

# KONE's interim report for January–September 2016

OCTOBER 26, 2016

HENRIK EHRNROOTH, PRESIDENT & CEO

# Key figures for January–September 2016



# Q3 2016 Key figures



SOLID DEVELOPMENT ON A BROAD BASIS

		Q3/2016	Q3/2015	Historical change	Comparable change
Orders received	MEUR	<b>1,771.7</b>	1,764.5	0.4%	3.3%
Order book	MEUR	<b>8,699.0</b>	8,350.7	4.2%	5.6%
Sales	MEUR	<b>2,170.2</b>	2,184.2	-0.6%	1.9%
Operating income (EBIT)	MEUR	<b>331.1</b>	325.9	1.6%	
Operating income (EBIT)	%	<b>15.3</b>	14.9		
Cash flow from operations (before financing items and taxes)	MEUR	<b>400.6</b>	432.0		
Basic earnings per share	EUR	<b>0.52</b>	0.50		

# January–September 2016 Key figures



CONTINUED GOOD OPERATING PERFORMANCE

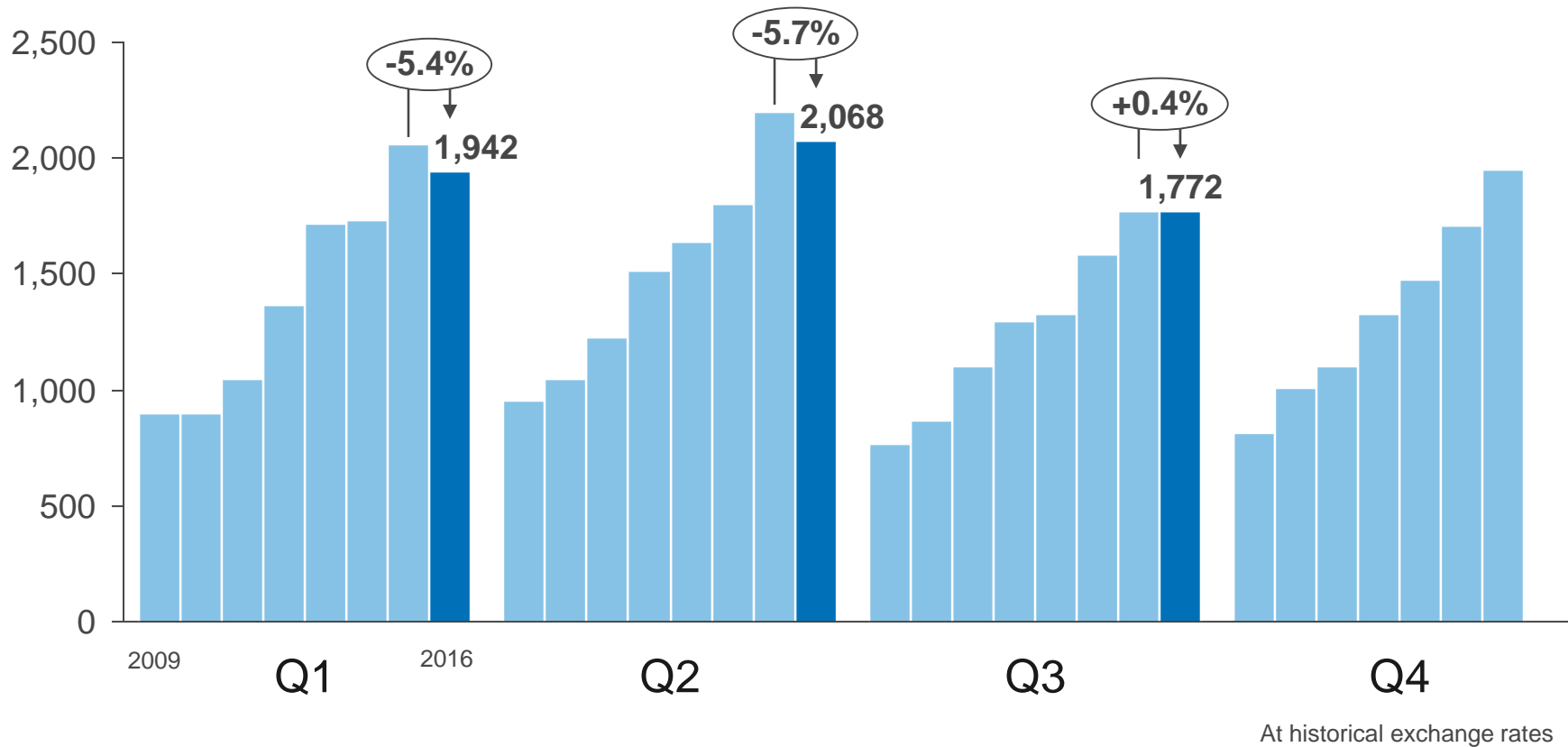
		1–9/2016	1–9/2015	Historical change	Comparable change
Orders received	MEUR	<b>5,781.8</b>	6,011.8	-3.8%	-1.2%
Order book	MEUR	<b>8,699.0</b>	8,350.7	4.2%	5.6%
Sales	MEUR	<b>6,191.1</b>	6,085.5	1.7%	4.0%
Operating income (EBIT)	MEUR	<b>901.1</b>	863.0	4.4%	
Operating income (EBIT)	%	<b>14.6</b>	14.2		
Cash flow from operations (before financing items and taxes)	MEUR	<b>1,099.6</b>	1,070.2		
Basic earnings per share	EUR	<b>1.42</b>	1.30		

