

The background of the slide features a man in a dark blue KONE uniform and cap, looking at a tablet. He is standing next to a white KONE elevator car. The elevator car has the KONE logo and the text "Hissit Liukuportaat Over" on it. The background is a blurred city street at night with lights and buildings.

# KONE Q3 2017

OCTOBER 26, 2017

HENRIK EHRNROOTH, PRESIDENT & CEO

ILKKA HARA, CFO



## Q3 2017 highlights

- Orders received returned to growth in China with positive contribution from focused pricing actions
- Roll-out of new services gaining momentum
- Profitability still burdened by several headwinds



# Q3 2017 key figures



ORDERS RECEIVED AND SALES GREW AT COMPARABLE RATES, EBIT % STILL UNDER PRESSURE

		7-9/2017	7-9/2016	Historical change	Comparable change
Orders received	MEUR	<b>1,739.0</b>	1,771.7	-1.8%	2.1%
Order book	MEUR	<b>8,703.0</b>	8,699.0	0.0%	4.5%
Sales	MEUR	<b>2,190.8</b>	2,170.2	0.9%	4.4%
Operating income (EBIT)	MEUR	<b>307.3</b>	331.1	-7.2%	
Operating income margin (EBIT %)	%	<b>14.0</b>	15.3		
Adjusted EBIT	MEUR	<b>310.6</b>	331.1	-6.2%	
Adjusted EBIT margin	%	<b>14.2</b>	15.3		
Cash flow from operations (before financing items and taxes)	MEUR	<b>302.7</b>	400.6		
Basic earnings per share	EUR	<b>0.48</b>	0.52		

# January-September 2017 key figures



GOOD SALES GROWTH AND STABLE ORDERS IN A MIXED OPERATING ENVIRONMENT

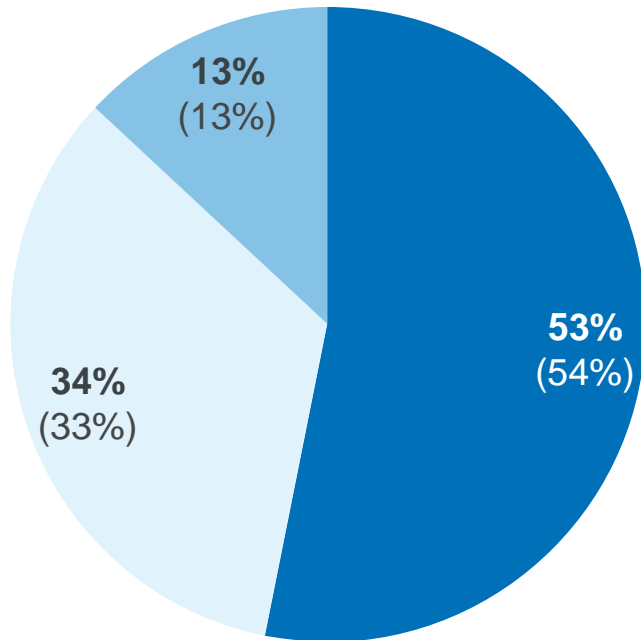
		1-9/2017	1-9/2016	Historical change	Comparable change
Orders received	MEUR	<b>5,708.2</b>	5,781.8	-1.3%	0.6%
Order book	MEUR	<b>8,703.0</b>	8,699.0	0.0%	4.5%
Sales	MEUR	<b>6,285.5</b>	6,191.1	1.5%	3.1%
Operating income (EBIT)	MEUR	<b>851.4</b>	901.1	-5.5%	
Operating income margin (EBIT %)	%	<b>13.5</b>	14.6		
Adjusted EBIT	MEUR	<b>854.7</b>	901.1	-5.1%	
Adjusted EBIT margin	%	<b>13.6</b>	14.6		
Cash flow from operations (before financing items and taxes)	MEUR	<b>928.4</b>	1,099.6		
Basic earnings per share	EUR	<b>1.34</b>	1.42		

# 1-9/2017 sales split



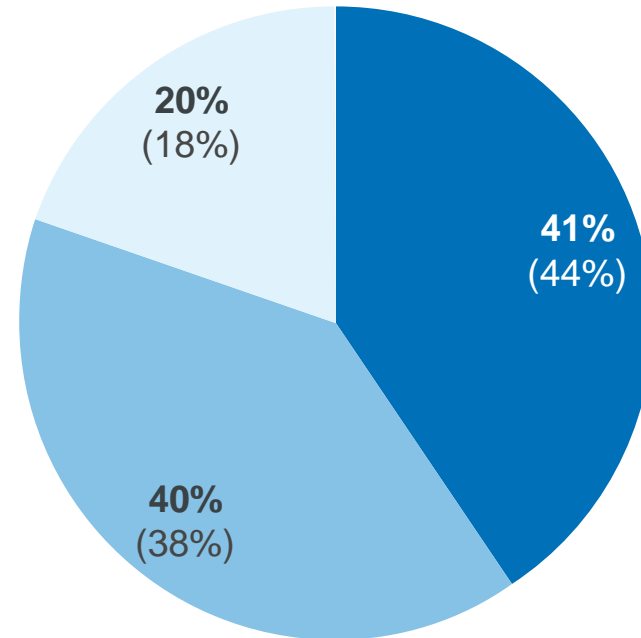
SHARE OF SERVICES AND THE AMERICAS AND EMEA REGIONS OUT OF TOTAL SALES CONTINUED TO GROW

## BY BUSINESS



■ New equipment ■ Maintenance ■ Modernization

## BY AREA



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

1-9/2016 figures in brackets.  
Figures in charts are rounded and at historical exchange rates.



