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KONE Q3 2017

Interim Report for January–September

KONE's January–September 2017 review: Orders back to growth, profitability continued to be under pressure

July–September 2017

- Orders received declined by 1.8% to EUR 1,739 (7–9/2016: 1,772) million. At comparable exchange rates, orders grew by 2.1%.
- Net sales grew by 0.9% to EUR 2,191 (2,170) million. At comparable exchange rates, the growth was 4.4%.
- Operating income (EBIT) was EUR 307.3 (331.1) million or 14.0% (15.3%) of net sales. The adjusted EBIT was EUR 310.6 million or 14.2% of net sales.*
- Cash flow from operations (before financing items and taxes) was EUR 302.7 (400.6) million.

January–September 2017

- Orders received declined by 1.3% to EUR 5,708 (1–9/2016: 5,782) million. At comparable exchange rates, orders grew by 0.6%. The order book stood at EUR 8,703 million at the end of September 2017 (September 30, 2016: 8,699).
- Net sales grew by 1.5% to EUR 6,286 (6,191) million. At comparable exchange rates the growth was 3.1%.
- Operating income (EBIT) was EUR 851.4 (901.1) million or 13.5% (14.6%) of net sales. The adjusted EBIT was EUR 854.7 million or 13.6% of net sales.*
- Cash flow from operations (before financing items and taxes) was EUR 928.4 (1,100) million.

Business outlook for 2017 [unchanged]

KONE's net sales is estimated to grow by 1% to 3% at comparable exchange rates as compared to 2016. The adjusted EBIT is expected to be in the range of EUR 1,200–1,250 million, assuming that translation exchange rates would remain at approximately the end of September 2017 level for the remainder of the year.

KEY FIGURES

		7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	1-12/2016
Orders received	MEUR	1,739.0	1,771.7	-1.8%	5,708.2	5,781.8	-1.3%	7,621.0
Order book	MEUR	8,703.0	8,699.0	0.0%	8,703.0	8,699.0	0.0%	8,591.9
Sales	MEUR	2,190.8	2,170.2	0.9%	6,285.5	6,191.1	1.5%	8,784.3
Operating income (EBIT)	MEUR	307.3	331.1	-7.2%	851.4	901.1	-5.5%	1,293.3
Operating income margin (EBIT margin)	%	14.0	15.3		13.5	14.6		14.7
Adjusted EBIT	MEUR	310.6	331.1	-6.2%	854.7	901.1	-5.2%	1,293.3
Adjusted EBIT margin	%	14.2	15.3		13.6	14.6		14.7
Income before tax	MEUR	319.6	337.5	-5.3%	900.4	941.0	-4.3%	1,330.3
Net income	MEUR	246.1	259.9	-5.3%	693.3	724.6	-4.3%	1,022.6
Basic earnings per share	EUR	0.48	0.52	-7.4%	1.34	1.42	-5.4%	2.00
Cash flow from operations (before financing items and taxes)	MEUR	302.7	400.6		928.4	1,099.6		1,509.5
Interest-bearing net debt	MEUR	-1,464.9	-1,368.7		-1,464.9	-1,368.7		-1,687.6
Total equity/total assets	%	46.2	44.0		46.2	44.0		46.8
Return on equity	%	34.2	38.6		34.2	38.6		38.1
Net working capital (including financing items and taxes)	MEUR	-933.3	-1,052.8		-933.3	-1,052.8		-1,054.8
Gearing	%	-56.0	-56.2		-56.0	-56.2		-60.4

* In September 2017, KONE introduced a new alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. Restructuring costs related to the Accelerate program are excluded from the calculation of the adjusted EBIT.

KONE's January–September 2017 review

Henrik Ehrnrooth, President and CEO:

"We saw positive development on many fronts in the third quarter although we continued to also face several headwinds. I'm happy that in China, our orders received returned to growth and that good growth in orders continued in Americas and EMEA. Sales growth was also at a healthy level driven by continued solid development in Services. Higher raw material prices, price pressure witnessed in our Chinese new equipment business and increased R&D and IT spend continued to burden our operating income in the third quarter. The solid development in EMEA and Americas contributed positively to the EBIT. We cannot be satisfied with the recent EBIT development, and we continue to take firm action to compensate for these pressures. We are already seeing positive impact from the focused pricing actions in China and the continuous work to improve productivity.

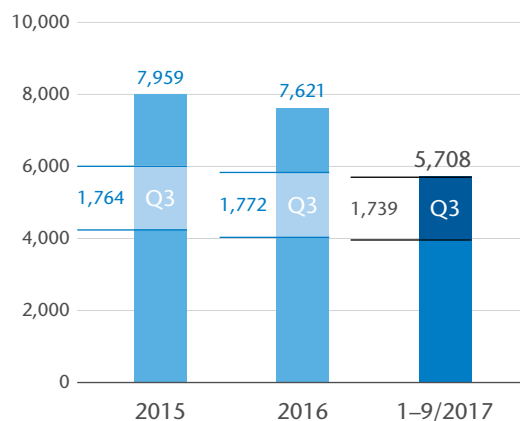
What I'm especially happy about, is the good progress we've made in executing our new strategy. Roll-out of the new services we introduced earlier this year has gained momentum, and the recently launched Residential Flow solution has raised a great amount of interest. Our customer-centric thinking is uncovering new ways to add value to our customers and to generate profitable growth for us, and we expect to bring many new services and solutions to the market in the coming years. I am happy to see that our employees have strongly embraced an even more customer-centric mindset and are constantly striving to better understand our customers' needs.

To capture the full potential of our innovation pipeline in a fast moving environment, we need new competences and ways of working, and we also need to be faster. In the third quarter, we launched an Accelerate Winning with Customers program to enable our people in the frontlines to focus on customers by giving the area and global functions a bigger role in supporting the countries. This is how we create a faster-moving, customer-centric organization that leverages our scale more efficiently.

The near-term market outlook remains mixed. We expect the Chinese new equipment market to be relatively stable for the full year 2017 in units ordered. However, we continue to see risk that the government restrictions in the Chinese residential market will have a negative impact on new equipment demand still during the final months of 2017 and the early part of 2018. At the same time the outlook remains positive for services and many other new equipment markets. KONE is in a good position to capture the opportunities in the markets and we will continue the work to improve our competitiveness further."

Key Figures

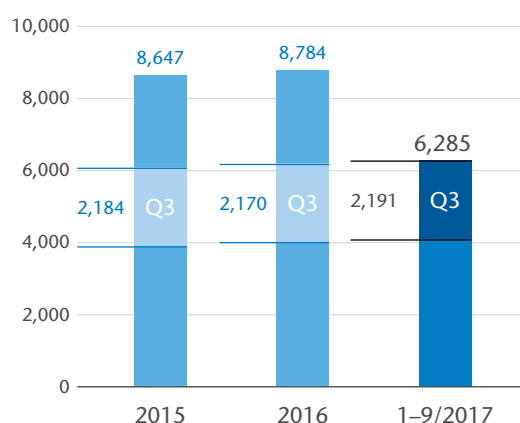
Orders received (MEUR)



- In July–September 2017, orders received declined by 1.8% at historical exchange rates (at comparable exchange rates, orders received grew by 2.1%).
- At comparable rates, new equipment orders received grew slightly with growth in the volume business and a decline in major projects. Modernization orders received were stable.
- At comparable rates, orders received saw a positive development in Americas and EMEA. In Asia-Pacific, orders received were stable with orders in China returning to growth.
- Margin of orders received declined slightly year-on-year but remained at a good level.