# Q3 2016 Orders received



ORDERS RECEIVED GREW IN ALL REGIONS OUTSIDE CHINA

MEUR



## At comparable exchange rates

- Clear growth in modernization orders; stable new equipment orders
- Growth in EMEA and in the Americas; orders in Asia-Pacific declined due to China

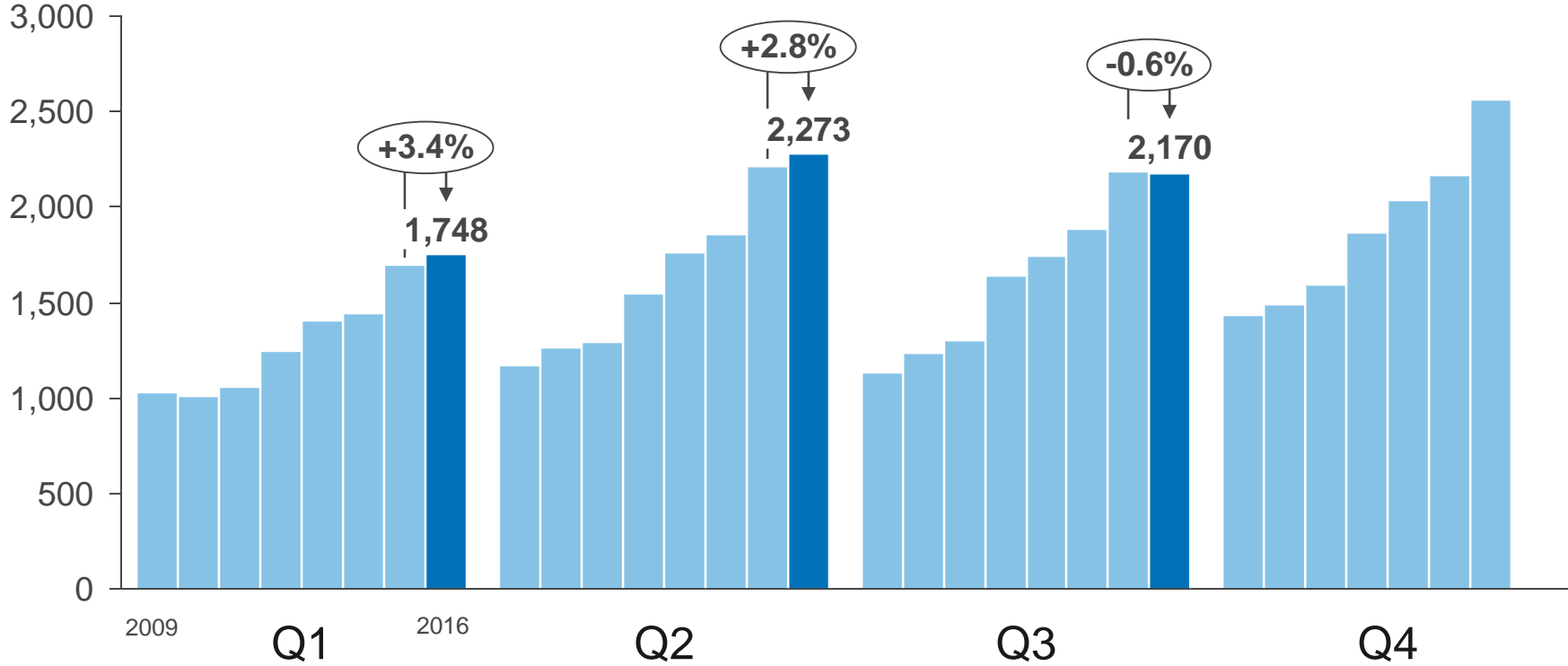
- The relative margin declined slightly, but remained at a good level

