KONE Q4 2019

Financial Statement Bulletin

KONE's January–December 2019 review:

Solid sales growth in all businesses and profitability improved in Q4

October–December 2019

- Orders received grew by 2.6% to EUR 1,988 (10–12/2018: 1,938) million. At comparable exchange rates, orders received grew by 0.7%.
- Sales grew by 9.9% to EUR 2,685 (2,443) million. At comparable exchange rates, sales grew by 7.9%.
- Operating income (EBIT) was EUR 356.4 (292.5) million or 13.3% (12.0%) of sales. The adjusted EBIT was EUR 367.5 (319.6) million or 13.7% (13.1%) of sales.* IFRS 16 had a positive impact of EUR 0.1 million on the operating income.
- Cash flow from operations (before financing items and taxes) was EUR 385.7 (331.6) million. IFRS 16 had a positive impact of EUR 32 million to the cash flow from operations (before financing items and taxes).

January–December 2019

- Orders received grew by 7.7% to EUR 8,400 (1–12/2018: 7,797) million. At comparable exchange rates, orders received grew by 5.9%.
- Sales grew by 10.0% to EUR 9,982 (9,071) million. At comparable exchange rates, sales grew by 8.2%.
- Operating income (EBIT) was EUR 1,192 (1,042) million or 11.9% (11.5%) of sales. The adjusted EBIT was EUR 1,237 (1,112) million or 12.4% (12.3%) of sales.* IFRS 16 had a positive impact of EUR 6 million on the operating income.
- Cash flow from operations (before financing items and taxes) was EUR 1,550 (1,150) million. IFRS 16 had a positive impact of EUR 119 million to the cash flow from operations (before financing items and taxes).
- The Board proposes a dividend of EUR 1.70 per class B share for the year 2019.

KONE has adopted a new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. More information on the adoption of IFRS 16 and IFRIC 23 is presented on pages 34–35.

Business outlook for 2020

In 2020, KONE sales is estimated to grow by 0–6% at comparable exchange rates as compared to 2019. The adjusted EBIT is expected to be in the range of EUR 1,250–1,400 million, assuming that foreign exchange rates would remain at the January 2020 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 15 million.

KEY FIGURES

		10–12/2019	10–12/2018	Change	1–12/2019	1–12/2018	Change
Orders received	MEUR	1,988.3	1,937.9	2.6%	8,399.8	7,797.0	7.7%
Order book	MEUR	8,051.5	7,950.7	1.3%	8,051.5	7,950.7	1.3%
Sales	MEUR	2,684.6	2,443.4	9.9%	9,981.8	9,070.7	10.0%
Operating income (EBIT)	MEUR	356.4	292.5	21.8%	1,192.5	1,042.4	14.4%
Operating income margin (EBIT margin)	%	13.3	12.0		11.9	11.5	
Adjusted EBIT*	MEUR	367.5	319.6	15.0%	1,237.4	1,112.1	11.3%
Adjusted EBIT margin*	%	13.7	13.1		12.4	12.3	
Income before tax	MEUR	366.0	301.2	21.5%	1,217.5	1,087.2	12.0%
Net income	MEUR	283.0	232.2	21.9%	938.6	845.2	11.1%
Basic earnings per share	EUR	0.54	0.45	21.2%	1.80	1.63	10.4%
Cash flow from operations (before financing items and taxes)	MEUR	385.7	331.6		1,549.6	1,150.1	
Interest-bearing net debt	MEUR	-1,552.9	-1,704.0		-1,552.9	-1,704.0	
Equity ratio	%	46.5	49.9		46.5	49.9	
Return on equity	%	30.1	27.7		30.1	27.7	
Net working capital (including financing items and taxes)	MEUR	-856.0	-757.8		-856.0	-757.8	
Gearing	%	-48.6	-55.3		-48.6	-55.3	

* 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:

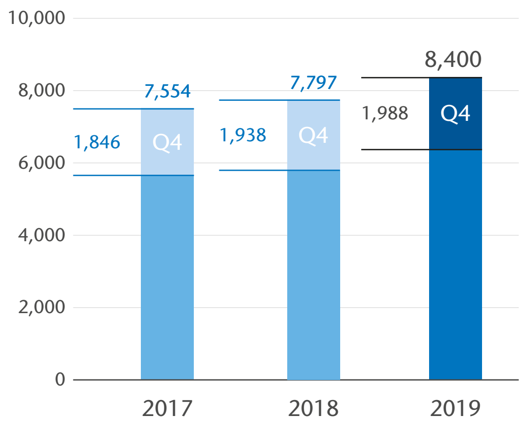
"**Solid earnings growth was the key highlight of the Q4 results.** Our good sales growth in all of our businesses continued, with strongest growth in the quarter in the modernization business. Orders received grew slightly as a result of continued good growth in the volume business despite fewer major project orders booked in the quarter. What I am especially happy about is that our adjusted EBIT margin improved as a result of consistent pricing and productivity actions and savings from the Accelerate program. This has resulted in a positive development in the margin of orders received. I would like to thank everyone in the KONE team for their commitment in making 2019 a successful year of profitable growth.

We are differentiating by creating more value for customers. During the current strategy period we have focused on how to create value for customers in new ways. The aim of all of our development is to help our customers succeed in their business. We have rolled out our new services, improved our sales approach in modernizations and most recently launched an exciting new elevator offering, KONE DX Class elevators. Our renewed portfolio of services and solutions helps our customers develop, construct and maintain competitive buildings that are easily upgradeable to fulfill the latest user requirements now and in the future. It is our customers who daily judge our differentiation in relation to our competition. Here we can see very encouraging results. The value per service contract and the average price of new equipment sold has started to increase – this demonstrates the success of our approach. The improved differentiation together with our reputation as a reliable partner is what has driven this. I am also happy that we have again been externally recognized for the work we have done to be the leader in sustainability in our industry. Sustainability is an increasingly important focus area for our customers and also a source of differentiation for us.

We enter the year 2020 in a good position. Our competitiveness is strong, we have a solid order book and the outlook for services continues to be positive. We expect KONE's sales to grow by 0–6% at comparable exchange rates in 2020. Earnings growth is expected to continue with the adjusted EBIT expected to be between EUR 1,250 and 1,400 million. We will continue to invest in renewing ourselves to be able to deliver better outcomes to our customers every day. I am confident that we can continue our strong development in 2020."

Key Figures

Orders received (MEUR)



- **In October–December 2019**, orders received grew by 2.6% (0.7% at comparable exchange rates). Orders received continued to grow clearly in the volume business, but fewer major project orders were booked during the quarter compared to the comparison period.
- At comparable rates, new equipment orders received were stable with clear growth in the volume business and significant decline in major projects.
- In modernization, orders received declined slightly with significant growth in the volume business and significant decline in major projects.
- The margin of orders received improved slightly.

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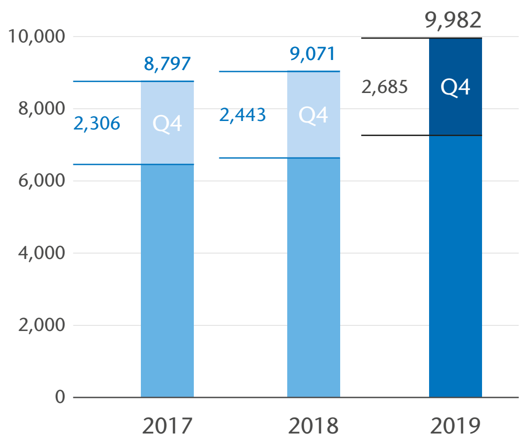
- **In January–December 2019**, orders received grew by 7.7% (5.9% at comparable exchange rates).

Sales (MEUR)



- **In October–December 2019**, sales grew by 9.9% (7.9% at comparable exchange rates).
- New equipment sales grew by 10.8% (8.7% at comparable exchange rates). Service (maintenance and modernization) sales grew by 8.9% (7.1% at comparable rates), with maintenance sales growing by 7.6% (6.0% at comparable rates) and modernization sales growing by 11.5% (9.5% at comparable rates).
- Sales in the EMEA region grew by 9.2% (8.0% at comparable rates). In the Americas region, sales grew by 17.4% (12.7% at comparable rates). In the Asia-Pacific region, sales grew by 6.8% (5.4% at comparable rates).

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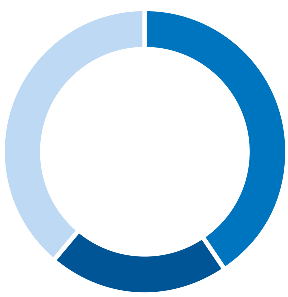
- **In January–December 2019**, sales grew by 10.0% (8.2% at comparable exchange rates).

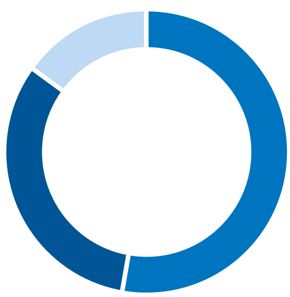
Sales by region



EMEA 41% (42%)
Americas 21% (20%)
Asia-Pacific 39% (38%)

1–12/2019 (1–12/2018)

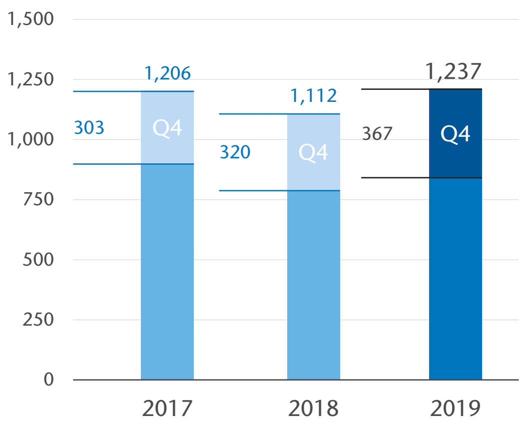
Sales by business



New equipment 53% (53%)
Maintenance 32% (33%)
Modernization 15% (14%)

1–12/2019 (1–12/2018)

Adjusted EBIT (MEUR)



- **In October–December 2019**, operating income was 13.3% of sales (10–12/2018: 12.0%). Also the adjusted EBIT margin improved to 13.7% (13.1%) as a result of focused pricing and productivity actions and savings from the Accelerate program.
- Translation exchange rates had a positive impact of EUR 8 million on the operating income.
- Restructuring costs related to the Accelerate program were EUR 11.1 million (not included in the adjusted EBIT).
- The adoption of IFRS 16 had a positive impact of EUR 0.1 million on the October-December 2019 operating income.

