295.5	263.3
Total non-current assets		2,362.9	2,484.7	2,386.9
Current assets				
Inventories	II	599.8	617.7	626.8
Accounts receivable	II	1,835.6	1,813.0	1,910.8
Deferred assets	II	573.6	485.1	404.5
Income tax receivables	II	52.6	60.5	67.5
Current deposits and loan receivables	I	881.5	1,053.3	1,568.8
Cash and cash equivalents	I	485.5	536.6	496.5
Total current assets		4,428.6	4,566.1	5,075.0
Total assets		6,791.4	7,050.8	7,461.9

Equity and liabilities

MEUR		March 31, 2018	March 31, 2017	Dec 31, 2017
Equity		2,358.4	2,369.4	3,028.9
Non-current liabilities				
Loans	I	191.8	203.9	194.7
Employee benefits	I	149.1	179.9	152.2
Deferred tax liabilities	II	143.1	160.4	143.8
Total non-current liabilities		484.0	544.2	490.7
Provisions	II	132.4	158.7	137.9
Current liabilities				
Loans	I	33.7	30.6	40.5
Advance payments received and deferred revenue	II	1,418.9	1,474.4	1,404.6
Accounts payable	II	628.6	644.2	705.1
Accruals	II	1,679.4	1,756.8	1,569.2
Income tax payables	II	55.9	72.5	85.1
Total current liabilities		3,816.6	3,978.5	3,804.4
Total equity and liabilities		6,791.4	7,050.8	7,461.9

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, 2018	65.9	100.3	205.8	36.2	65.9	-105.2	-217.8	2,862.7		15.0	3,028.9
Net income for the period									170.7	1.5	172.2
Other comprehensive income:											
Translation differences					-21.0						-21.0
Hedging of foreign subsidiaries					9.3						9.3
Cash flow hedges				7.0							7.0
Changes in fair value				3.8							3.8
Remeasurements of employee benefits						-0.8					-0.8
Transactions with shareholders and non-controlling interests:											
Profit distribution								-849.2			-849.2
Increase in equity (option rights)											-
Purchase of own shares											-
Change in non-controlling interests										-0.2	-0.2
Option and share-based compensation			8.1					0.2			8.4
March 31, 2018	65.9	100.3	214.0	47.1	54.3	-106.0	-217.8	2,013.7	170.7	16.3	2,358.4

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, 2017	65.8	100.3	166.1	8.9	218.0	-113.5	-236.7	2,718.9		17.6	2,945.4
Net income for the period									206.5	2.3	208.7
Other comprehensive income:											
Translation differences					-5.6						-5.6
Hedging of foreign subsidiaries					5.6						5.6
Cash flow hedges				4.4							4.4
Changes in fair value				4.6							4.6
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
March 31, 2017	65.8	100.3	169.4	17.8	218.0	-116.7	-236.7	1,925.5	206.5	19.5	2,369.4

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, 2017	65.8	100.3	166.1	8.9	218.0	-113.5	-236.7	2,718.9		17.6	2,945.4
Net income for the period									955.8	4.4	960.2
Other comprehensive income:											
Translation differences					-204.9						-204.9
Hedging of foreign subsidiaries					52.8						52.8
Cash flow hedges				39.6							39.6
Changes in fair value				-12.2							-12.2
Remeasurements of employee benefits						8.3					8.3
Transactions with shareholders and non-controlling interests:											
Profit distribution								-795.4			-795.4
Increase in equity (option rights)	0.1		24.7								24.9
Purchase of own shares											-
Change in non-controlling interests										-7.0	-7.0
Option and share-based compensation			15.0				18.9	-16.6			17.2
Dec 31, 2017	65.9	100.3	205.8	36.2	65.9	-105.2	-217.8	1,906.9	955.8	15.0	3,028.9

