KONE
Result presentation 2018

JANUARY 24, 2019

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ILKKA HARA, CFO

Q4 2018 Highlights

- Orders received and sales grew in all regions and all businesses
- Adjusted EBIT returned to growth
- We are halfway through our strategy period – Winning with Customers continues to strengthen our differentiation
- Dividend proposal EUR 1.65 per class B share

Q4 2018 Key figures

CONTINUED GROWTH IN ORDERS RECEIVED, ADJUSTED EBIT RETURNED TO GROWTH

		Q4/2018	Q4/2017	Change	Comparable change
Orders received	MEUR	**1,937.9**	1,845.8	5.0%	5.9%
Order book	MEUR	**7,950.7**	7,357.8	8.1%	8.0%
Sales	MEUR	**2,443.4**	2,306.3	5.9%	6.5%
Operating income (EBIT)	MEUR	**292.5**	292.8	-0.1%	
Operating income margin (EBIT %)	%	**12.0**	12.7		
Adjusted EBIT	MEUR	**319.6**	302.6	5.9%	
Adjusted EBIT margin	%	**13.1**	13.1		
Cash flow from operations (before financing items and taxes)	MEUR	**331.6**	335.0		
Basic earnings per share	EUR	**0.45**	0.45	-0.7%	

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1-12 2018 Key figures

SOLID GROWTH IN BOTH SERVICES AND NEW EQUIPMENT, ADJUSTED EBIT BURDENED BY SEVERAL HEADWINDS

		1-12/2018	1-12/2017	Change	Comparable change
Orders received	MEUR	**7,797.0**	7,554.0	3.2%	6.6%
Order book	MEUR	**7,950.7**	7,357.8	8.1%	8.0%
Sales	MEUR	**9,070.7**	8,796.7	3.1%	6.3%
Operating income (EBIT)	MEUR	**1,042.4**	1,192.3	-12.6%	
Operating income margin (EBIT %)	%	**11.5**	13.6		
Adjusted EBIT	MEUR	**1,112.1**	1,205.5	-7.8%	
Adjusted EBIT margin	%	**12.3**	13.7		
Cash flow from operations (before financing items and taxes)	MEUR	**1,150.1**	1,263.3		
Basic earnings per share	EUR	**1.63**	1.86	-12.3%	

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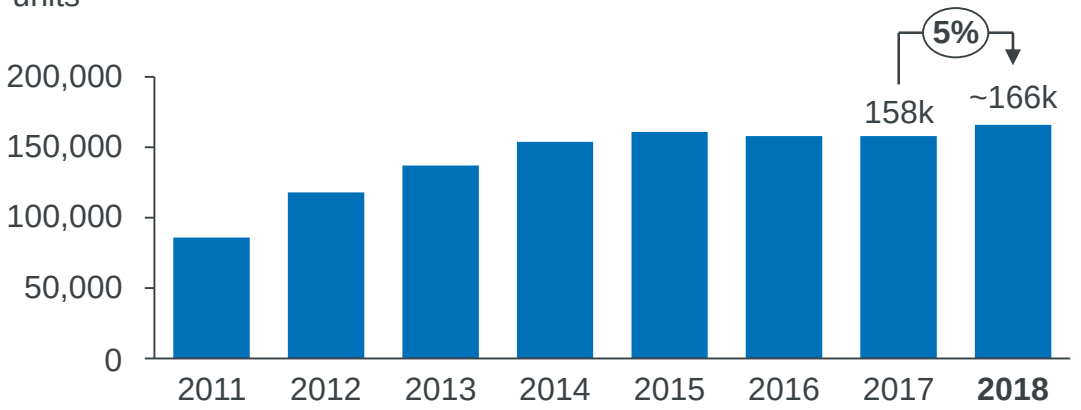
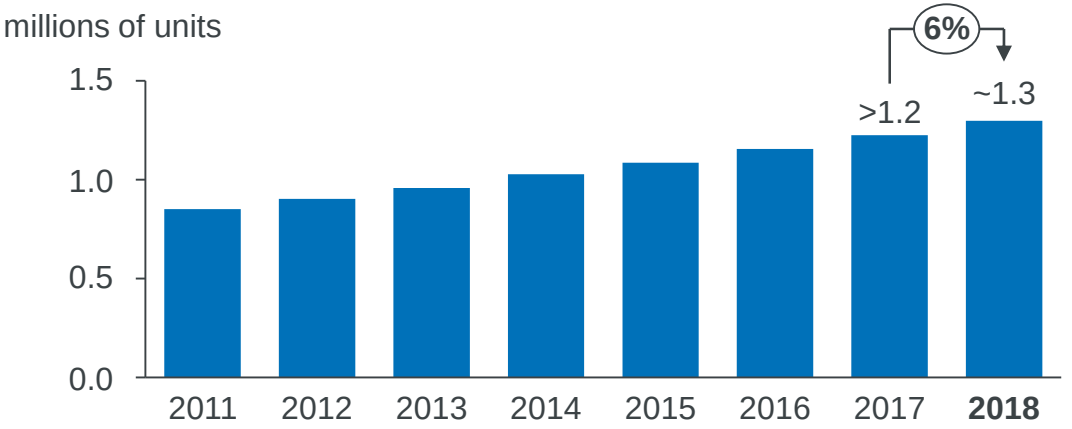
Business highlights in 2018

- Record high new equipment orders received
- Actions to offset the margin headwinds showing positive results
- Solid development in the service business with continued strong growth in Asia-Pacific
- Roll-out of new services progressing with positive impact on pricing and conversions

