

The background of the slide is a photograph of a city skyline, likely Singapore, featuring several prominent skyscrapers. The buildings are illuminated by the warm light of the setting or rising sun, creating a golden glow. In the foreground, there is a body of water with some boats and a low-rise building along the waterfront. The overall scene is a panoramic view of a modern urban landscape.

KONE Q3 2019

OCTOBER 23, 2019
HENRIK EHRNROOTH, PRESIDENT & CEO
ILKKA HARA, CFO



Q3 2019 Highlights

- Continued good growth in orders received with improving margin
- Solid growth in services
- Improving adjusted EBIT margin
- Strong cash flow

Q3 2019 Key figures



SOLID GROWTH, IMPROVING MARGIN AND STRONG CASH FLOW

		Q3/2019	Q3/2018	Change	Comparable change
Orders received	MEUR	2,007.3	1,831.9	9.6%	6.8%
Order book	MEUR	8,399.8	7,791.6	7.8%	4.2%
Sales	MEUR	2,557.6	2,288.7	11.7%	9.4%
Operating income (EBIT)	MEUR	314.2	258.0	21.8%	
Operating income margin (EBIT %)	%	12.3	11.3		
Adjusted EBIT	MEUR	321.9	273.7	17.6%	
Adjusted EBIT margin	%	12.6	12.0		
Cash flow from operations (before financing items and taxes)	MEUR	462.9	273.3		
Basic earnings per share	EUR	0.48	0.42		

January-September 2019 Key figures



SOLID GROWTH IN ALL BUSINESSES, STRONG CASH CONVERSION

		1-9/2019	1-9/2018	Change	Comparable change
Orders received	MEUR	6,411.5	5,859.1	9.4%	7.6%
Order book	MEUR	8,399.8	7,791.6	7.8%	4.2%
Sales	MEUR	7,297.2	6,627.3	10.1%	8.3%
Operating income (EBIT)	MEUR	836.1	750.0	11.5%	
Operating income margin (EBIT %)	%	11.5	11.3		
Adjusted EBIT	MEUR	869.9	792.5	9.8%	
Adjusted EBIT margin	%	11.9	12.0		
Cash flow from operations (before financing items and taxes)	MEUR	1,163.9	818.5		
Basic earnings per share	EUR	1.26	1.19		

Q3 2019 Business highlights

- Continued faster than market growth in all businesses
 - Broad-based competitiveness
 - NPS on a good level
- Solid overall execution
 - Strong deliveries to customers
 - Strong cash conversion
- Actions to improve profitability starting to show results



Visible benefits from Accelerate program

Harmonizing roles and processes, leveraging scale & building expertise in many key functions



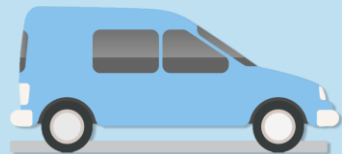
Customer Solutions Engineering



HR



Customer Service & Admin



Logistics



Finance



Sourcing

Accelerate program targets

- Customer centricity
- Speed
- Efficiency

- Estimated total savings somewhat over MEUR 100 by the end of 2020
- Estimated restructuring costs somewhat over MEUR 100





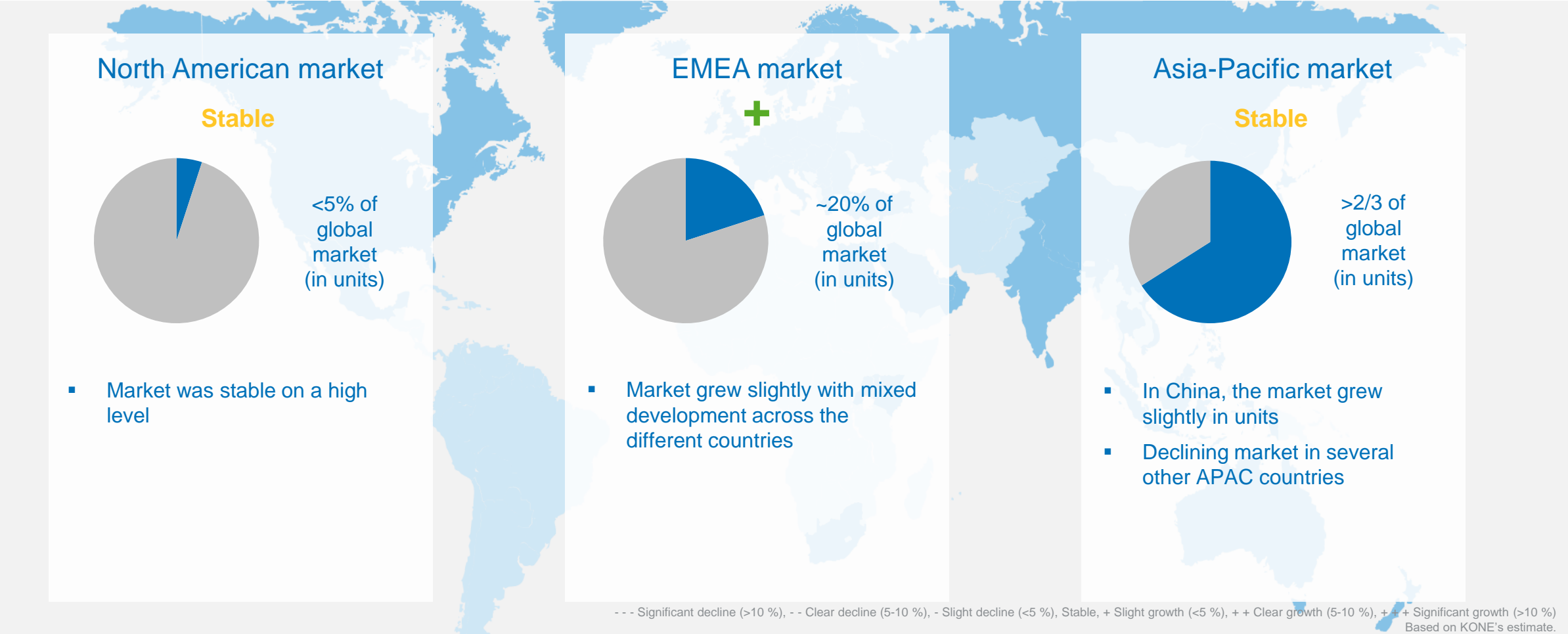
ROPE DATA PLATE	
Number of Ropes	12
Size (mm)	18
Breaking Load kN	102
Construction	6V8 18R18
Standard	ISO 9001