Condensed consolidated statement of cash flows

MEUR	1–3/2018	1–3/2017	1–12/2017
Operating income	211.5	245.8	1,192.3
Change in working capital before financing items and taxes	-61.5	31.1	-43.3
Depreciation and amortization	29.0	28.4	114.3
Cash flow from operations before financing items and taxes	179.0	305.3	1,263.3
Cash flow from financing items and taxes	-58.9	-50.0	-299.6
Cash flow from operating activities	120.1	255.3	963.7
Cash flow from investing activities	-27.2	-27.0	-143.5
Cash flow after investing activities	92.9	228.4	820.2
Purchase of own shares	-	-	-
Increase in equity (option rights)	-	-	24.9
Profit distribution	-786.2	-729.8	-795.4
Change in deposits and loans receivable, net	687.6	443.1	-82.4
Change in loans payable and other interest-bearing debt	-4.2	4.7	-33.2
Changes in non-controlling interests	-0.1	-	-5.5
Cash flow from financing activities	-102.8	-282.0	-891.7
Change in cash and cash equivalents	-9.9	-53.6	-71.5
Cash and cash equivalents at beginning of period	496.5	589.2	589.2
Translation difference	-1.1	1.0	-21.1
Cash and cash equivalents at end of period	485.5	536.6	496.5

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	1–3/2018	1–3/2017	1–12/2017
Interest-bearing net debt at beginning of period	-1,690.2	-1,687.6	-1,687.6
Interest-bearing net debt at end of period	-1,001.3	-1,182.8	-1,690.2
Change in interest-bearing net debt	688.9	504.8	-2.6

Notes for the interim report

KEY FIGURES

		1–3/2018	1–3/2017	1–12/2017
Basic earnings per share	EUR	0.33	0.40	1.86
Diluted earnings per share	EUR	0.33	0.40	1.86
Equity per share	EUR	4.55	4.58	5.41
Interest-bearing net debt	MEUR	-1,001.3	-1,182.8	-1,690.2
Equity ratio	%	43.9	42.5	50.0
Gearing	%	-42.5	-49.9	-55.8
Return on equity	%	25.6	31.4	32.1
Return on capital employed	%	22.8	27.6	28.7
Total assets	MEUR	6,791.4	7,050.8	7,461.9
Assets employed	MEUR	1,357.2	1,186.6	1,338.7
Net working capital (including financing and tax items)	MEUR	-735.9	-995.3	-772.6

The calculation formulas of key figures are presented in KONE's Financial Statements for 2017.

ALTERNATIVE PERFORMANCE MEASURE

KONE reports an alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. The adjusted EBIT is calculated by excluding significant items impacting comparability such as significant restructuring costs arising from redundancy and other costs directly associated to the Accelerate program.

		1–3/2018	1–3/2017	1–12/2017
Operating income	MEUR	211.5	245.8	1,192.3
Operating income margin	%	10.5	12.6	13.6
Items impacting comparability	MEUR	6.9	-	13.2
Adjusted EBIT	MEUR	218.3	245.8	1,205.5
Adjusted EBIT margin	%	10.9	12.6	13.7

Net working capital

MEUR	March 31, 2018	March 31, 2017	Dec 31, 2017
Net working capital			
Inventories	599.8	617.7	626.8
Advance payments received	-1,418.9	-1,474.4	-1,404.6
Accounts receivable	1,835.6	1,813.0	1,910.8
Deferred assets and income tax receivables	626.2	545.6	472.0
Accruals and income tax payables	-1,735.3	-1,829.3	-1,654.3
Provisions	-132.4	-158.7	-137.9
Accounts payable	-628.6	-644.2	-705.1
Net deferred tax assets/liabilities	117.8	135.1	119.5
Total net working capital	-735.9	-995.3	-772.6

QUARTERLY FIGURES

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2011-2016 are not restated and thus not fully comparable.

		Q1/2018	Q4/2017	Q3/2017	Q2/2017	Q1/2017
Orders received	MEUR	1,908.7	1,845.8	1,739.0	2,056.2	1,913.0
Order book	MEUR	7,786.6	7,357.8	7,473.5	7,749.2	7,960.5
Sales	MEUR	2,008.0	2,306.3	2,209.7	2,337.2	1,943.4
Operating income	MEUR	211.5	292.8	317.9	335.8	245.8
Operating income margin	%	10.5	12.7	14.4	14.4	12.6
Adjusted EBIT [1]	MEUR	218.3	302.6	321.3	335.8	245.8
Adjusted EBIT margin [1]	%	10.9	13.1	14.5	14.4	12.6
Items impacting comparability	MEUR	6.9	9.9	3.3		