# Q3 2016 Sales



STABLE SALES WITH GOOD DEVELOPMENT IN SERVICES

MEUR



At historical exchange rates

**At comparable exchange rates**

- New equipment -2.5%
- Maintenance +6.1%
- Modernization +13.4%

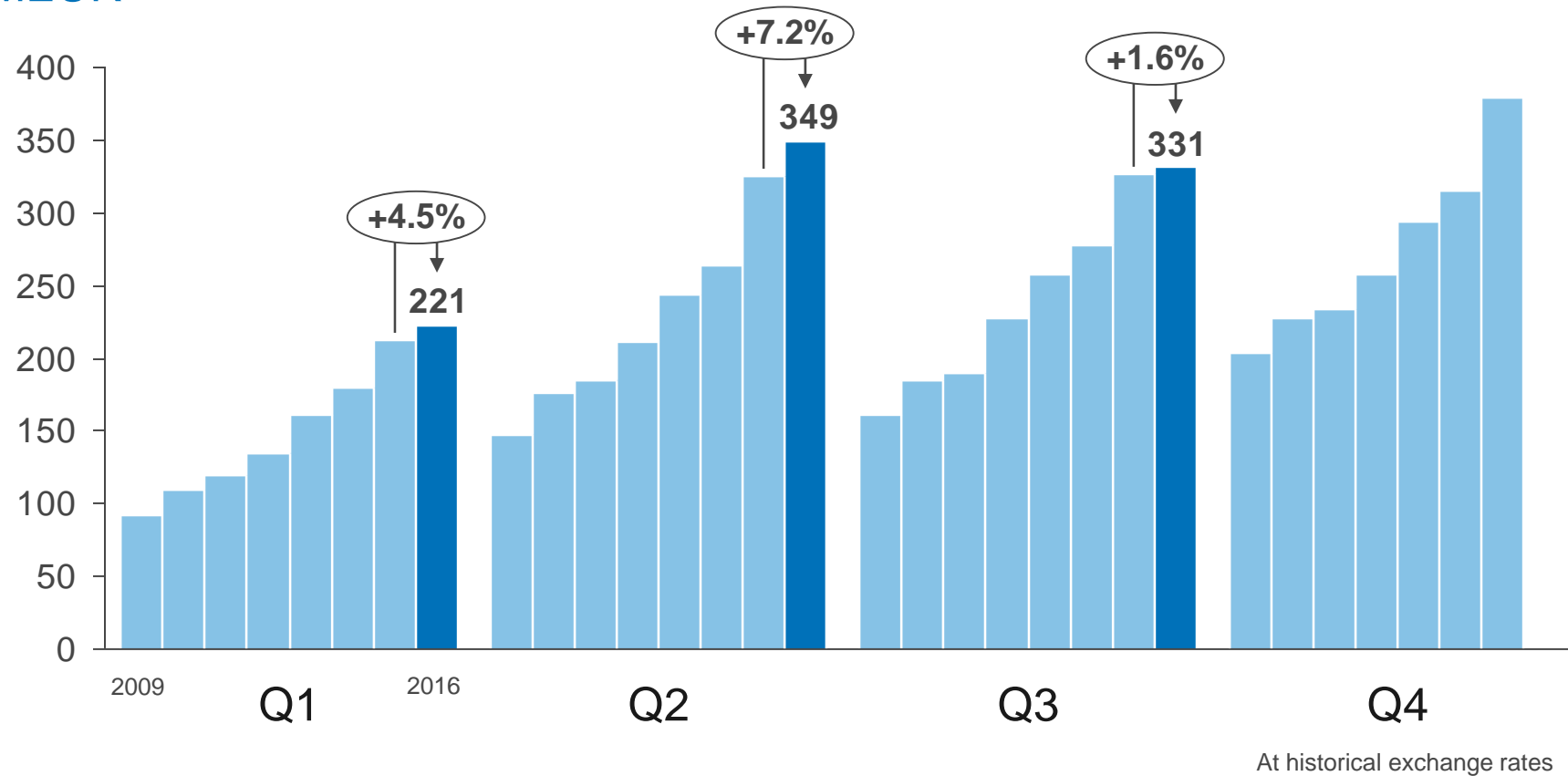
  

- EMEA +7.2%
- Americas +9.4%
- Asia-Pacific -4.9%

# Q3 2016 Operating income

GROWTH DRIVEN BY POSITIVE DEVELOPMENT IN THE SERVICE BUSINESS

MEUR

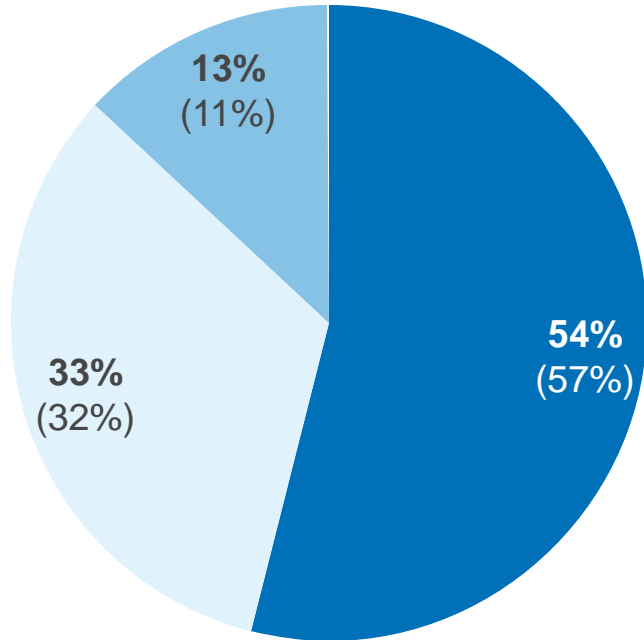


- The EMEA and Americas regions contributed to the growth in operating income
- Progress in product and cost competitiveness helped in offsetting the intense price pressure