Market development

New equipment market development in Q3 2019



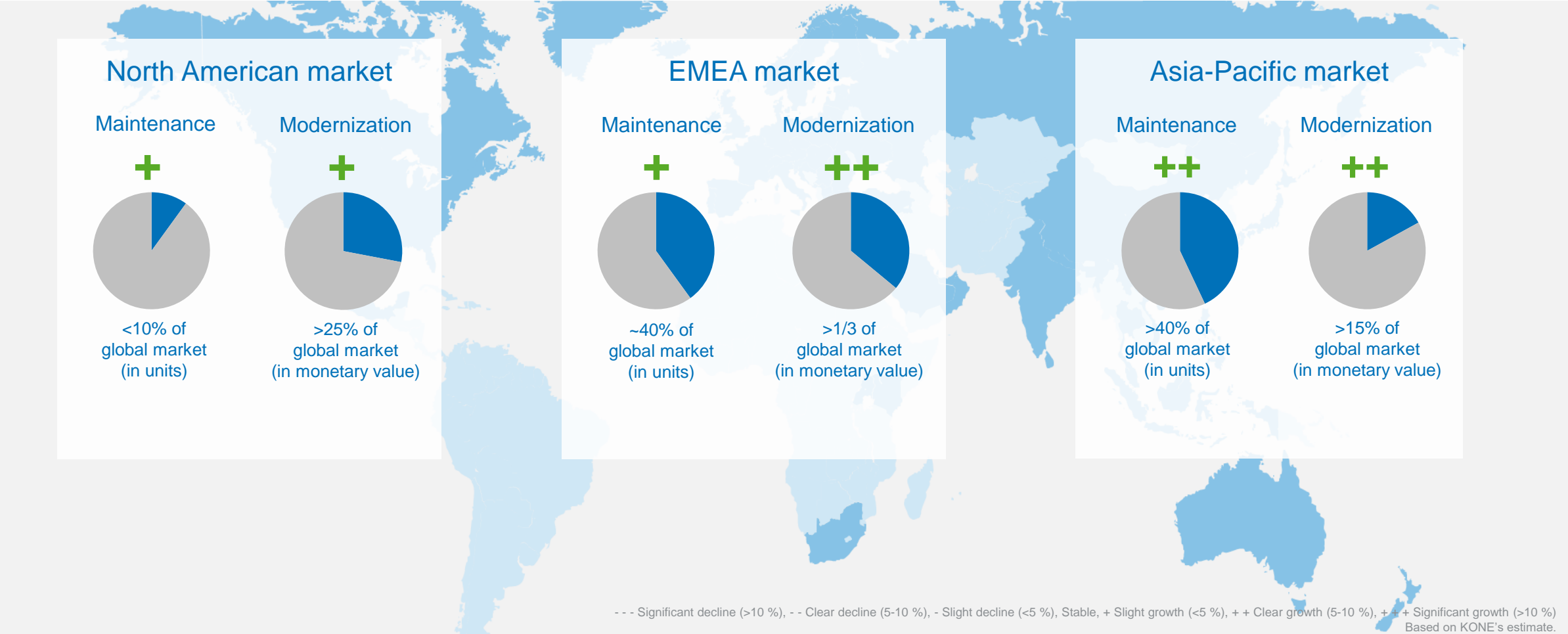
NEW EQUIPMENT MARKET WAS STABLE



Service market development in Q3 2019



CONTINUED POSITIVE DEVELOPMENT



Chinese property market in Q3 2019



GOVERNMENT BALANCING BETWEEN SUPPORTING THE ECONOMY AND RESTRICTIONS IN THE RESIDENTIAL MARKET



- In units ordered, the new equipment market grew slightly y-o-y
- Pricing was fairly stable



- Government continued to support the economic activity through infrastructure investments while maintaining restrictions in the residential market
- Construction activity stayed on a high level



- Real estate investment +10.5% y-o-y in September
- Residential sales volume +3% y-o-y and new starts +7% y-o-y in September
- New home prices in the 70 biggest cities +9% y-o-y in September