		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 margin	%	15.1	15.3	15.3	12.7	14.8	14.9	14.7	12.5
Adjusted EBIT [1]	MEUR	392.2	331.1	348.6	221.4	378.5	325.9	325.2	211.9
Adjusted EBIT margin [1]	%	15.1	15.3	15.3	12.7	14.8	14.9	14.7	12.5
Items impacting comparability	MEUR								

		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 margin	%	14.6	14.8	14.2	12.5	14.4	14.8	13.8	11.5
Adjusted EBIT [1]	MEUR	315.3	277.5	263.2	179.6	292.8	257.5	242.8	160.4
Adjusted EBIT margin [1]	%	14.6	14.8	14.2	12.5	14.4	14.8	13.8	11.5
Items impacting comparability	MEUR								

		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	173.0	134.6	233.0	188.9	184.5	118.7
Operating income margin	%	13.9	13.9	11.2	10.8	14.7	14.6	14.3	11.3
Adjusted EBIT [1]	MEUR	257.4	226.4	210.3	134.6	233.0	188.9	184.5	118.7
Adjusted EBIT margin [1]	%	13.9	13.9	13.6	10.8	14.7	14.6	14.3	11.3
Items impacting comparability	MEUR			37.3					

[1] Operating income excluding items impacting comparability.

Depreciation and amortization

MEUR	1–3/2018	1–3/2017	1–12/2017
Depreciation and amortization of fixed assets	21.1	20.4	82.7
Amortization of acquisition-related intangible assets	8.0	8.0	31.7
Total	29.0	28.4	114.3

Key exchange rates in euros

		March 31, 2018		March 31, 2017	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.7784	7.7468	7.3399	7.3642
US Dollar	USD	1.2246	1.2321	1.0646	1.0691
British Pound	GBP	0.8814	0.8749	0.8565	0.8555
Australian Dollar	AUD	1.5594	1.6036	1.4146	1.3982

Derivatives

Fair values of derivative financial instruments MEUR	Derivative assets March 31, 2018	Derivative liabilities March 31, 2018	Fair value, net March 31, 2018	Fair value, net March 31, 2017	Fair value, net Dec 31, 2017
Foreign exchange forward contracts and swaps	44.7	-12.5	32.2	4.1	23.5
Electricity price forward contracts	-	-0.1	-0.1	-0.5	-0.3
Total	44.7	-12.6	32.1	3.5	23.2

Nominal values of derivative financial instruments MEUR	March 31, 2018	March 31, 2017	Dec 31, 2017
Foreign exchange forward contracts and swaps	3,024.6	2,685.0	2,389.6
Electricity price forward contracts	0.7	1.4	1.0
Total	3,025.3	2,686.4	2,390.6

The fair values of foreign exchange forward contracts and 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. Investment also include other non-current financial assets which are investments in smaller holdings in other companies without public quotation.

Shares and other non-current financial assets are classified as investments measured at fair value through other comprehensive income and the fair value is measured using income or market approach valuation techniques under fair value hierarchy level 3.

Commitments

MEUR	March 31, 2018	March 31, 2017	Dec 31, 2017
Guarantees			
Others	2.9	9.7	5.0
Operating leases	299.3	318.1	294.5
Total	302.2	327.8	299.5

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,386 (1,472) million as of March 31, 2018.

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

The future minimum lease payments under non-cancellable operating leases

Me	March 31, 2018	March 31, 2017	Dec 31, 2017
Less than 1 year	70.8	73.5	73.0
1–5 years	164.8	163.7	161.3
Over 5 years	63.7	80.9	60.2
Total	299.3	318.1	294.5

Restated information on 2017 financials as a result of adoption of new IFRS 15 and IFRS 9 accounting standards

KONE has adapted new accounting standards issued by the International Accounting Standards Board, IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, effective on January 1, 2018.

The most significant impact from the implementation of the IFRS 15 is the application of percentage of completion revenue recognition method also in the volume new equipment and modernization businesses. In these businesses revenue was previously recognized upon the handover of the project to the customer while long-term major projects were already recognized under percentage of completion method. With the new IFRS 15 principles revenue is recognized gradually for all construction contracts at KONE based on the progress from the point when materials arrive at customer site until the handover of the project. Implementation of IFRS 9 did not have a material impact in KONE's consolidated financial statements.

IFRS 15

IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognized when, or as, the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. KONE has adopted the new standard by using the full retrospective method.

