

KONE CMD 2017

Driving shareholder value

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AGENDA

- › FINANCIAL OVERVIEW
- › BUILDING ON THE STRONG BUSINESS MODEL
- › INVESTING FOR THE FUTURE
- › LOOKING AHEAD



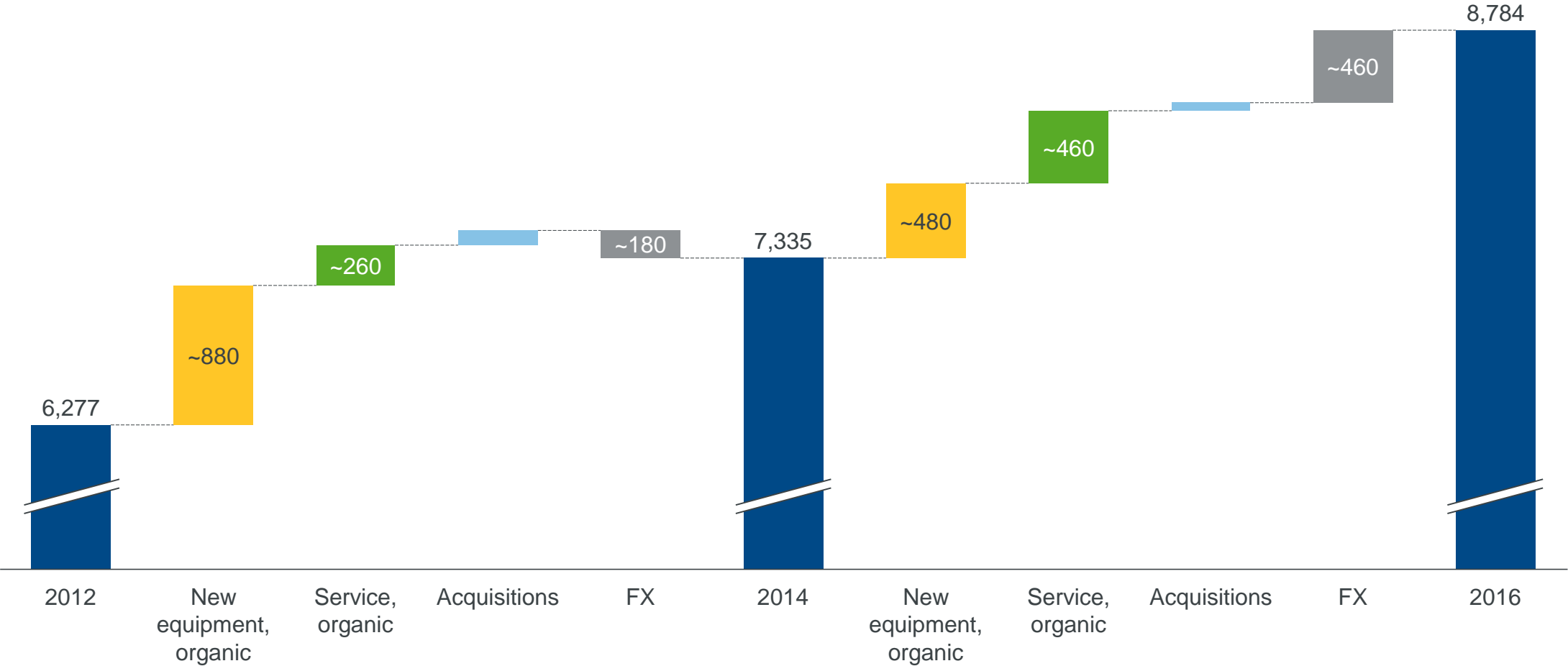
Financial overview



Sales growth has recently been more balanced between new equipment and services