- Consolidation among property developers continues



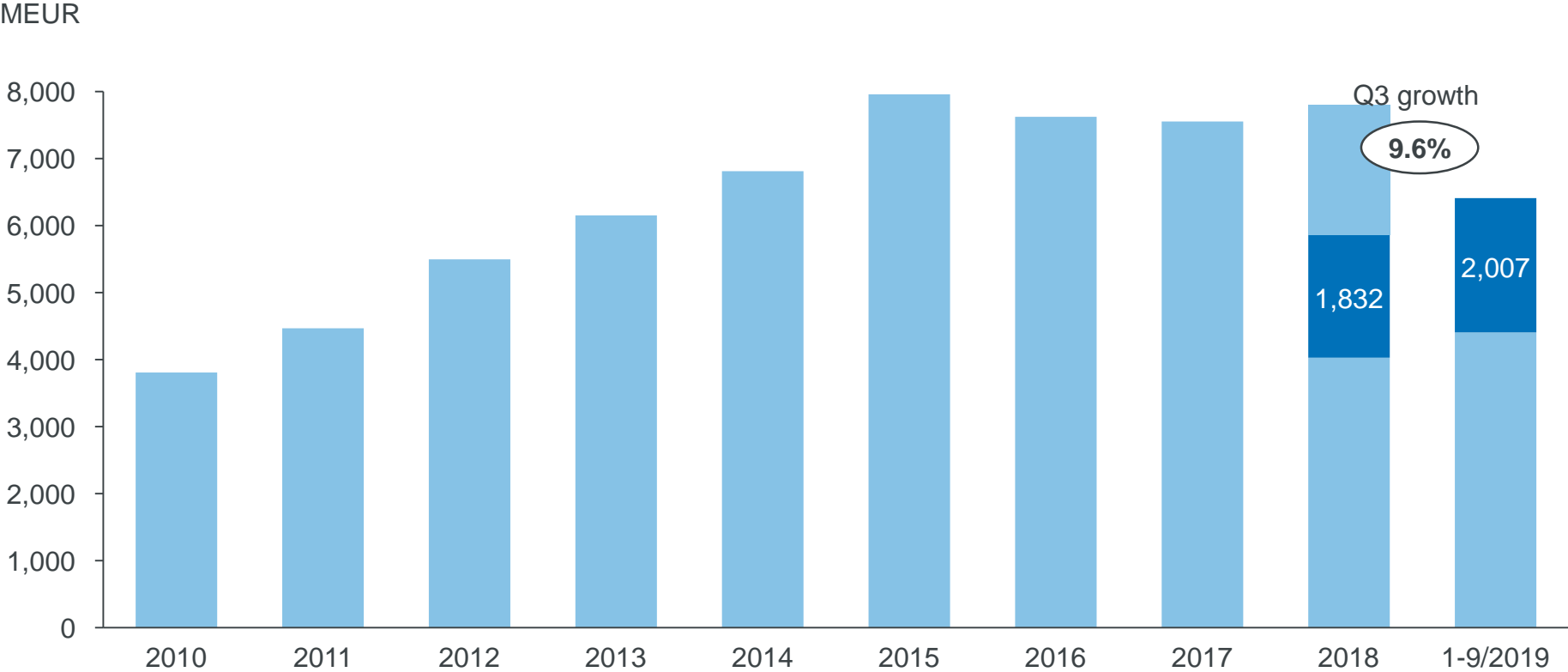
ROPE DATA PLATE	
Number of Ropes	12
Size (mm)	18
Breaking Load kN	102.4
Construction	6VX 18E18
Standard	EN10134