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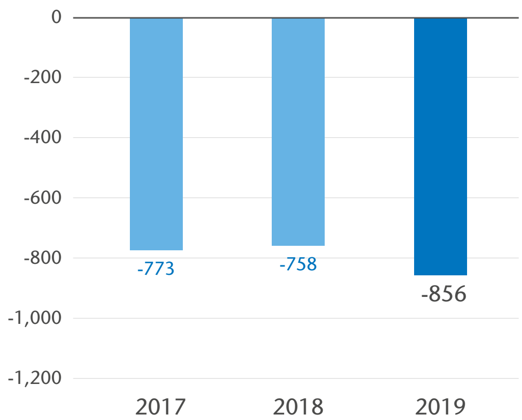
- **In January–December 2019**, operating income was 11.9% of sales (1–12/2018: 11.5%). The adjusted EBIT margin was 12.4% (12.3%).
- The adoption of IFRS 16 had a positive impact of EUR 6 million to the operating income.

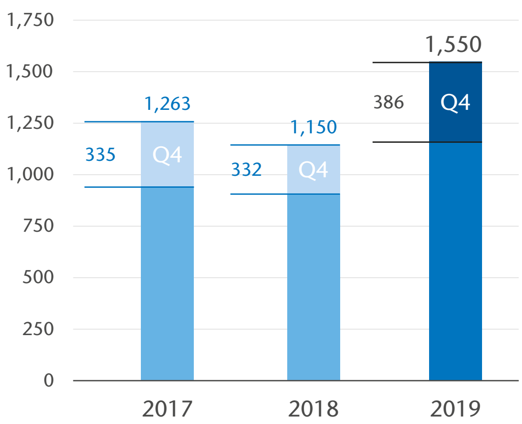
Net working capital[1] (MEUR)



- **At the end of December 2019**, net working capital was at a clearly improved level compared to the end of 2018.
- The improvement was driven by strong development in advances received and progress payments from customers.

1) Including financing items and taxes

Cash flow[2] (MEUR)



- **In October–December 2019**, cash flow improved to EUR 385.7 million due to growth in operating income. Net working capital had a negative impact of EUR 36 million in the quarter.
- The adoption of IFRS 16 had a positive impact of EUR 32 million on the cash flow from operations before financing items and taxes.

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- **In January–December 2019**, cash flow was very strong at EUR 1,550 million due to growth in operating income and an improvement in net working capital.
- The adoption of IFRS 16 had a positive impact of EUR 119 million on the cash flow from operations before financing items and taxes.

2) Cash flow from operations before financing items and taxes

KONE's January–December 2019 review

KONE's operating environment

Operating environment by region

	New equipment market in units		Maintenance market in units		Modernization market	
	10–12/2019	1–12/2019	10–12/2019	1–12/2019	10–12/2019	1–12/2019
Total market	+	+	+	+	+	+
EMEA	+	+	+	+	+	+
Central and North Europe	+	+	+	+	+	+
South Europe	+	+	+	+	+	+
Middle East	–	–	+	+	+	+
North America	Stable	Stable	+	+	+	+
Asia-Pacific	+	+	++	++	+++	+++
China	+	+	++	++	+++	+++
Rest of Asia-Pacific	+	Stable	++	++	++	++

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

October–December 2019

The global new equipment market grew slightly in units compared to the fourth quarter of 2018. **In Asia-Pacific**, the new equipment market grew slightly. **In China**, infrastructure and residential segments developed positively, while non-residential segment declined. Government continued to balance between supporting the economic activity and restricting the residential market. Overall, the Chinese new equipment market grew slightly in units. **In the rest of Asia-Pacific**, the new equipment market returned to slight growth with slight growth in some Southeast Asian countries, stable development in India and Australian market bottoming out. **In the EMEA region**, the new equipment market grew slightly. The new equipment market in Central and North Europe grew slightly. In South Europe, the market grew slightly with growth in most of the countries in the area. In the Middle East, the market declined due to continued uncertainty in the area. **In North America**, the new equipment market was stable on a high level.

Global service markets continued to develop positively. Both the maintenance and the modernization markets saw growth across the regions, with the strongest rate of growth seen in Asia-Pacific.

Pricing trends remained varied during October–December. In China, competition remained intense but pricing was rather stable in the new equipment market. In the EMEA region, the pricing environment improved slightly. In North America, competition continued to be intense.

January–December 2019

The global new equipment market grew slightly in units compared to the previous year. **In Asia-Pacific**, the new equipment market grew slightly. **In China**, infrastructure and residential segments developed positively, while non-residential segment declined. Government continued to balance between supporting the economic activity and restricting the residential market. Overall, the Chinese new equipment market grew slightly in units. **In the rest of Asia-Pacific**, the new equipment markets were stable. **In the EMEA region**, the new equipment market grew slightly. The market grew slightly both in Central and North Europe as well as in South Europe. In the Middle East, the market continued to decline. **In North America**, the new equipment market was stable on a high level.

Global service markets continued to develop positively. Both the maintenance and the modernization markets saw growth across the regions, with the strongest rate of growth seen in Asia-Pacific.

Pricing trends remained varied during January–December 2019. In China, competition remained intense but pricing was rather stable in the new equipment market. In the EMEA region, the pricing environment improved gradually. In North America, competition intensified somewhat.

Orders received and order book

Orders received

MEUR	10–12/2019	10–12/2018	Change	Comparable change[1)]	1–12/2019	1–12/2018	Change	Comparable change[1)]
Orders received	1,988.3	1,937.9	2.6%	0.7%	8,399.8	7,797.0	7.7%	5.9%

[1)] Change at comparable foreign exchange rates

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

October–December 2019

Orders received grew by 2.6% as compared to October–December 2018 and totaled EUR 1,988 million. At comparable exchange rates, KONE's orders received grew by 0.7%.

At comparable rates, new equipment orders received were stable with clear growth in the volume business and significant decline in major projects. In modernization, orders received declined slightly with significant growth in the volume business and significant decline in major projects.

The relative margin of orders received improved slightly compared to the comparison period. This was a result of focused pricing actions and continued progress in improving productivity to compensate for cost pressures.

Orders received in the EMEA region declined slightly at comparable exchange rates as compared to October–December 2018. New equipment orders declined clearly, while modernization orders grew slightly.

In the Americas region, orders received were stable at comparable rates as compared to October–December 2018. New equipment orders grew slightly and modernization orders declined clearly.

Orders received in the Asia-Pacific region grew slightly at comparable rates as compared to October–December 2018. In China, new equipment orders declined slightly in units and grew clearly in monetary value. Like-for-like prices were slightly higher than in the comparison period and mix contributed also positively. Modernization orders continued to grow significantly in China.

In the rest of Asia-Pacific, new equipment orders declined significantly and modernization orders declined clearly. The orders declined due to lower major project orders than in the comparison period in both businesses.

January–December 2019

Orders received grew by 7.7% as compared to January–December 2018 and totaled EUR 8,400 million. At comparable exchange rates, KONE's orders received grew by 5.9%.

At comparable rates, new equipment orders received grew clearly with clear growth in the volume business and slight decline in major projects. In modernization, orders received grew clearly with clear growth in the volume business and slight growth in major projects.

The relative margin of orders received improved slightly compared to the comparison period. This was a result of focused pricing actions and continued progress in improving productivity to compensate for cost pressures.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 173,000 units (2018: 166,000).

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to January–December 2018. New equipment orders grew slightly and modernization orders grew clearly.

In the Americas region, orders received grew slightly at comparable rates as compared to January–December 2018. New equipment orders declined slightly, while modernization orders grew clearly.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2018. In China, new equipment orders grew clearly in units and significantly in monetary value. Like-for-like prices were slightly higher than in the comparison period and mix contributed also positively. Modernization orders continued to grow significantly in China.

In the rest of Asia-Pacific, new equipment orders declined clearly and modernization orders declined significantly.

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

Order book

MEUR	Dec 31, 2019	Dec 31, 2018	Change	Comparable change[1)]
Order book	8,051.5	7,950.7	1.3%	-0.6%

[1)] Change at comparable foreign exchange rates

The order book grew slightly compared to the end of December 2018 and stood on a strong level of EUR 8,052 million at the end of the reporting period. The order book margin remained at a healthy level.

Customer cancellations remained at a very low level. In addition to the typical cancellations, older Chinese new equipment orders, the delivery of which was considered unlikely, were removed from the order book. These orders had been booked before the significant price declines in the Chinese new equipment market in 2015 and 2016 and the projects were not progressing. These orders represented around 3% of KONE's order book.

Sales

By region

MEUR	10–12/2019	10–12/2018	Change	Comparable change[1]	1–12/2019	1–12/2018	Change	Comparable change[1]
EMEA	1,127.4	1,032.9	9.2%	8.0%	4,045.4	3,791.5	6.7%	6.2%
Americas	561.5	478.5	17.4%	12.7%	2,046.7	1,804.6	13.4%	8.0%
Asia-Pacific	995.7	932.0	6.8%	5.4%	3,889.7	3,474.6	11.9%	10.5%
Total	2,684.6	2,443.4	9.9%	7.9%	9,981.8	9,070.7	10.0%	8.2%

[1] Change at comparable foreign exchange rates

By business

MEUR	10–12/2019	10–12/2018	Change	Comparable change[1]	1–12/2019	1–12/2018	Change	Comparable change[1]
New equipment	1,423.1	1,284.6	10.8%	8.7%	5,318.8	4,796.9	10.9%	9.0%
Services	1,261.6	1,158.8	8.9%	7.1%	4,663.0	4,273.9	9.1%	7.4%
Maintenance	838.9	779.6	7.6%	6.0%	3,192.0	2,968.7	7.5%	5.9%
Modernization	422.6	379.2	11.5%	9.5%	1,471.0	1,305.1	12.7%	10.6%
Total	2,684.6	2,443.4	9.9%	7.9%	9,981.8	9,070.7	10.0%	8.2%

[1] Change at comparable foreign exchange rates

October–December 2019

KONE's sales grew by 9.9% as compared to October–December 2018, and totaled EUR 2,685 million. At comparable exchange rates, KONE's sales grew by 7.9%.

