ANNUAL REVIEW

KONE 2017

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* part of the Board of Directors' report

| part of the official financial statements

Annual General Meeting February 26, 2018 in Helsinki

More information on page 92.

Board's dividend proposal of 1.65 EUR per class B-Share

More information on page 86.

KONE's financial reporting schedule in 2018

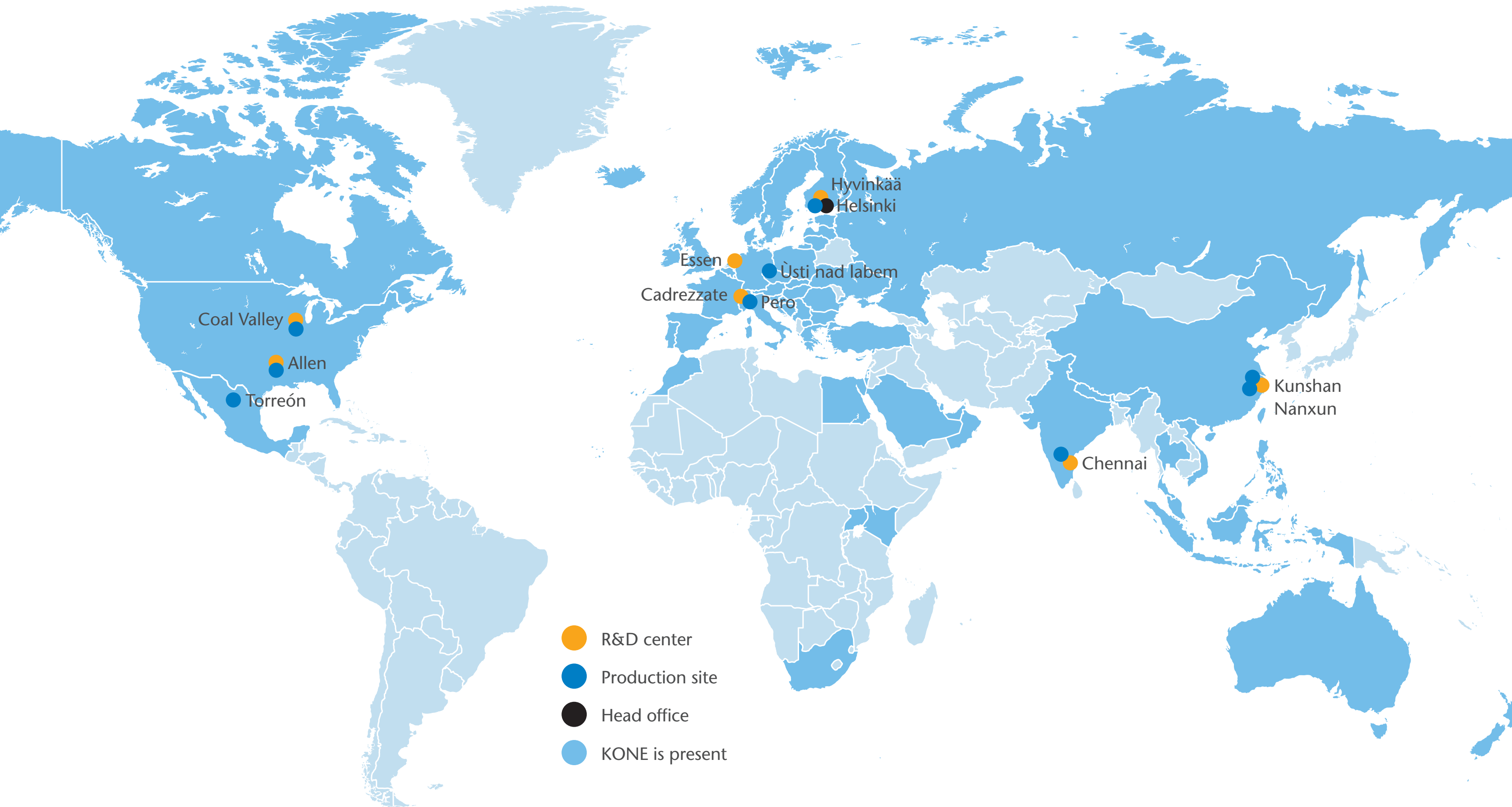
Financial Statement Bulletin and Financial Statements for 2017	Thursday, January 25, 2018
Printed Financial Statements for 2017	Week 8 February, 2018
Interim report for January 1–March 31, 2018	Wednesday, April 25, 2018
Interim report for January 1–June 30, 2018	Thursday, July 19, 2018
Interim report for January 1–September 30, 2018	Thursday, October 25, 2018

In the second quarter of 2018, KONE will publish a separate Sustainability Report for the year 2017.

KONE at a glance

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, which add value to the life cycle of any building.

Through more effective People Flow®, we make people's journeys safe, convenient and reliable, in taller, smarter buildings. Together with our partners and customers around the world, we help cities to become better places to live in.



Sales **8,942** MEUR in 2017

>55,000 employees

Founded in Finland in 1910

>450,000 customers

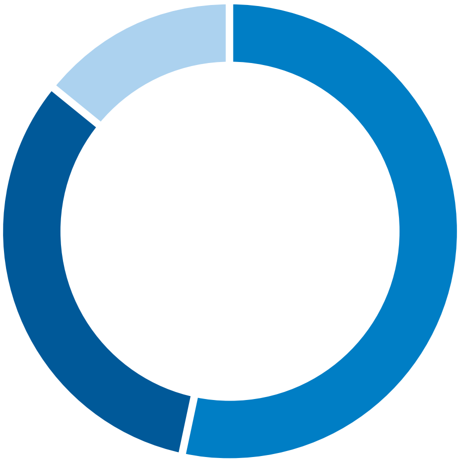
>1,200,000 equipment in KONE's maintenance base

Operations in over **60** countries

Authorized distributors and agents in close to 100 countries

Key figures

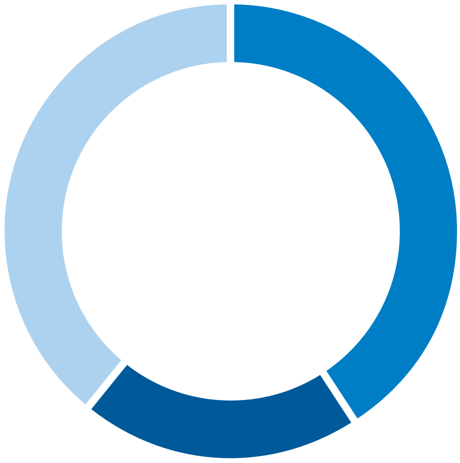
Sales by business



- New equipment 53% (55%)
- Maintenance 32% (31%)
- Modernization 14% (14%)

1–12/2017 (1–12/2016)

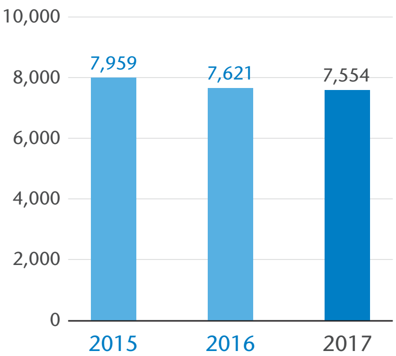
Sales by region



- EMEA 41% (40%)
- Americas 20% (19%)
- Asia-Pacific 39% (41%)

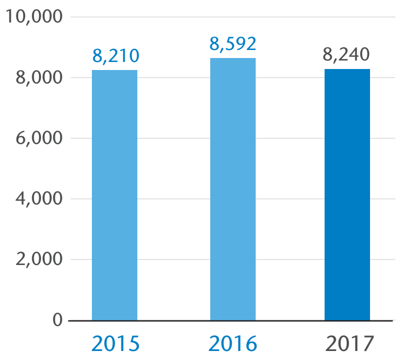
1–12/2017 (1–12/2016)

Orders received* (MEUR)

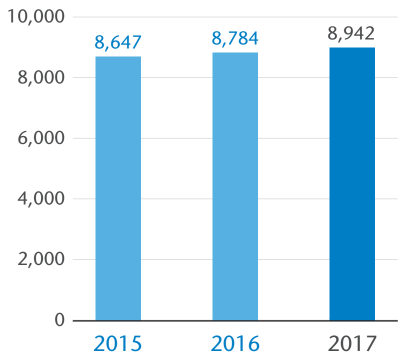


*) Orders received do not include maintenance contracts

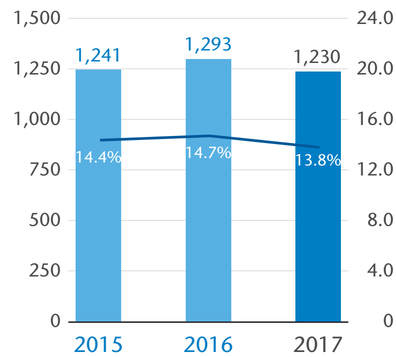
Order book (MEUR)



Sales (MEUR)

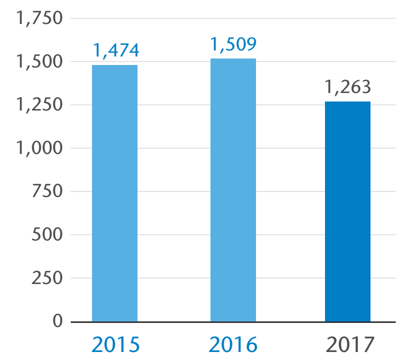


Adjusted EBIT (MEUR) and adjusted EBIT margin (%)



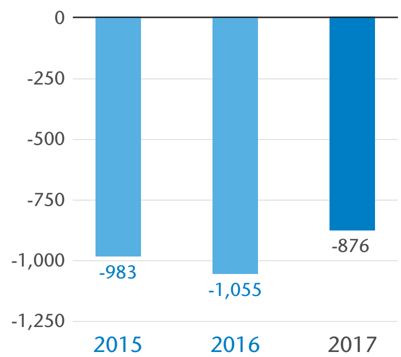
- Adjusted EBIT
- Adjusted EBIT margin

Cash flow* (MEUR)



*) Cash flow from operations before financing items and taxes

Net working capital* (MEUR)



*) Including financing items and taxes

KONE's strategy: "Winning with Customers"

KONE's strategic phase for 2017–2020 is called "Winning with Customers". The objective is to drive differentiation further by putting the needs of customers and users at the center of all development.

The increasingly urbanizing world continues to provide attractive growth opportunities in the elevator and escalator industry. New technologies and connectivity provide an opportunity to add value for customers in new ways that meet better their specific needs, while at the same time technological development has changed their expectations on speed, transparency and predictability. KONE will increase the speed of bringing new services and solutions to the market by closer collaboration with customers and partners.

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

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

For the strategic phase, KONE has defined four "Ways to Win" as a recipe on how to reach its goals:
- Collaborative innovation and new competencies
- Customer-centric solutions and services
- Fast and smart execution and;
- True service mindset

The business development initiatives as well as the solution and service development are guided by the Ways to Win.

>450,000 customers

New equipment:
Developers, builders, consultants, architects, building owners

Maintenance:
Building owners, housing corporations, facility managers

Modernization:
Building owners, housing corporations, facility managers

KONE's Business model

KONE provides value for the customers during the entire lifespan of the building. In the new equipment business, we offer innovative and sustainable elevators, escalators, automatic building doors and integrated access control solutions to deliver the best people flow experience. In maintenance, we ensure the safety and availability of the equipment in operation, and in modernization we offer solutions for aging equipment ranging from the replacement of components to full replacements.

CREATING VALUE BY IMPROVING THE FLOW OF URBAN LIFE

INPUTS

PEOPLE AND LEADERSHIP

- > 55,000 employees in >60 countries, ca. half of them in the field
- Personnel turnover rate 7.7%
- 92% of employees with individual development plan
- Wide training opportunities on all organizational levels around the world
  - >35 training centers
  - 3,900 courses in 30 different languages
- Management systems and certificates (e.g. ISO 14001, ISO 9001, OHSAS 18001)
- Governance structures and Code of Conduct

INNOVATIONS, PROCESSES AND SYSTEMS

- >3,000 patents
- R&D spend 1.8% of sales, 9 global R&D units
- >1,000 technology professionals in R&D
- Global KONE Way processes and systems
- Safe and efficient maintenance and installation methods

PARTNERING

- Co-creation with customers
- Partnering to develop new technologies
- Collaboration with >300 universities and educational institutions
- Distributors and agents important part of go-to-market

MANUFACTURING AND DELIVERY CHAIN

- 13 manufacturing units in 7 countries
- ~2,000 component suppliers
- thousands of installation suppliers
- Logistics network

BRAND AND REPUTATION

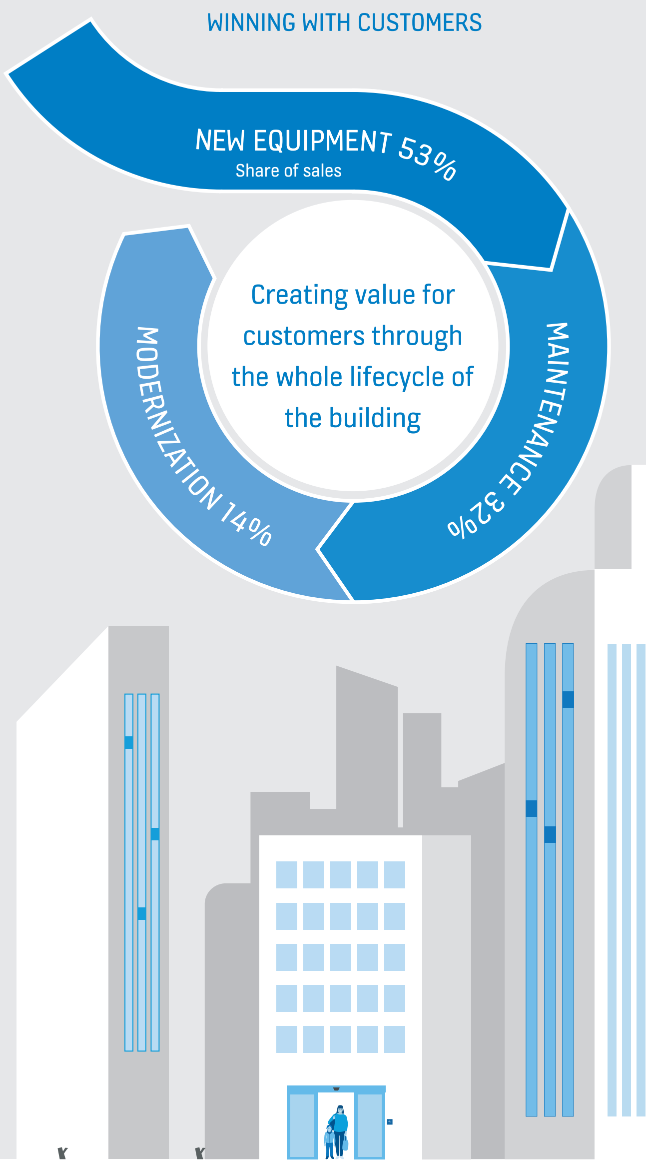
FINANCIAL

- Equity EUR 2.9 billion
- Interest-bearing net debt EUR -1.7 billion
- Net working capital EUR -0.9 billion
- Capital expenditure 1.3% of sales

NATURAL RESOURCES*

- Materials used 701,200 tonnes
- Heating and vehicle fleet fuels 423,000 MWh
- Electricity and district heat 94,800 MWh
- Water consumption 350,000 m^3

BUSINESS MODEL



*2016 figures. 2017 figures will be published in the 2017 Sustainability Report in Q2 2018.

Growth drivers

The key growth drivers of the new equipment business are urbanisation and changing demographics. New equipment deliveries are the main growth driver of the maintenance business as over 80% of units delivered will end up in KONE's maintenance base. However, KONE maintains also other OEM's equipment. In maintenance, KONE is also looking to boost growth by introducing services that utilize new technologies to create value for customers in new ways. The main growth drivers for modernization are the aging installed base and higher requirements for efficient people flow, safety and sustainability. Having a strong maintenance base is crucial for the growth in modernization.

Business characteristics

KONE's business model is capital light as the working capital is negative in all businesses and we work extensively with component suppliers to complement our own manufacturing capacity. The maintenance business is very stable due to high requirements for safety and reliability. The customer relationships are also typically long and stable (around 95% annual retention rate). New equipment and modernization are more cyclical in nature and follow the construction cycles.

Key value drivers

KONE has identified five strategic inputs crucial in creating value for customers, shareholders and the society. These are: **1)** competent and committed people and strong leadership, **2)** innovative offering and global processes and systems, **3)** best partners, **4)** efficient manufacturing and delivery chain as well as **5)** strong brand and solid reputation.

These are described in more detail in the picture below. In addition to these, KONE sees that the lifecycle business model and the existing maintenance base of over 1.2 million units have a crucial role in value creation. The different businesses support the growth of each other and together provide stability for the business.

OUTPUTS

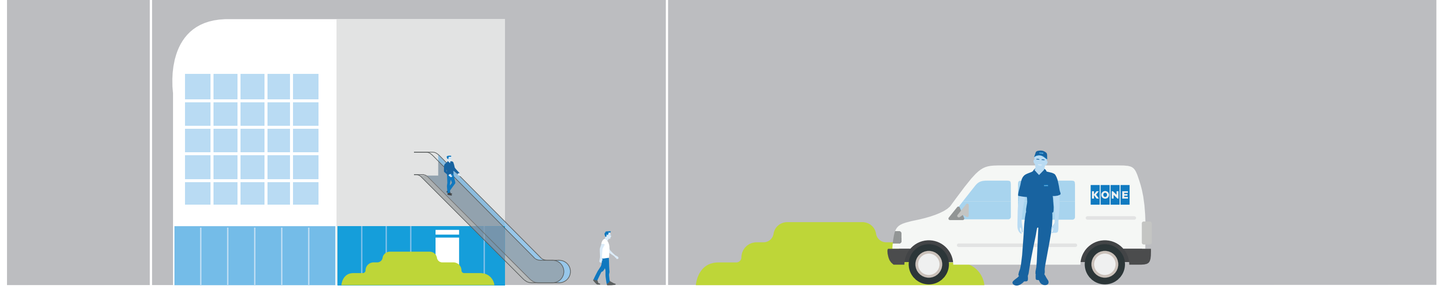
THE MOST SUSTAINABLE OFFERING

- 141,000 new elevators and escalators delivered in 2017
- Maintenance and modernization services, >1.2 million units in maintenance base
- Best in class energy efficiency, ISO 25745 A-class energy rating as the first elevator company
- Up to 70% energy savings through modernization of elevators
- Focus on safety and accessibility

EMISSIONS AND WASTE*

- Carbon footprint from own operations 311,000 tCO_2e
- Waste 23,100 tonnes
- Waste water effluents 14 tonnes

MOVING OVER
1 BILLION PEOPLE
EVERY DAY



IMPACT

SHAREHOLDERS

- Dividend proposal 1.65 EUR per class B share
- Basic earnings per share 1.89 EUR
- Return on equity 34%

SOCIETY

- Contribution to sustainable urban environment
- Wages, salaries, other employment expenses and pensions EUR 2.7 billion
- Industrial Injury Frequency Rate (IIFR) 1.9 (-11% y/y)
- Promoting diversity and non-discrimination
- Increased amount of skilled workforce
- Direct purchases EUR 3.4 billion
- Income taxes EUR 300 million with effective tax rate 23.5%

ENVIRONMENT*

- -4.1% y/y reduction in operational carbon footprint relative to sales
- 28% of green electricity
- 90% of waste recycled or incinerated
- 100% corporate units, manufacturing units and R&D units are ISO 14001 and ISO 9001 certified
- 93% of strategic suppliers with ISO 14001 certification

Board of Directors' report

KONE's operating environment

Operating environment by region

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

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

In 2017, the **global new equipment market** was relatively stable in units ordered. **In Asia-Pacific**, the new equipment market was rather stable with the large **Chinese market** stable in units and slightly down in monetary value. In China, the residential segment was relatively stable despite the housing restriction measures impacting the market across city tiers. The commercial segment saw a slight decline and the infrastructure segment continued to grow driven by government investments. In the rest of Asia-Pacific, the new equipment markets declined slightly. The Indian market was impacted by the implementation of several reforms. However, the market stabilized towards the end of the year. The new equipment market **in the EMEA region** saw slight growth, with relatively stable development in Central and North Europe and slight growth in South Europe and Middle East. **In North America**, the new equipment market continued to grow slightly driven by the United States.

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 China and a more moderate development in Europe and North America.

In 2017, the **pricing trends** remained varied. In China, competition was intense in the new equipment market, but prices started to stabilize during the year. Higher raw material costs burdened the industry's profitability. In the EMEA region, the pricing environment continued to be characterized by intense competition in maintenance, particularly in South Europe. In North America, the pricing environment remained favorable in new equipment and modernization, while the maintenance market continued to be competitive.

Orders received

Orders received and order book, MEUR

MEUR	2017	2016	Change	Change at comparable exchange rates
Orders received	7,554	7,621	-0.9%	1.7%
Order book	8,240	8,592	-4.1%	3.1%

Orders received development by region*

	New equipment orders	Modernization orders	Total orders
EMEA	++	+	+
Americas	+++	+	++
Asia-Pacific	–	+++	–
China	–	+++	–

*) in monetary value at comparable exchange rates

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

The 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.

Orders received declined by 0.9% in 2017 and totaled EUR 7,554 (1–12/2016: 7,621) million. At comparable exchange rates, KONE's orders received grew by 1.7%. In 2017, KONE's orders received were stable in new equipment with a stable volume business and slight growth in major projects. In modernization, orders received grew slightly.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 158,000 units (2016: approximately 158,000 units).

The order book declined by 4.1% compared to the end of 2016 and stood at a level of EUR 8,240 (December 31, 2016: 8,592) million at the end of 2017. At comparable exchange rates, the order book grew by 3.1%. The relative margin of orders received declined slightly in the first three quarters, but stabilized in the fourth quarter due to successful pricing actions especially in China. A focused pricing strategy, as well as good progress in overall product competitiveness including cost, have helped in sustaining healthy relative margins. Cancellations of orders remained at a very low level.

KONE's new equipment orders received in the elevator and escalator units amounted to approximately 158,000 units (2016: approximately 158,000 units).

In the EMEA region, orders received grew slightly at comparable exchange rates as compared to 2016. New equipment orders grew clearly in the region driven by Germany, the UK and France. Modernization orders grew slightly.

In the Americas region, orders received grew clearly at comparable exchange rates as compared to 2016. New equipment orders grew significantly while modernization orders grew slightly.

In the Asia-Pacific region, orders received declined slightly at comparable exchange rates as compared to the previous year. New equipment orders received declined slightly in the region driven by a slight decline in China. Modernization orders received grew significantly both in China and the rest of Asia-Pacific.

Net sales

Sales by region, MEUR

	2017	2016	Change	Change at comparable exchange rates
EMEA	3,632	3,477	4.5%	5.8%
Americas	1,815	1,659	9.4%	12.0%
Asia-Pacific	3,496	3,649	-4.2%	-1.0%
Total sales	8,942	8,784	1.8%	4.2%

Sales by business, MEUR

	2017	2016	Change	Change at comparable exchange rates
New equipment sales	4,768	4,793	-0.5%	2.5%
Service sales	4,175	3,991	4.6%	6.2%
Maintenance	2,887	2,773	4.1%	5.6%
Modernization	1,287	1,219	5.6%	7.5%
Total sales	8,942	8,784	1.8%	4.2%

Sales development by region and by business*

	New equipment	Maintenance	Modernization
EMEA	++	+	++
Americas	+++	+	+++
Asia-Pacific	–	+++	++

*) in monetary value at comparable exchange rates

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

Net sales grew in 2017 by 1.8% as compared to the prior year, and totaled EUR 8,942 million. At comparable exchange rates the increase was 4.2%. The sales consolidated from the companies acquired in 2017 did not have a material impact on KONE's net sales for the financial period.

New equipment sales accounted for EUR 4,768 million and declined by 0.5% over the comparison period. At comparable exchange rates, new equipment sales grew by 2.5%.

> KONE delivered approximately 141,000 new elevator and escalator units in 2017 (2016: approximately 136,000 units).

KONE delivered approximately 141,000 new elevator and escalator units in 2017 (2016: approximately 136,000).

Service (maintenance and modernization) sales grew by 4.6%, and totaled EUR 4,175 million. At comparable exchange rates, service sales grew by 6.2%. Maintenance sales grew by 4.1% and by 5.6% at comparable exchange rates, and totaled EUR 2,887 million. Modernization sales increased by 5.6%, and totaled EUR 1,287 million. At comparable exchange rates, modernization sales grew by 7.5%.

> KONE's elevator and escalator maintenance base continued to grow and was over 1.2 million units at the end of 2017 (over 1.1 million units at the end of 2016).

KONE's elevator and escalator maintenance base continued to grow by over 6% and was over 1.2 million units at the end of 2017 (over 1.1 million units at the end of 2016). 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 as the number of acquired units was clearly lower than in the past years. In 2017, the balance of maintenance contracts that were won from or lost to competition was still slightly negative.

The largest individual countries in terms of net sales were China (>25% of sales), the United States (>15%), France (~5%) and Germany (~5%).

In the EMEA region, sales grew by 4.5% and totaled EUR 3,632 million. At comparable exchange rates, the growth was 5.8%. New equipment and modernization sales grew clearly, and maintenance sales grew slightly.

In the Americas region, sales grew by 9.4% and totaled EUR 1,815 million. At comparable exchange rates, the growth was 12.0%. Sales grew significantly in new equipment and in modernization. Maintenance sales grew slightly.

In the Asia-Pacific region, sales declined by 4.2% and totaled EUR 3,496 million. At comparable exchange rates, the decline was 1.0% with a slight decline in new equipment but significant growth in maintenance and clear growth in modernization.