# 1–9/2016 Sales split

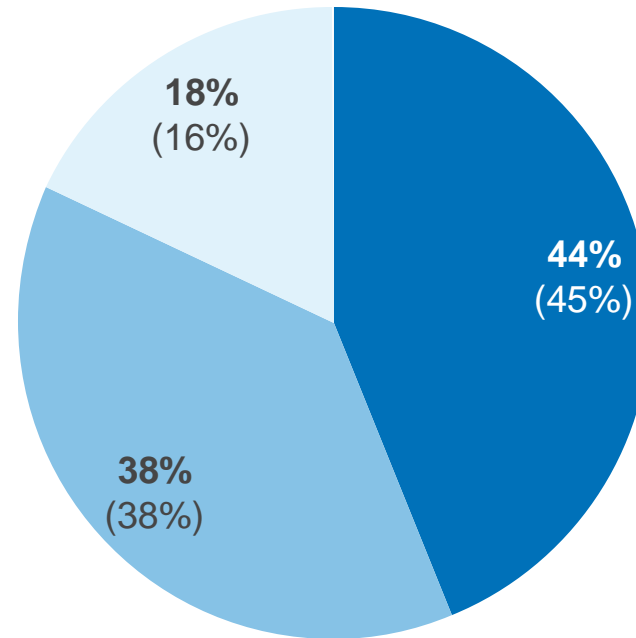
SHARE OF MODERNIZATION AND THE AMERICAS OUT OF TOTAL SALES GREW

## BY BUSINESS



■ New equipment 
 ■ Maintenance 
 ■ Modernization

## BY AREA



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

1–9/2015 figures in brackets  
 Figures in charts are rounded and at historical exchange rates



# Business and market development



# Q3 2016 Business development highlights



## OUR DEVELOPMENT PROGRAMS

First in Customer Loyalty

A Winning Team of  
True Professionals

The Most Competitive  
People Flow® Solutions

Preferred Maintenance Partner

Top Modernization Provider

- The results of our customer loyalty survey remained at a high level
- Positive development in service business customer loyalty thanks to our structured approach to drive actions based on customer feedback

- Good momentum in the adoption of our high-rise technologies, such as UltraRope®, JumpLift™ and People Flow Intelligence solutions
- KONE was ranked 56<sup>th</sup> out of the 100 most innovative companies in the world by Forbes

# Q3 2016 New equipment markets

GLOBAL MARKET VOLUMES RATHER STABLE

## NEW EQUIPMENT

### ASIA-PACIFIC

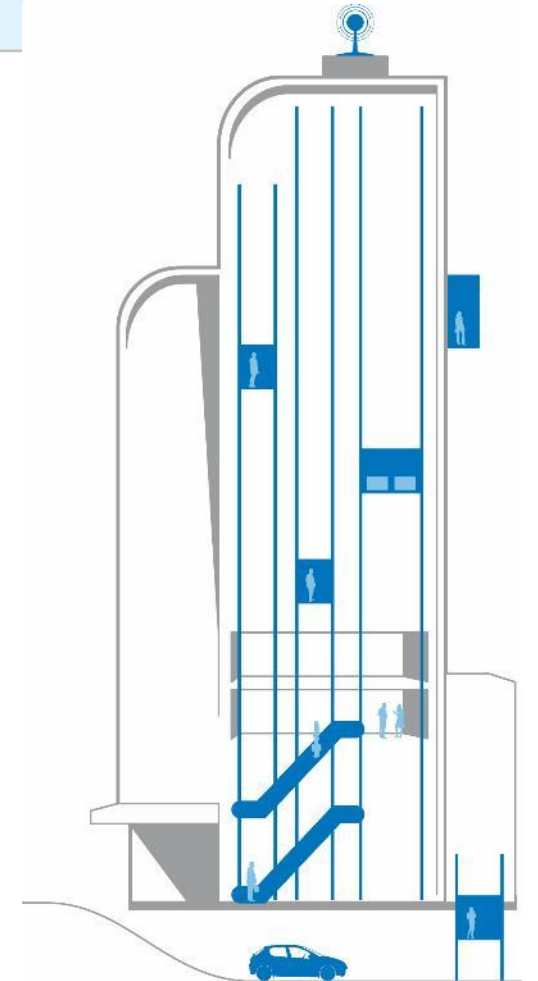
- New equipment market in Asia-Pacific was rather stable
- Market in China declined slightly in units and clearly in monetary value; price competition remained intense
- Market grew in India, was rather stable in Southeast Asia and declined slightly in Australia from a high level