The impact of the implementation of IFRS 15 is limited to revenue recognition of new equipment and modernization contracts where the revenue recognition will occur over time, measured based on the percentage of completion method as the customer obtains control of each asset, i.e. separately identifiable performance obligation. A performance obligation is a distinct good or service within a contract that customer can benefit on stand-alone basis. For KONE's new equipment and modernization contracts, a performance obligation typically means delivery and installation of a single unit, i.e. an elevator, escalator or other People Flow solution. Percentage of completion is defined as the proportion of an individual performance obligation's cost incurred to date from the total estimated costs for that particular performance obligation. The percentage of completion method requires accurate estimates of future revenues and costs over the full term of the contracts. These significant estimates form the basis for the amount of revenue to be recognized and include the latest updated total revenue, cost and risks adjusted by the typical estimation revisions for similar types of contracts. These estimates may materially change due to the stage of completion of the contract, changes in the contract scope, costs estimates and customer's plans and other factors.

Application of new revenue recognition principles under IFRS 15 has a material impact on KONE's consolidated financial statements. In practice, revenue is recognized earlier based on the progress also for those new equipment and modernization contracts which were not previously defined as long-term major projects already recognized under the percentage of completion method. From a balance sheet perspective, the application of new principles decreased inventories and related advances received and deferred revenue, while receivables were somewhat increased. Deferred tax assets and liabilities changed slightly. As a result of the restated timing of revenue recognition, retained earnings were increased. Also, reported new equipment and modernization order book decreased due to application of percentage of completion method also for other new equipment and modernization contracts than long-term major projects. These changes do not impact cash flow.

IFRS 9

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Additionally, IFRS 9 introduces expanded disclosure requirements and changes in presentation. KONE has adopted the new standard by using the full retrospective method.

The main impact of the IFRS 9 application for KONE is coming from the new expected credit loss model applied to assess impairment loss for the doubtful accounts receivable. KONE applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on shared credit risk characteristics and aging category and measured based on historical loss rates adjusted by forward looking estimates and individual assessment. The adaptation of the new principles slightly increased the accumulated impairment loss.

IFRS 9 contains a new classification and measurement guidance for financial assets and liabilities that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets and accordingly KONE has classified financial assets as measured at amortized cost, at fair value through other comprehensive income and at fair value through statement of income. The standard eliminated previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, all shares and non-current financial assets which were previously classified as available-for-sale investments and measured at cost are classified as investments measured at fair value through other comprehensive income. Investments in interest rate funds which were previously classified as loans and receivables and measured at amortized cost are classified at fair value through statement of income.

Application of IFRS 9 did not have any material impact on KONE's Accounting Principles for financial liabilities or to hedge accounting. Thus, the implementation of IFRS 9 did not have a material impact on the transactions and balances recognized in KONE's consolidated financial statements.

CORRECTION TO EARLIER PUBLISHED RESTATED INFORMATION ON 2017 FINANCIALS

KONE corrects restated information published on March 19, 2018 on 2017 financials as a result the adaption of new IFRS 15 and IFRS 9 accounting standards. The corrections are not considered material to KONE's consolidated financial statements and not impacting the consolidated statement of income or cash flow. The corrections are limited only to value of investments, inventories and deferred tax assets with respective net impact on total assets and equity in the consolidated statement of financial position for the all periods restated. The corrected restated 2017 financials are presented in this interim report and at www.kone.com/investors.

KEY FIGURES, RESTATED

		Q1	Q2	Q3	Q4	1–12/2017
Orders received	MEUR	1,913.0	2,056.2	1,739.0	1,845.8	7,554.0
Order book	MEUR	7,960.5	7,749.2	7,473.5	7,357.8	7,357.8
Sales	MEUR	1,943.4	2,337.2	2,209.7	2,306.3	8,796.7
Operating income	MEUR	245.8	335.8	317.9	292.8	1,192.3
Operating income margin	%	12.6	14.4	14.4	12.7	13.6
Adjusted EBIT [1)]	MEUR	245.8	335.8	321.3	302.6	1,205.5
Adjusted EBIT margin [1)]	%	12.6	14.4	14.5	13.1	13.7
Income before tax	MEUR	271.8	346.5	330.2	301.9	1,250.4
Net income	MEUR	208.7	266.1	253.6	231.8	960.2
Basic earnings per share	EUR	0.40	0.52	0.49	0.45	1.86
Cash flow from operations (before financing items and taxes)	MEUR	305.3	320.4	302.7	335.0	1,263.3
Interest-bearing net debt	MEUR	-1,182.8	-1,302.1	-1,464.9	-1,690.2	-1,690.2
Equity ratio	%	42.5	44.5	47.7	50.0	50.0
Return on equity	%	31.4	31.8	31.6	32.1	32.1
Net working capital (including financing items and taxes)	MEUR	-995.3	-861.7	-782.2	-772.6	-772.6
Gearing	%	-49.9	-50.8	-52.5	-55.8	-55.8

1) Operating income excluding items impacting comparability.