Financial result

Financial result

	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Operating income, MEUR	1,217.1	1,293.3
Operating income margin, %	13.6	14.7
Adjusted EBIT, MEUR	1,230.3	1,293.3
Adjusted EBIT margin, %	13.8	14.7
Income before taxes, MEUR	1,275.2	1,330.3
Net income, MEUR	975.1	1,022.6
Basic earnings per share, EUR	1.89	2.00

KONE's operating income (EBIT) declined in 2017 to EUR 1,217 million or 13.6% of net sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,230 million or 13.8% of net sales.

Profitability was burdened by the price pressure seen earlier in the new equipment orders in China combined with increasing raw material costs. In addition, profitability was burdened by higher R&D and IT spend on the development of new solutions and services. These were partly offset by productivity improvements and focused pricing actions. Unfavorable translation exchange rates burdened the operating income with a negative impact of approximately EUR 37 million.

Net financing items was EUR 58.3 (35.8) million and consisted mainly of interest income from investments.

KONE's income before taxes was EUR 1,275 million. Taxes totaled EUR 300.1 (307.7) million. This represents an effective tax rate of 23.5% (23.1%) for the financial year. The effective tax rate from operations for the financial year 2017 was 23.0%, excluding the deferred tax impact from corporate income tax rate changes and reassessments. Net income for the period under review was EUR 975.1 (1,023) million.

Basic earnings per share was EUR 1.89.

Cash flow and financial position

Cash flow and financial position

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from operations (before financing items and taxes), MEUR	1,263.3	1,509.5
Net working capital (including financing items and taxes), MEUR	-875.6	-1,054.8
Interest-bearing net debt, MEUR	-1,690.2	-1,687.6
Gearing, %	-58.1	-60.4
Equity ratio, %	49.0	46.8
Equity per share, EUR	5.62	5.42

KONE's financial position was very strong at the end of December 2017.

Cash flow from operations (before financing items and taxes) during January–December 2017 was EUR 1,263 million. Cash flow from operations was on a solid level against a strong comparison period.

Net working capital was at the end of December 2017 EUR –876 million, including financing items and taxes. Foreign exchange rates accounted for around EUR 60 million of the change in net working capital compared to the end of the prior year. The advances received to inventories ratio remained on a strong level, while accounts receivable increased somewhat due to high new equipment deliveries at the end of the year. Payables decreased somewhat.

Interest-bearing net debt at the end of December 2017 was EUR -1,690 (December 31, 2016: -1,688) million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,065 (2,086) million at the end of the reporting period. Interest-bearing liabilities were EUR 387.4 (405.5) million, including a net pension liability of EUR 152.2 (176.7) million and short-term loans of EUR 30.1 (15.4) million. In addition, the interest-bearing net debt includes EUR 10.3 (10.5) million of option liabilities from acquisitions. Gearing was –58.1%. KONE's equity ratio was 49.0% at the end of December 2017.

Equity per share was EUR 5.62.

Capital expenditure and acquisitions

Capital expenditure

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
On fixed assets	94.6	99.6
On leasing agreements	21.7	27.8
On acquisitions	35.1	99.2
Total	151.3	226.6

KONE's capital expenditure and acquisitions, totaled EUR 151.3 million. Capital expenditure was mainly related to facilities and equipment in R&D, IT, operations and production. Acquisitions accounted for EUR 35.1 million of this figure.

In 2017, KONE's largest acquisitions included Alois Kasper GmbH in Germany, Shan On Engineering Company Limited in Hong Kong and Ascensores R Casado, S.A. in Spain. Previously, KONE owned 35.3% of Shan On Engineering Company Limited and now bought the remaining 64.7% shareholding. In addition, KONE completed other smaller acquisitions of maintenance businesses in Europe during the reporting period. 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 2017, KONE was again included in the FTSE4Good index and listed among the top climate change performers by CDP both in their investor and supply chain programs. CDP is an international not-for-profit organization that drives sustainable economies. KONE was also listed as one of the best employers in the world by Forbes.

KONE's business model is described on pages 6–7. Risks related to matters below and risk management are described on page 17.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2016 in April 2017. The report follows the Global Reporting Initiative G4 reporting guidelines when applicable. KONE's Sustainability Report for 2017 will be published in April 2018.

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. In August 2017, as the first elevator company in Europe, KONE published a new Environmental Product Declaration for the KONE MonoSpace® 500 elevator according to the new elevator Product Category Rules. Product Category Rules allow customers to compare different manufacturers' products. During the fourth quarter of 2017, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard by the TravelMaster™ 115 inclined autowalk, which received the best possible A+++ rating. During the fourth quarter, we also renewed our Green Certification by the Singapore Green Building Council (SGBC) for the KONE N MonoSpace® and KONE N MiniSpace™ elevators and received a new Green Certification for the KONE TravelMaster™ 110 escalator. Through the SGBC Green Certification, these products are recommended for Green Mark certified green buildings.

In New Zealand, KONE's operations achieved carboNZero™ certification by Enviro-Mark Solutions during the second quarter of 2017 as the first elevator company. The certification acknowledges companies for their greenhouse gas management, reduction and neutralization efforts. Our 2017 operational carbon footprint results will be published in the second quarter of 2018. In 2016, KONE's operational carbon footprint relative to net sales decreased by 4.1% with sales growth calculated at comparable exchange rates. Our target is a 3% annual reduction relative to net sales. The most significant impact of KONE's operational carbon footprint relates to logistics, our vehicle fleet, and electricity consumption at KONE's facilities. KONE's greenhouse gas reporting is assured externally.

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. At the end of 2017, 94% of our strategic suppliers were ISO 14001 certified, our target being 100%.

PERSONNEL AND SOCIAL MATTERS

Number of employees

	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Average	53,417	50,905
At the end of period	55,075	52,104

Geographical distribution of KONE employees

	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
EMEA	22,013	21,432
Americas	7,320	7,039
Asia-Pacific	25,742	23,634
Total	55,075	52,104

The main goals of KONE's personnel strategy are to secure the availability, engagement, motivation and continuous development of the company's personnel.

All of 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, the right to 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 129 nationalities. The majority of our employees are male representing 88% of our people globally. Women accounted for 17% of management team members in 2017. We continue our efforts towards having a more balanced gender split.

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. In 2017, performance discussions were completed for 95% of KONE's eligible personnel and 92% had a documented individual development plan in place.

To further support competence development, KONE offered more than 3,900 training programs and online modules, and several new training programs were launched during the reporting year. Over 6,500 employees had the chance to try out new learning methods such as virtual reality, gamification and mobile learning. At the end of 2017, KONE had over 35 training centers around the world. In addition, employee development through internal job rotation opportunities remained a focus area at KONE.

KONE's new 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 new strategy's success, which requires us to develop and obtain new competences in the fields of digitalization, partnering, understanding customers' businesses and project management. In the second quarter of 2017, KONE launched new leadership competencies that focus on the ability to take an outside-in perspective, learning agility, leading change as well as talent and diversity building. In September 2017, KONE launched a program to accelerate the execution of the strategy and to support profitable growth. The objective of the Accelerate program is to create a faster-moving, customer-centric organization that leverages scale efficiently in a rapidly changing environment, with planned actions including both organizational adjustments, as well as the development and further harmonization of roles, processes and tools.

KONE's eleventh global employee survey was carried out in December 2016. The survey results were published during the first quarter of 2017 and action plans were made in teams based on the results, aiming at further improving the engagement and motivation of personnel.

To secure the availability of personnel also in the future, talent attraction activities continued in 2017 with a specific focus on candidates with different kinds of skill sets and work experience, particularly digital competencies. We also continued to further strengthen our school collaboration. During the latter part of 2017, KONE's HR organization, people processes and tools were renewed to better support the business.

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.

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

During the year, improving safety at work remained a high priority. KONE employees receive training on health and safety, and safety is a key element in all our product and operations training. 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 2017, the IIFR (Industrial Injury Frequency Rate) improved further and was 1.9 (2016: 2.1), the target being zero. The average lost days per incident improved as well to 28.9 days (2016: 32.5). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 46%.

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. KONE helps customers recognize and deal with situations that could lead to safety risks. We also organize activities in different parts of the world and provide educational material to our customers and the general public to help equipment users stay safe.

KONE had 55,075 (December 31, 2016: 52,104) employees at the end of December 2017. The average number of employees was 53,417 (1–12/2016: 50,905). Employee costs for the reporting period totaled EUR 2,725 (2,634) million. The geographical distribution of KONE employees was 40% (December 31, 2016: 41%) in EMEA, 13% (14%) in the Americas and 47% (45%) 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.

All KONE employees who have daily access to a computer are required to complete the Code of Conduct online training program. In 2017, the completion rate for the target group was 95%. Regular face-to-face compliance training is also provided to managers and other target groups. For example, in 2017 1,645 employees in China, 456 employees in India and 104 employees in Sourcing 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. 98% of the current key suppliers of components for KONE's products have signed the Code. We carry out periodic checks on suppliers' compliance with the Supplier Code of Conduct.

KONE's Distributor Code of Conduct was renewed in 2016. It 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. At the end of 2017, 100% of our distributors in China, and 60% of our distributors in the rest of the world, have signed the new (or an equivalent) Code.

Research and development

R&D expenditure

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
R&D expenditure	158.4	140.5
As percentage of sales, %	1.8	1.6

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 expenses totaled EUR 158.4 (1–12/2016: EUR 140.5) million, representing 1.8% (1.6%) of net sales. R&D expenses include the development of new product and service concepts as well as the further development of existing solutions and services.

During the first quarter of 2017, KONE launched KONE Care™, a unique elevator maintenance offering designed to meet individual customer needs, and new 24/7 Connected Services, which bring more intelligent services to elevators and escalators. KONE Care™, which can be fully customized to meet the individual needs of our customers, brings new levels of flexibility to elevator maintenance. KONE's 24/7 Connected Services uses the IBM Watson Internet of Things platform to bring new added value to customers and enables elevator data to be monitored and analyzed to improve equipment performance. Both the new KONE Care™ service offering and 24/7 Connected Services were made commercially broadly available during 2017 with the roll-out continuing throughout 2018.

HIGHLIGHTS 2017

- KONE revolutionized elevator maintenance with its new customizable KONE Care™ service offering and 24/7 Connected Services
- KONE opened its renewed high-rise elevator testing laboratory in Tytyri, Finland
- KONE introduced Residential Flow, a new innovative solution for residential buildings

In March 2017, KONE unveiled its renewed high-rise elevator testing facility in Tytyri, Finland. The test lab reaches a depth of 350 meters and hosts the world's tallest elevator test shaft. As a result, KONE can develop and test the ultra-high-rise innovations and technologies under extreme conditions.

In the third quarter of 2017, KONE Residential Flow was introduced. The unique solution brings new levels of convenience for homeowners and tenants by using mobile and cloud technologies to connect building doors, elevators, information channels, and intercom systems via an easy-to-use smartphone application. KONE Residential Flow is currently being piloted and is commercially available in six European countries.

In addition, KONE introduced several updates to its existing product offering during 2017. During the first quarter, the next generation of the inclined KONE Travel Master™ autowalk was launched. During the second quarter of 2017, KONE CombiSpace™, a new full replacement elevator solution, was launched for the residential and small-scale commercial segment in Europe and the Middle East. In the third quarter, KONE launched KONE TransitMaster™ 140, an escalator designed for demanding public transportation environments in Asia-Pacific and the Middle East. During the fourth quarter, KONE launched KONE MonoSpace Home™, an elevator for single-family homes in China. In addition, KONE Destination 880™, a next generation group controller for intelligent People Flow® solutions, was launched globally. Additionally, several updates and enhancements were made to KONE's offering in various geographies and segments.

Changes in the Executive Board

In 2017, KONE announced changes in the Executive Board.

Susanne Skippari was appointed as Executive Vice President, Human Resources and member of the Executive Board as of February 1, 2017. She reports to Henrik Ehrnrooth, President and CEO. Susanne Skippari succeeds Kerttu Tuomas who has decided to leave her position after 15 years at KONE to focus on non-executive duties.

Hugues Delval was appointed as Executive Vice President, Service Business and member of the Executive Board as of February 1, 2017. He reports to Henrik Ehrnrooth, President and CEO. Hugues Delval succeeds Pekka Kemppainen who retired after 33 years at KONE.

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 219 million at the end of December 2017 (December 31, 2016: EUR 237 million). KONE's position is that the claims are without merit. No provision has been made.

Most significant risks

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

STRATEGIC RISKS

A weakening of the global economic environment could result in deterioration of the market environment and the competitive situation in the industry. More specifically, a material decline or prolonged weakness within the construction industry could result in a significant decline for the new equipment market and a more challenging environment for services. In particular, a sustained market decline in China, which accounts for over 25% of KONE's sales, could have an adverse effect on KONE's growth and profitability.

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

KONE operates in an industry with various local regulatory requirements. Sudden or unforeseen changes in regulations, an increase in geopolitical tensions or a rise in regulatory protectionism could result in more challenging market conditions in affected countries. Such developments could have an adverse impact on KONE's operations.

A significant portion of KONE's component suppliers and global supply capacity is located in China, for both the elevator and escalator businesses. Therefore, KONE's operations may be adversely impacted by changes in trade agreements or by the introduction of trade restrictions.

OPERATIONAL RISKS

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 or quality could also have an impact on KONE's financial performance.

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

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

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. In addition, KONE's operations extensively utilize information technology and its business is dependent on the quality, integrity and availability of information. Thus, in addition to physical risks, KONE is exposed to cyber security risks, as operational information systems and products may be vulnerable to interruption, loss or manipulation of data, or malfunctions which can result in disruptions in processes and equipment availability and therefore impact KONE's business. 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 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

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.
Failure to anticipate changes in the market environment, including new customer requirements, competition, ecosystems and business models enabled by digitalization.	KONE aims to be the industry leader by investing in research and development and by taking an open innovation approach. KONE also closely follows emerging industry and market trends.
Sudden changes in regulation, or a rise in protectionism.	In order to mitigate the risk of unforeseen changes in the regulatory environment, KONE actively monitors the development of regulations and evaluates its global footprint.
Disruption in the global supply chain, particularly in China .	KONE actively develops business continuity management capabilities, in order to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations, business continuity management capabilities and financial strength 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.
Product integrity and quality issues as well as issues with reputation.	To mitigate product risks, KONE has processes in place for product design, supply, manufacturing, installation and maintenance, involving strict quality control. In addition, KONE aims for transparent and reliable communication, to prevent reputational risks and to manage potential incidents. KONE also has stringent corporate governance principles in place.
Availability of adequate operational resources.	KONE manages these risks through proactive project and resource planning as well as strict quality control processes.
Changes in raw material prices.	In order to reduce the impact of material and sourcing price fluctuations, KONE aims for fixed-price contracts with its major suppliers, for a significant portion of raw material and component purchases.
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 cyber security 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 2017.

schedules of its customers, which may lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 2017.

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

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

Environmental risks related to KONE's business are overall not very material. The most significant environmental risks are the inability to control the usage of hazardous substances in the supply chain and failure to measure the environmental impact of our solutions during their lifecycle. Environmental risks are managed by conducting internal and external audits and by regularly tracking compliance requirements and our environmental performance.

Social and employee related risks

Safety is a high 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, 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.

Human rights related risks

The most significant human rights related risks are in the supply and delivery chain and are related to working conditions. 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.

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. While the risks of such behaviors and practices materializing are included in the scope of KONE's regular audit programs, the most important actions for internal mitigation is 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 28, 2017. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2016.

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

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

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

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

The General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 44,000 for the Vice Chairman and EUR 37,000 (previously 33,000) for Board Members. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings. For Committee Members residing outside of Finland, a compensation of EUR 2,000 for attendance at Committee meetings was approved. Of the annual remuneration, 40 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 Niina Vilske were nominated as auditors.

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

Share capital and market capitalization

In 2013, KONE granted a conditional option program. The stock options 2013 were listed on Nasdaq Helsinki Ltd. as of April 1, 2015. The total number of stock options was 750,000 and 55,000 of them were held by KONE Corporation's subsidiary. During the reporting period, 514,278 new KONE class B shares were subscribed for with the 2013 option rights. The share subscription period for the stock option 2013 ended on April 30, 2017.

In December 2013, KONE granted a conditional 2014 option program. The stock options 2014 were listed on Nasdaq Helsinki Ltd. as of April 1, 2016. The total number of stock options was 1,500,000 and 133,000 of them are held by KONE Corporation's subsidiary. During the reporting period, 484,172 class B shares were subscribed for with the 2014 option rights. On December 31, 2017, a maximum of 869,698 shares can be subscribed for with the remaining outstanding option rights. Each option entitles its holder to subscribe for one (1) new class B KONE share at the price of, on December 31, 2017, EUR 26.65 per share. The share subscription period for the stock options 2014 is April 1, 2016–April 30, 2018.

In December 2014, KONE granted a conditional 2015 option program. The stock options 2015 were listed on 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, 13,075 class B shares were subscribed for with the 2015 option rights. On December 31, 2017, a maximum of 1,355,925 shares can be subscribed for with the remaining outstanding 2015 option rights. Each option entitles its holder to subscribe for one (1) new class B KONE share at the price of, on December 31, 2017, EUR 32.05 per share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019.

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

On December 31, 2017, KONE's share capital was EUR 65,897,550.89 comprising 450,971,695 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 23,052 million on December 31, 2017, 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

In April, 483,448 KONE class B shares in KONE's possession were assigned to the KONE share-based incentive program and 2,932 KONE class B shares to the members of KONE Corporation's Board of Directors as a part of the board members' annual remuneration. In December, a total of 5,035 KONE class B shares were returned to KONE Corporation by virtue of the terms of KONE Corporation's share-based incentive program for the year 2016. During January-December 2017, KONE did not use its authorization to repurchase own shares. At the end of December 2017, the Group had 12,402,796 class B shares in its possession. The shares in the Group's possession represent 2.8% 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.

The Nasdaq Helsinki Ltd. traded 175.3 million KONE Corporation's class B shares in January–December 2017, equivalent to a turnover of EUR 7,666 million. The daily average trading volume was 698,221 shares (1–12/2016: 769,607). The share price on December 31, 2017 was EUR 44.78. The volume weighted average share price during the period was EUR 43.73. The highest quotation during the period under review was EUR 47.70 and the lowest EUR 39.77. In addition to the Nasdaq Helsinki Stock Exchange, 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 27.2% of the total volume of KONE's class B shares traded in January–December 2017 (source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com).

The number of registered shareholders was 57,471 at the beginning of the review period and 61,139 at its end. The number of private households holding shares totaled 57,371 at the end of the period, which corresponds to approximately 13.0% of the listed B shares.

According to the nominee registers, 48.0% of the listed class B shares were owned by foreign shareholders on December 31, 2017. Other foreign ownership at the end of the period totaled 3.5%. Thus, a total of 51.5% of KONE's listed class B shares were owned by international investors, corresponding to approximately 19.2% of the total votes in the company.

Flagging notifications

On March 10, 2017, KONE Corporation received an announcement from The Capital Group Companies, Inc. in accordance with the Finnish Securities Market Act Chapter 9, Section 10. According to the announcement, the total number of KONE Corporation shares owned by The Capital Group Companies, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on March 9, 2017.

During January–December 2017, BlackRock, Inc. announced several notices to KONE Corporation in accordance with the Finnish Securities Market Act, Chapter 9, Section 10. The notices were announced on May 4, May 5, May 8, June 16, June 20, July 11, September 13, September 14, September 15, September 20 and November 1. All 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, released on November 2, 2017, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds decreased below five (5) per cent of the share capital of KONE Corporation on October 31, 2017. 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 31, 2017.

Market outlook 2018

North America		EMEA		Asia-Pacific	
New equipment	Services	New equipment	Services	New equipment	Services
Slight growth	Maintenance Slight growth Modernization Slight growth	Slight growth	Maintenance Slight growth Modernization Slight growth	China To decline slightly or to be stable in units, competition to remain intense Outside China Growth	Maintenance Strong growth Modernization Strong growth

Market outlook 2018

In new equipment, the market in China is expected to decline slightly or to be stable in units ordered and competition to remain intense. In the rest of Asia-Pacific, the market is expected to grow. The markets in both North America as well as in the Europe, Middle East and Africa region are expected to grow slightly.

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

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

Business outlook 2018

In 2018, KONE's sales is estimated to grow at around a similar rate as in 2017 at comparable exchange rates. The adjusted EBIT margin is expected to continue to decline in 2018 as witnessed in 2017. However, the margin pressure is expected to start to ease towards the end of 2018 as a result of pricing and productivity actions that have been taken.

The outlook is based on KONE's maintenance base and order book as well as the market outlook. The main factors continuing to pressure the adjusted EBIT margin in 2018 are the decrease in the margin of orders received witnessed in 2017, in China in particular, and the increased raw material prices. The margin pressure is expected to start to ease towards the end of 2018 as a result of pricing actions taken and general productivity improvements as well as the first savings from the Accelerate program. New equipment business outside China and the service business are expected to continue to develop positively. Foreign exchange rates are estimated to have an approximately EUR 40 million negative impact on KONE's EBIT in 2018 assuming that translation exchange rates would remain at the end of December 2017 level.

As a result of the adoption of new IFRS 15 accounting principles effective from January 1, 2018, KONE's sales recognition will change in 2018. The IFRS 15 restated figures for 2017 will be published in March 2018. Given this change, KONE will provide a more precise business outlook for 2018 in connection to the Q1 2018 report that will be published on April 25, 2018. The change in accounting principles is not expected to have a material impact on annual sales and operating income.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2017 was EUR 2,195,493,551.80 of which the net profit for the financial year is EUR 1,054,610,239.57.

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 438,568,899 class B shares, resulting in a total amount of proposed dividends of EUR 849,192,536.37.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,346,301,015.43 be retained and carried forward.

The Board proposes that the dividends be payable on March 7, 2018. All the shares existing on the dividend record date are entitled to dividend for the year 2017 except for the own shares held by the parent company.

Annual General Meeting 2018

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Monday, February 26, 2018 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 25, 2018

KONE Corporation's Board of Directors

Information required by the Companies' Act and the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security, such as classes of shares, shareholders, related parties, share-based remuneration and terms of stock options and financial key figures are presented on pages 62–66, which are part of the official Board of Directors' Report, as well as in the notes to the Financial Statements.

Consolidated statement of income

MEUR	Note	Jan 1–Dec 31, 2017	%	Jan 1–Dec 31, 2016	%
Sales	2.1	8,942.4		8,784.3	
Costs, expenses, depreciation and amortization	2.2, 2.3	-7,725.3		-7,491.0	
Operating income (EBIT)		1,217.1	13.6	1,293.3	14.7
Share of associated companies' net income	5.6	-0.2		1.2	
Financing income	2.5	72.2		66.8	
Financing expenses	2.5	-13.9		-31.0	
Income before taxes		1,275.2	14.3	1,330.3	15.1
Taxes	2.6	-300.1		-307.7	
Net income		975.1	10.9	1,022.6	11.6
Net income attributable to:					
Shareholders of the parent company		968.0		1,023.7	
Non-controlling interests		7.1		-1.1	
Total		975.1		1,022.6	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	2.7				
Basic earnings per share, EUR		1.89		2.00	
Diluted earnings per share, EUR		1.88		1.99	

Consolidated statement of comprehensive income

MEUR	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Net income		975.1	1,022.6
Other comprehensive income, net of tax:	2.8		
Translation differences		-203.9	-23.2
Hedging of foreign subsidiaries		52.8	-8.6
Cash flow hedges		39.3	-13.7
Items that may be subsequently reclassified to statement of income		-111.7	-45.5
Remeasurements of employee benefits		8.3	-9.9
Items that will not be reclassified to statement of income		8.3	-9.9
Total other comprehensive income, net of tax		-103.4	-55.3
Total comprehensive income		871.7	967.3
Total comprehensive income attributable to:			
Shareholders of the parent company		864.6	968.4
Non-controlling interests		7.1	-1.1
Total		871.7	967.3

Consolidated statement of financial position

Assets MEUR		Note	Dec 31, 2017	Dec 31, 2016
Non-current assets				
Goodwill		4.2	1,325.5	1,371.8
Intangible assets		4.3	274.5	292.9
Property, plant and equipment		4.4	377.0	368.3
Investments in associated companies		5.6	1.4	5.0
Shares and other non-current financial assets		5.3, 5.4	114.5	124.9
Non-current loans receivable	I	5.3, 5.5	0.7	7.4
Employee benefits	I	5.3, 5.7	11.5	-
Deferred tax assets	II	3.6	268.3	318.4
Total non-current assets			2,373.4	2,488.5
Current assets				
Inventories	II	3.1	1,244.6	1,373.5
Accounts receivable	II	3.2, 5.3	1,608.7	1,573.7
Deferred assets	II	3.3, 5.3	378.3	368.4
Income tax receivables	II		67.5	61.4
Current deposits and loans receivable	I	5.3, 5.5	1,568.8	1,496.6
Cash and cash equivalents	I	5.3	496.5	589.2
Total current assets			5,364.4	5,462.8
Total assets			7,737.8	7,951.3

Equity and liabilities MEUR		Note	Dec 31, 2017	Dec 31, 2016
Capital and reserves attributable to the shareholders of the parent company				
Share capital		5.2	65.9	65.8
Share premium account			100.3	100.3
Paid-up unrestricted equity reserve			205.8	166.1
Fair value and other reserves			9.4	-29.9
Translation differences			89.3	240.3
Remeasurements of employee benefits			-105.2	-113.5
Retained earnings			2,528.6	2,353.8
Total shareholders' equity			2,894.2	2,782.9
Non-controlling interests			13.3	12.7
Total equity			2,907.4	2,795.6
Non-current liabilities				
Loans	I	5.3	194.7	203.1
Employee benefits	I	5.3, 5.7	152.2	176.7
Deferred tax liabilities	II	3.6	136.1	154.2
Total non-current liabilities			483.0	534.0
Provisions	II	3.5	142.3	183.2
Current liabilities				
Current portion of long-term loans	I	5.3	14.9	14.1
Short-term loans and other liabilities	I	5.3	25.5	11.6
Advance payments received	II	3.1	1,806.1	1,976.9
Accounts payable	II	5.3	705.1	743.3
Accruals	II	3.4, 5.3	1,568.3	1,610.0
Income tax payables	II		85.1	82.5
Total current liabilities			4,205.0	4,438.5
Total equity and liabilities			7,737.8	7,951.3

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

Consolidated statement of changes in equity

MEUR	Note	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2017		65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	2,590.5		12.7	2,795.6
Net income for the period										968.0	7.1	975.1
Other comprehensive income:	2.8											
Translation differences						-203.9						-203.9
Hedging of foreign subsidiaries						52.8						52.8
Cash flow hedges					39.3							39.3
Remeasurements of employee benefits							8.3					8.3
Transactions with shareholders and non-controlling interests:	5.2											
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											-6.5	-6.5
Option and share-based compensation				15.0				18.9	-16.6			17.2
Dec 31, 2017		65.9	100.3	205.8	9.4	89.3	-105.2	-217.8	1,778.4	968.0	13.3	2,907.4

MEUR	Note	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2016		65.7	100.3	140.7	-16.2	272.1	-103.6	-210.6	2,279.1		48.0	2,575.5
Net income for the period										1,023.7	-1.1	1,022.6
Other comprehensive income:	2.8											
Translation differences						-23.2						-23.2
Hedging of foreign subsidiaries						-8.6						-8.6
Cash flow hedges					-13.7							-13.7
Remeasurements of employee benefits							-9.9					-9.9
Transactions with shareholders and non-controlling interests:	5.2											
Profit distribution									-718.2			-718.2
Increase in equity (option rights)		0.1		18.3								18.4
Purchase of own shares								-39.3				-39.3
Change in non-controlling interests									9.1		-34.2	-25.1
Option and share-based compensation				7.1				13.1	-3.1			17.1
Dec 31, 2016		65.8	100.3	166.1	-29.9	240.3	-113.5	-236.7	1,566.7	1,023.7	12.7	2,795.6

Consolidated statement of cash flows

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash receipts from customers	8,818.0	8,872.8
Cash paid to suppliers and employees	-7,554.7	-7,363.3
Cash flow from operations before financing items and taxes	1,263.3	1,509.5
Interest received	57.8	43.8
Interest paid	-3.3	-3.0
Dividends received and capital repayments	3.4	7.2
Other financing items	-54.5	-61.8
Income taxes paid	-303.0	-317.2
Cash flow from operating activities	963.7	1,178.4
Capital expenditure	-109.5	-115.8
Proceeds from sales of fixed assets	0.5	0.4
Acquisitions, net of cash	-34.6	-82.2
Cash flow from investing activities	-143.5	-197.6
Cash flow after investing activities	820.2	980.8
Change in deposits and loans receivable, net	-82.4	-154.2
Change of current creditors	13.5	-176.7
Proceeds from long-term liabilities	-	160.0
Payments of long-term liabilities	-46.7	-4.2
Purchase of own shares	-	-39.3
Increase in equity (option rights)	24.9	18.4
Profit distribution	-795.4	-718.2
Changes in non-controlling interests	-5.5	-26.7
Cash flow from financing activities	-891.7	-941.0
Change in cash and cash equivalents	-71.5	39.8
Cash and cash equivalents at beginning of period	589.2	552.7
Translation differences	-21.1	-3.3
Cash and cash equivalents at end of period	496.5	589.2

In drawing up the consolidated statement of cash flow, the impact of variations in exchange rates has been eliminated by adjusting the beginning balance to reflect the exchange rate prevailing at the time of the closing of the books for the period under review.