### EMEA REGION

- Market grew slightly in South Europe and declined slightly in Central and North Europe
- Market in the Middle East was rather stable despite uncertainty in the region

### NORTH AMERICA

- Market grew slightly
- Pricing environment continued to develop positively



# Q3 2016 Service markets



SERVICE MARKETS GREW IN ALL GEOGRAPHIC REGIONS



## MAINTENANCE

## MODERNIZATION

### EMEA REGION

- Maintenance market grew in the region with variation between countries; price competition remained intense

- Modernization market grew somewhat in Central and North Europe; South Europe showed early signs of recovery

### NORTH AMERICA

- Maintenance market grew; price competition remained rather intense

- Modernization market saw slight growth

### ASIA-PACIFIC

- Maintenance market developed positively

- Modernization demand developed positively

# Outlook



# Market outlook (updated)

## NEW EQUIPMENT MARKETS

- Asia-Pacific: The market in China is expected to decline by approximately 5% in units ordered. Competition is expected to continue intense. In the rest of Asia-Pacific, the market is expected to see some growth.
- Europe, Middle East and Africa: the market is expected to grow slightly with slight growth in Europe and a more stable development in the Middle East.
- North America: the market is expected to see some growth.

## MAINTENANCE MARKETS

- The maintenance markets are expected to see the strongest growth rate in Asia-Pacific, and to develop rather well also in other regions.

## MODERNIZATION MARKETS

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



# Business outlook (specified)

## SALES

- KONE's net sales is estimated to grow by 3–5% at comparable exchange rates as compared to 2015 (previously 2–6%).

## OPERATING INCOME

- The operating income (EBIT) is expected to be in the range of EUR 1,260–1,320 million, assuming that translation exchange rates would remain at approximately the average level of January–September 2016 (previously EUR 1,250–1,330 million).





