KONE Q4 2017

Financial Statement Bulletin

KONE's January–December 2017 review: Orders back to growth, EBIT margin declined

October–December 2017

- Orders received grew by 0.4% to EUR 1,846 (10–12/2016: 1,839) million. At comparable exchange rates, orders grew by 5.3%.
- Net sales grew by 2.5% to EUR 2,657 (2,593) million. At comparable exchange rates, the growth was 6.8%.
- Operating income (EBIT) was EUR 365.7 (392.2) million or 13.8% (15.1%) of net sales. The adjusted EBIT was EUR 375.6 million or 14.1% of net sales.*
- Cash flow from operations (before financing items and taxes) was EUR 335.0 (409.8) million.

January–December 2017

- Orders received declined by 0.9% to EUR 7,554 (1–12/2016: 7,621) million. At comparable exchange rates, orders grew by 1.7%. The order book stood at EUR 8,240 million at the end of December 2017 (December 31, 2016: 8,592).
- Net sales grew by 1.8% to EUR 8,942 (8,784) million. At comparable exchange rates the growth was 4.2%.
- Operating income (EBIT) was EUR 1,217 (1,293) million or 13.6% (14.7%) of net sales. The adjusted EBIT was EUR 1,230 million or 13.8% of net sales.*
- Cash flow from operations (before financing items and taxes) was EUR 1,263 (1,509) million.
- The Board proposes a dividend of EUR 1.65 per class B share for the year 2017.

Business outlook for 2018

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

KEY FIGURES

		10–12/2017	10–12/2016	Change	1–12/2017	1–12/2016	Change
Orders received	MEUR	1,845.8	1,839.2	0.4%	7,554.0	7,621.0	-0.9%
Order book	MEUR	8,240.2	8,591.9	-4.1%	8,240.2	8,591.9	-4.1%
Sales	MEUR	2,656.9	2,593.2	2.5%	8,942.4	8,784.3	1.8%
Operating income (EBIT)	MEUR	365.7	392.2	-6.8%	1,217.1	1,293.3	-5.9%
Operating income margin (EBIT margin)	%	13.8	15.1		13.6	14.7	
Adjusted EBIT*	MEUR	375.6	392.2	-4.2%	1,230.3	1,293.3	-4.9%
Adjusted EBIT margin	%	14.1	15.1		13.8	14.7	
Income before tax	MEUR	374.8	389.3	-3.7%	1,275.2	1,330.3	-4.1%
Net income	MEUR	281.8	298.1	-5.5%	975.1	1,022.6	-4.6%
Basic earnings per share	EUR	0.55	0.58	-6.1%	1.89	2.00	-5.6%
Cash flow from operations (before financing items and taxes)	MEUR	335.0	409.8		1,263.3	1,509.5	
Interest-bearing net debt	MEUR	-1,690.2	-1,687.6		-1,690.2	-1,687.6	
Equity ratio	%	49.0	46.8		49.0	46.8	
Return on equity	%	34.2	38.1		34.2	38.1	
Net working capital (including financing items and taxes)	MEUR	-875.6	-1,054.8		-875.6	-1,054.8	
Gearing	%	-58.1	-60.4		-58.1	-60.4	

* 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 ended the year 2017 with positive development on many fronts. Our orders received grew in all regions during the fourth quarter. I was especially pleased that the margin of orders received stabilized after being under pressure for several consecutive quarters. In Asia-Pacific, our orders received grew with positive contribution from pricing actions in China. We were also able to benefit from the opportunities in the growing markets of EMEA and North America with continued good growth in orders received. The final quarter was strong also in terms of sales. Service sales saw healthy growth of 6.5% at comparable exchange rates, and strong deliveries at the end of the year lifted the new equipment sales growth to 7.1%. However, higher raw material prices, price pressure we have seen earlier in our Chinese new equipment orders and increased R&D and IT spend continued to burden our operating income in the fourth quarter. The full year 2017 operating income declined, and our adjusted EBIT margin was 13.8% against 14.7% in 2016. We are taking determined actions to counter the headwinds and we can already see positive results from these.

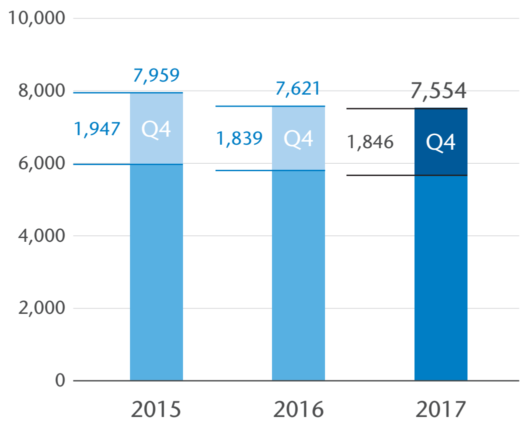
The execution of our Winning with Customers strategy has started well during 2017. We have good momentum in rolling out our new services which were launched in 2017. Looking ahead to 2018, we plan to expand these groundbreaking services and speed up their roll-out globally. In new equipment, we have also introduced several new solutions for smart buildings and will continue to develop our offering further. The customer feedback on our latest solutions and services has been encouraging and demonstrates that we are clearly able to add value for our customers in new ways. I am confident that we are on the right path to further strengthen our competitiveness with improved differentiation. I would like to thank all of our employees for their commitment and actions to bring our new strategy alive.

In 2018, we expect the market to continue to provide growth opportunities for KONE. We expect the new equipment market in China to decline slightly or to be stable in terms of units ordered, with competition remaining intense. The new equipment markets outside China and the service markets are expected to continue to grow. The good momentum we have in services and the solid order book in new equipment are expected to support healthy sales growth in 2018. The margin pressure which we saw in our orders received earlier and the higher raw material prices are expected to continue to burden our profitability in 2018. However, we expect the margin pressure to start to ease towards the end of the year.

I'm looking ahead with confidence and excitement. The rapidly changing operating environment provides us opportunities to add value to our customers in new ways. I believe we are in a strong position to tap on these opportunities to continue developing towards our targets."

Key Figures

Orders received (MEUR)



- **In October–December 2017**, orders received grew by 0.4% (5.3% at comparable exchange rates).
- At comparable rates, new equipment orders received grew slightly with growth in the volume business and a decline in major projects. Modernization orders received grew significantly.
- At comparable rates, orders received grew in all regions.
- The margin of orders received stabilized in Q4 2017 after declining in the first three quarters of the year.

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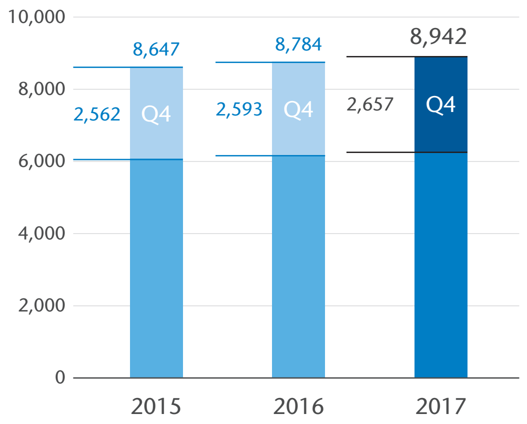
- **In January–December 2017**, orders received declined by 0.9% (at comparable exchange rates, orders received grew by 1.7%).

Sales (MEUR)



- **In October–December 2017**, net sales increased by 2.5% (6.8% at comparable exchange rates).
- New equipment sales grew by 2.1% (7.1% at comparable exchange rates). Service (maintenance and modernization) sales grew by 2.9% (6.5% at comparable rates), with maintenance sales growing by 1.4% (5.0% at comparable rates) and modernization sales by 5.4% (9.1% at comparable rates).
- Sales in the EMEA region grew by 1.6% (3.6% at comparable rates). Sales in the Americas region grew by 9.5% (17.1% at comparable rates) and declined by 0.6% (but grew by 5.0% at comparable rates) in the Asia-Pacific region.

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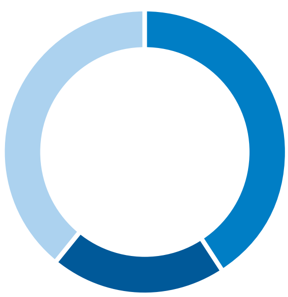
- **In January–December 2017**, net sales grew by 1.8% (4.2% at comparable exchange rates).