Q3 Financials

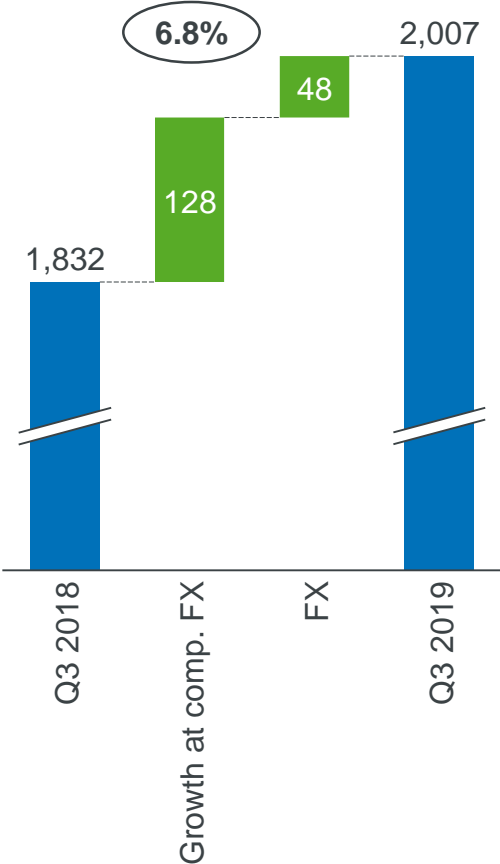
Orders received



ORDERS RECEIVED GREW IN ALL REGIONS



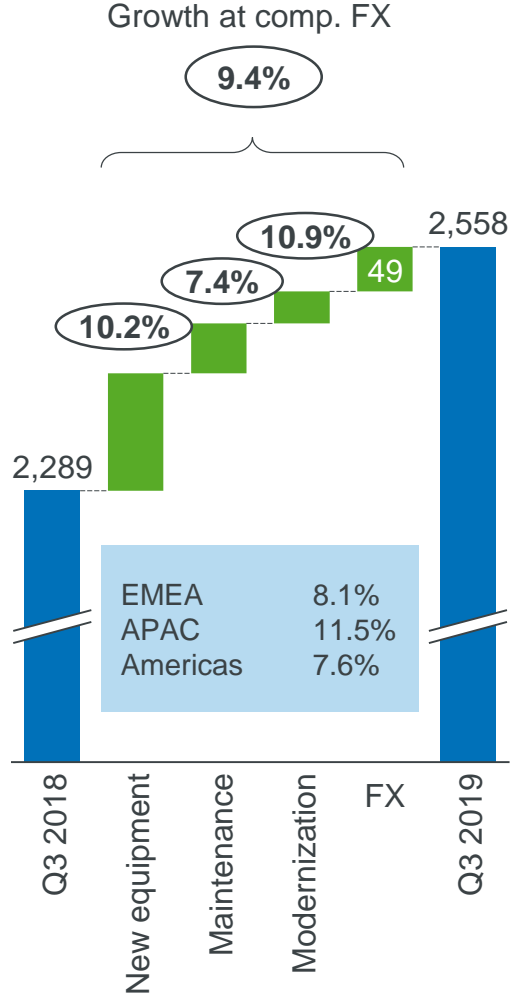
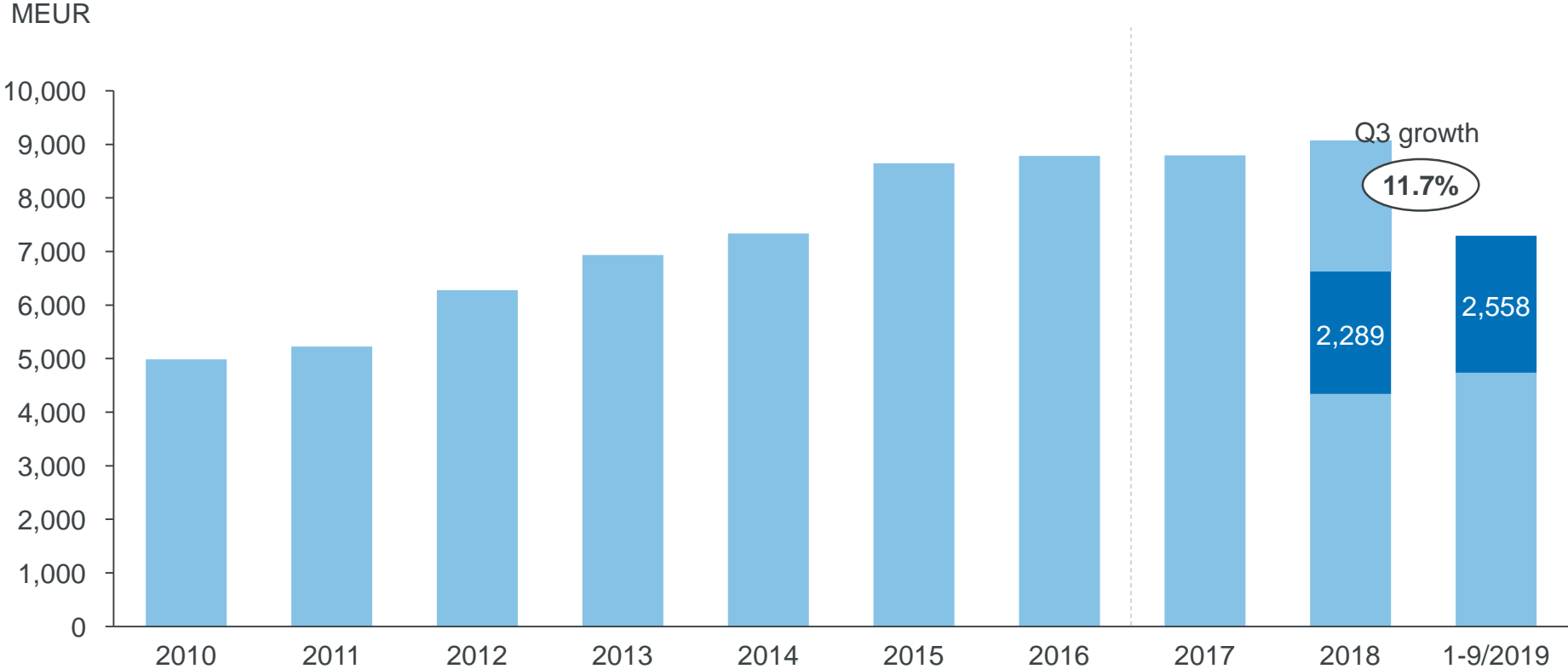
- In Q3, the margin of orders received improved slightly



Sales



STRONG SALES GROWTH IN ALL BUSINESSES



KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2010-2016 are not restated and thus not fully comparable.