Sales in the EMEA region grew by 9.2% and totaled EUR 1,127 million. At comparable exchange rates, the growth was 8.0%. New equipment sales grew significantly, maintenance sales grew slightly and modernization sales grew clearly.

In the Americas region, sales grew by 17.4% and totaled EUR 561.5 million. At comparable exchange rates, sales grew by 12.7%. New equipment and modernization sales grew significantly and maintenance sales grew clearly.

Sales in the Asia-Pacific region grew by 6.8% and totaled EUR 995.7 million. At comparable exchange rates, sales grew by 5.4%. New equipment sales grew slightly, maintenance sales grew clearly and modernization sales grew significantly.

January–December 2019

KONE's sales grew 10.0% as compared to the prior year, and totaled EUR 9,982 million. At comparable exchange rates, KONE's sales grew by 8.2%. The sales consolidated from the companies acquired in 2019 had only a minor impact on KONE's sales for the financial period.

New equipment sales accounted for EUR 5,319 million and grew by 10.9% over the comparison period. At comparable exchange rates, new equipment sales grew by 9.0%.

Service (maintenance and modernization) sales grew by 9.1%, and totaled EUR 4,663 million. At comparable exchange rates, service sales grew by 7.4%. Maintenance sales grew by 7.5% (5.9% at comparable exchange rates) and totaled EUR 3,192 million. Modernization sales increased by 12.7% (10.6% at comparable exchange rates) and totaled EUR 1,471 million.

KONE's elevator and escalator maintenance base continued to grow and was over 1.3 million units at the end of 2019 (approximately 1.3 million units at the end of 2018).

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. In 2019, the balance of maintenance contracts that were won from or lost to competition was slightly negative.

The largest individual countries in terms of sales were China (<30% of sales), the United States (>15%), Germany (~6%) and France (~5%).

Sales in the EMEA region grew by 6.7% and totaled EUR 4,045 million. At comparable exchange rates, the growth was 6.2%. New equipment sales grew clearly, maintenance sales grew slightly and modernization sales grew significantly.

In the Americas region, sales grew by 13.4% and totaled EUR 2,047 million. At comparable exchange rates, sales grew by 8.0%. New equipment sales grew significantly and modernization and maintenance sales grew clearly.

Sales in the Asia-Pacific region grew by 11.9% and totaled EUR 3,890 million. At comparable exchange rates, sales grew by 10.5%. New equipment, maintenance and modernization sales grew significantly.

Financial result

Financial result

	10–12/2019	10–12/2018	Change	1–12/2019	1–12/2018	Change
Operating income, MEUR	356.4	292.5	21.8%	1,192.5	1,042.4	14.4%
Operating income margin, %	13.3	12.0		11.9	11.5	
Adjusted EBIT, MEUR	367.5	319.6	15.0%	1,237.4	1,112.1	11.3%
Adjusted EBIT margin, %	13.7	13.1		12.4	12.3	
Income before taxes, MEUR	366.0	301.2	21.5%	1,217.5	1,087.2	12.0%
Net income, MEUR	283.0	232.2	21.9%	938.6	845.2	11.1%
Basic earnings per share, EUR	0.54	0.45	21.2%	1.80	1.63	10.4%

IFRS 16 had a positive impact of EUR 0.1 million on the October-December 2019 operating income. In January–December 2019, the impact was EUR 6 million.

October–December 2019

KONE's operating income (EBIT) grew to EUR 356.4 million or 13.3% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 367.5 million or 13.7% of sales.

Adjusted EBIT margin improved as a result of focused pricing and productivity actions and savings from the Accelerate program.

Translation exchange rates had a positive impact of EUR 8 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 11.1 million. The adoption of IFRS 16 had a positive impact of EUR 0.1 million on the operating income.

Basic earnings per share was EUR 0.54.

January–December 2019

KONE's operating income (EBIT) grew to EUR 1,192 million or 11.9% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,237 million or 12.4% of sales.

Adjusted EBIT margin was slightly above the level of the comparison period as a result of focused pricing and productivity actions and savings from the Accelerate program.

Translation exchange rates had a positive impact of EUR 23 million on the operating income. Restructuring costs related to the Accelerate program were EUR 45.0 million and savings from the program had a slightly over EUR 50 million positive impact on the operating income. Adoption of IFRS 16 positive impact of EUR 6 million on the operating income. Correspondingly, financing expenses increased by EUR 11 million as a result of the adoption of IFRS 16.

KONE's income before taxes was EUR 1,218 million. Taxes totaled EUR 278.9 (241.9) million. This represents an effective tax rate of 22.9% for the full financial year. Net income for the period grew to EUR 938.6 million.

Basic earnings per share was EUR 1.80.

Cash flow and financial position

Cash flow and financial position

	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Cash flow from operations (before financing items and taxes), MEUR	385.7	331.6	1,549.6	1,150.1
Net working capital (including financing items and taxes), MEUR			-856.0	-757.8
Interest-bearing net debt, MEUR			-1,552.9	-1,704.0
Gearing, %			-48.6	-55.3
Equity ratio, %			46.5	49.9
Equity per share, EUR			6.13	5.94

The adoption of IFRS16 had a positive impact of EUR 32 million on the cash flow from operations (before financing items and taxes) in October–December 2019. In January–December 2019, the impact was EUR 119 million. The adoption also increased the opening balance of interest-bearing net debt by EUR 358 million.

KONE's financial position was very strong at the end of December 2019.

Cash flow from operations (before financing items and taxes) during January–December 2019 was very strong at EUR 1,550 million due to growth in operating income and an improvement in net working capital. Adoption of IFRS 16 had a positive impact of EUR 119 million on the cash flow from operations before financing items and taxes.

Net working capital (including financing items and taxes) was strong at EUR -856.0 million at the end of December 2019. Net working capital contributed positively to the cash flow driven by strong development in advances received and progress payments from customers.

Interest-bearing net debt was EUR -1,553 (-1,704) million at the end of December 2019. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,252 (December 31, 2018: 2,043) million at the end of the reporting period. Interest-bearing liabilities were EUR 721.6 (369.0) million, including a pension liability of EUR 172.9 (147.0) million and leasing liability of EUR 371.0 (49.3) million. Additionally, KONE had an asset on employee benefits, EUR 21.7 (29.0) million. Adoption of IFRS 16 increased the opening balance of interest-bearing liabilities by EUR 357.6. million. Gearing was -48.6% and equity ratio was 46.5% at the end of December 2019.

Equity per share was EUR 6.13.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	10–12/2019	10–12/2018	1–12/2019	1–12/2018
On fixed assets	26.9	33.9	98.0	92.7
On leasing agreements	35.5	5.3	102.5	19.3
On acquisitions	2.6	16.8	36.0	27.8
Total	65.0	56.1	236.5	139.8

The adoption of IFRS 16 increased capital expenditure on lease agreements by EUR 27 million in October–December 2019. In January–December 2019, the impact was EUR 83 million.

KONE's capital expenditure and acquisitions totaled EUR 236.5 million in January–December 2019. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production. KONE opened a new factory in India during the fourth quarter. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Acquisitions totaled EUR 36.0 million in January–December 2019. KONE completed small acquisitions of maintenance businesses in Europe and in the United States.

KONE has also been evaluating acquisition opportunities related to the structural changes that are expected to take place in the industry. More specifically, KONE has been looking at thyssenkrupp Elevator Technology business as thyssenkrupp is considering a potential sale or partial sale of the business. However, there is no certainty that this will result in any transaction.

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 dedicated to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment. The principles are embedded in our strategy, policies and procedures, such as KONE's Code of Conduct, Competition Compliance Policy, and our Environmental Excellence Program, as well as related processes. In addition, KONE supports the UN Sustainable Development agenda and its goals. KONE has also signed the Paris Pledge for Action climate initiative, showing climate leadership and commitment to limiting global warming to under 2 degrees Celsius in accordance with the Paris Climate Agreement.

We have also received external recognition for our efforts to conduct business in a sustainable way. For example, in 2019, KONE was ranked as the 43rd most sustainable company in the world by Corporate Knights Inc. KONE was second among peer companies in the machinery manufacturing industry category and the only elevator and escalator industry company to make the Global 100 Most Sustainable Corporations in the World ranking. Furthermore, KONE was again included in the FTSE4Good index and made CDP's Climate Change A List among the top climate change performers. CDP is an international not-for-profit organization that drives engagement for climate action. This is the seventh consecutive year that we achieve a leadership score of A or A- in the Climate Change rating, which describes our long-term commitment to environmental work and sustainability. KONE was also awarded the best A grade in CDP's 2018 Supplier Engagement Rating, demonstrating leadership and best practice in engaging our suppliers on climate change issues. In addition, KONE has been awarded the Ecovadis gold medal for our sustainability performance.

KONE's business model is described on pages 6–7 in the Annual Review. Risks related to matters below and risk management are described on pages 19–21.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2018 in April 2019. KONE's Sustainability Report for 2019 will be published during Q2 2020 according to GRI Standards.