- In January–September 2017, orders received declined by 1.3% at historical exchange rates (at comparable exchange rates, orders received grew by 0.6%).

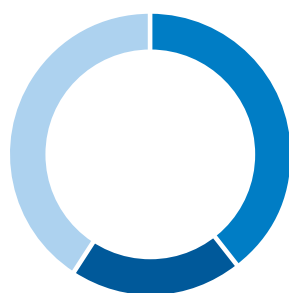
Sales (MEUR)



- In July–September 2017, net sales increased by 0.9% at historical exchange rates (4.4% at comparable exchange rates).
- New equipment sales declined by 1.4% at historical exchange rates (but grew by 2.7% at comparable exchange rates). Service (maintenance and modernization) sales grew by 3.9% (6.4% at comparable rates), with maintenance sales growing by 2.8% (5.1% at comparable rates) and modernization sales by 6.6% (9.5% at comparable rates).
- Sales in the EMEA region grew by 8.7% at historical exchange rates (10.4% at comparable rates), by 3.5% (7.5% at comparable rates) in the Americas region and declined by 6.8% (-2.4% at comparable rates) in the Asia-Pacific region.

- In January–September 2017, net sales increased by 1.5% at historical exchange rates (3.1% at comparable exchange rates).

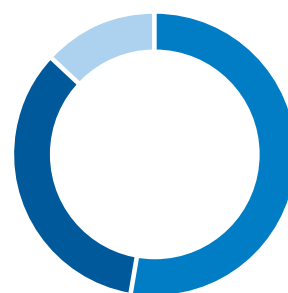
Sales by region



- EMEA 40% (38%)
- Americas 20% (18%)
- Asia-Pacific 41% (44%)

1-9/2017 (1-9/2016)

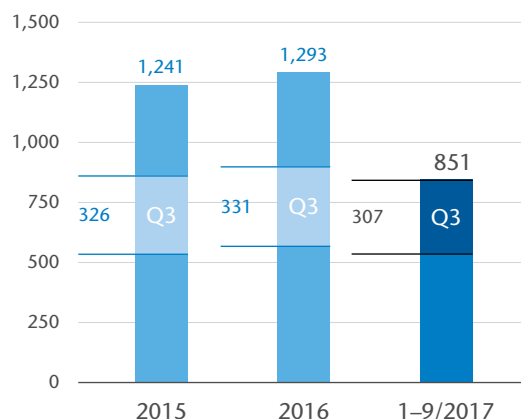
Sales by business



- New equipment 53% (54%)
- Maintenance 34% (33%)
- Modernization 13% (13%)

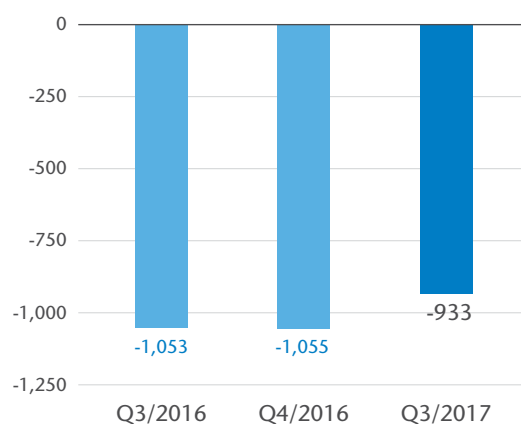
1-9/2017 (1-9/2016)

EBIT (MEUR)



- In July–September 2017, operating income was 14.0% of net sales (7–9/2016: 15.3%). The adjusted EBIT margin was 14.2%.
 - Profitability was burdened by the price pressure seen in earlier new equipment orders in China combined with increasing raw material costs. In addition, profitability was burdened by higher R&D and IT spend from the development of new solutions and services. This was partly compensated by productivity improvements and focused pricing actions. Good growth in the service business and geographically in the EMEA and Americas regions also contributed positively to the EBIT.
 - Translation exchange rates had a negative impact of around EUR 13 million on the operating income.
 - Restructuring costs related to the Accelerate program were EUR 3.3 million.
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- In January–September 2017, operating income was 13.5% of net sales (1–9/2016: 14.6%). The adjusted EBIT margin was 13.6%.

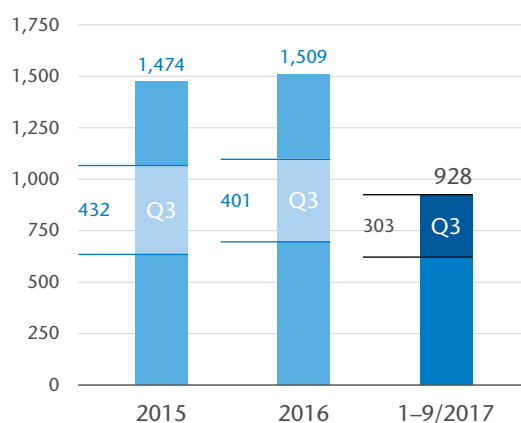
Net working capital¹⁾ (MEUR)



- At the end of September 2017, net working capital was slightly less negative than at the end of September 2016 with a significant part of the change coming from changes in foreign exchange rates.

¹⁾ Including financing items and taxes

Cash flow²⁾ (MEUR)



- In January–September 2017, cash flow from operations remained solid against a strong comparison period.

²⁾ Cash flow from operations before financing items and taxes

KONE's January–September 2017 review

KONE's operating environment

Operating environment by region

	New equipment market in units		Maintenance market		Modernization market	
	7–9/2017	1–9/2017	7–9/2017	1–9/2017	7–9/2017	1–9/2017
Total market	Stable	Stable	+	+	Stable	Stable
EMEA	+	+	+	+	Stable	Stable
Central and North Europe	Stable	Stable	+	+	–	–
South Europe	+	+	+	+	+	+
Middle East	+	+	+	+	++	++
North America	+	+	+	+	+	+
Asia-Pacific	–	–	+++	+++	+++	+++
China	Stable	Stable	+++	+++	+++	+++

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

Not fully comparable with previously used terminology

July–September 2017

The **global new equipment market** was stable in units ordered compared to the third quarter of 2016. In **Asia-Pacific**, the new equipment volumes declined slightly. In **China**, the new equipment market was rather stable in units but declined slightly in monetary value. Both the residential and commercial segments were relatively stable, while the infrastructure segment continued to grow clearly driven by government stimulus measures. The market decline in the higher-tier cities continued due to the government housing restriction measures. The market in the lower-tier cities grew slightly. In the rest of Asia-Pacific, the new equipment markets continued to decline driven by the Indian market in particular. The Indian market continued to be impacted by the implementation of reforms in the market. In the **EMEA region**, the new equipment market grew slightly. New equipment market in Central and North Europe was rather stable at a high level, while in South Europe, the market continued to see slight growth from a low level. In the Middle East, the market grew despite uncertainty in the region. In **North America**, the new equipment market continued to grow driven by the United States.

Global service markets developed positively in most regions. The modernization market continued to grow slightly in North America and significantly in Asia-Pacific, whereas the market declined in Central and North Europe due to a decline in Great Britain. In South Europe, the modernization market grew slightly. The maintenance market continued to see growth across regions, with the strongest rate of growth seen in the Asia-Pacific region and a more stable development in Europe and North America.

Pricing trends remained varied during the third quarter. In China, competition remained intense in new equipment, and pricing was rather stable compared to the previous quarter. In services, the pricing environment continued to be characterized by strong competition in the EMEA region, particularly in South Europe and also in some of the Central and North European markets. In North America, pricing remained rather intense in maintenance but continued to develop positively in modernization.