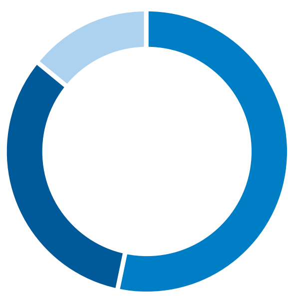
Sales by region



EMEA 41% (40%)
Americas 20% (19%)
Asia-Pacific 39% (41%)

1–12/2017 (1–12/2016)

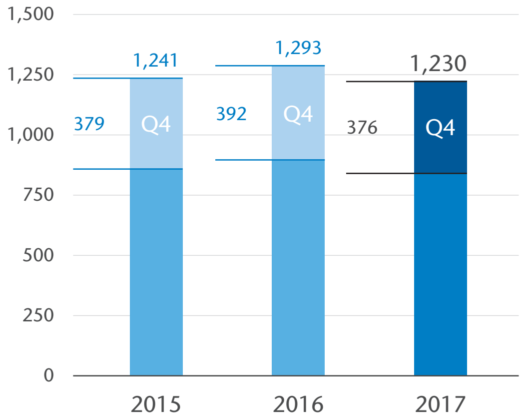
Sales by business



New equipment 53% (55%)
Maintenance 32% (31%)
Modernization 14% (14%)

1–12/2017 (1–12/2016)

Adjusted EBIT (MEUR)



- **In October–December 2017**, operating income was 13.8% of net sales (10–12/2016: 15.1%). The adjusted EBIT margin was 14.1%.
- Profitability was burdened by the price pressure seen earlier in new equipment orders in China combined with increasing raw material costs. In addition, profitability was burdened by higher R&D and IT spend from the development of new customer-centric solutions and services. These were partly offset by productivity improvements and focused pricing actions. Good growth in the service business and geographically in the Americas also contributed positively to the EBIT.
- Translation exchange rates had a negative impact of around EUR 17 million on the operating income.
- Restructuring costs related to the Accelerate program were EUR 10 million and are excluded from the calculation of the adjusted EBIT.

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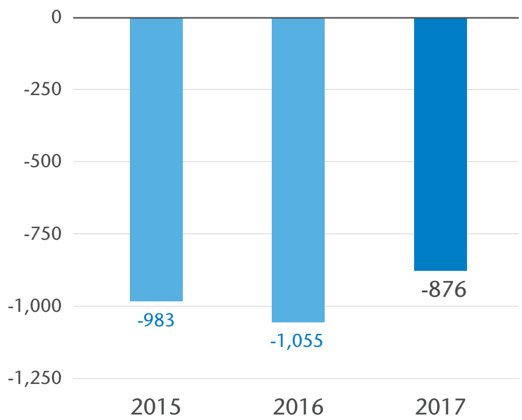
- **In January–December 2017**, operating income was 13.6% of net sales (1–12/2016: 14.7%). The adjusted EBIT margin was 13.8%.

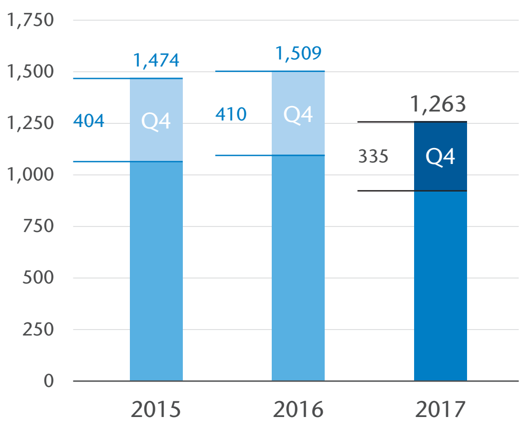
Net working capital[1] (MEUR)



- **At the end of December 2017**, net working capital was somewhat less negative than at the beginning of the year. Around EUR 60 million of the change resulted from changes in foreign exchange rates.
- The advances received to inventories ratio remained on a strong level.
- Accounts receivable increased somewhat due to high new equipment deliveries at the end of the year. Accounts payable declined somewhat.

[1] Including financing items and taxes

Cash flow[2] (MEUR)



- **In January–December 2017**, cash flow from operations was on a solid level against a strong comparison period.

[2] Cash flow from operations before financing items and taxes

KONE's January–December 2017 review

KONE's operating environment

Operating environment by region

	New equipment market in units		Maintenance market		Modernization market	
	10–12/2017	1–12/2017	10–12/2017	1–12/2017	10–12/2017	1–12/2017
Total market	+	Stable	+	+	+	+
EMEA	+	+	+	+	+	+
Central and North Europe	Stable	Stable	+	+	+	–
South Europe	+	+	+	+	+	+
Middle East	+	+	++	+	+	++
North America	+	+	+	+	+	+
Asia-Pacific	Stable	Stable	+++	+++	+++	+++
China	Stable	Stable	+++	+++	+++	+++

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

October–December 2017

The global new equipment market grew slightly in units ordered compared to the fourth quarter of 2016. **In Asia-Pacific**, the new equipment market was rather stable with the **Chinese** market stable both in units and in monetary value. In China, the residential segment was relatively stable despite the housing restriction measures impacting the market across city tiers. The commercial segment saw a slight decline and the infrastructure segment continued to grow driven by government investments. In the rest of Asia-Pacific, the new equipment markets showed positive signs after a continued period of decline. The Indian market started to recover in the fourth quarter after being impacted by the implementation of several reforms during the previous quarters. **In the EMEA region**, the new equipment market in Central and North Europe was rather stable on a high level. In South Europe, the market continued to see slight growth from a low level. In the Middle East, the market grew slightly despite uncertainty in the region. I**n North America**, the new equipment market continued to grow slightly driven by the United States.

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 fourth quarter. In China, competition remained intense in new equipment, but pricing stabilized. In the EMEA region, the pricing environment continued to be characterized by intense competition in maintenance, particularly in South Europe. In North America, the pricing environment remained favorable in new equipment and modernization, while the maintenance market continued to be competitive.

January–December 2017

In 2017, the **global new equipment market** was relatively stable in units ordered. **In Asia-Pacific**, the new equipment market was rather stable with the large **Chinese market** stable in units and slightly down in monetary value. In China, the residential segment was relatively stable despite the housing restriction measures impacting the market across city tiers. The commercial segment saw a slight decline and the infrastructure segment continued to grow driven by government investments. In the rest of Asia-Pacific, the new equipment markets declined slightly. The Indian market was impacted by the implementation of several reforms. However, the market stabilized towards the end of the year. The new equipment market **in the EMEA region** saw slight growth, with relatively stable development in Central and North Europe and slight growth in South Europe and Middle East. **In North America**, the new equipment market continued to grow slightly driven by the United States.

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.

In 2017, the **pricing trends** remained varied. In China, competition was intense in the new equipment market, but prices started to stabilize during the year. Higher raw material costs burdened the industry's profitability. In the EMEA region, the pricing environment continued to be characterized by intense competition in maintenance, particularly in South Europe. In North America, the pricing environment remained favorable in new equipment and modernization, while the maintenance market continued to be competitive.

Orders received and order book

Orders received

MEUR	10–12/2017	10–12/2016	Change	Comparable change*	1–12/2017	1–12/2016	Change	Comparable change*
Orders received	1,845.8	1,839.2	0.4%	5.3%	7,554.0	7,621.0	-0.9%	1.7%

* 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 figure includes orders related to the maintenance business, such as repairs.

October–December 2017

Orders received grew by 0.4% as compared to October–December 2016 and totaled EUR 1,846 million. At comparable exchange rates, KONE's orders received grew by 5.3% with growth in all regions.

At comparable rates, new equipment orders grew slightly with growth in the volume business and a decline in major projects. In modernization, orders received grew significantly. The relative margin of orders received was stable year-on-year on a good level. The stabilization in the margin was a result of successful pricing actions especially in China and progress in improving productivity.

In the EMEA region, orders received grew slightly at comparable exchange rates as compared to October–December 2016. New equipment orders were stable, with growth in Central and North Europe and in South Europe, but a significant decline in the Middle East due to a lower number of major project orders. 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 October–December 2016. New equipment orders were stable while modernization orders grew significantly.