New equipment orders



Maintenance base



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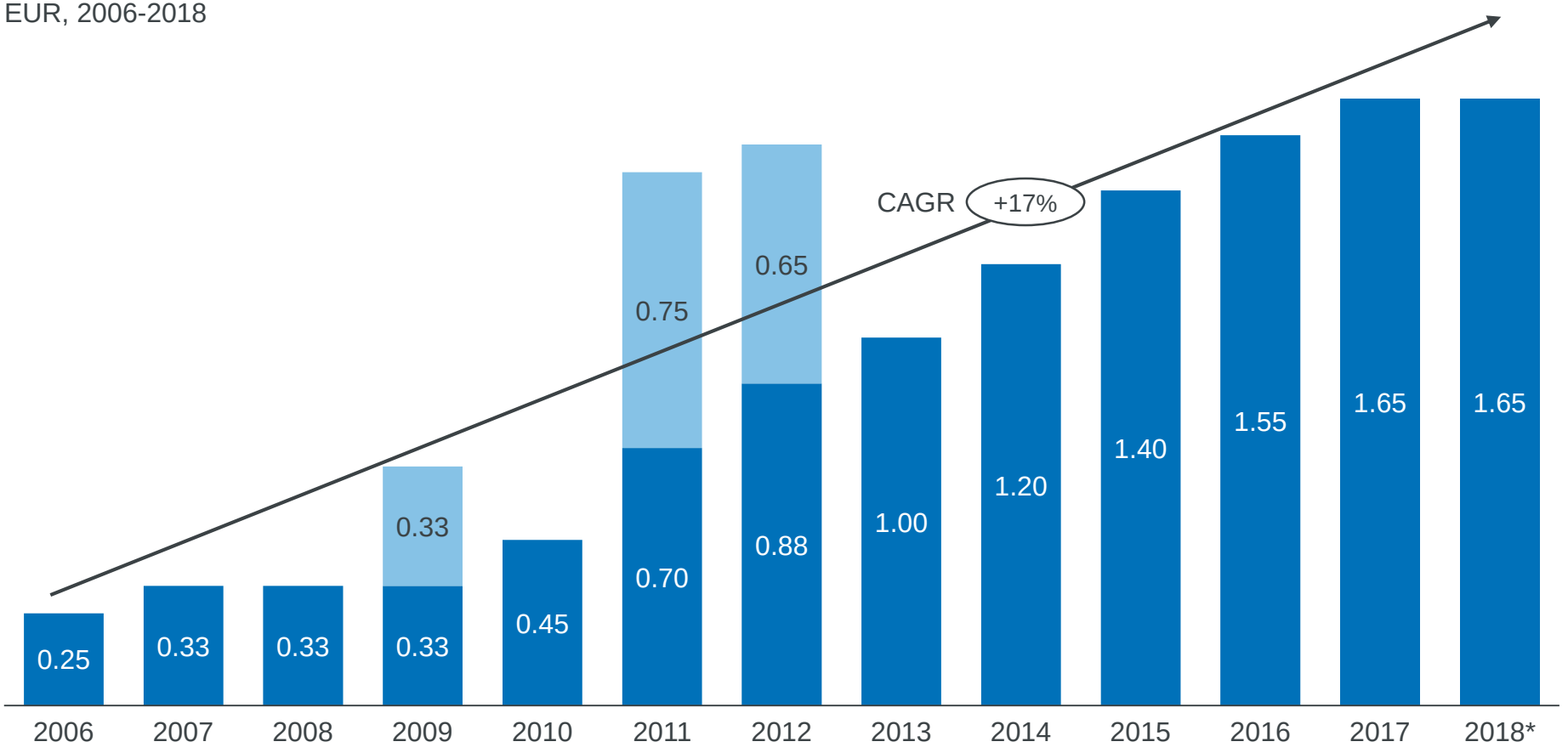
Dividend proposal: EUR 1.65 per class B share

Split-adjusted dividend per class B share

EUR, 2006-2018



- Dividend payout in 2018: 101% of earnings per share
- Effective dividend yield, 2018: 4.0%

Adjusted for share splits in 2002 (1:3), 2005 (1:2), 2008 (1:2) and 2013 (1:2)
* Board's proposal

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We are now halfway through the strategy period, good progress towards our strategic targets

STRATEGIC TARGETS

- Most loyal customers
- Great place to work
- Faster than market growth
- Best financial development
- Leader in sustainability

Continued improvement in **Net Promotor Score** in 2018

Employee engagement on a strong level in 2018

Strong development in both new equipment and services

Profitability burdened by several headwinds

Leader in eco-efficiency, continued reduction in CO2/sales

Winning with Customers through our Ways to Win

Ways to Win

KONE WAY

COLLABORATIVE INNOVATION AND NEW COMPETENCIES

- Increased innovation speed through co-creation
- Competences for new businesses and ways of working with customers created

CUSTOMER-CENTRIC SOLUTIONS AND SERVICES

- 24/7 Connected Services available in countries covering ~85% of the maintenance base
- New KONE Care provides clear differentiation
- Continuous improvements in core product offering

TRUE SERVICE MINDSET

- Concrete customer experience benefits - better focus on what matters for the customers

FAST AND SMART EXECUTION

- Less administrative work → more time for customers
- Improved data analytics for pricing and retention

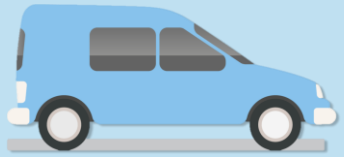
With Accelerate, we are adjusting our ways of working to better support our strategy

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

Customer Solutions Engineering

HR

Customer Service & Admin



Logistics

Finance

Sourcing

Accelerate program targets

- → Customer centricity
- → Speed
- → Efficiency

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

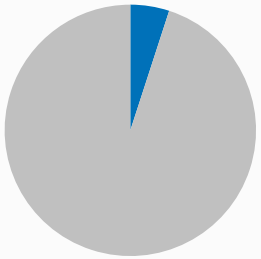
Market development

New equipment market development in Q4 2018

GLOBAL NEW EQUIPMENT MARKET GREW SLIGHTLY IN UNITS ORDERED

North American market

+

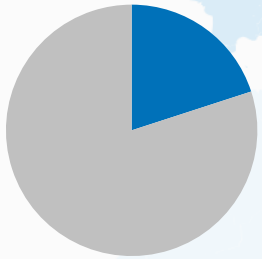


<5% of global market (in units)

- Market continued to grow slightly

EMEA market

Stable

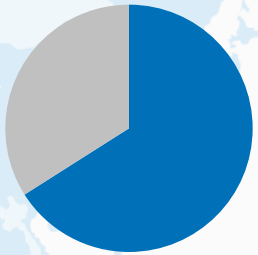


~20% of global market (in units)

- Central and North European market relatively stable on a high level
- Slight growth in South Europe, decline in the Middle East

Asia-Pacific market

+



>2/3 of global market (in units)

- The Chinese market grew slightly in units
- Also in the rest of Asia-Pacific, the market grew slightly

- - - Significant decline (>10 %), - - Clear decline (5-10 %), - Slight decline (<5 %), Stable, + Slight growth (<5 %), + + Clear growth (5-10 %), + + + Significant growth (>10 %)
Based on KONE's estimate.

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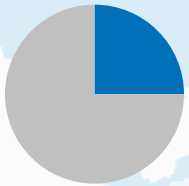
Service market development in Q4 2018

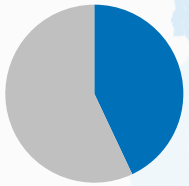
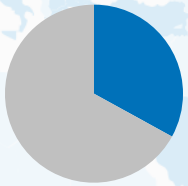
CONTINUED POSITIVE DEVELOPMENT

North American market

Maintenance	Modernization
+	+
	
<10% of global market (in units)	~25% of global market (in monetary value)

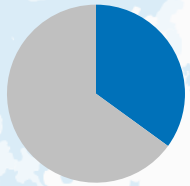
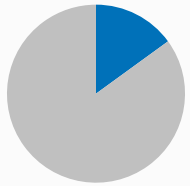
- Both maintenance and modernization growing

EMEA market

Maintenance	Modernization
+	-
	
<50% of global market (in units)	~1/3 of global market (in monetary value)

- Continued growth in maintenance, slightly declining market in modernization

Asia-Pacific market

Maintenance	Modernization
++	++
	
~1/3 of global market (in units)	~15% of global market (in monetary value)

- Continued good growth across the region

- - - Significant decline (>10 %), - - Clear decline (5-10 %), - Slight decline (<5 %), Stable, + Slight growth (<5 %), + + Clear growth (5-10 %), + + + Significant growth (>10 %)
Based on KONE's estimate.