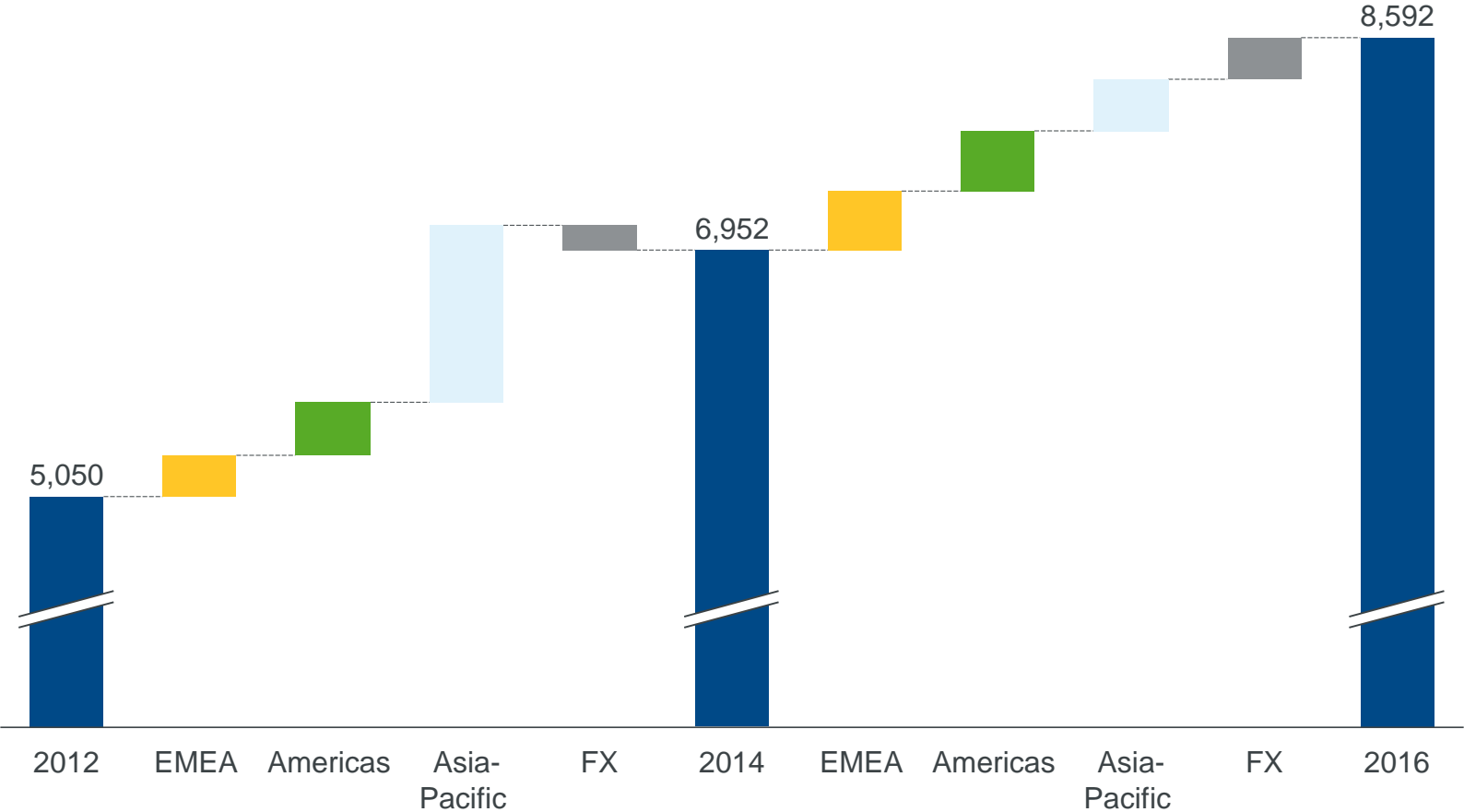
Sales growth 2012-2016, MEUR



Order book remains at a high level



Order book growth 2012-2016, MEUR

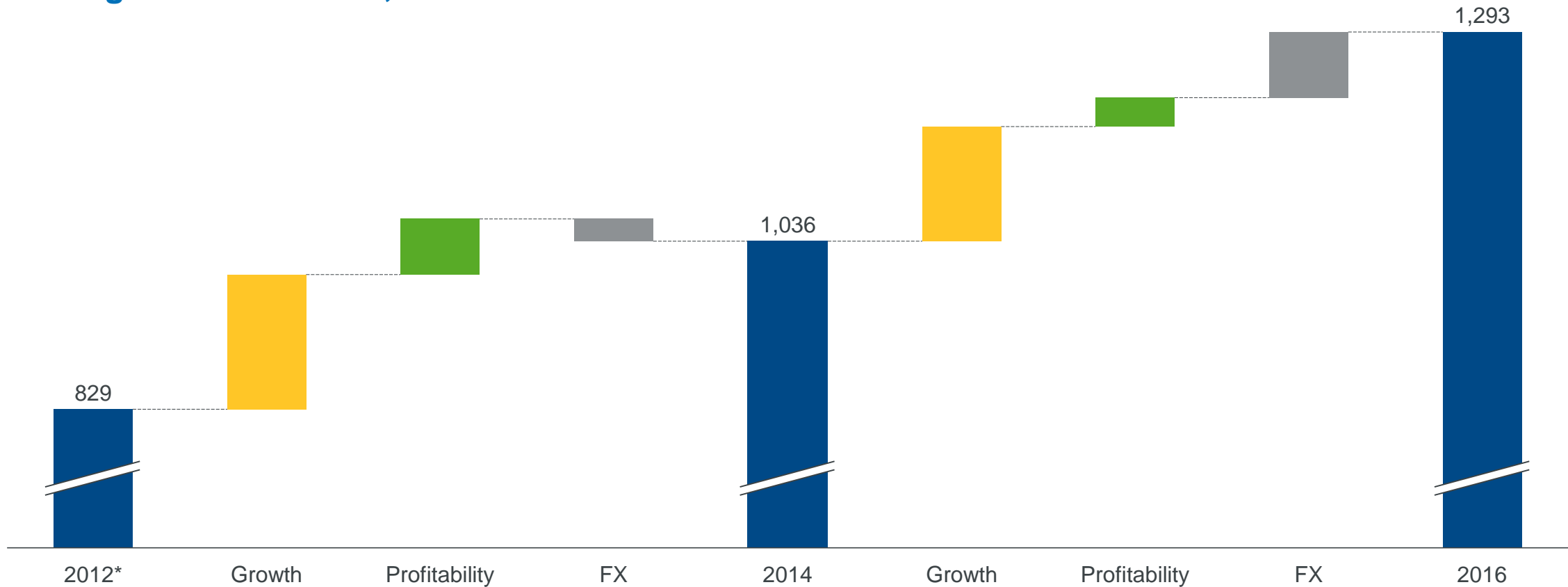


Order book rotation has lengthened slightly



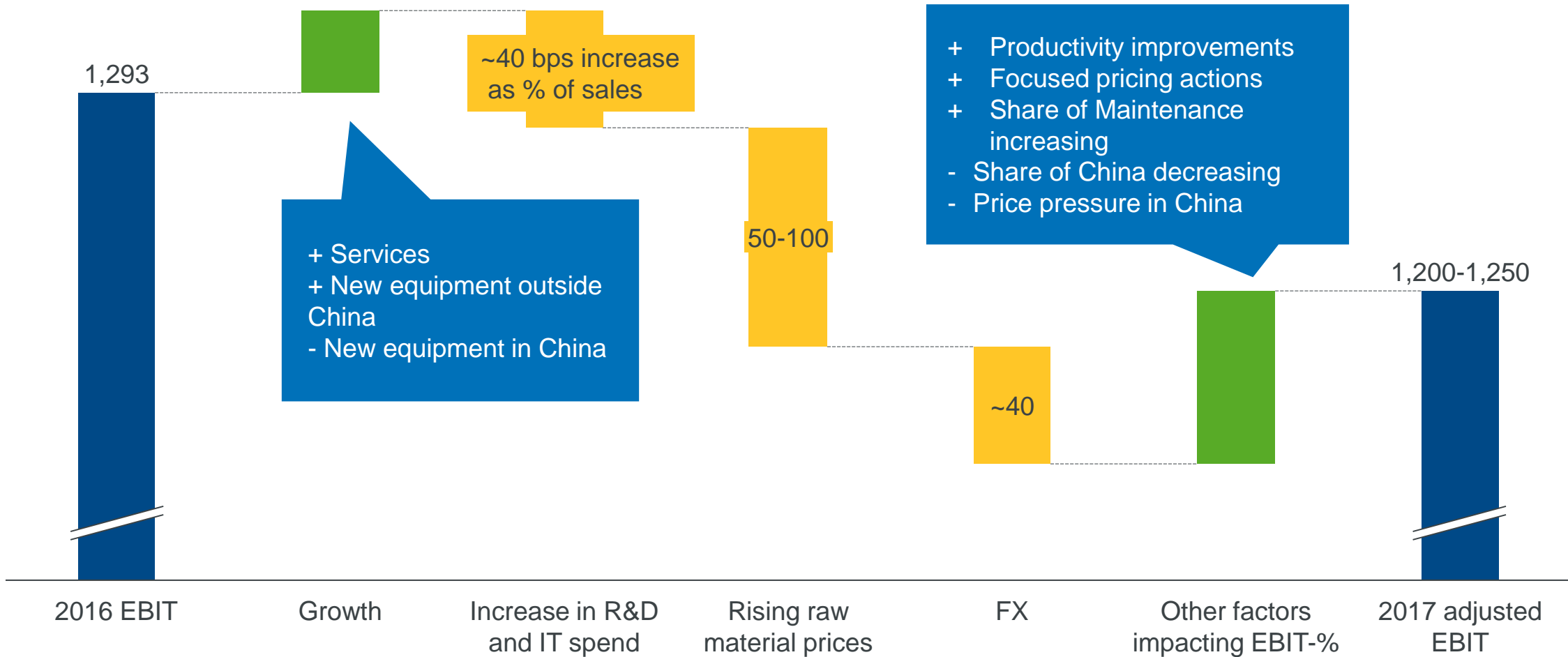
Both sales growth and improving profitability have contributed to EBIT growth

