KONE Q4 2018

Financial Statement Bulletin

KONE's January–December 2018 review:

Orders received and sales grew in all regions, adjusted EBIT returned to growth in Q4

October–December 2018

- Orders received grew by 5.0% to EUR 1,938 (10–12/2017: 1,846) million. At comparable exchange rates, orders grew by 5.9%.
- Sales grew by 5.9% to EUR 2,443 (2,306) million. At comparable exchange rates, sales grew by 6.5%.
- Operating income (EBIT) was EUR 292.5 (292.8) million or 12.0% (12.7%) of sales. The adjusted EBIT was EUR 319.6 (302.6) million or 13.1% (13.1%) of sales.*
- Cash flow from operations (before financing items and taxes) was EUR 331.6 (335.0) million.

January–December 2018

- Orders received grew by 3.2% to EUR 7,797 (1–12/2017: 7,554) million. At comparable exchange rates, orders grew by 6.6%.
- Sales grew by 3.1% to EUR 9,071 (8,797) million. At comparable exchange rates, sales grew by 6.3%.
- Operating income (EBIT) was EUR 1,042 (1,192) million or 11.5% (13.6%) of sales. The adjusted EBIT was EUR 1,112 (1,206) million or 12.3% (13.7%) of sales.*
- Cash flow from operations (before financing items and taxes) was EUR 1,150 (1,263) million.
- The Board proposes a dividend of EUR 1.65 per class B share for the year 2018.

KONE has adopted the new IFRS 15 and IFRS 9 effective January 1, 2018. In this Financial Statement Bulletin all 2017 financials are restated applying the standards retrospectively. More information on pages 32–37.

Business outlook for 2019

In 2019, KONE's sales is estimated to grow by 2–7% at comparable exchange rates as compared to 2018. The adjusted EBIT is expected to be in the range of EUR 1,120–1,240 million, assuming that foreign exchange rates would remain at the January 2019 level. Foreign exchange rates are estimated to impact EBIT positively by less than EUR 10 million.

KEY FIGURES

		10–12/2018	10–12/2017	Change	1–12/2018	1–12/2017	Change
Orders received	MEUR	1,937.9	1,845.8	5.0%	7,797.0	7,554.0	3.2%
Order book	MEUR	7,950.7	7,357.8	8.1%	7,950.7	7,357.8	8.1%
Sales	MEUR	2,443.4	2,306.3	5.9%	9,070.7	8,796.7	3.1%
Operating income (EBIT)	MEUR	292.5	292.8	-0.1%	1,042.4	1,192.3	-12.6%
Operating income margin (EBIT margin)	%	12.0	12.7		11.5	13.6	
Adjusted EBIT*	MEUR	319.6	302.6	5.9%	1,112.1	1,205.5	-7.8%
Adjusted EBIT margin*	%	13.1	13.1		12.3	13.7	
Income before tax	MEUR	301.2	301.8	-0.2%	1,087.2	1,250.4	-13.1%
Net income	MEUR	232.2	231.7	0.2%	845.2	960.2	-12.0%
Basic earnings per share	EUR	0.45	0.45	-0.7%	1.63	1.86	-12.3%
Cash flow from operations (before financing items and taxes)	MEUR	331.6	335.0		1,150.1	1,263.3	
Interest-bearing net debt	MEUR	-1,704.0	-1,690.2		-1,704.0	-1,690.2	
Equity ratio	%	49.9	50.0		49.9	50.0	
Return on equity	%	27.7	32.1		27.7	32.1	
Net working capital (including financing items and taxes)	MEUR	-757.8	-772.6		-757.8	-772.6	
Gearing	%	-55.3	-55.8		-55.3	-55.8	

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

Henrik Ehrnrooth, President and CEO:

"We saw positive developments on many fronts in the final quarter of 2018. What I'm especially pleased with is that our adjusted EBIT returned to growth after several tough quarters. This was driven by solid sales growth in both new equipment and services and the actions we have taken to offset the margin headwinds. Our orders received continued to grow in all regions with stabilized margins as in the previous quarters.

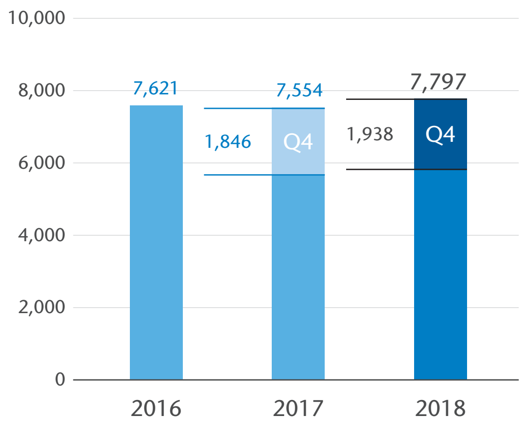
Winning with Customers strategy is taking us towards our strategic targets. We are now half way through the strategic period and we are seeing good progress towards most of our strategic targets. Our customer loyalty has continued to improve and our employee engagement has remained on a high level. However, the adjusted EBIT margin development has been unsatisfactory in the past two years. What I find encouraging is that we have started to concretely see the impacts of our improved differentiation and this is key in improving our profitability. We are also creating demand for new kinds of services and solutions in a way that has not been done in our industry before. I would like to extend my thanks to our employees for their commitment and hard work in this changing environment.

We have already achieved a lot but at the same time we recognize that we are only at the beginning of the journey. Our approach to provide comprehensive People Flow solutions that meet building users' individual needs is clearly appreciated by our customers. We will continue to invest in R&D and importantly, our people, to support them in building new competences and ways of working to succeed in the transformation we are undergoing. The Accelerate program plays a crucial role in speeding up the execution of our strategy. Through the program, we will improve our capability to execute on new services and solutions that truly help our customers succeed and to bring these faster to the markets. By harmonizing the way we work we aim to be more efficient and improve our profitability. We expect to see continued progress and concrete benefits of these efforts in 2019.

Looking ahead at 2019, there are both tailwinds and headwinds. We expect a lower growth environment in the elevator and escalator market as a result of a slowdown in the global economic growth and general geopolitical uncertainty. However, with our solid order backlog and a continued growth outlook for services, we expect KONE's sales to grow by 2–7% at comparable exchange rates. We also expect our adjusted EBIT to return to growth and to be between EUR 1,120 and 1,240 million. The direction is now right, but our ambitions are clearly higher. I am confident that we can make good overall progress in 2019 given the actions that we have taken and the commitment of our team."

Key Figures

Orders received (MEUR)



- **In October–December 2018**, orders received grew by 5.0% (at comparable exchange rates, orders received grew by 5.9%).
- Orders received grew in all regions and all businesses.
- At comparable rates, new equipment orders received grew slightly with slight decline in the volume business and significant growth in major projects. In modernization, orders received grew significantly. Volume business grew slightly while major projects grew significantly.
- Margin of orders received was stable.

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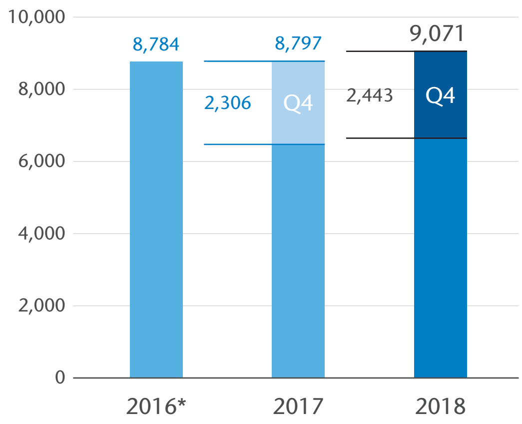
- **In January–December 2018**, orders received grew by 3.2% (at comparable exchange rates, orders received grew by 6.6%).

Sales (MEUR)



*) 2016 not restated with IFRS 15 and IFRS 9 changes

- **In October–December 2018**, sales grew by 5.9% (6.5% at comparable exchange rates).
- New equipment sales grew by 6.4% (7.3% at comparable exchange rates). Service (maintenance and modernization) sales grew by 5.5% (5.7% at comparable rates), with maintenance sales growing by 4.8% (5.0% at comparable rates) and modernization sales growing by 6.9% (7.1% at comparable rates).
- Sales in the EMEA region grew by 2.7% (3.8% at comparable rates). In the Americas region, sales grew by 10.5% (7.9% at comparable rates). In the Asia-Pacific region, sales grew by 7.4% (9.0% at comparable rates).

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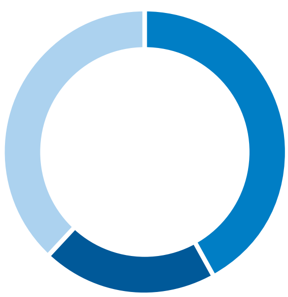
- **In January–December 2018**, sales grew by 3.1% (6.3% at comparable exchange rates).