Orders received grew thanks to good development on a broad basis

Continued growth in EBIT driven by positive development in the service business

We have been able to find good opportunities despite mixed market trends



Dedicated to People Flow™



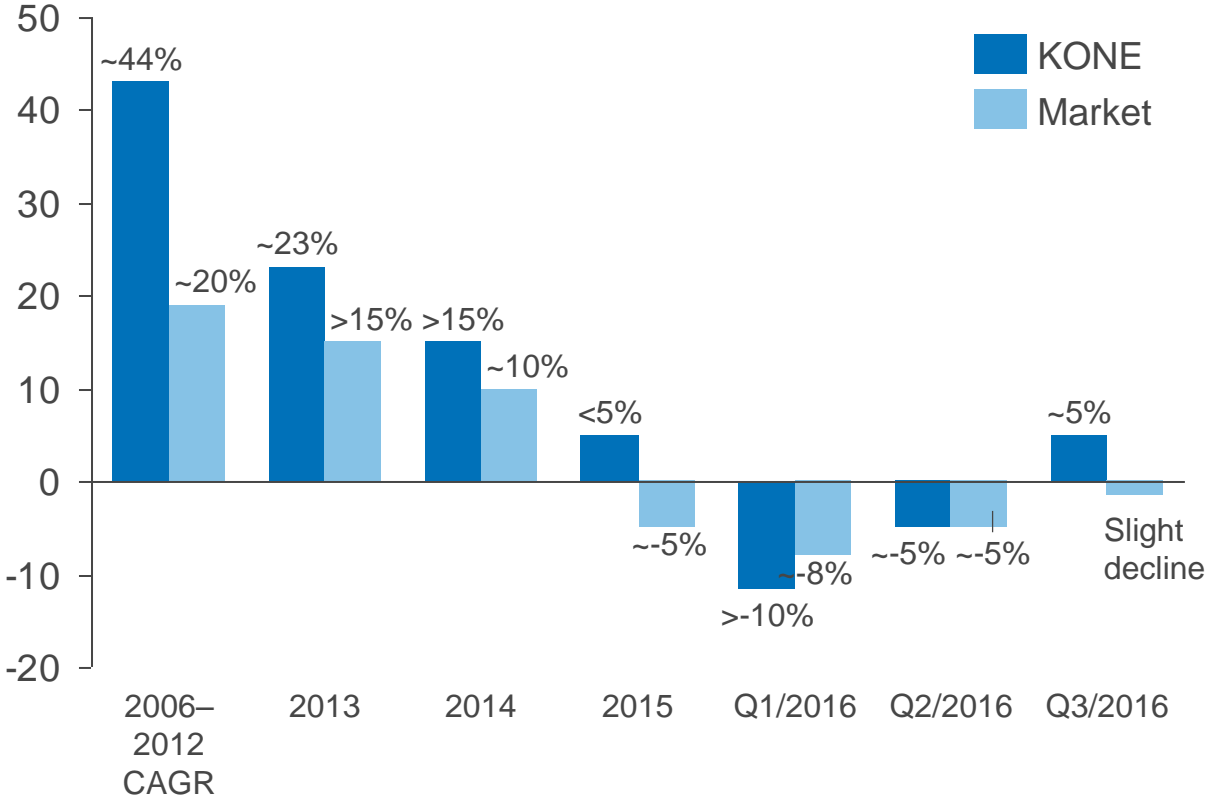
# APPENDIX

# Chinese elevator and escalator market and KONE's performance in China in Q3 2016



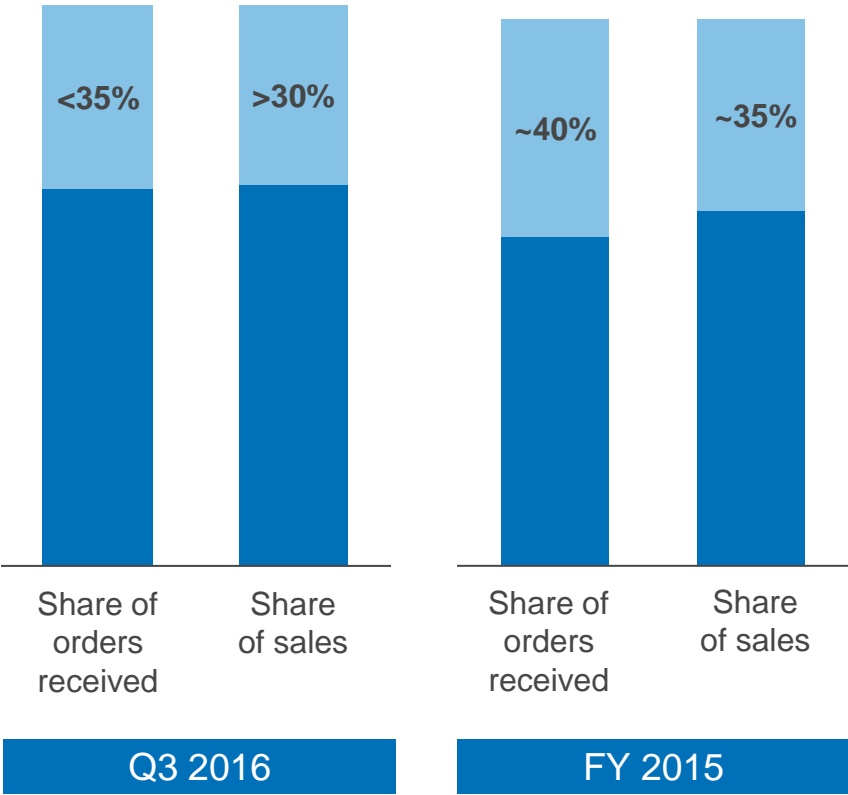
## NEW EQUIPMENT MARKET

New equipment orders received in units vs. market development



## CHINA'S SHARE OF KONE'S ORDERS AND SALES

In monetary value



# Q3 2016 Balance sheet – assets employed



MEUR	Sep 30, 2016	Sep 30, 2015	Dec 31, 2015
<b>Assets employed</b>			
Goodwill	1,346.7	1,293.3	1,306.7
Other intangible assets	266.7	271.9	271.5
Tangible assets	362.9	328.3	345.4
Investments	143.1	120.2	122.7
Net working capital	-1,052.8	-968.7	-983.4
<b>Assets employed total</b>	<b>1,066.5</b>	<b>1,045.1</b>	<b>1,062.9</b>
<b>Financed by</b>			
Equity	2,435.2	2,182.6	2,575.5
Net debt	-1,368.7	-1,137.6	-1,512.6
<b>Equity and net debt total</b>	<b>1,066.5</b>	<b>1,045.1</b>	<b>1,062.9</b>

# Q3 2016 Net working capital



MEUR

## Net working capital

	Sep 30, 2016	Sep 30, 2015	Dec 31, 2015
Inventories	1,531.8	1,444.3	1,326.7
Advance payments received	-2,134.7	-2,022.2	-1,829.4
Accounts receivable	1,470.7	1,421.2	1,480.2
Other non-interest-bearing assets	564.8	498.3	434.0
Net deferred tax assets / liabilities	165.0	153.9	158.8
Provisions	-167.5	-142.2	-173.6
Accounts payable	-676.7	-663.9	-728.9
Other non-interest-bearing liabilities	-1,806.2	-1,658.1	-1,651.3
<b>Net working capital total</b>	<b>-1,052.8</b>	<b>-968.7</b>	<b>-983.4</b>