Reconciliation of operating income to cash flow from operating activities

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Operating income	1,217.1	1,293.3
Change in working capital before financing items and taxes	-68.1	109.7
Depreciation and amortization	114.3	106.5
Cash flow from operations before financing items and taxes	1,263.3	1,509.5

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Interest-bearing net debt at beginning of period	-1,687.6	-1,512.6
Interest-bearing net debt at end of period	-1,690.2	-1,687.6
Change in interest-bearing net debt	-2.6	-175.0

Notes to the consolidated financial statements

1 BASIS OF PREPARATION

IN THIS SECTION

- Basis of preparation
- New standards
- Consolidation principles
- Segment information
- Accounting estimates

Accounting principles can be found next to the relevant notes in sections 2–6

Basis of preparation

KONE Corporation is a Finnish, public limited company domiciled in Helsinki, Finland. KONE Corporation and its subsidiaries together form the consolidated KONE Group ("KONE" or "the Group"). KONE's objective is to offer the best People Flow experience by developing and delivering solutions that enable people to move smoothly, safely, comfortably and without waiting in buildings in an increasingly urbanizing environment. KONE provides its customers with industry-leading elevators, escalators, automatic doors and integrated solutions to improve the customer experience in and between buildings. In addition, KONE offers maintenance and modernization services for existing equipment.

The consolidated financial statements of KONE Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, observing the standards and interpretations effective on December 31, 2017.

KONE has adopted the new standards and interpretations that took effect during the accounting period and are relevant to its operations. The changes did not have a material impact on the result or the financial position of the Group or on the presentation of the financial statements.

The IFRS standards that take effect in 2018 other than described below are not expected to have a material impact on the result or the financial position of the Group or on the presentation of the financial statements.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2017. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 25, 2018. According to the Finnish Companies' Act the Annual General Meeting has the right to approve, reject or make changes to the financial statements after the publication.

The consolidated financial statements are presented in millions of euros and prepared under the historical cost convention except as disclosed in the accounting principles. Figures presented in these financial statements have been rounded from exact figures and therefore the sum of figures presented individually can deviate from the presented sum figure. Key figures have been calculated using exact figures.

Trade date accounting is applied to all financial assets and liabilities.

New standards

The International Accounting Standards Board has issued three new standards, IFRS 15, Revenue from Contracts with Customers, IFRS 9, Financial Instruments and IFRS 16, Leases which are relevant to KONE. IFRS 15 and IFRS 9 are effective starting on January 1, 2018 and IFRS 16 on January 1, 2019.

IFRS 15

IFRS 15 establishes a new five-step model that will apply 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. In addition, IFRS 15 requires quantitative and qualitative disclosures about the entity's contracts with customers, performance obligations in the contracts and significant judgements made. KONE will adopt the new standard on the required effective date using the full retrospective method.

KONE has performed an analysis of IFRS 15, which is subject to changes arising from a finalization of the ongoing analysis. Based on the assessment the impact is limited to revenue recognition of new equipment and modernization contracts where the revenue recognition will occur over time measured based on percentage of completion method as the customer obtains the 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. The percentage of completion is defined as the proportion of 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 IFRS15 will have a material impact on KONE's consolidated financial statements. In practice, revenue is expected to be recognized earlier based on the progress also for those new equipment and modernization contracts which are not defined as long-term major projects recognized already under percentage of completion method. However, based on KONE's assessment this will not have material impact on annual reported sales and operating income. From balance sheet perspective, the application of new principles will decrease inventories over 50% and related advances received and deferred income approximately by 30% while receivables are expected to be somewhat increased. Deferred tax assets and liabilities will change slightly. Also, reported new equipment and modernization order book is expected to reduce by approximately EUR 1 billion on initial application of percentage of completion method. As a result of the restatement retained earnings as of January 1, 2017 will increase approximately by 10%. The IFRS restated figures for 2017 will be published March 2018.

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. IFRS 9 also introduces expanded disclosure requirements and changes in presentation. KONE has evaluated the impact of this standard and amendments on its consolidated financial statements and will adopt the new standard on the required effective date.

Based on KONE's assessment, main impact of the IFRS 9 application will come from the new expected credit loss model applied to assess impairment loss for the doubtful accounts receivable. KONE expects a small increase in the impairment loss. Under IFRS 9 all shares and non-current financial assets which are currently classified as available-for-sale investments and measured at cost will be classified as investments measured at fair value through other comprehensive income. KONE does not expect to have a material impact on the transactions and balances recognized and disclosures for other financial assets and liabilities and hedge accounting in KONE's consolidated financial statements.

IFRS 16

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

KONE has started a preliminary assessment of the impacts on its consolidated financial statements. The most significant impact identified is that KONE will recognize new assets and liabilities, mainly for its operating leases of facilities and vehicles. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities reported under financing expenses. KONE has not yet quantified the impacts of the adoption of IFRS 16 on its consolidated financial statements. More detailed assessments of the impacts will be done over the next twelve months, including finalizing the transition approach.

Consolidation principles

The consolidated accounts include the parent company and those companies in which the parent company held, directly or indirectly, more than 50 percent of the voting power or had control through management agreements with shareholders holding the majority of the voting power at the end of the accounting period. In addition to these holdings, the consolidated accounts include possible holdings that are of a controlling-right nature (units/companies established for a specific reason). Subsidiaries acquired during the period were included in the consolidated financial statements from the date of acquisition, and divested subsidiaries up to the date of sale. Intra-corporate shareholdings have been eliminated using the acquisition method. The acquisition consideration, including deferred and contingent consideration, as well as the identifiable assets acquired and liabilities assumed, is measured at the acquisition date fair values. The acquisition-related costs are accounted as expenses for the period in which they are incurred.

At the acquisition date, the non-controlling interests are valued either at the acquisition date fair values or at non-controlling interests' proportionate share in the recognized amounts of the identifiable net assets. Net income for the period is disclosed in the statement of income as an allocation to the shareholders of the parent company and non-controlling interests. The allocation of the comprehensive income to the shareholders of the parent company and non-controlling interests is presented in the statement of comprehensive income. Non-controlling interests are disclosed separately under consolidated total equity.

All intra-corporate transactions, receivables, liabilities and unrealized profits, as well as the distribution of profits within the Group have been eliminated in the consolidated financial statements.

Segment information

The profitability of KONE is presented as a single entity. The KONE business idea is to serve its customers by providing solutions throughout the entire lifecycle of the equipment, beginning from the installation of new equipment to the maintenance and modernization during their lifecycle and the full replacement of the equipment. Most of the equipment that are delivered are converted into long-term KONE maintenance contracts. KONE's operating business structure is globally harmonized based on defined business processes. Material operative decisions are made by the Board of Directors of KONE. Such decisions are prepared and presented by the full-time Chairman of the Board and the President and Chief Executive Officer. Due to the business model of KONE, the nature of its operations and its governance structure, the Group as a whole is the relevant operating segment to be reported.

Accounting estimates

The preparation of the financial statements in accordance with the IFRS requires management to make judgements, estimates and assumptions that affect the measurement of the reported assets and liabilities and other information, such as contingent assets and liabilities and the recognition of income and expenses in the statement of income. Although these estimates and assumptions are based on the management's best knowledge of current events and actions, actual results may differ from the estimates.

For KONE the most significant judgements, estimates and assumptions made by the management relate to revenue recognition, especially to project estimates for long-term major projects, assumptions used in impairment testing, valuation of accounts receivables and inventories, and recognition of provisions and uncertain tax positions.

NET SALES
8,942 MEUR

EBIT
1,217 MEUR

2 FINANCIAL PERFORMANCE

IN THIS SECTION

This section comprises the following notes describing KONE's financial performance in 2017:

2.1 Sales
2.2 Costs and expenses
2.3 Depreciation and amortization
2.4 Foreign exchange sensitivity
2.5 Financing income and expenses
2.6 Income taxes
2.7 Earnings per share
2.8 Other comprehensive income

FINANCIAL TARGETS

KONE has defined long-term financial targets for its financial performance:

GROWTH:
Faster than the market

PROFITABILITY:
EBIT 16%

CASH FLOW:
Improved working capital rotation

- KONE has not defined a time frame for the achievement of these financial targets.
- Given the capital and asset structure of KONE, the aim is not to maximize the EBIT margin in the short term, but rather to grow the absolute EBIT in an optimal way over the long term and as a result maintain a strong return on capital employed.
- The relative EBIT margin target is relevant in ensuring that growth is profitable and that pricing, quality and productivity improve continuously.

2.1 SALES

Due to KONE's business model, the nature of its operations and its governance structure, KONE has one operating segment.

Sales by business

MEUR	Jan 1–Dec 31, 2017	%	Jan 1–Dec 31, 2016	%
New equipment	4,767.7	53	4,793.0	55
Services	4,174.7	47	3,991.2	45
Maintenance	2,887.3	32	2,772.5	31
Modernization	1,287.5	14	1,218.7	14
Total	8,942.4		8,784.3	

Sales by geographical area

MEUR	Jan 1–Dec 31, 2017	%	Jan 1–Dec 31, 2016	%
EMEA [1]	3,631.7	41	3,476.8	40
Americas	1,814.8	20	1,658.5	19
Asia-Pacific	3,495.9	39	3,648.9	41
Total	8,942.4		8,784.3	

[1] EMEA = Europe, Middle East, Africa

Top 10 countries by sales

1	China	>25%
2	USA	>15%
3	France	~5%
4	Germany	~5%
5	Great Britain	~4%
6	Australia	~4%
7	India	~3%
8	Italy	~3%
9	Sweden	~3%
10	Finland	~3%

Sales by customer

KONE's customer base consists of a large number of customers in several market areas and no individual customer represents a material share of its sales.

Percentage of completion method for major projects

The amount of sales recognized in the income statement for major projects under the percentage of completion method was EUR 649.9 (622.7) million. The consolidated statement of financial position includes EUR 120.9 (135.7) million of unbilled contract revenue and EUR 123.9 (147.7) million of advances received for ongoing major projects under the percentage of completion method.

Accounting principles

Revenue recognition

Revenue from the sale of goods is recognized after KONE has transferred the risks and rewards of ownership of the goods to the customer and retains neither a continuing right to dispose of the goods nor effective control over the goods.

Revenues from separately defined, long-term major projects are recorded as sales under the percentage of completion method. The percentage of completion is defined as the proportion of individual contract cost incurred to date from the total estimated contract costs. The percentage of completion method requires accurate estimates of future revenues and costs over the full term of the major project. These significant estimates form the basis for the amount of project revenue to be recognized and include the latest updated total project revenue, cost and contract risks adjusted by the typical estimation revisions for similar types of projects. These estimates may materially change due to the stage of completion of the projects, changes in the project scope, costs estimates and customer's plans and other factors.

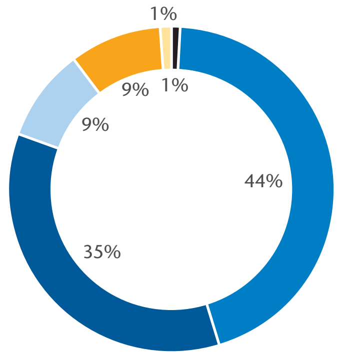
Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or over the contract term when the work is being carried out.

2.2 COSTS AND EXPENSES

Costs and expenses, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Change in work in progress	84.4	-12.4
Direct materials, supplies and subcontracting	3,442.5	3,422.6
Wages, salaries, other employment expenses and pensions (note 5.7)	2,724.7	2,633.6
Other production costs [1]	692.9	682.7
Selling, administrative and other expenses [2]	677.2	681.4
Items impacting comparability [3]	13.2	-
Depreciation and amortization (note 2.3)	114.3	106.5
Costs, expenses, depreciation and amortization	7,749.1	7,514.4
Other income [4]	23.8	23.4
Total costs, expenses, depreciation and amortization	7,725.3	7,491.0

[1] Includes costs of logistics, tools and consumables, operative carfleet and traveling as well as other miscellaneous operative costs.
[2] Includes costs related to premises, consulting and external services, IT and traveling as well as other miscellaneous administrative costs.
[3] Includes items impacting comparability such as significant restructuring costs arising from redundancy and other costs directly associated to the Accelerate program.
[4] Includes rental income, received grants, interest on late payments, gains on sale of fixed assets and scrap as well as other miscellaneous income.

Cost breakdown 1–12/2017



Research and development costs, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
R&D costs included in total costs	158.4	140.5
as percentage of sales, %	1.8	1.6

Auditors' fees, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
To member firms of PricewaterhouseCoopers network		
Audit	4.0	3.1
Auditors' statements	0.0	0.0
Tax services	0.6	0.8
Other services	0.3	0.8
Total	4.9	4.7

PricewaterhouseCoopers Oy has provided non-audit services to the entities of KONE Group in total of 29 thousand euros during the financial year 2017. These services included auditors's statements (14 thousand euros) and other services (15 thousand euros).

Accounting principles

Research and development costs

Research and development costs are expensed as they incur, because the future economic benefits of new products and development of existing products and services can only be proven after their successful introduction to the market.

2.3 DEPRECIATION AND AMORTIZATION

Depreciation and amortization, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Other intangible assets		
Maintenance contracts	31.7	29.5
Other	15.4	14.7
Buildings	10.3	10.1
Machinery and equipment	57.0	52.1
Total	114.3	106.5

Accounting principles

Depreciation and amortization

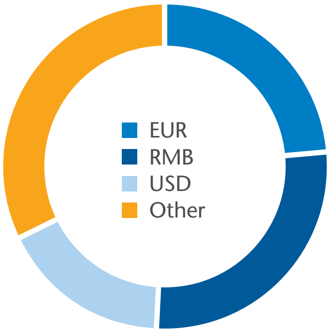
Depreciation and amortization is recorded on a straight-line basis over the economic useful lives of the assets as follows:

Maintenance contract	10–15 years
Other intangible assets	3–10 years
Buildings	5–40 years
Machinery and equipment	4–10 years

Land is not depreciated.

2.4 FOREIGN EXCHANGE SENSITIVITY

Sales by currency 1–12/2017



Foreign exchange risks

KONE operates internationally and is thus exposed to risks arising from foreign exchange rate fluctuations related to currency flows from revenues and expenses (transaction risk) and from the translation of statement of income and statement of financial position items of foreign subsidiaries into euros (translation risk).

Transaction risks

A substantial part of KONE operations are denominated in local functional currencies and do not therefore give rise to transaction risk. The sales and installations of new equipment and modernizations typically take place in the local currency of the customer. Component and material expenses may occur in other currencies than the sales currency, which exposes KONE to transaction risks. The KONE policy is to hedge the foreign exchange exposure of the order book and other highly probable future sales and purchases with foreign exchange forward contracts. The business units are responsible for evaluating and hedging the transaction risks in their operations according to the foreign exchange policy. The most significant transaction risk exposures arising from business operations are in the Chinese renminbi, US dollar, Saudi Arabian riyal, Arab Emirates dirham and Malaysian ringgit. The majority of the currency forward contracts expire within one year.

Hedge accounting is applied in business units, where there are significant revenues or expenses in foreign currency. When hedge accounting is applied the gains and losses from the hedges are recognized in the statement of income at the same time as the exchange rate gains and losses for the hedged items are recognized.

KONE's internal loans and deposits are primarily initiated in the local currencies of the subsidiaries in which case the possible foreign exchange risks are hedged using foreign exchange swap contracts.

Translation risks

Changes in consolidation exchange rates affect KONE's statement of income, cash flow statement and statement of financial position, which are presented in euros. As approximately 75% of KONE's revenues occur in functional currencies other than euro, the translation risk is significant for KONE. A change of 10% in the annual average foreign exchange rates would have caused a 7.6% (7.7%) change in 2017 in the consolidated sales in euros. Such a change would have had a higher impact on KONE's operating income and therefore also some impact on KONE's relative operating income. The translation of the subsidiaries' balance sheets into euros caused translation differences of EUR -203.9 (-23.2) million in 2017. The translation risk is not hedged as a rule with financial instruments as KONE's business consists of continuous operations in various currency areas. The most significant translation risk exposures are in the Chinese renminbi, Hong Kong dollar and US dollar.

A change of 10% in the annual average foreign exchange rates

Impact on sales	Impact on operating income (EBIT)
7.6% change in consolidated sales in euros	Higher impact on operating income as compared to sales and some impact on relative operating income

Accounting principles

Foreign currency transactions and translations

The items included in the financial statements are initially recognized in the functional currencies, which are defined for each group entity based on their primary economic environment.

The presentation currency of the financial statements is the euro, which is also the functional currency of the parent company.

The initial transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing at the date of the individual transaction. Foreign currency denominated receivables and liabilities are translated using period end exchange rates.

Foreign exchange gains and losses related to business transactions are treated as adjustments to sales or costs. Foreign exchange gains and losses associated with financing transactions are included in financing income and expenses.

The statements of income of foreign subsidiaries, whose functional currency is not the euro, are translated into euros based on the average exchange rate of the accounting period. Items in the statement of financial position, with the exception of net income for the accounting period, are translated into euros at the closing date exchange rate. Exchange rate differences arising from net investments and associated companies in non-euro currency subsidiaries, as well as the exchange rate differences resulting from translating income and expenses at the average rates and assets and liabilities at the closing rate, are recorded in translation differences under equity. Respective changes during the period are presented in other comprehensive income. Exchange rate differences resulting from derivatives and loans designated as hedges on net assets in foreign subsidiaries have been entered as translation differences in other comprehensive income. The cumulative translation differences related to foreign operations are reclassified from equity to statement of income upon the disposal of the foreign operation.

Foreign exchange risk sensitivity analysis of financial assets and liabilities

The foreign exchange risk sensitivity analysis for the most important currency pairs has been calculated for the KONE companies' foreign currency nominated financial assets and liabilities, including foreign exchange forward contracts outstanding at the statement of financial position date. The order book or forecasted cash flows are not included. The exposures in the most important currency pairs are disclosed in the table below. The foreign exchange risk sensitivity analysis presents the impact of a change in the foreign exchange rates of 10 percent on the statement of income and on equity at the statement of financial position date. Changes in the equity are mainly caused by foreign exchange forwards designated in cash flow hedge accounting. The sensitivity analysis is calculated before taxes. A 10% change in the foreign exchange rates (strengthening of the euro and US dollar) at the statement of financial position date would have resulted in an impact of EUR -4.0 (-2.0) million on the statement of income and an impact of EUR 80.5 (93.5) million on equity.

	Exposure against EUR						Exposure against USD				
MEUR	HKD	USD	GBP	CNY	Others	Total	CNY	MYR	CAD	Others	Total
Exposure Dec 31, 2017	-384	-245	-52	45	-65	**-701**	139	-62	-73	-69	**-65**
Exposure Dec 31, 2016	-442	-309	-66	90	-60	**-787**	132	-90	-61	-109	**-128**

2.5 FINANCING INCOME AND EXPENSES

Financing income and expenses, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Dividend income	3.4	7.2
Interest income		
Interest and foreign exchange rate derivatives		
Change in fair value of interest	15.9	5.8
Interest income	40.6	36.7
Interest income on loan receivables and financial assets	12.0	9.4
Other financing income	0.2	0.1
Exchange rate gains [1]	0.1	7.6
Financing income	72.2	66.8
Interest expenses		
Interest and foreign exchange rate derivatives		
Change in fair value of interest	-0.8	-13.4
Interest expenses	0.0	-0.1
Interest expenses on other financial liabilities	-6.9	-6.1
Other financing expenses [2]	-4.5	-8.6
Exchange rate losses [1]	-1.7	-2.8
Financing expenses	-13.9	-31.0
Financing income and expenses	58.3	35.8

1) Exchange rate gains and losses include exchange rate differences on loans and other receivables of EUR 49.3 (26.4) million, fair value changes of foreign exchange derivatives of EUR -51.5 (-34.9) million and exchange rate differences of EUR 0.0 (10.8) million on option liabilities related to acquisitions.

2) Includes commitment fees for undrawn revolving credit facilities EUR -0.7 (-0.7) million, fair value changes of option liabilities related to acquisitions EUR 0.0 (-4.2) million, as well as banking charges and other expenses EUR -3.8 (-3.7) million.

2.6 INCOME TAXES

Taxes in statement of income, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Tax expense for current year	287.6	310.0
Change in deferred tax assets and liabilities	10.2	-4.8
Tax expense for previous years	2.3	2.5
Total	300.1	307.7

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Income before taxes	1,275.2	1,330.3
Tax calculated at the domestic corporation tax rate (20%)	255.0	266.1
Effect of different tax rates in foreign subsidiaries	14.0	8.2
Permanent differences	-2.3	-2.2
Results of associated companies	0.2	0.0
Taxes from previous years and reassessment of deferred tax assets	3.1	4.0
Re-measurement of deferred taxes - changes in corporate tax rates	5.2	-
Deferred tax liability on undistributed earnings	22.8	28.0
Other	2.0	3.6
Total	300.1	307.7
Effective tax rate, %	23.5	23.1
Tax rate of parent company, %	20.0	20.0

Accounting principles

Income tax

The Group tax expense includes taxes of subsidiaries based on taxable income for the period, together with tax adjustments for previous periods and changes in deferred taxes. Deferred taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial reporting, and measured with enacted tax rates. Typical temporary differences arise from provisions, depreciations and amortizations, inter-company inventory margins, defined benefit plans and tax losses carried forward. Deferred tax assets on unused tax losses and other temporary differences are recognized to the extent it is probable that taxable profit is available.

The positions taken in tax returns are evaluated periodically by the management to identify situations in which applicable tax regulation is subject to interpretation. Based on the evaluation, provisions for the uncertain tax positions are recognized when it is considered more likely than not that certain tax positions will be challenged by the tax authorities. The amounts recorded are based upon the estimated final taxes to be paid to the tax authorities.

2.7 EARNINGS PER SHARE

	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Net income attributable to the shareholders of the parent company, MEUR	968.0	1,023.7
Weighted average number of shares (1,000 shares)	513,313	512,373
Basic earnings per share, EUR	1.89	2.00
Dilution effect of share options and share-based incentive plans (1,000 shares)	1,523	1,764
Weighted average number of shares, dilution adjusted (1,000 shares)	514,837	514,137
Diluted earnings per share, EUR	1.88	1.99

Accounting principles

Earnings per share

The basic earnings per share figure is calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of shares by the effect of potential diluting shares due to share options and share-based incentive plan in the Group.