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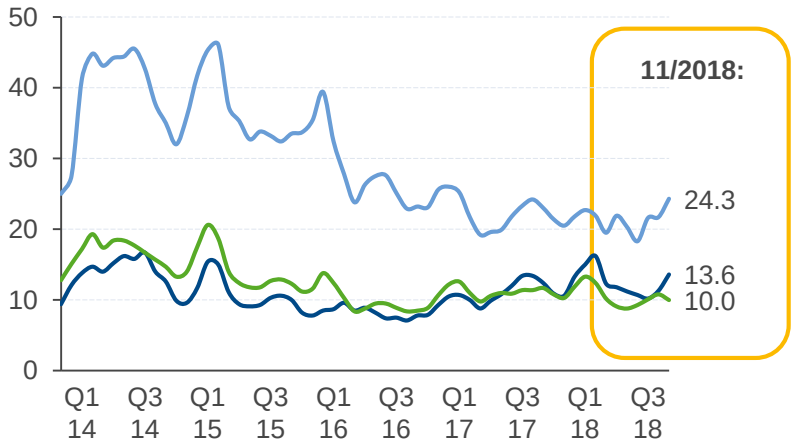
Chinese property market

GOVERNMENT CONTINUES TO HAVE A RESTRICTIVE POLICY

Housing inventories

- Housing inventories continued to be at a healthy level

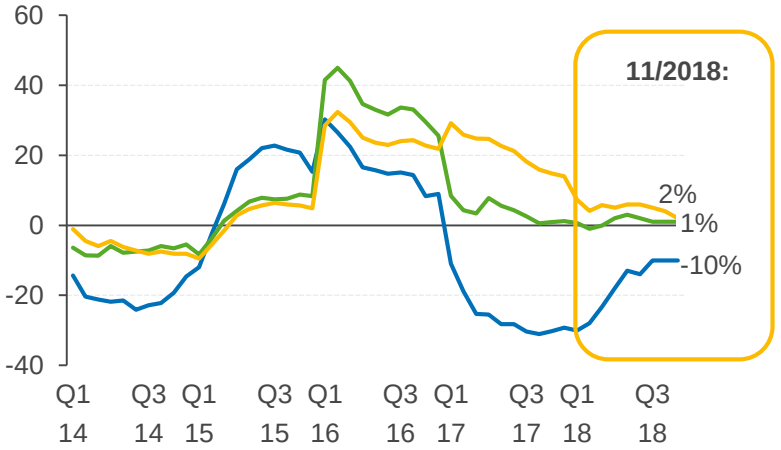


Newly built area for sale / monthly sales 3-m MVA

Tier-1 Tier-2 sample of lower tier cities

Housing sales and prices

- Government's restrictive measures have cooled down the housing market

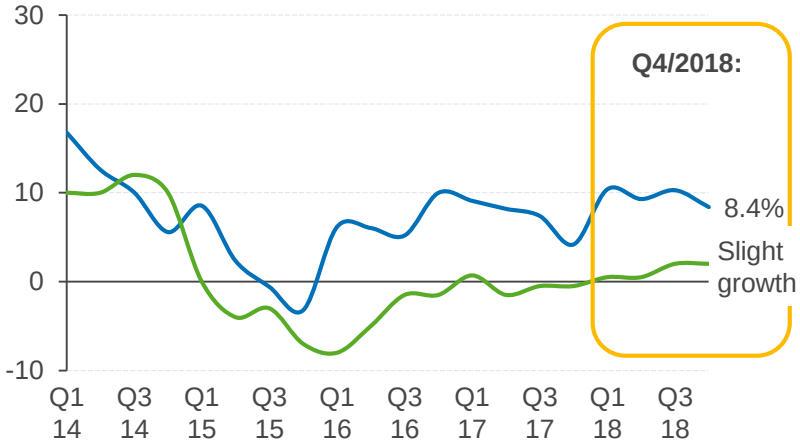


Sales area growth, change Y-o-Y

Tier-1 Tier-2 Lower tier cities

E&E market

- Growth in real estate investment mainly driven by land prices
- Consolidation among property developers continues
- E&E demand grew slightly in Q4 2018



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

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

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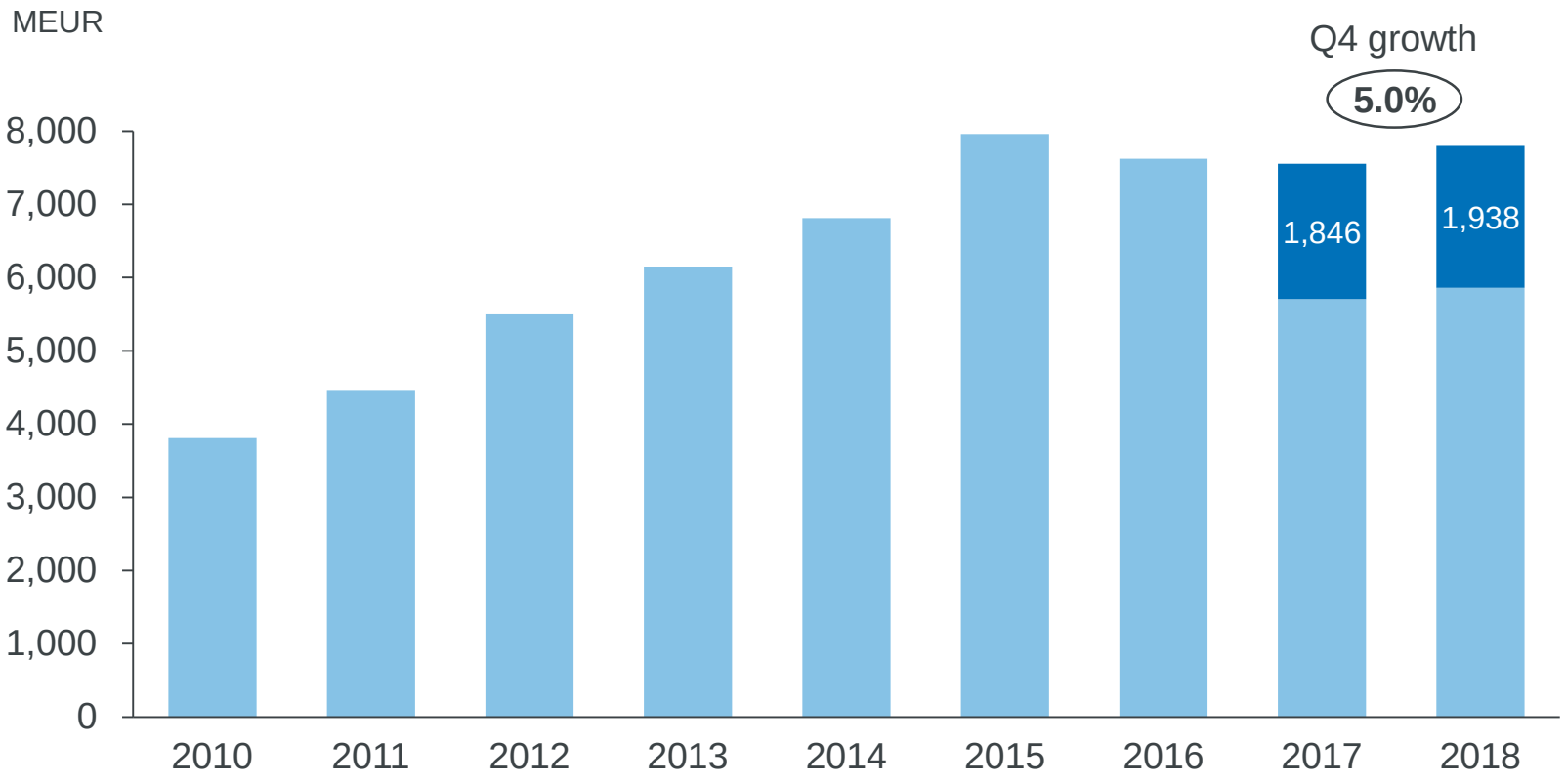
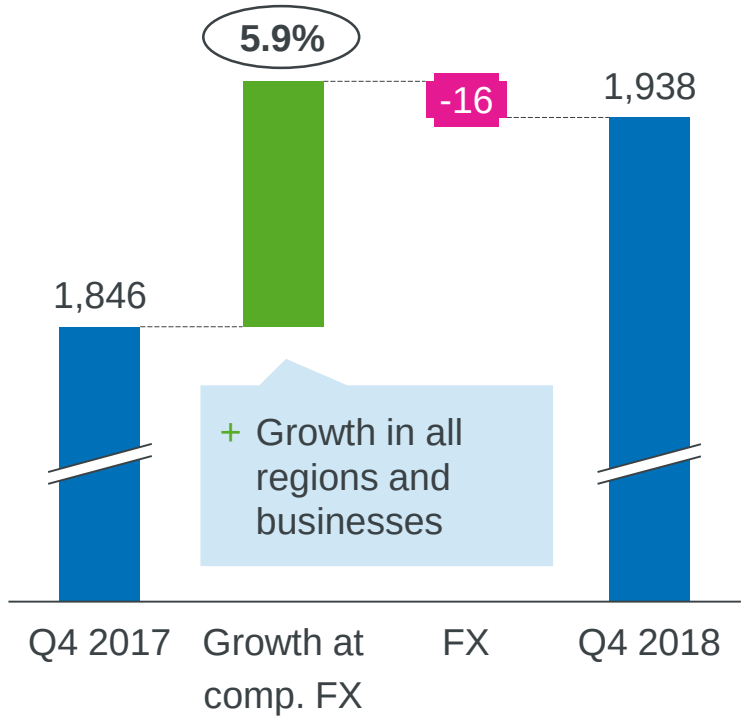
Q4 and 2018 financials