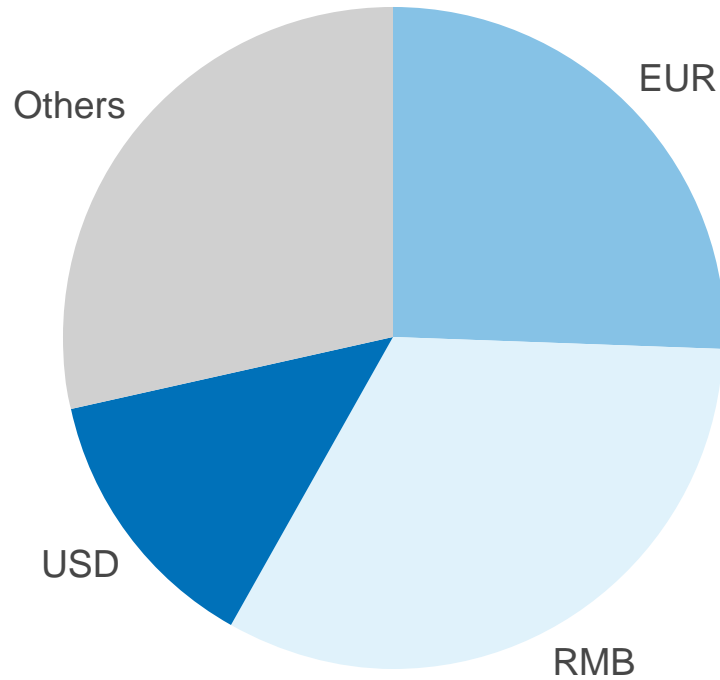
# Q3 2016 Consolidated cash flow



MEUR	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
<b>Operating income</b>	<b>331.1</b>	<b>325.9</b>	<b>901.1</b>	<b>863.0</b>	<b>1,241.5</b>
Change in working capital before financing items and taxes	42.9	81.1	120.6	132.9	132.3
Depreciation and amortization	26.6	25.0	77.9	74.4	100.0
<b>Cash flow from operations before financing items and taxes</b>	<b>400.6</b>	<b>432.0</b>	<b>1,099.6</b>	<b>1,070.2</b>	<b>1,473.7</b>
Financing items and taxes	-100.0	-74.6	-238.4	-59.2	-27.0
<b>Cash flow from operating activities</b>	<b>300.7</b>	<b>357.4</b>	<b>861.3</b>	<b>1,011.0</b>	<b>1,446.7</b>
Investing activities	-64.8	-54.2	-160.1	-113.6	-155.0
Purchase of own shares	-	-71.2	-39.3	-71.2	-71.2
Increase in equity (option rights)	5.1	0.1	11.5	13.4	13.5
Profit distribution	-	-	-718.2	-616.3	-616.3
Changes in non-controlling interest	-6.7	-18.3	-26.6	-18.3	-18.4
<b>Free cash flow</b>	<b>234.2</b>	<b>213.8</b>	<b>-71.4</b>	<b>-205.0</b>	<b>599.5</b>

# Approximately 75% of KONE's revenues are in other currencies than the euro, currency fluctuations have a translation impact

## SALES BY CURRENCY 1-12/2015



## TRANSACTION RISK

A substantial part of KONE operations are denominated in local functional currencies and do not therefore give rise to transaction risk. In addition, KONE's policy is to hedge the foreign exchange exposure of the order book.