In the Asia-Pacific region, orders received grew clearly at comparable rates as compared to October–December 2016. In China, new equipment orders were stable in units and grew clearly in monetary value due to successful pricing actions. In the rest of Asia-Pacific, new equipment orders grew slightly driven by India and Australia. In modernization, orders received grew significantly.

January–December 2017

Orders received declined by 0.9% in 2017 and totaled EUR 7,554 (1–12/2016: 7,621) million. At comparable exchange rates, KONE's orders received grew by 1.7%. In 2017, KONE's orders received were stable in new equipment with a stable volume business and slight growth in major projects. In modernization, orders received grew slightly. KONE's new equipment orders received in the elevator and escalator units amounted to approximately 158,000 units (2016: approximately 158,000 units).

In the EMEA region, orders received grew slightly at comparable exchange rates as compared to 2016. New equipment orders grew clearly in the region driven by Germany, the UK and France. Modernization order grew slightly.

In the Americas region, orders received grew clearly at comparable exchange rates as compared to 2016. New equipment orders grew significantly while modernization order grew slightly.

In the Asia-Pacific region, orders received declined slightly at comparable exchange rates as compared to the previous year. New equipment orders received declined slightly in the region driven by a slight decline in China. Modernization orders received grew significantly both in China and the rest of Asia-Pacific.

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

Order book

MEUR	Dec 31, 2017	Dec 31, 2016	Change	Comparable change*
Order book	8,240.2	8,591.9	-4.1%	3.1%

* Change at comparable foreign exchange rates

The order book declined by 4.1% compared to the end of 2016 and stood at a level of EUR 8,240 (December 31, 2016: 8,592) million at the end of 2017. At comparable exchange rates, the order book grew by 3.1%. The relative margin of orders received declined slightly in the first three quarters, but stabilized in the fourth quarter due to successful pricing actions especially in China. A focused pricing strategy, as well as good progress in overall product competitiveness including cost, have helped in sustaining healthy relative margins. Cancellations of orders remained at a very low level.

Net sales

By region

MEUR	10–12/2017	10–12/2016	Change	Comparable change*	1–12/2017	1–12/2016	Change	Comparable change*
EMEA	1,123.4	1,105.3	1.6%	3.6%	3,631.7	3,476.8	4.5%	5.8%
Americas	586.6	535.6	9.5%	17.1%	1,814.8	1,658.5	9.4%	12.0%
Asia-Pacific	947.0	952.2	-0.6%	5.0%	3,495.9	3,648.9	-4.2%	-1.0%
Total	2,656.9	2,593.2	2.5%	6.8%	8,942.4	8,784.3	1.8%	4.2%

By business

MEUR	10–12/2017	10–12/2016	Change	Comparable change*	1–12/2017	1–12/2016	Change	Comparable change*
New equipment	1,467.8	1,437.4	2.1%	7.1%	4,767.7	4,793.0	-0.5%	2.5%
Services	1,189.2	1,155.8	2.9%	6.5%	4,174.7	3,991.2	4.6%	6.2%
Maintenance	744.0	733.6	1.4%	5.0%	2,887.3	2,772.5	4.1%	5.6%
Modernization	445.2	422.2	5.4%	9.1%	1,287.5	1,218.7	5.6%	7.5%
Total	2,656.9	2,593.2	2.5%	6.8%	8,942.4	8,784.3	1.8%	4.2%

* Change at comparable foreign exchange rates

October–December 2017

KONE's net sales grew by 2.5% as compared to October–December 2016, and totaled EUR 2,657 million. At comparable exchange rates, net sales grew by 6.8%.

Sales in the EMEA region grew by 1.6% and at comparable exchange rates by 3.6%, totaling EUR 1,123 million. Sales grew slightly in all businesses.

In the Americas region, sales grew by 9.5% and at comparable exchange rates by 17.1%, reaching EUR 586.6 million. New equipment and modernization sales grew significantly while maintenance sales grew slightly.

In the Asia-Pacific region, sales declined by 0.6% but at comparable exchange rates, sales grew by 5.0%, totaling EUR 947.0 million. New equipment sales grew slightly while modernization and maintenance sales grew significantly.

January–December 2017

Net sales grew in 2017 by 1.8% as compared to the prior year, and totaled EUR 8,942 million. At comparable exchange rates the increase was 4.2%. The sales consolidated from the companies acquired in 2017 did not have a material impact on KONE's net sales for the financial period.

New equipment sales accounted for EUR 4,768 million and declined by 0.5% over the comparison period. At comparable exchange rates, new equipment sales grew by 2.5%.

KONE delivered approximately 141,000 new elevator and escalator units in 2017 (2016: approximately 136,000).

Service (maintenance and modernization) sales grew by 4.6%, and totaled EUR 4,175 million. At comparable exchange rates, service sales grew by 6.2%. Maintenance sales grew by 4.1% and by 5.6% at comparable exchange rates, and totaled EUR 2,887 million. Modernization sales increased by 5.6%, and totaled EUR 1,287 million. At comparable exchange rates, modernization sales grew by 7.5%.

KONE's elevator and escalator maintenance base continued to grow by over 6% and was over 1.2 million units at the end of 2017 (over 1.1 million units at the end of 2016). The growth of the maintenance base was driven, in particular, by a continued good level of conversions of new equipment deliveries to the maintenance base. Acquisitions had only a minor positive contribution to the growth as the number of acquired units was clearly lower than in the past years. In 2017, the balance of maintenance contracts that were won from or lost to competition was still slightly negative.

The largest individual countries in terms of net sales were China (>25% of sales), the United States (>15%), France (~5%) and Germany (~5%).

In the EMEA region, sales grew by 4.5% and totaled EUR 3,632 million. At comparable exchange rates, the growth was 5.8%. New equipment and modernization sales grew clearly, and maintenance sales grew slightly.

In the Americas region, sales grew by 9.4% and totaled EUR 1,815 million. At comparable exchange rates, the growth was 12.0%. Sales grew significantly in new equipment and in modernization. Maintenance sales grew slightly.

In the Asia-Pacific region, sales declined by 4.2% and totaled EUR 3,496 million. At comparable exchange rates, the decline was 1.0% with a slight decline in new equipment but significant growth in maintenance and clear growth in modernization.

Financial result

Financial result

MEUR	10–12/2017	10–12/2016	Change	1–12/2017	1–12/2016	Change
Operating income, MEUR	365.7	392.2	-6.8%	1,217.1	1,293.3	-5.9%
Operating income margin, %	13.8	15.1		13.6	14.7	
Adjusted EBIT, MEUR	375.6	392.2	-4.2%	1,230.3	1,293.3	-4.9%
Adjusted EBIT margin, %	14.1	15.1		13.8	14.7	
Income before taxes, MEUR	374.8	389.3	-3.7%	1,275.2	1,330.3	-4.1%
Net income, MEUR	281.8	298.1	-5.5%	975.1	1,022.6	-4.6%
Basic earnings per share, EUR	0.55	0.58	-6.1%	1.89	2.00	-5.6%

October–December 2017

KONE's operating income (EBIT) declined to EUR 365.7 million or 13.8% of net sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 375.6 million or 14.1% of net sales.

Profitability was burdened by the price pressure seen earlier in the new equipment orders in China combined with increasing raw material costs. In addition, profitability was burdened by higher R&D and IT spend on the development of new solutions and services. These were partly offset by productivity improvements and focused pricing actions. Good growth in the service business and geographically especially in the Americas also contributed positively to the EBIT.

Translation exchange rates had a negative impact of around EUR 17 million on the operating income, and the restructuring costs related to the Accelerate program were approximately EUR 10 million.

January–December 2017

KONE's operating income (EBIT) declined in 2017 to EUR 1,217 million or 13.6% of net sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,230 million or 13.8% of net sales.

Profitability was burdened by the price pressure seen earlier in the new equipment orders in China combined with increasing raw material costs. In addition, profitability was burdened by higher R&D and IT spend on the development of new solutions and services. These were partly offset by productivity improvements and focused pricing actions. Unfavorable translation exchange rates burdened operating income with a negative impact of approximately EUR 37 million.

Net financing items was EUR 58.3 (35.8) million and consisted mainly of interest income from investments.

KONE's income before taxes was EUR 1,275 million. Taxes totaled EUR 300.1 (307.7) million. This represents an effective tax rate of 23.5% (23.1%) for the financial year. The effective tax rate from operations for the financial year 2017 was 23.0%, excluding the deferred tax impact from corporate income tax rate changes and reassessments. Net income for the period under review was EUR 975.1 (1,023) million.