January–September 2017

The **global new equipment market** was stable compared to January–September 2016. The new equipment market volumes in Asia-Pacific declined slightly. In China, the market was stable in units, but declined slightly year-on-year in monetary value. In the rest of Asia-Pacific the market declined driven by India in particular. In the EMEA region, market volumes were stable in Central and North Europe compared to the comparison period. The new equipment market developed positively in South Europe and the Middle East. In North America, the new equipment market continued to grow from a high level.

Global service markets continued to develop positively. The large European modernization market declined slightly in Central and North Europe and grew slightly in South Europe. In North America, the modernization market continued to see slight growth, and also the smaller Asia-Pacific market continued to grow. The maintenance markets continued to see growth globally, with the fastest rate of growth seen in the developing Asia-Pacific markets.

The pricing environment was varied and remained challenging in many markets.

Orders received and order book

Orders received

MEUR	7-9/2017	7-9/2016	Historical change ¹⁾	Comparable change ²⁾	1-9/2017	1-9/2016	Historical change ¹⁾	Comparable change ²⁾	1-12/2016
Orders received	1,739.0	1,771.7	-1.8%	2.1%	5,708.2	5,781.8	-1.3%	0.6%	7,621.0

¹⁾ Change at historical foreign exchange rates

²⁾ 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.

July–September 2017

Orders received declined by 1.8% as compared to July–September 2016 and totaled EUR 1,739 million. At comparable exchange rates, KONE's orders received grew by 2.1%.

At comparable rates, new equipment orders grew slightly with growth in the volume business and a decline in major projects. In modernization, orders received were stable with growth in the volume business and a decline in major projects. The relative margin of orders received declined slightly year-on-year, but remained at a good level. KONE has taken focused pricing actions and continued to make progress in improving productivity but these did not yet fully compensate for the cost pressure stemming from higher raw material prices.

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to July–September 2016. The slight growth in new equipment orders was driven by positive development across the region. KONE's modernization orders in the region grew slightly driven by South Europe. In Central and North Europe modernization orders declined clearly.

Orders received in the Americas region saw clear growth at comparable rates as compared to July–September 2016. New equipment orders received grew significantly in the region, while modernization orders declined clearly.

Orders received in the Asia-Pacific region were stable at comparable rates as compared to July–September 2016. New equipment orders declined slightly. In China, new equipment orders were stable in units and grew slightly in monetary value. In the rest of Asia-Pacific, new equipment orders declined. In modernization, orders grew significantly.

January–September 2017

Orders received declined by 1.3% as compared to January–September 2016 and totaled EUR 5,708 million. At comparable exchange rates, KONE's orders received grew by 0.6%.

At comparable rates, new equipment orders were stable with slight decline in the volume business and clear growth in major projects. In modernization, orders received grew slightly with growth in both the volume business and in major projects. The relative margin of orders received declined slightly year-on-year, but remained at a good level.

Orders received in the EMEA region grew clearly at comparable exchange rates as compared to January–September 2016. The new equipment orders grew clearly with growth across Europe. In the Middle East, new equipment orders saw slight decline. KONE's modernization orders in the region grew slightly driven by South Europe and the Middle East.

Orders received in the Americas region saw clear growth at comparable rates as compared to January–September 2016. The growth was driven by significant growth in new equipment orders, while modernization orders declined slightly.

Orders received in the Asia-Pacific region declined clearly at comparable rates as compared to January–September 2016. The clear decline in new equipment orders received in the region was driven by a clear decline in China. In China, orders declined slightly in units and clearly in monetary value. New equipment orders in the rest of Asia-Pacific declined across the region. In modernization, orders received grew significantly in the region.

Order book

MEUR	Sep 30, 2017	Sep 30, 2016	Historical change ¹⁾	Comparable change ²⁾	Dec 31, 2016
Order book	8,703.0	8,699.0	0.0%	4.5%	8,591.9

¹⁾ Change at historical foreign exchange rates

²⁾ Change at comparable foreign exchange rates

The order book was stable compared to the end of September 2016 and stood at a strong level of EUR 8,703 million at the end of the reporting period. At comparable exchange rates, the increase was 4.5%. The order book margin remained at a healthy level. A focused pricing strategy as well as good progress in overall product competi-

tiveness, including cost, have helped in sustaining healthy relative margins despite the strong price pressure seen in many markets as well as rising raw materials costs. Cancellations of orders remained at a very low level.

Net sales

By region

MEUR	7-9/2017	7-9/2016	Historical change ¹⁾	Comparable change ²⁾	1-9/2017	1-9/2016	Historical change ¹⁾	Comparable change ²⁾	1-12/2016
EMEA	883.8	813.2	8.7%	10.4%	2,508.3	2,371.5	5.8%	6.9%	3,476.8
Americas	426.7	412.2	3.5%	7.5%	1,228.3	1,122.9	9.4%	9.7%	1,658.5
Asia-Pacific	880.2	944.8	-6.8%	-2.4%	2,548.9	2,696.7	-5.5%	-3.1%	3,648.9
Total	2,190.8	2,170.2	0.9%	4.4%	6,285.5	6,191.1	1.5%	3.1%	8,784.3

¹⁾ Change at historical foreign exchange rates

²⁾ Change at comparable foreign exchange rates

By business

MEUR	7-9/2017	7-9/2016	Historical change ¹⁾	Comparable change ²⁾	1-9/2017	1-9/2016	Historical change ¹⁾	Comparable change ²⁾	1-12/2016
New equipment	1,188.6	1,205.4	-1.4%	2.7%	3,299.9	3,355.7	-1.7%	0.5%	4,793.0
Services	1,002.1	964.8	3.9%	6.4%	2,985.6	2,835.4	5.3%	6.0%	3,991.2
Maintenance	705.9	687.0	2.8%	5.1%	2,143.3	2,038.9	5.1%	5.8%	2,772.5
Modernization	296.2	277.8	6.6%	9.5%	842.3	796.5	5.7%	6.6%	1,218.7
Total	2,190.8	2,170.2	0.9%	4.4%	6,285.5	6,191.1	1.5%	3.1%	8,784.3

¹⁾ Change at historical foreign exchange rates

²⁾ Change at comparable foreign exchange rates

July–September 2017

KONE's net sales grew by 0.9% as compared to July–September 2016, and totaled EUR 2,191 million. At comparable exchange rates, KONE's net sales grew by 4.4%. Sales growth was driven by Services.

Sales in the EMEA region grew by 8.7% at historical and 10.4% at comparable exchange rates and totaled EUR 883.8 million. New equipment sales grew significantly, modernization sales clearly and maintenance sales slightly.

In the Americas, sales grew by 3.5% at historical and 7.5% at comparable exchange rates and reached EUR 426.7 million. New equipment and modernization sales grew significantly while maintenance sales grew slightly.

In Asia-Pacific, sales declined by 6.8% at historical and 2.4% at comparable exchange rates and totaled EUR 880.2 million. New equipment sales declined clearly while modernization and maintenance sales grew clearly.

January–September 2017

KONE's net sales grew by 1.5% as compared to January–September 2016, and totaled EUR 6,286 million. At comparable exchange rates, KONE's net sales grew by 3.1%. Sales growth was driven by Services. Among the geographical regions, both the EMEA and Americas regions grew clearly.