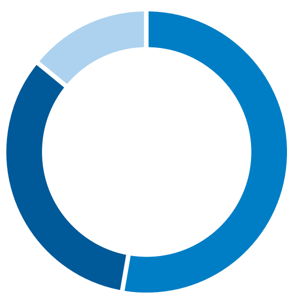
Sales by region



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

1–12/2018 (1–12/2017)

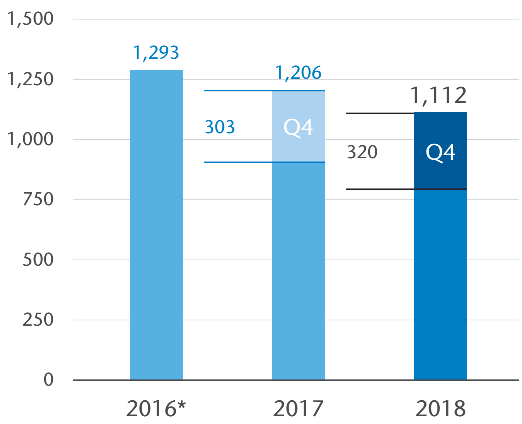
Sales by business



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

1–12/2018 (1–12/2017)

Adjusted EBIT (MEUR)



*) 2016 not restated with IFRS 15 and IFRS 9 changes

- **In October–December 2018**, operating income was 12.0% of sales (10–12/2017: 12.7%). The adjusted EBIT margin was 13.1%.
- Profitability was stable compared to the comparison period.
- Translation exchange rates had a negative impact of EUR 2 million on the operating income.
- Restructuring costs related to the Accelerate program were EUR 27.1 million and are excluded from the calculation of the adjusted EBIT.

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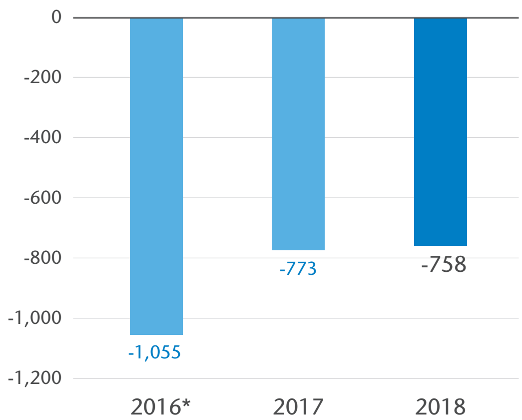
- **In January–December 2018**, operating income was 11.5% of sales (1–12/2017: 13.6%). The adjusted EBIT margin was 12.3% (13.7%).
- Several headwinds burdened the profitability. Focused pricing actions and productivity actions were taken to compensate for these headwinds.

Net working capital[1] (MEUR)

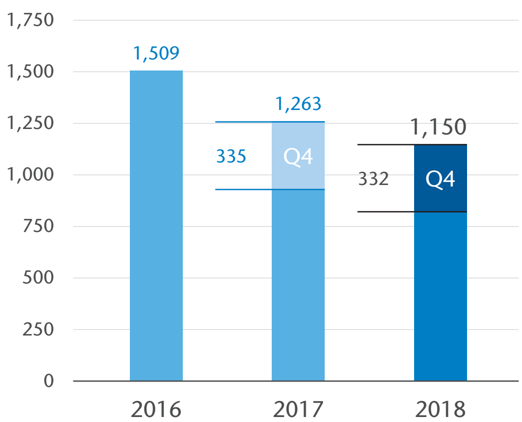


*) 2016 not restated with IFRS 15 and IFRS 9 changes

- **At the end of December 2018**, net working capital was rather stable compared to the beginning of the year.
- Around EUR 40 million of the change in net working capital compared to the end of December 2017 resulted from changes in foreign exchange rates.

1) Including financing items and taxes

Cash flow[2] (MEUR)



- **In October–December 2018**, cash flow was stable compared to the comparison period.

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- **In January–December 2018**, cash flow declined from the comparison period, mainly driven by the decline in the operating income.

2) Cash flow from operations before financing items and taxes

KONE’s January–December 2018 review

KONE’s operating environment

Operating environment by region

	New equipment market in units		Maintenance market		Modernization market	
	10–12/2018	1–12/2018	10–12/2018	1–12/2018	10–12/2018	1–12/2018
Total market	+	+	+	+	+	+
EMEA	Stable	Stable	+	+	–	Stable
Central and North Europe	Stable	Stable	+	+	–	Stable
South Europe	+	+	+	+	–	Stable
Middle East	– –	–	+	+	Stable	+
North America	+	+	+	+	+	+
Asia-Pacific	+	+	++	++	++	+++
China	+	+	++	++	+++	+++

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

October–December 2018

The global new equipment market grew slightly in units compared to the fourth quarter of 2017. **In Asia-Pacific**, the new equipment volumes grew slightly. **In China**, the new equipment market grew slightly in units driven by the residential segment and the infrastructure segment. Government restrictions across city tiers continued to have a cooling effect on the overall markets. **In the rest of Asia-Pacific**, the new equipment markets grew slightly with clear variation between countries. **In the EMEA region**, the new equipment market was rather stable. The 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 continued to decline due to uncertainty across the region. **In North America**, the new equipment market continued to grow slightly from a high level.

Global service markets continued to develop positively. Maintenance continued to see growth across the regions with the strongest rate of growth seen in Asia-Pacific and a more moderate development in Europe and North America. Modernization markets were more varied with strong growth in Asia-Pacific and a decline in some European countries.

Pricing trends remained varied during October-December. Across the regions, cost increases, both for material and labor drove a need to increase prices. In China, competition remained intense but pricing was rather stable in the new equipment market. In the EMEA region, the pricing environment continued to be characterized by strong competition, particularly in the South Europe and Middle East region. In North America, competition increased in some segments but the overall pricing environment was more favorable than in some other regions.

January–December 2018

In 2018, **the global new equipment market** grew slightly in units compared to the previous year. **In Asia-Pacific**, the new equipment volumes grew slightly with slight growth in both **China and in the rest of Asia-Pacific** driven by the Indian market and South-East Asia. **In the EMEA region**, the new equipment market was rather stable. 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 in the first half of the year, but declined in the second half due to increased uncertainty across the region. **In North America**, the new equipment market continued to grow slightly from a high level.

Global service markets continued to develop positively. Both the maintenance and the modernization markets continued to see growth across the regions, with the strongest rate of growth seen in Asia-Pacific and a more moderate development in Europe and North America.

Pricing trends remained varied during January–December. Across the regions, cost increases, both for material and labor drove a need to increase prices. In China, competition remained intense but pricing was rather stable in the new equipment market. In the EMEA region, the pricing environment continued to be characterized by strong competition, particularly in the South Europe and Middle East region. In North America, competition increased in some segments but the overall pricing environment was more favorable than in some other regions.

Orders received and order book

Orders received

MEUR	10–12/2018	10–12/2017	Change	Comparable change*	1–12/2018	1–12/2017	Change	Comparable change*
Orders received	1,937.9	1,845.8	5.0%	5.9%	7,797.0	7,554.0	3.2%	6.6%

* 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 2018

Orders received grew by 5.0% as compared to October-December 2017 and totaled EUR 1,938 million. At comparable exchange rates, KONE's orders received grew by 5.9%.

At comparable rates, new equipment orders received grew slightly with slight decline in the volume business and significant growth in major projects. In modernization, orders received grew significantly. Volume business grew slightly while major projects grew significantly.

The relative margin of orders received was stable compared to the comparison period. We have taken focused pricing actions and continued to make progress in improving productivity to compensate for the cost pressures.

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to October–December 2017. New equipment orders in the region grew slightly, while modernization orders received grew clearly.

In the Americas region, orders received saw significant growth at comparable rates as compared to October–December 2017. Modernization orders grew significantly, and new equipment orders grew clearly.

Orders received **in the Asia-Pacific region** grew slightly at comparable rates as compared to October–December 2017. In China, new equipment orders grew clearly in units and in monetary value. Like-for-like prices were slightly higher than in the comparison period while mix was slightly negative. In the rest of Asia-Pacific, new equipment orders received were stable with a significant decline in Australia and a significant growth in Southeast Asia. Modernization orders grew significantly in China and slightly in the rest of Asia-Pacific.

January–December 2018

Orders received grew by 3.2% as compared to January–December 2017 and totaled EUR 7,797 million. At comparable exchange rates, KONE's orders received grew by 6.6%.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 166,000 units (2017: 158,000 units).

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

The relative margin of orders received was stable compared to the comparison period. We have taken focused pricing actions and continued to make progress in improving productivity to compensate for the cost pressures.

Orders received in the EMEA region grew clearly at comparable exchange rates as compared to January–December 2017. The clear growth in new equipment orders was driven by significant growth in Europe. Modernization orders in the region grew clearly.

In the Americas region, orders received saw clear growth at comparable rates as compared to January–December 2017. Modernization orders grew significantly, and new equipment orders grew slightly in the region.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2017. In China, new equipment orders grew clearly in units and in monetary value. Like-for-like prices were slightly higher than in the comparison period while mix was slightly negative. In the rest of Asia-Pacific, new equipment orders received grew clearly. Modernization orders grew significantly in China and slightly in the rest of Asia-Pacific.