Basic earnings per share was EUR 1.89.

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

Cash flow and financial position

Cash flow and financial position

	10–12/2017	10–12/2016	1–12/2017	1–12/2016
Cash flow from operations (before financing items and taxes), MEUR	335.0	409.8	1,263.3	1,509.5
Net working capital (including financing items and taxes), MEUR			-875.6	-1,054.8
Interest-bearing net debt, MEUR			-1,690.2	-1,687.6
Gearing, %			-58.1	-60.4
Equity ratio, %			49.0	46.8
Equity per share, EUR			5.62	5.42

KONE's financial position was strong at the end of December 2017.

Cash flow from operations (before financing items and taxes) during January–December 2017 was EUR 1,263 million. Cash flow from operations was on a good level against a very strong comparison period.

Net working capital was at the end of December 2017 EUR -876 million, including financing items and taxes. Foreign exchange rates accounted for around EUR 60 million of the change in net working capital compared to the end of the prior year. The advances received to inventories ratio remained on a strong level, while accounts receivable increased somewhat due to high new equipment deliveries at the end of the year. Payables decreased somewhat.

Interest-bearing net debt at the end of December 2017 was EUR -1,690 (December 31, 2016: -1,688) million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,065 (2,086) million at the end of the reporting period. Interest-bearing liabilities were EUR 387.4 (405.5) million, including a net pension liability of EUR 152.2 (176.7) million and short-term loans of EUR 30.1 (15.4) million. In addition, the interest-bearing net debt includes EUR 10.3 (10.5) million of option liabilities from acquisitions. Gearing was -58.1% and equity ratio was 49.0% at the end of December 2017.

Equity per share was EUR 5.62.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	10–12/2017	10–12/2016	1–12/2017	1–12/2016
On fixed assets	30.8	29.3	94.6	99.6
On leasing agreements	1.7	7.0	21.7	27.8
On acquisitions	18.6	16.3	35.1	99.2
Total	51.1	52.6	151.3	226.6

KONE's capital expenditure and acquisitions totaled EUR 151.3 million. Capital expenditure was mainly related to facilities and equipment in R&D, IT, operations and production. Acquisitions accounted for EUR 35.1 million of this figure.

In 2017, KONE's largest acquisitions included Alois Kasper GmbH in Germany, Shan On Engineering Company Limited in Hong Kong and Ascensores R Casado, S.A. in Spain. Previously, KONE owned 35.3% of Shan On Engineering Company Limited and now bought the remaining 64.7% shareholding. In addition, KONE completed other smaller acquisitions of maintenance businesses in Europe during the reporting period. The acquisitions completed during the reporting period did not individually or as a whole have a material impact on the result or financial position of KONE.

Non-financial information

One of KONE's strategic targets is to be a leader in sustainability. KONE is proud to conduct its business in a responsible and sustainable way, and we expect the same commitment from all our partners. We are committed to the laws and regulations of the countries where we operate.

KONE is a member of the UN Global Compact and we are dedicated to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment. We have also received external recognition for our efforts to conduct business in a sustainable way. For example, in 2017, KONE was again included in the FTSE4Good index and listed among the top climate change performers by CDP both in their investor and supply chain programs. CDP is an international not-for-profit organization that drives sustainable economies. KONE was also listed as one of the best employers in the world by Forbes.

KONE's business model is described in the Annual Review on pages 6–7. Risks related to matters below and risk management are described on page 18.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2016 in April 2017. The report follows the Global Reporting Initiative G4 reporting guidelines when applicable. KONE's Sustainability Report for 2017 will be published in April 2018.

ENVIRONMENTAL MATTERS

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.

KONE's environmental policy is to provide innovative, safe, high-quality and environmentally efficient products and services. We work continuously to reduce environmental impacts in all our business operations. We also work with our suppliers and customers to increase environmental awareness and to minimize our operational carbon footprint. In this way, we want to improve energy, material, and water efficiency. KONE Code of Conduct, the Supplier Code of Conduct, the Distributor Code of Conduct and KONE Global Facility Policy also set out environmental requirements relevant to the operations of KONE or its partners.

The most significant environmental impact of KONE's business relates to the amount of electricity used by KONE's solutions during their lifetime, underlining the importance of eco-efficient innovations. In August 2017, as the first elevator company in Europe, KONE published a new Environmental Product Declaration for the KONE MonoSpace® 500 elevator according to the new elevator Product Category Rules. Product Category Rules allow customers to compare different manufacturers' products. During the fourth quarter of 2017, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard by the TravelMaster™ 115 inclined autowalk, which received the best possible A+++ rating. During the fourth quarter, we also renewed our Green Certification by the Singapore Green Building Council (SGBC) for the KONE N MonoSpace® and KONE N MiniSpace™ elevators and received a new Green Certification for the KONE TravelMaster™ 110 escalator. Through the SGBC Green Certification, these products are recommended for Green Mark certified green buildings.

In New Zealand, KONE's operations achieved carboNZero™ certification by Enviro-Mark Solutions during the second quarter of 2017 as the first elevator company. The certification acknowledges companies for their greenhouse gas management, reduction and neutralization efforts. Our 2017 operational carbon footprint results will be published in the second quarter of 2018. In 2016, KONE's operational carbon footprint relative to net sales decreased by 4.1% with sales growth calculated at comparable exchange rates. Our target is a 3% annual reduction relative to net sales. The most significant impact of KONE's operational carbon footprint relates to logistics, our vehicle fleet, and electricity consumption at KONE's facilities. KONE's greenhouse gas reporting is assured externally.

KONE uses the ISO 14001 environmental management system to enhance its environmental performance. It covers our corporate units, including all R&D and manufacturing units, and 20 major subsidiaries. At the end of 2017, 94% of our strategic suppliers were ISO 14001 certified, our target being 100%.

PERSONNEL AND SOCIAL MATTERS

KONE employees

	1–12/2017	1–12/2016
Number of employees at the end of period	55,075	52,104
Average number of employees	53,417	50,905

Geographical distribution of KONE employees

	1–12/2017	1–12/2016
EMEA	22,013	21,432
Americas	7,320	7,039
Asia-Pacific	25,742	23,634
Total	55,075	52,104

The main goals of KONE's personnel strategy are to secure the availability, engagement, motivation and continuous development of the company's personnel.

All of 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, the right to collective bargaining, non-discrimination and the right to a working environment in which harassment of any kind is not tolerated.

We actively encourage diversity at KONE, and our values guide us in upholding an inclusive culture. To strengthen our global approach and deepen our insights on customers and markets, we have set goals for diversity in our teams. During the reporting year, KONE's workforce included 129 nationalities. The majority of our employees are male representing 88% of our people globally. Women accounted for 17% of management team members in 2017. We continue our efforts towards having a more balanced gender split.

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. In 2017, performance discussions were completed for 95% of KONE's eligible personnel and 92% had a documented individual development plan in place.

To further support competence development, KONE offered more than 3,900 training programs and online modules, and several new training programs were launched during the reporting year. Over 6,500 employees had the chance to try out new learning methods such as virtual reality, gamification and mobile learning. At the end of 2017, KONE had over 35 training centers around the world. In addition, employee development through internal job rotation opportunities remained a focus area at KONE.

KONE's new strategy, Winning with Customers focuses on putting the needs of our customers and users at the center of all development at KONE. People are key to the new strategy's success, which requires us to develop and obtain new competences in the fields of digitalization, partnering, understanding customers' businesses and project management. In the second quarter of 2017, KONE launched new leadership competencies that focus on the ability to take an outside-in perspective, learning agility, leading change as well as talent and diversity building. In September 2017, KONE launched a program to accelerate the execution of the strategy and to support profitable growth. The objective of the Accelerate program is to create a faster-moving, customer-centric organization that leverages scale efficiently in a rapidly changing environment, with planned actions including both organizational adjustments, as well as the development and further harmonization of roles, processes and tools.

KONE's eleventh global employee survey was carried out in December 2016. The survey results were published during the first quarter of 2017 and action plans were made in teams based on the results, aiming at further improving the engagement and motivation of personnel.

To secure the availability of personnel also in the future, talent attraction activities continued in 2017 with a specific focus on candidates with different kinds of skill sets and work experience, particularly digital competencies. We also continued to further strengthen our school collaboration. During the latter part of 2017, KONE's HR organization, people processes and tools were renewed to better support the business.