Orders received

ORDERS RECEIVED GREW IN ALL REGIONS IN Q4 2018



- In Q4, the margin of orders was stable y-o-y



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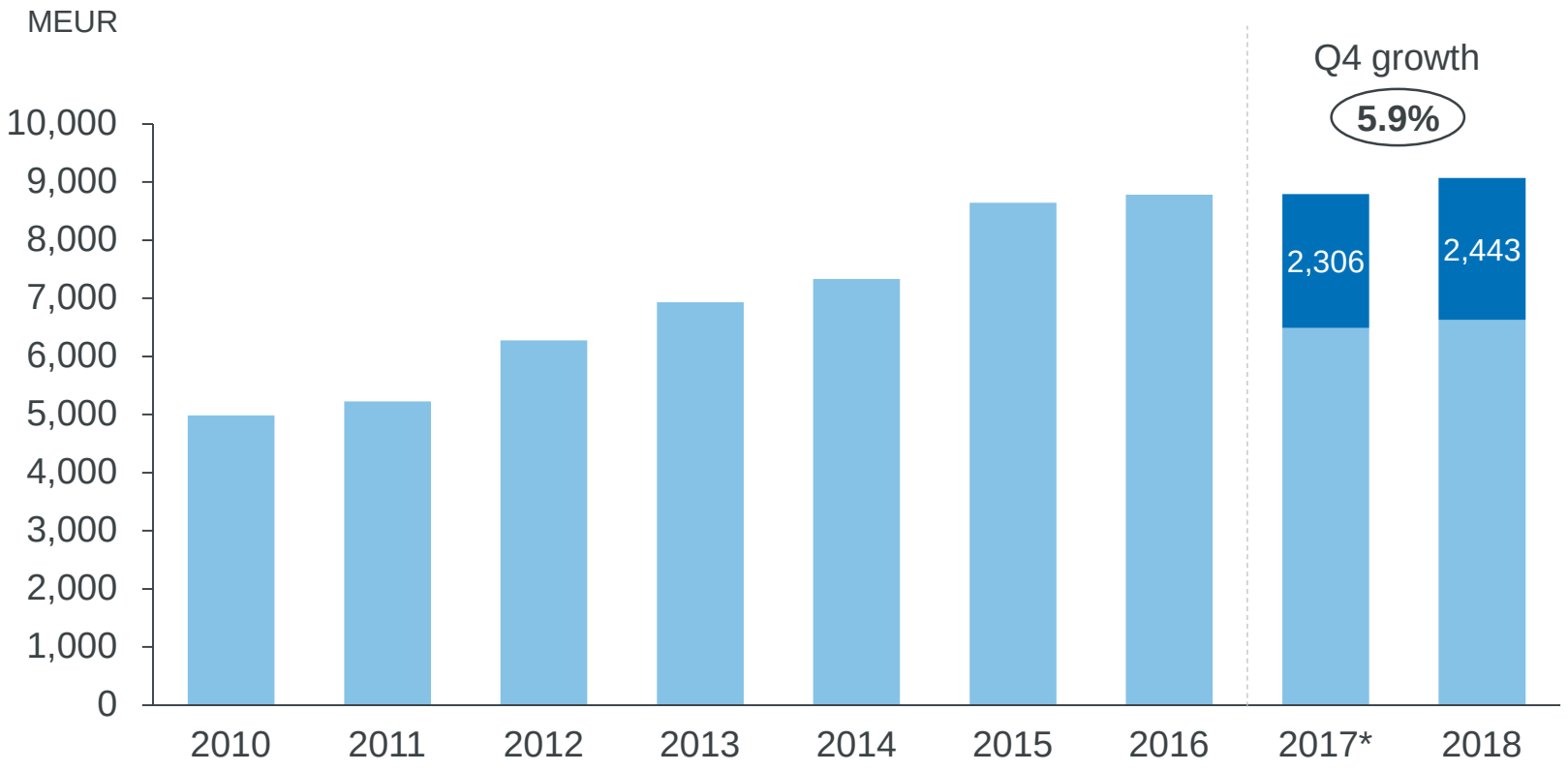
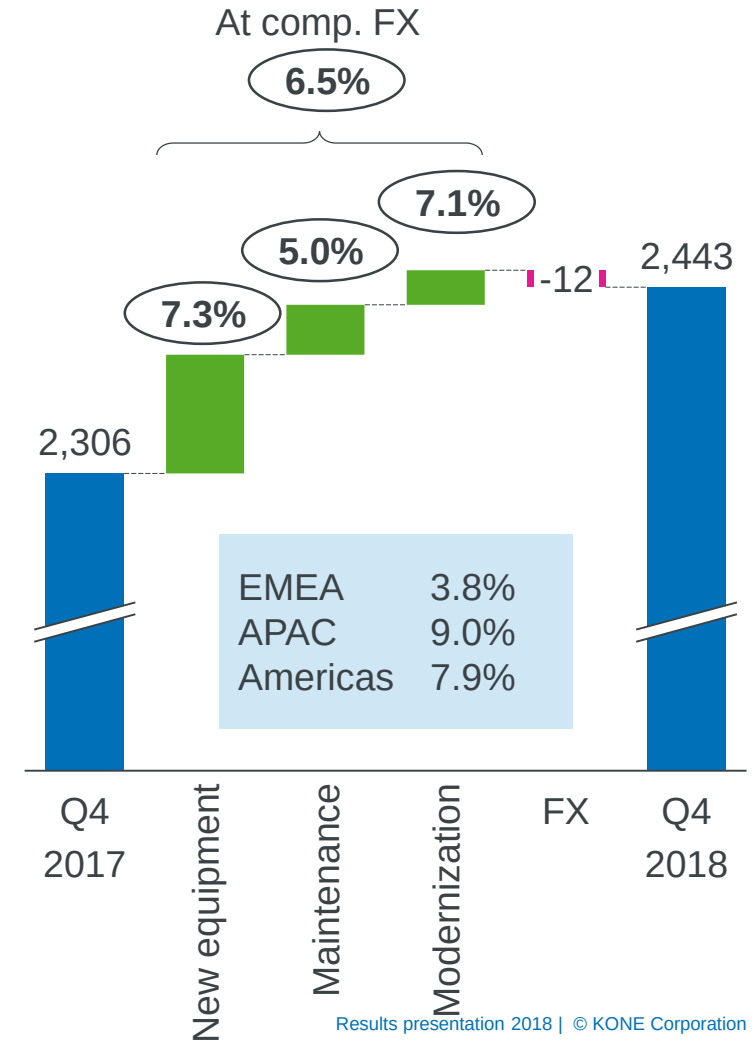
Sales