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

Order book

MEUR	Dec 31, 2018	Dec 31, 2017	Change	Comparable change*
Order book	7,950.7	7,357.8	8.1%	8.0%

* Change at comparable foreign exchange rates

The order book grew clearly compared to the end of December 2017 and stood at a strong level of EUR 7,951 million at the end of the reporting period.

The order book margin remained at a healthy level. Cancellations of orders remained at a very low level.

Sales

By region

MEUR	10–12/2018	10–12/2017	Change	Comparable change*	1–12/2018	1–12/2017	Change	Comparable change*
EMEA	1,032.9	1,005.6	2.7%	3.8%	3,791.5	3,594.5	5.5%	7.6%
Americas	478.5	432.9	10.5%	7.9%	1,804.6	1,778.5	1.5%	6.1%
Asia-Pacific	932.0	867.8	7.4%	9.0%	3,474.6	3,423.7	1.5%	4.9%
Total	2,443.4	2,306.3	5.9%	6.5%	9,070.7	8,796.7	3.1%	6.3%

* Change at comparable foreign exchange rates

By business

MEUR	10–12/2018	10–12/2017	Change	Comparable change*	1–12/2018	1–12/2017	Change	Comparable change*
New equipment	1,284.6	1,207.5	6.4%	7.3%	4,796.9	4,653.9	3.1%	6.6%
Services	1,158.8	1,098.8	5.5%	5.7%	4,273.9	4,142.8	3.2%	5.9%
Maintenance	779.6	744.0	4.8%	5.0%	2,968.7	2,887.3	2.8%	5.4%
Modernization	379.2	354.9	6.9%	7.1%	1,305.1	1,255.6	3.9%	7.1%
Total	2,443.4	2,306.3	5.9%	6.5%	9,070.7	8,796.7	3.1%	6.3%

* Change at comparable foreign exchange rates

October–December 2018

KONE's sales grew by 5.9% as compared to October-December 2017, and totaled EUR 2,443 million. At comparable exchange rates, KONE's sales grew by 6.5%.

Sales in the EMEA region grew by 2.7% and totaled EUR 1,033 million. At comparable exchange rates, the growth was 3.8%. New equipment sales grew clearly, and maintenance and modernization sales grew slightly in the region.

In the Americas, sales grew by 10.5% and totaled EUR 478.5 million. At comparable exchange rates, sales grew by 7.9%. New equipment and modernization sales grew significantly, while maintenance sales grew slightly in the region.

In Asia-Pacific, sales grew by 7.4% and totaled EUR 932.0 million. At comparable exchange rates, sales grew by 9.0%. Maintenance and modernization sales grew significantly and new equipment sales grew clearly.

January–December 2018

KONE's sales grew 3.1% as compared to the prior year, and totaled EUR 9,071 million. At comparable exchange rates, KONE's sales grew by 6.3%. The sales consolidated from the companies acquired in 2018 did not have a material impact on KONE's sales for the financial period.

New equipment sales accounted for EUR 4,797 million and grew by 3.1% over the comparison period. At comparable exchange rates, new equipment sales grew by 6.6%

Service (maintenance and modernization) sales grew by 3.2%, and totaled EUR 4,274 million. At comparable exchange rates, service sales grew by 5.9%. Maintenance sales grew by 2.8% (5.4% at comparable exchange rates) and totaled EUR 2,969 million. Modernization sales increased by 3.9% (7.1% at comparable exchange rates) and totaled EUR 1,305 million.

KONE's elevator and escalator maintenance base continued to grow and was approximately 1.3 million units at the end of 2018 (over 1.2 million units at the end of 2017).

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 2018, 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 (>25% of sales), the United States (>15%), Germany (~6%) and France (~5%).

Sales in the EMEA region grew by 5.5% and totaled EUR 3,791 million. At comparable exchange rates, the growth was 7.6%. New equipment sales grew significantly, and maintenance and modernization sales grew slightly in the region.

In the Americas, sales grew by 1.5% and totaled EUR 1,805 million. At comparable exchange rates, sales grew by 6.1%. Modernization sales grew significantly, new equipment sales grew clearly and maintenance sales grew slightly.

In Asia-Pacific, sales grew by 1.5% and totaled EUR 3,475 million. At comparable exchange rates, sales grew by 4.9%. New equipment sales grew slightly, while maintenance and modernization sales grew significantly.

Financial result

Financial result

	10–12/2018	10–12/2017	Change	1–12/2018	1–12/2017	Change
Operating income, MEUR	292.5	292.8	-0.1%	1,042.4	1,192.3	-12.6%
Operating income margin, %	12.0	12.7		11.5	13.6	
Adjusted EBIT, MEUR	319.6	302.6	5.9%	1,112.1	1,205.5	-7.8%
Adjusted EBIT margin, %	13.1	13.1		12.3	13.7	
Income before taxes, MEUR	301.2	301.8	-0.2%	1,087.2	1,250.4	-13.1%
Net income, MEUR	232.2	231.7	0.2%	845.2	960.2	-12.0%
Basic earnings per share, EUR	0.45	0.45	-0.7%	1.63	1.86	-12.3%

October–December 2018

KONE's operating income (EBIT) was stable at EUR 292.5 million or 12.0% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 319.6 million or 13.1% of sales.

Profitability was stable compared to the comparison period.

Translation exchange rates had a negative impact of EUR 2 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 27.1 million.

Basic earnings per share was EUR 0.45.

January–December 2018

KONE's operating income (EBIT) declined to EUR 1,042 million or 11.5% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,112 million or 12.3% of sales.

Several headwinds burdened the profitability. Focused pricing actions and productivity actions were taken to compensate for these headwinds.

Translation exchange rates had a negative impact of somewhat over EUR 40 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 69.6 million.

Net financing items was EUR 47.2 (58.3) million and consisted mainly of interest income from investments.

KONE's income before taxes was EUR 1,087 million. Taxes totaled EUR 241.9 (290.2) million. This represents an effective tax rate of 22.3% (23.2%) for the financial year. The effective tax rate from operations for the financial year 2018 was 22.9%, excluding the tax impact of the US tax reform and deferred tax impact from corporate income tax rate changes. Net income for the period under review was EUR 845.2 (960.2) million.

Basic earnings per share was EUR 1.63.

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

Cash flow and financial position

Cash flow and financial position

	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Cash flow from operations (before financing items and taxes), MEUR	331.6	335.0	1,150.1	1,263.3
Net working capital (including financing items and taxes), MEUR			-757.8	-772.6
Interest-bearing net debt, MEUR			-1,704.0	-1,690.2
Gearing, %			-55.3	-55.8
Equity ratio, %			49.9	50.0
Equity per share, EUR			5.94	5.85

KONE's financial position was very strong at the end of December 2018.

Cash flow from operations (before financing items and taxes) during January–December 2018 declined to EUR 1,150 million driven mainly by the decline in operating income.

Net working capital (including financing items and taxes) was EUR -757.8 million at the end of December 2018 and was rather stable compared to the beginning of the year.

Interest-bearing net debt was EUR -1,704 million at the end of December 2018. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,043 (December 31, 2017: 2,065) million at the end of the reporting period. Interest-bearing liabilities were EUR 369.1 (387.4) million, including a net pension liability of EUR 147.0 (152.2) million and short-term loans of EUR 17.9 (30.1) million. In addition, the interest-bearing net debt includes EUR 10.4 (10.3) million of option liabilities from acquisitions. Gearing was -55.3% and equity ratio was 49.9% at the end of December 2018.

Equity per share was EUR 5.94.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	10–12/2018	10–12/2017	1–12/2018	1–12/2017
On fixed assets	33.9	30.8	92.7	94.6
On leasing agreements	5.3	1.7	19.3	21.7
On acquisitions	16.8	18.6	27.8	35.1
Total	56.1	51.1	139.8	151.3

KONE's capital expenditure and acquisitions totaled EUR 139.8 million in January–December 2018. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production.

Acquisitions totaled EUR 27.8 million in January–December 2018. KONE completed small acquisitions of maintenance businesses in Europe and in the United States and a small divestment in the United States. The acquisitions completed during the reporting period did not individually or as a whole have a material impact on the result or financial position of KONE.

Non-financial information

One of KONE's strategic targets is to be a leader in sustainability. KONE is proud to conduct its business in a responsible and sustainable way, and we expect the same commitment from all our partners. We are committed to the laws and regulations of the countries where we operate. KONE is a member of the UN Global Compact and we are dedicated to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment.

We have also received external recognition for our efforts to conduct business in a sustainable way. For example, in 2018, KONE was again included in the FTSE4Good index and listed among the top climate change performers by CDP, an international not-for-profit organization that drives engagement for climate action. This is the sixth consecutive year that we achieve a leadership score of A or A-, which describes our long-term commitment to environmental work and sustainability. KONE was also listed as one of the best employers and one of the most innovative companies in the world by Forbes. In addition, KONE has been awarded the Ecovadis gold medal for our sustainability performance.