SALES BY REGION, RESTATED

MEUR	Q1	%	Q2	%	Q3	%	Q4	%	1–12/2017	%
EMEA	785.0	40%	907.3	39%	896.7	41%	1,005.6	44%	3,594.5	41%
Americas	463.4	24%	450.8	19%	431.3	20%	432.9	19%	1,778.5	20%
Asia-Pacific	695.0	36%	979.1	42%	881.8	40%	867.8	38%	3,423.7	39%
Total	1,943.4		2,337.2		2,209.7		2,306.3		8,796.7	

SALES BY BUSINESS, RESTATED

MEUR	Q1	%	Q2	%	Q3	%	Q4	%	1–12/2017	%
New equipment	939.0	48%	1,299.7	56%	1,207.6	55%	1,207.5	52%	4,653.9	53%
Services	1,004.4	52%	1,037.5	44%	1,002.1	45%	1,098.8	48%	4,142.8	47%
Maintenance	719.7	37%	717.6	31%	705.9	32%	744.0	32%	2,887.3	33%
Modernization	284.7	15%	319.9	14%	296.2	13%	354.9	15%	1,255.6	14%
Total	1,943.4		2,337.2		2,209.7		2,306.3		8,796.7	

CONSOLIDATED STATEMENT OF INCOME, RESTATED

MEUR	Q1	%	Q2	%	Q3	%	Q4	%	1–12/2017	%
Sales	1,943.4		2,337.2		2,209.7		2,306.3		8,796.7	
Costs and expenses	-1,669.2		-1,973.3		-1,863.5		-1,984.1		-7,490.1	
Depreciation and amortization	-28.4		-28.2		-28.3		-29.5		-114.3	
Operating income	245.8	12.6	335.8	14.4	317.9	14.4	292.8	12.7	1,192.3	13.6
Share of associated companies' net income	0.3		0.0		-0.2		-0.3		-0.2	
Financing income	28.5		14.8		16.2		12.7		72.2	
Financing expenses	-2.8		-4.1		-3.7		-3.3		-13.9	
Income before taxes	271.8	14.0	346.5	14.8	330.2	14.9	301.9	13.1	1,250.4	14.2
Taxes	-63.1		-80.4		-76.6		-70.1		-290.2	
Net income	208.7	10.7	266.1	11.4	253.6	11.5	231.8	10.0	960.2	10.9
Net income attributable to:										
Shareholders of the parent company	206.5		265.1		252.9		231.2		955.8	
Non-controlling interests	2.3		0.9		0.7		0.5		4.4	
Total	208.7		266.1		253.6		231.8		960.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR										
Basic earnings per share, EUR	0.40		0.52		0.49		0.45		1.86	
Diluted earnings per share, EUR	0.40		0.52		0.49		0.45		1.86	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION, RESTATED

Assets

MEUR		Q4/16	Q1/17	Q2/17	Q3/17	Q4/17
Non-current assets						
Goodwill		1,371.8	1,369.9	1,333.2	1,324.1	1,325.5
Other intangible assets		292.9	287.2	276.8	272.4	274.5
Tangible assets		368.3	369.7	365.8	368.5	377.0
Loan receivables and other interest-bearing assets	I	7.4	7.3	7.3	0.5	0.7
Investments		150.1	155.1	145.4	140.0	134.3
Employee benefits	I	-	-	-	-	11.5
Deferred tax assets	II	302.7	295.5	283.8	276.9	263.3
Total non-current assets		2,493.1	2,484.7	2,412.3	2,382.3	2,386.9
Current assets						
Inventories	II	558.0	617.7	611.8	638.5	626.8
Accounts receivable	II	1,901.9	1,813.0	1,866.1	1,779.5	1,910.8
Deferred assets	II	454.7	485.1	452.3	483.7	404.5
Income tax receivables	II	61.4	60.5	79.5	95.3	67.5
Current deposits and loan receivables	I	1,496.6	1,053.3	1,098.8	1,284.0	1,568.8
Cash and cash equivalents	I	589.2	536.6	607.9	558.7	496.5
Total current assets		5,061.7	4,566.1	4,716.4	4,839.7	5,075.0
Total assets		7,554.8	7,050.8	7,128.8	7,222.0	7,461.9