Sales in the EMEA region grew by 5.8% at historical and 6.9% at comparable exchange rates and totaled EUR 2,508 million. New equipment sales grew significantly and modernization sales clearly. Maintenance sales grew slightly.

In the Americas, sales grew by 9.4% at historical and 9.7% at comparable exchange rates and reached EUR 1,228 million. New equipment sales grew significantly while maintenance and modernization sales saw clear growth.

In Asia-Pacific, sales declined by 5.5% at historical and 3.1% at comparable exchange rates and totaled EUR 2,549 million. New equipment sales declined clearly while modernization sales was stable. Maintenance sales grew significantly.

The share of new equipment sales was 53% (54%) and the share of service sales was 47% (46%) of total sales, with maintenance representing 34% (33%) and modernization 13% (13%). The geographical distribution of net sales was 40% (38%) EMEA, 20% (18%) Americas and 41% (44%) Asia-Pacific.

Financial result

Financial result

MEUR	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	1-12/2016
Operating income, MEUR	307.3	331.1	-7.2%	851.4	901.1	-5.5%	1,293.3
Operating income margin, %	14.0	15.3		13.5	14.6		14.7
Adjusted EBIT, MEUR	310.6	331.1	-6.2%	854.7	901.1	-5.2%	1,293.3
Adjusted EBIT margin, %	14.2	15.3		13.6	14.6		14.7
Income before taxes, MEUR	319.6	337.5	-5.3%	900.4	941.0	-4.3%	1,330.3
Net income, MEUR	246.1	259.9	-5.3%	693.3	724.6	-4.3%	1,022.6
Basic earnings per share, EUR	0.48	0.52	-7.4%	1.34	1.42	-5.4%	2.00

July–September 2017

KONE's operating income (EBIT) declined to EUR 307.3 million or 14.0% of net sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 310.6 million or 14.2% of net sales.

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

Translation exchange rates had a negative impact of around EUR 13 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 3.3 million.

Basic earnings per share was EUR 0.48.

January–September 2017

KONE's operating income (EBIT) declined to EUR 851.4 million or 13.5% of net sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 854.7 million or 13.6% of net sales.

Profitability was burdened by the price pressure seen in new equipment orders in China combined with increasing material costs. In addition, profitability was burdened by higher R&D and IT spend from the development of new solutions and services. This was partly compensated by productivity improvements and focused pricing actions as well as growth in the service business. Translation exchange rates had a negative impact of around EUR 20 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 3.3 million.

Income before taxes was EUR 900.4 million. Taxes totaled EUR 207.1 (216.4) million, taking into account taxes proportionate to the amount estimated for the financial year. This represents an effective tax rate of 23.0% (23.0%) for the full financial year. Net income for the period under review declined slightly to EUR 693.3 million.

Basic earnings per share was EUR 1.34.

Cash flow and financial position

Cash flow and financial position

	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
Cash flow from operations (before financing items and taxes), MEUR	302.7	400.6	928.4	1,099.6	1,509.5
Net working capital (including financing items and taxes), MEUR			-933.3	-1,052.8	-1,054.8
Interest-bearing net debt, MEUR			-1,464.9	-1,368.7	-1,687.6
Gearing			-56.0	-56.2	-60.4
Total equity / total assets			46.2	44.0	46.8
Equity per share, EUR			5.06	4.72	5.42

Cash flow from operations (before financing items and taxes) during January–September 2017 remained solid at EUR 928.4 million against a strong comparison period.

Net working capital remained at a strong level of EUR -933.3 million at the end of September 2017 although it was slightly less negative than at the end of September 2016 with a significant part of the change coming from changes in foreign exchange rates.

KONE's financial position was very strong at the end of September 2017. Interest-bearing net debt was EUR -1,465 million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 1,843 (December 31, 2016: 2,086) million at the end of the reporting period. Interest-bearing liabilities were EUR 378.3 (405.5) million, including a net pension liability of EUR 153.3 (176.7) million and short-term loans of EUR 20.7 (25.8) million.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
On fixed assets	24.6	22.4	63.8	70.3	99.6
On leasing agreements	4.6	6.1	19.9	20.8	27.8
On acquisitions	13.5	50.4	16.5	82.9	99.2
Total	42.7	78.9	100.2	174.0	226.6

KONE's capital expenditure and acquisitions totaled EUR 100.2 million in January–September 2017. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production.

Acquisitions totaled EUR 16.5 million in January–September 2017. KONE completed a number of small acquisitions of maintenance businesses in Europe.

Research and development

R&D expenditure

	7-9/2017	7-9/2016	Change	1-9/2017	1-9/2016	Change	1-12/2016
R&D expenditure, MEUR	36.4	32.8	10.8%	114.1	98.4	15.9%	140.5
As percentage of sales, %	1.7	1.5		1.8	1.6		1.6

Research and development expenses totaled EUR 114.1 million, representing 1.8% of net sales in January–September 2017. R&D expenses include the development of new product and service concepts as well as the further development of existing solutions and services for customers.

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.

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

vices are commercially broadly available during 2017 with the roll-out continuing throughout 2018.

In the third quarter of 2017, KONE Residential Flow was introduced. The unique solution brings new levels of convenience for homeowners and tenants by

using mobile and cloud technologies to connect building doors, elevators, information channels, and intercom systems via an easy-to-use smartphone application. KONE Residential Flow is currently being piloted and is commercially available in six European countries.

In addition, KONE launched several updates to its existing product offering during January–September 2017. During the first quarter, the next generation of the inclined KONE Travel Master™ autowalk was launched. In India, KONE launched a small-machine-room, gearless elevator KONE Neo™

for the residential segment. During the second quarter of 2017, KONE CombiSpace™, a new full replacement elevator solution, was launched for the residential and small-scale commercial segment in Europe and the Middle East. During the third quarter, KONE launched KONE TransitMaster™ 140, an escalator designed for demanding public transportation environments in Asia-Pacific and the Middle East. In addition, several updates and enhancements were made to KONE's offering in various geographies and segments.

HIGHLIGHTS Q3/2017

- KONE Residential Flow, a new solution for residential developments
- KONE TransitMaster™ 140, an escalator for demanding public transportation environments, launched in Asia-Pacific and Middle-Eastern markets

Personnel

KONE employees

	1-9/2017	1-9/2016	1-12/2016
Number of employees at the end of period	54,193	51,639	52,104
Average number of employees	52,990	50,563	50,905

Geographical distribution of KONE employees

	1-9/2017	1-9/2016	1-12/2016
EMEA	21,849	21,211	21,432
Americas	7,214	6,877	7,039
Asia-Pacific	25,130	23,551	23,634
Total	54,193	51,639	52,104

The objective of KONE's personnel strategy is to help the company meet its business targets. Its goals are to further secure the availability, engagement, motivation and continuous development of the company's personnel. All of KONE's activities are guided by ethical principles which include safeguarding employees' rights and responsibilities such as the right to a safe and healthy working environment, personal well-being as well as the prohibition of any kind of discrimination.

KONE's new strategy, Winning with Customers, which focuses on putting the needs of our customers and users at the center of all development at KONE in order to drive differentiation, was launched in January 2017. People are key to the new strategy's success, which requires us to develop and obtain new competences in the fields of digitalization, partnering, understanding customers' businesses and project management. In September 2017, KONE launched a program to accelerate the execution of its Winning with Customers strategy and to support profitable growth. The objective of the Accelerate Winning with Customers program is to create a faster-moving, customer-centric organization that leverages scale efficiently in a rapidly changing environment, with planned actions including both organizational adjustments, as well as the development and further harmonization of roles, processes and tools. More information on the Accelerate program can be found on page 15.