2.8 OTHER COMPREHENSIVE INCOME

Disclosure of components of other comprehensive income

MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Translation differences	-203.9	-23.2
Hedging of foreign subsidiaries	66.1	-10.8
Remeasurements of employee benefits	15.3	-9.5
Cash flow hedges:		
Gains (losses) arising during the year	48.8	-28.3
Reclassifications included in profit or loss	2.6	11.2
Cash flow hedges, net	51.4	-17.1
Income tax relating to components of other comprehensive income	-32.3	5.2
Other comprehensive income	-103.4	-55.3

Disclosure of tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2017			Jan 1–Dec 31, 2016		
MEUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Translation differences	-203.9	-	-203.9	-23.2	-	-23.2
Hedging of foreign subsidiaries	66.1	-13.2	52.8	-10.8	2.2	-8.6
Cash flow hedges	51.4	-12.1	39.3	-17.1	3.4	-13.7
Items that may be subsequently reclassified to statement of income	-86.4	-25.3	-111.7	-51.0	5.6	-45.5
Remeasurements of employee benefits	15.3	-7.0	8.3	-9.5	-0.4	-9.9
Items that will not be reclassified to statement of income	15.3	-7.0	8.3	-9.5	-0.4	-9.9
Total other comprehensive income	-71.1	-32.3	-103.4	-60.5	5.2	-55.3

NET WORKING CAPITAL
-876 MEUR

OPERATIVE CASH FLOW
1,263 MEUR

3 NET WORKING CAPITAL

IN THIS SECTION

This section comprises the following notes, which describe KONE's net working capital for 2017:

3.1 Inventories and advance payments received
3.2 Accounts receivable
3.3 Deferred assets
3.4 Accruals
3.5 Provisions
3.6 Deferred tax assets and liabilities

KONE'S NET WORKING CAPITAL

- Our business model enables us to operate with negative net working capital.
- KONE operates with advance payments across businesses and geographies. Advance payments consist of customer payments for new equipment and modernization orders included in work-in-progress as well maintenance contracts.

NET WORKING CAPITAL

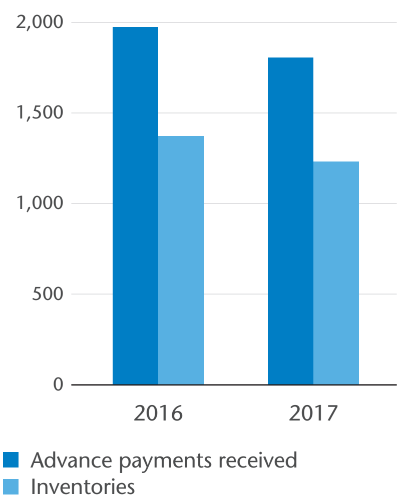
MEUR	Dec 31, 2017	Dec 31, 2016
Net working capital		
Inventories	1,244.6	1,373.5
Advance payments received	-1,806.1	-1,976.9
Accounts receivable	1,608.7	1,573.7
Deferred assets and income tax receivables	445.8	429.8
Accruals and income tax payables	-1,653.4	-1,692.5
Provisions	-142.3	-183.2
Accounts payable	-705.1	-743.3
Net deferred tax assets/liabilities	132.2	164.1
Total net working capital	-875.6	-1,054.8

3.1 INVENTORIES AND ADVANCE PAYMENTS RECEIVED

Inventories, MEUR	Dec 31, 2017	Dec 31, 2016
Raw materials, supplies and finished goods	254.2	240.4
Work in progress	977.9	1,117.2
Advance payments made	12.5	15.9
Total	1,244.6	1,373.5

Advance payments received, MEUR	Dec 31, 2017	Dec 31, 2016
Advance payments received	1,806.1	1,976.9

Advance payments received vs. inventories, (MEUR)



Accounting principles

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in-first-out (FIFO) basis. Raw materials and supplies, however, are valued based on weighted average cost method or at standard cost. Semi-manufactures are valued at production costs.

Work in progress includes direct labor and material costs as of the consolidated statement of financial position date with a proportion of indirect costs related to manufacturing and installation of firm customer orders. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment.

An allowance is recorded for obsolete items based on management's estimate of expected net realizable value.

Accounting principles

Advance payments received

Advance payments received include customer payments for the orders included in work in progress.

3.2 ACCOUNTS RECEIVABLE

Aging structure of the accounts receivable after recognition of impairment, MEUR	Dec 31, 2017	Dec 31, 2016
Not past due and less than one month due receivables [1]	1,239.7	1,220.9
Past due 1–3 months [1]	225.7	208.7
Past due 3–6 months [1]	131.2	124.2
Past due > 6 months	12.2	19.9
Accounts receivable in the consolidated statement of financial position	1,608.7	1,573.7

[1] There is no material impairment loss recognized related to these receivables.

Accounting principles

Accounts receivable

Accounts receivable are initially measured at cost. An impairment loss is recognized for doubtful accounts receivable, based on the aging profile of overdue receivables and a case-by-case analysis of individual receivables.

Customer credit risk management

Customer credit risks relate to advance payments receivable from customers or to accounts receivable related to equipment handed over or to services rendered. This risk is managed by defining the rules for tendering, payment terms, authorizations and credit control as well as project management controls. Advance payments, documentary credits and guarantees are used in payment terms to minimize customer credit risks. KONE proactively manages its accounts receivable in order to minimize the risk of customer defaults. KONE's customer base consists of a large number of customers in several market areas. The management considers that there are no significant concentrations of credit risk with any individual customer or geographical region.

The credit quality of advance payments receivable and accounts receivable is evaluated according to KONE's credit policy. According to this policy, the rules for credit quality evaluation are set separately for the new equipment business and the service business.

The credit quality is evaluated both on the basis of the aging of the receivables as well as on the basis of individual case by case customer analysis in order to identify customers with a potential higher credit risk due to individual customer specific reasons. The bad debt provision for the accounts receivable is recognized on the basis of this credit quality evaluation. The amount of bad debt provision recorded to cover doubtful accounts was EUR 176.5 (164.1) million at the end of the financial period.

3.3 DEFERRED ASSETS

Deferred assets, MEUR	Dec 31, 2017	Dec 31, 2016
Deferred interests	2.0	1.8
Deferred income from maintenance contracts	24.6	21.3
Unbilled contract revenue (note 2.1)	120.9	135.7
Derivative assets (note 5.3)	35.6	33.9
Value added tax assets	72.2	51.2
Prepaid expenses and other receivables	123.0	124.5
Total	378.3	368.4

3.4 ACCRUALS

Accruals, MEUR	Dec 31, 2017	Dec 31, 2016
Accrued interests	0.2	0.2
Accrued income of maintenance contracts	327.1	314.8
Late costs accruals [1]	349.6	382.1
Accrued salaries, wages and employment costs	430.3	455.7
Share-based payments	26.9	27.2
Derivative liabilities (note 5.3)	12.4	40.3
Accrued value added tax	105.7	71.9
Accruals from acquisitions	14.4	26.5
Other accruals	301.8	291.3
Total	1,568.3	1,610.0

[1] Includes expected costs still to be incurred on completed new equipment and modernization contracts.

3.5 PROVISIONS

Jan 1–Dec 31, 2017, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	66.7	14.4	20.1	27.7	54.3	183.2
Translation differences	-2.1	0.0	-0.1	-2.1	-0.9	-5.3
Increase	15.7	0.9	7.7	17.6	10.1	51.9
Provisions used	-8.5	-3.9	-16.2	-9.3	-12.1	-49.9
Reversal of provisions	-8.1	-7.7	-0.4	-6.0	-16.9	-39.1
Companies acquired	-	-	-	-	1.5	1.5
Total provisions at end of period	63.7	3.6	11.1	27.9	35.9	142.3

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2017	42.4	99.9	142.3

Jan 1–Dec 31, 2016, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	69.9	9.8	18.6	24.9	50.4	173.6
Translation differences	-0.4	0.0	-0.7	-1.0	0.3	-1.8
Increase	35.1	5.7	17.8	17.9	22.5	99.0
Provisions used	-33.2	-0.8	-14.7	-11.8	-4.9	-65.4
Reversal of provisions	-4.8	-0.3	-0.8	-2.2	-14.1	-22.3
Companies acquired	0.1	-	-	-	0.0	0.1
Total provisions at end of period	66.7	14.4	20.1	27.7	54.3	183.2

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2016	63.3	119.9	183.2

Accounting principles

Provisions

Provisions are recognized when KONE has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Recognition and measurement of a provision generally employs managerial estimates of the probability and the amount of the liability.

Provisions for warranties cover the estimated liability to repair or replace products still under warranty at the statement of financial position date. This provision is calculated based on historical experience of levels of repair and replacements.

Provision for claims is recognized when the claim has been received and it is probable that it will be settled and the settlement amount can be estimated reliably.

A provision for business restructuring is recognized only when a detailed and formal plan has been established, when there is a valid expectation that such a plan will be carried out and the plan has been communicated.

Provisions for loss contracts are recognized when it is probable that the costs will exceed the estimated total revenue. The probable loss is recognized as an expense immediately.

Other provision include for example provisions for contractual and other obligations arising from disputes, labour relations and other regulatory matters.

3.6 DEFERRED TAX ASSETS AND LIABILITIES

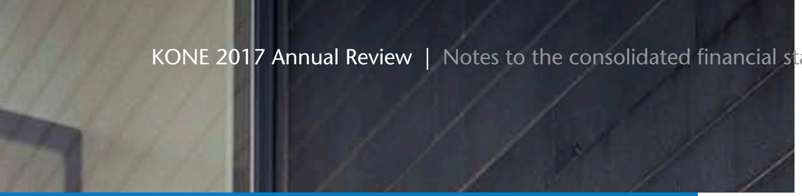
Deferred tax assets, MEUR	Dec 31, 2017	Dec 31, 2016
Tax losses carried forward	6.4	5.4
Provisions and accruals	181.6	215.7
Pensions	22.6	36.9
Inventory	12.0	14.9
Property, plant and equipment	12.2	11.4
Other temporary differences for assets	33.5	34.1
Total	268.3	318.4
Total at beginning of period	318.4	299.7
Translation differences	-5.2	4.7
Change in statement of income	-25.8	14.4
Charged or credited to equity	-19.1	-0.4
Acquisitions, divestments and other	0.0	-
Total at end of period	268.3	318.4

Deferred tax liabilities, MEUR	Dec 31, 2017	Dec 31, 2016
Property, plant and equipment	19.2	16.7
Goodwill	69.6	80.6
Other temporary differences for liabilities	47.3	56.9
Total	136.1	154.2
Total at beginning of period	154.2	140.9
Translation differences	-5.0	2.9
Change in statement of income	-15.6	9.6
Acquisitions, divestments and other	2.5	0.8
Total at end of period	136.1	154.2
Net deferred tax assets and liabilities	132.2	164.1

Accounting principles

Deferred taxes

Deferred taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial reporting, and measured with enacted tax rates. Typical temporary differences arise from provisions, depreciations and amortizations, inter-company inventory margins, defined benefit plans and tax losses carried forward. Deferred tax assets on unused tax losses and other temporary differences are recognized to the extent it is probable that taxable profit is available.



ACQUISITIONS AND CAPEX

151 MEUR

18 COMPLETED ACQUISITIONS

4 ACQUISITIONS AND CAPITAL EXPENDITURE

IN THIS SECTION

This section comprises the following notes, which describe acquisitions and capital expenditure at KONE for 2017:

4.1 Acquisitions
4.2 Goodwill
4.3 Intangible assets
4.4 Property, plant and equipment

ACQUISITIONS AND CAPITAL EXPENDITURE AT KONE

- KONE's business is capital-light and labor-intensive in nature, particularly in services. On the new equipment side, we cooperate with many component suppliers. As a result, the level of tangible and intangible assets is relatively low in the business.
- Capital expenditure is mainly related to R&D, IT, production and business operations.
- The majority of KONE's acquisitions in 2017 consisted of small maintenance companies in Europe and Asia.

KONE's capital expenditure 1.3% of sales in 2017

4.1 ACQUISITIONS

Assets and liabilities of the acquired businesses, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Maintenance contracts	19.6	33.8
Other intangible assets	0.0	0.3
Tangible assets	0.3	1.0
Deferred tax assets	0.0	-
Inventories	6.5	0.6
Accounts receivables and other assets	7.2	5.5
Cash and cash equivalents and other interest bearing receivables	3.8	1.3
Total assets	37.5	42.5
Interest-bearing loans	0.5	1.8
Provisions	1.5	0.0
Deferred tax liabilities	2.5	0.8
Other liabilities	11.1	7.7
Total liabilities	15.5	10.4
Non-controlling interest	-	-0.3
Net assets	21.9	32.4
Acquisition cost paid in cash	24.3	70.8
Previously held interest at fair value	1.5	-
Contingent and deferred consideration	9.2	28.4
Acquisition cost at date of acquisitions	35.1	99.2
Goodwill	13.1	66.8

Contingent considerations are typically realized in the amount initially recognized.

Changes in the acquisition cost occurred after the acquisition date and recognized in the statement of income totaled EUR 1.5 (0.6) million.

Accounting principles

Acquisitions

Subsidiaries acquired during the period were included in the consolidated financial statements from the date of acquisition, and divested subsidiaries up to the date of sale. Intra-corporate shareholdings are eliminated using the acquisition method. The acquisition consideration, including deferred and contingent consideration, as well as the identifiable assets acquired and liabilities assumed, is measured at the acquisition date fair values. The acquisition-related costs are recognized as expenses for the period in which they are incurred.

At the acquisition date, the non-controlling interests are valued either at the acquisition date fair values or at non-controlling interests' proportionate share in the recognized amounts of the identifiable net assets.

Acquisitions

KONE completed 18 (19) acquisitions during 2017 for a total consideration of EUR 35.1 million. The acquired businesses are specialized in the elevator, escalator and automatic building door business. The acquisitions completed during the financial period were not material individually or as a whole to KONE's 2017 financial statements. The sales consolidated from the companies acquired during 2017 did not have a material impact on the Group sales for the financial period.

The most significant acquisitions during 2017 were acquisitions of Alois Kasper GmbH in Germany, Shan On Engineering Company Limited in Hong Kong and Ascensores R Casado, S.A. in Spain. Previously, KONE owned 35.3% of Shan On Engineering Company Limited and bought the remaining 64.7% shareholding. The previously held associated company holding has been valued at the transaction date fair value.

The fair values of the acquired net assets, based on a provisional assessment, as well as the acquisition costs, are summarized in the table above. The considerations were paid for in cash, except for certain deferred considerations, which will be paid later. For most of the completed acquisitions, the acquisition cost includes a contingent consideration, which is typically determined by the financial performance of the acquired business after the date of the acquisition. Changes in the fair value of the contingent consideration after the acquisition date are recognized as a profit or loss. KONE acquired a 100% interest in all businesses acquired in 2017.

The combined acquisition consideration of Alois Kasper GmbH, Shan On Engineering Company Limited and Ascensores R Casado, S.A.was EUR 20.2 million. Based on provisional assessments, the fair value of identified net assets of these acquisitions was EUR 9.3 million, including EUR 7.4 million of maintenance contracts. The increase in goodwill totaled EUR 10.9 million. Goodwill represents the value of the acquired market share, business knowledge and expected synergies. Note 4.2 provides more detail on goodwill.

During 2017, KONE completed other acquisitions for a total consideration of EUR 14.9 million, of which, based on provisional assessments, EUR 12.2 million was allocated to maintenance contracts in intangible assets. Acquired maintenance contracts are typically amortized over ten years. Note 4.3 provides more detail on intangible assets.

4.2 GOODWILL

Accounting principles

Goodwill

Acquisitions are accounted for using the acquisition method. Goodwill represents the excess of acquisition cost over the fair values of identified acquired assets and liabilities of acquired companies.

Goodwill arises typically in connection with major acquisition, and represents the value of the acquired market share, business knowledge and the synergies obtained in connection with the acquisition. The carrying amount of goodwill is tested for impairment.

Impairment testing

The Group assesses the carrying amount of goodwill annually or more frequently if any indication of impairment exists. Goodwill is allocated to the cash generating units (CGUs) of the Group, which are identified according to the country of operation and business unit at the level at which goodwill is monitored for internal management purposes. The recoverable amount of a CGU is determined by value-in-use calculations. In assessing the recoverable amount, estimated future cash flows are discounted to their present value. Cash flow estimates are based on operative managerial estimates. The discount rate is the weighted average cost of capital (WACC) for the main currency area in the location of the CGU (country or business area), which reflects the market assessment for the time-value of money and for the risk specific in KONE's business.

Any impairment loss of goodwill is recognized immediately as an expense and is not subsequently reversed.

Goodwill allocation

Goodwill is allocated to cash-generating units (CGUs). Cash generating unit is typically the country unit in which the aquired business is operating, in accordance with KONE's management system and structures. The carrying amount of goodwill is allocated to 24 different CGU's. The five largest CGU's carry 75% of the goodwill. The carrying amount of goodwill is below EUR 10 million for eleven CGUs. The goodwill allocation to the CGUs is presented in the table below:

Goodwill/CGU, MEUR	Dec 31, 2017	%	Dec 31, 2016	%
Five largest CGUs	995.6	75	1,035.9	76
Five smallest CGUs	17.9	1	19.1	1
Other CGUs	312.0	24	316.7	23
Total	1,325.5		1,371.8	
Mean	55.2		57.1	
Median	12.3		13.2	

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2017	Dec 31, 2016
Opening net book value	1,371.8	1,306.7
Translation differences	-60.9	-1.8
Increase	1.5	0.1
Decrease	-	-
Companies acquired (note 4.1)	13.1	66.8
Closing net book value	1,325.5	1,371.8

Discount interest rates used (pre-tax):	EMEA	Americas	Asia-Pacific
2017	6.32%	8.34%	10.21%
2016	6.55%	8.26%	9.11%

Impairment testing

The value-in-use calculations for the CGU specific cash flow projections are based on financial estimates prepared by the management. The financial estimates are prepared for the following three years for each CGU. The cash flows for subsequent years are assumed prudently without growth.

The business growth, price and cost development assumptions embedded in the CGU specific cash flow projections are based on management assessments of the market demand and environment, which are examined against external information sources. The productivity and efficiency assumptions are based on internal targets, which are evaluated against actual performance. The discount rates are based on the risk-free interest rates, risk factors (beta coefficient) and market risk premiums available on financial markets. The value-in-use calculations are validated against KONE's market capitalization.

No goodwill impairment losses were recognized during the accounting period. The impairment testing process includes a sensitivity analysis in which the CGU specific cash flow estimates were reduced by 10–40 percent and the discount interest rates were increased by 1–4 percentage points. Based on the sensitivity analysis, the probability for impairment losses was very low. Under the basic scenario, the value-in-use calculations were on average 7.3 times higher than the CGU's assets employed. The respective ratio was for the five largest CGU's was 5.3; for the five smallest 17.9 and respectively for the other CGUs 12.1.

4.3 INTANGIBLE ASSETS

Jan 1–Dec 31, 2017, MEUR	Maintenance contracts	Other	Total
Jan 1, 2017:			
Acquisition cost	359.1	243.2	602.2
Accumulated amortization and impairment	-117.4	-191.9	-309.3
Net book value	241.7	51.2	292.9
Opening net book value	241.7	51.2	292.9
Translation differences	-6.5	-2.0	-8.5
Increase	0.2	15.8	16.0
Decrease	-	-0.3	-0.3
Reclassifications	-	1.9	1.9
Companies acquired (note 4.1)	19.6	0.0	19.6
Amortization	-31.7	-15.4	-47.1
Closing net book value	223.2	51.3	274.5
Dec 31, 2017:			
Acquisition cost	367.1	256.6	623.7
Accumulated amortization and impairment	-144.0	-205.3	-349.2
Net book value	223.2	51.3	274.5

Jan 1–Dec 31, 2016, MEUR	Maintenance contracts	Other	Total
Jan 1, 2016:			
Acquisition cost	322.4	212.6	535.0
Accumulated amortization and impairment	-87.8	-175.7	-263.5
Net book value	234.6	36.9	271.5
Opening net book value	234.6	36.9	271.5
Translation differences	1.5	0.3	1.8
Increase	1.8	19.5	21.3
Decrease	-0.5	-0.1	-0.5
Reclassifications	-	9.0	9.0
Companies acquired (note 4.1)	33.8	0.3	34.0
Amortization	-29.5	-14.7	-44.2
Closing net book value	241.7	51.2	292.9
Dec 31, 2016:			
Acquisition cost	359.1	243.2	602.3
Accumulated amortization and impairment	-117.4	-191.9	-309.3
Net book value	241.7	51.2	292.9

Accounting principles

Intangible assets

Intangible assets identified in connection with acquisitions are amortized on a straight-line basis over their expected useful lifetime. KONE often acquires small elevator and door service companies, where the net identified assets are typically allocated to the acquired maintenance contracts. The acquired maintenance contracts are typically amortized over ten years.

Intangible assets also include expenditure on acquired patents, trademarks and licenses, including acquired software licenses. These assets are amortized on a straight-line basis over their expected useful lifetime, which does not usually exceed five years. The carrying amount of any intangible asset is impairment tested (see Impairment of assets on page 41) when an indication of impairment exists and at the end of each accounting period.

4.4 PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2017, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2017:							
Acquisition cost	6.9	246.3	474.4	55.0	21.0	2.5	806.2
Accumulated depreciation	-	-93.7	-338.0	-6.1	-	-	-437.9
Net book value	6.9	152.6	136.4	48.8	21.0	2.5	368.3
Opening net book value	6.9	152.6	136.4	48.8	21.0	2.5	368.3
Translation differences	-0.1	-5.5	-6.5	-5.8	-0.6	-0.2	-18.7
Increase	-	10.7	51.8	21.7	10.2	6.2	100.5
Decrease	0.0	-0.5	-2.1	-1.4	-0.0	-0.0	-4.1
Reclassifications	-	16.5	5.3	-	-21.4	-2.5	-2.1
Companies acquired (note 4.1)	-	-	0.3	-	-	-	0.3
Depreciation	-	-10.3	-43.3	-13.7	-	-	-67.2
Closing net book value	6.9	163.4	141.8	49.6	9.3	6.0	377.0
Dec 31, 2017:							
Acquisition cost	6.9	263.3	502.6	56.0	9.3	6.0	844.0
Accumulated depreciation	-	-99.9	-360.8	-6.4	-	-	-467.0
Net book value	6.9	163.4	141.8	49.6	9.3	6.0	377.0

During the period of Jan 1–Dec 31, 2017, capital expenditure on production facilities, customer service of sales and maintenance operations as well as on information systems, including new finance leases, totaled EUR 116.2 (127.4) million.

Accounting principles

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation is recognized on a straight-line basis over the economic useful lives of the assets as follows:

Buildings	5–40 years
Machinery and equipment	4–10 years

Land is not depreciated.

Expenditure on repairs and maintenance of property, plant and equipment is recognized as expense when incurred.

Impairment of assets

The carrying amounts of non-current tangible assets and intangible assets are reviewed upon each statement of financial position date to determine whether there is any indication of impairment, or more frequently should any indication arise. If any such indication arises, the recoverable amount is estimated as the higher of the asset's fair value less cost of disposal and the value in use. An impairment loss is recognized in the statement of income whenever the carrying amount exceeds the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, but not, however, to an extent higher than the carrying amount that would have been determined without the impairment loss recognized in prior years, deducted by accumulated depreciation.

Jan 1–Dec 31, 2016, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2016:							
Acquisition cost	7.2	247.2	447.1	41.1	12.3	3.7	758.6
Accumulated depreciation	-	-85.6	-322.0	-5.6	-	-	-413.2
Net book value	7.2	161.6	125.1	35.5	12.3	3.7	345.4
Opening net book value	7.2	161.6	125.1	35.5	12.3	3.7	345.4
Translation differences	-0.1	-3.0	-1.1	1.8	-0.9	-0.0	-3.3
Increase	-	11.8	54.0	27.9	12.7	1.1	107.6
Decrease	-0.2	-1.8	-2.3	-5.1	-1.8	-	-11.2
Reclassifications	-	-6.7	1.3	-0.1	-1.3	-2.2	-9.0
Companies acquired (note 4.1)	-	0.6	0.3	-	-	-	1.0
Depreciation	-	-10.1	-40.8	-11.2	-	-	-62.2
Closing net book value	6.9	152.6	136.4	48.8	21.0	2.5	368.3
Dec 31, 2016:							
Acquisition cost	6.9	246.3	474.4	55.0	21.0	2.5	806.2
Accumulated depreciation	-	-93.7	-338.0	-6.1	-	-	-437.9
Net book value	6.9	152.6	136.4	48.8	21.0	2.5	368.3

5 CAPITAL STRUCTURE

IN THIS SECTION

This section comprises the following notes, which describe capital structure at KONE for 2017:

5.1 Capital management
5.2 Shareholders' equity
5.3 Financial risks and instruments
5.4 Shares and other non-current financial assets
5.5 Deposits and loans receivable
5.6 Associated companies
5.7 Employee benefits
5.8 Finance lease liabilities
5.9 Commitments

KONE'S INTEREST-BEARING NET DEBT

-1,690 MEUR

EQUITY PER SHARE

5.62 EUR

KONE'S CAPITAL STRUCTURE

- KONE's cash position is strong due to the cash-generative business model and our advance payments-driven operating model.
- KONE has not defined a specific target for its capital structure, but the aim is to ensure strong credit quality to provide for ample access to external funding sources and to support the growth ambitions of the business.

5.1 CAPITAL MANAGEMENT

KONE aims to manage its capital in a way that supports the profitable growth of operations by securing an adequate liquidity and capitalization of the group at all times. The target is to maintain a capital structure that contributes to the creation of shareholder value.

The assets employed in KONE's business consist principally of net working capital, fixed assets, and investments which are funded by equity and net debt, as shown in the table below. Due to the business model and the business processes of KONE, the level of total assets employed is relatively low. KONE aims to maintain a negative net working capital to ensure a healthy cash flow even when the business is growing and to maintain a high return on assets employed.