KONE Sustainability Report 2019

- Will be published during Q2 2020.
- In the report, you can find more detailed information about sustainability

Non-financial key performance indicators

	Key performance indicator	Target	2019 results	2018 results
Environmental matters	Annual reduction of KONE's carbon footprint relative to sales, % [1]	3% annual reduction relative to sales	Will be published in the Sustainability Report in April 2020.	4.0% reduction relative to sales
	Share of strategic suppliers ISO 14001 certified, %	100%	91%	90%
	Share of green electricity used in our facilities, %	50% by 2021	Will be published in the Sustainability Report in April 2020.	33%
	Share of landfill waste at our manufacturing units, %	0% by 2030	Will be published in the Sustainability Report in April 2020.	0.6%
Personnel and social matters	Industrial Injury Frequency Rate (IIFR) [2]	Zero accidents	IIFR 1.7	IIFR 2.1
	Employee engagement	Maintain employee engagement on a strong level	Focused on completing the actions agreed based on 2018 employee engagement survey and organized dedicated discussions, Pulse Talks, across the organization. Almost 80% of employees participated in the Pulse Talks, which will continue in January 2020. The next employee engagement survey is scheduled for May 2020.	Employee engagement was on a strong level. 91% response rate in employee engagement survey. 85% of KONE employees globally felt that they are treated with respect. This score is clearly above the external global and high-performance benchmarks.
	Personnel voluntary turnover rate, % [3]	Maintain voluntary turnover below market level	7.6%	8.5%
	Gender distribution, %	More balanced gender split	11% women, 89% men	12% women, 88% men
	Gender distribution in director level positions, %	20% of director level positions occupied by women by 2020	18%	17%
Human rights, anti-corruption & bribery	Share of employees with completed Code of Conduct training, %	100%	90% of nearly 58,000 employees in 64 countries	94% of 25,000 employees in 16 countries
	Share of key suppliers who have signed the Supplier Code of Conduct, %	100%	95%	89%
	Share of distributors who have signed the Distributor Code of Conduct, %	100%	100% of our distributors in China, and 87% of our distributors in the rest of the world	100% of our distributors in China, and 75% of our distributors in the rest of the world

[1] The environmental performance has been reported in accordance with ISO 14064 and the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The Scope 2 emissions have been calculated according to the dual reporting principles of the GHG Protocol Scope 2 Guidance (market- and location- based method). RES-GO guarantees of origin subject to EECS (European Energy Certificate System) have been acquired for the purchased green electricity, as well as some supplier specific instruments. KONE's greenhouse gas emissions and water consumption at KONE's manufacturing units have been externally assured by Mitopro Oy. The emission factors are based on the data sources of DEFRA (UK Department for Environment, Food & Rural Affairs), World Resources Institute GHG Emission Factors Compilation, AIB (Association of Issuing Bodies) European Residual Mix Report and supplier specific factors for Finland.
[2] The number of lost time injuries of one day or more, per million hours worked
[3] Sum of voluntarily left employees (with permanent contract) over 12 months divided by average closing headcount over 12 months

ENVIRONMENTAL MATTERS

In line with KONE's ambition for climate leadership, our 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 Vehicle Fleet and Facility Policies also set out environmental requirements relevant to the operations of KONE or its partners.

KONE's offering

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. During the year, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard with the best possible A ratings for the KONE MonoSpace® 700 and KONE TranSys™ elevators and the best possible A+++ escalator rating for KONE TravelMaster™ 120, in addition to 16 elevators or escalators classified earlier.

In 2019, KONE had achievements in new or renewed Singapore Green Building Product (SGBP) certifications for several products with the highest "Leader" rating. KONE is the first elevator and escalator company to achieve such top ratings in the vertical transportation category, and now altogether eight KONE solutions have been granted the SGBP certificates, through which these solutions are recommended for Green Mark certified green buildings. In Sweden, KONE received approved Byggvarubedömningen (BVB) assessments for three escalator models, in addition to several elevator assessments completed earlier. BVB is a non-profit organization that evaluates solutions for buildings and drives the use of sustainable building materials.

During the year, KONE had important accomplishments in transparent communication of environmental and health impacts of our materials and supply chain. In support of the launch of KONE DX Class elevators in the fourth quarter, we published externally verified Environmental Product Declarations for several volume elevators. We also published Health Product Declarations for several volume elevators and our most common escalator model KONE TravelMaster™ 110.

Own operations

KONE's target is to reduce our operational carbon footprint relative to sales by 3% annually. The 2019 carbon footprint results will be published in the second quarter of 2020. In 2018, we exceeded this target as our overall operational carbon footprint (scope 1, 2 and 3) relative to sales decreased by 4.0% compared to 2017, with sales growth calculated at comparable exchange rates. Our scope 1 and 2 greenhouse gas emissions relative to sales decreased by 5.5%. KONE's 2018 absolute operational carbon footprint amounted to 318,400 tons of carbon dioxide equivalent (2017: 312,000; figure restated). KONE's carbon footprint data has been externally assured.

The most significant impacts of KONE's operational carbon footprint relate to logistics (2018: 51%), vehicle fleet (31%), and electricity and district heat consumption at KONE's facilities (10%). As a major achievement in terms of carbon footprint reduction in 2018, our absolute electricity and district heat emissions decreased by 5.6%. In 2018, 33% (2017: 30%) of all electricity in KONE facilities was produced from renewable sources, our target being over 50% by 2021. Additionally, we have set a long-term target of 0% landfill waste from our manufacturing units by 2030. In 2018, the share of landfill waste in our manufacturing units was down to 0.6% (2017: 0.8%).

In New Zealand, KONE's country organization maintained the carboNZero™ certification by Toitū Envirocare. The certification acknowledges companies for their greenhouse gas management, reduction and neutralization efforts. Also, KONE Austria is carbon neutral for 2019 after offsetting their emissions by supporting renewable energy production in Mali and in India.

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 26 major subsidiaries. In addition, two of our European manufacturing units are ISO 50001 Energy management system certified. At the end of 2019, 91% (90%) of our strategic suppliers were ISO 14001 certified, our target being 100%.

PERSONNEL AND SOCIAL MATTERS

Number of employees

	1–12/2019	1–12/2018
Number of employees at the end of period	59,825	57,359
Average number of employees	58,369	56,119

Geographical distribution of KONE employees

	Dec 31, 2019	Dec 31, 2018
EMEA	23,306	22,645
Americas	7,632	7,465
Asia-Pacific	28,887	27,249
Total	59,825	57,359

Personnel strategy

The main goals of KONE's personnel strategy are to secure the availability, engagement, motivation and continuous development of the company's personnel. All KONE's activities are guided by ethical principles. Employee rights and responsibilities include the right to a safe and healthy working environment, personal well-being, freedom of association, collective bargaining, non-discrimination and the right to a working environment in which harassment of any kind is not tolerated. In 2019, we developed and started to roll out a video for use in management-led meetings to raise awareness internally about harassment and discrimination and how to speak up about it.

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 145 (139) nationalities. The majority of our employees are male representing 89% (88%) of our people globally. We continue our efforts towards having a more balanced gender split. As a result of focused recruitment and succession planning activities, the share of women at director level positions increased to 18% (17%) taking us closer to our global target of 20% (by 2020) than ever before. During the year, we ran a salary review in the majority of the KONE countries and made adjustments based on performance and market level comparisons. Based on the review, women and men are on a global level compensated equally at KONE. On a local level there are still differences, which we are addressing.

One of our strategic targets is to be a great place to work, which we measure by employee engagement and a related Pulse employee survey. In 2019, we concentrated on completing the actions agreed based on previous year's survey and organized dedicated discussions, Pulse Talks, across the organization. Almost 80% of employees participated in the Pulse Talks and the discussions continue in January 2020. The objective of the Pulse Talks is to discuss about the completed actions and to continue the dialogue with employees between the surveys. The next employee engagement survey is scheduled for May 2020.

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, which take place at least twice a year. In addition, we actively encourage all employees to prepare individual development plans and to complete their talent profiles.

KONE's strategy, Winning with Customers, focuses on putting the needs of our customers and users at the center of all development at KONE. People are key to the strategy's success, which requires us to develop and obtain new competences in the fields of leadership, digitalization, partnering, understanding customers' businesses and project management. In 2019, we launched new training programs in, for example, solution selling and strategic sourcing. We also introduced a new gamified learning solution for KONE 24/7 Connected Services. In total, KONE offered more than 4,200 training programs and online modules. Over 26,000 employees used the mobile version of KONE's learning management system to learn about, for example, safety, customer service and new services. To strengthen the leadership pipeline, we continued with our leadership programs and launched an HR initiative for developing and retaining our pool of global emerging leaders. Furthermore, we strengthened our training capability by opening new training centers in Israel and in Thailand, adding up to a total of 41 (39) training centers globally. In addition to employee training, the center in Thailand supports also customers visits and is equipped with modern learning solutions such as VR, AR and mobile learning.

A key focus area within the KONE people strategy is attracting the best talent. In 2019, targeting new competencies and increasing diversity through recruitment was one of the key focus areas for KONE. Efforts to increase diversity through recruitment realized during the year with a large number of applicants outside of elevator and escalator industry. During the year 78% of all applicants for KONE positions were attracted from other industries. We were also able to recruit an increasing number of people with new competencies related to, for example, digitalization and solution selling to KONE. Furthermore, we received more than 2,200 applications to the annual KONE International Trainee Program (ITP), which offers several trainee positions across the KONE countries and is meant for university students who are at least halfway through their studies. KONE also continued to further strengthen its employer brand through active school collaboration.

The Accelerate program, focusing on developing our operating model, continued with a focus on change management. The aim of the program is to create a more efficient and customer-focused way of working on a country, area and global level, across the entire KONE organization leveraging our scale. During 2019 we concentrated on continuing the transformations for business lines and in already established functions, such as a Human Resources. In addition, Customer Solutions Engineering and Logistics organizations were launched and together with re-established Sourcing organization they are now actively using new ways of working. Transformation continued in Finance, Customer Service, KONE Technology & Innovations and Quality functions.

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. In 2019, the theme of the Forum was KONE's new services and solutions.