One of the new focus areas in the new phase of the strategy is collaborative innovation and new competences. In the second quarter, KONE launched a new leadership competency framework that focuses on the ability to take an outside-in perspective, learning agility, leading change as well as talent and diversity building. The new framework captures both managing the present as well as building capabilities for the future. It has already been implemented into KONE's multi-rater leadership assessment tool globally. KONE also launched a learning

program for service managers and the first Leading Operations -program for Operations Directors was completed during the second quarter of 2017. During July-September 2017, KONE also piloted various new learning methods, such as virtual reality, learning games and mobile learning as part of Winning with Customers Strategy, which have been well received by KONE's personnel.

KONE's annual employee engagement survey was completed in the first quarter of 2017 with a record of 93% of KONE's personnel responding to the survey. Highlights included the continued high scores on indicators measuring safety, employee training and career development. The overall employee engagement scores saw a slight decline, but remained at a good level. Action planning workshops engaging employees from all roles

were held across the organization during the second quarter. The majority of the reported actions from the planning workshops were related to customers and the topic of collaboration.

Annual mid-year performance reviews and individual development planning discussions were held during the third quarter in all KONE countries with a record-number of documented individual development plans. Various internal career workshops were also organized during July-September 2017 to support employee development. The Visit-a-job concept, which focuses on short-term internal job rotations, continued to be a popular way for developing new competencies as well as exploring new career opportunities.

KONE also continued to further strengthen its school collaboration activities during January-September 2017 to increase diversity through attracting candidates with different set of competencies. In Finland, KONE was ranked as the most attractive employer within engineering and natural sciences and also received strong rankings in other sectors such as business, law and IT.

HIGHLIGHTS Q3/2017

- Accelerate Winning with Customers program launched to create a faster-moving, customer-centric organization

Environment

One of KONE's strategic targets is to be a leader in sustainability, and we strive for continuous improvement in everything we do. Improving resource efficiency is one of our top priorities and we work continuously to do things in a smart way. We have a strong track record in developing eco-innovations, and we pay special attention to the use of natural resources across the value chain.

According to KONE's environmental targets for 2017–2021, we aim to be the leading provider of low-carbon People Flow® solutions with efficient low-carbon operations. Our Environmental Excellence program supports the ongoing transformation of the built environment into smart eco-cities, low-carbon communities, and net zero energy buildings.

In the first quarter of 2017, KONE was recognized as a leading supplier for action on climate change by CDP (Carbon Disclosure Project). In addition to achieving a top position on CDP's global A List of climate change disclosure and performance in late 2016, KONE was now awarded a position on CDP's global Supplier A List for the second year running. The Supplier A List includes the best 3% of companies responding at the request of 89 multinational purchasers, including KONE's customers.

In April 2017, KONE published its Sustainability Report 2016, which follows the Global Reporting Initiative G4 guidelines when applicable. The most significant environmental achievements in 2016 included the reduction in greenhouse gas emissions from the company's own operations. Compared to 2015, KONE's carbon footprint relative to net sales decreased by 4.1%, with sales growth calculated at comparable exchange rates. KONE's target is to reduce the carbon foot-

print relative to net sales annually by 3%. KONE's 2016 absolute operational carbon footprint amounted to 311,000 tons of carbon dioxide equivalent (2015: 310,500; figure restated).

The carbon footprint of scope 1 and 2 greenhouse gas emissions relative to net sales decreased by 5.4%. In absolute terms, the scope 1 and 2 carbon footprint decreased by 0.6%. The most significant part of KONE's operational carbon footprint is related to logistics, the vehicle fleet, and electricity consumption. The major achievements in the reduction of our carbon footprint in 2016 were related to improvements in the energy efficiency, particularly in the use of green electricity. The share of green electricity used at KONE facilities increased to 28% in 2016 (2015: 19%). KONE's greenhouse

gas reporting has been assured by an objective third party.

In the second quarter of 2017, KONE New Zealand achieved carboNZero™ certification by Enviro-Mark Solutions as the first elevator company in New Zealand and globally. The certification acknowledges KONE New Zealand's efforts to measure its greenhouse gas emissions as well as its commitment to managing and reducing them and neutralizing the remaining emissions.

In August 2017, as the first elevator company in Europe, KONE published a new Environmental Product Declaration (EPD) for its European volume elevator KONE MonoSpace® 500 according to the new Product Category Rules. Product Category Rules define common requirements for all elevator manufacturers publishing EPDs and thus allow customers to easily compare the environmental impacts of different manufacturers' products.

HIGHLIGHTS Q3/2017

- KONE MonoSpace® 500 Environmental Product Declaration published

The Accelerate Winning with Customers program

In September, KONE launched an Accelerate Winning with Customers program to speed up the execution of the Winning with Customers strategy that was introduced in the beginning of 2017 and to support profitable growth.

The objective of the program is to create a faster-moving, customer-centric organization that leverages scale efficiently in a rapidly changing environment. The planned actions include both organizational adjustments, as well as the development and further harmonization of roles, processes and tools.

KONE aims to maintain strong local accountability and to strengthen the customer-facing functions in the country organizations. The area organizations and global functions are planned to have a bigger role in supporting and enabling the countries to focus on delivering value to the customers. This requires sharing expertise and resources more effectively. KONE is for example looking into utilizing more centers of expertise and further strengthening its shared services.

The program is estimated to generate annual cost savings of around EUR 100 million. The cost savings are expected to be achieved gradually with full impact from the end of 2020 onwards. According to initial estimates, the measures could

result in the reduction of approximately 1,000 jobs globally over the three-year-period ending in 2020. The details on the impacts of the program will be communicated, and when necessary, negotiated locally as the plans progress. Restructuring costs related to the program are expected to amount to a total of approximately EUR 100 million, the majority of which are expected to accrue over the next two years.

In conjunction with the announcement of the Accelerate program on September 26, 2017, KONE updated its business outlook for 2017 to reflect the expected impact of the restructuring costs of the Accelerate Program. In connection to this, KONE introduced a new 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-related costs. In addition, KONE updated its business outlook to take into account the latest foreign exchange rate assumptions as well as the updated forecast on business performance.

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 230 million at the end of September 2017 (June 30, 2017: EUR 234 million). KONE's position is that the claims are without merit. No provision has been made.

Most significant risks

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

Strategic risks

A weakening of the global economic environment could result in a deterioration of the market environment and the competitive situation in the industry. In particular, a stronger than anticipated decline or a prolonged weakness of the construction market could result in a significant decline in the new equipment market and a more challenging market environment for services. In particular, a sustained market decline in China, which accounts for approximately 30% of KONE's sales, could have an adverse effect on KONE's growth and profitability.

Digitalization, and the resulting new customer requirements as well as potential new competition, ecosystems and business models, could have a significant impact on the elevator and escalator industry. A failure to anticipate or address changes in the external market environment could result in a deterioration of KONE's growth, competitiveness, market share or profitability.

KONE operates in an industry with various local regulatory requirements. Sudden or unanticipated changes in regulations, equipment codes or standards may result in a need for process or technology adjustments, which could adversely impact KONE's profit development in affected countries. In addition, an increase in geopolitical tensions or a rise in regulatory protectionism could result in more challenging market conditions in affected countries. Such developments could have an adverse impact on KONE's operations.