# Q3 business overview

## ■ POSITIVES

- Both orders received and sales continued on a growth path
- Focused pricing actions and continued productivity improvements showing positive impact
- Roll-out of new services gaining momentum
- Newly launched Residential Flow solution has raised high interest among customers

## ■ HEADWINDS

- Profitability continued to be burdened by several headwinds
- Competition remained intense in most markets



# Our strategy is delivering results and we will now accelerate our execution

Good momentum in developing new customer-centric solutions

TO GET FULL BENEFITS WE NEED TO  
ACCELERATE THE PROGRESS

New strategy well-received by customers and employees

2020

# Our Accelerate program targets improved customer-centricity, speed and efficiency



## Building customer-centric capabilities

Strengthen customer interface and people development in local units



## Increasing speed

Increase speed in rolling-out new services and solutions



## Improving efficiency

Leverage our scale even better – improve service and efficiency of non-customer facing functions

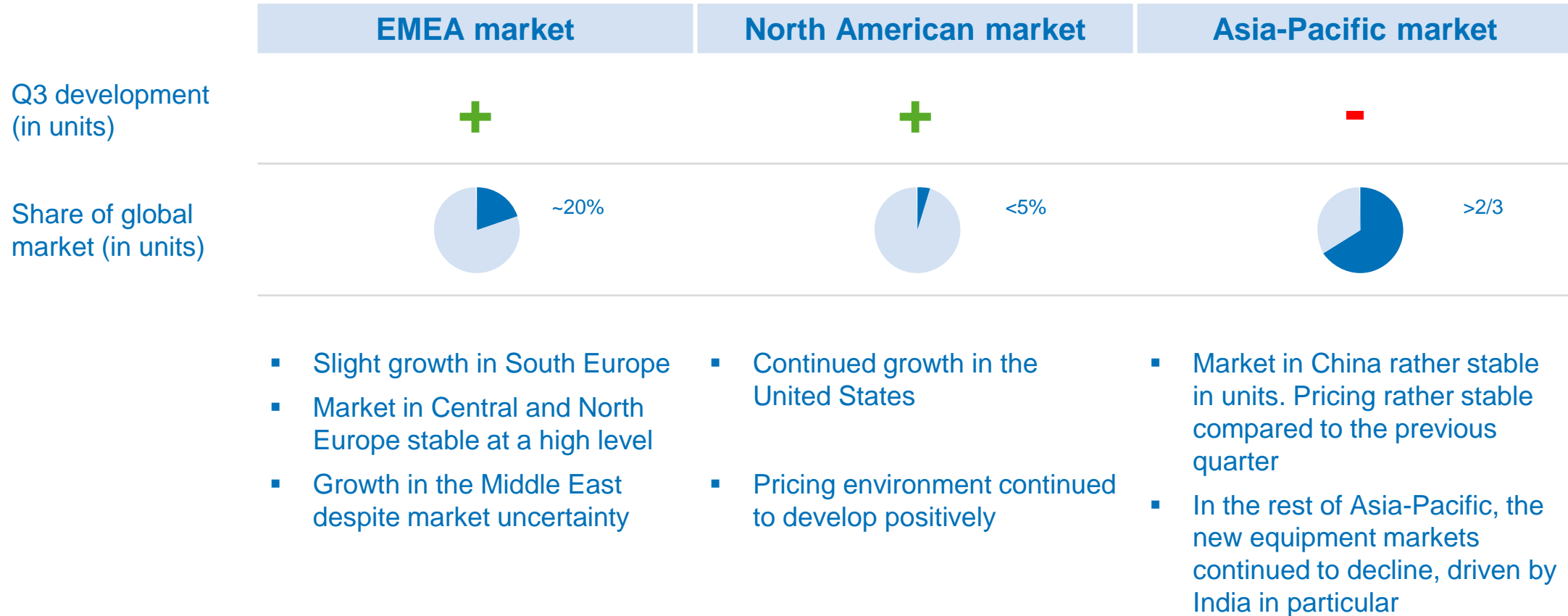


Market development



# New equipment market development in Q3

GLOBAL MARKET VOLUMES WERE STABLE



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

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

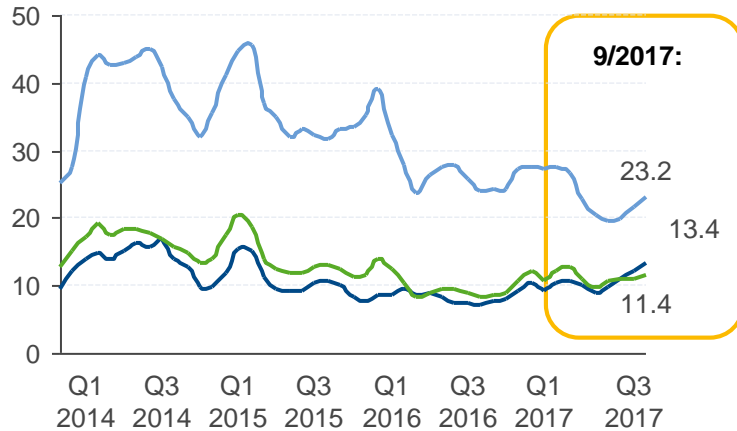
# Chinese property market



## PROPERTY MARKET SHOWING SIGNS OF COOLING OFF

### Housing inventories

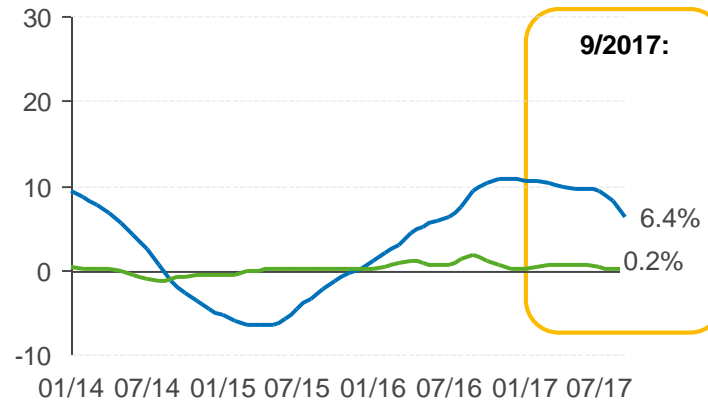