EBIT growth 2012-2016, MEUR



* Excluding non-recurring items

In 2017, we have had both headwinds and tailwinds impacting our results

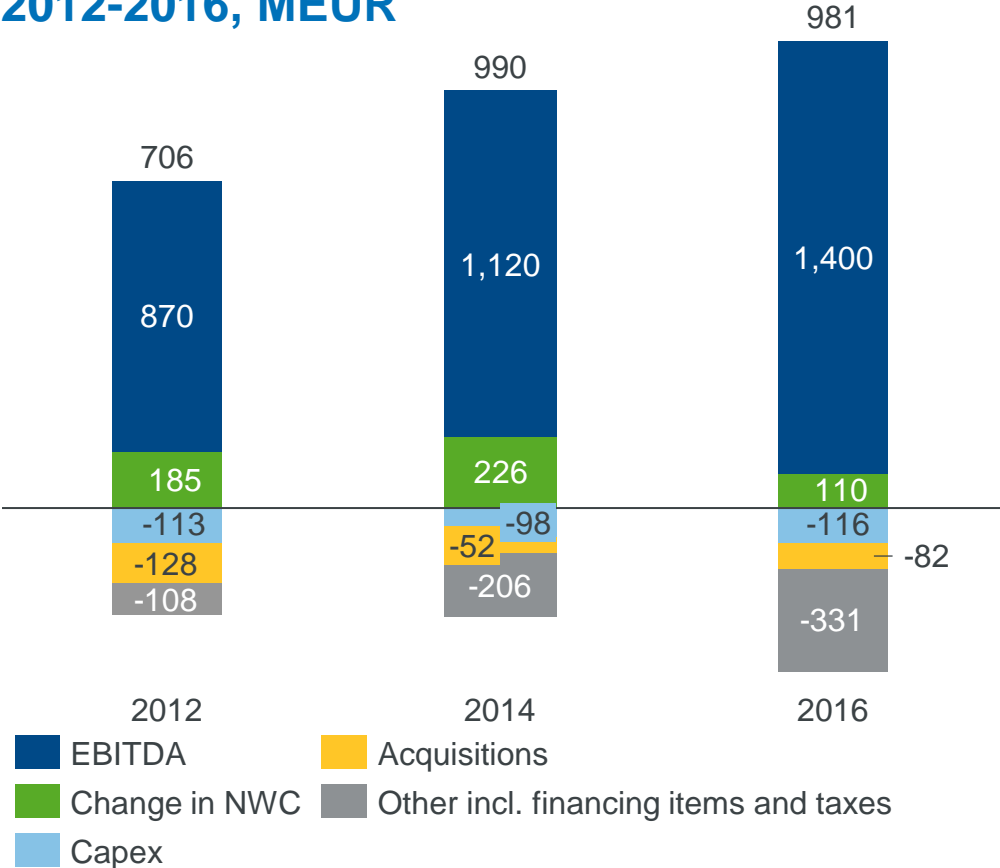


Size of the bars is illustrative, the final outcome may differ from this

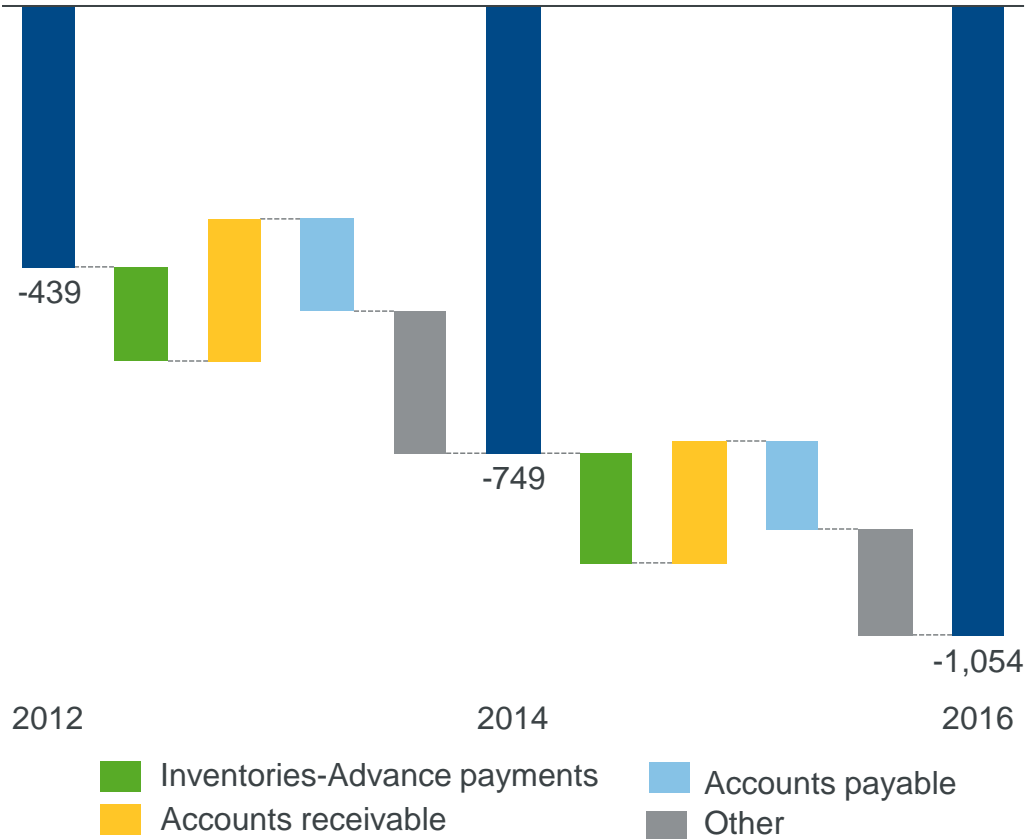
Net working capital continues to contribute positively to cash flow