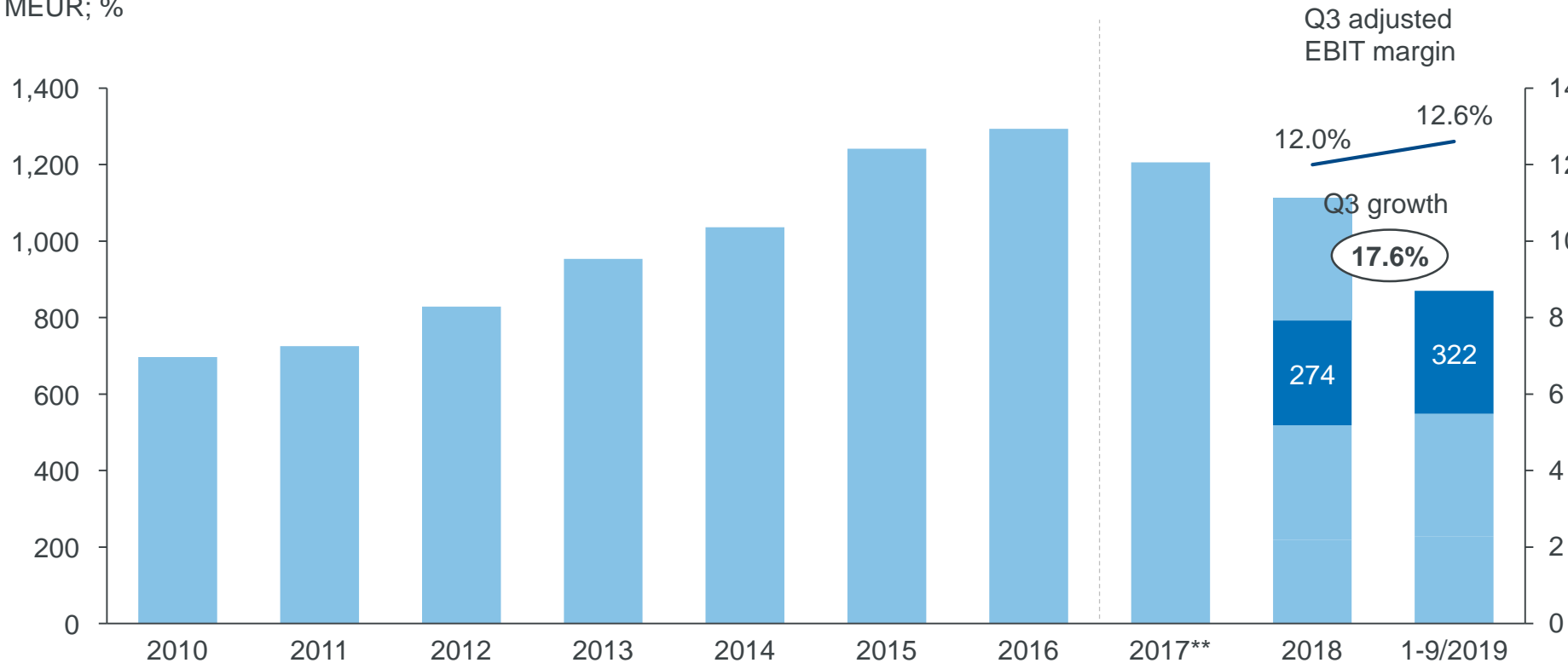
Adjusted EBIT



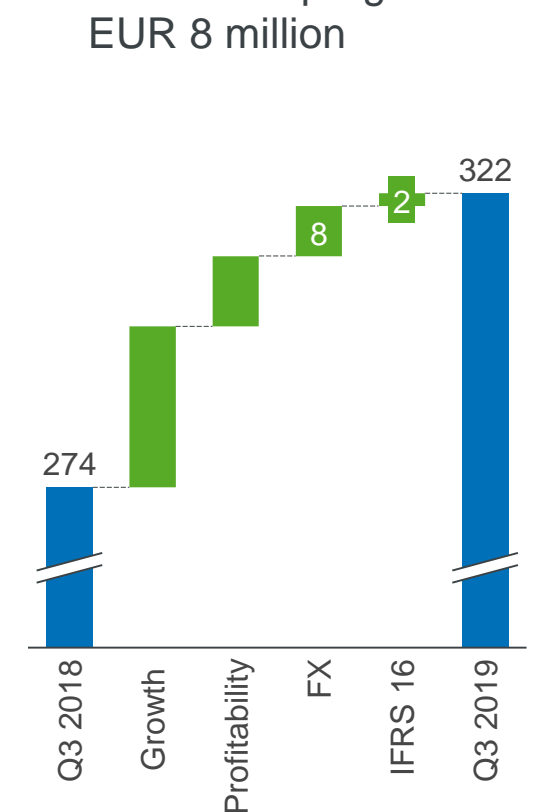
ADJUSTED EBIT MARGIN IMPROVED IN Q3

Adjusted EBIT* and adjusted EBIT margin

MEUR; %



- Restructuring costs related to the Accelerate program: EUR 8 million



* Adjusted EBIT was introduced in September 2017. Adjusted EBIT excludes restructuring costs related to the Accelerate program
 ** KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.
 Figures for 2010-2016 are not restated and thus not fully comparable

KONE has adopted the new IFRS 16 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated.

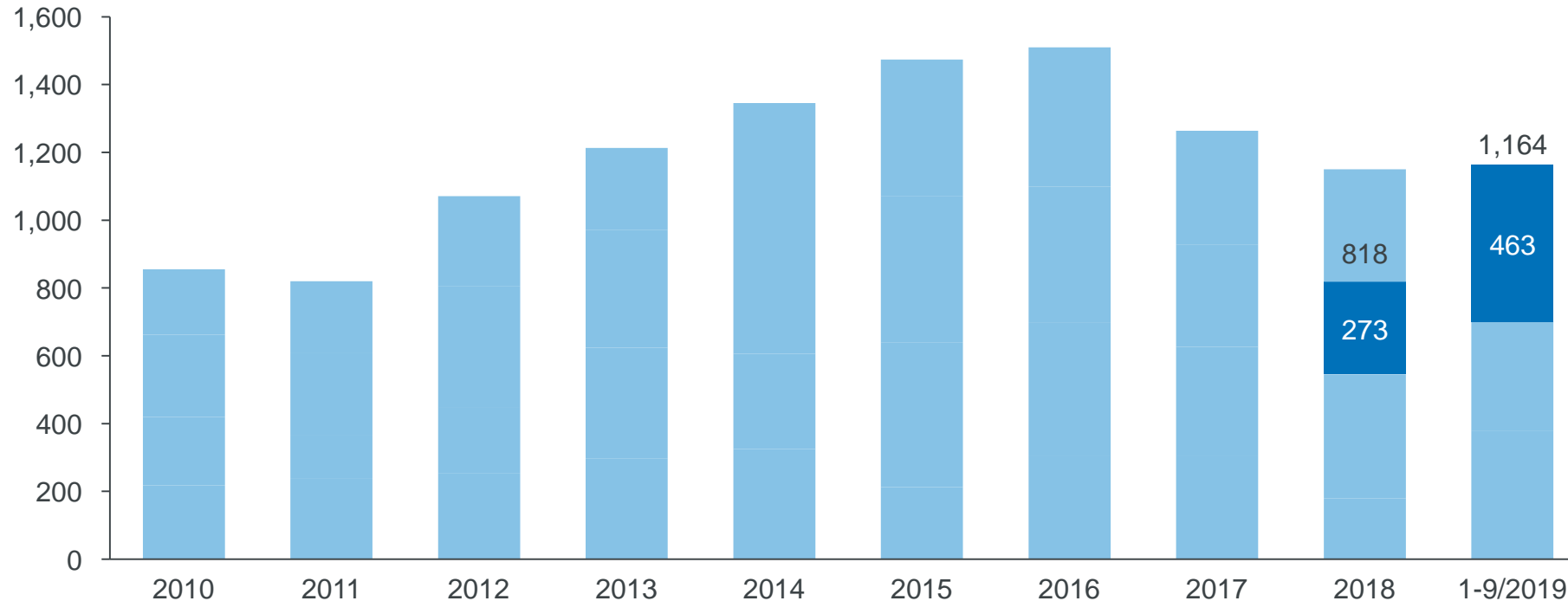
Cash flow

STRONG CASH CONVERSION



Cash flow from operations*

MEUR



- Net working capital contributed positively to the cash flow driven by strong development in advances received and progress payments
- Adoption of IFRS 16 had a positive impact of EUR 87 million on cash flow from operations* in 1-9/2019

* (before financing items and taxes)



ROPE DATA PLATE	
Number of Ropes	12
Size (mm)	18
Breaking Load kN	102
Construction	12/18 (6/18)
Standard	ISO 9001

Market and business outlook

Market outlook for 2019

New equipment markets

- The new equipment market is expected to be relatively stable or to grow slightly
- In China, the market is expected to grow slightly in units ordered, while in the rest of the Asia-Pacific, the market is expected to be stable
- The new equipment markets in North America and the Europe, Middle East and Africa region are expected to be rather stable