GOOD GROWTH IN BOTH NEW EQUIPMENT AND SERVICES CONTINUED IN Q4





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

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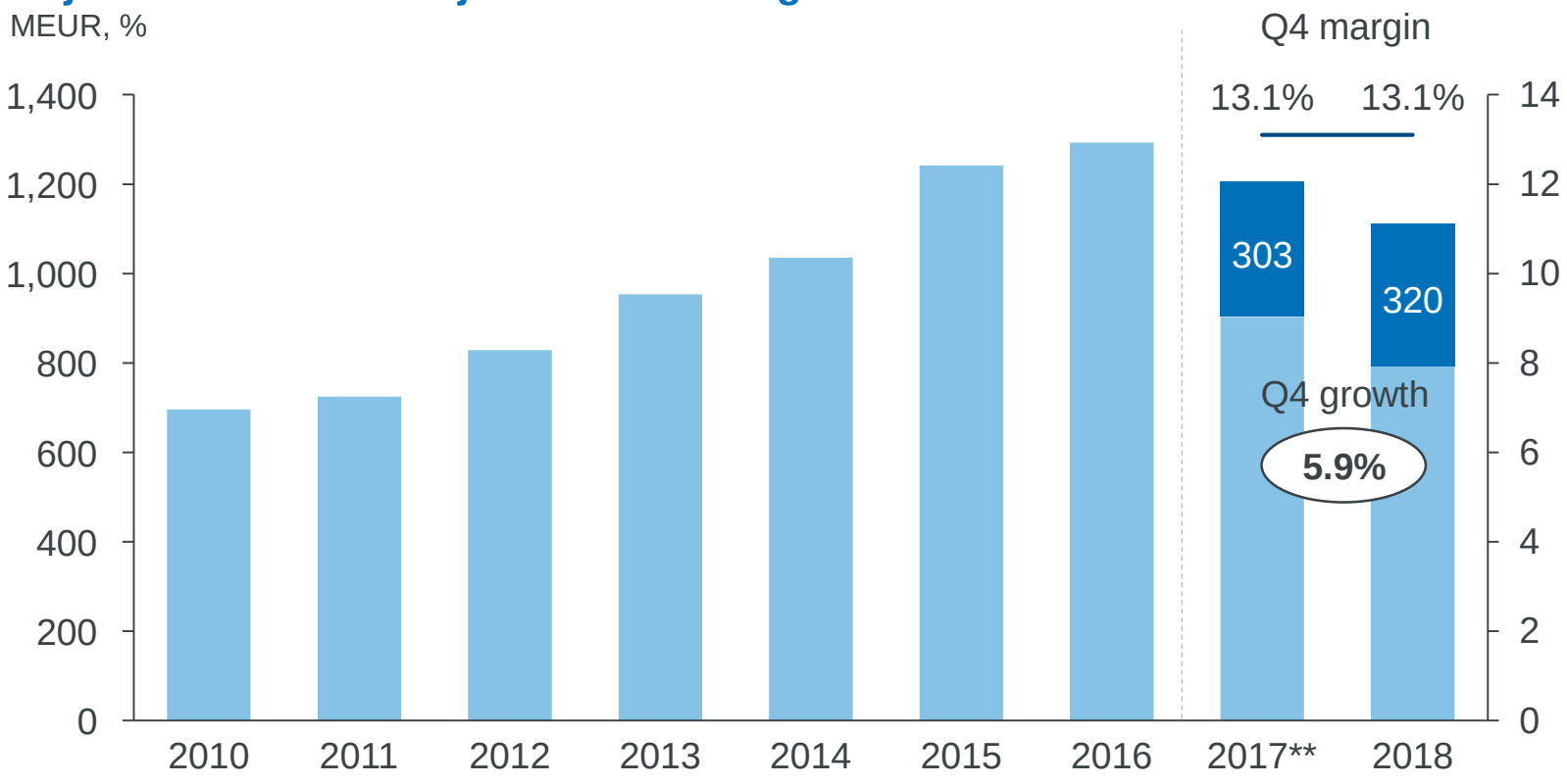
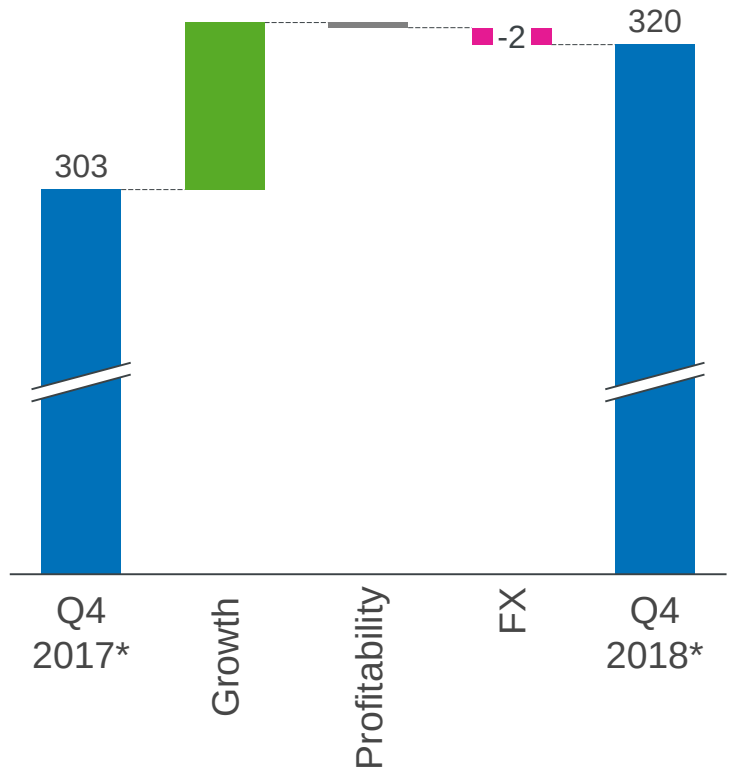
Adjusted EBIT

ADJUSTED EBIT RETURNED TO GROWTH IN Q4

Adjusted EBIT* and adjusted EBIT margin



- Restructuring costs related to the Accelerate program were EUR 27.1 million in Q4 2018



* Adjusted EBIT was introduced in September 2017. Adjusted EBIT excludes restructuring costs related to the Accelerate program.