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

Safety

Over the year, improving safety at work remained a top priority. KONE continued the implementation of a companywide safety management system which guides us in achieving improvement. All employees were invited to enroll for a new general safety training to learn about the safety management system and KONE's health and safety policy. By the end of 2019, 52,000 employees had completed the training. KONE employees receive health and safety training relevant to one's work enabling it to be performed in a professional and safe manner. Focus during the year was on strengthening safety competences using interactive learnings and mobile tools. Managers perform regular audits to measure compliance with KONE's policies, processes 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 2019, the IIFR (Industrial Injury Frequency Rate) improved to 1.7 (2.1) We continue to target zero incidents. The average lost days per incident was 33.7 days (27.4). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 21.3%. At the end of 2019, KONE Safety Solution for reporting and analyzing safety observations was in use in all KONE countries. Focus during the year was on improving the quality, analysis and investigation of safety observations. KONE Safety Week was organized in all KONE units in May 2019 with a focus on safe work environment. Various safety related activities were held during the week for both internal and external stakeholders. For instance, emergency preparedness and response related activities were organized to train our employees to stay safe and able to continue supporting customers and end users during severe weather conditions.

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. We work closely with our customers to help them recognize and deal with situations that could lead to safety risks. We communicate actively about safety, organize activities and provide training along with educational materials to our customers and the general public to help equipment users stay safe.

KONE had 59,825 (December 31, 2018: 57,359) employees at the end of December 2019. The average number of employees was 58,369 (1–12/2018: 56,119). Personnel voluntary turnover rate was 7.6% (8.5%). Employee costs for the reporting period totaled EUR 3,048 (2,818) million. The geographical distribution of KONE employees was 39% (December 31, 2018: 39%) in EMEA, 13% (13%) in the Americas and 48% (48%) 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.

We designed and launched a new Code of Conduct E-learning course for all KONE employees in 2018,. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy, work safety, harassment & discrimination and gifts & hospitality, and has a strong focus on scenarios that reflect day to day situations employees might face. The roll-out was completed in 2019 and the course is available in

37 languages. Nearly 58,000 employees in 64 countries have been assigned the training with a completion rate of 90%. Regular face-to-face compliance training is also provided to managers and other target groups. In 2019, over 3,000 employees 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. By the end of 2019, 95% (89%) of KONE's current key non-product related and direct materials suppliers had signed the Code. The scope of this group was further expanded in 2019 to include key non-product related suppliers. We carry out periodic checks on suppliers' compliance with the Supplier Code of Conduct.

KONE's Distributor Code of Conduct 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. By the end of 2019, 100% (100%) of our distributors in China, and 87% (75%) of our distributors in the rest of the world, had signed the Code.

All the above Codes of Conduct are available on kone.com.

In 2019, a high level human rights risk assessment at KONE was conducted by a third party and included a review of relevant policies and processes, as well as management interviews. One of our key focus areas going forward is on human rights in the supply chain. We have created a human rights network of employee "champions", and are preparing a pilot project for supplier human rights assessments.

Research and development

R&D expenditure

	10–12/2019	10–12/2018	Change	1–12/2019	1–12/2018	Change
R&D expenditure, MEUR	48.0	44.8	7.1%	170.9	164.0	4.2%
As percentage of sales, %	1.8	1.8		1.7	1.8	

KONE's vision is to deliver the Best People Flow® experience by providing ease, effectiveness and experiences to its customers and users. In line with its strategy, Winning with Customers, the objective of KONE's solution and service development is to drive differentiation further by putting the needs of customers and users at the center of all development. By closer collaboration with customers and partners, KONE will increase the speed of bringing new services and solutions to the market.

Research and development expenditure totaled EUR 170.9 million, representing 1.7% of sales in January–December 2019. R&D expenditures include the development of new product and service concepts as well as further development of existing solutions and services.

During January–December 2019, KONE made updates and enhancements to its existing product offering and launched a new elevator series.

In the first quarter, the analytics tools and sensors in KONE 24/7 Connected Services were further improved. In the second quarter, KONE made enhancements to KONE MiniSpace™ offering in the residential segment in India improving the eco-efficiency, safety and reliability of the elevators. In China, we widened our coverage in the modernization business. In the third quarter, we continued developing our modernization offering in several areas. For example, we improved the flexibility of our modernization offering in India. For major projects, we introduced a new modernization solution which enhances the people flow during the modernization project and helps reduce the downtime.

In the fourth quarter, the KONE DX Class elevators, featuring built-in connectivity and an enhanced user experience, were launched. The new elevator series uses the KONE digital platform and enables customers to tailor and plug in additional software and services for elevators throughout the entire lifetime of a building. By using secure open application programming interfaces (APIs), KONE's approach makes it easy to manage and integrate different third-party devices, apps and services with new and existing systems. For

HIGHLIGHTS 2019

- KONE DX Class elevators, featuring built-in connectivity and an enhanced user experience, were launched

KONE's customers, a key advantage is the ability to adapt and upgrade the elevator experience according to needs both now and in the future. For the users of the equipment, the new elevator series brings a host of customizable and multisensory experiences inside the elevators. Furthermore, the KONE DX Class elevators introduce several other enhancements to the existing offering, such as anti-stain, anti-scratch and anti-bacterial surfaces and a range of sustainable materials to meet green building criteria like BREEAM and LEED. The new KONE DX Class elevator series is first available in European markets from December 2019 onwards, and rolled out to other areas during 2020–2021. It will replace the current KONE elevator range.

Changes in the Executive Board

In January–December 2019, KONE announced changes in the Executive Board. Maciej Kranz (54, MBA, Business Administration), was appointed Chief Technology Officer and Executive Vice President, KONE Technology and Innovations, as of July 1, 2019.

Maciej Kranz succeeds Tomio Pihkala (43, M.Sc. Mechanical Engineering), who was appointed Executive Vice President, New Equipment Business as of July 1, 2019. In this role, Tomio Pihkala succeeds Heikki Leppänen, who served as Executive Vice President, New Equipment Business and member of the Executive Board since 2005. Heikki Leppänen has been employed by KONE since 1982. He decided to leave his position to focus on non-executive duties.

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 166 million at the end of December 2019 (September 30, 2019: EUR 166 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 most significant 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

Demand for KONE's products and services and the competitive environment are impacted by the general economic cycles and especially the level of activity within the construction industry. As China accounts for close to 30% of KONE's sales, a sustained market decline in the Chinese construction industry, in particular, could have an adverse effect on KONE's growth and profitability.

Geopolitical tensions and protectionism continue to expose KONE to various business risks. In addition to the potential adverse impacts on the general economic activity, geopolitical tensions and protectionism could impact the competitiveness of KONE's supply chain, and lead to increased costs from trade and customs tariffs. A significant portion of KONE's component suppliers and global supply capacity is located in China.

In addition to the level of market demand, competitiveness of KONE's offering is a key driver of the company's growth and profitability. A failure to anticipate or address changes in customer requirements and in competitors' offerings, ecosystems and business models or in the regulatory environment could result in a deterioration of the competitiveness of KONE's offering. Furthermore, ongoing structural changes in the competitive landscape of the elevator and escalator industry and customer consolidation in China, for example, could affect market dynamics and KONE's market share.

OPERATIONAL RISKS

Engaged employees with relevant competencies and skills are key to the successful execution of our strategy. With the business models and ways of working changing in the elevator and escalator industry, KONE needs new organizational capabilities and new competencies on the individual employee level in the field of, for example, digitalization. At the same time, competition over skilled field workforce is increasing and securing the needed field resources and their competence management is critical. A failure to develop and retain the needed capabilities or obtain them through recruitment could have an adverse impact on KONE's growth and profitability.

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 with a high share of maintenance business.
Geopolitical tensions impacting the competitiveness of KONE's supply chain, leading to increased costs or causing potential disruptions	KONE actively monitors the development of the applicable and relevant regulations, policies and trade rules, and evaluates the competitiveness and viability of KONE's supply chain and sourcing channels. KONE is taking actions to mitigate the impact of tariffs, for example by applying for tariff exemptions when applicable. KONE also applies increased scrutiny over business operations that may be affected by international trade restrictions.
Changes in the competitive or customer landscape, customer requirements or competitors' offerings impacting KONE's competitiveness	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 and actively monitors opportunities for industry consolidation.
A failure to secure and develop the needed organizational capabilities and competencies	KONE continuously evaluates the skills and competences required for the execution of the selected strategy and develops and/or acquires these from internal talent pools or externally. KONE also has extensive training programs in place to develop and retain critical talents.
Risks related to component and subcontracted labor availability	KONE's sourcing processes aim to identify critical suppliers and supply categories and implement dual sourcing, multi-year agreements, last-buy options and other measures to ensure the availability of the supply. KONE has also developed multinational subcontractor pools to ensure subcontractor capacity on a regional level. Subcontractors competences and capabilities are monitored and developed continuously, similarly as with own employees.
Product integrity, safety or 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.
Interruptions to KONE's or its suppliers operations	KONE actively develops business continuity management capabilities to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations, business continuity management capabilities, financial strength and cybersecurity 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.
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 cybersecurity capabilities based on these findings. KONE also has a global cyber insurance program in place.
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 2019.

The majority of components used in KONE's supply chain are sourced from external suppliers. In addition to this, KONE uses a significant amount of subcontracted installation resources, has outsourced some business support processes and collaborates with partners in digital services. These expose KONE to component and subcontracted labor availability and cost risk and continuity risk in partnerships. A failure to secure the needed components or resources or quality issues within these could cause business disruptions and cost increases.

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 or service quality issue. Matters concerning product integrity, safety or quality could also have an impact on KONE's financial performance and affect customer operations.

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. KONE's, its suppliers' and customers' operations also utilize information technology extensively and KONE's business is dependent on the quality, integrity and availability of information. Thus, KONE is exposed to IT disruptions and 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. 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. Also physical damage caused by fire, extreme weather conditions, natural catastrophes or terrorism, among other things, to these operations, could cause business interruption for KONE or its suppliers.

FINANCIAL RISKS

The majority of KONE's sales and result are denominated in currencies other than the Euro, which exposes KONE to risks arising from foreign exchange-rate fluctuations. KONE is also exposed to counterparty risks related to financial institutions, through the significant amounts of liquid funds deposited with financial institutions, in the form of financial investments and in derivatives. Additionally, KONE is exposed to risks related to the liquidity and payment schedules of its customers, which may impact cash flow or lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance, liquidity and cash flow. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 2019.