KONE organizes the European Employee Forum every year to bring together employee representatives and top management to discuss issues ranging from safety to business development. A smaller working group meets two to four times a year to ensure continuous consultation and communication on important developments affecting KONE employees.

Employee agreements are managed on a national level to enable alignment with different national legislations.

During the year, improving safety at work remained a high priority. KONE employees receive training on health and safety, and safety is a key element in all our product and operations training. Managers perform regular audits to measure compliance with KONE's policies, rules and defined working methods. Corrective actions are taken if deviations are identified. KONE also conducts process audits to identify possible obstacles to work safety. If any are found, the work in question is stopped until a safe method is approved.

In 2017, the IIFR (Industrial Injury Frequency Rate) improved further and was 1.9 (2016: 2.1), the target being zero. The average lost days per incident improved as well to 28.9 days (2016: 32.5). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 46%.

The safety of the people using elevators, escalators and automatic building doors involves everyone from technology and maintenance service providers to building owners and equipment users. KONE helps customers recognize and deal with situations that could lead to safety risks. We also organize activities in different parts of the world and provide educational material to our customers and the general public to help equipment users stay safe.

KONE had 55,075 (December 31, 2016: 52,104) employees at the end of December 2017. The average number of employees was 53,417 (1–12/2016: 50,905). Employee costs for the reporting period totaled EUR 2,725 (2,634) million. The geographical distribution of KONE employees was 40% (December 31, 2016: 41%) in EMEA, 13% (14%) in the Americas and 47% (45%) in Asia-Pacific.

HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY

The KONE Code of Conduct sets out our commitment to integrity, honesty, and fair play. The topics covered include: compliance with the laws and rules of society, the work environment and human rights, measures to combat fraud, bribery and corruption including guidance on gifts and corporate hospitality, health and safety, discrimination, fair competition, conflicts of interest, the marketing of products and services, and the environment and sustainability.

All KONE employees are expected to understand and abide by the Code and to report any violations using the channels available for this purpose. In addition to internal reporting channels, we have a confidential externally hosted reporting channel, the Compliance Line, to which all employees have phone and/or web access. Reports can be made in the employee's native language and can be anonymous where permitted under data protection laws.

Dedicated compliance officers help employees comply with KONE's Code of Conduct, and our global and regional compliance committees advise and take decisions on compliance matters, including investigations into allegations of employee misconduct as well as human rights and corruption violations.

All KONE employees who have daily access to a computer are required to complete the Code of Conduct online training program. In 2017, the completion rate for the target group was 95%. Regular face-to-face compliance training is also provided to managers and other target groups. For example, in 2017 1,645 employees in China, 456 employees in India and 104 employees in Sourcing received face-to-face compliance training.

KONE's general Code of Conduct is complemented by our Supplier and Distributor Codes of Conduct which are available in several languages. KONE's Supplier Code of Conduct sets out the ethical business practice requirements that we expect from our suppliers. It covers areas such as legal compliance, ethical conduct, our zero tolerance for bribery and corruption, and the standards we require from our suppliers in terms of labor and human rights, health and safety, and environmental issues. KONE may terminate its contracts with suppliers for failure to adhere to the Code.

KONE expects its suppliers to comply with the requirements of the Supplier Code of Conduct in all their dealings with KONE, as well as with their own employees and suppliers, and third parties including government officials. All our new suppliers must sign KONE's Supplier Code of Conduct. 98% of the current key suppliers of components for KONE's products have signed the Code. We carry out periodic checks on suppliers' compliance with the Supplier Code of Conduct.

KONE's Distributor Code of Conduct was renewed in 2016. It covers the same topics as the Supplier Code of Conduct. As business partners, our distributors are likewise expected to comply with the requirements of the Code in all their dealings with KONE, as well as in respect of their own employees, customers and suppliers, and third parties including government officials. Our target is to have the Code signed by all our distributors. At the end of 2017, 100% of our distributors in China, and 60% of our distributors in the rest of the world, have signed the new (or an equivalent) Code.

Research and development

R&D expenditure

	10–12/2017	10–12/2016	Change	1–12/2017	1–12/2016	Change
R&D expenditure, MEUR	44.3	42.1	5.3%	158.4	140.5	12.7%
As percentage of sales, %	1.7	1.6		1.8	1.6	

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 expenses totaled EUR 158.4 (1–12/2016: EUR 140.5) million, representing 1.8% (1.6%) of net sales. R&D expenses include the development of new product and service concepts as well as the further development of existing solutions and services.

During the first quarter of 2017, KONE launched KONE Care™, a unique elevator maintenance offering designed to meet individual customer needs, and new 24/7 Connected Services, which bring more intelligent services to elevators and escalators. KONE Care™, which can be fully customized to meet the individual needs of our customers, brings new levels of flexibility to elevator maintenance. KONE's 24/7 Connected Services uses the IBM Watson Internet of Things platform to bring new added value to customers and enables elevator data to be monitored and analyzed to improve equipment performance. Both the new KONE Care™ service offering and 24/7 Connected Services were made commercially broadly available during 2017 with the roll-out continuing throughout 2018.

HIGHLIGHTS 2017

- KONE revolutionized elevator maintenance with its new customizable KONE Care™ service offering and 24/7 Connected Services
- KONE opened its renewed high-rise elevator testing laboratory in Tytyri, Finland
- KONE introduced Residential Flow, a new innovative solution for residential buildings

In March 2017, KONE unveiled its renewed high-rise elevator testing facility in Tytyri, Finland. The test lab reaches a depth of 350 meters and hosts the world's tallest elevator test shaft. As a result, KONE can develop and test the ultra-high-rise innovations and technologies under extreme conditions.

In the third quarter of 2017, KONE Residential Flow was introduced. The unique solution brings new levels of convenience for home-owners and tenants by using mobile and cloud technologies to connect building doors, elevators, information channels, and intercom systems via an easy-to-use smartphone application. KONE Residential Flow is currently being piloted and is commercially available in six European countries.

In addition, KONE introduced several updates to its existing product offering during 2017. During the first quarter, the next generation of the inclined KONE Travel Master™ autowalk was launched. During the second quarter of 2017, KONE CombiSpace™, a new full replacement elevator solution, was launched for the residential and small-scale commercial segment in Europe and the Middle East. In the third quarter, KONE launched KONE TransitMaster™ 140, an escalator designed for demanding public transportation environments in Asia-Pacific and the Middle East. During the fourth quarter, KONE launched KONE MonoSpace Home™, an elevator for single-family homes in China. In addition, KONE Destination 880™, a next generation group controller for intelligent People Flow® solutions, was launched globally. Additionally, several updates and enhancements were made to KONE's offering in various geographies and segments.

Changes in the Executive Board

In 2017, KONE announced changes in the Executive Board.

Susanne Skippari was appointed as Executive Vice President, Human Resources and member of the Executive Board as of February 1, 2017. She reports to Henrik Ehrnrooth, President and CEO. Susanne Skippari succeeds Kerttu Tuomas who decided to leave her position after 15 years at KONE to focus on non-executive duties.

Hugues Delval was appointed as Executive Vice President, Service Business and member of the Executive Board as of February 1, 2017. He reports to Henrik Ehrnrooth, President and CEO. Hugues Delval succeeds Pekka Kemppainen who retired after 33 years at KONE.

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 219 million at the end of December 2017 (December 31, 2016: EUR 237 million). KONE's position is that the claims are without merit. No provision has been made.

Most significant risks

KONE is exposed to risks that may arise from its operations or changes in the operating environment. The risk factors described below can potentially have an adverse effect on KONE's business operations and financial position and, as a result, on the value of the company. Other risks, which are currently either unknown or considered immaterial to KONE may, however, become material in the future.

STRATEGIC RISKS

A weakening of the global economic environment could result in 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 lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 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.

RISKS AND RISK MANAGEMENT RELATED TO THE REPORTING OF NON-FINANCIAL INFORMATION

The assessment and analysis of KONE's most significant risks also covers material non-financial risks. In line with the requirements of the Finnish Accounting Act, KONE has identified the most significant non-financial risks regardless of their materiality for KONE as a whole. The typical impact of the non-financial risks materializing would be reputational damage. In addition to the risk mitigation actions described below, KONE aims for transparent and reliable communication in order to prevent reputational risks and to enable proactive management and learning from incidents, should they occur.