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

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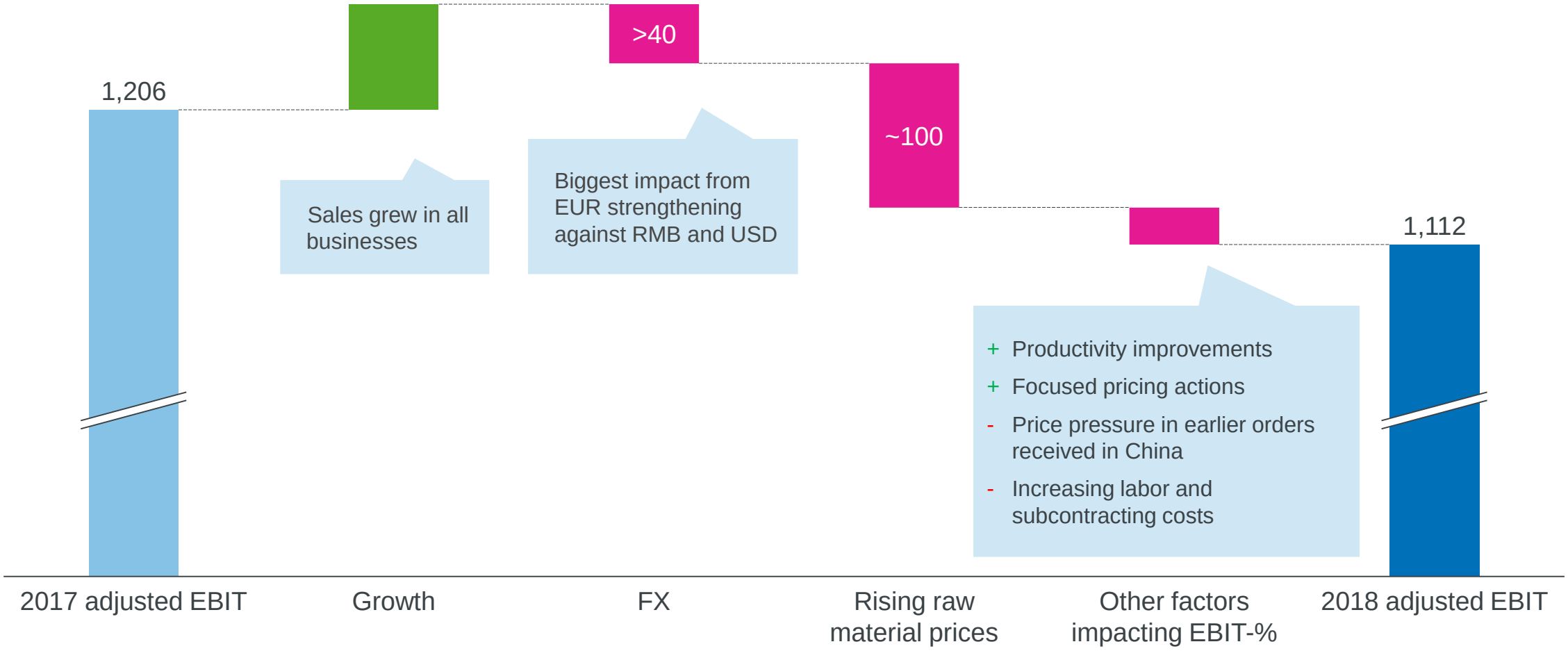
2018 adjusted EBIT bridge

SEVERAL FACTORS BURDENED THE PROFITABILITY IN 2018



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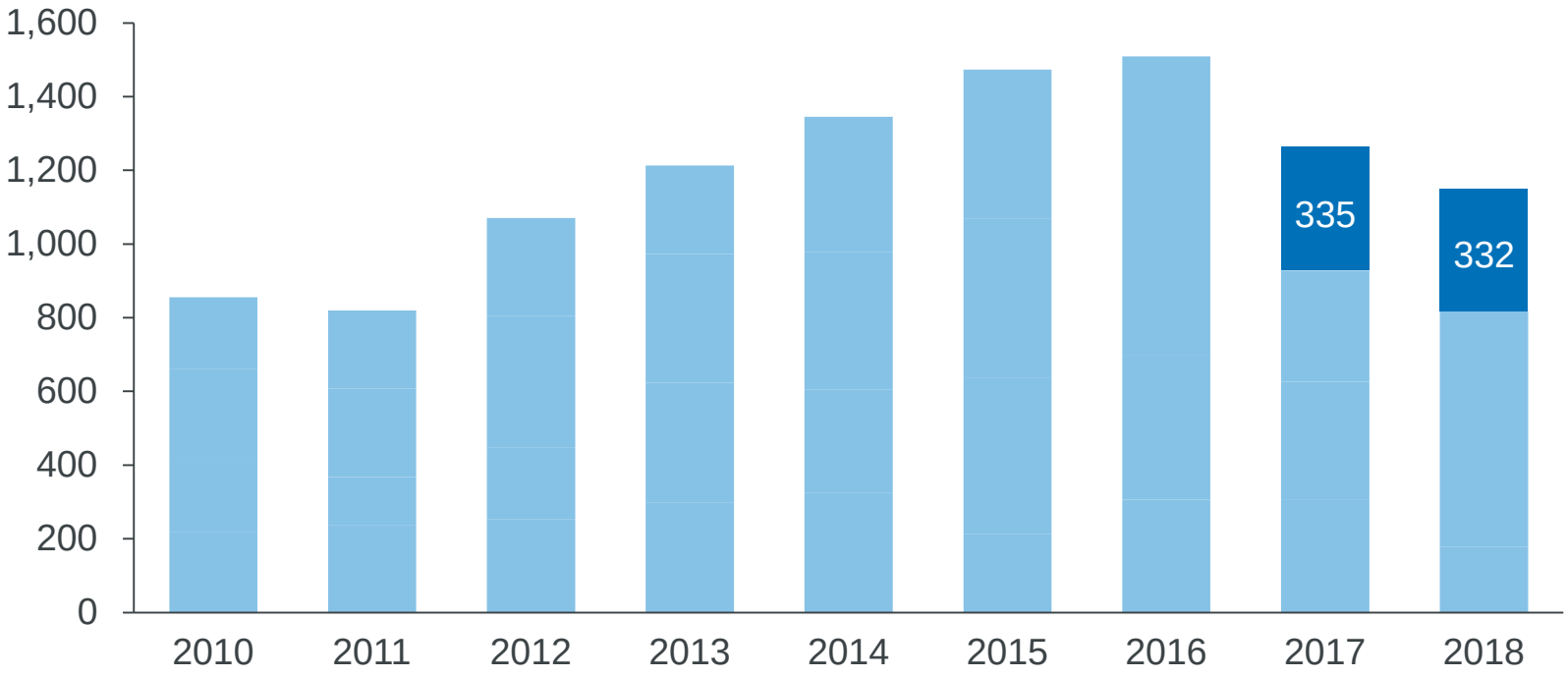
Cash flow