Equity and liabilities

MEUR		Q4/16	Q1/17	Q2/17	Q3/17	Q4/17
Equity		2,945.4	2,369.4	2,561.6	2,787.7	3,028.9
Non-current liabilities						
Loans	I	203.1	203.9	208.3	204.2	194.7
Employee benefits	I	176.7	179.9	175.7	153.3	152.2
Deferred tax liabilities	II	160.1	160.4	164.1	161.9	143.8
Total non-current liabilities		539.9	544.2	548.1	519.5	490.7
Provisions	II	179.6	158.7	141.1	129.9	137.9
Current liabilities						
Loans	I	25.8	30.6	27.9	20.7	40.5
Advance payments received and deferred revenue	II	1,428.6	1,474.4	1,376.8	1,376.7	1,404.6
Accounts payable	II	743.3	644.2	735.1	690.2	705.1
Accruals	II	1,609.7	1,756.8	1,653.4	1,610.9	1,569.2
Income tax payables	II	82.5	72.5	84.8	86.4	85.1
Total current liabilities		3,890.0	3,978.5	3,878.0	3,784.9	3,804.4
Total equity and liabilities		7,554.8	7,050.8	7,128.8	7,222.0	7,461.9

Items designated " I " comprise interest-bearing net debt.
Items designated " II " comprise net working capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS, RESTATED

MEUR	Q1	Q2	Q3	Q4	1–12/2017
Operating income	245.8	335.8	317.9	292.8	1,192.3
Change in working capital before financing items and taxes	31.1	-43.6	-43.5	12.7	-43.3
Depreciation and amortization	28.4	28.2	28.3	29.5	114.3
Cash flow from operations before financing items and taxes	305.3	320.4	302.7	335.0	1,263.3
Cash flow from financing items and taxes	-50.0	-84.5	-107.7	-57.5	-299.6
Cash flow from operating activities	255.3	235.9	195.0	277.5	963.7
Cash flow from investing activities	-27.0	-30.1	-39.2	-47.2	-143.5
Cash flow after investing activities	228.4	205.8	155.8	230.2	820.2
Purchase of own shares	-	-	-	-	-
Increase in equity (option rights)	-	14.5	7.1	3.3	24.9
Profit distribution	-729.8	-65.6	-	-	-795.4
Change in deposits and loans receivable, net	443.1	-66.8	-174.5	-284.2	-82.4
Change in loans payable and other interest-bearing debt	4.7	-1.1	-27.7	-9.1	-33.2
Changes in non-controlling interests	-	-0.4	-2.7	-2.4	-5.5
Cash flow from financing activities	-282.0	-119.5	-197.8	-292.4	-891.7
Change in cash and cash equivalents	-53.6	86.4	-42.0	-62.2	-71.5
Cash and cash equivalents at beginning of period	589.2	536.6	607.9	558.7	589.2
Translation difference	1.0	-15.0	-7.1	-0.0	-21.1
Cash and cash equivalents at end of period	536.6	607.9	558.7	496.5	496.5

Change in interest-bearing net debt

MEUR	Q1	Q2	Q3	Q4	1–12/2017
Interest-bearing net debt at beginning of period	-1,687.6	-1,182.8	-1,302.1	-1,464.9	-1,687.6
Interest-bearing net debt at end of period	-1,182.8	-1,302.1	-1,464.9	-1,690.2	-1,690.2
Change in interest-bearing net debt	504.8	-119.3	-162.8	-225.3	-2.6

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KONE's financial reporting schedules 2018

Interim Report January 1–June 30, 2018	Thursday, July 19, 2018
Interim Report January 1–September 30, 2018	Thursday, October 25, 2018

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 2017, KONE had annual sales of EUR 8.9 billion, and at the end of the year over 55,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd. in Finland. 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.