Environmental risks

Environmental risks related to KONE's business are overall not very material. The most significant environmental risks are the inability to control the usage of hazardous substances in the supply chain and failure to measure the environmental impact of our solutions during their life-cycle. Environmental risks are managed by conducting internal and external audits and by regularly tracking compliance requirements and our environmental performance.

Social and employee related risks

Safety is a high priority at KONE and potential safety incidents are among the most significant social and employee related risks. Incidents are mitigated through, for example, extensive training, standardized maintenance and installation methods and regular process audits. Major repairs or retrofits in public infrastructure locations may also affect the daily life of many people and therefore, may have a reputational impact. Both safety and quality have a key role in product design, supply, manufacturing, installation and maintenance and they involve strict quality control. KONE also follows globally accepted principles in how to manage potential incidents.

Human rights related risks

The most significant human rights related risks are in the supply and delivery chain and are related to working conditions. All new suppliers must sign KONE's Supplier Code of Conduct which sets out our ethical business practice requirements, including the standards we require in terms of labor and human rights.

Anti-corruption and bribery related risks

KONE requires its employees and partners to adhere to high ethical standards and to comply with its Code of Conduct, Distributor Code of Conduct and Supplier Code of Conduct. These codes cover numerous compliance topics, including competition law, trade sanctions compliance, and labor and human rights issues, as well as prohibiting corruption and bribery. Unethical business practices among KONE's employees or various stakeholders could cause reputational damage for KONE as well as a possible financial impact. While the risks of such behaviors and practices materializing are included in the scope of KONE's regular audit programs, the most important actions for internal mitigation is the development of KONE's corporate culture through training and awareness building.

Decisions of the Annual General Meeting

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

The number of Members of the Board of Directors was confirmed as eight. Re-elected as Members of the Board were Matti Alahuhta, Anne Brunila, Antti Herlin, Iiris Herlin, Jussi Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikäinen.

At its meeting held after the General Meeting, the Board of Directors elected from among its members Antti Herlin as its Chairman and Jussi Herlin as Vice Chairman.

Jussi Herlin was elected as Chairman and Anne Brunila, Antti Herlin and Ravi Kant as members of the Audit Committee. Anne Brunila and Ravi Kant are independent of both the company and of significant shareholders.

Antti Herlin was elected as Chairman and Matti Alahuhta, Jussi Herlin and Juhani Kaskeala as members of the Nomination and Compensation Committee. Juhani Kaskeala is independent of both the company and of significant shareholders. Matti Alahuhta was independent of significant shareholders until March 31, 2017 and independent of both the company and of significant shareholders from April 1, 2017.

The General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 44,000 for the Vice Chairman and EUR 37,000 (previously 33,000) for Board Members. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings. For Committee Members residing outside of Finland, a compensation of EUR 2,000 for attendance at Committee meetings was approved. Of the annual remuneration, 40 percent will be paid in class B shares of KONE Corporation and the rest in cash.

The General Meeting approved the authorization for the Board of Directors to repurchase KONE's own shares. Altogether no more than 52,440,000 shares may be repurchased, of which no more than 7,620,000 may be class A shares and 44,820,000 class B shares. The authorization shall remain in effect for a period of one year from the date of decision of the General Meeting.

Authorized public accountants PricewaterhouseCoopers Oy and Niina Vilske were nominated as auditors.

The General Meeting approved dividends in line with the Board of Directors' proposal of EUR 1.5475 for each of the 76,208,712 class A shares and EUR 1.55 for each of the outstanding 437,076,029 class B shares. The date of record for dividend distribution was March 2, 2017 and dividends were paid on March 9, 2017.

Share capital and market capitalization

Share capital and market capitalization*

	Dec 31, 2017	Dec 31, 2016
Number of class B shares	450,971,695	449,960,170
Number of class A shares	76,208,712	76,208,712
Total shares	527,180,407	526,168,882
Share capital, EUR	65,897,551	65,771,110
Market capitalization, MEUR	23,052	21,851

* Market capitalization is calculated on the basis of both the listed B shares and the unlisted A shares excluding treasury shares. Class A shares are valued at the closing price of the class B shares at the end of the reporting period.

In 2013, KONE granted a conditional option program. The stock options 2013 were listed on Nasdaq Helsinki Ltd. as of April 1, 2015. The total number of stock options was 750,000 and 55,000 of them were held by KONE Corporation's subsidiary. During the reporting period, 514,278 new KONE class B shares were subscribed for with the 2013 option rights. The share subscription period for the stock options 2013 ended on April 30, 2017.

In December 2013, KONE granted a conditional 2014 option program. The stock options 2014 were listed on 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, 484,172 class B shares were subscribed for with the 2014 option rights. On December 31, 2017, a maximum of 869,698 shares can 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, on December 31, 2017, EUR 26.65 per share. The share subscription period for the stock options 2014 is April 1, 2016–April 30, 2018.

In December 2014, KONE granted a conditional 2015 option program. The stock options 2015 were listed on 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, 13,075 class B shares were subscribed for with the 2015 option rights. On December 31, 2017, a maximum of 1,355,925 shares can be subscribed for with the remaining outstanding 2015 option rights. Each option entitles its holder to subscribe for one (1) new class B KONE share at the price of, on December 31, 2017, EUR 32.05 per share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019.

KONE has two separate share-based incentive plans. One plan is targeted for the senior management of KONE including the President & CEO, members of the Executive Board and other top management, consisting of approximately 60 individuals. A second plan is targeted for other key personnel of KONE, totaling approximately 450 individuals. The potential reward is based on the annual growth in sales and operating income (EBIT) in both plans. However, KONE´s Board of Directors has the possibility to change the basis of the target setting annually. The potential reward is to be paid as a combination of KONE class B shares and a cash payment equivalent to the taxes and similar charges that are incurred from the receipt of shares. Plans include conditions preventing participants from transferring and participants are obliged to return the shares and the cash payments if employment or service contract is terminated during a period of two years following the ending of each earning period. As part of the plan for the senior management, a long term target for the their ownership has been set.

On December 31, 2017, KONE's share capital was EUR 65,897,550.89 comprising 450,971,695 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 23,052 million on December 31, 2017, disregarding own shares in the Group's possession. 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

	1–12/2017
Shares in KONE's possession at the beginning of the period	12,884,141
Changes in own shares during the period	– 481,345
Shares in KONE's possession at the end of the period	12,402,796

In April, 483,448 KONE class B shares in KONE's possession were assigned to the KONE share-based incentive program and 2,932 KONE class B shares to the members of KONE Corporation's Board of Directors as a part of the board members' annual remuneration. In December, a total of 5,035 KONE class B shares were returned to KONE Corporation by virtue of the terms of KONE Corporation's share-based incentive program for the year 2016. During January–December 2017, KONE did not use its authorization to repurchase own shares. At the end of December 2017, 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

		1–12/2017	1–12/2016
Shares traded on the Nasdaq Helsinki Ltd., million		175.3	194.7
Average daily trading volume		698,221	769,607
Volume-weighted average share price	EUR	43.73	41.47
Highest share notation	EUR	47.70	47.89
Lowest share notation	EUR	39.77	35.50
Share notation at the end of period	EUR	44.78	42.57

The Nasdaq Helsinki Ltd. traded 175.3 million KONE Corporation's class B shares in January–December 2017, equivalent to a turnover of EUR 7,666 million. The daily average trading volume was 698,221 shares (1–12/2016: 769,607). The share price on December 31, 2017 was EUR 44.78. The volume weighted average share price during the period was EUR 43.73. The highest quotation during the period under review was EUR 47.70 and the lowest EUR 39.77. In addition to the Nasdaq Helsinki Stock Exchange, KONE's class B share is traded also on various alternative trading platforms. The volume of KONE's B shares traded on the Nasdaq Helsinki Stock Exchange represented approximately 27.2% of the total volume of KONE's class B shares traded in January–December 2017 (source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com).

The number of registered shareholders was 57,471 at the beginning of the review period and 61,139 at its end. The number of private households holding shares totaled 57,371 at the end of the period, which corresponds to approximately 13.0% of the listed B shares.

According to the nominee registers, 48.0% of the listed class B shares were owned by foreign shareholders on December 31, 2017. Other foreign ownership at the end of the period totaled 3.5%. Thus, a total of 51.5% of KONE's listed class B shares were owned by international investors, corresponding to approximately 19.2% of the total votes in the company.