A significant part of KONE's component suppliers and global supply capacity is located in China, both in the elevator and in the escalator business. Therefore KONE's operations

may be adversely impacted by changes in trade agreements or introduction of restrictions to trade.

Operational risks

As one of the leading companies in the industry, KONE has a strong brand and reputation, meaning that reputation or brand issues could have an impact on KONE's business and financial performance. Such reputation risks could materialize e.g. in the case of an incident or a product quality issue. Issues with product integrity or quality could also have an impact on KONE's financial performance.

KONE operates in certain high growth markets, where focused management of rapid business growth is required. This applies in particular to the availability of skilled personnel, the adequate supply of components and materials, and the ability to ensure the quality of delivered products and services. Failure to adequately manage resourcing, quality of delivery, or other critical aspects in projects, could have an adverse impact on KONE's profitability.

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 operations also utilize information technology extensively and its business is dependent on the quality and availability of information. Thus, in addition to physical risks, KONE is exposed to cyber security risks as operational information systems and products may be vulnerable to interruption, loss of data or malfunctions which can result in disruptions in processes and equipment availability and therefore impact KONE's business. Such cyber incidents could be caused by, including but not limited to, cyber-attacks, computer malware, denial of service attacks, fraudulent attempts and data breaches.

The majority of components used in KONE's supply chain are sourced from external suppliers, which exposes KONE to component price risk as well as raw material price risk. Therefore stronger than anticipated increases in raw material and component prices may have a significant impact on KONE's profitability.

Financial risks

The majority of KONE's sales is denominated in other currencies 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 that are deposited with financial institutions in the form of financial investments and

in derivatives. Additionally, KONE is exposed to risks related to the liquidity and payment schedules of its customers, which may lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 2016.

Risk management

Risk	Mitigation actions
Weakening of the economic environment, in China in particular, and its impact on the global market environment	KONE strives to continuously develop its competitiveness in all regions and businesses. KONE has a wide geographic presence and a balanced business portfolio.
Failure to anticipate changes in the market environment, including new customer requirements, competition, ecosystems and business models enabled by digitalization	KONE aims to be the industry leader by investing into research and development and having an open innovation approach. KONE also closely follows emerging market and industry trends.
Sudden changes in regulation, codes and standards, including a rise in regulatory protectionism and other political risks	In order to mitigate the risk of unanticipated changes in the regulatory environment, KONE is actively involved in the development of regulations, codes and standards. KONE also actively monitors any developments in the political environment and changes in e.g. customs duties or practices and develops its capabilities to respond to any sudden incidents.
Disruption in the global supply chain, in China in particular	KONE actively develops business continuity management capabilities in order to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations and financial strength of its key suppliers. The aim is also to secure the availability of alternative sourcing channels for critical components and services. KONE also has a global property damage and business interruption insurance program in place.
Product integrity and quality issues as well as issues with reputation	To mitigate product risks, KONE has processes in place for product design, supply, manufacturing, installation and maintenance involving strict quality control. In addition, KONE aims at transparent and reliable communication to prevent reputational risks. In addition, KONE has stringent corporate governance principles.
Availability of adequate operational resources	KONE manages these risks through proactive project and resource planning and strict quality control processes.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems in development and operation, to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers, and trusted and well-known technology partners to manage the risks through the control framework.
Changes in raw material prices	In order to reduce the impact of material and sourcing price fluctuations, KONE aims to enter into fixed-price contracts with its major suppliers for a significant part of its raw material and component purchases.
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 2016.

Decisions of the Annual General Meeting

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

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

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

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

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

The General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 44,000 for

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

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

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

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

Share-based incentives

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

In 2013, KONE granted a conditional option program. The stock options 2013 were listed on the Nasdaq Helsinki Ltd. on April 1, 2015. Each option entitled its holder to subscribe for two (2) new class B shares at the price of, from March 1, 2017, EUR 22.45 per share. As the share subscription period for the stock option 2013 ended on April 30, 2017, the 55,000 KONE 2013 option rights held by KONE Capital Oy, a subsidiary of KONE Corporation, expired upon the expiry of the subscription period. The remaining 695,000 options had been used.

In December 2013, KONE granted a conditional 2014 option program. The stock options 2014 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2016. The total number of stock options was 1,500,000 and 133,000 of them are held by KONE Corporation's subsidiary. During the reporting period, 366,962 new KONE class B shares were subscribed for with 2014 option rights. On September 30, 2017, a maximum of 986,908 shares could be subscribed for with the remaining outstanding option rights. Each option entitles its holder to subscribe for one (1) new class B KONE share at the price of, from March 1, 2017, EUR 26.65 per share. The share subscription period for the stock options 2014 is April 1, 2016–April 30, 2018.

In December 2014, KONE granted a conditional 2015 option program. The stock options 2015 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2017. The total number of stock options was 1,500,000 and 131,000 of them are held by KONE Corporation's subsidiary. During the reporting period, 8,389 new KONE class B shares were subscribed for with 2015 option rights. On September 30, 2017, a maximum of 1,360,611 shares could be subscribed for with the remaining outstanding option rights. Each stock option entitles its holder to subscribe for one (1) new class B KONE share at the price of, from March 1, 2017, EUR 32.05 per share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019.

Share capital and market capitalization

Share capital and market capitalization*

	Sep 30, 2017	Dec 31, 2016
Number of class B shares	450,849,799	449,960,170
Number of class A shares	76,208,712	76,208,712
Total shares	527,058,511	526,168,882
Share capital, EUR	65,882,314	65,771,110
Market capitalization, MEUR	23,057	21,851

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

Shares in KONE's possession

Shares in KONE's possession

	1-9/2017
Shares in KONE's possession at the beginning of the period	12,884,141
Changes in own shares during the period	- 486,380
Shares in KONE's possession at the end of the period	12,397,761

At the end of September 2017, the Group had 12,397,761 class B shares in its possession. The shares in the Group's pos-

session represent 2.7% 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

		1-9/2017	1-9/2016	1-12/2016
Shares traded on the Nasdaq Helsinki Ltd., million		137.2	150.7	194.7
Average daily trading volume		725,972	792,996	769,607
Volume-weighted average share price	EUR	43.37	41.26	41.47
Highest share notation	EUR	47.35	47.89	47.89
Lowest share notation	EUR	39.77	35.50	35.50
Share notation at the end of period	EUR	44.80	45.17	42.57

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 29.0% of the total volume of KONE's class B shares traded in January–September 2017 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 57,471 at the beginning of the review period and 60,738 at its end. The

number of private households holding shares totaled 56,931 at the end of the period, which corresponds to approximately 13.1% of the listed B shares.

Nominee registered shares accounted for 50.2% of the listed class B shares on September 30, 2017. Other foreign ownership at the end of the period totaled 3.9%. Thus a total of 54.1% of KONE's listed class B shares were owned by international investors, corresponding to approximately 20.1% of the total votes in the company.

Flagging notifications

During January–September 2017, The Capital Group Companies, Inc. announced a notice to KONE Corporation in accordance with the Finnish Securities Market Act, Chapter 9, Section 5. The notice was announced on March 10. According to the notification, released on March 13, 2017, the total number of KONE Corporation shares owned by The Capital Group Companies, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on March 9, 2017.

In addition, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5 during the reporting period. The notices were

announced on May 4, May 5, May 8, June 16, June 20, July 11, September 13, September 14, September 15, and September 20. The notices have been released as a stock exchange releases and are available on KONE Corporation's internet pages at www.kone.com. According to the latest notification, released on September 20, the position of BlackRock, Inc. and its funds through shares not owned through financial instruments increased above five (5) per cent of the share capital of KONE Corporation on September 19, 2017. The total number of shares owned by BlackRock, Inc. and its funds remained above five (5) per cent of the share capital of KONE Corporation on September 19, 2017.