Cash flow from operations is the principal source of KONE's financing. External funding, as well as cash and financial investments, are managed centrally by the KONE Treasury according to the KONE Treasury Policy. Financial investments are made only with counterparties with high creditworthiness and mainly in short term instruments to ensure continuous liquidity.

KONE has not defined a specific target for its capital structure, but the aim is to ensure strong credit quality to provide for ample access to external funding sources and to support the growth ambitions of the business. KONE considers its current capital structure to be a strength, as it allows for capturing potential value-creating business opportunities, should such opportunities arise. In the event that significant attractive investment or acquisition opportunities were available, KONE could also utilize its borrowing capacity.

In such cases, the level of debt and financial gearing could be higher for a period of time. At the end of 2017, the funding of KONE was guaranteed by existing committed credit facilities, cash and financial investments.

KONE has not defined a specific target for dividends or share buy-backs. The dividend proposal by the Board of Directors is determined on the basis of the overall business outlook, business opportunities, as well as the present capital structure and the anticipated changes in it.*) At the end of December 2017, KONE had 12,402,796 class B shares in its possession.

To ensure an efficient internal allocation and utilization of its capital resources, KONE measures the financial results of its business activities after a capital allocation charge. The capital allocation charge is based on the assets employed in the business activity and the weighted average cost of capital (WACC).

The WACC is also used as a hurdle rate when evaluating the shareholder value creation potential of new acquisitions, major capital expenditure and other investments. The valuation methods used are payback time, discounted cash flow and profitability.

Capital management, MEUR	2017	2016	2015	2014	2013
Assets employed:					
Goodwill and shares	1,441.3	1,501.6	1,429.4	1,321.3	1,215.7
Other fixed assets 1)	651.5	661.2	616.9	578.9	498,4
Net working capital	-875.6	-1,054.8	-983.4	-749.7	-611.5
Total assets employed	1,217.3	1,108.0	1,062.9	1,150.5	1,102.6
Capital:					
Equity	2,907.4	2,795.6	2,575.5	2,062.4	1,724.6
Interest-bearing net debt	-1,690.2	-1,687.6	-1,512.6	-911.8	-622.0
Total capital	1,217.3	1,108.0	1,062.9	1,150.5	1,102.6
Gearing	-58.1%	-60.4%	-58.7%	-44.2%	-36.1%
Total equity/total assets	49.1%	46.8%	45.4%	43.6%	43.7%

1) Property, plant and equipment, acquired maintenance contracts and other intangible assets.
*) In 2013–2017, the dividend payout ratio has been 69.7–87.5% for class B shares (Board's proposal 2017).

5.2 SHAREHOLDERS' EQUITY

Accounting principles

Equity and profit distribution

The total shareholders' equity consists of the share capital, the share premium account, the fair value and other reserves, translation differences, the paid-up unrestricted equity reserve, remeasurements of employee benefits and retained earnings. When options are exercised and if new shares are issued, the impacts of changes in the share capital, which exceed the accounting par value of the shares, are included in the paid-up unrestricted equity reserve. If treasury shares are used in subscriptions with option rights, the subscription price is included in the paid-up unrestricted equity reserve. The fair value and other reserves include changes in the fair value of cash flow hedges. Translation differences arising from the application of the acquisition method on the translation of the net investment in foreign subsidiaries and associated companies are recognized as translation differences. Exchange rate differences resulting from derivatives and loans intended as hedges on assets and liabilities in foreign subsidiaries are also recognized as translation differences. Actuarial gains and losses arising from employee benefits are recognized as remeasurements of employee benefits. The purchase price of own shares purchased by KONE Corporation is deducted from retained earnings. The net income for the accounting period is recognized directly in retained earnings.

When KONE purchases its own shares, the consideration paid and directly attributable costs are recognized as a deduction in equity. When such shares are sold, the consideration received, net of directly attributable transaction costs, is included in equity.

Profit distribution includes dividends and donations decided by the Shareholders' Meeting. The dividend and distribution of profits proposed by the Board is not deducted from the equity prior to acceptance by a Shareholders' Meeting.

Shares and share capital

At the end of the 2017 financial year, the total number of shares was 527,180,407. The share capital was EUR 65.9 million and the total number of votes was 121,305,882. Each class A share is assigned one vote, as is each block of 10 class B shares, with the provision that each shareholder is entitled to at least one vote. At the end of the financial year, the Board of Directors of the company had a valid authorization granted by the Annual General Meeting in February 2015 to increase the share capital and to issue stock options. The authorization shall remain in effect until February 23, 2020.

In accordance with the Articles of Association, class B shares are preferred for a dividend which is at least 1% and no more than 2.5% higher than the dividend paid to the holders of class A shares, calculated based on the amount obtained by dividing the share capital entered into the Trade Register by the number of shares entered into the Trade Register.

More information

Please refer to section 6.2 for more information on options and share-based incentive plans.

Changes in share capital	Class A	Class B	Total
Number of shares, Jan 1, 2017	76,208,712	449,960,170	526,168,882
Share subscription with 2013, 2014 and 2015 options, May 11, 2017		624,151	624,151
Share subscription with 2014 and 2015 options, Aug 1, 2017		265,478	265,478
Share subscription with 2014 and 2015 options, Nov 7, 2017		112,360	112,360
Share subscription with 2014 and 2015 options, Dec 29, 2017		9,536	9,536
Number of shares, Dec 31, 2017	76,208,712	450,971,695	527,180,407
Number of votes, Dec 31, 2017	76,208,712	45,097,170	121,305,882
Share capital, Dec 31, 2017, MEUR	9.5	56.4	65.9

Changes in share capital	Class A	Class B	Total
Number of shares, Jan 1, 2016	76,208,712	449,197,602	525,406,314
Share subscription with 2013 options, May 3, 2016		268,598	268,598
Share subscription with 2013 and 2014 options, Aug 2, 2016		210,141	210,141
Share subscription with 2013 and 2014 options, Nov 8, 2016		283,023	283,023
Share subscription with 2013 options, Dec 30, 2016		806	806
Number of shares, Dec 31, 2016	76,208,712	449,960,170	526,168,882
Number of votes, Dec 31, 2016	76,208,712	44,996,017	121,204,729
Share capital, Dec 31, 2016, MEUR	9.5	56.3	65.8

Authority to purchase own shares

KONE Corporation's Annual General Meeting held on February 28, 2017 authorized the Board of Directors to repurchase the company's own shares. The shares may be repurchased among others in order to develop the capital structure of the Company, finance or carry out possible acquisitions, implement the Company's share-based incentive plans, or to be transferred for other purposes or to be cancelled. Altogether no more than 52,440,000 shares may be repurchased, of which no more than 7,620,000 are to be class A shares and 44,820,000 class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the Company is allowed to possess.

The minimum and maximum consideration for the shares to be purchased is determined for both class A and class B shares on the basis of the trading price for class B shares determined on the Nasdaq Helsinki Ltd. on the time of purchase.

During the financial year 2017, KONE did not repurchase own shares.

Own shares

	Number of shares	Cost, MEUR
Jan 1, 2017	12,884,141	236.7
Distributed to the annual compensation of the Board, April	-2,932	-0.1
Distributed to the share-based incentive plan, April	-483,448	-18.9
Returned from the share-based incentive plan, December	5,035	0.2
Dec 31, 2017	12,402,796	217.8
Jan 1, 2016	12,240,544	210.6
Distributed to the annual compensation of the Board, April	-2,923	-0.1
Distributed to the share-based incentive plan, April	-391,662	-14.5
Purchase, May	1,000,000	39.3
Returned from the share-based incentive plan, August	21,752	0.8
Returned from the share-based incentive plan, October	5,554	0.2
Returned from the share-based incentive plan, December	10,876	0.4
Dec 31, 2016	12,884,141	236.7

Reconciliation of own shares, Dec 31, 2017

KONE Corporation and Group total	pcs	Acquisition cost	Average price
Dec 31, 2016	12,884,141	236,688,327.64	18.37
Apr 28, 2017	-2,932	-114,543.33	39.07
Apr 28, 2017	-483,448	-18,940,033.27	39.18
Dec 20, 2017	5,035	186,737.17	37.09
Dec 31, 2017	12,402,796	217,820,488.21	17.56

5.3 FINANCIAL RISKS AND INSTRUMENTS

KONE's business activities are exposed to financial risks such as foreign exchange risks, interest rate risks, liquidity risks and credit risks. These financial risks are managed as part of the total KONE risk portfolio. KONE Treasury is responsible for the centralized management of financial risks in accordance with the KONE Treasury Policy approved by the Board of Directors. KONE business units manage their financial risks locally in accordance with the KONE Treasury Policy.

Accounting principles

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially and subsequently recognized at fair value in the statement of financial position. The fair values of foreign exchange forward contracts are calculated by discounting the future cash flows of the contracts with the relevant market interest rate yield curves on the valuation date and by calculating the difference between the discounted values in euros. The fair values of cross currency swaps are determined by discounting the expected future cash flows of the contracts with the market interest rate yield curves of the currencies concerned. The fair value of electricity price forwards is based on electricity stock exchange prices on the valuation date.

At the contract date the derivatives are classified according to the foreign exchange policy as hedging instruments of a business transaction or firm or highly probable purchase or sales contract. These are partly included in cash flow hedge accounting, hedges against fair value changes of assets or liabilities or hedges of net investments in foreign entities.

When cash flow hedge accounting is applied and the hedging relationship meets the effectiveness criteria then the effective portion of changes in the fair values of the foreign exchange derivatives initiated for hedging firm or highly probable future purchase or sales contracts is recognized through the statement of comprehensive income to the hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately in the adjustment items to sales and purchases. The cumulative changes of fair values are transferred into the statement of income in adjustment items to sales or purchases simultaneously when the hedged sale or purchase realizes. If a foreign exchange derivative included in the cash flow hedge accounting expires or is sold or when a hedge no longer meets the criteria for hedge accounting, the cumulative change in the fair value of the hedging instrument will remain in the hedge reserve and is recognized in the income statement at the same time with the hedged sale or purchase. The cumulative fair values of the hedging instruments are transferred from the hedge reserve to adjustment items to sales or purchases immediately if the hedged cash flow is no longer expected to occur. When cash flow hedge accounting is applied, the hedged risk and the hedging relationship are documented in accordance with the principles of hedge accounting. Hedge effectiveness is assessed before hedge accounting is applied and at least on a quarterly basis thereafter.

The changes in the fair values of derivatives that are designated as hedging instruments but are not accounted for according to the principles of cash flow hedge accounting are recognized based on their nature either in the operative costs or as financial income or expenses: if the hedged item is an operative transaction, the fair values of the hedging instruments are recognized in operative costs and expenses, and if the hedged item is a monetary transaction, the fair values are recognized in financing items.

Changes in the fair values of foreign exchange derivatives are recognized in financing income and expenses if the hedged item is a loan receivable, deposit or a financial asset or liability denominated in a foreign currency. Fair value changes of electricity price forwards designated as hedges against future electricity purchases are recognized in the income statement as adjustment items to purchases.

The effective portion of the changes in the fair values of foreign currency hedges against the translation differences arising from consolidating net investments in foreign entities are recognized through the statement of comprehensive income to the translation differences and would be transferred to the income statement in case the net investment were disposed of partially or in its entirety.

Accrued interest on cross currency swaps during the accounting period is recognized in financing income and expenses.

Fair values of derivative instruments are recognized under current assets and liabilities in the balance sheet.

Loans

Loans payable are classified in the valuation category other financial liabilities. They are measured initially at fair value, net of directly attributable transaction costs incurred and are subsequently carried at amortized cost using the effective interest rate method.

Current deposits and loans receivable

Current deposits and loans receivable are initially recognized at fair value and thereafter at amortized cost using the effective interest rate method. Only substantial transaction costs are counted for when measuring the acquisition cost. Deposits and loan receivables are impaired if the carrying amount is greater than the estimated recoverable amount.

Investments in commercial papers, short-term bank deposits, interest rate funds and other money market instruments are included in deposits and loans receivable.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand and bank account balances. Bank overdrafts are included in other current liabilities.

Financial credit risks

KONE has substantial amounts of cash and financial investments. In order to diversify the financial credit risk, KONE invests its funds into highly liquid interest rate funds and into deposits with several banks. Global counterparty limits are approved by the Board of Directors. All open exposures such as cash on bank accounts, investments, deposits and other financial transactions, for example derivatives contracts, are included when measuring the financial credit risk exposure. When selecting counterparty banks and other investment targets, only counterparties with high creditworthiness are approved. The size of each limit reflects the creditworthiness of the counterparty. Counterparty creditworthiness is evaluated constantly and the required actions are considered case by case if significant changes in the creditworthiness of a counterparty occur.

Refinancing and liquidity risks

KONE's cash and cash equivalents was EUR 496.5 (589.2) million and financial investments EUR 1,566.1 (1,494.4) million on December 31, 2017.

Most of the cash and financial investments are managed centrally by KONE Treasury, but some are located on decentralized bank accounts and local investments in a number of KONE countries. Changes in local regulations or in their interpretation can nevertheless have an impact on the location of the cash and financial investments in the future. In 2017, KONE extended the maturity date of the committed syndicated credit facility of EUR 800 million entered in 2016 by one year to 2022.

European Investment Bank (EIB) credit facility of EUR 160 million drawn for R&D purposes in 2016 matures in 2021. The fair value of the loan is estimated based on discounted cash flows using a current borrowing rate (level 2 fair value hierarchy). KONE has also an uncommitted commercial paper program of EUR 500 million.

Interest rate risks

KONE's cash and short-term investments were EUR 2,062.6 (2,083.6) million at the statement of financial position date. KONE's interest-bearing debt was EUR 387.4 (405.4) million at the statement of financial position date and consisted of EUR 224.8 (218.1) million of financial debt, EUR 10.3 (10.5) million of option liabilities from acquisitions, and EUR 152.2 (176.7) million of employee benefits. Financial debt, reported under financing activities in KONE's Consolidated Statement of Cash Flows, did not result in material cash flow impact in 2017.

As KONE's financial investments are mainly invested in tenors of less than one year, changes in the interest rates do not have any significant impact on their market values. Changes in the interest rates may however impact future interest income.

When calculating the interest rate sensitivity analysis the interest-bearing net financial debt is assumed to remain on the level of the closing balance of 2017 during the following financial period. The sensitivity analysis presents the impact of a 1 percentage point change in the interest rate level on the net interest income for the financial period by taking into account the net financial debt tied to interest periods of less than one year, EUR -2,024.9 (-2,060.0) million. For 2018 a 1 percentage point change in the interest rate level would mean a change of EUR 20.2 (20.6) million in net interest income. The interest rate sensitivity is calculated before taxes.

A change in interest rates does not have a material impact on the net interest on employee benefits, on financial debt or option liabilities from acquisitions.

Maturity analysis of financial liabilities and interest payments

	Dec 31, 2017				Dec 31, 2016			
MEUR	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Interest-bearing debt								
Long-term loans	-	-160.0	-	**-160.0**	-	-1.0	-160.0	**-161.0**
Finance lease liabilities	-14.9	-33.5	-1.1	**-49.5**	-13.9	-33.1	-1.7	**-48.7**
Used bank overdraft limits	-15.2	-	-	**-15.2**	-1.1	-	-	**-1.1**
Interest payments	-0.4	-0.5	-	**-0.9**	-0.0	-0.1	-0.0	**-0.2**
Option liabilities from acquisitions	-10.3	-	-	**-10.3**	-10.5	-	-	**-10.5**
Employee benefits	-	-	-152.2	**-152.2**	-	-	-176.7	**-176.7**
Non-interest bearing debt								
Accounts payables	-705.1	-	-	**-705.1**	-743.3	-	-	**-743.3**
Derivatives								
Capital inflow	2,302.5	88.1	-	**2,390.6**	2,530.9	98.3	-	**2,629.2**
Capital outflow	-2,267.1	-90.2	-	**-2,357.4**	-2,508.8	-98.5	-	**-2,607.3**
Net outflow	-710.6	-196.1	-153.3	**-1,060.0**	-746.8	-34.5	-338.4	**-1,119.7**

Values of financial assets and liabilities by categories

2017 Consolidated statement of financial position item, MEUR		Notes	Financial assets & liabilites at fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial assets & liabilities	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			114.5		114.5
Non-current loans receivable	I	5.5		0.7			0.7
Employee benefits		5.7				11.5	11.5
Current assets							
Accounts receivable				1,614.8			1,614.8
Derivative assets			35.6				35.6
Current deposits and loans receivable	I	5.5		1,568.8			1,568.8
Cash and cash equivalents	I			496.5			496.5
Total financial assets			35.6	3,680.9	114.5	11.5	3,842.5
Non-current liabilities							
Loans	I					194.7	194.7
Employee benefits	I	5.7				152.2	152.2
Current liabilities							
Current portion of long-term loans	I					14.9	14.9
Short-term loans and other liabilities	I					15.2	15.2
Option liabilities from acquisitions	I		10.3				10.3
Accounts payable						705.1	705.1
Derivative liabilities			12.4				12.4
Unpaid acquisition consideration						17.6	17.6
Total financial liabilities			22.7	-	-	1,099.8	1,122.4

The fair values of the financial assets and liabilities are not materially different from their book values.
Interest-bearing net debt comprises items marked with " I ".

2016 Consolidated statement of financial position item, MEUR		Notes	Financial assets & liabilites at fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial assets & liabilities	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			124.9		124.9
Non-current loans receivable	I	5.5		7.4			7.4
Employee benefits		5.7				-	-
Current assets							
Accounts receivable				1,573.7			1,573.7
Derivative assets			33.9				33.9
Current deposits and loans receivable	I	5.5		1,496.6			1,496.6
Cash and cash equivalents	I			589.2			589.2
Total financial assets			33.9	3,666.8	124.9	-	3,825.6
Non-current liabilities							
Loans	I					203.1	203.1
Employee benefits	I	5.7				176.7	176.7
Current liabilities							
Current portion of long-term loans	I					13.9	13.9
Short-term loans and other liabilities	I					1.1	1.1
Option liabilities from acquisitions	I		10.5				10.5
Accounts payable						743.2	743.2
Derivative liabilities			40.3				40.3
Unpaid acquisition consideration						26.7	26.7
Total financial liabilities			50.8	-	-	1,164.8	1,215.6

The fair values of the financial assets and liabilities are not materially different from their book values.
Interest-bearing net debt comprises items marked with " I ".

Derivatives

All derivative contracts have been made according to the KONE Treasury policy for hedging purposes.

The majority of the foreign exchange forward contracts, swaps and cross-currency swaps mature within a year. Electricity price forward contracts mature within one years' time.

The fair values of foreign exchange forward contracts and swaps as well as the fair values of cross-currency swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2). The price for electricity price forward contracts is based on the stock exchange price (fair value hierarchy level 1). Financial contracts are executed only with counterparties that have high credit ratings. The credit risk of these counterparties, as well as that of KONE, is considered when calculating the fair values of outstanding financial assets and liabilities.

The fair values of the derivatives are represented in the balance on a gross basis and can be set off on conditional terms such as breach of contract or bankruptcy. Derivative financial receivables from counterparties after set off would be EUR 26.9 (17.6) million and payables EUR 3.7 (24.0) million.

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2017	Derivative liabilities Dec 31, 2017	Fair value, net Dec 31, 2017	Fair value, net Dec 31, 2016
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	23.3	-10.3	13.0	-14.5
Other hedges	12.3	-1.9	10.5	8.6
Electricity price forward contracts	-	-0.3	-0.3	-0.4
Total	35.6	-12.4	23.2	-6.4

Nominal values of derivative financial instruments, MEUR	Dec 31, 2017	Dec 31, 2016
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	1,068.4	1,157.4
Other hedges	1,321.2	1,471.9
Electricity price forward contracts	1.0	1.6
Total	2,390.6	2,630.9

5.4 SHARES AND OTHER NON-CURRENT FINANCIAL ASSETS

Shares and other non-current financial assets were EUR 111.3 and 3.1 million respectively (EUR 121.8 and 3.0 million) and are classified as available-for-sale investments.

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

Other available-for-sale investments include smaller holdings in other companies without public quotation. They are measured at cost since the fair values cannot be reliably measured.

Accounting principles

Shares and other non-current financial assets

Shares and other non-current financial assets are classified as available-for-sale investments.

Shares include long-term strategic investments, which are investments in equity instruments that do not have a quoted price in an active market. The fair value of these shares cannot be reliably measured because the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed. These shares are classified as available-for-sale investments and measured at cost.

Other available-for-sale investments are measured at fair value and recognized through the statement of comprehensive income until the items are sold, collected, otherwise disposed or impaired, at which time the cumulative gain or loss recognized in other comprehensive income is included in the profit or loss for the period. However, when fair values are not available, the investments are measured at cost adjusted by any impairment losses.

5.5 DEPOSITS AND LOANS RECEIVABLE

Deposits and loans receivable, MEUR	Dec 31, 2017	Dec 31, 2016
Non-current loans receivable	0.7	7.4
Current loans receivable	2.8	2.2
Current short-term deposits	1,566.1	1,494.4
Total	1,569.5	1,504.0

The fair values of deposits and loans receivable are not materially different from their carrying amounts. Current short-term deposits mature within one year and consist mainly of short-term bank deposits and money market funds.

5.6 ASSOCIATED COMPANIES

Investments in associated companies, MEUR	Dec 31, 2017	Dec 31, 2016
Total at beginning of period	5.0	4.4
Translation differences	-0.4	-0.0
Share of associated companies' result after taxes	-1.1	1.2
Dividends received	-1.0	-0.5
Decrease	-1.2	-0.0
Total at end of period	1.4	5.0

The associated companies' financial information presented here is based on the latest official financial statements available and estimates for the year 2017.

The net income of KONE's associated companies for the year 2017 was EUR -2.7 million based on estimates available. Based on the latest official financial statements, the assets of KONE's associated companies totaled EUR 8.7 million and equity EUR 5.4 million. In the year 2016, the associated companies recognized total sales of EUR 18.0 million and a total net income of EUR 0.2 million.

Accounting principles

Associated companies

An associated company is a company in which the Group holds 20–50 percent of the voting power and has a participating interest of at least 20 percent or in which the Group has considerable influence. Investments in associated companies are accounted for in the consolidated financial statements under the equity method. KONE's share of the profit or loss of an associated company is shown in the consolidated statement of income as a separate item, and its investments in the associated companies upon the date of acquisition, adjusted for changes in the associated companies' equity after the date of acquisition, are shown in the consolidated statement of financial position under "Investments in associated companies". The share of associated companies' net income includes also the revaluations of the previously held interest in connection with step acquisitions.

Transactions with associated companies, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Sales of goods and services	0.1	0.0
Purchases of goods and services	11.1	20.9

Balances with associated companies

Liabilities to associated companies, MEUR	Dec 31, 2017	Dec 31, 2016
Accounts payable	0.3	1.9
Accruals	-	0.2
Total	0.3	2.1

5.7 EMPLOYEE BENEFITS

KONE operates various employee benefit plans throughout the world. These plans include both defined contribution and defined benefit schemes. The pension benefits provided by KONE are primarily organized through defined contribution plans.

KONE's most significant funded defined benefit plans are in the United Kingdom and in the United States. Defined benefit pension plans are funded by KONE to satisfy local statutory funding requirements. The assets are managed by external fund managers. The funds are allocated between equities and fixed income instruments in order to provide return at target level and limited risk profile. The valuations of the obligations are carried out by independent qualified actuaries. The discount rates used in actuarial calculations of the employee benefit liabilities are adjusted to market rates.

In the United Kingdom, the pension scheme is designed according to the Definitive Trust Deed and Rules and complies with the guidelines of the UK Pension Regulator. The pension scheme has been closed for new members as of March 2002 and is managed through KONE Pension Trustees Ltd.

In the United States, a part of KONE's employees are members in the Employees' Retirement Plan, which is a funded defined benefit plan. The plan is managed by KONE Inc.'s Pension Committee. In addition to this pension plan, KONE also provides post-employment medical and life insurance benefits. These predominantly unfunded other post-employment benefit plans qualify as defined benefit plans under IFRS. KONE is also a participant in a multi-employer employee benefit plan in the United States. In this defined contribution plan KONE pays a contribution based on the hours worked by participating employees, KONE's obligation is limited to this payment.

KONE's main unfunded defined benefit plans are in Germany, Italy (TFR Trattamento di Fine Rapporto, termination indemnity plan) and in Sweden. The pension schemes in Germany and the TFR plan in Italy are closed for new entrants. In Sweden, the pension cover is organized through defined contribution as well as unfunded defined benefit plans (ITP system, Industrins och handelns tilläggspension).

KONE has defined contribution plans for pensions and other post-employment benefits in most countries. Under defined contribution plans KONE's contributions are recorded as an expense in the accounting period to which they relate. Recognition of a liability is not required because KONE's obligation is limited to the payment of the contributions into these plans or funds.

The defined contribution pension plan in Finland is the statutory Finnish employee pension scheme (Finnish Statutory Employment Pension Scheme "TyEL"), according to which the benefits are directly linked to the beneficiary's earnings. TyEL is arranged through pension insurance companies.

Defined benefit obligations expose KONE to various risks: Corporate bond yields are used as a reference in determining the discount rates used for defined benefit obligations. A decrease in corporate bond yields hence will increase the present value of the defined benefit obligation. A plan deficit can occur if the performance of the plan assets is below the above mentioned yield. These potential deficits may require further contributions to the plan assets by the Group.

Some of the Group's defined benefit obligations are linked to general inflation and salary level development. Higher level of inflation and salary level will result to a higher present value of the benefit obligation.

Some of the defined benefit plans obligate KONE to provide benefits to plan members for a lifetime. Therefore any increase in life expectancy will increase defined benefit liability of these plans.