Cash flow after investing activities 2012-2016, MEUR



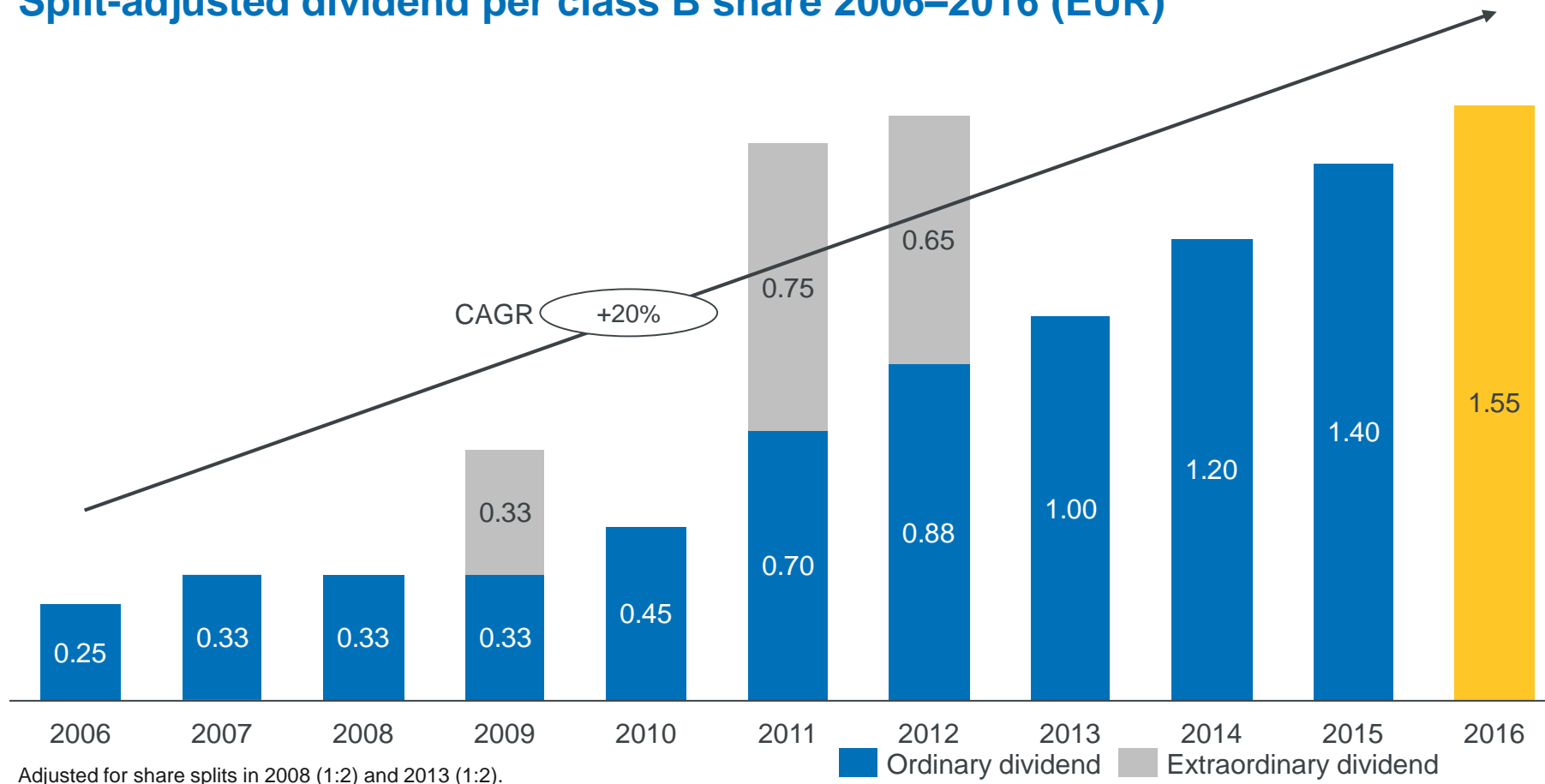
Net working capital 2012-2016, MEUR



Our strong financial development has enabled a steadily increasing dividend



Split-adjusted dividend per class B share 2006–2016 (EUR)



- Dividend payout in 2016:
 - 78% of EPS
 - 81% of cash flow after investing activities
- Effective dividend yield in 2016: 3.6%