Flagging notifications

On March 10, 2017, KONE Corporation received an announcement from The Capital Group Companies, Inc. in accordance with the Finnish Securities Market Act Chapter 9, Section 10. According to the announcement, the total number of KONE Corporation shares owned by The Capital Group Companies, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on March 9, 2017.

During January–December 2017, BlackRock, Inc. announced several notices to KONE Corporation in accordance with the Finnish Securities Market Act, Chapter 9, Section 10. The notices were announced on May 4, May 5, May 8, June 16, June 20, July 11, September 13, September 14, September 15, September 20 and November 1. All notices have been released as stock exchange releases and are available on KONE Corporation's internet pages at www.kone.com. According to the latest notification, released on November 2, 2017, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on October 31, 2017. The total number of shares including financial instruments owned by BlackRock, Inc. and its funds remained above five (5) per cent of the total number of shares of KONE Corporation on October 31, 2017.

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 at around a similar rate as in 2017 at comparable exchange rates. The adjusted EBIT margin is expected to continue to decline in 2018 as witnessed in 2017. However, the margin pressure 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 increased raw material prices. 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. Foreign exchange rates are estimated to have an approximately EUR 40 million negative impact on KONE's EBIT in 2018 assuming that translation exchange rates would remain at the end of December 2017 level.

As a result of the adoption of new IFRS 15 accounting principles effective from January 1, 2018, KONE's sales recognition will change in 2018. The IFRS 15 restated figures for 2017 will be published in March 2018. Given this change, KONE will provide a more precise business outlook for 2018 in connection to the Q1 2018 report that will be published on April 25, 2018. The change in accounting principles is not expected to have a material impact on annual sales and operating income.

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

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2017 was EUR 2,195,493,551.80 of which the net profit for the financial year is EUR 1,054,610,239.57.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6475 be paid on the outstanding 76,208,712 class A shares and EUR 1.65 on the outstanding 438,568,899 class B shares, resulting in a total amount of proposed dividends of EUR 849,192,536.37.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,346,301,015.43 be retained and carried forward.

The Board proposes that the dividends be payable on March 7, 2018. All the shares existing on the dividend record date are entitled to dividend for the year 2017 except for the own shares held by the parent company.

Annual General Meeting 2018

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Monday, February 26, 2018 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 25, 2018

KONE Corporation's Board of Directors

Accounting Principles

The information presented in this report is based on the audited KONE 2017 Financial Statements. KONE Corporation's financial statement bulletin has been prepared in line with IAS 34, 'Interim Financial Reporting'. KONE has applied the same accounting principles in the preparation of the financial statement bulletin as in the Financial Statements for 2017.

Consolidated statement of income

MEUR	10–12/2017	%	10–12/2016	%	1–12/2017	%	1–12/2016	%
Sales	2,656.9		2,593.2		8,942.4		8,784.3	
Costs and expenses	-2,261.7		-2,172.4		-7,611.0		-7,384.5	
Depreciation and amortization	-29.5		-28.6		-114.3		-106.5	
Operating income	365.7	13.8	392.2	15.1	1,217.1	13.6	1,293.3	14.7
Share of associated companies' net income	-0.3		0.2		-0.2		1.2	
Financing income	12.7		10.6		72.2		66.8	
Financing expenses	-3.3		-13.7		-13.9		-31.0	
Income before taxes	374.8	14.1	389.3	15.0	1,275.2	14.3	1,330.3	15.1
Taxes	-93.0		-91.3		-300.1		-307.7	
Net income	281.8	10.6	298.1	11.5	975.1	10.9	1,022.6	11.6
Net income attributable to:								
Shareholders of the parent company	280.0		297.5		968.0		1,023.7	
Non-controlling interests	1.8		0.6		7.1		-1.1	
Total	281.8		298.1		975.1		1,022.6	
Earnings per share for profit attributable to the shareholders of the parent company, EUR								
Basic earnings per share, EUR	0.55		0.58		1.89		2.00	
Diluted earnings per share, EUR	0.54		0.58		1.88		1.99	

Consolidated statement of comprehensive income

MEUR	10–12/2017	10–12/2016	1–12/2017	1–12/2016
Net income	281.8	298.1	975.1	1,022.6
Other comprehensive income, net of tax:				
Translation differences	-16.4	52.4	-203.9	-23.2
Hedging of foreign subsidiaries	7.3	-15.7	52.8	-8.6
Cash flow hedges	9.3	-16.0	39.3	-13.7
Items that may be subsequently reclassified to statement of income	0.2	20.7	-111.7	-45.5
Remeasurements of employee benefits	2.8	31.3	8.3	-9.9
Items that will not be reclassified to statement of income	2.8	31.3	8.3	-9.9
Total other comprehensive income, net of tax	3.0	51.9	-103.4	-55.3
Total comprehensive income	284.8	350.0	871.7	967.3
Total comprehensive income attributable to:				
Shareholders of the parent company	282.9	349.4	864.6	968.4
Non-controlling interests	1.8	0.6	7.1	-1.1
Total	284.8	350.0	871.7	967.3

Condensed consolidated statement of financial position

Assets

MEUR		Dec 31, 2017	Dec 31, 2016
Non-current assets			
Goodwill		1,325.5	1,371.8
Intangible assets		274.5	292.9
Tangible assets		377.0	368.3
Loan receivables and other interest-bearing assets	I	0.7	7.4
Investments		115.8	129.9
Employee benefits	I	11.5	-
Deferred tax assets	II	268.3	318.4
Total non-current assets		2,373.4	2,488.5
Current assets			
Inventories	II	1,244.6	1,373.5
Accounts receivable	II	1,608.7	1,573.7
Deferred assets	II	378.3	368.4
Income tax receivables	II	67.5	61.4
Current deposits and loan receivables	I	1,568.8	1,496.6
Cash and cash equivalents	I	496.5	589.2
Total current assets		5,364.4	5,462.8
Total assets		7,737.8	7,951.3

Equity and liabilities

MEUR		Dec 31, 2017	Dec 31, 2016
Equity		2,907.4	2,795.6
Non-current liabilities			
Loans	I	194.7	203.1
Employee benefits	I	152.2	176.7
Deferred tax liabilities	II	136.1	154.2
Total non-current liabilities		483.0	534.0
Provisions	II	142.3	183.2
Current liabilities			
Loans	I	40.5	25.8
Advance payments received	II	1,806.1	1,976.9
Accounts payable	II	705.1	743.3
Accruals	II	1,568.3	1,610.0
Income tax payables	II	85.1	82.5
Total current liabilities		4,205.0	4,438.5
Total equity and liabilities		7,737.8	7,951.3

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, 2017	65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	2,590.5		12.7	2,795.6
Net income for the period									968.0	7.1	975.1
Other comprehensive income:											
Translation differences					-203.9						-203.9
Hedging of foreign subsidiaries					52.8						52.8
Cash flow hedges				39.3							39.3
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										-6.5	-6.5
Option and share-based compensation			15.0				18.9	-16.6			17.2
Dec 31, 2017	65.9	100.3	205.8	9.4	89.3	-105.2	-217.8	1,778.4	968.0	13.3	2,907.4

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, 2016	65.7	100.3	140.7	-16.2	272.1	-103.6	-210.6	2,279.1		48.0	2,575.5
Net income for the period									1,023.7	-1.1	1,022.6
Other comprehensive income:											
Translation differences					-23.2						-23.2
Hedging of foreign subsidiaries					-8.6						-8.6
Cash flow hedges				-13.7							-13.7
Remeasurements of employee benefits						-9.9					-9.9
Transactions with shareholders and non-controlling interests:											
Profit distribution								-718.2			-718.2
Increase in equity (option rights)	0.1		18.3								18.4
Purchase of own shares							-39.3				-39.3
Change in non-controlling interests								9.1		-34.2	-25.1
Option and share-based compensation			7.1				13.1	-3.1			17.1
Dec 31, 2016	65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	1,566.7	1,023.7	12.7	2,795.6