CASH CONVERSION WAS AT A HEALTHY LEVEL IN 2018

Cash flow from operations*

MEUR



- The decrease in cash flow in 2018 was driven by the decrease in operating income
- Net working capital was relatively stable compared to the end of 2017

*before financing items and taxes

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IFRS 16

- IFRS 16 introduces a new on-balance sheet lease accounting model
- Effective on January 1, 2019
- KONE applies the modified retrospective approach, i.e. we will not publish restated figures

Estimated impact

Balance sheet

- Increase of MEUR **330-380** in **net debt** as of January 1, 2019

Income statement

- Increase of MEUR **>10** in **operating income** in 2019
- Increase of MEUR **>10** in **financing expenses** in 2019

Cash flow statement

- Increase of MEUR **>100** in **cash flow from operating activities** in 2019
- Decrease of MEUR **>100** in **cash flow from financing activities** in 2019

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Market and business outlook for 2019

Market outlook for 2019

New equipment markets

- Asia-Pacific: The market in China is expected to decline slightly or to be stable in units ordered. In the rest of Asia-Pacific, the market is expected to grow slightly
- More stable development in North America and Europe, Middle East and Africa

Maintenance markets

- The maintenance market is expected to see the strongest growth rate in Asia-Pacific, and to grow slightly in other regions

Modernization markets

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

Business outlook for 2019

Sales

In 2019, KONE's sales is estimated to grow by 2–7% at comparable exchange rates as compared to 2018

Adjusted EBIT

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.

Boosting our performance

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

Burdening our result

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

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Summary

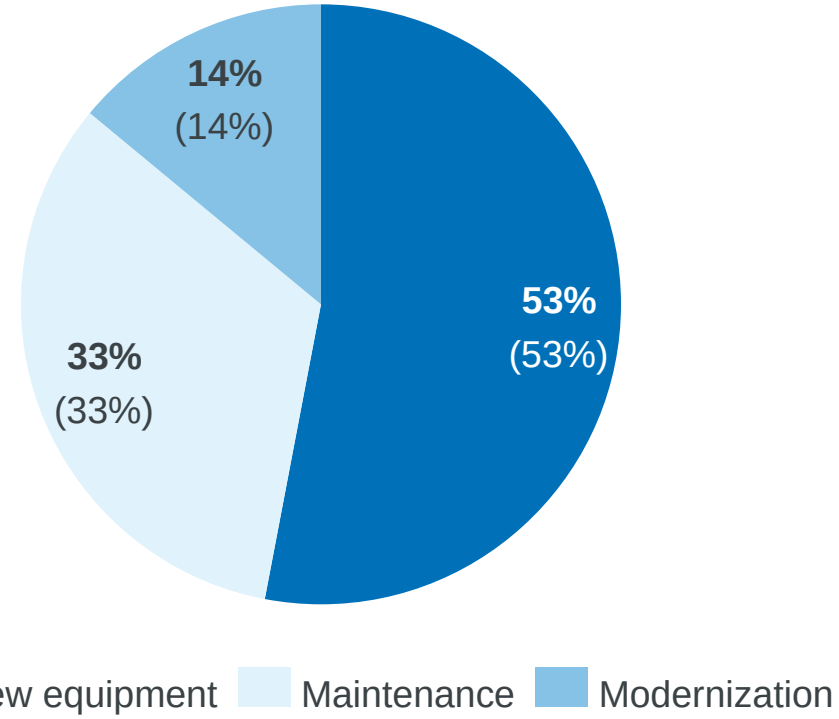
- Good growth in orders received and continued growth outlook in services - solid basis for 2019
- Adjusted EBIT returning to growth
- Winning with Customers is taking us towards our strategic targets

Dedicated to People Flow™

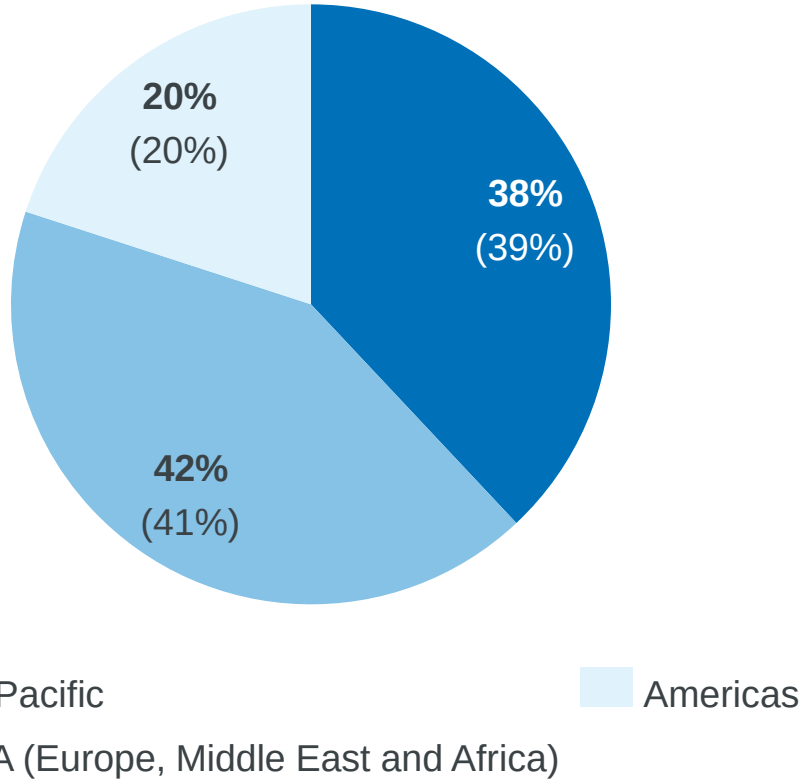
APPENDIX

1-12/2018 Sales split

By business



By area



1-12/2017 figures in brackets.
Figures in charts are rounded and at historical exchange rates.