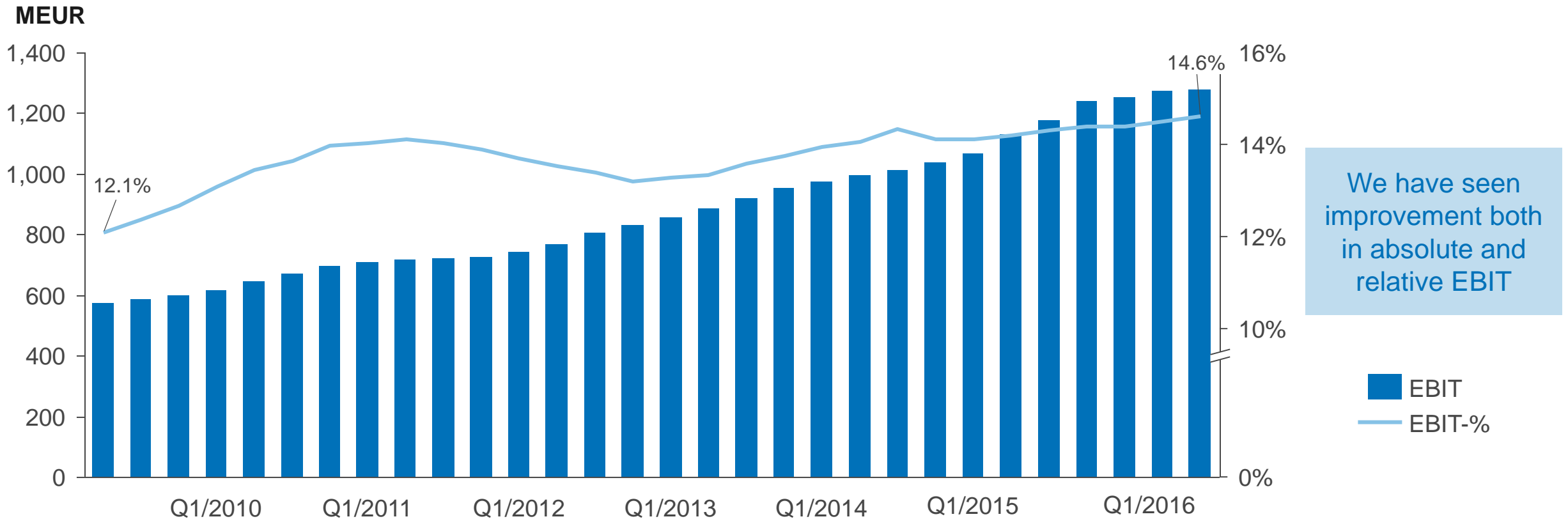
## TRANSLATION RISK

As approximately 75% of KONE's revenues occur in functional currencies other than the euro, the translation risk is significant for KONE. In 2015, KONE's biggest geographical market areas outside the eurozone in terms of net sales included China, United States, Great Britain, Australia, Sweden and India.

# Our EBIT has grown faster than sales

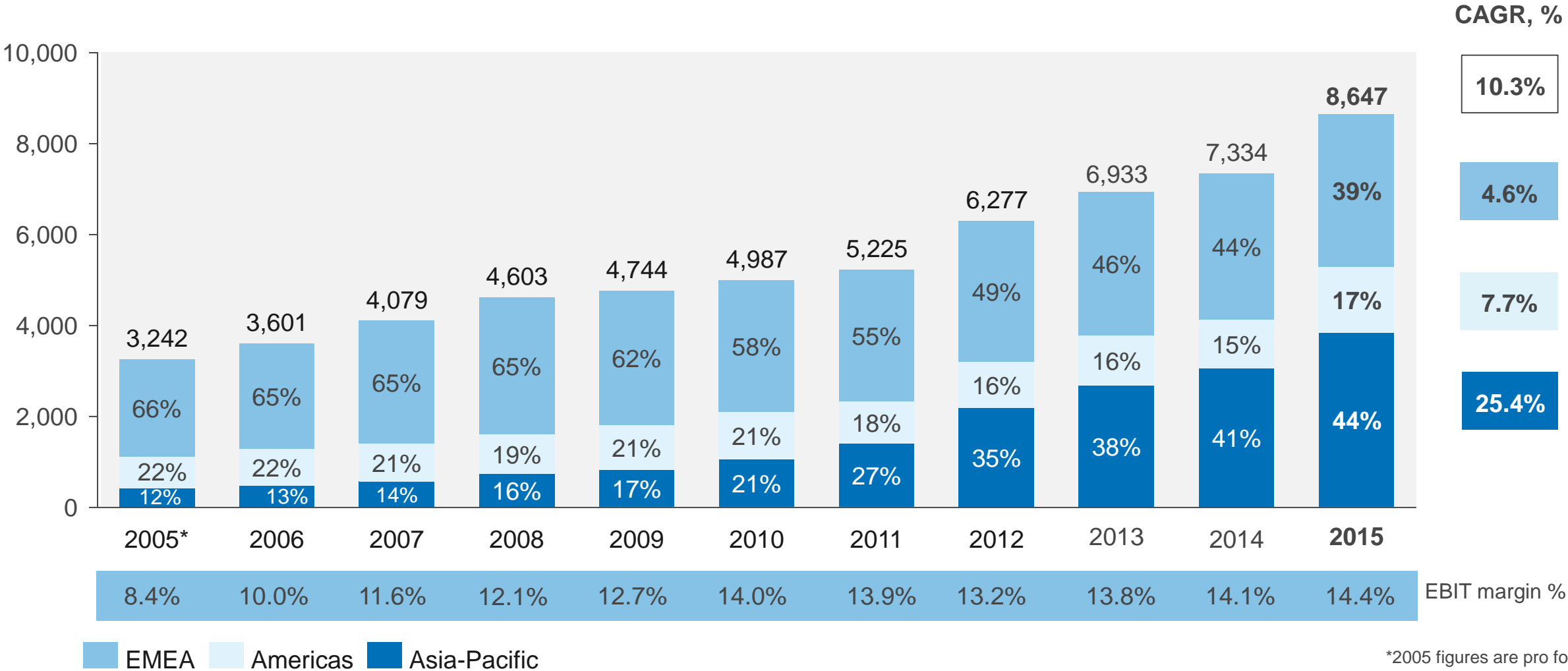


12 months quarterly rolling EBIT and EBIT margin progression, 2009–Q3/2016





# Sales by market 2005–2015 (MEUR)



\*2005 figures are pro forma

# Sales by business 2005–2015 (MEUR)