Condensed consolidated statement of cash flows

MEUR	10–12/2017	10–12/2016	1–12/2017	1–12/2016
Operating income	365.7	392.2	1,217.1	1,293.3
Change in working capital before financing items and taxes	-60.3	-10.9	-68.1	109.7
Depreciation and amortization	29.5	28.6	114.3	106.5
Cash flow from operations before financing items and taxes	335.0	409.8	1,263.3	1,509.5
Cash flow from financing items and taxes	-57.5	-92.7	-299.6	-331.0
Cash flow from operating activities	277.5	317.1	963.7	1,178.4
Cash flow from investing activities	-47.2	-37.5	-143.5	-197.6
Cash flow after investing activities	230.2	279.6	820.2	980.8
Purchase of own shares	-	-	-	-39.3
Increase in equity (option rights)	3.3	6.9	24.9	18.4
Profit distribution	-	-	-795.4	-718.2
Change in deposits and loans receivable, net	-284.2	-307.1	-82.4	-154.2
Change in loans payable and other interest-bearing debt	-9.1	143.7	-33.2	-20.9
Changes in non-controlling interests	-2.4	-0.2	-5.5	-26.7
Cash flow from financing activities	-292.4	-156.8	-891.7	-941.0
Change in cash and cash equivalents	-62.2	122.8	-71.5	39.8
Cash and cash equivalents at beginning of period	558.7	464.2	589.2	552.7
Translation difference	-0.0	2.1	-21.1	-3.3
Cash and cash equivalents at end of period	496.5	589.2	496.5	589.2

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	10–12/2017	10–12/2016	1–12/2017	1–12/2016
Interest-bearing net debt at beginning of period	-1,464.9	-1,368.7	-1,687.6	-1,512.6
Interest-bearing net debt at end of period	-1,690.2	-1,687.6	-1,690.2	-1,687.6
Change in interest-bearing net debt	-225.3	-318.9	-2.6	-175.0

Notes for the interim report

KEY FIGURES

		1–12/2017	1–12/2016
Basic earnings per share	EUR	1.89	2.00
Diluted earnings per share	EUR	1.88	1.99
Equity per share	EUR	5.62	5.42
Interest-bearing net debt	MEUR	-1,690.2	-1,687.6
Equity ratio	%	49.0	46.8
Gearing	%	-58.1	-60.4
Return on equity	%	34.2	38.1
Return on capital employed	%	30.4	34.1
Total assets	MEUR	7,737.8	7,951.3
Assets employed	MEUR	1,217.3	1,108.0
Net working capital (including financing items and taxes)	MEUR	-875.6	-1,054.8

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.

		10–12/2017	10–12/2016	1–12/2017	1–12/2016
Operating income	MEUR	365.7	392.2	1,217.1	1,293.3
Operating income margin	%	13.8	15.1	13.6	14.7
Items impacting comparability	MEUR	9.9	-	13.2	-
Adjusted EBIT	MEUR	375.6	392.2	1,230.3	1,293.3
Adjusted EBIT margin %	%	14.1	15.1	13.8	14.7

QUARTERLY FIGURES

		Q4/2017	Q3/2017	Q2/2017	Q1/2017	Q4/2016	Q3/2016	Q2/2016	Q1/2016
Orders received	MEUR	1,845.8	1,739.0	2,056.2	1,913.0	1,839.2	1,771.7	2,067.8	1,942.3
Order book	MEUR	8,240.2	8,703.0	8,905.1	9,129.0	8,591.9	8,699.0	8,763.6	8,529.7
Sales	MEUR	2,656.9	2,190.8	2,284.4	1,810.3	2,593.2	2,170.2	2,272.6	1,748.3
Operating income	MEUR	365.7	307.3	326.4	217.7	392.2	331.1	348.6	221.4
Operating income margin	%	13.8	14.0	14.3	12.0	15.1	15.3	15.3	12.7
Adjusted EBIT [1]	MEUR	375.6	310.6	326.4	217.7	392.2	331.1	348.6	221.4
Adjusted EBIT margin [1]	%	14.1	14.2	14.3	12.0	15.1	15.3	15.3	12.7
Items impacting comparability	MEUR	9.9	3.3						

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

		Q4/2013	Q3/2013	Q2/2013	Q1/2013	Q4/2012	Q3/2012	Q2/2012	Q1/2012
Orders received	MEUR	1,473.2	1,327.2	1,638.2	1,712.4	1,321.3	1,295.6	1,513.4	1,365.9
Order book	MEUR	5,587.5	5,642.1	5,874.4	5,823.1	5,050.1	5,283.7	5,305.3	4,842.8
Sales	MEUR	2,033.0	1,739.2	1,761.7	1,398.7	1,857.7	1,633.7	1,544.1	1,241.3
Operating income	MEUR	292.8	257.5	242.8	160.4	257.4	226.4	173.0	134.6
Operating income margin	%	14.4	14.8	13.8	11.5	13.9	13.9	11.2	10.8
Adjusted EBIT [1]	MEUR	292.8	257.5	242.8	160.4	257.4	226.4	210.3	134.6
Adjusted EBIT margin [1]	%	14.4	14.8	13.8	11.5	13.9	13.9	13.6	10.8
Items impacting comparability	MEUR							37.3	

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

[1] Operating income excluding items impacting comparability.

Net working capital

MEUR	Dec 31, 2017	Dec 31, 2016
Net working capital		
Inventories	1,244.6	1,373.5
Advance payments received	-1,806.1	-1,976.9
Accounts receivable	1,608.7	1,573.7
Deferred assets and income tax receivables	445.8	429.8
Accruals and income tax payables	-1,653.4	-1,692.5
Provisions	-142.3	-183.2
Accounts payable	-705.1	-743.3
Net deferred tax assets/liabilities	132.2	164.1
Total net working capital	-875.6	-1,054.8

Depreciation and amortization

MEUR	10–12/2017	10–12/2016	1–12/2017	1–12/2016
Depreciation and amortization of fixed assets	21.6	20.8	82.7	76.9
Amortization of acquisition-related intangible assets	7.9	7.8	31.7	29.5
Total	29.5	28.5	114.3	106.5

Key exchange rates in euros

		Dec 31, 2017		Dec 31, 2016	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.6299	7.8044	7.3199	7.3202
US Dollar	USD	1.1307	1.1993	1.1021	1.0541
British Pound	GBP	0.8742	0.8872	0.8159	0.8562
Australian Dollar	AUD	1.4780	1.5346	1.4856	1.4596

Derivatives

Fair values of derivative financial instruments MEUR	Derivative assets Dec 31, 2017	Derivative liabilities Dec 31, 2017	Fair value, net Dec 31, 2017	Fair value, net Dec 31, 2016
Foreign exchange forward contracts and swaps	35.6	-12.1	23.5	-6.0
Electricity price forward contracts	-	-0.3	-0.3	-0.4
Total	35.6	-12.4	23.2	-6.4

Nominal values of derivative financial instruments MEUR	Dec 31, 2017	Dec 31, 2016
Foreign exchange forward contracts and swaps	2,389.6	2,629.3
Electricity price forward contracts	1.0	1.6
Total	2,390.6	2,630.9

The fair values of foreign exchange forward contracts and swaps as well as the fair values of cross-currency swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2). For electricity price forward contracts, there exists a stock exchange price.

The fair values are represented on the balance sheet on a gross basis and can be set off on conditional terms. No collaterals or pledges have been given as a security against any liabilities or received against any assets arising from derivatives or other financial instruments. Financial contracts are executed only with counterparties that have high credit ratings. The credit risk of these counterparties as well as the present creditworthiness of KONE are considered when calculating the fair values of outstanding financial assets and liabilities.

INVESTMENTS

The shares held include a 19.9% holding in Toshiba Elevator and Building Systems Corporation (TELC). TELC is an investment in equity instruments that does not have a quoted price in an active market. The fair value of TELC shares cannot be reliably measured because the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed. TELC is classified as an available-for-sale investment and measured at cost.

Investments include also available-for-sale investments in other companies without public quotation. These investments are measured at cost since the fair values cannot be reliably measured.

Commitments

MEUR	Dec 31, 2017	Dec 31, 2016
Guarantees		
Others	5.0	11.2
Operating leases	294.5	315.6
Total	299.5	326.8

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,342 (1,411) million as of December 31, 2017.

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

The future minimum lease payments under non-cancellable operating leases

MEUR	Dec 31, 2017	Dec 31, 2016
Less than 1 year	73.0	73.1
1–5 years	161.3	162.6
Over 5 years	60.2	79.9
Total	294.5	315.6

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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 net 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