Maintenance markets

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

Modernization markets

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



Business outlook for 2019 (specified)



Sales

- In 2019, KONE's sales is estimated to grow by 5–8% (4–7%) at comparable exchange rates as compared to 2018

Adjusted EBIT

- The adjusted EBIT is expected to be in the range of EUR 1,190–1,250 (1,170–1,250) million, assuming that foreign exchange rates would remain at the October (July) 2019 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 20 (20) million

Boosting our performance

- ⑦ Solid order book
- ⑦ Services business growth
- ⑦ Continued performance improvements
- ⑦ Accelerate savings (MEUR ~50)

Burdening our result

- ⑩ Raw material prices and trade tariffs (MEUR <50)
- ⑩ Labor and subcontracting cost increases

There are both headwinds and tailwinds impacting our business in 2020



BOOSTING OUR PERFORMANCE

- ① Strong order book with recently improved margin in the orders received
- ① Solid growth in service business
- ① Accelerate savings and performance improvements



BURDENING OUR RESULT

- ② Labor and subcontracting cost increases due to resource shortages
- ② Economic and geopolitical uncertainties

Summary

- Broad-based good development in all businesses
- Entering 2020 in a strong position



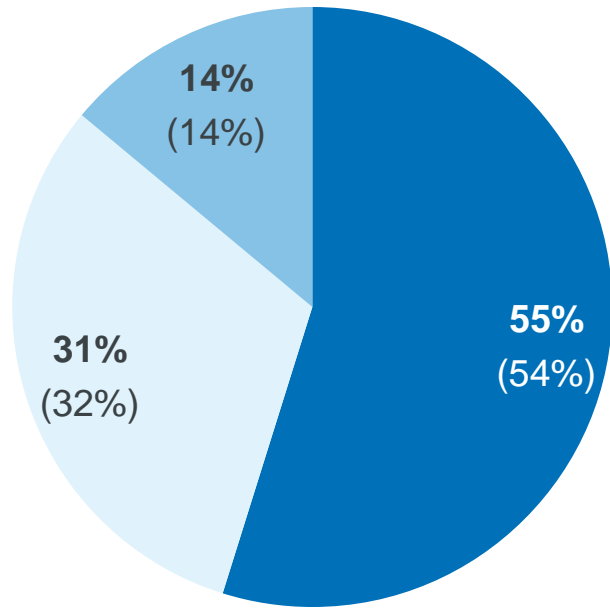
Dedicated to People Flow™



Appendix

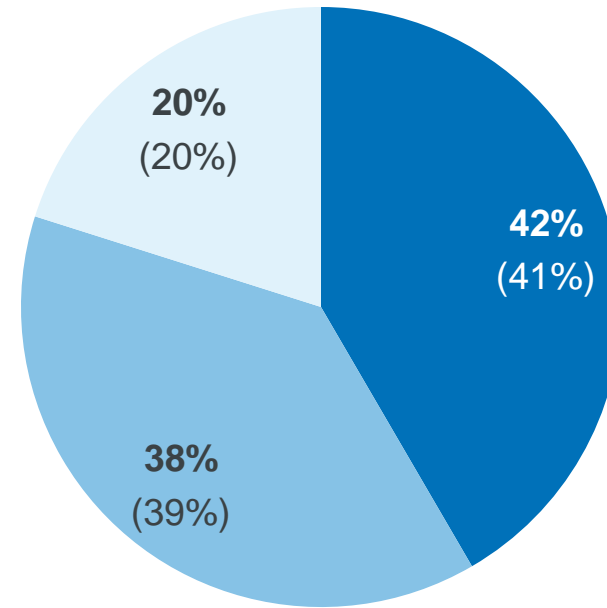
Q3 2019 Sales split

By business



- New equipment
- Maintenance
- Modernization

By area



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

7-9/2018 figures in brackets. Figures in charts are rounded and at historical exchange rates.

Balance sheet

- EUR 358 million increase in the 2019 opening interest-bearing debt
- EUR 24 million increase in capital expenditure on lease agreements

Income statement

- EUR 2 million positive impact on EBIT
- EUR 3 million increase in financing expenses

Cash flow statement

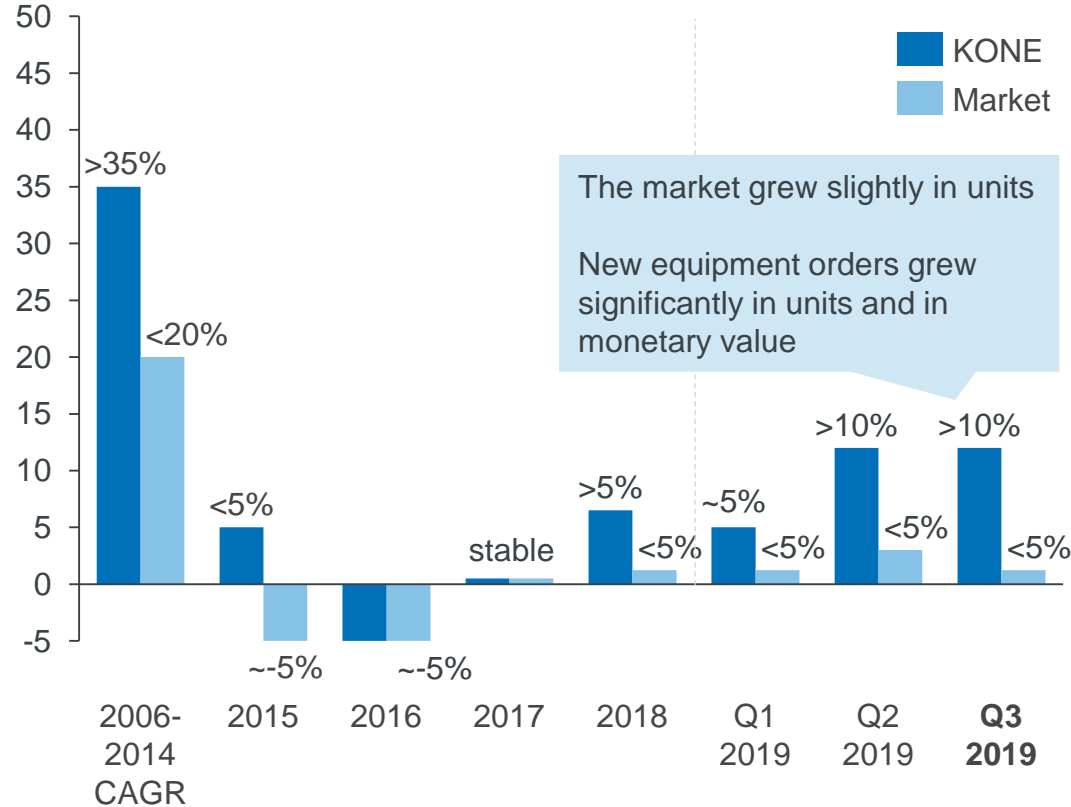
- EUR 30 million positive impact on cash flow from operations (before financing items and taxes)
- EUR 2 million negative impact on cash flow from financing items and taxes
- EUR 27 million negative impact on cash flow from financing activities