KONE's business model is described in the Annual Review on pages 6–7. Risks related to matters below and risk management are described on pages 19–20.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2017 in April 2018. KONE's Sustainability Report for 2018 will be published in April 2019 according to the renewed GRI Standards.

KONE Sustainability Report 2018

- Will be published during Q2 2019.
- In the report, you can find more detailed information about sustainability

Non-financial key performance indicators

Environmental matters	Annual reduction of KONE's carbon footprint relative to sales, %
	Share of strategic suppliers ISO 14001 certified, %
	Share of green electricity used in our facilities, %
	Share of landfill waste at our manufacturing units, %
Personnel and social matters	Gender distribution, %
	Gender distribution in director level positions, %
	Personnel voluntary turnover rate, %
	Employee engagement
	Industrial Injury Frequency Rate (IIFR)
Human rights, anti-corruption & bribery	Share of employees with completed Code of Conduct training, %
	Share of key suppliers who have signed the Supplier Code of Conduct, %
	Share of distributors who have signed the Distributor Code of Conduct, %

ENVIRONMENTAL MATTERS

KONE's environmental targets for 2017–2021 are to be the leading provider of low-carbon People Flow® solutions and to have efficient low-carbon operations. Our Environmental Excellence program supports the transformation of the built environment into smart eco-cities, low-carbon communities, and net zero energy buildings. Improving resource efficiency is one of our top priorities.

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

The most significant environmental impact of KONE's business relates to the amount of electricity used by KONE's solutions during their lifetime, underlining the importance of eco-efficient innovations. 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 high rise KONE MiniSpace™ elevator and for the KONE 3000 TranSys™ elevator, in addition to 15 elevators or escalators classified earlier.

In 2018, four additional KONE solutions, the KONE TransitMaster™ 140 escalator, and the KONE S MonoSpace®, KONE S MiniSpace™ and KONE 3000 TranSys™ elevators received the Singapore Green Building Product (SGBP) certificates with top ratings. KONE is the first elevator and escalator company to achieve such top ratings in the vertical transportation category. Three other KONE solutions have previously been granted the SGBP certificates. Through the certification, these solutions are recommended for Green Mark certified green buildings.

KONE's target is to reduce the carbon footprint relative to sales by 3% annually. Our 2018 operational carbon footprint results will be published in the second quarter of 2019. In 2017, KONE's overall carbon footprint (scope 1, 2 and 3) relative to sales decreased by 0.2% (4,1%) compared to 2016 with sales growth calculated at comparable exchange rates. The carbon footprint of scope 1 and 2 greenhouse gas emissions relative to sales decreased by 2.6%. The most significant impact of KONE's operational carbon footprint relates to logistics, our vehicle fleet, and electricity/district heat consumption at KONE's facilities. The main reason for not meeting the 3% overall carbon footprint reduction target in 2017 is related to increased logistics emissions, for example resulting from longer transportation distances. KONE is committed to reducing electricity consumption in our operations and encourages the use of green electricity in our facilities. In 2017, 30% of all electricity in KONE facilities was produced from renewable sources, our target being more than 50% by 2021. In addition, we have set a long-term target of 0% landfill waste from our manufacturing units by 2030. In 2017, only 0.8% of the waste in our 13 manufacturing units was landfilled (2016: 9.7%). KONE's greenhouse gas reporting, including carbon footprint, energy and waste data, is assured externally.

In New Zealand, KONE's country organization maintained the carboNZero™ certification and was listed among the top 20 reducers by Enviro-Mark Solutions. The certification acknowledges companies for their greenhouse gas management, reduction and neutralization efforts. Also, KONE Austria is carbon neutral for 2018 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 20 major subsidiaries. During 2018, KONE achieved the ISO 9001 & 14001 quality and environmental management system recertification to the 2015 version of the two standards. At the end of 2018, 90% (94%) of our strategic suppliers were ISO 14001 certified, our target being 100%.

PERSONNEL AND SOCIAL MATTERS

Number of employees

	1–12/2018	1–12/2017
Average number of employees	56,119	53,417
Number of employees at the end of period	57,359	55,075

Geographical distribution of KONE employees

	1–12/2018	1–12/2017
EMEA	22,645	22,013
Americas	7,465	7,320
Asia-Pacific	27,249	25,742
Total	57,359	55,075

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.

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 139 (129) nationalities. The majority of our employees are male representing 88% (88%) of our people globally. Women accounted for 17% (17%) of director level positions in 2018. We continue our efforts towards having a more balanced gender split.

One of our strategic targets is to be a great place to work, which we measure by employee engagement. During the second quarter of 2018, we conducted our annual employee engagement survey covering all employees. The response rate was 91% and employee engagement remained on a high level. Results were shared and actions planned together with employees in all countries and units.

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.

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 2018, we launched a Leadership Fundamentals program for all new people leaders at KONE and a senior leader program with IMD, an independent business school, focusing on customer centricity and agile leadership. We continued strengthening our training capability by opening new training centers in Malaysia, India, and in Vietnam, adding up to a total of 39 (35) KONE training centers globally.

To further support competence development, KONE offered more than 4,700 training programs and online modules, and several new training programs were launched during the reporting year. Over 14,500 employees had the chance to try out new learning methods such as virtual reality, gamification and mobile learning. In addition, employee development through internal job rotation opportunities remained a focus area at KONE.

In September 2017, we launched a program to accelerate the execution of the strategy and to support profitable growth. The program, called Accelerate Winning with customers, aims at creating a more customer-focused way of working on a country, area and global level, across the entire KONE organization. In 2018, we undertook organizational changes in several functions, such as Finance, Customer Solutions Engineering and Sourcing, in order to create a faster-moving, customer-centric organization that leverages our scale more efficiently.

A key focus area within the KONE people strategy is attracting the best talent. In 2018, targeting new competencies and increasing diversity through recruitment was one of the key focus areas of KONE's talent acquisition teams. 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 79% of all applicants for KONE positions are attracted from other industries. Furthermore, we received more than 2,400 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.

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 2018, the newly elected participants enjoyed the sustainability theme in the Forum.

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

Over the year, improving safety at work remained a top priority. KONE introduced a companywide safety management system to guide us in achieving continual improvement. KONE employees receive health and safety training relevant to one's work enabling it to be performed in a professional and safe manner. Interactive learning application was developed to refresh and remind employees of existing knowledge and to raise safety awareness in day to day activities. Managers perform regular audits to measure compliance with KONE's policies, rules and defined working methods. Corrective actions are taken if deviations are identified. KONE also conducts process audits to identify possible obstacles to work safety. If any are found, the work in question is stopped until a safe method is approved.

In 2018, the IIFR (Industrial Injury Frequency Rate) remained at low level and was 2.1 (1.9). We continue to target zero incidents. The average lost days per incident improved to 27.4 days (28.9). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 4%. Focus during the year was on improving the quality, analysis and investigation of these observations.

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 57,359 (December 31, 2017: 55,075) employees at the end of December 2018. The average number of employees was 56,119 (1–12/2017: 53,417). Personnel voluntary turnover rate was 8.5% (7.6%). Employee costs for the reporting period totaled EUR 2,818 (2,725) million. The geographical distribution of KONE employees was 39% (December 31, 2017: 40%) in EMEA, 13% (13%) in the Americas and 48% (47%) 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.

In 2018, we designed and launched a new Code of Conduct E-learning course for all KONE employees. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy, work safety and gifts & hospitality, and has a strong focus on scenarios that reflect day to day situations employees might face. Once globally rolled-out, the course will be available in over 30 languages. More than 25,000 employees in 16 countries were assigned the training in 2018 with a completion rate of 94%. Roll-out of the new training will be completed in 2019. Regular face-to-face compliance training is also provided to managers and other target groups. In 2018, nearly 4,000 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. At the end of 2018, 89% (98%) of current key suppliers of components for KONE's products have signed the Code. The scope of this group has been expanded since 2017. 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 2018, 100% (100%) of our distributors in China, and 75% (60%) of our distributors in the rest of the world, have signed the Code.

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

Research and development

R&D expenditure

	10–12/2018	10–12/2017	Change	1–12/2018	1–12/2017	Change
R&D expenditure, MEUR	44.8	44.3	1.2%	164.0	158.4	3.5%
As percentage of sales, %	1.8	1.9		1.8	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 expenditures totaled EUR 164.0 million, representing 1.8% of sales in January–December 2018. R&D expenditures include the development of new product and service concepts as well as further development of existing solutions and services.