Outlook

Market outlook 2017

North America		EMEA		Asia-Pacific	
New equipment	Services	New equipment	Services	New equipment	Services
Slight growth	Maintenance Slight growth Modernization Slight growth	Slight growth	Maintenance Slight growth Modernization Slight growth	China Relatively stable in units, competition to continue intense Outside China Slight decline	Maintenance Strong growth Modernization Strong growth

Market outlook 2017

In new equipment, the market in China is expected to be relatively stable in units ordered and the intense competition is expected to continue. In the rest of Asia-Pacific, the market is expected to decline slightly in 2017, but to return to growth towards the end of the year. The market in North America and Europe, Middle East and Africa region is expected to grow slightly.

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

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

Business outlook for 2017 *(unchanged)*

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

The adjusted EBIT is expected to be in the range of EUR 1,200–1,250 million, assuming that translation exchange rates would remain at approximately the end of September 2017 level for the remainder of the year.

The sales outlook is based on KONE's maintenance base and order book as well as the market outlook.

KONE's operating income outlook is based on the current sales forecast combined with factors impacting profitability. In 2017, profitability is expected to be impacted by factors such as improved quality and productivity, pricing and business mix, a slight decrease in the margin of orders received in 2016 as well as cost pressures resulting from increased material costs and R&D and IT spend.

Helsinki, October 26, 2017

KONE Corporation's Board of Directors

Accounting Principles

KONE Corporation's Interim Report for January–September 2017 has been prepared in line with IAS 34, 'Interim Financial Reporting' and should be read in conjunction with KONE's financial statements for 2016, published on January 26, 2017. KONE has applied the same accounting principles in the preparation of this Interim Report as in its Financial Statements for 2016, except for the adoption of new standards and interpretations effective during 2017 that are relevant to its operations. The changes did not have a material impact on the Interim Report. The information presented in this Interim Report has not been audited.

Consolidated statement of income

MEUR	7-9/2017	%	7-9/2016	%	1-9/2017	%	1-9/2016	%	1-12/2016	%
Sales	2,190.8		2,170.2		6,285.5		6,191.1		8,784.3	
Costs and expenses	-1,855.2		-1,812.5		-5,349.3		-5,212.1		-7,384.5	
Depreciation and amortization	-28.3		-26.6		-84.8		-77.9		-106.5	
Operating income	307.3	14.0	331.1	15.3	851.4	13.5	901.1	14.6	1,293.3	14.7
Share of associated companies' net income	-0.2		0.6		0.1		1.0		1.2	
Financing income	16.2		17.2		59.5		56.2		66.8	
Financing expenses	-3.7		-11.4		-10.6		-17.3		-31.0	
Income before taxes	319.6	14.6	337.5	15.6	900.4	14.3	941.0	15.2	1,330.3	15.1
Taxes	-73.5		-77.6		-207.1		-216.4		-307.7	
Net income	246.1	11.2	259.9	12.0	693.3	11.0	724.6	11.7	1,022.6	11.6
Net income attributable to:										
Shareholders of the parent company	244.9		264.2		688.0		726.3		1,023.7	
Non-controlling interests	1.2		-4.3		5.3		-1.7		-1.1	
Total	246.1		259.9		693.3		724.6		1,022.6	
Earnings per share for profit attributable to the shareholders of the parent company, EUR										
Basic earnings per share, EUR	0.48		0.52		1.34		1.42		2.00	
Diluted earnings per share, EUR	0.48		0.51		1.34		1.41		1.99	

Consolidated statement of comprehensive income

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
Net income	246.1	259.9	693.3	724.6	1,022.6
Other comprehensive income, net of tax:					
Translation differences	-53.1	-15.0	-187.5	-75.5	-23.2
Hedging of foreign subsidiaries	13.9	1.9	45.5	7.1	-8.6
Cash flow hedges	8.5	5.1	30.0	2.3	-13.7
Items that may be subsequently reclassified to statement of income	-30.7	-8.1	-111.9	-66.1	-45.5
Remeasurements of employee benefits	4.8	-5.1	5.5	-41.2	-9.9
Items that will not be reclassified to statement of income	4.8	-5.1	5.5	-41.2	-9.9
Total other comprehensive income, net of tax	-25.9	-13.1	-106.4	-107.3	-55.3
Total comprehensive income	220.2	246.7	586.9	617.3	967.3
Total comprehensive income attributable to:					
Shareholders of the parent company	219.0	251.0	581.6	619.0	968.4
Non-controlling interests	1.2	-4.3	5.3	-1.7	-1.1
Total	220.2	246.7	586.9	617.3	967.3

Condensed consolidated statement of financial position

Assets

MEUR		Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Non-current assets				
Goodwill		1,324.1	1,346.7	1,371.8
Other intangible assets		272.4	266.7	292.9
Tangible assets		368.5	362.9	368.3
Loan receivables and other interest-bearing assets	I	0.5	6.9	7.4
Investments		121.2	143.1	129.9
Employee benefits	I	-	10.8	-
Deferred tax assets	II	299.4	311.0	318.4
Total non-current assets		2,386.1	2,448.1	2,488.5
Current assets				
Inventories	II	1,527.7	1,531.8	1,373.5
Accounts receivable	II	1,484.2	1,470.7	1,573.7
Deferred assets	II	401.9	481.4	368.4
Income tax receivables	II	95.3	83.4	61.4
Current deposits and loan receivables	I	1,284.0	1,183.7	1,496.6
Cash and cash equivalents	I	558.7	464.2	589.2
Total current assets		5,351.8	5,215.3	5,462.8
Total assets		7,737.9	7,663.3	7,951.3

Equity and liabilities

MEUR		Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Equity				
		2,617.8	2,435.2	2,795.6
Non-current liabilities				
Loans	I	204.2	43.9	203.1
Employee benefits	I	153.3	228.5	176.7
Deferred tax liabilities	II	148.9	146.0	154.2
Total non-current liabilities		506.5	418.4	534.0
Provisions	II	135.1	167.5	183.2
Current liabilities				
Loans	I	20.7	24.6	25.8
Advance payments received	II	2,072.1	2,134.7	1,976.9
Accounts payable	II	690.2	676.7	743.3
Accruals	II	1,609.2	1,704.7	1,610.0
Income tax payables	II	86.4	101.5	82.5
Total current liabilities		4,478.5	4,642.2	4,438.5
Total equity and liabilities		7,737.9	7,663.3	7,951.3

Items designated " I " comprise interest-bearing net debt.

Items designated " II " comprise net working capital.

Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2017	65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	2,590.5		12.7	2,795.6
Net income for the period									688.0	5.3	693.3
Other comprehensive income:											
Translation differences					-187.5						-187.5
Hedging of foreign subsidiaries					45.5						45.5
Cash flow hedges				30.0							30.0
Remeasurements of employee benefits						5.5					5.5
Transactions with shareholders and non-controlling interests:											
Profit distribution								-795.4			-795.4
Increase in equity (option rights)	0.1		21.5								21.6
Purchase of own shares											-
Change in non-controlling interests										-3.7	-3.7
Option and share-based compensation			10.7				19.1	-17.0			12.8
Sep 30, 2017	65.9	100.3	198.3	0.1	98.4	-108.0	-217.6	1,778.1	688.0	14.3	2,617.8

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2016	65.7	100.3	140.7	-16.2	272.1	-103.6	-210.6	2,279.1		48.0	2,575.5
Net income for the period									726.3	-1.7	724.6
Other comprehensive income:											
Translation differences					-75.5						-75.5
Hedging of foreign subsidiaries					7.1						7.1
Cash flow hedges				2.3							2.3
Remeasurements of employee benefits						-41.2					-41.2
Transactions with shareholders and non-controlling interests:											
Profit distribution								-718.2			-718.2
Increase in equity (option rights)	0.1		11.4								11.5
Purchase of own shares							-39.3				-39.3
Change in non-controlling interests								9.7		-34.7	-25.0
Option and share-based compensation			0.1				13.7	-0.4			13.5
Sep 30, 2016	65.7	100.3	152.3	-13.9	203.7	-144.7	-236.1	1,570.1	726.3	11.5	2,435.2

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

Condensed consolidated statement of cash flows

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
Operating income	307.3	331.1	851.4	901.1	1,293.3
Change in working capital before financing items and taxes	-32.9	42.9	-7.8	120.6	109.7
Depreciation and amortization	28.3	26.6	84.8	77.9	106.5
Cash flow from operations before financing items and taxes	302.7	400.6	928.4	1,099.6	1,509.5
Cash flow from financing items and taxes	-107.7	-100.0	-242.1	-238.4	-331.0
Cash flow from operating activities	195.0	300.7	686.2	861.3	1,178.4
Cash flow from investing activities	-39.2	-64.8	-96.3	-160.1	-197.6
Cash flow after investing activities	155.8	235.8	589.9	701.2	980.8
Purchase of own shares	-	-	-	-39.3	-39.3
Increase in equity (option rights)	7.1	5.1	21.6	11.5	18.4
Profit distribution	-	-	-795.4	-718.2	-718.2
Change in deposits and loans receivable, net	-174.5	-50.9	201.8	153.0	-154.2
Change in loans payable and other interest-bearing debt	-27.7	-173.6	-24.1	-164.6	-20.9
Changes in non-controlling interests	-2.7	-6.7	-3.2	-26.6	-26.7
Cash flow from financing activities	-197.8	-226.1	-599.3	-784.2	-941.0
Change in cash and cash equivalents	-42.0	9.7	-9.3	-83.0	39.8
Cash and cash equivalents at beginning of period	607.9	455.9	589.2	552.7	552.7
Translation difference	-7.1	-1.4	-21.1	-5.4	-3.3
Cash and cash equivalents at end of period	558.7	464.2	558.7	464.2	589.2

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
Interest-bearing net debt at beginning of period	-1,302.1	-1,145.4	-1,687.6	-1,512.6	-1,512.6
Interest-bearing net debt at end of period	-1,464.9	-1,368.7	-1,464.9	-1,368.7	-1,687.6
Change in interest-bearing net debt	-162.8	-223.3	222.7	143.9	-175.0

Notes for the interim report

KEY FIGURES

		1-9/2017	1-9/2016	1-12/2016
Basic earnings per share	EUR	1.34	1.42	2.00
Diluted earnings per share	EUR	1.34	1.41	1.99
Equity per share	EUR	5.06	4.72	5.42
Interest-bearing net debt	MEUR	-1,464.9	-1,368.7	-1,687.6
Total equity/total assets	%	46.2	44.0	46.8
Gearing	%	-56.0	-56.2	-60.4
Return on equity	%	34.2	38.6	38.1
Return on capital employed	%	30.3	34.6	34.1
Total assets	MEUR	7,737.9	7,663.3	7,951.3
Assets employed	MEUR	1,152.9	1,066.5	1,108.0
Net working capital (including financing items and taxes)	MEUR	-933.3	-1,052.8	-1,054.8

The calculation formulas of key figures are presented in KONE's Financial Statements for 2016.

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.

		7-9/2017	7-9/2016	1-9/2017	1-9/2016
Operating income	MEUR	307.3	331.1	851.4	901.1
Operating income margin	%	14.0	15.3	13.5	14.6
Items impacting comparability	MEUR	3.3	-	3.3	-
Adjusted EBIT	MEUR	310.6	331.1	854.7	901.1
Adjusted EBIT margin %	%	14.2	15.3	13.6	14.6

QUARTERLY FIGURES

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

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

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

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

¹⁾ Operating income excluding items impacting comparability.

Net working capital

MEUR	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Net working capital			
Inventories	1,527.7	1,531.8	1,373.5
Advance payments received	-2,072.1	-2,134.7	-1,976.9
Accounts receivable	1,484.2	1,470.7	1,573.7
Deferred assets and income tax receivables	497.2	564.8	429.8
Accruals and income tax payables	-1,695.6	-1,806.2	-1,692.5
Provisions	-135.1	-167.5	-183.2
Accounts payable	-690.2	-676.7	-743.3
Net deferred tax assets/liabilities	150.5	165.0	164.1
Total net working capital	-933.3	-1,052.8	-1,054.8

Depreciation and amortization

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
Depreciation and amortization of fixed assets	20.4	19.3	61.0	56.1	76.9
Amortization of acquisition-related intangible assets	7.9	7.3	23.8	21.8	29.5
Total	28.3	26.6	84.8	77.9	106.5

Key exchange rates in euros

		Sep 30, 2017		Sep 30, 2016	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.5828	7.8534	7.3103	7.4463
US Dollar	USD	1.1151	1.1806	1.1115	1.1161
British Pound	GBP	0.8719	0.8818	0.7997	0.8610
Australian Dollar	AUD	1.4592	1.5075	1.4984	1.4657

Derivatives

Fair values of derivative financial instruments	Derivative assets	Derivative liabilities	Fair value, net	Fair value, net	Fair value, net
	Sep 30, 2017	Sep 30, 2017	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
MEUR					
Foreign exchange forward contracts and swaps	36.2	-16.5	19.7	-1.8	-6.0
Electricity price forward contracts	-	-0.3	-0.3	-0.6	-0.4
Total	36.2	-16.8	19.4	-2.4	-6.4

Nominal values of derivative financial instruments

MEUR	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Foreign exchange forward contracts and swaps	2,442.6	2,700.8	2,629.3
Electricity price forward contracts	1.1	1.9	1.6
Total	2,443.7	2,702.7	2,630.9

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

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

INVESTMENTS

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

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

Commitments

MEUR	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Guarantees			
Others	5.3	7.3	11.2
Operating leases	294.4	298.6	315.6
Total	299.7	306.0	326.8

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,371 (1,396) million as of September 30, 2017.

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

The future minimum lease payments under non-cancellable operating leases

MEUR	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Less than 1 year	69.8	73.1	73.1
1–5 years	159.3	156.3	162.6
Over 5 years	65.2	69.2	79.9
Total	294.4	298.6	315.6

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KONE as a company

At KONE, our mission is to improve the flow of urban life. As a global leader in the elevator and escalator industry, KONE provides elevators, escalators and automatic building doors, as well as solutions for maintenance and modernization to add value to buildings throughout their life cycle. Through more effective People Flow®, we make people's journeys safe, convenient and reliable, in taller, smarter buildings. In 2016, KONE had annual net sales of EUR 8.8 billion, and at the end of the year over 52,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd. in Finland. www.kone.com

This bulletin contains forward-looking statements that are based on the current expectations, known factors, decisions and plans of the management of KONE. Although the management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions as well as fluctuations in exchange rates.