KONE in China



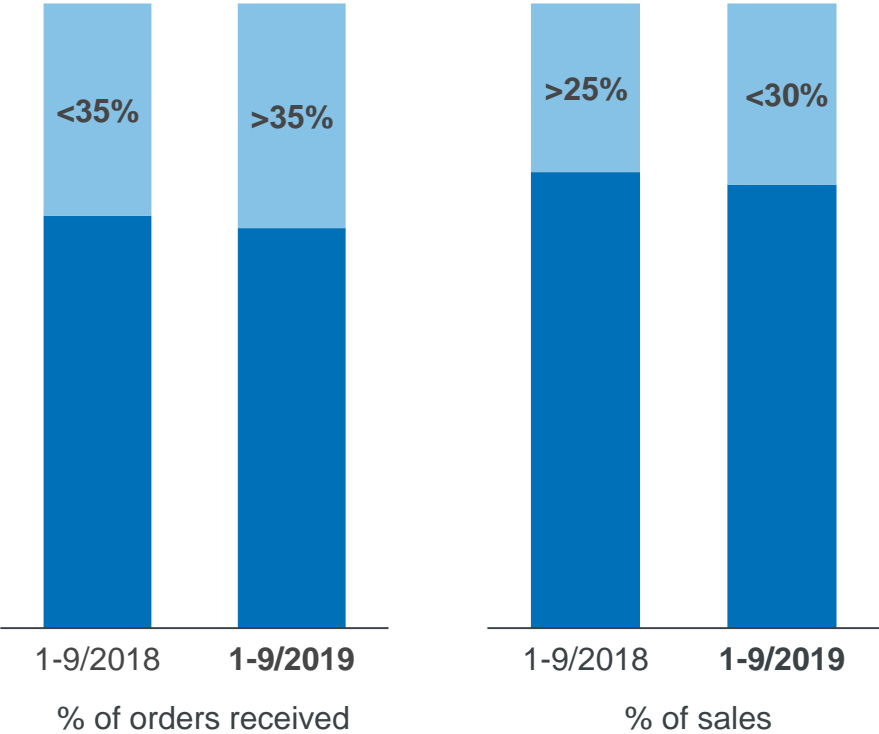
New equipment market

New equipment orders received in units vs. market development



China's share of KONE's orders received and sales

Monetary value

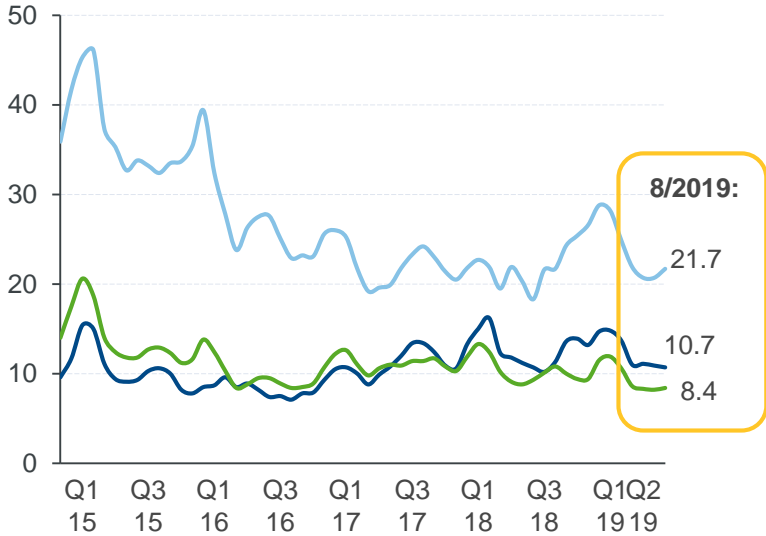


Chinese property market



Housing inventories

Newly built area for sale / monthly sales 3-m MVA

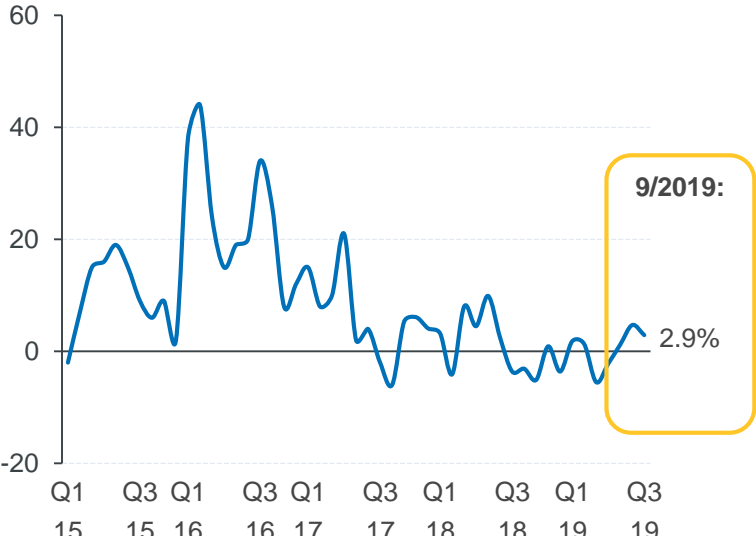


- Tier-1
- Tier-2
- sample of lower tier cities

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

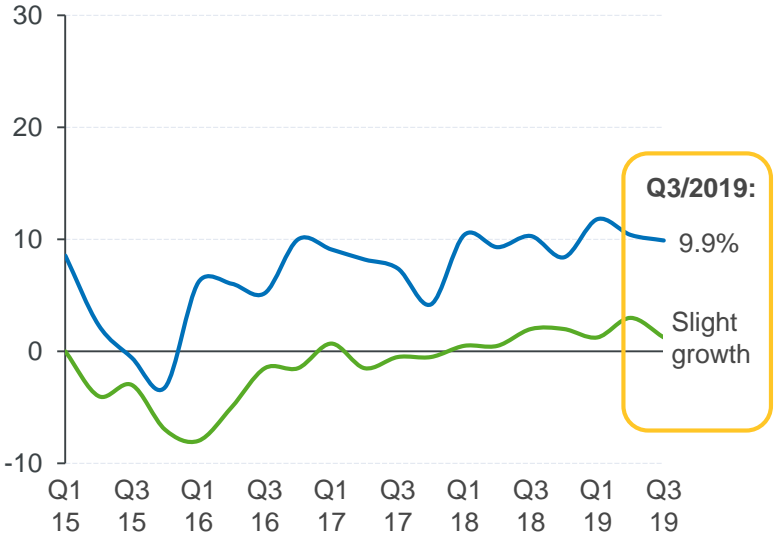
Housing sales

Sales area growth, change Y-o-Y



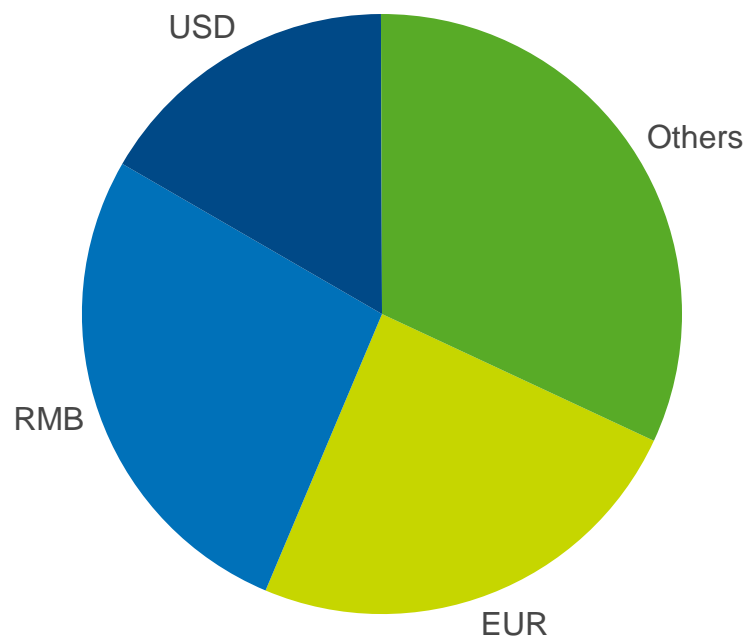
- Sales area growth

E&E market



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

Sales by currencies 1-12/2018



Currency impact

MEUR	Q3 2019	1-12/2018
Sales	49	-260
EBIT	8	-41
Orders received	48	-239

Main currencies

	1-9/19 average	2018 average	Sep 30, 2019 spot
EUR / RMB	7.7167	7.8148	7.7784
EUR / USD	1.1241	1.1809	1.0889
EUR / GBP	0.8841	0.8861	0.8857
EUR / AUD	1.6081	1.5794	1.6126

Balance sheet – assets employed



MEUR	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Assets employed			
Goodwill	1,379.2	1,321.6	1,333.4
Other intangible assets	254.4	260.5	260.2
Tangible assets	758.2	378.5	397.4
Investments	152.3	138.3	143.3
Net working capital	-871.5	-719.0	-757.8
Assets employed total	1,672.6	1,380.0	1,376.6