Accounting principles

Employee benefits

The Group operates various employee benefit plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The pension plans are generally funded by payments from employees and by the relevant KONE companies. The assets of these plans are generally held in separate insurance companies or trustee-administered funds. Pension costs and liabilities are based on calculations by the local authorities or independent qualified actuaries. Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. For defined benefit plans, pension cost is determined based on the advice of qualified actuaries who carry out a full valuation of the plan on a regular basis using the projected unit credit method. Under this method, the costs of providing pensions are charged to the statement of income so as to spread the regular costs over the working lives of employees. KONE presents the service cost relating to defined benefit obligations in employment expenses while the net interest is presented in financing expenses.

The liability of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets. The discount rates used in actuarial calculations of employee benefits liabilities are adjusted to market rates. Obligations to pay long-term disability benefit, the level of which is dependent on the length of service of the employee, are measured to reflect the probability that payments will be required and the length of service for which it is expected to be made.

Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	Dec 31, 2017	Dec 31, 2016
Employee benefits		
Defined benefit plans	124.7	159.4
Other post-employment benefits	16.0	17.3
Total	140.7	176.7

Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	Dec 31, 2017 Defined benefit plans	Dec 31, 2017 Other post-employment benefits	Dec 31, 2016 Defined benefit plans	Dec 31, 2016 Other post-employment benefits
Present value of unfunded obligations	83.6	0.7	83.0	0.8
Present value of funded obligations	468.8	16.3	474.3	17.5
Fair value of benefit plans' assets	-427.7	-1.1	-397.8	-1.0
Total	124.7	16.0	159.4	17.3

Net liability reconciliation	Dec 31, 2017 Defined benefit plans	Dec 31, 2017 Other post-employment benefits	Dec 31, 2016 Defined benefit plans	Dec 31, 2016 Other post-employment benefits
Employee benefit liability at beginning of period	159.4	17.3	151.1	18.2
Employee benefit assets at beginning of period	-	-	-8.4	-
Net liability at beginning of period	159.4	17.3	142.6	18.2
Translation differences	-6.4	-2.1	2.1	0.6
Costs recognized in statement of income	17.8	1.2	14.2	0.9
Remeasurements	-9.6	-0.2	18.6	-2.0
Paid contributions and benefits	-36.5	-0.2	-16.3	-0.5
Reclassifications	-	-	-1.9	-
Net liability at end of period	124.7	16.0	159.4	17.3
Employee benefit liability at end of period	136.3	16.0	159.4	17.3
Employee benefit assets at end of period	-11.5	-	-	-
Net liability at end of period	124.7	16.0	159.4	17.3

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Defined contribution pension plans	191.7	184.8
Defined benefit pension plans	17.8	14.2
Other post-employment benefits	1.2	0.9
Total	210.7	199.9

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2017 Defined benefit plans	Jan 1–Dec 31, 2017 Other post-employment benefits	Jan 1–Dec 31, 2016 Defined benefit plans	Jan 1–Dec 31, 2016 Other post-employment benefits
Current service costs	13.9	0.6	12.0	0.3
Net interest	3.2	0.6	3.5	0.6
Past-service costs	0.6	-	-0.1	-
Settlements	-	-	-	-
Curtailments	0.0	-	-1.1	-
Total	17.8	1.2	14.2	0.9

The actual return on defined benefit plans' assets was EUR 23.3 (55.6) million.

Defined benefit plans: assumptions used in calculating benefit obligations	Jan 1–Dec 31, 2017 Europe	Jan 1–Dec 31, 2017 USA	Jan 1–Dec 31, 2016 Europe	Jan 1–Dec 31, 2016 USA
Discount rate, %	2.49	3.51	2.45	3.97
Future salary increase, %	2.8	4.0	2.9	4.0
Future pension increase, %	2.9	4.0	2.9	4.0

Sensitivity of the defined benefit obligation to changes in actuarial assumptions	Impact on defined benefit obligation Dec 31, 2017	Impact on defined benefit obligation Dec 31, 2016
Discount rate, +0.25 percentage points	-3.9%	-3.9%
Discount rate, -0.25 percentage points	3.6%	4.4%
Future pension increase, +0.25 percentage points	2.1%	2.0%
Future pension increase, -0.25 percentage points	-2.0%	-1.9%

The above sensitivity analyses cover 75 (78) percent of KONE's defined benefit obligation. Sensitivities are calculated by changing one assumption at a time while keeping other variables constant.

5.8 FINANCE LEASE LIABILITIES

KONE has non-cancellable finance leases for machinery and equipment and buildings with varying terms and renewal rights.

MEUR	Dec 31, 2017	Dec 31, 2016
Minimum lease payments		
Less than 1 year	15.3	14.7
1–5 years	34.7	34.3
Over 5 years	2.6	2.3
	52.6	51.3
Future finance charges	-3.0	-2.6
Present value of finance lease liabilities	49.6	48.7

MEUR	Dec 31, 2017	Dec 31, 2016
Present value of finance lease liabilities		
Less than 1 year	14.9	13.9
1–5 years	33.5	33.1
Over 5 years	1.1	1.7
Total	49.6	48.7

Accounting principles

Leases

KONE has entered into various operating leases under which payments are treated as rentals and charged to the statement of income on a straight-line basis over the leasing term. Leases of plant and equipment where KONE fundamentally bears all the rewards and risks of ownership are classified as finance leases.

Finance leases are recognized as assets at the inception of the lease at the lower of the fair value of the leased equipment and the estimated present value of the underlying lease payments. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. Lease payments are apportioned between the finance charge and the reduction of outstanding liability.

Plant and equipment acquired under finance leasing contracts are depreciated over either the useful life of the asset or the lease period, whichever is less.

5.9 COMMITMENTS

Commitments, MEUR	Dec 31, 2017	Dec 31, 2016
Guarantees		
Others	5.0	11.2
Operating leases	294.5	315.6
Total	299.5	326.8

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,341.7 (1,411.4) million as of December 31, 2017. KONE leases cars, machinery & equipment and buildings under operating leases with varying terms.

The future minimum lease payments under non-cancellable operating leases, MEUR	Dec 31, 2017	Dec 31, 2016
Less than 1 year	73.0	73.1
1–5 years	161.3	162.6
Over 5 years	60.2	79.9
Total	294.5	315.6

The aggregate operating lease expenses totaled EUR 97.6 (87.6) million.

6 OTHERS

6.1 MANAGEMENT REMUNERATION

The key management of KONE consists of the Board of Directors and the Executive Board.

Compensation paid to the key management, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Salaries and other remunerations	7.9	8.0
Share-based payments	22.2	14.4
Total	30.1	22.4

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR thousand) [2]	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Herlin Antti, Chairman of the Board [1]	529.0	528.5
Herlin Jussi, Vice Chairman of the Board	113.5	105.8
Ehrnrooth Henrik, President & CEO [1]	750.0	750.0
Alahuhta Matti	41.5	36.5
Brunila Anne	41.5	37.0
Herlin Iiris	40.5	36.0
Kant Ravi	46.5	42.5
Kaskeala Juhani	42.0	37.5
Pietikäinen Sirpa	40.5	36.5
Total	1,645.0	1,610.3

1) For the financial year 2017 in addition Antti Herlin's accrued bonus is EUR 399,152 and Henrik Ehrnrooth's accrued bonus is EUR 540,750. These will be paid during 2018. In April 2017, the share-based payments for the financial year 2016 received by Henrik Ehrnrooth was EUR 3,322,885.

2) Includes also the annual compensation of the Board which was performed by using shares of KONE Corporation decided by the Annual General Meeting February 28, 2017.

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Group's financial result. The yearly bonus may not exceed 100 percent of his annual salary. In 2017, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2017 totaled EUR 399,152. He was also paid EUR 60,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 83. The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2017 was EUR 150,120. No separate agreement regarding early retirement has been made.

The compensation for the President and CEO Henrik Ehrnrooth consists of a basic salary and a yearly bonus decided annually by the Board on the basis of the Corporation's key targets. The yearly bonus may not exceed 100 percent of his annual salary. In 2017, Henrik Ehrnrooth's basic salary was EUR 750,000. In addition, his accrued bonus for 2017 totaled EUR 540,750. Henrik Ehrnrooth's holdings of shares are presented in the table on page 83. Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In April 2017, on the basis of the incentive plan for year 2016, Henrik Ehrnrooth received a bonus of EUR 3,322,885, which consisted of 36,715 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2017 and due for payment in April 2018 is 35,031 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. Henrik Ehrnrooth's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2017 was EUR 255,825. No separate agreement regarding early retirement has been made. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

The compensation for the members of the Executive Board comprises a base salary and a yearly bonus, based on the Group's annual result and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary. The Executive Board members' holdings of shares are presented in the table on page 83. The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2017, on the basis of the incentive plan, the members of the Executive Board received a bonus of 246,323 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2017 and due for payment in April 2018 is 182,169 KONE class B shares together with a cash bonus equal to the amount of taxes and similar charges. No separate agreement regarding early retirement has been made for the members of the Executive Board. The compensation for the termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

The amount of the pension liability for Board Member Matti Alahuhta (served as President & CEO until March 31, 2014) included in the balance sheet is EUR 6.3 million at the end of the year 2017 and the monthly pension paid by KONE to him is EUR 21,723 (December 2017).

6.2 SHARE-BASED PAYMENTS

Share-based incentive plan

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

As part of the previous share-based incentive plan a total of 483,448 KONE class B shares were granted in April 2017 to the management as a reward due to the achievement of the targets for the year 2016. During year 2017 a total of 5,035 of those KONE class B shares were returned to KONE Corporation. In April 2018, a total of 372,560 class B shares will be granted to the senior management as a reward due to the achievement of the targets for the year 2017. To the other key personnel of KONE the total reward from the year 2017 is based on the value of 354,610 KONE class B shares to be delivered in January 2020 and reduced by such an amount of shares to be equivalent to the taxes and similar charges that are incurred by the receipt of shares.

Options

KONE Corporation had three option programs during the financial period 2017. The purpose of the stock options is to encourage long-term efforts by key personnel to increase shareholder value and their commitment to the company by offering them an internationally competitive incentive program. The company´s Board Members, President & CEO, members of the Executive Board and other key personnel covered by KONE's share-based incentive programs other than option programs earlier than year 2016 are not included in the option plans.

Stock options 2013 were granted according to the decision of the Board of Directors on January 24, 2013 to approximately 480 key employees. The decision was based on the authorization received from the Shareholders' Meeting on March 1, 2010. A maximum total of 750,000 options were granted. Each stock option entitles its holder to subscribe for two (2) new class B KONE shares. The share subscription period for the stock options 2013 was April 1, 2015–April 30, 2017. The share subscription period began on April 1, 2015 and the 2013 stock options were listed on the Nasdaq Helsinki stock exchange on April 1, 2015, as the financial performance of the KONE Group for the financial years 2013–2014 based on the total consideration of the Board of Directors was equal to or better than the average performance of key competitors of KONE. The amount of KONE class B shares subscribed with the 2013 option rights during 2017 was 514,278. The subscription price paid totaled EUR 11.5 million during year 2017.

Stock options 2014 were granted according to the decision of the Board of Directors on December 20, 2013 to approximately 530 key employees and the decision was based on the authorization received from the Shareholders' Meeting on March 1, 2010. A maximum total of 1,500,000 options were granted. Each option entitles its holder to subscribe for one (1) new class B KONE share. The share subscription period for the stock options 2014 is April 1, 2016–April 30, 2018. The share subscription period began on April 1, 2016 and the 2014 stock options were listed on the Nasdaq Helsinki stock exchange on April 1, 2016, as the financial performance of the KONE Group for the financial years 2014–2015 based on the total consideration of the Board of Directors was equal to or better than the average performance of the key competitors of KONE. The amount of KONE class B shares subscribed with the 2014 option rights during 2017 was 484,172. The subscription price paid totaled EUR 12.9 million during year 2017. The original share subscription price for the stock option was EUR 31.80 per share and it is further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. The effective subscription price as per December 31, 2017 is EUR 26.65.

Stock options 2015 are granted according to the decision of the Board of Directors on December 18, 2014 to approximately 560 key employees and the decision was based on the authorization received from the Shareholders' Meeting on March 1, 2010. A maximum total of 1,500,000 options are granted. Each option entitles its holder to subscribe for one (1) new or existing company's own class B KONE share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019. The share subscription period began on April 1, 2017 and the 2015 stock options were listed on the Nasdaq Helsinki stock exchange on April 1, 2017, as the financial performance of the KONE Group for the financial years 2015–2016 based on the total consideration of the Board of Directors was equal to or better than the average performance of the key competitors of KONE. The amount of KONE class B shares subscribed with the 2015 option rights during 2017 was 13,075. The subscription price paid totaled EUR 0.4 million during year 2017. The original share subscription price for the stock option was EUR 36.20 per share and it is further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. The effective subscription price as per December 31, 2017 is EUR 32.05.

Options	Options granted to employees	Unexercised options	Options held by the subsidiary Dec 31, 2017	Number of class B shares that can be subscribed for with the option	Share subscription price, EUR	Share subscription period
2013	695,000	-	-	2	22.45	1 April, 2015–30 April, 2017
2014	1,367,000	869,698	133,000	1	26.65	1 April, 2016–30 April, 2018
2015	1,409,000	1,355,925	131,000	1	32.05	1 April, 2017–30 April, 2019
Total	3,471,000	2,225,623	264,000			

Changes in the number of options outstanding	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Number of options outstanding, Jan 1	3,020,009	3,577,858
Granted options	0	0
Returned options	-40,000	-170,000
Expired options	0	0
Exercised options	-754,386	-387,849
Number of options outstanding, Dec 31	2,225,623	3,020,009
Exercisable options, Dec 31	2,225,623	1,611,009

The value of the option program is calculated using the Black-Scholes option pricing model. The parameters used in defining the fair value of the option program are:

	2015	2014	2013 *)
Share price at the date of issue, EUR *)	37.37	32.40	58.50
Original subscription price, EUR *)	36.20	31.80	58.25
Duration (years)	4.4	4.4	4.3
Expected volatility, %	24	24	24
Risk-free interest rate, %	0.6	1.9	1.6
Fair value of option at the date of issue, EUR	8.44	7.83	13.13

*) Not adjusted for the share split (1:2) of December 2013 for stock option program 2013.

The share subscription price is reduced by the amount of dividends decided before the share subscription at the record date of each dividend distribution.

Accounting principles

Share-based payments

The fair value of the options granted to the key employees has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the options that are expected to be vested by the end of the vesting period. The fair value of the options granted is determined by the Black-Scholes pricing model. The impact of any non-market vesting conditions (sales growth and EBIT development) has been excluded, but they are included in the assumptions about the number of options that are expected to become exercisable. At each consolidated statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates is recognized in the statement of income. When options are exercised and new shares given, the impacts of changes in the share capital which exceed the accounting par value of the shares are included in the paid-up unrestricted equity reserve. If treasury shares are used in subscriptions with option rights, the subscription price is included in the paid-up unrestricted equity reserve.

KONE has two separate share-based incentive plans to the senior management of KONE and other key personnel. Pursuant to the share ownership plans, the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of any non-market vesting conditions (sales and EBIT development) has been excluded, but they are included in assumptions about the number of shares that are expected to be distributed. At each statement of financial position date, the Group revises its estimates of the number of shares that are expected to be distributed. It recognizes the impact of the revision of original estimates in the statement of income. The fair value of the share-based payments settled with cash has been determined so that it covers taxes and taxable benefit costs that are incurred. The liability shall be measured, initially and at each reporting date until settled, based on the fair value of the shares expected to be distributed and expensed based on the extent to which the employees have rendered service to date. KONE recognizes the impact of the revision of original estimates, if any, in the statement of income.

Share-based payments

Share-based payments recognized as an expense in the statements of income, MEUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
To be paid in shares	17.1	17.0
To be paid in cash	19.0	16.4

Shares and shareholders

KONE SHARE

KONE has two classes of shares: A and B. Only B-class shares are listed on the Nasdaq Helsinki Ltd. Trading of the KONE class B shares started on January 2, 1967.

Voting rights

Each KONE class A share is assigned one vote, as is each block of 10 class B shares, with the proviso that each shareholder is entitled to at least one vote.

Dividend policy

KONE has not adopted a specific dividend policy. In the case of a dividend distribution, the dividend paid on the class B share is higher than that on the class A share.

The difference between the dividends is at minimum one (1) percent and at maximum two-and-a-half (2.5) percent, calculated from the accounting par value of the share. The accounting par value of the share is EUR 0.125.

Closing price (EUR)

December 31, 2017	44.78
December 31, 2016	42.57
Change	+5.2%

Share notations (EUR)

High	47.70
Low	39.77
Volume-weighted average price	43.73

KONE corporation's share capital consists of the following:

	Number of shares	Par value, EUR
Class A	76,208,712	9,526,089
Class B	450,971,695	56,371,462
Total	527,180,407	65,897,551

	KONE class B share	KONE 2014 option rights	KONE 2015 option rights
Trading code, Nasdaq Helsinki Ltd. in Finland	KNEBV	KNEBVEW114	KNEBVEW115
ISIN code	FI0009013403	FI4000197918	FI4000243605
Accounting par value	EUR 0.125		
Conversion rate		1:1	1:1

Market capitalization

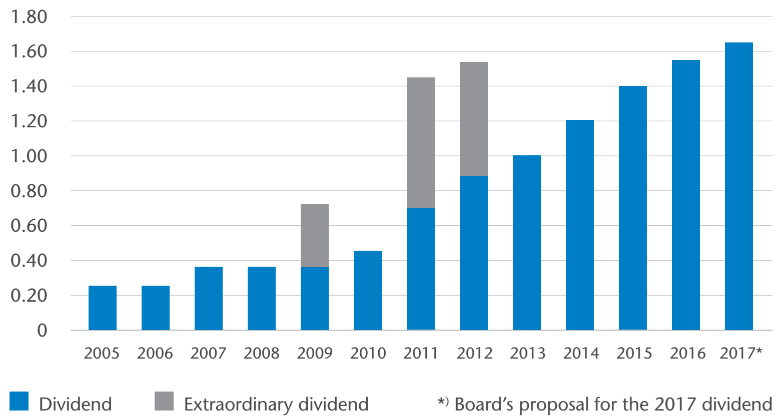
on December 31, 2017

EUR 23,052 million

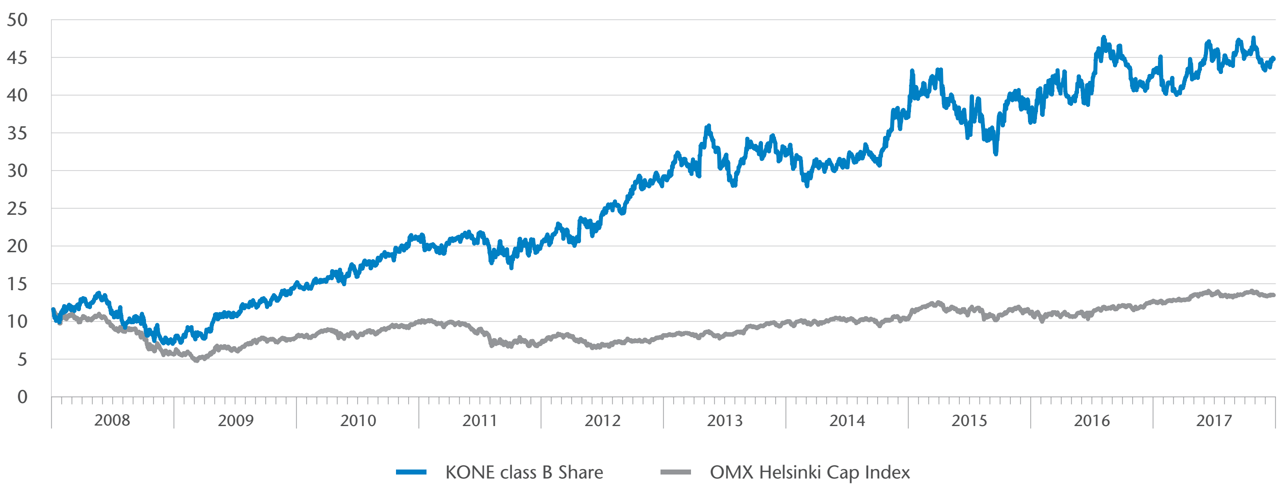
Dividend proposal

EUR 1.65 per class B share

KONE class B dividend per share, 2005–2017, EUR

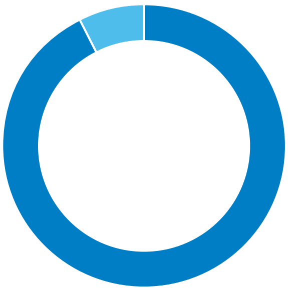


KONE class B share price development Jan 1, 2008–Dec 31, 2017, EUR

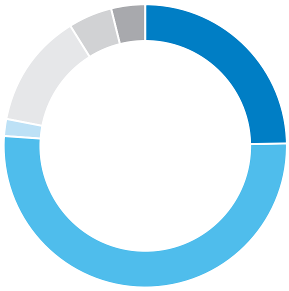


SHAREHOLDERS

Class A shares, %



Class B shares, %



*) Includes foreign-owned shares registered by Finnish nominees.

SHAREHOLDINGS ON DEC 31, 2017 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	5,452	8.92	32,294	0.01
11 – 100	23,465	38.37	1,214,990	0.23
101 – 1,000	24,449	39.98	9,059,530	1.72
1,001 – 10,000	6,843	11.19	19,267,344	3.65
10,001 – 100,000	815	1.33	21,331,990	4.05
100,001 –	115	0.19	476,231,923	90.34
Total	**61,139**	**100.00**	**527,138,071**	**99.99**
Shares which have not been transferred to the paperless book entry system			42,336	0.01
Total		**100.00**	**527,180,407**	**100.00**

MAJOR SHAREHOLDERS ON DEC 31, 2017

		A-series	B-series	Total	% of shares	% of votes
1	**Herlin Antti**	70,561,608	45,845,472	116,407,080	22.08	61.95
	Holding Manutas Oy 1)	54,284,592	36,174,254	90,458,846	17.16	47.74
	Security Trading Oy 2)	16,277,016	7,983,016	24,260,032	4.6	14.08
	Herlin Antti	0	1,688,202	1,688,202	0.32	0.14
2	**Polttina Oy**	0	17,271,928	17,271,928	3.28	1.42
3	**Wipunen varainhallinta Oy**	0	16,350,000	16,350,000	3.1	1.35
4	**Riikantorppa Oy**	0	16,000,000	16,000,000	3.04	1.32
5	**KONE Foundation**	5,647,104	9,859,632	15,506,736	2.94	5.47
6	**KONE Oyj**	0	12,402,796	12,402,796	2.35	1.02
7	**Blåberg Olli Edvard**	0	4,270,000	4,270,000	0.81	0.35
8	**Ilmarinen Mutual Pension Insurance Company**	0	4,181,537	4,181,537	0.79	0.35
9	**Varma Mutual Pension Insurance Company**	0	4,070,076	4,070,076	0.77	0.34
10	**The State Pension Fund**	0	3,550,000	3,550,000	0.67	0.29
	10 largest shareholders total	76,208,712	133,801,441	210,010,153	39.84	73.86
	Foreign shareholders 3)	0	232,381,853	232,381,853	44.08	19.16
	Repurchased own shares	0	12,402,796	12,402,796	2.35	1.02
	Others	0	72,385,605	72,385,605	13.73	5.96
Total		**76,208,712**	**450,971,695**	**527,180,407**	**100.00**	**100.00**

The list of ten major shareholders includes the major shareholders with a Finnish book-entry account.

1) Antti Herlin's ownership of Holding Manutas represents 1.1 percent of the shares and 12.8 percent of the voting rights and together with the ownership of Security Trading, company in which he exercises controlling power, his ownership represents 51.0 percent of the shares and 62.7 percent of the voting rights.

2) Antti Herlin's ownership in Security Trading Oy represents 99.9 percent of the shares and 99.8 percent of the voting rights. The shareholding of Security Trading Oy amounts to 8,183,016 KONE Corporation's class B shares, when taking into account 200,000 shares that have been stock loaned.

3) Foreign ownership including foreign-owned shares registered by Finnish nominees.

Shareholdings of the Chairman and Members of the Board of Directors

On December 31, 2017, KONE Corporation's Chairman and Members of the Board of Directors owned 70,561,608 class A and 47,054,708 class B shares, representing approximately 22.3% of the total number of shares and 62.0% of the total votes.

Shareholdings of the Chairman and Members of the Board of Directors is available on page 83.

KEY FIGURES PER SHARE, JAN 1–DEC 31

	2017	2016	2015	2014	2013
Basic earnings per share, EUR	1.89	2.00	2.01	1.47	1.37
Diluted earnings per share, EUR	1.88	1.99	2.00	1.47	1.36
Basic earnings per share, EUR, adjusted [1]	-	-	1.79	-	-
Equity per share, EUR	5.62	5.42	4.94	3.93	3.30
Dividend per class B share, EUR [3]	1.65 [2]	1.55	1.40	1.20	1.00
Dividend per class A share, EUR [3]	1.6475 [2]	1.5475	1.3975	1.1975	0.9975
Dividend per earnings, class B share, %	87.5 [2]	77.5	69.7	81.5	73.0
Dividend per earnings, class A share, %	87.4 [2]	77.4	69.6	81.3	72.8
Effective dividend yield, class B share, %	3.7 [2]	3.6	3.6	3.2	3.0
Price per earnings, class B share	23.75	21.29	19.49	25.68	23.96
Market value of class B share, average, EUR	43.73	41.47	38.29	31.83	31.60
- at end of period, EUR	44.78	42.57	39.17	37.82	32.80
Market capitalization at end of period, MEUR [3]	23,052	21,851	20,101	19,429	16,816
Number of class A shares at end of period, (1,000s)	76,209	76,209	76,209	76,209	76,209
Weighted average number of class A shares, (1,000s)	76,209	76,209	76,209	76,209	76,209
Number of class B shares at end of period, (1,000s) [3]	438,569	437,076	436,957	437,518	436,474
Weighted average number of class B shares, (1,000s) [4]	438,628	437,928	438,958	438,794	438,831
Weighted average number of shares, (1,000s) [4]	514,837	514,137	515,167	515,002	515,040

All share-related figures adjusted for the share split (1:2) done in December 2013.