During the first quarter of 2018, KONE introduced a new digital platform, which uses state-of-the-art technologies and is open to third-party solutions. KONE's digital platform connects customers, users and employees to equipment and data transforming the people flow experience in buildings and cities. In connection with the launch of the platform, KONE introduced a renewed products and services portfolio utilizing the platform and consisting of three layers: 1) KONE's core solutions 2) Advanced People Flow Solutions 3) People Flow Plan-

HIGHLIGHTS 2018

- KONE introduced a new digital platform and a renewed products and services portfolio
- KONE was ranked 59th on Forbes' list of the world's most innovative companies

ning and Consulting Services. In addition, KONE 24/7 Connected Services, a KONE core solution using advanced IoT technologies, was extended to escalators in the first quarter of 2018. During the second quarter, KONE was ranked as one of the world's most innovative companies in 2018 by the business magazine Forbes. KONE ranked 59th and was the only elevator and escalator company on the list.

KONE also launched new elevator models and made several updates and enhancements to its existing product offering during the reporting period. In January–March, KONE launched new elevator models, U MonoSpace®, a machine-roomless elevator, and U MiniSpace™, a small-machine room elevator in India. During the second quarter of 2018, KONE extended its offering in the residential and commercial segments and launched a renewed version of the JumpLift in China. During the third quarter, KONE made several enhancements to the MonoSpace®, EcoSpace™ and TranSys™ elevator models in the EMEA region. In China, KONE 24/7 Connected Services was made available for new escalator and autowalk deliveries. During the fourth quarter, KONE launched a new escalator product KONE TransitMaster 210 and 220 in the Americas. KONE Residential Flow was made available for most of the modernization offering in the residential segment in Europe.

Changes in the Executive Board

In 2018, there were no changes in the Executive Board.

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 198 million at the end of December 2018 (September 30, 2018: EUR 198 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 over 25% 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.

The risks related to geopolitical tensions and protectionism have increased during the past year. 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. A no-deal Brexit could also increase costs, create disruptions to KONE's operations in UK and affect KONE's UK based suppliers operations.

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 could result in a deterioration of the competitiveness of KONE's offering.

OPERATIONAL RISKS

Digitalization is shaping the ways of working and business models also in the elevator and escalator industry. In order to be successful in this transformation, KONE needs new organizational capabilities and new competences on the individual employee level. The ability for fast roll out of new services and solutions and new sales capabilities are among other things considered to be critical for success. A failure to develop these capabilities could have an adverse impact on KONE's growth and profitability.

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

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.
Changes in customer requirements or competitors' offerings impacting the competitiveness of KONE's offering	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.
A failure to develop the capabilities needed for the digital transformation	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 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.
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 2018.

resources and has outsourced some business support processes. These expose KONE to component and skilled labor availability and cost risk. 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 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. Physical damage to these operations caused by fire, extreme weather conditions, natural catastrophes or terrorism, among other things, could cause business interruption for KONE. Both KONE's and its suppliers operations also utilize extensively information technology and KONE's business is dependent on the quality, integrity and availability of information. Thus, KONE is exposed to cyber security risks, as operational information systems and products may be vulnerable to interruption, loss or manipulation of data, or malfunctions which can result in disruptions in processes and equipment availability. Any breach of sensitive employee or customer data may also result in significant penalties as well as reputational damage. Such cyber incidents could be caused by, including but not limited to, cybercrime, cyber-attacks, computer malware, information theft, fraud, misappropriation, or inadvertent actions from our employees and vendors.

FINANCIAL RISKS

The majority of KONE's sales 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 and cash flow. For further information on financial risks, please refer to notes 2.4 and 5.3 in KONE's Financial Statements for 2018.

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

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

Environmental risks

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. For example, 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 risk 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 control. KONE also follows globally accepted 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. We have engaged a third party to conduct a human rights risk assessment in order to further prioritize our work in this area.

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. 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, 2018. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1-December 31, 2017.

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 (previously 54,000) for the Chairman of the Board, EUR 45,000 (44,000) for the Vice Chairman and EUR 40,000 (37,000) 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 Heikki Lassila were nominated as auditors.

Share capital and market capitalization

Share capital and market capitalization*

	Dec 31, 2018	Dec 31, 2017
Number of class A shares	76,208,712	76,208,712
Number of class B shares	451,883,955	450,971,695
Total shares	528,092,667	527,180,407
Share capital, EUR	66,011,583	65,897,551
Market capitalization* MEUR	21,489	23,052

* 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 2018, the reward was based on the development of orders received, the growth in maintenance business and operating income (EBIT) 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 two years. 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 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 were held by KONE Corporation's subsidiary. Each option entitled its holder to subscribe for one (1) new class B shares at the price of, from February 27, 2018, EUR 25.00 per share. During the reporting period, 865,638 class B shares were subscribed for with 2014 option rights. The subscription period for the KONE 2014 option ended on April 30, 2018. The 133,000 KONE 2014 option rights in possession of KONE Corporation's subsidiary, and the 4,060 KONE 2014 option rights not exercised during the subscription period expired upon the expiry of the subscription period.

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, 46,622 class B shares were subscribed for with 2015 option rights. On December 31, 2018, a maximum of 1,309,303 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 February 27, 2018, EUR 30.40 per share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019.

On December 31, 2018, KONE's share capital was EUR 66,011,583 comprising 451,883,955 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 21,489 million on December 31, 2018, 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

	1–12/2018
Shares in KONE's possession at the beginning of the period	12,402,796
Changes in own shares during the period	-370,982
Shares in KONE's possession at the end of the period	12,031,814

At the end of December 2018, the Group had 12,031,814 class B shares in its possession. The shares in the Group's possession 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

		1–12/2018	1–12/2017
Shares traded on the Nasdaq Helsinki Ltd., million		172.4	175.3
Average daily trading volume		689,430	698,221
Volume-weighted average share price	EUR	43.68	43.73
Highest share notation	EUR	49.13	47.70
Lowest share notation	EUR	38.05	39.77
Share notation at the end of period	EUR	41.64	44.78

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 30.0% of the total volume of KONE's class B shares traded in January–December 2018 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 61,139 at the beginning of the review period and 62,491 at its end. The number of private households holding shares totaled 58,738 at the end of the period, which corresponds to approximately 12.8% of the listed B shares. At the end of December 2018, a total of 52.7% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–December 2018, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on March 29, June 13, June 26 and October 19. 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 excluding financial instruments decreased below five (5) per cent of the total number of shares of KONE Corporation on October 18, 2018. The total number of shares including financial instruments owned by BlackRock, Inc. and its funds remained above five (5) per cent of the total number of shares of KONE Corporation on October 18, 2018.

Market outlook 2019

The increased uncertainty in many major markets impacts the visibility of the overall market development for 2019. The new equipment market is expected to be stable or to decline slightly. In China the market is expected to decline slightly or to be stable in units ordered, while in the rest of the Asia-Pacific, the market is expected to grow slightly. A more stable development is expected in North America and the Europe, Middle East and Africa region.

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

Outlook

Market outlook 2019

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

Business outlook 2019

In 2019, KONE's sales is estimated to grow by 2–7% at comparable exchange rates as compared to 2018. The adjusted EBIT is expected to be in the range of EUR 1,120–1,240 million, assuming that foreign exchange rates would remain at the January 2019 level. Foreign exchange rates are estimated to impact EBIT positively by less than EUR 10 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 2019 in the new equipment business and the service business is expected to continue to grow. Targeted pricing and productivity improvement actions are expected to support profitability together with the savings from the Accelerate program. High component and labor costs together with trade tariffs are the main headwinds for the adjusted EBIT in 2019. The impact of high raw material prices and trade tariffs is estimated to be approximately EUR 50 million.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2018 was EUR 2,453,122,735.36 of which the net profit for the financial year is EUR 1,067,984,631.14.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6475 be paid on the outstanding 76,208,712 class A shares and EUR 1.65 on the outstanding 439,852,141 class B shares, resulting in a total amount of proposed dividends of EUR 851,309,885.67.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,601,812,849.69 be retained and carried forward.

The Board proposes that the dividends be payable on March 7, 2019. All the shares existing on the dividend record date are entitled to dividend for the year 2018 except for the own shares held by the parent company.

Annual General Meeting 2019

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Tuesday, February 26, 2019 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 24, 2019

KONE Corporation's Board of Directors

Accounting Principles

The information presented in this report is based on the audited KONE 2018 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 2018. In this Financial Statement Bulletin all 2017 financials are restated applying IFRS 15 and IFRS 9 retrospectively.

Consolidated statement of income

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.