Financed by			
Equity	2,949.5	2,805.5	3,080.6
Net debt	-1,276.9	-1,425.5	-1,704.0
Equity and net debt total	1,672.6	1,380.0	1,376.6

Net working capital



MEUR	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Net working capital			
Inventories	700.0	648.5	624.1
Advance payments received and deferred revenue	-1,808.8	-1,531.7	-1,562.2
Accounts receivable	2,182.0	1,910.8	1,988.3
Other non-interest-bearing assets	815.4	715.3	660.5
Other non-interest-bearing liabilities	-1,961.8	-1,687.8	-1,647.3
Provisions	-139.3	-132.8	-139.4
Accounts payable	-771.0	-741.5	-786.7
Net deferred tax assets / liabilities	112.1	100.3	105.0
Net working capital total	-871.5	-719.0	-757.8

Consolidated statement of cash flows



MEUR	1-9/2019	1-9/2018	1-12/2018
Operating income	836.1	750.0	1,042.4
Change in working capital before financing items and taxes	151.6	-19.7	-11.2
Depreciation and amortization	176.2	88.2	118.9
Cash flow from operations before financing items and taxes	1,163.9	818.5	1,150.1
Financing items and taxes	-235.6	-192.7	-180.2
Cash flow from operating activities	928.3	625.8	969.8
Investing activities	-99.6	-67.9	-121.1
Purchase of own shares	-	-	-
Increase in equity (option rights)	37.5	22.5	23.1
Profit distribution	-851.7	-849.2	-849.2
Changes in non-controlling interest	-3.7	-3.0	-3.1
Free cash flow	10.8	-271.8	19.6