1) 2015: Excluding an EUR 118.2 million extraordinary dividend from TELC.
2) Board's proposal
3) Reduced by the number of repurchased own shares. Class A shares are valued at the closing price of the class B shares.
4) Adjusted for share issue and share option and share-based incentive plan dilution, and reduced by the number of repurchased own shares.

$$\text{Basic earnings/share} = \frac{\text{net income attributable to the shareholders of the parent company}}{\text{issue and conversion-adjusted weighted average number of shares - repurchased own shares}}$$

$$\text{Equity/share} = \frac{\text{total shareholders' equity}}{\text{number of shares (issue adjusted) - repurchased own shares}}$$

$$\text{Dividend/share} = \frac{\text{dividend payable for the accounting period}}{\text{issue and conversion-adjusted weighted average number of shares - repurchased own shares}}$$

$$\text{Dividend/earnings (\%)} = 100 \times \frac{\text{dividend/share}}{\text{earnings/share}}$$

$$\text{Effective dividend yield (\%)} = 100 \times \frac{\text{dividend/share}}{\text{price of class B shares at end of accounting period}}$$

$$\text{Price/earnings} = \frac{\text{price of class B shares at end of accounting period}}{\text{earnings/share}}$$

$$\text{Average price} = \frac{\text{total EUR value of all class B shares traded}}{\text{average number of class B shares traded during the accounting period}}$$

Market value of all outstanding shares = the number of shares [1] (A + B) at end of accounting period x the price of class B shares at end of accounting period

Shares traded = number of class B shares traded during the accounting period

$$\text{Shares traded (\%)} = 100 \times \frac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$$

1) Excluding repurchased own shares. Class A shares are valued at the closing price of the class B shares.

Key figures and financial development

Consolidated statement of income, Jan 1–Dec 31	2017	2016	2015	2014	2013
Sales, MEUR	8,942	8,784	8,647	7,334	6,933
- sales outside Finland, MEUR	8,762	8,594	8,486	7,183	6,807
Operating income, MEUR	1,217	1,293	1,241	1,036	953
- as percentage of sales, %	13.6	14.7	14.4	14.1	13.8
Operating income, adjusted, MEUR [1]	1,230	1,293	1,241	1,036	953
- as percentage of sales, % [1]	13.8	14.7	14.4	14.1	13.8
Income before taxes, MEUR	1,275	1,330	1,364	1,016	960
- as percentage of sales, %	14.3	15.1	15.8	13.9	13.9
Net income, MEUR	975	1,023	1,053	774	713

Consolidated statement of financial position, MEUR	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Non-current assets	2,373	2,489	2,361	2,169	1,938
Current assets	5,364	5,463	5,144	4,191	3,405
Total equity	2,907	2,796	2,575	2,062	1,725
Non-current liabilities	483	534	343	321	262
Provisions	142	183	174	137	139
Current liabilities	4,205	4,438	4,414	3,839	3,217
Total assets	7,738	7,951	7,506	6,360	5,343
Interest-bearing net debt [2]	-1,690	-1,688	-1,513	-912	-622
Assets employed	1,217	1,108	1,063	1,151	1,103
Net working capital [2]	-876	-1,055	-983	-750	-612
Inventories, net of advance payments received	-562	-603	-503	-417	-294

Other data, Jan 1–Dec 31	2017	2016	2015	2014	2013
Orders received, MEUR	7,554	7,621	7,959	6,813	6,151
Order book, MEUR	8,240	8,592	8,210	6,952	5,587
Cash flow from operations before financing items and taxes, MEUR	1,263	1,509	1,474	1,345	1,213
Capital expenditure excluding acquisitions, MEUR	116	127	93	88	74
- as percentage of sales, %	1.3	1.5	1.1	1.2	1.1
Expenditure for research and development, MEUR	158	141	122	103	96
- as percentage of sales, %	1.8	1.6	1.4	1.4	1.4
Average number of employees	53,417	50,905	48,469	45,161	41,139
Number of employees at end of period	55,075	52,104	49,734	47,064	43,298
Employee costs	2,725	2,634	2,446	2,100	1,984

Key ratios, %, Jan 1–Dec 31	2017	2016	2015	2014	2013
Return on equity	34.2	38.1	45.4	40.9	40.1
Return on capital employed	30.4	34.1	41.7	37.7	36.3
Equity ratio	49.0	46.8	45.4	43.6	43.7
Gearing	-58.1	-60.4	-58.7	-44.2	-36.1

All share-related figures adjusted for the share split (1:2) done in December 2013.

[1] 2017: Excluding significant restructuring costs arising from redundancy and other costs directly associated to the Accelerate program.
[2] Items included are presented on page 22.

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.

	2017	2016	2015	2014	2013
Operating income, MEUR	1,217.1	1,293.3	1,241.5	1,035.7	953.4
Operating income margin, %	13.6	14.7	14.4	14.1	13.8
Items impacting comparability, MEUR	13.2	-	-	-	-
Adjusted EBIT, MEUR	1,230.3	1,293.3	1,241.5	1,035.7	953.4
Adjusted EBIT margin %, %	13.8	14.7	14.4	14.1	13.8

Calculation of key figures

Average number of employees = the average number of employees at the end of each calendar month during the accounting period

Return on equity (%) $= 100 \times \dfrac{\text{net income}}{\text{total equity (average of the figures for the accounting period)}}$

Return on capital employed (%) $= 100 \times \dfrac{\text{net income + financing expenses}}{\text{equity + interest-bearing-debt (average of the figures for the accounting period)}}$

Equity ratio (%) $= 100 \times \dfrac{\text{total equity}}{\text{total assets - advance payments received}}$

Gearing (%) $= 100 \times \dfrac{\text{interest-bearing net debt}}{\text{total equity}}$

Assets employed = net working capital + goodwill + intangible assets + property, plant and equipment + investments in associated companies + shares and other non-current financial assets

Parent company statement of income

EUR	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Sales	1	621,061,408.55	615,293,683.74
Other operating income	2	9,671,765.57	14,615,917.52
Materials and services		-2,328,883.71	-3,070,021.24
Personnel expenses	3	-111,196,413.57	-96,386,840.87
Depreciation and amortization	4	-15,639,564.29	-13,656,927.42
Other operating expenses	5	-337,497,075.77	-303,197,559.73
Operating income		164,071,236.78	213,598,252.00
Financing income and expenses	6	909,392,380.94	657,802,108.57
Income before appropriations and taxes		1,073,463,617.72	871,400,360.57
Appropriations	7	43,026,346.49	50,202,675.38
Income taxes		-61,515,000.19	-45,513,735.69
Deferred taxes		-364,724.45	-5,715,725.42
Net income		1,054,610,239.57	870,373,574.84

Parent company statement of financial position

Assets, EUR	Note	Dec 31, 2017	Dec 31, 2016
Non-current assets			
Intangible assets	8	24,793,418.21	26,033,693.00
Property, plant and equipment	9	37,247,988.84	34,674,422.39
Investments			
Subsidiary shares	10	3,101,687,644.51	3,101,994,678.96
Other shares	11	2,458,313.53	2,460,313.53
		3,104,145,958.04	3,104,454,992.49
Total non-current assets		3,166,187,365.09	3,165,163,107.88
Current assets			
Long-term receivables	12		
Loans receivable		288,201,972.82	4,195,384.60
		288,201,972.82	4,195,384.60
Short-term receivables	13		
Accounts receivable		100,395,362.37	49,229,220.10
Loans receivable		645,974,457.65	614,991,884.78
Deferred tax assets		3,513,515.63	2,856,240.08
Other receivables		20,161,177.34	6,204,209.82
Deferred assets		165,951,830.76	200,066,393.80
		935,996,343.75	873,347,948.58
Financial investments		1,238,319,601.37	1,281,332,678.21
Cash and cash equivalents		191,129,258.83	211,719,944.69
Total current assets		2,653,647,176.77	2,370,595,956.08
Total assets		5,819,834,541.86	5,535,759,063.96

Equity and liabilities, EUR	Note	Dec 31, 2017	Dec 31, 2016
Equity			
Share capital		65,897,550.89	65,771,110.26
Share premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		198,898,316.07	159,080,452.89
Retained earnings		941,984,996.16	867,012,248.09
Net income		1,054,610,239.57	870,373,574.84
Total equity	14	2,361,719,167.27	2,062,565,450.66
Cumulative accelerated depreciation		9,571,002.53	7,797,349.02
Appropriations		9,571,002.53	7,797,349.02
Provisions	15	3,375,680.01	2,984,205.92
Liabilities			
Non-current liabilities	16		
Loans		708,347,158.22	1,451,233,866.11
		708,347,158.22	1,451,233,866.11
Current liabilities	17		
Accounts payable		71,383,509.04	67,991,410.43
Loans		2,525,063,054.23	1,797,340,910.21
Deferred tax liabilities		1,022,000.00	0.0
Other liabilities		17,069,514.97	11,831,782.83
Accruals		122,283,455.59	134,014,088.78
		2,736,821,533.83	2,011,178,192.25
Total liabilities		3,445,168,692.05	3,462,412,058.36
Total equity and liabilities		5,819,834,541.86	5,535,759,063.96

Parent company cash flow statement

EUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash receipts from customers	644,362,307.09	623,045,926.38
Cash receipts from other operative income	9,667,016.72	14,505,177.52
Cash paid to suppliers and employees	-503,151,009.04	-385,316,311.07
Financing items	846,951,349.01	662,433,580.37
Taxes paid	-56,630,588.35	-31,942,058.21
Other financing items	62,333,058.69	-13,663,536.26
Cash flow from operating activities	1,003,532,134.12	869,062,778.73
Capital expenditure	-17,163,661.10	-19,500,483.51
Proceeds from sales of fixed assets	2,600.00	210,984.44
Subsidiary investments	-9,000.00	-12,000,000.00
Cash flow from investing activities	-17,170,061.10	-31,289,499.07
Purchase of own shares	-	-39,266,995.96
Increase in equity (option rights)	24,867,778.65	18,356,778.00
Net change in short-term debt	87,055,703.48	94,709,860.57
Net change in long-term debt	-102,220,267.35	117,706,692.57
Profit distribution	-795,400,826.77	-718,241,556.22
Group contributions received	50,700,000.00	44,000,000.00
Other financing items	-271,955,146.89	-459,303,316.66
Cash flow from financing activities	-1,006,952,758.88	-942,038,537.70
Change in cash and cash equivalents	-20,590,685.86	-104,265,258.04
Cash and cash equivalents, Jan 1	211,719,944.69	315,985,202.73
Cash and cash equivalents, Dec 31	191,129,258.83	211,719,944.69
Change in cash and cash equivalents	-20,590,685.86	-104,265,258.04
Reconciliation of net income to the cash flow from operating activities		
Net income	1,054,610,239.57	870,373,574.84
Depreciation and amortization	15,639,564.29	13,656,927.42
Other adjustments	-32,070,581.73	-42,233,899.92
Income before change in working capital	1,038,179,222.13	841,796,602.34
Change in receivables	-27,825,822.30	-1,630,767.81
Change in liabilities	-6,821,265.71	28,896,944.20
Cash flow from operating activities	1,003,532,134.12	869,062,778.73

Accounting principles of the parent company financial statements

The parent company financial statements have been prepared according to the Finnish Accounting Standards. Financial statements have been prepared for the period of 12 months between January 1 and December 31, 2017.

Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the individual transaction. Foreign currency denominated receivables and liabilities are translated using the period end exchange rates.

Foreign exchange gains and losses associated with loans, deposits and other statement of financial position items are included under financing income and expenses.

Derivative instruments

Derivate financial instruments that are used to hedge the currency and the interest rate risks as well as to hedge the commodity risk related to the electricity price risk are initially and subsequently recognized at fair value in the statement of financial position. The fair values of foreign exchange forward contracts are calculated by discounting the future cash flows of the contracts with the relevant market interest rate yield curves on the valuation date and by calculating the difference between the discounted values in euros. The fair values of cross currency swaps are determined by discounting the expected future cash flows of the contracts with the market interest rate yield curves of the currencies concerned. The fair value of electricity price forwards is based on electricity stock exchange prices on the valuation date. The fair values of derivative financial instruments are presented in note 19.

Changes in the fair values of foreign exchange derivatives are recognized in financing income and expenses if the hedged item is a loan receivable, deposit or a financial asset or liability denominated in a foreign currency. Fair value changes of electricity price forwards designated as hedges against future electricity purchases are recognized in the income statement as adjustment items to purchases.

Revenue recognition

Revenues related to the utilization of intangible property rights are recognized as sales on an accrual basis, according to the existing contracts. The sales of services are recognized as sales when the services have been rendered or when the work is being carried out.

Research and development cost

Research and development costs are expensed as they incur.

Pensions

An external pension insurance company manages the parent company statutory pension plan. Contributions to the pension plan are charged directly to the statement of income in the year to which these contributions relate.

Leases

Leasing payments are charged to the statement of income on a straight-line basis over the leasing term. Remaining future leasing liabilities from existing contracts are presented in note 18.

Taxes

Tax expense includes taxes based on taxable income for the period, together with tax adjustments for previous periods and changes in deferred taxes. Deferred taxes are provided for temporary differences arising between the tax basis of assets and liabilities and their book values in financial reporting, and measured with enacted tax rates.

Deferred tax liabilities arising from temporary differences are fully recognized with prudency, whereas the deferred tax assets are recognized only to the extent of the probable future tax benefit.

Non-current assets

Intangible assets and property, plant and equipment are stated at the cost less accumulated depreciation and amortization. Depreciation and amortization is recorded on a straight-line basis over the economic useful lives of the assets as follows:

Buildings	5–40 years
Machinery and equipment	4–10 years
Other long-term expenditure	4–10 years

Land is not depreciated.

Investments in subsidiaries and other companies are measured at cost, or fair value in case the fair value is less than cost.

Provisions

Future costs in which the parent company has committed to and which probably will not contribute in future revenues are recognized in provisions.

Financial risk management

Parent company business activities are exposed to financial risks such as foreign exchange risks, interest rate risks, liquidity risks and credit risks. These financial risks are managed in accordance with the KONE Treasury Policy. Parent company financials risks are not significantly different from the group's financials risks, see notes 2.4 and 5.3.

Cash and cash equivalents

Cash and cash equivalents includes cash-in-hand and bank account balances. Used bank overdrafts are included in other current liabilities.

Share-based payments

KONE has two separate share-based incentive plans to the senior management of KONE and other key personnel. Pursuant to the share ownership plans, the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the company's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of any non-market vesting conditions (sales and EBIT development) has been excluded, but they are included in assumptions about the number of shares that are expected to be distributed. At each statement of financial position date, the company revises its estimates of the number of shares that are expected to be distributed. It recognizes the impact of the revision of original estimates in the statement of income. The fair value of the share-based payments settled with cash has been determined so that it covers taxes and taxable benefit costs that are incurred. The liability shall be measured, initially and at each reporting date until settled, based on the fair value of the shares expected to be distributed and expensed based on the extent to which the employees have rendered service to date. KONE recognizes the impact of the revision of original estimates, if any, in the statement of income.

Notes to the parent company financial statements

Notes to the statement of income

1. SALES

Sales to subsidiaries was 621,061.4 (615,293.7) thousand euros, which relates to revenues for the utilization of intellectual property rights.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Subsidies received	1,152.9	1,958.6
Recharged energy	1,657.0	2,561.4
Service charges	1,610.7	2,457.7
Others	5,251.1	7,638.2
Total	9,671.8	14,615.9

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Wages and salaries	94,212.1	81,740.3
Pension costs	13,935.2	11,249.6
Other employment expenses	3,049.1	3,396.9
Total	111,196.4	96,386.8

In 2017, the salaries and fees paid to the President & CEO and to the Board of Directors were together 5,959.7 (6,265.3) thousand euros. Average number of staff employed by the parent company was 951 during the financial year (848).

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Intangible rights	447.7	483.3
Other long term expenditure	10,338.8	9,548.9
Buildings	1,053.8	599.8
Machinery and equipment	3,799.2	3,024.9
Total	15,639.6	13,656.9

5. AUDITORS' FEES

EUR 1,000	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Audit	734.8	452.6
Auditors' statements	13.4	15.6
Tax advise	-	-
Other services	12.1	362.6
Total	760.3	830.8

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Dividend income from subsidiaries	813,057.4	666,254.6
Other dividends received	2.0	0.5
Interest income from subsidiaries	2,565.5	2,094.5
Interest income from others	56,587.9	36,468.0
Interest expenses to subsidiaries	-26,110.9	-27,759.6
Interest expenses to others	-2,245.4	-8,010.8
Other financing income and expenses	65,535.9	-11,245.1
Total	909,392.4	657,802.1

7. APPROPRIATIONS

EUR 1,000	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cumulative accelerated depriciation change	-1,773.7	-497.3
Group contributions received	44,800.0	50,700.0
Total	43,026.3	50,202.7

Notes to the statement of financial position

8. INTANGIBLE ASSETS

Jan 1–Dec 31, 2017, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2017				
Acquisition cost	4,142.8	105,289.9	1,269.1	110,701.8
Accumulated amortization and impairment	-2,810.9	-81,857.3	-	-84,668.2
Net book value	1,331.9	23,432.6	1,269.1	26,033.6
Opening net book value	1,331.9	23,432.6	1,269.1	26,033.6
Increase	170.8	7,601.1	2,031.4	9,803.2
Decrease	-	-256.9	-	-256.9
Reclassifications	-	1,434.1	-1,434.1	0.0
Amortization	-447.7	-10,338.8	-	-10,786.6
Closing net book value	1,055.0	21,872.0	1,866.4	24,793.3
Dec 31, 2017				
Acquisition cost	4,313.6	112,886.7	1,866.4	119,066.7
Accumulated amortization and impairment	-3,258.6	-91,014.6	-	-94,273.3
Net book value	1,055.0	21,872.1	1,866.4	24,793.4

Jan 1–Dec 31, 2016, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2016				
Acquisition cost	3,980.8	98,812.0	2,469.1	105,261.9
Accumulated amortization and impairment	-2,327.6	-75,960.7	-	-78,288.3
Net book value	1,653.2	22,851.3	2,469.1	26,973.6
Opening net book value	1,653.2	22,851.3	2,469.1	26,973.6
Increase	162.0	8,930.0	-	9,092.0
Decrease	-	-		-
Reclassifications	-	1,200.0	-1,200.0	-
Amortization	-483.3	-9,548.6	-	-10,031.9
Closing net book value	1,331.9	23,432.7	1,269.1	26,033.7
Dec 31, 2016				
Acquisition cost	4,142.8	105,289.9	1,269.1	110,701.9
Accumulated amortization and impairment	-2,810.9	-81,857.3	-	-84,668.2
Net book value	1,331.9	23,432.7	1,269.1	26,033.7

9. PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2017, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2017					
Acquisition cost	182.3	16,823.7	30,627.2	11,040.4	58,673.7
Accumulated depreciation	-	-6,203.1	-17,796.1	-	-23,999.2
Net book value	182.3	10,620.6	12,831.1	11,040.4	34,674.4
Opening net book value	182.3	10,620.6	12,831.1	11,040.4	34,674.4
Increase	-	1,980.8	5,523.4	23.3	7,527.5
Decrease	-	-9.6	-91.3	-	-100.9
Reclassifications	-	11,016.4	24.0	-11,040.4	-
Depreciation	-	-1,055.3	-3,797.6	-	-4,853.0
Closing net book value	182.3	22,552.9	14,489.5	23.3	37,248.0
Dec 31, 2017					
Acquisition cost	182.3	29,797.3	34,686.2	23.3	64,689.1
Accumulated depreciation	-	-7,244.5	-20,196.6	-	-27,441.1
Net book value	182.3	22,552.9	14,489.5	23.3	37,248.0

Jan 1–Dec 31, 2016, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2016					
Acquisition cost	182.3	16,835.9	37,061.4	7,039.1	61,118.7
Accumulated depreciation	-	-6,036.1	-26,962.2	-	-32,998.3
Net book value	182.3	10,799.8	10,099.2	7,039.1	28,120.4
Opening net book value	182.3	10,799.8	10,099.2	7,039.1	28,120.4
Increase	-	83.0	5,900.6	4,339.0	10,322.6
Decrease	-	-0.1	-143.4	-	-143.5
Reclassifications	-	337.6	-	-337.6	-
Depreciation	-	-599.8	-3,025.2	-	-3,625.0
Closing net book value	182.3	10,620.6	12,831.1	11,040.4	34,674.4
Dec 31, 2016					
Acquisition cost	182.3	16,823.7	30,627.2	11,040.4	58,673.7
Accumulated depreciation	-	-6,203.1	-17,796.1	-	-23,999.2
Net book value	182.3	10,620.6	12,831.1	11,040.4	34,674.4

10. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2017	Dec 31, 2016
Acquisition cost, Jan 1	3,101,994.7	3,088,037.4
Increase	9.0	14,010.0
Decrease	-316.0	-52.7
Reclassifications	-	-
Net book value, Dec 31	3,101,687.6	3,101,994.7

11. OTHER SHARES

EUR 1,000	Dec 31, 2017	Dec 31, 2016
Acquisition cost, Jan 1	2,460.3	2,374.3
Increase	-	86.0
Decrease	-2.0	-
Reclassifications	-	-
Net book value, Dec 31	2,458.3	2,460.3

12. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2017	Dec 31, 2016
Loans receivable from subsidiaries	287,502.0	4,195.4
Loans receivable from externals	700.0	0.0
Long-term receivables	288,202.0	4,195.4

13. SHORT-TERM RECEIVABLES

Receivables from subsidiaries, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Accounts receivable	99,989.0	48,889.5
Loans receivable	645,974.5	614,991.9
Deferred assets	119,293.1	150,001.1
Total	865,256.5	813,882.5

Receivables from externals, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Accounts receivable	406.4	339.7
Others	20,161.2	6,204.2
Deferred assets	46,658.7	50,065.2
Total	67,226.3	56,609.2
Deferred tax assets	3,513.5	2,856.2
Total short-term receivables	935,996.3	873,347.9

Deferred assets, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Derivative assets	36,745.4	55,728.6
Deferred income taxes	1,764.6	5,700.9
Unbilled revenue	64,042.4	67,518.5
Group contributions	44,800.0	50,700.0
Others	18,599.4	20,418.4
Total	165,951.8	200,066.4

14. EQUITY AND CHANGES IN EQUITY

EUR 1,000	Share capital	Share premium account	Paid-up unrestricted equity reserve	Own shares	Retained earnings	Net income for the period	Total
Book value Jan 1, 2017	65,771.1	100,328.1	159,080.5	-236,688.3	1,974,074.2		2,062,565.5
Profit distribution					-795,400.8		-795,400.8
Purchase of own shares							0.0
Option and share-based compensation	126.4		39,817.9	18,867.8	-18,867.8		39,944.3
Net income for the period						1,054,610.2	1,054,610.2
Net book value Dec 31, 2017	65,897.6	100,328.1	198,898.3	-217,820.5	1,159,805.5	1,054,610.2	2,361,719.2

Non-restricted equity includes the paid-up unrestricted equity reserve, retained earnings deducted by own shares and the profit for the financial year. The non-restricted equity was EUR 2,195,493,551.80 (1,896,466,275.85) at the end of the period.

EUR 1,000	Share capital	Share premium account	Paid-up unrestricted equity reserve	Own shares	Retained earnings	Net income for the period	Total
Book value Jan 1, 2016	65,675.8	100,328.1	140,702.7	-210,553.4	1,835,074.2		1,931,227.4
Profit distribution					-718,241.6		-718,241.6
Purchase of own shares				-39,267.0			-39,267.0
Option and share-based compensation	95.3		18,377.7	13,132.1	-13,132.1		18,473.0
Net income for the period						870,373.6	870,373.6
Net book value Dec 31, 2016	65,771.1	100,328.1	159,080.5	-236,688.3	1,103,297.2	870,373.6	2,062,565.5

15. PROVISIONS

EUR 1,000	Dec 31, 2017	Dec 31, 2016
Warranty provisions	3,375.7	2,984.2
Total	3,375.7	2,984.2

16. NON-CURRENT LIABILITIES

Liabilities to subsidiaries EUR 1,000	Dec 31, 2017	Dec 31, 2016
Liabilites falling due in 1–5 years	548,347.2	1,291,233.9
Liabilities falling due later than five years	-	-
Total	548,347.2	1,291,233.9

Liabilities to externals, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Liabilites falling due in 1–5 years	160,000.0	160,000.0
Liabilities falling due later than five years	-	-
Total	160,000.0	160,000.0
Total current liabilities	708,347.2	1,451,233.9

17. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Accounts payable	21,198.4	24,939.8
Loans	2,525,063.1	1,797,340.9
Accruals	57,220.7	45,252.3
Total	2 603,482.2	1,867,533.1

Liabilities to externals, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Accounts payable	50,185.1	43,051.6
Other liabilities	17,069.5	11,831.8
Accruals	65,062.7	88,761.8
Total	132,317.3	143,645.1
Deferred tax liabilities	1,022.0	0.0
Total current liabilities	2,736,821.5	2,011,178.2

Accruals, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Accrued wages, salaries and employment costs	22,616.3	20,683.2
Derivative liabilities	26,423.9	48,610.0
Others	73,243.3	64,721.0
Total	122,283.5	134,014.1

18. COMMITMENTS

EUR 1,000	Dec 31, 2017	Dec 31, 2016
Guarantees		
For subsidiaries	2,147,102.0	2,192,142.0
For others	98.0	3,203.2
Leasing commitments		
Due next year	6,216.0	5,432.1
Due over a year	13,365.0	15,446.6
Other commitments	2,990.6	2,922.0
Total	2,169,771.6	2,219,145.9

19. DERIVATIVES

Fair values of derivative instruments, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Foreign exchange forward contracts with external parties	19,217.5	-1,605.5
Foreign exchange forward contracts with subsidiaries	-8,630.6	9,160.4
Electricity derivatives	-265.1	-436.2
Total	10,321.8	7,118.7

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2017	Dec 31, 2016
Foreign exchange forward contracts with external parties	2,087,610.8	2,287,331.7
Foreign exchange forward contracts with subsidiaries	820,761.9	1,025,603.3
Electricity derivatives	950.6	1,601.9
Total	2,909,323.3	3,314,536.9

Derivatives are hedging transactions in line with KONE hedging policy and recognized at fair value. Derivatives are classified as financial assets at fair value through profit or loss. The majority of the foreign exchange forward contracts mature within a year. Electricity price forward contracts mature within a year.