- Housing inventories low in higher-tier cities; slight uptick in inventory levels in the lower-tier cities due to decelerating property sales



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

### Housing sales and prices

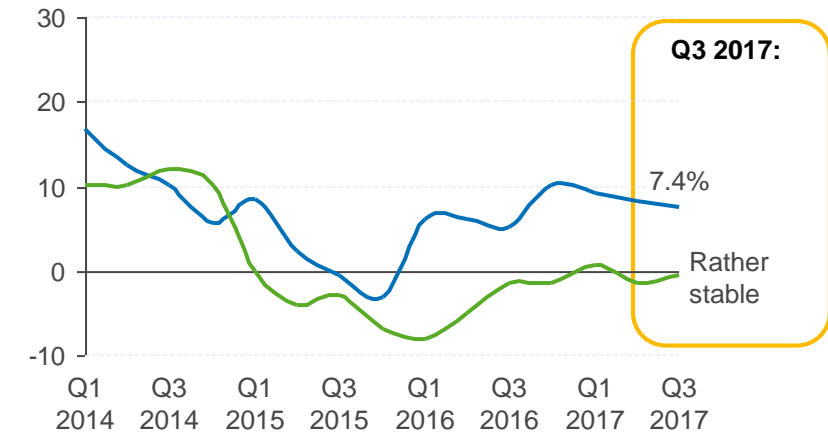
- Government's restrictive measures have cooled down the housing market
- Property sales still growing at a good rate in lower-tier cities



— Housing prices, Y-o-Y — M-o-M

### E&E market

- Real estate investment remained relatively stable at a good level
- E&E demand rather stable



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







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



# Service market development in Q3



GROWTH CONTINUED ACROSS REGIONS

	EMEA market	North American market	Asia-Pacific market
<b>Maintenance</b>			
Q3 development	+	+	+++
Share of global market (in units)	 >40%	 <10%	 ~40%
	<ul style="list-style-type: none"> <li>Pricing environment remained tough especially in South Europe</li> </ul>	<ul style="list-style-type: none"> <li>Positive development except for retail segment</li> </ul>	<ul style="list-style-type: none"> <li>Continued good growth across the region</li> </ul>
<b>Modernization</b>			
Q3 development	stable	+	+++
Share of global market (in monetary value)	 ~1/3	 ~25%	 >15%
	<ul style="list-style-type: none"> <li>Mixed development</li> </ul>	<ul style="list-style-type: none"> <li>Slight growth with continued favorable development in the pricing environment</li> </ul>	<ul style="list-style-type: none"> <li>Significant market growth</li> </ul>