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

The assessment and analysis of KONE's most significant risks also covers nonfinancial 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

KONE actively identifies, assesses and monitors the development of existing and emerging environmental risks. Continuous environmental risk assessment process is included in KONE's ISO 14001 environmental system requirements and management activities. For example, environmental risks are managed by conducting internal and external audits, by regularly tracking compliance requirements and our environmental performance and by actively participating in different environmental research and discussion forums.

Although environmental risks related to KONE's business are overall not very material, the most significant identified environmental risks relate to climate change. Preparing for extreme weather conditions and minimizing potential damages or interruptions to our operations and delivery chain is an ongoing activity. Climate-related risks can also materialize due to introduction of new environmental legislation potentially causing increases in our cost base.

Social and employee related risks

Safety is a top 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 and communication, consistent safety management practices, 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 controls. KONE also follows globally implemented principles in how to manage potential incidents and implement improvements.

Human rights related risks

The most significant human rights related risks are in the supply and delivery chain and are related to terms and conditions of work. 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. On the basis of the a risk assessment conducted in 2019, we are prioritizing our work on human rights in the supply chain and have set up a human rights network and are preparing a pilot project for supplier assessments.

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. The risks of such behaviors and practices materializing are included in the scope of KONE's regular audit programs. In addition, processes introduced under our Global Delegation of Authority policy help to mitigate the risk of unauthorized payments, donations and sponsorships. We have introduced more stringent disclosure requirements in China for conflicts of interest and this work will continue worldwide in 2020. The most important action for internal mitigation continues to be 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 26, 2019. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2018.

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

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

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

Antti Herlin was elected as Chairman and Matti Alahuhta, Jussi Herlin and Juhani Kaskeala as members of the Nomination and Compensation Committee. Matti Alahuhta and Juhani Kaskeala are independent of both the company and of significant shareholders.

The General Meeting confirmed an annual compensation of EUR 55,000 for the Chairman of the Board, EUR 45,000 for the Vice Chairman and EUR 40,000 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 Jouko Malinen were nominated as auditors.

Share capital and market capitalization

Share capital and market capitalization*

	Dec 31, 2019	Dec 31, 2018
Number of class A shares	76,208,712	76,208,712
Number of class B shares	453,187,148	451,883,955
Total shares	529,395,860	528,092,667
Share capital, EUR	66,174,483	66,011,583
Market capitalization* MEUR	30,180	21,489

* 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.

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 KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2019, the reward was based on sales growth and profitability in both plans. 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.

The share-based incentive plans have a vesting period of three years, including the performance period. If the participant's employment or service contract is terminated during the vesting period, they are either obliged to return the shares already received or lose the entitlement to the shares they have not yet received. As part of the plan for the senior management, a long-term target for their ownership has been set. For the Executive Board members, the long-term ownership target is that the members have an ownership of KONE shares corresponding to at least five years' annual base salary. For other selected top management positions the ownership target is at least two years' base salary.

In December 2014, KONE granted a conditional 2015 option program. The stock options 2015 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2017. The total number of stock options was 1,500,000 and 131,000 of them were held by KONE Corporation's subsidiary. Each stock option entitled its holder to subscribe for one (1) new class B KONE share at the price of, from February 26, 2019, EUR 28.75 per share. During the reporting period, 1,303,193 new KONE class B shares were subscribed for with 2015 option rights. The share subscription period for the 2015 option rights ended on April

30, 2019. The 131,000 KONE 2015 option rights in possession of KONE Corporation's subsidiary, and the 6,110 KONE 2015 option rights not exercised during the subscription period have expired upon the expiry of the subscription period.

On December 31, 2019, KONE's share capital was EUR 66,174,483 comprising 453,187,148 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 30,180 million on December 31, 2019, 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

	1–12/2019
Shares in KONE's possession at the beginning of the period	12,031,814
Changes in own shares during the period	-478,209
Shares in KONE's possession at the end of the period	11,553,605

At the end of December 2019, the Group had 11,553,605 class B shares in its possession. The shares in the Group's possession represent 2.5% 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

		1–12/2019	1–12/2018
Shares traded on the Nasdaq Helsinki Ltd., million		157.0	172.4
Average daily trading volume		628,085	689,430
Volume-weighted average share price	EUR	49.82	43.68
Highest share notation	EUR	59.34	49.13
Lowest share notation	EUR	41.01	38.05
Share notation at the end of period	EUR	58.28	41.64

In addition to the Nasdaq Helsinki Ltd., 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 32.1% of the total volume of KONE's class B shares traded in January–December 2019 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 62,491 at the beginning of the review period and 62,100 at its end. The number of private households holding shares totaled 58,475 at the end of the period, which corresponds to approximately 12.4% of the listed B shares. At the end of December 2019, a total of 53.3% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–December 2019, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on January 28, January 30, February 1, February 4, February 7, May 22, May 23, October 2 and October 9. The 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, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds decreased below five (5) per cent of the total number of shares of KONE Corporation on October 8, 2019.

Outlook

Market outlook 2020

North America		EMEA		Asia-Pacific	
New equipment	Services	New equipment	Services	New equipment	Services
Stable	Maintenance Slight growth	Stable	Maintenance Slight growth	China Relatively stable or slight growth	Maintenance Strong growth
	Modernization Slight growth		Modernization Slight growth	Outside China Slight growth	Modernization Strong growth

Market outlook 2020

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

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 North America and in the Europe, Middle East and Africa region and to develop strongly in Asia-Pacific.

Business outlook 2020

In 2020, KONE's sales is estimated to grow by 0–6% at comparable exchange rates as compared to 2019. The adjusted EBIT is expected to be in the range of EUR 1,250–1,400 million, assuming that foreign exchange rates would remain at the January 2020 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 15 million.

The outlook is based on KONE's maintenance base and order book as well as the market outlook. KONE has a solid order book for 2020 and the service business is expected to grow driven by KONE's growing and aging installed base and overall positive market outlook. Targeted pricing and productivity actions, which have impacted the margin of orders received positively, are expected to support profitability together with around EUR 50 million of savings from the Accelerate program. Increasing labor and subcontracting costs as well as the investment in building our capability to sell and deliver digital services and solutions are the main headwinds for the adjusted EBIT in 2020. Furthermore, the recent coronavirus outbreak creates additional uncertainty. KONE is also expecting to have around EUR 40 million of restructuring costs related to the Accelerate program in the final year of the program. These costs are excluded from the adjusted EBIT.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2019 was EUR 2,508,732,086.60 of which the net profit for the financial year is EUR 846,898,465.29.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6975 be paid on the outstanding 76,208,712 class A shares and EUR 1.70 on the outstanding 441,633,543 class B shares, resulting in a total amount of proposed dividends of EUR 880,141,311.72.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,628,590,774.88 be retained and carried forward. The Board proposes that the dividends be payable on March 5, 2020. All the shares existing on the dividend record date are entitled to dividend for the year 2019 except for the own shares held by the parent company.

Annual General Meeting 2020

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Tuesday, February 25, 2020 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 28, 2020

KONE Corporation's Board of Directors

Accounting Principles

The information presented in this report is based on the audited KONE 2019 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 2019.

KONE has adopted the new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. More information on the adoption of IFRS 16 and IFRIC 23 is presented on pages 34–35. Changes of other standards or interpretations did not have a material impact on the Financial Statement Bulletin.

Consolidated statement of income

MEUR	10–12/2019	%	10–12/2018	%	1–12/2019	%	1–12/2018	%
Sales	2,684.6		2,443.4		9,981.8		9,070.7	
Costs and expenses	-2,263.0		-2,120.3		-8,547.9		-7,909.4	
Depreciation and amortization	-65.3		-30.6		-241.5		-118.9	
Operating income	356.4	13.3	292.5	12.0	1,192.5	11.9	1,042.4	11.5
Share of associated companies' net income	-		-0.1		-		-2.5	
Financing income	16.5		13.6		51.6		61.4	
Financing expenses	-6.9		-4.8		-26.5		-14.2	
Income before taxes	366.0	13.6	301.2	12.3	1,217.5	12.2	1,087.2	12.0
Taxes	-83.0		-69.0		-278.9		-241.9	
Net income	283.0	10.5	232.2	9.5	938.6	9.4	845.2	9.3
Net income attributable to:								
Shareholders of the parent company	280.0		230.3		931.3		840.8	
Non-controlling interests	3.0		1.9		7.3		4.4	
Total	283.0		232.2		938.6		845.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR								
Basic earnings per share, EUR	0.54		0.45		1.80		1.63	
Diluted earnings per share, EUR	0.54		0.45		1.80		1.63	

Consolidated statement of comprehensive income

MEUR	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Net income	283.0	232.2	938.6	845.2
Other comprehensive income, net of tax:				
Translation differences	1.1	32.8	54.0	13.8
Hedging of foreign subsidiaries	-19.9	-8.6	-8.5	-14.9
Cash flow hedges	6.8	8.6	-14.5	-16.3
Items that may be subsequently reclassified to statement of income	-12.1	32.8	31.0	-17.4
Changes in fair value	-12.3	4.4	-2.7	7.1
Remeasurements of employee benefits	-18.6	0.9	-34.3	15.7
Items that will not be reclassified to statement of income	-30.9	5.3	-37.0	22.8
Total other comprehensive income, net of tax	-42.9	38.1	-6.0	5.4
Total comprehensive income	240.0	270.3	932.6	850.6
Total comprehensive income attributable to:				
Shareholders of the parent company	237.1	268.4	925.3	846.2
Non-controlling interests	3.0	1.9	7.3	4.4
Total	240.0	270.3	932.6	850.6