MEUR	10–12/2018	%	10–12/2017	%	1–12/2018	%	1–12/2017	%
Sales	2,443.4		2,306.3		9,070.7		8,796.7	
Costs and expenses	-2,120.3		-1,984.1		-7,909.4		-7,490.1	
Depreciation and amortization	-30.6		-29.5		-118.9		-114.3	
Operating income	292.5	12.0	292.8	12.7	1,042.4	11.5	1,192.3	13.6
Share of associated companies' net income	-0.1		-0.3		-2.5		-0.2	
Financing income	13.6		12.7		61.4		72.2	
Financing expenses	-4.8		-3.3		-14.2		-13.9	
Income before taxes	301.2	12.3	301.8	13.1	1,087.2	12.0	1,250.4	14.2
Taxes	-69.0		-70.1		-241.9		-290.2	
Net income	232.2	9.5	231.7	10.0	845.2	9.3	960.2	10.9
Net income attributable to:								
Shareholders of the parent company	230.3		231.2		840.8		955.8	
Non-controlling interests	1.9		0.5		4.4		4.4	
Total	232.2		231.7		845.2		960.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR								
Basic earnings per share, EUR	0.45		0.45		1.63		1.86	
Diluted earnings per share, EUR	0.45		0.45		1.63		1.86	

Consolidated statement of comprehensive income

MEUR	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Net income	232.2	231.7	845.2	960.2
Other comprehensive income, net of tax:				
Translation differences	32.8	-12.7	13.8	-204.9
Hedging of foreign subsidiaries	-8.6	7.3	-14.9	52.8
Cash flow hedges	8.6	9.6	-16.3	39.6
Items that may be subsequently reclassified to statement of income	32.8	4.1	-17.4	-112.5
Changes in fair value	4.4	-2.1	7.1	-12.2
Remeasurements of employee benefits	0.9	2.8	15.7	8.3
Items that will not be reclassified to statement of income	5.3	0.7	22.8	-3.9
Total other comprehensive income, net of tax	38.1	4.8	5.4	-116.4
Total comprehensive income	270.3	236.5	850.6	843.8
Total comprehensive income attributable to:				
Shareholders of the parent company	268.4	236.0	846.2	839.4
Non-controlling interests	1.9	0.5	4.4	4.4
Total	270.3	236.5	850.6	843.8

Condensed consolidated statement of financial position

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.

Assets

MEUR		Dec 31, 2018	Dec 31, 2017
Non-current assets			
Goodwill		1,333.4	1,325.5
Other intangible assets		260.2	274.5
Tangible assets		397.4	377.0
Loan receivables and other interest-bearing assets	I	1.0	0.7
Investments		143.3	134.3
Employee benefits	I	29.0	11.5
Deferred tax assets	II	253.7	263.3
Total non-current assets		2,418.2	2,386.9
Current assets			
Inventories	II	624.1	626.8
Accounts receivable	II	1,988.3	1,910.8
Deferred assets	II	601.5	404.5
Income tax receivables	II	59.0	67.5
Current deposits and loan receivables	I	1,407.0	1,568.8
Cash and cash equivalents	I	636.0	496.5
Total current assets		5,315.9	5,075.0
Total assets		7,734.0	7,461.9

Equity and liabilities

MEUR		Dec 31, 2018	Dec 31, 2017
Equity		3,080.6	3,028.9
Non-current liabilities			
Loans	I	193.8	194.7
Employee benefits	I	147.0	152.2
Deferred tax liabilities	II	148.7	143.8
Total non-current liabilities		489.5	490.7
Provisions	II	139.4	137.9
Current liabilities			
Loans	I	28.3	40.5
Advance payments received and deferred revenue	II	1,562.2	1,404.6
Accounts payable	II	786.7	705.1
Accruals	II	1,574.0	1,569.2
Income tax payables	II	73.3	85.1
Total current liabilities		4,024.5	3,804.4
Total equity and liabilities		7,734.0	7,461.9

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

Consolidated statement of changes in equity

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.

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

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	-11.4	221.8	-113.5	-236.7	2,590.5		12.7	2,795.6
Restatement impact				20.2	-3.8			128.5		4.9	149.8
Jan 1, 2017, restated	65.8	100.3	166.1	8.9	218.0	-113.5	-236.7	2,718.9		17.6	2,945.4
Net income for the period									955.8	4.4	960.2
Other comprehensive income:											
Translation differences					-204.9						-204.9
Hedging of foreign subsidiaries					52.8						52.8
Cash flow hedges				39.6							39.6
Changes in fair value				-12.2							-12.2
Remeasurements of employee benefits						8.3					8.3
Transactions with shareholders and non-controlling interests:											
Profit distribution								-795.4			-795.4
Increase in equity (option rights)	0.1		24.7								24.9
Purchase of own shares											-
Change in non-controlling interests										-7.0	-7.0
Option and share-based compensation			15.0				18.9	-16.6			17.2
Dec 31, 2017	65.9	100.3	205.8	36.2	65.9	-105.2	-217.8	1,906.9	955.8	15.0	3,028.9

Condensed consolidated statement of cash flows

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.

MEUR	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Operating income	292.5	292.8	1,042.4	1,192.3
Change in working capital before financing items and taxes	8.5	12.7	-11.2	-43.3
Depreciation and amortization	30.6	29.5	118.9	114.3
Cash flow from operations before financing items and taxes	331.6	335.0	1,150.1	1,263.3
Cash flow from financing items and taxes	12.5	-57.5	-180.2	-299.6
Cash flow from operating activities	344.1	277.5	969.8	963.7
Cash flow from investing activities	-53.2	-47.2	-121.1	-143.5
Cash flow after investing activities	290.8	230.2	848.7	820.2
Purchase of own shares	-	-	-	-
Increase in equity (option rights)	0.6	3.3	23.1	24.9
Profit distribution	-	-	-849.2	-795.4
Change in deposits and loans receivable, net	-175.9	-284.2	155.3	-82.4
Change in loans payable and other interest-bearing debt	-21.5	-9.1	-35.3	-33.2
Changes in non-controlling interests	0.0	-2.4	-3.1	-5.5
Cash flow from financing activities	-196.8	-292.4	-709.2	-891.7
Change in cash and cash equivalents	94.0	-62.2	139.5	-71.5
Cash and cash equivalents at beginning of period	539.6	558.7	496.5	589.2
Translation difference	2.4	-0.0	-0.1	-21.1
Cash and cash equivalents at end of period	636.0	496.5	636.0	496.5

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Interest-bearing net debt at beginning of period	-1,425.5	-1,464.9	-1,690.2	-1,687.6
Interest-bearing net debt at end of period	-1,704.0	-1,690.2	-1,704.0	-1,690.2
Change in interest-bearing net debt	-278.4	-225.3	-13.8	-2.6

Notes for the interim report

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.

KEY FIGURES

		1–12/2018	1–12/2017
Basic earnings per share	EUR	1.63	1.86
Diluted earnings per share	EUR	1.63	1.86
Equity per share	EUR	5.94	5.85
Interest-bearing net debt	MEUR	-1,704.0	-1,690.2
Equity ratio	%	49.9	50.0
Gearing	%	-55.3	-55.8
Return on equity	%	27.7	32.1
Return on capital employed	%	25.0	28.8
Total assets	MEUR	7,734.0	7,461.9
Assets employed	MEUR	1,376.6	1,338.7
Net working capital (including financing items and taxes)	MEUR	-757.8	-772.6

The calculation formulas of key figures are presented in KONE's Financial Statements for 2018.

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.

		10–12/2018	10–12/2017	1–12/2018	1–12/2017
Operating income	MEUR	292.5	292.8	1,042.4	1,192.3
Operating income margin	%	12.0	12.7	11.5	13.6
Items impacting comparability	MEUR	27.1	9.9	69.6	13.2
Adjusted EBIT	MEUR	319.6	302.6	1,112.1	1,205.5
Adjusted EBIT margin %	%	13.1	13.1	12.3	13.7

QUARTERLY FIGURES

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2011–2016 are not restated and thus not fully comparable.

		Q4/2018	Q3/2018	Q2/2018	Q1/2018	Q4/2017	Q3/2017	Q2/2017	Q1/2017
Orders received	MEUR	1,937.9	1,831.9	2,118.6	1,908.7	1,845.8	1,739.0	2,056.2	1,913.0
Order book	MEUR	7,950.7	7,791.6	7,915.3	7,786.6	7,357.8	7,473.5	7,749.2	7,960.5
Sales	MEUR	2,443.4	2,288.7	2,330.6	2,008.0	2,306.3	2,209.7	2,337.2	1,943.4
Operating income	MEUR	292.5	258.0	280.5	211.5	292.8	317.9	335.8	245.8
Operating income margin	%	12.0	11.3	12.0	10.5	12.7	14.4	14.4	12.6
Adjusted EBIT [1]	MEUR	319.6	273.7	300.4	218.3	302.6	321.3	335.8	245.8
Adjusted EBIT margin [1]	%	13.1	12.0	12.9	10.9	13.1	14.5	14.4	12.6
Items impacting comparability	MEUR	27.1	15.7	19.9	6.9	9.9	3.3		