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

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

# Q3 financials

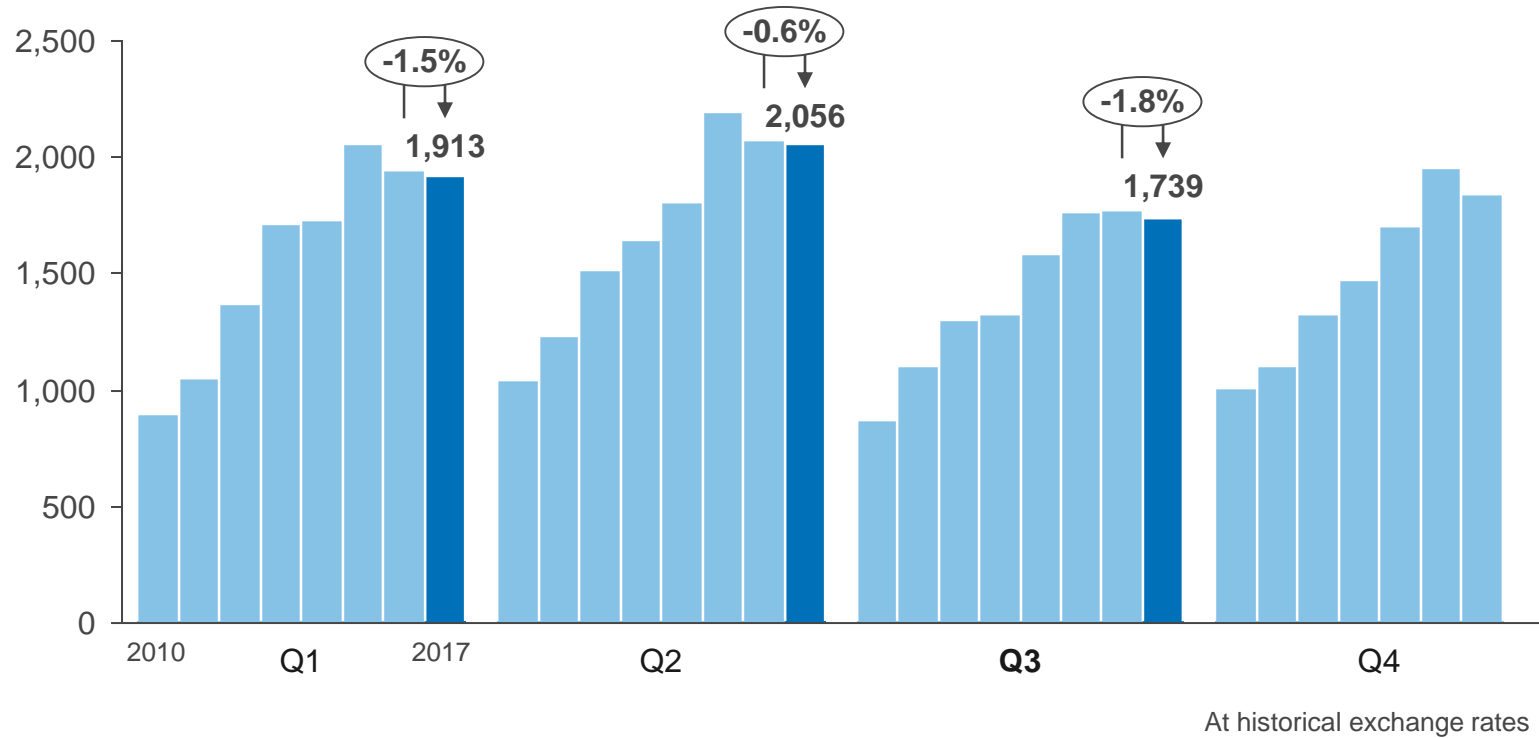


# Orders received

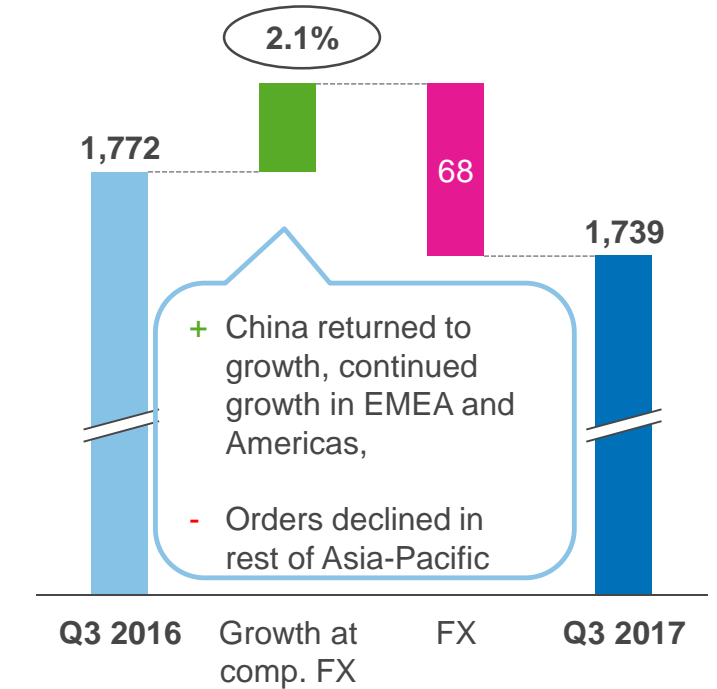


## ORDERS IN CHINA RETURNED TO GROWTH

MEUR



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



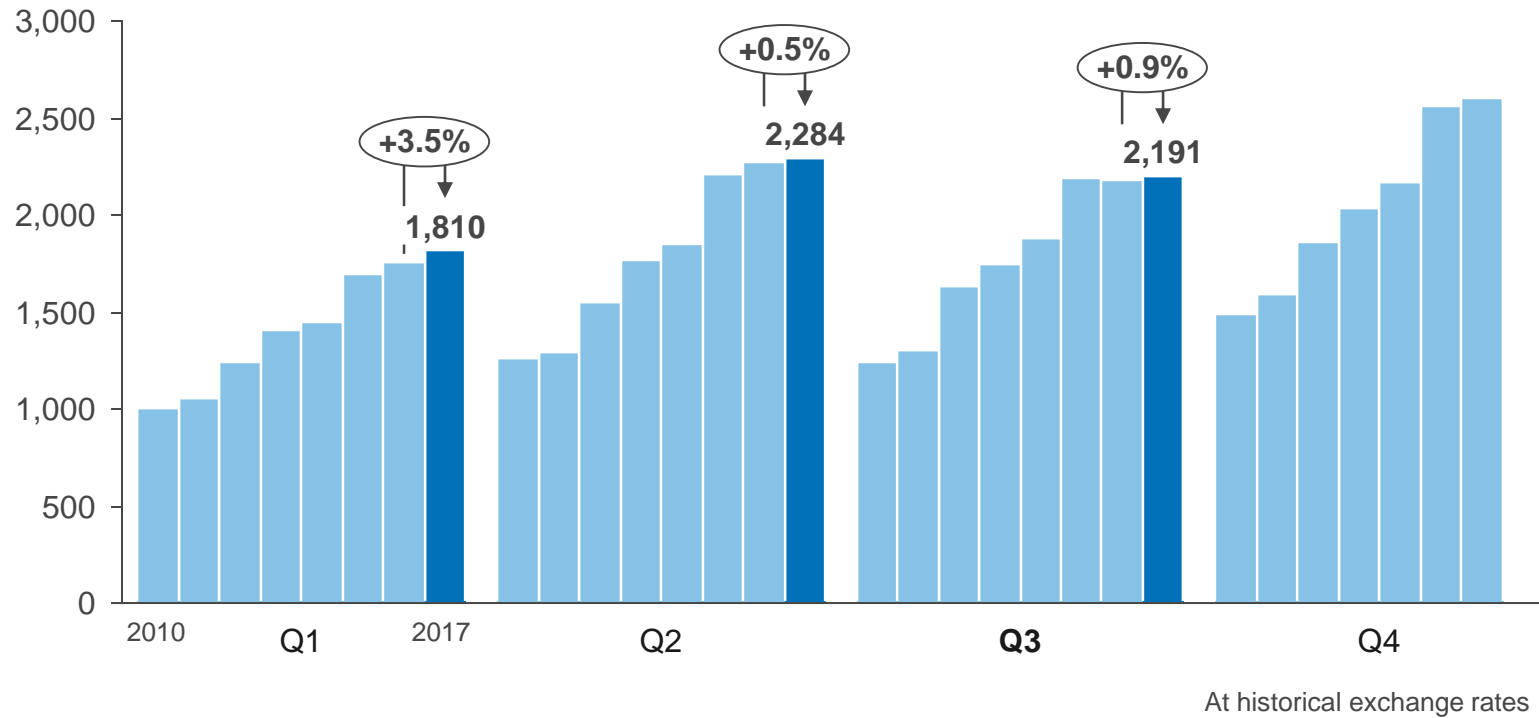


# Sales

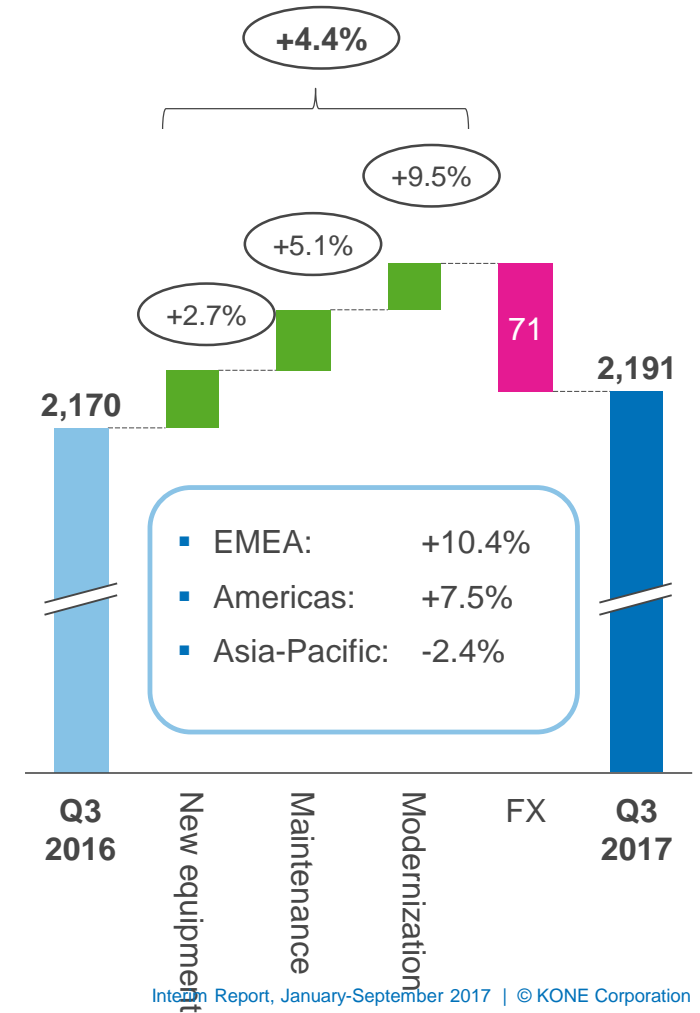


## SALES GROWTH DRIVEN BY SERVICES

MEUR



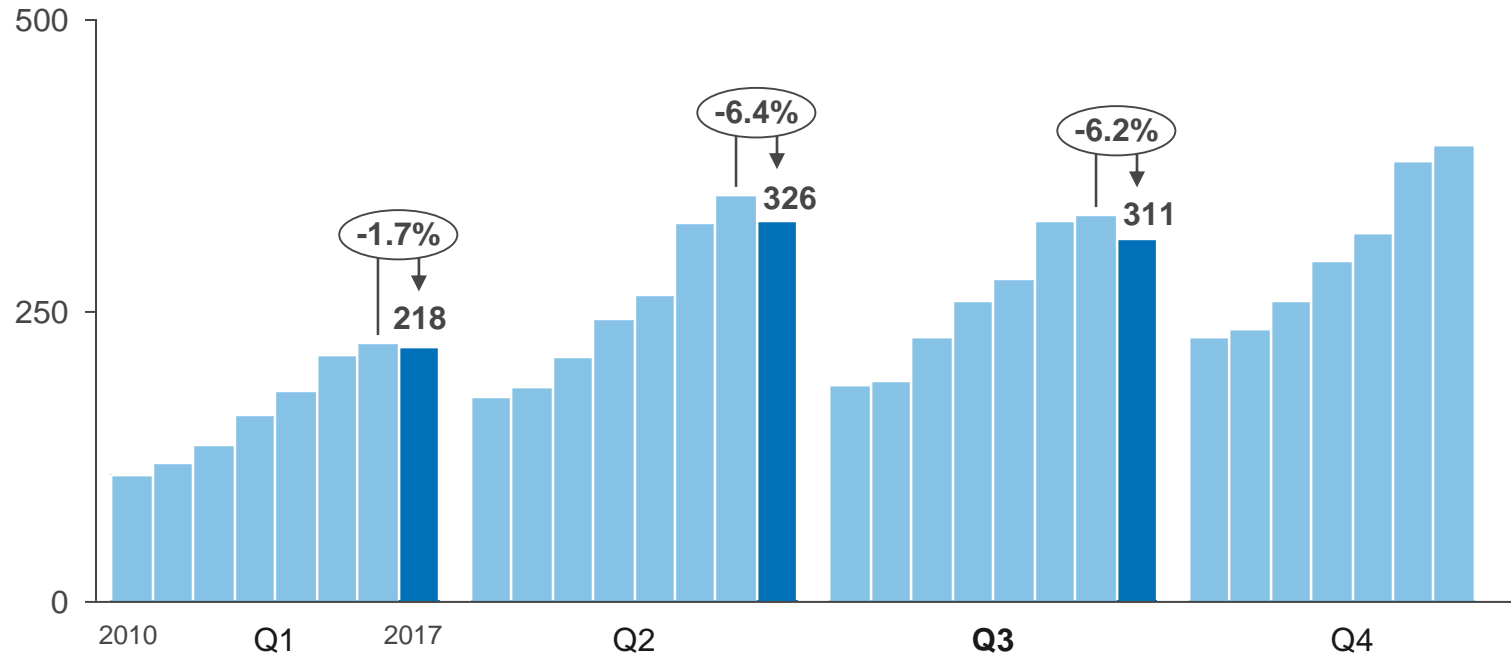
At comparable exchange rates:



# EBIT

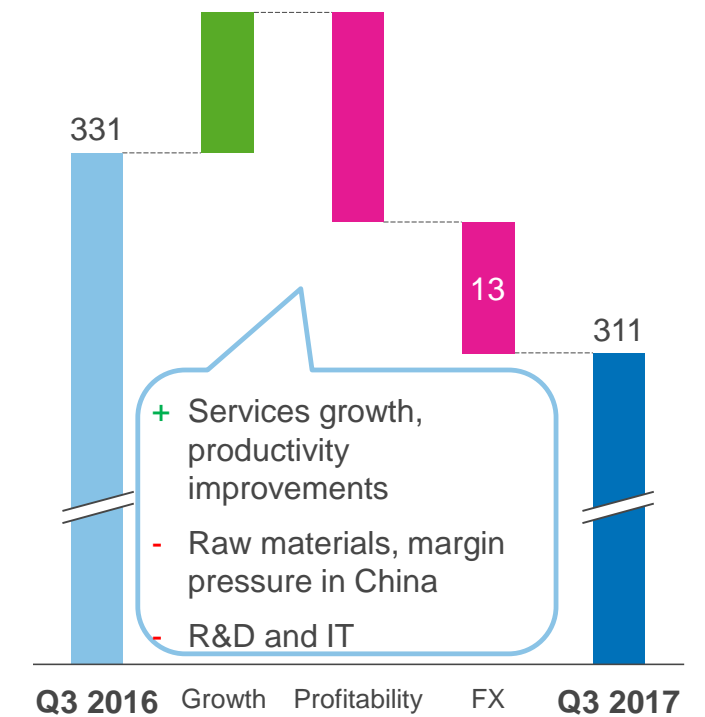
## EBIT MARGIN STILL BURDENED BY SEVERAL HEADWINDS

### ADJUSTED EBIT\*, MEUR



At historical exchange rates

\* Adjusted EBIT introduced in September 2017. Adjusted EBIT excludes restructuring costs related to the Accelerate program.



# Market and business outlook for 2017





# Market outlook for 2017

## ■ NEW EQUIPMENT MARKETS

- Asia-Pacific: The market in China is expected to be relatively stable in units ordered and competition is expected to continue intense. In the rest of Asia-Pacific, the market is expected to decline slightly in 2017, but to return to growth towards the end of the year.
- 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 (unchanged)

## ■ SALES

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

## ■ ADJUSTED EBIT

- The adjusted EBIT is expected to be in the range of EUR 1,200-1,250 million, assuming that translation exchange rates would remain at approximately the end of September level for the remainder of the year. Restructuring costs related to the Accelerate program are excluded from the calculation of adjusted EBIT.