Building on the strong
business model

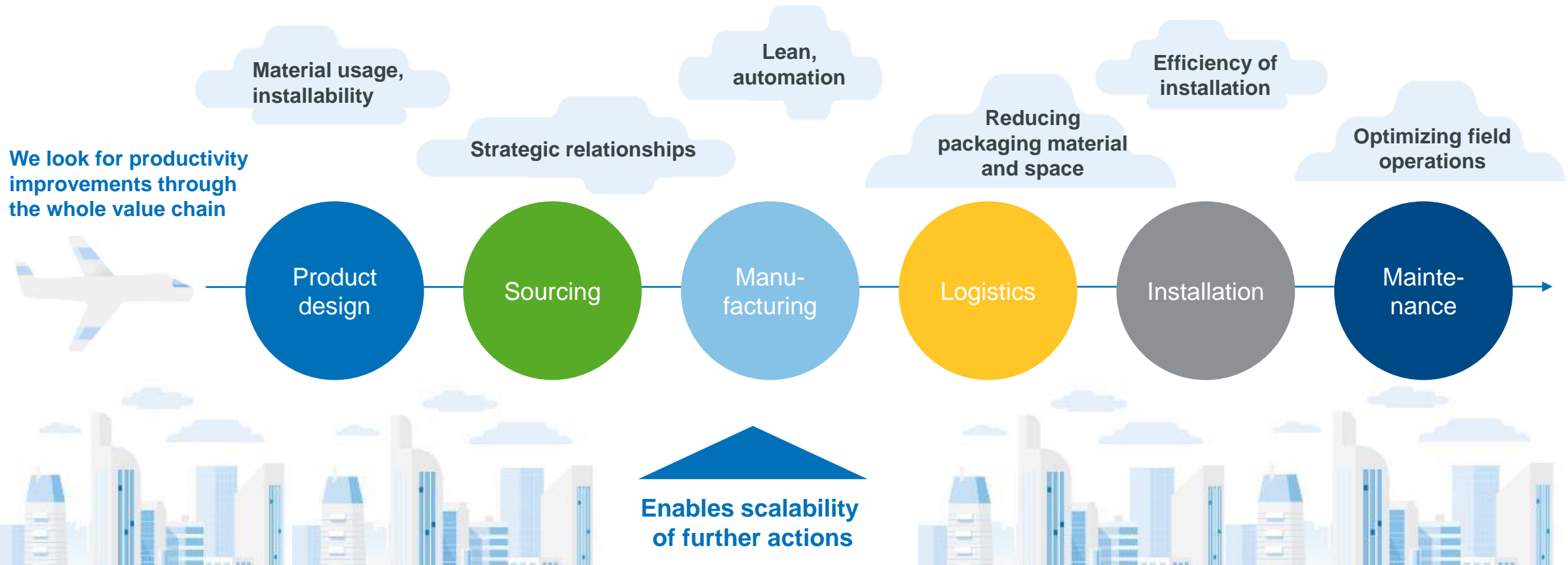


Our life-cycle business model drives steady growth

- New equipment business is the main growth driver for the maintenance business
- Majority of our modernization orders are for units in our maintenance base
- Having the balanced portfolio of three businesses helps us focus on what creates value for the customer through the whole lifecycle of the buildings



Our previous actions to improve productivity provide a good foundation for further productivity improvements



We started to harmonize the manufacturing footprint, product platform and to industrialize the way of working in the end of 1990s

We will strengthen our business model with the Accelerate Winning with Customers program

Objectives



Customer-centric capabilities



Speed



Efficiency



EUR ~100M

annual savings from the end of 2020 onwards

EUR ~100M

restructuring costs, with majority over the next two years

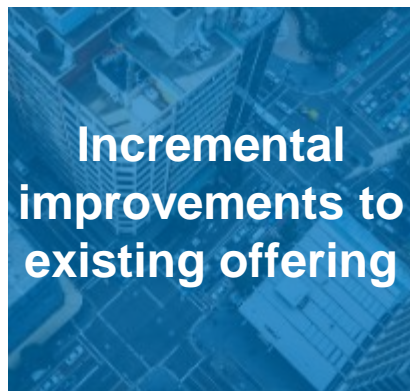
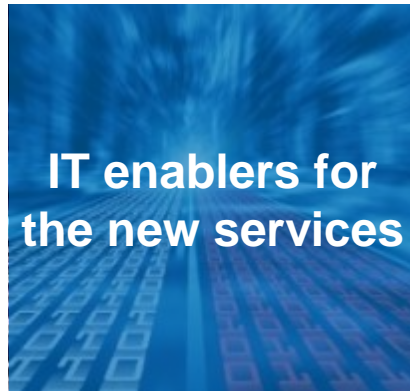
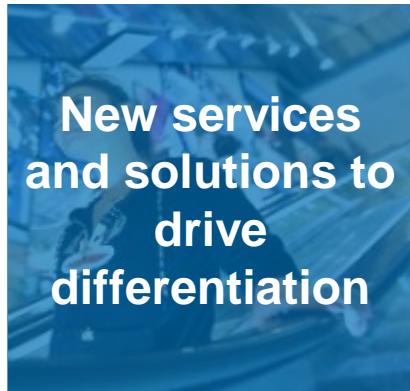
- Organizational adjustments, development and harmonization of roles, processes and tools
- Local accountability to drive customer-centricity
- Area organizations and global functions to have a bigger role in supporting and enabling the countries to focus on delivering value to the customers
 - Centers of expertise
 - Shared services