		Q4/2016	Q3/2016	Q2/2016	Q1/2016	Q4/2015	Q3/2015	Q2/2015	Q1/2015
Orders received	MEUR	1,839.2	1,771.7	2,067.8	1,942.3	1,947.2	1,764.5	2,193.5	2,053.8
Order book	MEUR	8,591.9	8,699.0	8,763.6	8,529.7	8,209.5	8,350.7	8,627.4	8,529.6
Sales	MEUR	2,593.2	2,170.2	2,272.6	1,748.3	2,561.8	2,184.2	2,210.4	1,690.9
Operating income	MEUR	392.2	331.1	348.6	221.4	378.5	325.9	325.2	211.9
Operating income margin	%	15.1	15.3	15.3	12.7	14.8	14.9	14.7	12.5
Adjusted EBIT [1]	MEUR	392.2	331.1	348.6	221.4	378.5	325.9	325.2	211.9
Adjusted EBIT margin [1]	%	15.1	15.3	15.3	12.7	14.8	14.9	14.7	12.5
Items impacting comparability	MEUR								

		Q4/2014	Q3/2014	Q2/2014	Q1/2014	Q4/2013	Q3/2013	Q2/2013	Q1/2013
Orders received	MEUR	1,703.8	1,577.2	1,801.9	1,729.7	1,473.2	1,327.2	1,638.2	1,712.4
Order book	MEUR	6,952.5	6,995.8	6,537.2	6,175.4	5,587.5	5,642.1	5,874.4	5,823.1
Sales	MEUR	2,165.8	1,877.9	1,848.9	1,441.8	2,033.0	1,739.2	1,761.7	1,398.7
Operating income	MEUR	315.3	277.5	263.2	179.6	292.8	257.5	242.8	160.4
Operating income margin	%	14.6	14.8	14.2	12.5	14.4	14.8	13.8	11.5
Adjusted EBIT [1]	MEUR	315.3	277.5	263.2	179.6	292.8	257.5	242.8	160.4
Adjusted EBIT margin [1]	%	14.6	14.8	14.2	12.5	14.4	14.8	13.8	11.5
Items impacting comparability	MEUR								

		Q4/2012	Q3/2012	Q2/2012	Q1/2012	Q4/2011	Q3/2011	Q2/2011	Q1/2011
Orders received	MEUR	1,321.3	1,295.6	1,513.4	1,365.9	1,098.8	1,095.4	1,226.2	1,044.7
Order book	MEUR	5,050.1	5,283.7	5,305.3	4,842.8	4,348.2	4,143.2	3,947.7	3,737.5
Sales	MEUR	1,857.7	1,633.7	1,544.1	1,241.3	1,588.8	1,296.2	1,286.4	1,053.8
Operating income	MEUR	257.4	226.4	173.0	134.6	233.0	188.9	184.5	118.7
Operating income margin	%	13.9	13.9	11.2	10.8	14.7	14.6	14.3	11.3
Adjusted EBIT [1]	MEUR	257.4	226.4	210.3	134.6	233.0	188.9	184.5	118.7
Adjusted EBIT margin [1]	%	13.9	13.9	13.6	10.8	14.7	14.6	14.3	11.3
Items impacting comparability	MEUR			37.3					

[1] Operating income excluding items impacting comparability.

Net working capital

MEUR	Dec 31, 2018	Dec 31, 2017
Net working capital		
Inventories	624.1	626.8
Advance payments received and deferred revenue	-1,562.2	-1,404.6
Accounts receivable	1,988.3	1,910.8
Deferred assets and income tax receivables	660.5	472.0
Accruals and income tax payables	-1,647.3	-1,654.3
Provisions	-139.4	-137.9
Accounts payable	-786.7	-705.1
Net deferred tax assets/liabilities	105.0	119.5
Total net working capital	-757.8	-772.6

Depreciation and amortization

MEUR	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Depreciation and amortization of fixed assets	22.0	21.6	85.8	82.7
Amortization of acquisition-related intangible assets	8.6	7.9	33.1	31.7
Total	30.6	29.5	118.9	114.3

Key exchange rates in euros

		Dec 31, 2018		Dec 31, 2017	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.8148	7.8751	7.6299	7.8044
US Dollar	USD	1.1809	1.1450	1.1307	1.1993
British Pound	GBP	0.8861	0.8945	0.8742	0.8872
Australian Dollar	AUD	1.5794	1.6220	1.4780	1.5346

Derivatives

Fair values of derivative financial instruments MEUR	Derivative assets Dec 31, 2018	Derivative liabilities Dec 31, 2018	Fair value, net Dec 31, 2018	Fair value, net Dec 31, 2017
Foreign exchange forward contracts and swaps	27.5	-31.1	-3.6	23.5
Electricity price forward contracts	-	-	-	-0.3
Total	27.5	-31.1	-3.6	23.2

Nominal values of derivative financial instruments MEUR	Dec 31, 2018	Dec 31, 2017
Foreign exchange forward contracts and swaps	2,769.0	2,389.6
Electricity price forward contracts	-	1.0
Total	2,769.0	2,390.6

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). 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. 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

MEUR	Dec 31, 2018	Dec 31, 2017
Guarantees		
Others	3.1	5.0
Operating leases	384.0	294.5
Total	387.1	299.5

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,630 (1,342) million as of December 31, 2018.

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

The future minimum lease payments under non-cancellable operating leases

MEUR	Dec 31, 2018	Dec 31, 2017
Less than 1 year	115.0	73.0
1–5 years	209.8	161.3
Over 5 years	59.2	60.2
Total	384.0	294.5

Restated information on 2017 financials as a result of adoption of new IFRS 15 and IFRS 9 accounting standards

KONE has adapted new accounting standards issued by the International Accounting Standards Board, IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, effective on January 1, 2018.

The most significant impact from the implementation of the IFRS 15 is the application of percentage of completion revenue recognition method also in the volume new equipment and modernization businesses. In these businesses revenue was previously recognized upon the handover of the project to the customer while long-term major projects were already recognized under percentage of completion method. With the new IFRS 15 principles revenue is recognized gradually for all construction contracts at KONE based on the progress from the point when materials arrive at customer site until the handover of the project. Implementation of IFRS 9 did not have a material impact in KONE's consolidated financial statements.

IFRS 15

IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognized when, or as, the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. KONE has adopted the new standard by using the full retrospective method.

The impact of the implementation of IFRS 15 is limited to revenue recognition of new equipment and modernization contracts where the revenue recognition will occur over time, measured based on the percentage of completion method as the customer obtains control of each asset, i.e. separately identifiable performance obligation. A performance obligation is a distinct good or service within a contract that customer can benefit on stand-alone basis. For KONE's new equipment and modernization contracts, a performance obligation typically means delivery and installation of a single unit, i.e. an elevator, escalator or other People Flow™ solution. Percentage of completion is defined as the proportion of an individual performance obligation's cost incurred to date from the total estimated costs for that particular performance obligation. The percentage of completion method requires accurate estimates of future revenues and costs over the full term of the contracts. These significant estimates form the basis for the amount of revenue to be recognized and include the latest updated total revenue, cost and risks adjusted by the typical estimation revisions for similar types of contracts. These estimates may materially change due to the stage of completion of the contract, changes in the contract scope, costs estimates and customer's plans and other factors.

Application of new revenue recognition principles under IFRS 15 has a material impact on KONE's consolidated financial statements. In practice, revenue is recognized earlier based on the progress also for those new equipment and modernization contracts which were not previously defined as long-term major projects already recognized under the percentage of completion method. From a balance sheet perspective, the application of new principles decreased inventories and related advances received and deferred revenue, while receivables were somewhat increased. Deferred tax assets and liabilities changed slightly. As a result of the restated timing of revenue recognition, retained earnings were increased. Also, reported new equipment and modernization order book decreased due to application of percentage of completion method also for other new equipment and modernization contracts than long-term major projects. These changes do not impact cash flow.

IFRS 9

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Additionally, IFRS 9 introduces expanded disclosure requirements and changes in presentation. KONE has adopted the new standard by using the full retrospective method.

The main impact of the IFRS 9 application for KONE is coming from the new expected credit loss model applied to assess impairment loss for the doubtful accounts receivable. KONE applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on shared credit risk characteristics and aging category and measured based on historical loss rates adjusted by forward looking estimates and individual assessment. The adaptation of the new principles slightly increased the accumulated impairment loss.

IFRS 9 contains a new classification and measurement guidance for financial assets and liabilities that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets and accordingly KONE has classified financial assets as measured at amortized cost, at fair value through other comprehensive income and at fair value through statement of income. The standard eliminated previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, all shares and non-current financial assets which were previously classified as available-for-sale investments and measured at cost are classified as investments measured at fair value through other comprehensive income. Investments in interest rate funds which were previously classified as loans and receivables and measured at amortized cost are classified at fair value through statement of income.

Application of IFRS 9 did not have any material impact on KONE's Accounting Principles for financial liabilities or to hedge accounting. Thus, the implementation of IFRS 9 did not have a material impact on the transactions and balances recognized in KONE's consolidated financial statements.