## Q3 summary

- Orders back on growth track
- Firm actions to offset the impact of several headwinds continued
- Strategy execution progressing well; the new Accelerate program to speed up the progress





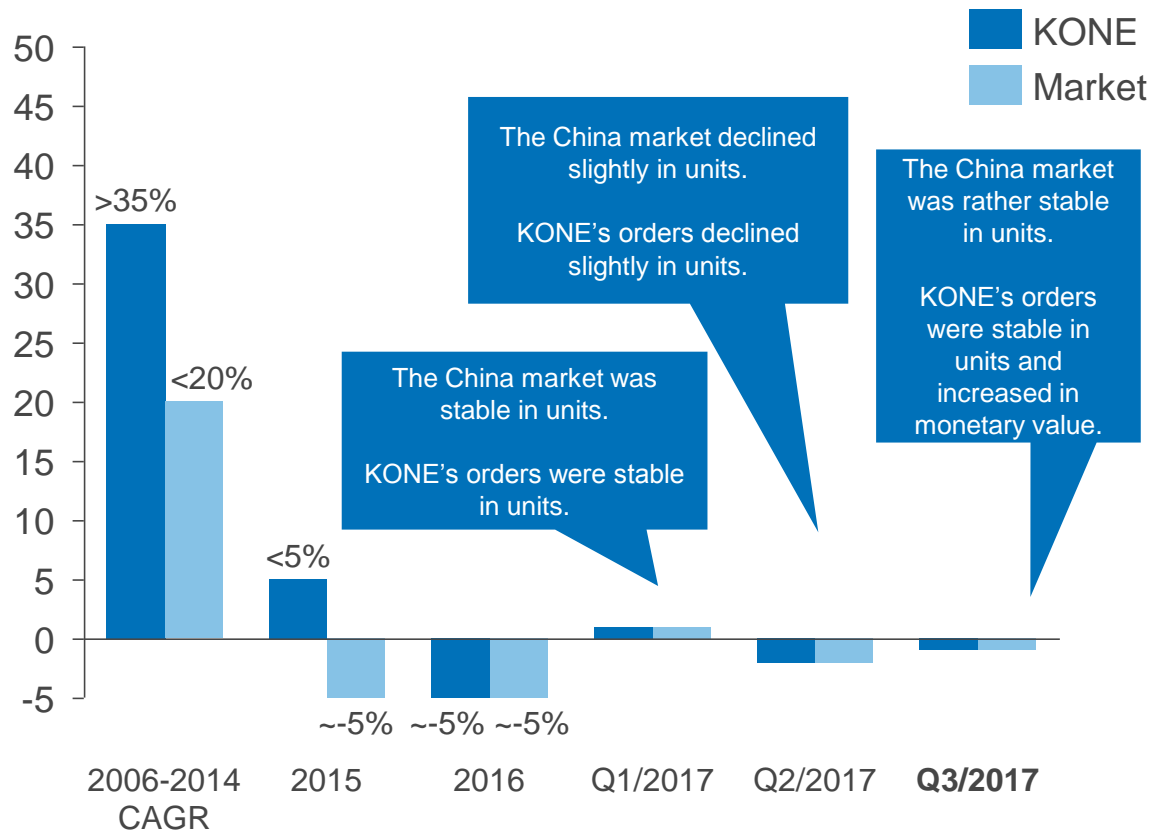
Dedicated to People Flow™



# APPENDIX

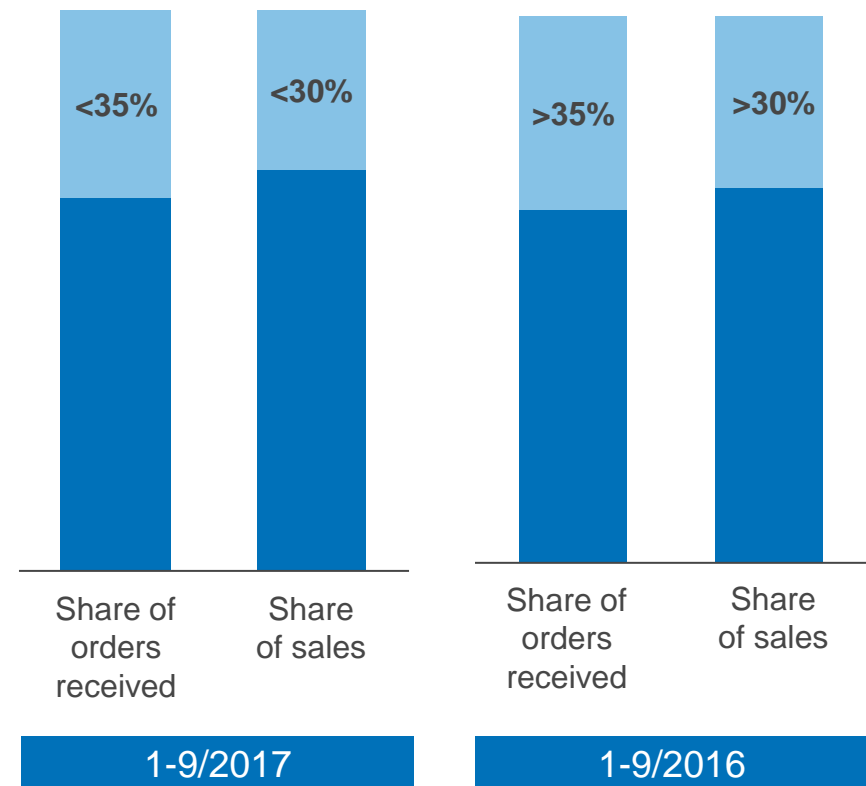
## NEW EQUIPMENT MARKET

New equipment orders received in units vs. market development



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

In monetary value

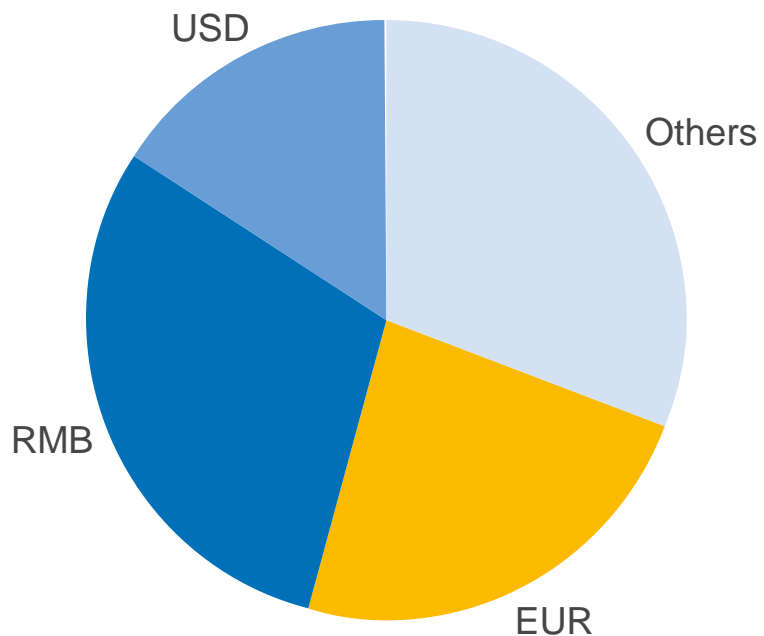




# Currencies



## SALES BY CURRENCY 1–12/2016



## CURRENCY IMPACT

(MEUR)	Q3/2017	1-9/2017
Sales	-71	-94
EBIT	-13	-20
Orders received	-68	-108

## MAIN CURRENCIES

	1-9/2017 average	2016 average	Sep 30, 2017 spot
EUR / RMB	7.5828	7.3199	7.8534
EUR / USD	1.1151	1.1021	1.1806
EUR / GBP	0.8719	0.8159	0.8818
EUR / AUD	1.4592	1.4807	1.5075

# Q3 2017 Balance sheet – assets employed



MEUR	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
<b>Assets employed</b>			
Goodwill	1,324.1	1,346.7	1,371.8
Other intangible assets	272.4	266.7	292.9
Tangible assets	368.5	362.9	368.3
Investments	121.2	143.1	129.9
Net working capital	-933.3	-1,052.8	-1,054.8
<b>Assets employed total</b>	<b>1,152.9</b>	<b>1,066.5</b>	<b>1,108.0</b>
<b>Financed by</b>			
Equity	2,617.8	2,435.2	2,795.6
Net debt	-1,464.9	-1,368.7	-1,687.6
<b>Equity and net debt total</b>	<b>1,152.9</b>	<b>1,066.5</b>	<b>1,108.0</b>