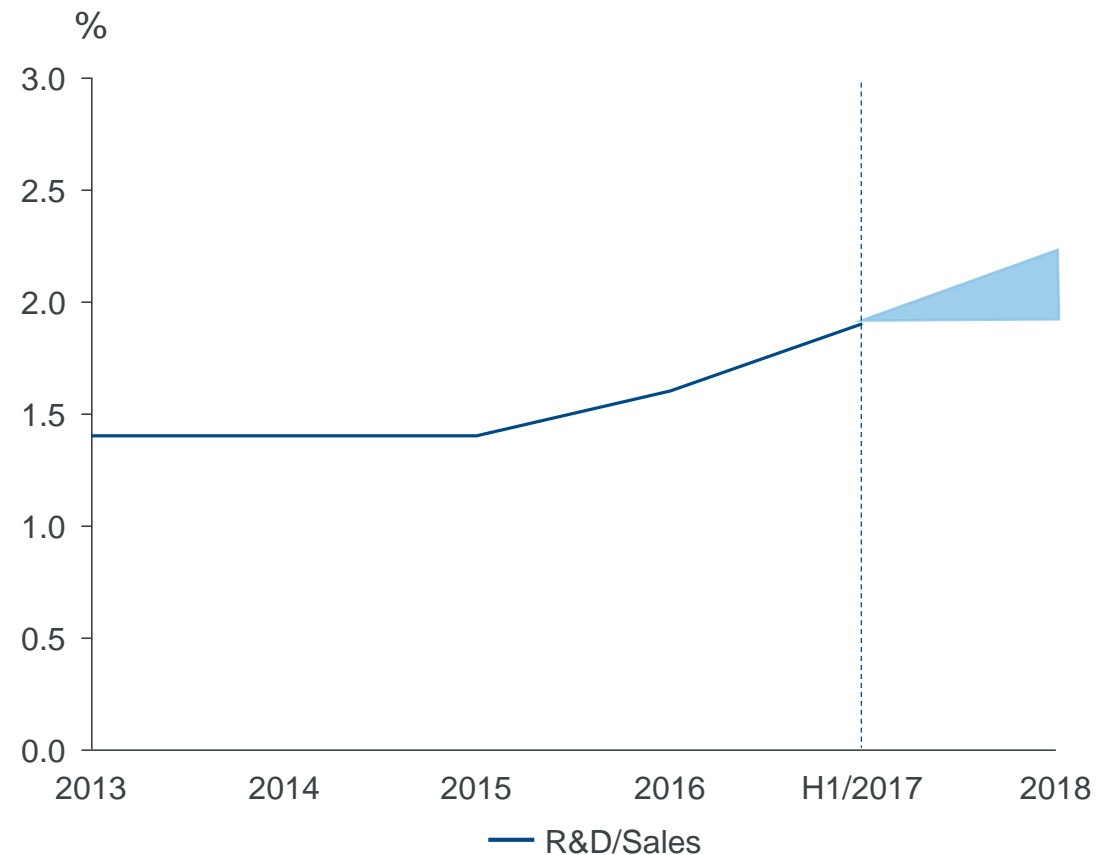
Investing for the future

We have increased our R&D and IT spend to further improve our competitiveness

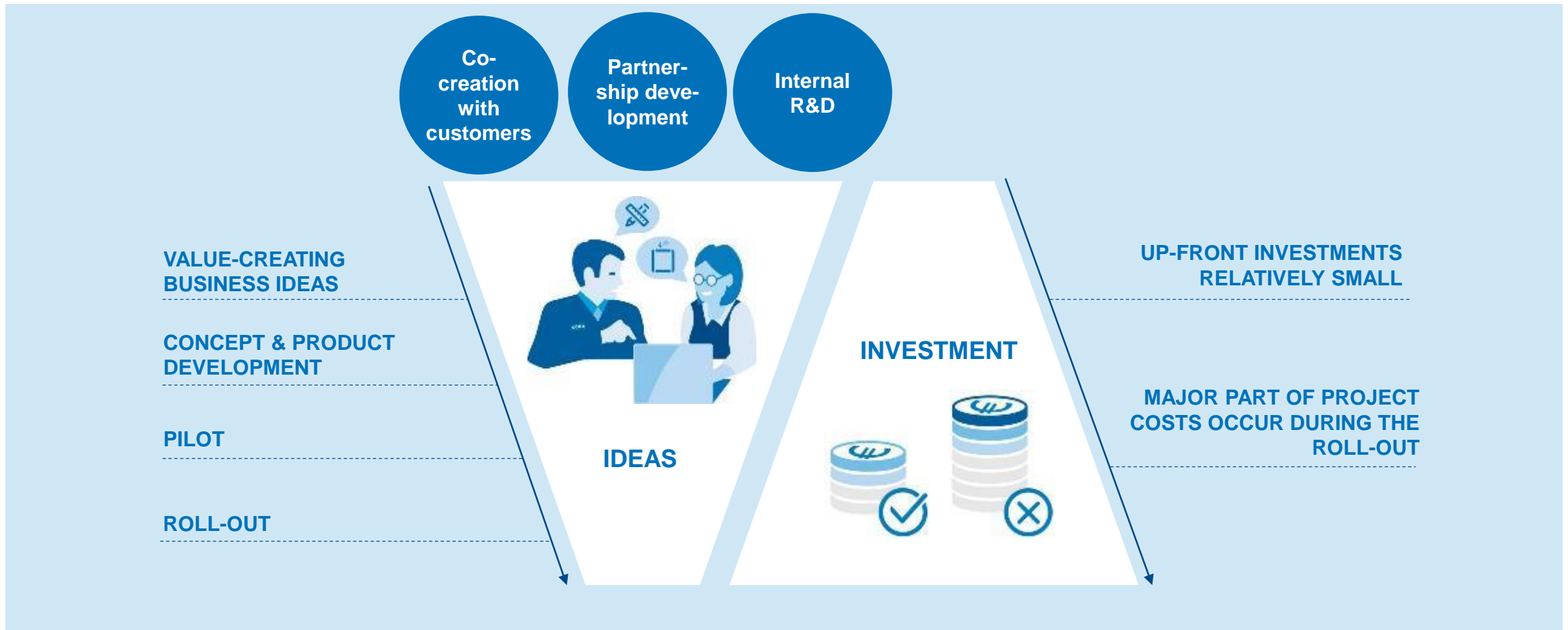
Factors driving our R&D and IT spend



R&D spend, % of sales



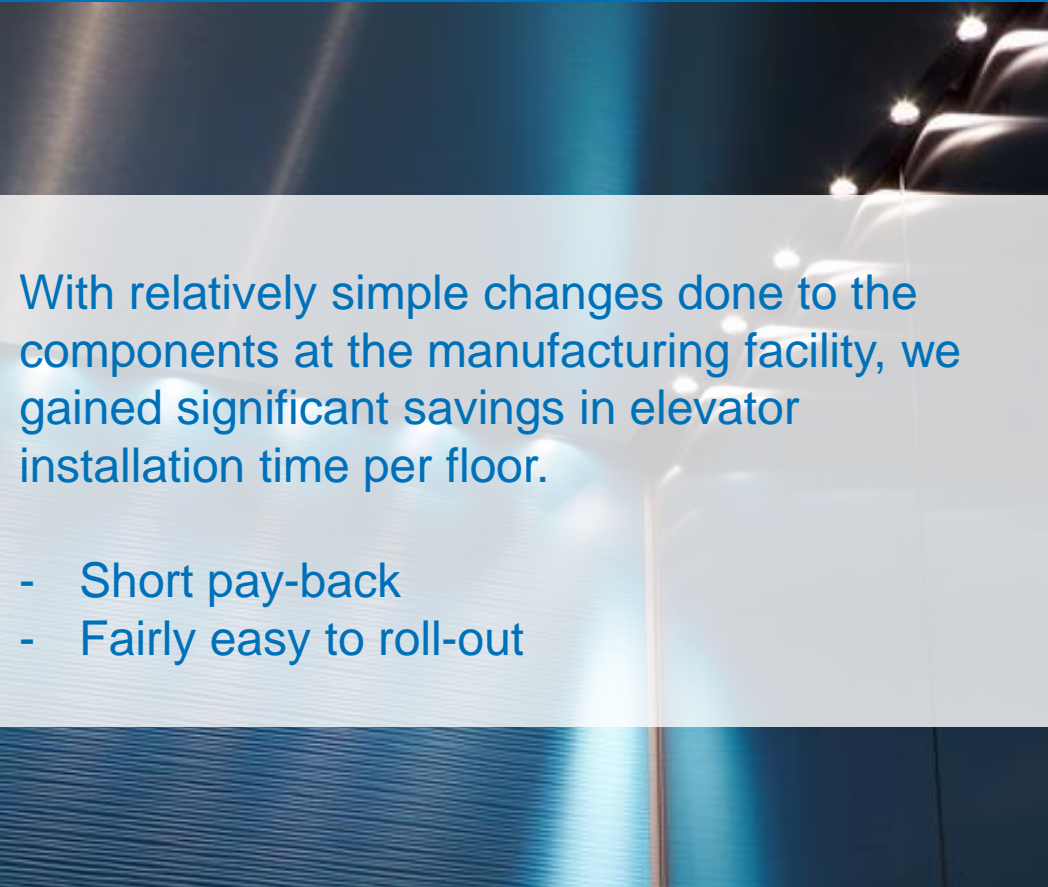
We have an agile R&D process and we want to further increase the speed of bringing new solutions to market



Our R&D consists of projects with different payback expectations



Incremental improvement: Door installation



With relatively simple changes done to the components at the manufacturing facility, we gained significant savings in elevator installation time per floor.