KEY FIGURES, RESTATED

		Q1	Q2	Q3	Q4	1–12/2017
Orders received	MEUR	1,913.0	2,056.2	1,739.0	1,845.8	7,554.0
Order book	MEUR	7,960.5	7,749.2	7,473.5	7,357.8	7,357.8
Sales	MEUR	1,943.4	2,337.2	2,209.7	2,306.3	8,796.7
Operating income	MEUR	245.8	335.8	317.9	292.8	1,192.3
Operating income margin	%	12.6	14.4	14.4	12.7	13.6
Adjusted EBIT [1)]	MEUR	245.8	335.8	321.3	302.6	1,205.5
Adjusted EBIT margin [1)]	%	12.6	14.4	14.5	13.1	13.7
Income before tax	MEUR	271.8	346.5	330.2	301.9	1,250.4
Net income	MEUR	208.7	266.1	253.6	231.8	960.2
Basic earnings per share	EUR	0.40	0.52	0.49	0.45	1.86
Equity per share	EUR	4.58	4.94	5.38	5.85	5.85
Cash flow from operations (before financing items and taxes)	MEUR	305.3	320.4	302.7	335.0	1,263.3
Interest-bearing net debt	MEUR	-1,182.8	-1,302.1	-1,464.9	-1,690.2	-1,690.2
Equity ratio	%	42.5	44.5	47.7	50.0	50.0
Return on equity	%	31.4	34.5	33.9	32.1	32.1
Return on capital employed	%	27.6	30.5	30.2	28.8	28.8
Net working capital (including financing items and taxes)	MEUR	-995.3	-861.7	-782.2	-772.6	-772.6
Gearing	%	-49.9	-50.8	-52.5	-55.8	-55.8

[1)] Operating income excluding items impacting comparability.

SALES BY REGION, RESTATED

MEUR	Q1	%	Q2	%	Q3	%	Q4	%	1–12/2017	%
EMEA	785.0	40%	907.3	39%	896.7	41%	1,005.6	44%	3,594.5	41%
Americas	463.4	24%	450.8	19%	431.3	20%	432.9	19%	1,778.5	20%
Asia-Pacific	695.0	36%	979.1	42%	881.8	40%	867.8	38%	3,423.7	39%
Total	1,943.4		2,337.2		2,209.7		2,306.3		8,796.7	

SALES BY BUSINESS, RESTATED

MEUR	Q1	%	Q2	%	Q3	%	Q4	%	1–12/2017	%
New equipment	939.0	48%	1,299.7	56%	1,207.6	55%	1,207.5	52%	4,653.9	53%
Services	1,004.4	52%	1,037.5	44%	1,002.1	45%	1,098.8	48%	4,142.8	47%
Maintenance	719.7	37%	717.6	31%	705.9	32%	744.0	32%	2,887.3	33%
Modernization	284.7	15%	319.9	14%	296.2	13%	354.9	15%	1,255.6	14%
Total	1,943.4		2,337.2		2,209.7		2,306.3		8,796.7	

CONSOLIDATED STATEMENT OF INCOME, RESTATED

MEUR	Q1	%	Q2	%	Q3	%	Q4	%	1–12/2017	%
Sales	1,943.4		2,337.2		2,209.7		2,306.3		8,796.7	
Costs and expenses	-1,669.2		-1,973.3		-1,863.5		-1,984.1		-7,490.1	
Depreciation and amortization	-28.4		-28.2		-28.3		-29.5		-114.3	
Operating income	245.8	12.6	335.8	14.4	317.9	14.4	292.8	12.7	1,192.3	13.6
Share of associated companies' net income	0.3		0.0		-0.2		-0.3		-0.2	
Financing income	28.5		14.8		16.2		12.7		72.2	
Financing expenses	-2.8		-4.1		-3.7		-3.3		-13.9	
Income before taxes	271.8	14.0	346.5	14.8	330.2	14.9	301.9	13.1	1,250.4	14.2
Taxes	-63.1		-80.4		-76.6		-70.1		-290.2	
Net income	208.7	10.7	266.1	11.4	253.6	11.5	231.8	10.0	960.2	10.9
Net income attributable to:										
Shareholders of the parent company	206.5		265.1		252.9		231.2		955.8	
Non-controlling interests	2.3		0.9		0.7		0.5		4.4	
Total	208.7		266.1		253.6		231.8		960.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR										
Basic earnings per share, EUR	0.40		0.52		0.49		0.45		1.86	
Diluted earnings per share, EUR	0.40		0.52		0.49		0.45		1.86	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION, RESTATED

Assets

MEUR		Q4/16	Q1/17	Q2/17	Q3/17	Q4/17
Non-current assets						
Goodwill		1,371.8	1,369.9	1,333.2	1,324.1	1,325.5
Other intangible assets		292.9	287.2	276.8	272.4	274.5
Tangible assets		368.3	369.7	365.8	368.5	377.0
Loan receivables and other interest-bearing assets	I	7.4	7.3	7.3	0.5	0.7
Investments		150.1	155.1	145.4	140.0	134.3
Employee benefits	I	-	-	-	-	11.5
Deferred tax assets	II	302.7	295.5	283.8	276.9	263.3
Total non-current assets		2,493.1	2,484.7	2,412.3	2,382.3	2,386.9
Current assets						
Inventories	II	558.0	617.7	611.8	638.5	626.8
Accounts receivable	II	1,901.9	1,813.0	1,866.1	1,779.5	1,910.8
Deferred assets	II	454.7	485.1	452.3	483.7	404.5
Income tax receivables	II	61.4	60.5	79.5	95.3	67.5
Current deposits and loan receivables	I	1,496.6	1,053.3	1,098.8	1,284.0	1,568.8
Cash and cash equivalents	I	589.2	536.6	607.9	558.7	496.5
Total current assets		5,061.7	4,566.1	4,716.4	4,839.7	5,075.0
Total assets		7,554.8	7,050.8	7,128.8	7,222.0	7,461.9

Equity and liabilities

MEUR		Q4/16	Q1/17	Q2/17	Q3/17	Q4/17
Equity		2,945.4	2,369.4	2,561.6	2,787.7	3,028.9
Non-current liabilities						
Loans	I	203.1	203.9	208.3	204.2	194.7
Employee benefits	I	176.7	179.9	175.7	153.3	152.2
Deferred tax liabilities	II	160.1	160.4	164.1	161.9	143.8
Total non-current liabilities		539.9	544.2	548.1	519.5	490.7
Provisions	II	179.6	158.7	141.1	129.9	137.9
Current liabilities						
Loans	I	25.8	30.6	27.9	20.7	40.5
Advance payments received and deferred revenue	II	1,428.6	1,474.4	1,376.8	1,376.7	1,404.6
Accounts payable	II	743.3	644.2	735.1	690.2	705.1
Accruals	II	1,609.7	1,756.8	1,653.4	1,610.9	1,569.2
Income tax payables	II	82.5	72.5	84.8	86.4	85.1
Total current liabilities		3,890.0	3,978.5	3,878.0	3,784.9	3,804.4
Total equity and liabilities		7,554.8	7,050.8	7,128.8	7,222.0	7,461.9

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS, RESTATED

MEUR	Q1	Q2	Q3	Q4	1–12/2017
Operating income	245.8	335.8	317.9	292.8	1,192.3
Change in working capital before financing items and taxes	31.1	-43.6	-43.5	12.7	-43.3
Depreciation and amortization	28.4	28.2	28.3	29.5	114.3
Cash flow from operations before financing items and taxes	305.3	320.4	302.7	335.0	1,263.3
Cash flow from financing items and taxes	-50.0	-84.5	-107.7	-57.5	-299.6
Cash flow from operating activities	255.3	235.9	195.0	277.5	963.7
Cash flow from investing activities	-27.0	-30.1	-39.2	-47.2	-143.5
Cash flow after investing activities	228.4	205.8	155.8	230.2	820.2
Purchase of own shares	-	-	-	-	-
Increase in equity (option rights)	-	14.5	7.1	3.3	24.9
Profit distribution	-729.8	-65.6	-	-	-795.4
Change in deposits and loans receivable, net	443.1	-66.8	-174.5	-284.2	-82.4
Change in loans payable and other interest-bearing debt	4.7	-1.1	-27.7	-9.1	-33.2
Changes in non-controlling interests	-	-0.4	-2.7	-2.4	-5.5
Cash flow from financing activities	-282.0	-119.5	-197.8	-292.4	-891.7
Change in cash and cash equivalents	-53.6	86.4	-42.0	-62.2	-71.5
Cash and cash equivalents at beginning of period	589.2	536.6	607.9	558.7	589.2
Translation difference	1.0	-15.0	-7.1	-0.0	-21.1
Cash and cash equivalents at end of period	536.6	607.9	558.7	496.5	496.5

Change in interest-bearing net debt

MEUR	Q1	Q2	Q3	Q4	1–12/2017
Interest-bearing net debt at beginning of period	-1,687.6	-1,182.8	-1,302.1	-1,464.9	-1,687.6
Interest-bearing net debt at end of period	-1,182.8	-1,302.1	-1,464.9	-1,690.2	-1,690.2
Change in interest-bearing net debt	504.8	-119.3	-162.8	-225.3	-2.6

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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 2018, KONE had annual sales of EUR 9.1 billion, and at the end of the year over 57,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd. in Finland. www.kone.com