Condensed consolidated statement of financial position

Assets

MEUR		Dec 31, 2019	Dec 31, 2018
Non-current assets			
Goodwill		1,366.5	1,333.4
Other intangible assets		248.2	260.2
Tangible assets		742.2	397.4
Loan receivables and other interest-bearing assets	I	0.8	1.0
Investments		139.2	143.3
Employee benefits	I	21.7	29.0
Deferred tax assets	II	292.3	253.7
Total non-current assets		2,810.9	2,418.2
Current assets			
Inventories	II	648.6	624.1
Accounts receivable	II	2,232.3	1,988.3
Deferred assets	II	596.0	601.5
Income tax receivables	II	73.6	59.0
Current deposits and loan receivables	I	1,589.5	1,407.0
Cash and cash equivalents	I	662.4	636.0
Total current assets		5,802.4	5,315.9
Total assets		8,613.3	7,734.0

Equity and liabilities

MEUR		Dec 31, 2019	Dec 31, 2018
Equity		3,192.9	3,080.6
Non-current liabilities			
Loans	I	427.1	193.8
Employee benefits	I	172.9	147.0
Deferred tax liabilities	II	160.2	148.7
Total non-current liabilities		760.2	489.5
Provisions	II	127.1	139.4
Current liabilities			
Loans	I	121.6	28.3
Advance payments received and deferred revenue	II	1,753.8	1,562.2
Accounts payable	II	809.8	786.7
Accruals	II	1,725.0	1,574.0
Income tax payables	II	123.0	73.3
Total current liabilities		4,533.2	4,024.5
Total equity and liabilities		8,613.3	7,734.0

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, 2019	66.0	100.3	259.1	27.0	64.8	-89.5	-203.3	2,840.0		16.0	3,080.6
Restatement impact								-28.5			-28.5
Jan 1, 2019, restated	66.0	100.3	259.1	27.0	64.8	-89.5	-203.3	2,811.5		16.0	3,052.1
Net income for the period									931.3	7.3	938.6
other comprehensive income:											
Translation differences					54.0						54.0
Hedging of foreign subsidiaries					-8.5						-8.5
Cash flow hedges				-14.5							-14.5
Changes in fair value				-2.7							-2.7
Remeasurements of employee benefits						-34.3					-34.3
transactions with shareholders and non-controlling interests:											
Profit distribution								-851.7			-851.7
Increase in equity (option rights)	0.2		37.3								37.5
Purchase of own shares											-
Change in non-controlling interests										-3.3	-3.3
Option and share-based compensation			25.7				18.2	-18.2			25.7
Dec 31, 2019	66.2	100.3	322.1	9.8	110.3	-123.8	-185.1	1,941.7	931.3	20.0	3,192.9

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2018	65.9	100.3	205.8	36.2	65.9	-105.2	-217.8	2,862.7		15.0	3,028.9
Net income for the period									840.8	4.4	845.2
Other comprehensive income:											
Translation differences					13.8						13.8
Hedging of foreign subsidiaries					-14.9						-14.9
Cash flow hedges				-16.3							-16.3
Changes in fair value				7.1							7.1
Remeasurements of employee benefits						15.7					15.7
Transactions with shareholders and non-controlling interests:											
Profit distribution								-849.2			-849.2
Increase in equity (option rights)	0.1		22.9								23.1
Purchase of own shares											-
Change in non-controlling interests										-3.4	-3.4
Option and share-based compensation			30.4				14.5	-14.3			30.6
Dec 31, 2018	66.0	100.3	259.1	27.0	64.8	-89.5	-203.3	1,999.2	840.8	16.0	3,080.6

Condensed consolidated statement of cash flows

MEUR	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Operating income	356.4	292.5	1,192.5	1,042.4
Change in working capital before financing items and taxes	-36.0	8.5	115.7	-11.2
Depreciation and amortization	65.3	30.6	241.5	118.9
Cash flow from operations before financing items and taxes	385.7	331.6	1,549.6	1,150.1
Cash flow from financing items and taxes	-44.2	12.5	-279.9	-180.2
Cash flow from operating activities	341.4	344.1	1,269.7	969.8
Cash flow from investing activities	-22.2	-53.2	-121.8	-121.1
Cash flow after investing activities	319.2	290.8	1,148.0	848.7
Purchase of own shares	-	-	-	-
Increase in equity (option rights)	-	0.6	37.5	23.1
Profit distribution	-	-	-851.7	-849.2
Change in deposits and loans receivable, net	-217.8	-175.9	-182.7	155.3
Change in loans payable and other interest-bearing debt	-23.9	-21.5	-134.1	-35.3
Changes in non-controlling interests	-	0.0	-3.7	-3.1
Cash flow from financing activities	-241.7	-196.8	-1,134.7	-709.2
Change in cash and cash equivalents	77.5	94.0	13.2	139.5
Cash and cash equivalents at beginning of period	586.0	539.6	636.0	496.5
Translation difference	-1.0	2.4	13.2	-0.1
Cash and cash equivalents at end of period	662.4	636.0	662.4	636.0

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Interest-bearing net debt at beginning of period	-1,276.9	-1,425.5	-1,346.4	-1,690.2
Interest-bearing net debt at end of period	-1,552.9	-1,704.0	-1,552.9	-1,704.0
Change in interest-bearing net debt	-276.0	-278.4	-206.5	-13.8

Adoption of IFRS 16 has a significant impact on presentation of the consolidated statement of cash flows improving cash flow from operations before financing items and taxes. Under IFRS 16 payments of lease liabilities are presented in financing activities and related interest expense as interest paid while previously the full amount of lease payments was included in the cash flow from operations before financing items and taxes.

In January–December 2019 cash flow from operations before financing items and taxes is improved by EUR 119 million as a result of adoption of IFRS 16. Interest expense paid on lease liability is included in cash flow from financing items and taxes and was EUR 11 million and the payments of lease liabilities included in financing activities were EUR 108 million in January–December 2019. Adoption of IFRS 16 increased the opening interest-bearing net debt by EUR 358 million. More information of the adoption of IFRS 16 is presented on pages 34–35.

Notes for the interim report

KEY FIGURES

		1–12/2019	1–12/2018
Basic earnings per share	EUR	1.80	1.63
Diluted earnings per share	EUR	1.80	1.63
Equity per share	EUR	6.13	5.94
Interest-bearing net debt	MEUR	-1,552.9	-1,704.0
Equity ratio	%	46.5	49.9
Gearing	%	-48.6	-55.3
Return on equity	%	30.1	27.7
Return on capital employed	%	25.1	25.0
Total assets	MEUR	8,613.3	7,734.0
Assets employed	MEUR	1,640.0	1,376.6
Net working capital (including financing items and taxes)	MEUR	-856.0	-757.8

The calculation formulas of key figures are presented in KONE's Financial Statements for 2019.
Key figures for January–December 2019 are calculated considering the adoption of the new IFRS16 and IFRIC 23 as of January 1, 2019.

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.

		10–12/2019	10–12/2018	1–12/2019	1–12/2018
Operating income	MEUR	356.4	292.5	1,192.5	1,042.4
Operating income margin	%	13.3	12.0	11.9	11.5
Items impacting comparability	MEUR	11.1	27.1	45.0	69.6
Adjusted EBIT	MEUR	367.5	319.6	1,237.4	1,112.1
Adjusted EBIT margin %	%	13.7	13.1	12.4	12.3

QUARTERLY FIGURES

KONE has adopted the new IFRS 16 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. KONE applied IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2013–2016 are not restated and thus not fully comparable.

		Q4/2019	Q3/2019	Q2/2019	Q1/2019	Q4/2018	Q3/2018	Q2/2018	Q1/2018
Orders received	MEUR	1,988.3	2,007.3	2,310.1	2,094.1	1,937.9	1,831.9	2,118.6	1,908.7
Order book	MEUR	8,051.5	8,399.8	8,407.1	8,454.7	7,950.7	7,791.6	7,915.3	7,786.6
Sales	MEUR	2,684.6	2,557.6	2,540.8	2,198.8	2,443.4	2,288.7	2,330.6	2,008.0
Operating income	MEUR	356.4	314.2	306.5	215.4	292.5	258.0	280.5	211.5
Operating income margin	%	13.3	12.3	12.1	9.8	12.0	11.3	12.0	10.5
Adjusted EBIT [1]	MEUR	367.5	321.9	319.6	228.4	319.6	273.7	300.4	218.3
Adjusted EBIT margin [1]	%	13.7	12.6	12.6	10.4	13.1	12.0	12.9	10.9
Items impacting comparability	MEUR	11.1	7.7	13.1	13.1	27.1	15.7	19.9	6.9

		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	7,357.8	7,473.5	7,749.2	7,960.5	8,591.9	8,699.0	8,763.6	8,529.7
Sales	MEUR	2,306.3	2,209.7	2,337.2	1,943.4	2,593.2	2,170.2	2,272.6	1,748.3
Operating income	MEUR	292.8	317.9	335.8	245.8	392.2	331.1	348.6	221.4
Operating income margin	%	12.7	14.4	14.4	12.6	15.1	15.3	15.3	12.7
Adjusted EBIT [1]	MEUR	302.6	321.3	335.8	245.8	392.2	331.1	348.6	221.4
Adjusted EBIT margin [1]	%	13.1	14.5	14.4	12.6	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	

[1] Operating income excluding items impacting comparability.

Net working capital

MEUR	Dec 31, 2019	Dec 31, 2018
Net working capital		
Inventories	648.6	624.1
Advance payments received and deferred revenue	-1,753.8	-1,562.2
Accounts receivable	2,232.3	1,988.3
Deferred assets and income tax receivables	669.6	660.5
Accruals and income tax payables	-1,848.0	-1,647.3
Provisions	-127.1	-139.4
Accounts payable	-809.8	-786.7
Net deferred tax assets/liabilities	132.1	105.0
Total net working capital	-856.0	-757.8

Depreciation and amortization

MEUR	10–12/2019	10–12/2018	1–12/2019	1–12/2018
Depreciation and amortization of fixed assets	56.0	22.0	205.3	85.8
Amortization of acquisition-related intangible assets	9.3	8.6	36.2	33.1
Total	65.3	30.6	241.5	118.9

The adoption of IFRS 16 increased depreciation and amortization of fixed assets by EUR 32 million in October–December. In January–December, the impact was EUR 113 million.