- Short pay-back
- Fairly easy to roll-out

Radical innovation: UltraRope



KONE UltraRope was developed and tested rigorously both in real elevators and simulation laboratories before it was launched in 2013 for ultra high-rise buildings.

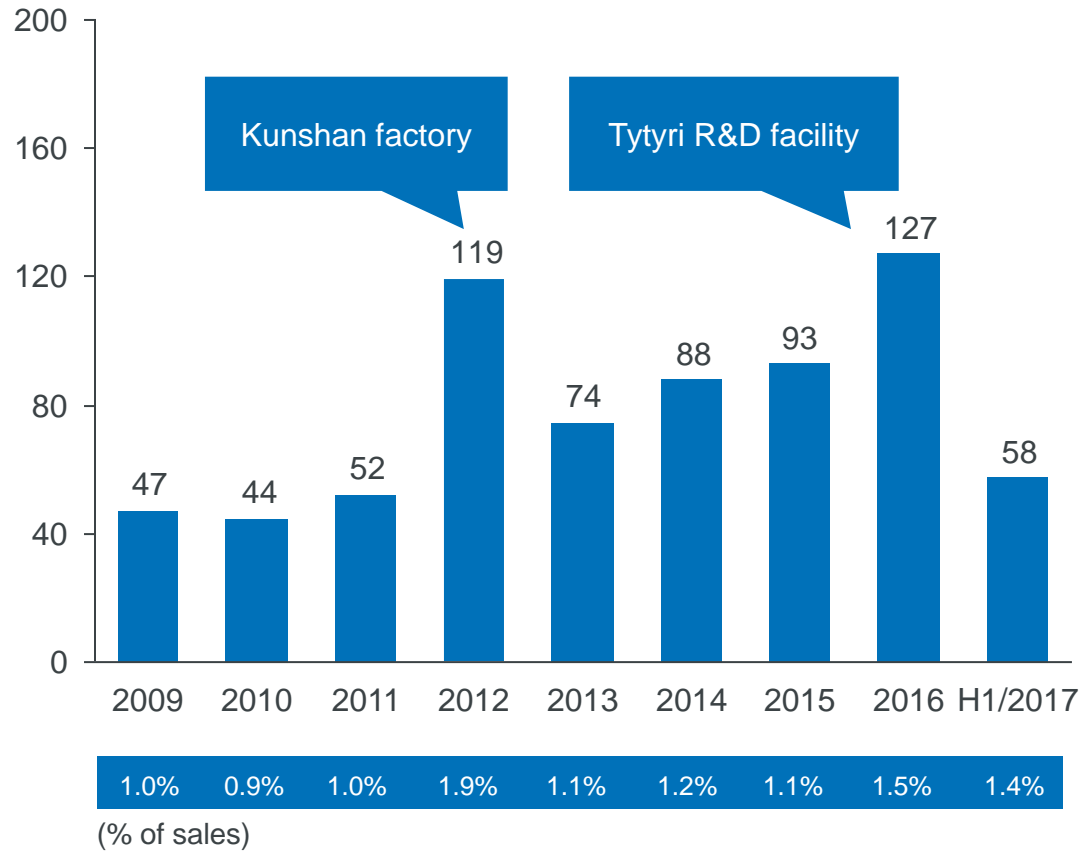
- Longer pay-back
- Roll-out takes time

Low capital expenditure requirements, continued stream of small bolt-on acquisitions