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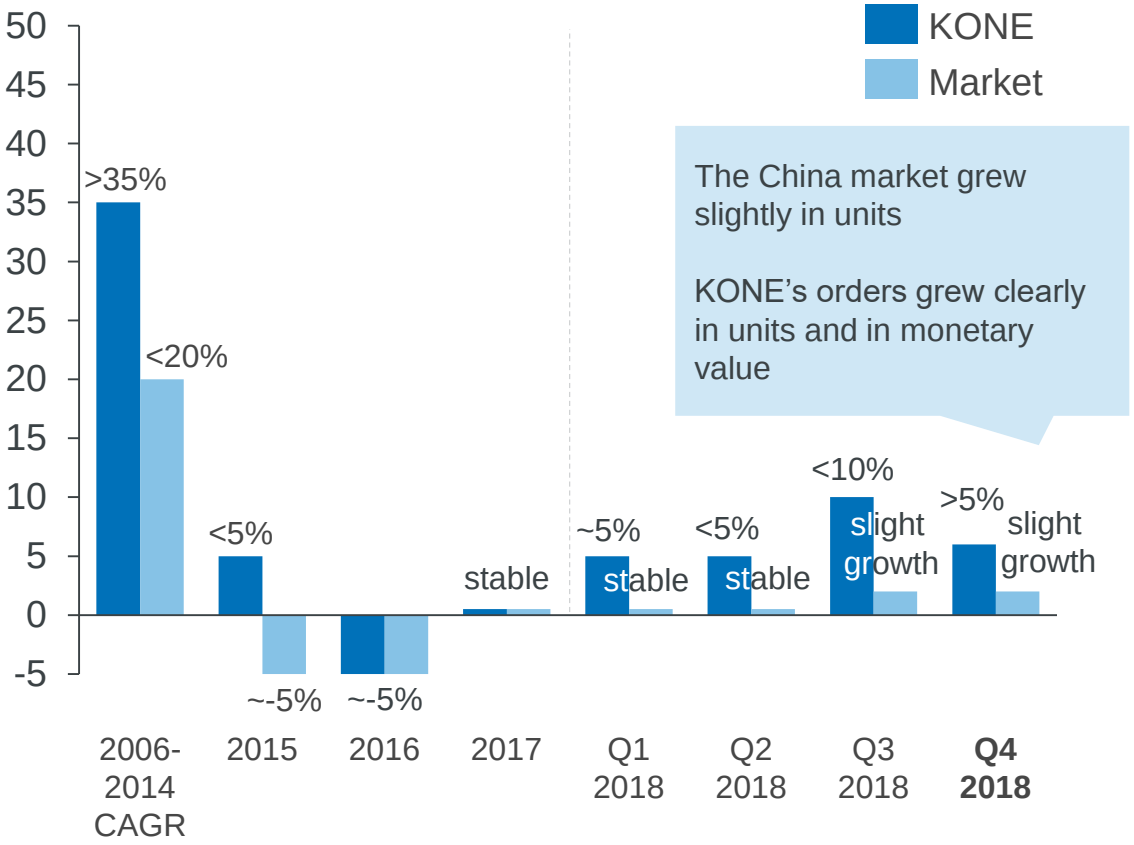
KONE in China

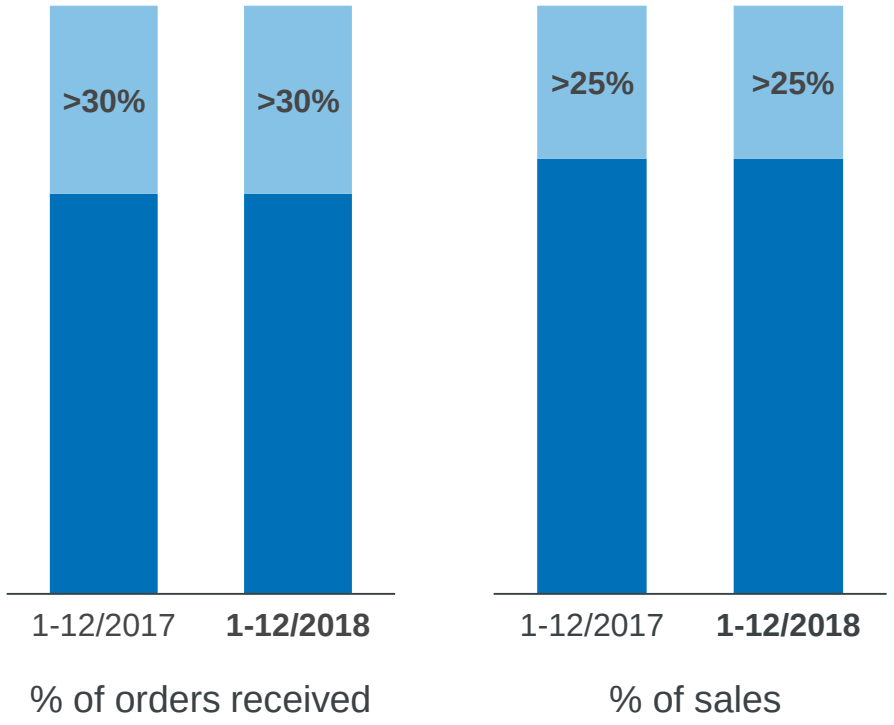
New equipment market

New equipment orders received in units vs. market development



China's share of KONE's orders and sales

Monetary value



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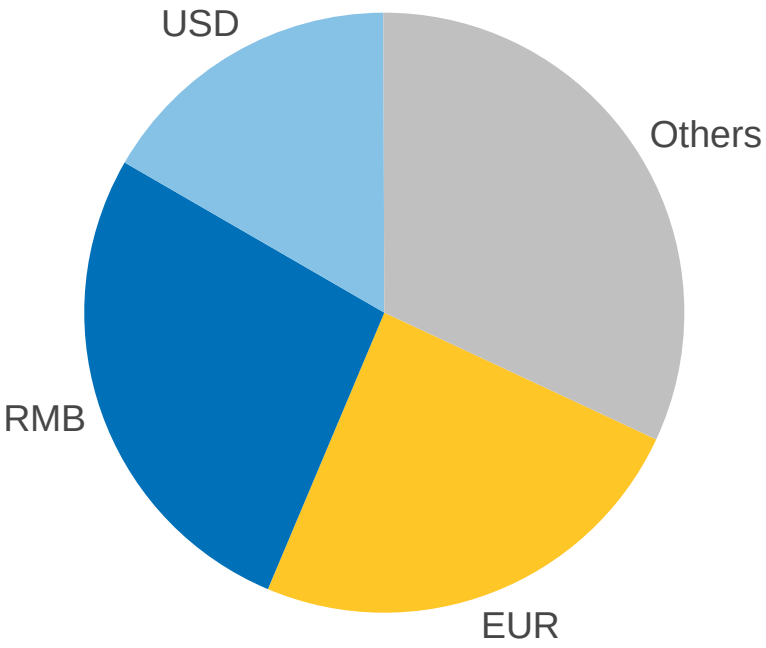
Currencies

Sales by currency 1–12/2018



Currency impact

MEUR	Q4/2018	1-12/2018
Sales	-12	-260
EBIT	-2	-41
Orders received	-16	-239

Main currencies

	2018 average	2017 average	Dec 31, 2018 spot
EUR / RMB	7.8148	7.6299	7.8751
EUR / USD	1.1809	1.1307	1.1450
EUR / GBP	0.8861	0.8742	0.8945
EUR / AUD	1.5794	1.4780	1.6220

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Balance sheet – assets employed

MEUR	Dec 31, 2018	Dec 31, 2017
Assets employed		
Goodwill	1,333.4	1,325.5
Other intangible assets	260.2	274.5
Tangible assets	397.4	377.0
Investments	143.3	134.3
Net working capital	-757.8	-772.6
Assets employed total	**1,376.6**	**1,338.7**
Financed by		
Equity	3,080.6	3,028.9
Net debt	-1,704.0	-1,690.2
Equity and net debt total	**1,376.6**	**1,338.7**

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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
Other non-interest-bearing assets	660.5	472.0
Other non-interest-bearing liabilities	-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
Net working capital total	**-757.8**	**-772.6**

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Consolidated cash flow

MEUR	1-12/2018	1-12/2017
Operating income	**1,042.4**	**1,192.3**
Change in working capital before financing items and taxes	-11.2	-43.3
Depreciation and amortization	118.9	114.3
Cash flow from operations before financing items and taxes	**1,150.1**	**1,263.3**
Financing items and taxes	-180.2	-299.6
Cash flow from operating activities	**969.8**	**963.7**
Investing activities	-121.1	-143.5
Purchase of own shares	-	-
Increase in equity (option rights)	23.1	24.9
Profit distribution	-849.2	-795.4
Changes in non-controlling interest	-3.1	-5.5
Free cash flow	**19.6**	**44.1**

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