# Q3 2017 Net working capital



MEUR	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
<b>Net working capital</b>			
Inventories	1,527.7	1,531.8	1,373.5
Advance payments received	-2,072.1	-2,134.7	-1,976.9
Accounts receivable	1,484.2	1,470.7	1,573.7
Other non-interest-bearing assets	497.2	564.8	429.8
Other non-interest-bearing liabilities	-1,695.6	-1,806.2	-1,692.5
Provisions	-135.1	-167.5	-183.2
Accounts payable	-690.2	-676.7	-743.3
Net deferred tax assets / liabilities	150.5	165.0	164.1
<b>Net working capital total</b>	<b>-933.3</b>	<b>-1,052.8</b>	<b>-1,054.8</b>



# Q3 2017 Consolidated cash flow



MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
<b>Operating income</b>	307.3	331.1	851.4	901.1	1,293.3
Change in working capital before financing items and taxes	-32.9	42.9	-7.8	120.6	109.7
Depreciation and amortization	28.3	26.6	84.8	77.9	106.5
<b>Cash flow from operations before financing items and taxes</b>	<b>302.7</b>	<b>400.6</b>	<b>928.4</b>	<b>1,099.6</b>	<b>1,509.5</b>
Financing items and taxes	-107.7	-100.0	-242.1	-238.4	-331.0
<b>Cash flow from operating activities</b>	<b>195.0</b>	<b>300.7</b>	<b>686.2</b>	<b>861.3</b>	<b>1,178.4</b>
Investing activities	-39.2	-39.2	-96.3	-160.1	-197.6
Purchase of own shares	-	-	-	-39.3	-39.3
Increase in equity (option rights)	7.1	5.1	21.6	11.5	18.4
Profit distribution	-	-	-795.4	-718.2	-718.2
Changes in non-controlling interest	-2.7	-6.7	-3.2	-26.6	-26.7
<b>Free cash flow</b>	<b>160.2</b>	<b>259.9</b>	<b>-187.0</b>	<b>-71.4</b>	<b>214.9</b>