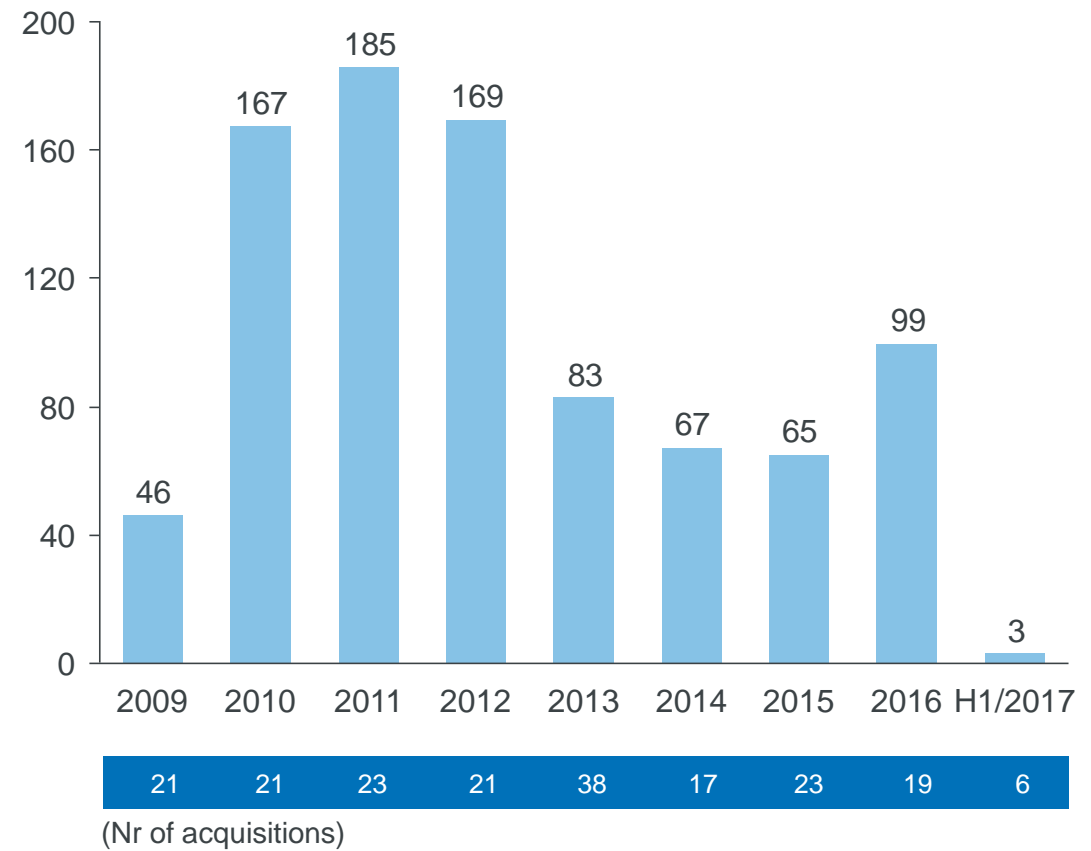
Capital expenditure 2009 – H1/2017

MEUR



Acquisition spend 2009 – H1/2017

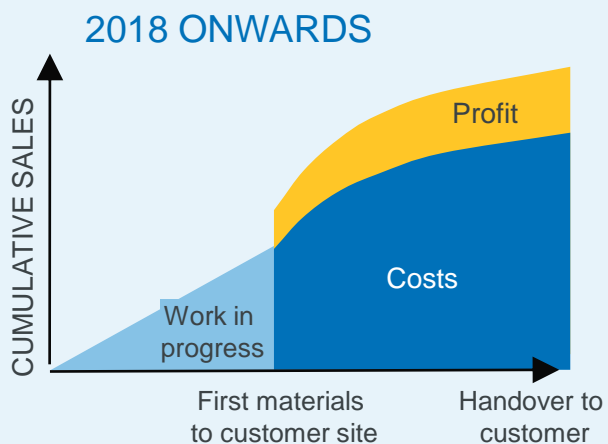
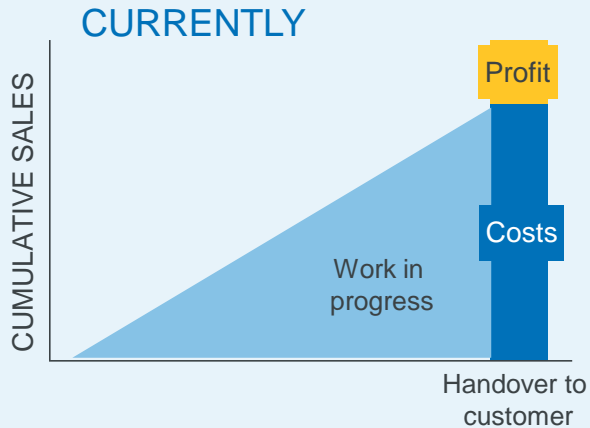
MEUR





Looking ahead

New revenue accounting standard (IFRS 15)



Sales recognition will change in 2018 due to the adoption of new IFRS 15 principles

What doesn't change?

- Revenue recognition in maintenance and major projects
- Cash flow

What changes?

- Revenue recognition in the volume new equipment and modernization businesses from “completed contract” to “percentage of completion”

What are the financial impacts?

- Less seasonality in sales and profits, slightly shorter lead time from order to sales
- Order book decreases by roughly 1 billion
- ~10% less of negative working capital
 - Inventory decreases by over 50%
 - Advance payments decrease by roughly 30%
 - Some impact on receivables as well as deferred tax assets and liabilities



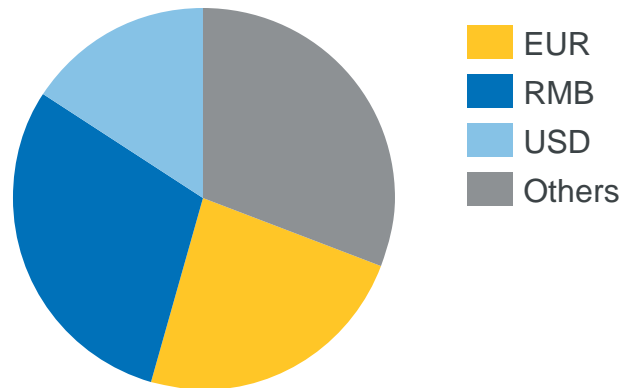
More information to be provided on November 15, 2017

At current levels, both FX and raw materials continue to be headwinds in 2018



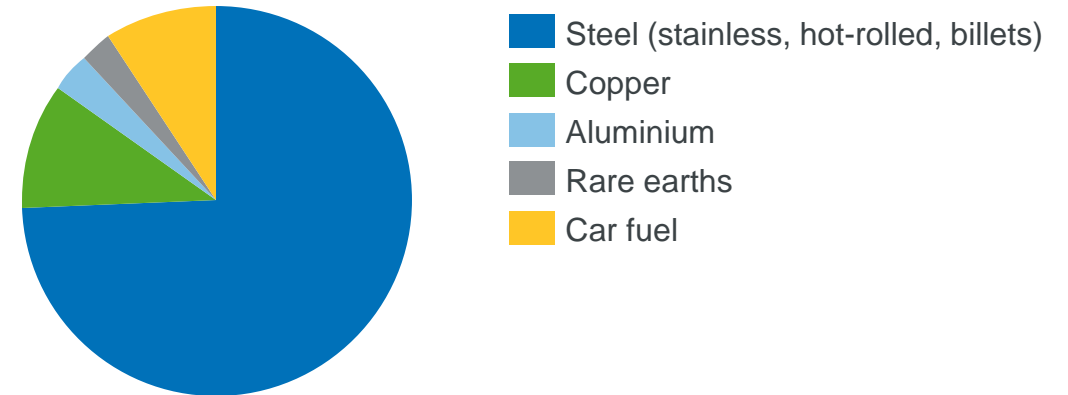
KONE's foreign exchange exposure

SALES BY CURRENCY 1-12/2016



KONE's raw material exposure

ILLUSTRATIVE



	H1/2017 average	Sep 25, 2017 spot
EUR / RMB	7.4685	7.8599
EUR / USD	1.0878	1.1867

- KONE's exposure to raw materials is through component purchases and represents roughly 5% of sales
- Raw material prices have again risen after the summer
- We lock the prices with component suppliers typically for 3-9 months → changes in raw material prices impact KONE's profits typically with a couple quarters lag

We remain committed to our financial targets



Growth

Faster than market growth

Profitability

16% EBIT margin

Cash flow

Improved working capital rotation

We continue to focus on absolute EBIT growth



16% EBIT MARGIN TARGET

GROWTH

ECONOMIES
OF SCALE

DIFFERENTIATION

UNIQUE VALUE
TO CUSTOMERS

**CUSTOMER
SATISFACTION**

HIGHER
RETENTION

**QUALITY AND
PRODUCTIVITY**

COST
COMPETITIVENESS

SPEED AND EFFICIENCY PROVIDED BY THE ACCELERATE PROGRAM



We are focused on creating shareholder value



- We have a solid and cash-generative business model, which we are strengthening further
- We have increased our R&D and IT spend to further improve our competitiveness
- We remain committed to our financial targets

WESTEND
GATE
Hamburger Allee 2-4

Dedicated to People Flow™