Key exchange rates in euros

		Dec 31, 2019		Dec 31, 2018	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.7353	7.8205	7.8148	7.8751
US Dollar	USD	1.1214	1.1234	1.1809	1.1450
British Pound	GBP	0.8773	0.8508	0.8861	0.8945
Australian Dollar	AUD	1.6090	1.5995	1.5795	1.6220

Derivatives

Fair values of derivative financial instruments MEUR	Derivative assets Dec 31, 2019	Derivative liabilities Dec 31, 2019	Fair value, net Dec 31, 2019	Fair value, net Dec 31, 2018
Foreign exchange forward contracts and swaps	9.1	-25.7	-16.5	-3.6
Total	9.1	-25.7	-16.5	-3.6

Nominal values of derivative financial instruments MEUR	Dec 31, 2019	Dec 31, 2018
Foreign exchange forward contracts and swaps	2,569.4	2,769.0
Total	2,569.4	2,769.0

The fair values of foreign exchange forward contracts and swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2).

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

INVESTMENTS

The shares held include a 19.9% holding in Toshiba Elevator and Building Systems Corporation (TELC). TELC is an investment in equity instruments that does not have a quoted price in an active market. Investment also include other non-current financial assets which are investments in smaller holdings in other companies without public quotation.

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

COMMITMENTS

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,576.6 (1,629.6) million as of December 31, 2019.

ADOPTION OF IFRIC 23

KONE has adopted IFRIC 23 Uncertainty over Income Tax Treatments effective January 1, 2019. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment. KONE has reviewed it's income tax treatment and adopted the interpretation using a modified retrospective approach. An adjustment of EUR 29 million related to tax liabilities has been done to the opening balance of retained earnings and income tax payables at the date of the initial application, 1 January 2019. This adoption did not have impact to other accounts.

ADOPTION OF IFRS 16

KONE has adopted the new IFRS 16 effective January 1, 2019. KONE has applied IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the standard in the opening balance sheet as at January 1, 2019, thus comparative information has not been restated.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. These right-of-use assets are depreciated over the contract period or over the useful lifetime, which is the shorter. Interest cost of leases are presented in financing expenses. There are optional exemptions for short-term leases and leases of low-value items which KONE has selected to utilize and the lease expense is recognized on a straight-line basis as permitted by IFRS 16. Lessor accounting remains similar to IAS 17 standard – i.e. lessors continue to classify leases as finance or operating leases. KONE does not have any material contracts as lessor.

At initial application of IFRS 16 KONE has recognized new assets and liabilities, mainly for its operating leases of facilities and vehicles. KONE has measured a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17 at an amount equal to the lease liability. This includes also leases whose lease term will end within 12 months at the initial application of IFRS 16. Leases that were previously classified as finance leases applying IAS 17 are accounted for as right-of-use assets and lease liabilities applying IFRS 16 from the date of initial application. At initial application of IFRS 16 KONE has excluded initial direct costs from the measurement of the right-of-use asset, has not used hindsight when assessing the lease term and has relied on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application.

As of January 1, 2019 KONE has recognized new right-of-use assets and respective lease liabilities of EUR 358 million. Operating lease obligation at December 31, 2018 was EUR 384 million. The difference to the lease liability value at initial application is mainly due to application of exemptions for short-term leases and leases of low-value items and discounting of the lease liability. At initial application lease liabilities were discounted at an incremental borrowing rate at January 1, 2019. The weighted average discount rate was 3.0%.

Adoption of IFRS 16 has a significant impact on presentation of the consolidated statement of cash flows improving cash flow from operations before financing items and taxes. Under IFRS 16 payments of lease liabilities are presented in financing activities and related interest expense as interest paid while previously the full amount of lease payments was included in the cash flow from operations before financing items and taxes.

Adoption of IFRS 16 and IFRIC 23

Assets

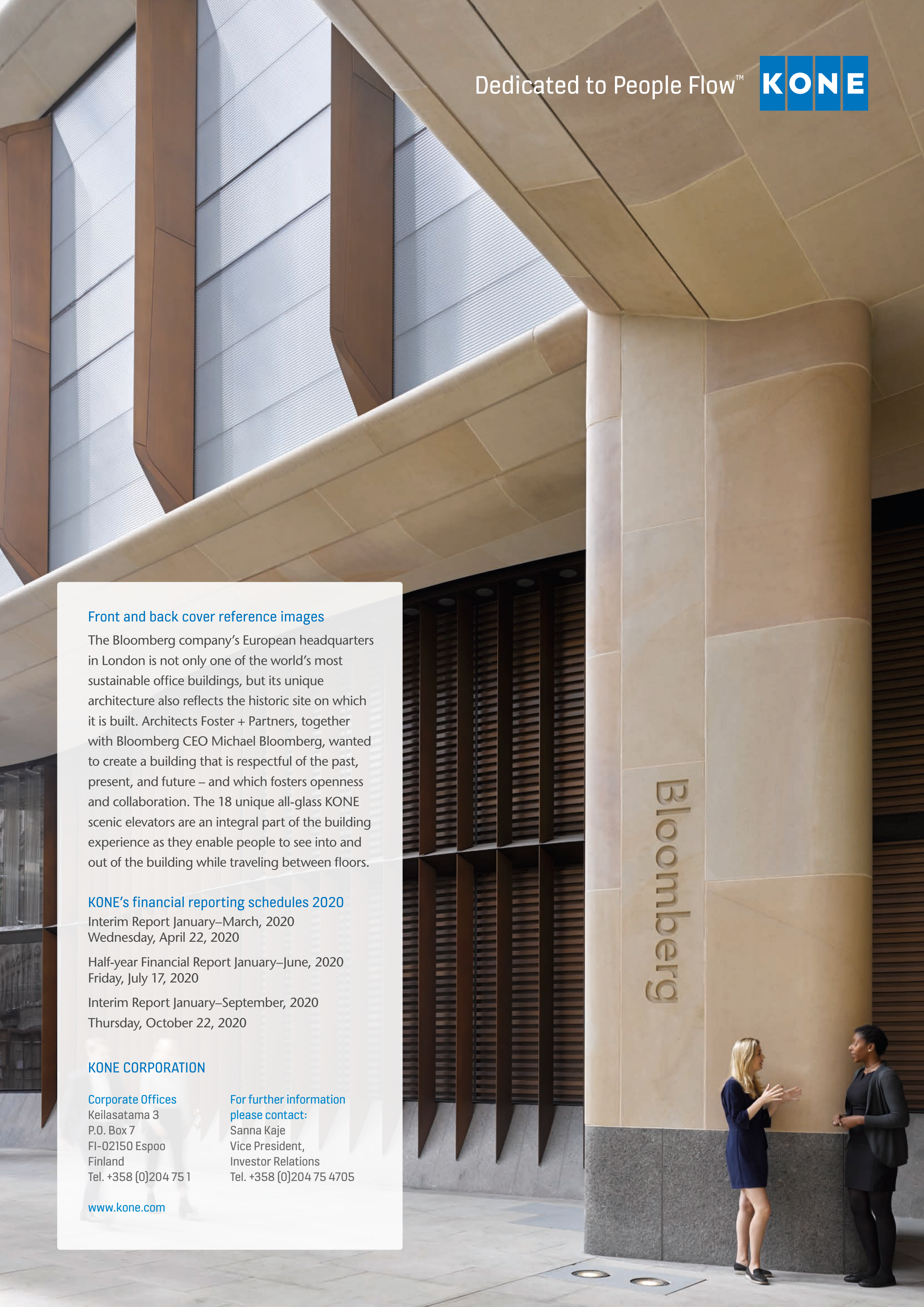
MEUR		Dec 31, 2018	Restatement impact	Jan 1, 2019
Non-current assets				
Goodwill		1,333.4		1,333.4
Other intangible assets		260.2		260.2
Tangible assets		397.4	357.6	755.0
Loan receivables and other interest-bearing assets	I	1.0		1.0
Investments		143.3		143.3
Employee benefits	I	29.0		29.0
Deferred tax assets	II	253.7		253.7
Total non-current assets		2,418.2	357.6	2,775.7
Current assets				
Inventories	II	624.1		624.1
Accounts receivable	II	1,988.3		1,988.3
Deferred assets	II	601.5		601.5
Income tax receivables	II	59.0		59.0
Current deposits and loan receivables	I	1,407.0		1,407.0
Cash and cash equivalents	I	636.0		636.0
Total current assets		5,315.9		5,315.9
Total assets		7,734.0	357.6	8,091.6

Equity and liabilities

MEUR		Dec 31, 2018	Restatement impact	Jan 1, 2019
Equity		3,080.6	-28.5	3,052.1
Non-current liabilities				
Loans	I	193.8	250.3	444.1
Employee benefits	I	147.0		147.0
Deferred tax liabilities	II	148.7		148.7
Total non-current liabilities		489.5	250.3	739.8
Provisions	II	139.4		139.4
Current liabilities				
Loans	I	28.3	107.3	135.5
Advance payments received and deferred revenue	II	1,562.2		1,562.2
Accounts payable	II	786.7		786.7
Accruals	II	1,574.0		1,574.0
Income tax payables	II	73.3	28.5	101.8
Total current liabilities		4,024.5	135.8	4,160.3
Total equity and liabilities		7,734.0	357.6	8,091.6

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

Dedicated to People Flow™ KONE



Front and back cover reference images

The Bloomberg company's European headquarters in London is not only one of the world's most sustainable office buildings, but its unique architecture also reflects the historic site on which it is built. Architects Foster + Partners, together with Bloomberg CEO Michael Bloomberg, wanted to create a building that is respectful of the past, present, and future – and which fosters openness and collaboration. The 18 unique all-glass KONE scenic elevators are an integral part of the building experience as they enable people to see into and out of the building while traveling between floors.

KONE's financial reporting schedules 2020

Interim Report January–March, 2020
Wednesday, April 22, 2020

Half-year Financial Report January–June, 2020
Friday, July 17, 2020

Interim Report January–September, 2020
Thursday, October 22, 2020

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