The fair values of the foreign exchange forward contracts are measured based on the price information derived from the active markets and commonly used valuation methods. For electricity based on the stock exchange price.

More information about financial risks management is described in the notes 2.4 and 5.3 to the consolidated statements.

Subsidiaries and associated companies

SUBSIDIARIES, DEC 31, 2017

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Andorra	KONE Ascensors i Escales, S.A.	100	
Australia	KONE Elevators Employee Benefits Pty Limited	100	
	KONE Elevators Pty Limited	100	
	KONE Holdings (Australia) Limited	100	
Austria	Girula Beteiligungsverwaltungs GmbH	100	
	KONE AG	100	100
Bahrain	KONE Bahrain S.P.C.	0	
	KONE Elevators S.P.C.	0	
Belgium	KONE Belgium S.A.	100	99.99
	KONE International N.V.	100	99.99
Bosnia	KONE d.o.o. Sarajevo	100	
Bulgaria	KONE EOOD	100	100
Canada	KONE Inc.	100	
China	Giant Kone Elevator Co., Ltd.	100	40
	KONE Elevator (Shanghai) Co., Ltd.	100	
	KONE Elevators Co., Ltd.	100	
	Kunshan KONE Industrial Machinery Co., Ltd.	100	100
Croatia	KONE d.o.o.	100	
Cyprus	Gelco Lifts Ltd	100	
	KONE Elevators Cyprus Limited	100	100
Czech Republic	KONE a.s.	100	100
	KONE Industrial koncern s.r.o.	100	100
Denmark	KONE A/S	100	100
Egypt	KONE LLC	100	
Estonia	AS KONE	100	100
Finland	Finescal Oy	100	100
	Gigalock Oy	100	
	KONE Capital Oy	100	100
	KONE Care Oy	100	
	KONE Export Oy	100	
	KONE Hissit Oy	100	100
	KONE Industrial Oy	100	100
France	Ascenseurs Soulier S.N.C.	100	
	ATS-ATPE S.A.S.	99.8	
	Delta Ascenseurs S.A.R.L.	100	
	KONÉ Développement S.N.C.	100	
	KONÉ Holding France S.A.S.	100	100
	KONÉ S.A.	99.97	
	Prokodis S.A.S.	100	
	Société en Participation KONE ATS	100	
Germany	Alois Kasper GmbH	100	
	Janzhoff Aufzüge GmbH	100	
	Klostermann Aufzüge GmbH	100	
	KONE Automatiktüren GmbH	100	
	KONE Escalator Supply Center Europe GmbH	100	
	KONE Garant Aufzug GmbH	100	
	KONE GmbH	100	
	KONE Holding GmbH	100	
	KONE Montage GmbH	100	
	KONE Servicezentrale GmbH	100	
	SK-Fördertechnik GmbH	100	
	WBM Ostfalen-Aufzüge GmbH	100	

		Shareholding %	
Country/Region	Company	Group	Parent company
Germany	WM Wahl Menzel Aufzugsdienst GmbH	100	
Greece	KONE S.A	100	
Hong Kong	Ben Fung Machineries & Engineering Ltd.	100	
	KONE Elevator (HK) Ltd.	100	
	Shan On Engineering Company Limited	100	
Hungary	KONE Felvono Kft	100	100
Iceland	KONE ehf	100	100
India	KONE Elevator India Private Ltd.	100	99.99
Indonesia	PT Kone Indo Elevator	100	1
Ireland	Bleasdale Limited	100	
	Direct Lifts Limited	100	
	Ennis Lifts Limited	100	
	Industrial Logistics Limited	100	
	KONE (Ireland) Limited	100	
	KONE Elevators Limited	100	
	Professional Lift & Elevator Services Limited	100	
Israel	Isralift Industries 1972 Ltd.	100	100
Italy	Cerqueti Servizi S.r.l.	100	
	Cofam S.r.l.	60	
	Elevant Servizi S.r.l.	70	
	Elevatori Bari S.r.l.	80	
	Elevators S.r.l.	60	
	EP Servizi S.r.l.	70	
	Ferrara Ascensori S.r.l.	60	
	KONE Industrial S.p.A.	100	100
	KONE S.p.A.	100	26.86
	L.A.M. Lombarda Ascensori Montacarichi S.r.l.	70	
	Mingot S.r.l.	99	
	Nettuno S.r.l.	75	
	Neulift S.r.l.	100	
	Neulift Service Molise S.r.l.	51	
	Neulift Service Triveneto S.r.l.	100	
	Slimpa S.p.A.	100	
	Tecnocram S.r.l.	84	
	Tosca Ascensori S.r.l.	66.67	
	Unilift S.r.l.	78.54	
Kenya	KONE Kenya Limited	100	
Latvia	SIA KONE Lifti Latvija	100	0,5
Lithuania	UAB KONE	100	100
Luxembourg	KONE Luxembourg S.A.R.L.	100	
	Lumico S.A.R.L.	100	100
Macau	KONE Elevator (Macau) Ltd.	100	
Macedonia	KONE Makedonija Dooel Skopje	100	
Malaysia	Fuji Lift & Escalator Manufacturing Sdn. Bhd.	100	
	KONE Elevator (M) Sdn. Bhd.	47.85	47.85
	Premier Elevators Sdn. Bhd.	100	100
Mexico	KONE Industrial S.A. de C.V.	100	
	KONE Industrial Servicios S.A. de C.V.	100	
	KONE Mexico S.A. de C.V.	100	0,1
Monaco	S.A.M. KONÉ	100	
Montenegro	KONE d.o.o. Podgorica	100	
Morocco	KONE Elevators and Escalators Sarl AU	100	100
Netherlands	Hissi B.V.	100	
	KONE B.V.	100	
	KONE Deursystemen B.V.	100	
	Kone Finance Holding B.V.	100	
	Kone Holland B.V.	100	53,2
	KONE Markus B.V.	100	
	KONE Nederland Holding B.V.	100	
	Waldoor B.V.	100	
Norway	KONE Aksjeselskap	100	100
	KONE Rulletrapper AS	100	100

Country/Region	Company	Shareholding % Group	Shareholding % Parent company
Oman	KONE Assarain LLC	70	
Philippines	Elevators Philippines Construction, Inc.	40	
	KPI Elevators Inc.	100	
Poland	KONE Sp.z o.o.	100	100
Portugal	KONE Portugal - Elevadores LDA.	100	1
Qatar	KONE Elevators Qatar LLC	49	49
Romania	KONE Ascensorul S.A.	100	99.99
Russia	JSC KONE Lifts	100	100
Saudi-Arabia	KONE Areeco Limited	50	10
Serbia	KONE d.o.o. Beograd-Voždovac	100	
Singapore	KONE Pte Ltd.	100	
Slovak Republic	KONE s.r.o.	100	99.91
	KONE SSC s.r.o.	100	100
Slovenia	KONE d.o.o.	100	100
South Africa	KONE Elevators South Africa (Pty) Ltd.	100	
Spain	Ascensores R Casado, S.A.	100	
	Citylift S.A.	80	
	KONE Elevadores, S.A.	100	99.99
	Marvi Ascensores S.L	100	
Sweden	KONE AB	100	
	KONE Door AB	100	
	KONE Metro AB	100	
	Motala Hissar AB	100	
	Uppsala Hiss Montage och El AB	100	
Switzerland	KONE (Schweiz) AG	100	100
Taiwan	KONE Elevators Taiwan Co. Ltd.	100	
Thailand	KONE Public Company Limited	83.9	
	Thai Elevators & Escalators Ltd.	74	
	Thai Elevators Holding Ltd.	49	
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100	
Uganda	KONE Uganda Limited	100	
UK	21st Century Lifts Limited	100	
	Acre Lifts Limited	100	
	CrownAcre Lifts Limited	100	
	Express Elevators Ltd.	100	
	KONE (NI) Ltd.	100	
	KONE Pension Trustees Ltd.	100	
	KONE Plc.	100	100
	Lift Maintenance Limited	100	
	Rob Willder Lifts Limited (Jersey)	100	
Ukraine	KONE Lifts LLC	100	
United Arab Emirates	KONE (Middle East) LLC	49	49
USA	ENOK Electrical Company, LLC	100	
	KONE Holdings, Inc.	100	
	KONE Inc.	100	
	Konematic Inc.	100	
	Marine Elevators LLC	100	
Vietnam	KONE Vietnam Limited Liability Company	100	

ASSOCIATED COMPANIES, DEC 31, 2017

Country/Region	Company	Shareholding % Group	Shareholding % Parent company
China	Kunshan Vataple-Kone Escalator Equipment Co., Ltd.	49	
Estonia	Koiko Kinnisvara OÜ	25.70	25.70

Corporate governance statement

KONE's general governance principles

The duties and responsibilities of KONE Corporation's various governing bodies are determined by Finnish law and KONE's corporate governance principles. KONE complies with the Finnish Corporate Governance Code 2015 published by the Securities Market Association, with the exception

of recommendations 16 (Independence of the company of the members of the audit committee), 17 (Independence of the company of the members of the remuneration committee) and 18a (Independence of the company of the members of the nomination committee). The entire Code is available on the Internet at www.cgfinland.fi. These exceptions are due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 62 percent of the company's voting rights and 22 percent of its shares. The significant entrepreneurial risk associated with ownership justifies the main shareholder serving as either Chairman or Member of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

KONE's administrative bodies and officers with the greatest decision-making power are the General Meeting of Shareholders, the Board of Directors of KONE Corporation, the full time Chairman of the Board and the President and CEO. At the Annual General Meeting of Shareholders, the shareholders approve the consolidated financial statements, decide on the distribution of profits, select the members of the Board of Directors and the auditors and determine their compensation.

KONE Corporation's Annual General Meeting is convened by the Board of Directors. According to the Articles of Association, the Annual General Meeting of Shareholders shall be held within three months of the closing of the financial year on a date decided by the Board of Directors.

Board of Directors

Duties and responsibilities

The Board of Directors' duties and responsibilities are defined primarily by the Articles of Association and the Finnish Limited Liability Companies' Act. The Board's duties include:

- compiling of the Board of Directors' report, interim reports and financial statements
- ensuring the proper organization and surveillance of the accounting and asset management
- the preparation of proposals for the General Meeting and the convocation of the General Meetings
- the approval and confirmation of strategic guidelines and the principles of risk management the ratification of annual budgets and plans
- the appointment of a full-time Chairman of the Board and a President and CEO, and decisions on the terms and conditions of their employment
- decisions on the company's corporate structure
- decisions on major acquisitions and investments
- decisions on other matters falling under the Board's responsibility by law

The Board has created rules of procedure stipulating the duties of the Board, its Chairman and its Committees. The Board of Directors holds six regular meetings a year and additional meetings as required. The Board of Directors reviews its own performance and procedures once a year.

Members of the Board

The Annual General Meeting elects five to ten members and no more than three deputy members to the Board of Directors for one year at a time in accordance with KONE Corporation's Articles of Association. The Board of Directors elects a Chairman and Vice Chairman among its members. The proposals for Board members are prepared at the Nomination and Compensation Committee and under the steering of the Chairman of the Board. During the preparation and in the proposal to the General Meeting of Shareholders attention is paid to the board candidates' broad and mutually complementary background, experience, expertise, age, gender and views of both KONE's business and other businesses so that the diversity of the board supports KONE's business and its future in the best available way.

Committees

The Board of Directors has appointed two committees consisting of its members: the Audit Committee and the Nomination and Compensation Committee. The Board has confirmed rules of procedure for both Committees. The Secretary to the Board acts as the Secretary of both Committees.

The Audit Committee monitors the Group's financial situation and supervises reporting related to the financial statements and interim reports. The Audit Committee monitors and assesses the adequacy and appropriateness of KONE's internal control and risk management, as well as the adherence to rules and regulations. It also monitors and oversees the financial statement and financial reporting process. In addition, the Audit Committee processes the description of the main features of the internal control and risk management systems pertaining to the financial reporting process included in the company's corporate governance statement. In addition, it deals with the Corporation's internal audit plans and reports. The Director of Internal Audit reports the internal audit results to the Committee. The Audit Committee evaluates the auditing of the Group's companies and the appropriateness of the related arrangements and auditing services, and considers the auditors' reports. Furthermore, the Committee formulates a proposal to the Annual General Meeting regarding the auditors to be selected for the Corporation.

The Nomination and Compensation Committee prepares proposals to be made to the Annual General Meeting regarding the nomination of Board members and their compensation and makes decisions regarding senior management appointments and compensation. The Committee also decides on the compensation systems to be used.

Management

Full-time Chairman of the Board and the President and CEO

KONE Corporation's Board of Directors appoints the full-time Chairman of the Board and the President and CEO. The Board determines the terms and conditions of employment of the full-time Chairman of the Board and the President and CEO, and these are defined in their respective written contracts. The Chairman of the Board prepares matters to be considered by the Board together with the President and CEO and the corporate staff. The Chairman of the Board and the President and CEO are responsible for the execution of the targets, plans, strategies and goals set by the Board of Directors within the KONE Group. The President and CEO is also responsible for operational leadership within the scope of the strategic plans, budgets, operational plans, guidelines and orders approved by KONE Corporation's Board of Directors. The President and CEO presents operational issues to the Board, and is responsible for implementing the decisions of the Board.

Executive Board

The Executive Board supports the President and CEO in executing the corporate strategy. The Executive Board follows business developments, initiates actions and defines operating principles and methods in accordance with guidelines handed down by the Board of Directors and the President and CEO. The Executive Board holds regular monthly meetings and additional meetings as required.

Control systems

KONE Corporation's Board of Directors has ratified the principles of internal control, risk management and internal auditing to be followed within the Group.

Internal control

The goal of KONE's internal control system is to ensure that the Group's operations are efficient and profitable, that its business risk management is adequate and appropriate, and that the information created is reliable. The control system also makes it possible to oversee that the determined operating principles, given instructions and possible related party transactions are followed.

The Board's Audit Committee monitors the functioning of the internal control process. The Corporation has an Internal Audit Department, which is separate from the management. The Head of Internal Audit reports to the Chairman of the Board. The Internal Audit Department is responsible for auditing both the internal control system and the management of business risks. It reports its findings to the Audit Committee.

Risk management

KONE's Risk Management function coordinates and develops a systematic assessment of risks and opportunities within core business planning and decision-making processes together with the Strategy Development function.

KONE continuously assesses the risks and opportunities related to its business environment, operations and financial performance in order to limit unnecessary or excessive risks. In addition, KONE's units and functions systematically identify and assess, as part of the strategic planning and budgeting processes, the risks that can threaten the achievement of their business objectives. Key risks are reported to the Risk Management function, which facilitates the risk management process and consolidates the risk information to the Executive Board. The Executive Board assigns the ownership of identified risk exposures to specific functions or units. The Board of Directors reviews the KONE risk portfolio regularly on the basis of the Executive Board's assessment.

The Risk Management function is also responsible for administering the global insurance programs. The Treasury function manages financial risks centrally according to the KONE Treasury Policy.

More information

Most significant risks and uncertainties related to KONE's business are described in the Board of Directors' Report. Financial risk management is described in note 2.4 and 5.3.

Main features of internal control and risk management related to financial reporting

Correct financial reporting in KONE's internal control framework means that its financial statements give a true and fair view of the operations and the financial position of the group and that such statements do not include intentional or unintentional misstatements or omissions both in respect of the figures and level of disclosure. The internal control framework is built and based on reporting processes and frameworks as described below, as well as company values, a culture of honesty and high ethical standards. Such framework is promoted by proper training, a positive and a disciplined work attitude and by the hiring and promoting of suitable employees.

Corporate-wide financial management and control of operations is coordinated by the Global Finance and Control function and implemented by a network of subsidiary and business entity Controllers within KONE. Internal control processes and procedures are regularly controlled and steered by the Board of Directors, the Audit Committee, Business and Finance management and internal and external auditors.

KONE's monthly management planning and financial reporting process represents a key control procedure within KONE in ensuring the effectiveness and efficiency of operations. KONE's financial statements are based on the monthly management reporting process. This process includes in-depth analyses of deviations between actual performance, budgets, prior year performance and latest forecasts for the business. The process covers financial information as well as key performance indicators that measure the operational performance on a business unit and corporate level. The process is designed to ensure that any deviations from plans, in terms of financial or operating performance and financial management policies are identified, communicated and reacted upon efficiently, in a harmonized and timely manner.

Financial control tasks are built into the business processes of KONE as well as into the ongoing business supervision and monitoring of the management. KONE has established Financial Control Models for order-based activities, service activities as well as for treasury and tax matters. The models have been defined in order to ensure that the financial control covers the relevant tasks in an efficient and timely manner. Financial Control Models are designed to support the efficiency and effectiveness of operations through well-defined and productive monitoring process. The correctness of the financial reporting is supported and monitored through the Financial Control Models. The models include Key Control Tasks for Finance Directors and controllers of KONE's subsidiaries and business entities. Key Control Indicators are defined and linked to the tasks in the Financial Control Models. The aim of these indicators is to measure and support the effectiveness and harmonization of operations. The effectiveness of the Financial Control Models and indicators is assessed in all units regularly and monitored by the Global Finance and Control Function.

The internal control procedures applied to KONE's financial reporting process are laid down in carefully defined principles and instructions. A unified and globally harmonized framework provides processes, tools and instructions to cover managerial and external financial reporting. The interpretation and application of accounting standards is centralized in the Global Finance and Control function, which maintains, under supervision of the Audit Committee, the KONE Accounting Standards. The Global Finance and Control function monitors the compliance of the KONE Accounting Standards in the various entities of the group. Budgeting and reporting processes and contents are defined in the KONE Accounting and Reporting Instructions. These standards and instructions are maintained and updated centrally by the Global Finance and Control function and applied uniformly throughout KONE.

KONE has a global enterprise resource planning (ERP) system which is built to reflect the KONE Accounting Standards and KONE Accounting and Reporting Instructions. KONE applies a controlled change management process ensuring that no changes to the financial posting logic of the ERP system can be made without approval from the Global Finance and Control function. Automatic interfaces between different systems are principally applied in the period-end financial reporting process of KONE. Transactional processing is increasingly automated and centralized in dedicated internal shared service centers.

Effective internal control over record to report processes, from business processes and systems to the financial statements, is important in ensuring the correctness of financial reporting. This is driven by the identification of key data elements of the business and the quality of the data to ensure correct financial reporting and forecasting ability.

Auditing

The objective of a statutory audit is to express an opinion whether the consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the group, as well as whether the parent company's financial statements give a true and fair view of the parent company's financial performance and financial position. Statutory audit encompasses also the audit of the accounting and governance in the company. The auditor considers whether the information in the Board of Directors' report is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable legal requirements.

According to the Articles of Association, the company must have a minimum of one and a maximum of three Auditors. The Auditors must be public accountants or public accounting firms authorized by Finland's Central Chamber of Commerce. The Auditor is elected at the Annual General Meeting for a term which expires at the end of the following Annual General Meeting.

Insiders

KONE Corporation adheres to the insider guidelines of the Nasdaq Helsinki Ltd, which have been supplemented with internal insider guidelines approved by the Board of Directors. In compliance with the Market Abuse Regulation, the person discharging managerial responsibilities in KONE Corporation (managers) include the members and deputy members of the Board of Directors, the President and CEO and members of the Executive Board. Managers are permitted to trade in KONE shares and other financial instruments of KONE during a six-week period after the release of interim reports and financial statements releases. KONE does not maintain a list of permanent insiders. KONE has resolved to maintain the insider list with respect to each quarter and year-end financial reporting. The company also maintains other project-specific insider lists when necessary. Project-specific insiders are prohibited from trading with financial instruments of KONE until the termination of the project.

The person in charge of KONE's insider issues is the Secretary to the Board of Directors.

Corporate governance in 2017

Annual General Meeting

The Annual General Meeting was held in Helsinki, Finland on February 28, 2017.

More information

This statement is available on the company's web pages at www.kone.com and it has been given separately of the Board of Directors' report

Board of Directors and committees

The Annual General Meeting elected eight members to KONE's Board of Directors. The full-time Chairman of the Board of Directors of KONE Corporation is Antti Herlin. Jussi Herlin is the Vice Chairman of the Board. The other members of the Board are Matti Alahuhta, Anne Brunila, Iiris Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikäinen. Out of the eight Board Members, five are male and three female.

Of the Board members, Matti Alahuhta, Anne Brunila, Iiris Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikäinen are independent of the Corporation. With the exception of Antti Herlin, Iiris Herlin and Jussi Herlin, the other Board members are independent of the Corporation's significant shareholders.

In 2017, the Board of Directors convened 7 times, with an average attendance rate of 96%. Jukka Ala-Mello serves as Secretary to the Board and to its Committees.

Audit committee

The Board of Directors' Audit Committee comprises Jussi Herlin (Chairman), Anne Brunila (independent member), Antti Herlin and Ravi Kant (independent member).

The Audit Committee held 3 meetings in 2017, with an average attendance rate of 100%.

Caj Lövegren serves as the Head of Internal Audit.

Nomination and compensation committee

The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Matti Alahuhta (independent member), Jussi Herlin and Juhani Kaskeala (independent member).

The Nomination and Compensation Committee held 3 meetings in 2017, with an average attendance rate of 100%.

Number of Board and Committee meetings in 2017 and participant attendance:

	Board	Audit Committee	Nomination and Compensation Committee
Antti Herlin	7/7	3/3	3/3
Jussi Herlin	7/7	3/3	3/3
Matti Alahuhta	6/7		3/3
Anne Brunila	6/7	3/3	
Iiris Herlin	7/7		
Ravi Kant	7/7	3/3	
Juhani Kaskeala	7/7		3/3
Sirpa Pietikäinen	7/7		

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2017 confirmed the fees of the members of the Board as follows (annual fees in EUR):

Chairman of the Board	54,000
Vice chairman	44,000
Member	37,000

Of the annual remuneration, 40 percent was paid in class B shares of KONE Corporation and the rest in cash. It was also confirmed that a meeting fee of EUR 500 is paid for each meeting of the Board and its committees but anyhow EUR 2,000 fee per those Committee meetings for the members residing outside of Finland. Board members' travel expenses and daily allowances are compensated in accordance with the company's travel expense policy.

Compensation and other benefits of the Chairman

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Group's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2017, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2017 totaled EUR 399,152. He was also paid EUR 60,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 83.

The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. No separate agreement regarding early retirement has been made.

President and CEO

Henrik Ehrnrooth serves as KONE Corporation's President and CEO.

Compensation and other benefits of the President and CEO

The President and CEO's compensation consists of a basic salary and a yearly bonus determined annually by the Board on the basis of the Corporation's key targets. The yearly bonus may not exceed 100 percent of the recipient's annual salary.

Henrik Ehrnrooth's annual base salary is EUR 750,000. In addition, his accrued bonus for 2017 totaled EUR 540,750. Henrik Ehrnrooth's holdings of shares are presented in the table below.

Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In April 2017, on the basis of the incentive plan for year 2016, Henrik Ehrnrooth received a bonus of EUR 3,322,885 which consisted of 36,715 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2017 and due for payment in April 2018 is 35,031 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares.

Henrik Ehrnrooth's retirement age and pension are determined in accordance with Finland's Pensions Act. No separate agreement regarding early retirement has been made. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

Executive Board

KONE's Executive Board consists of President and CEO and 13 Members. Henrik Ehrnrooth serves as President and CEO. The other members of Executive Board are Max Alfthan, Axel Berkling, Klaus Cawén, Hugues Delval (from February 1, 2017), Ilkka Hara, Thomas Hinnerskov, William Johnson, Mikko Korte, Heikki Leppänen, Pierre Liautaud, Tomio Pihkala, Susanne Skippari (from February 1, 2017), and Larry Wash. During the year, Executive Board members also included Pekka Kemppainen (until January 31, 2017) and Kerttu Tuomas (until January 31, 2017).

Compensation and other benefits of the Executive Board

The compensation for the members of the Executive Board comprises a base salary and a yearly bonus, based on the Group's annual result and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary.

The Executive Board members' holdings of shares are presented in the below table.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2017, on the basis of the incentive plan, the members of the Executive Board received a bonus of 246,323 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2017 and due for payment in April 2018 is 182,169 KONE class B shares together with a cash bonus equal to the amount of taxes and similar charges. No separate agreement regarding early retirement has been made for the members of the Executive Board. The compensation for the termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

Auditing

KONE Corporation's Auditors are Niina Vilske, Authorized Public Accountant, and PricewaterhouseCoopers Oy, Authorized Public Accountants. The fees paid to companies in the PricewaterhouseCoopers chain for 2017 were EUR 4.0 million for auditing and EUR 0.9 million for other consulting services.

Insiders

The holdings of the Board of Directors and Management of KONE on December 31, 2017 and the changes occurring in them during the financial year are presented in the table below.

More information

As of July 3, 2016, the trades of KONE Board and Management are published as stock exchange releases.

More information

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Executive Board, page 85

Shareholdings and options of KONE Board and Management on on Dec 31, 2017 and changes in shareholding during the period Jan 1–Dec 31, 2017

	Class A shares	Change	Class B shares	Change
Alahuhta Matti			753,212	+ 339
Alfthan Max			34,724	+ 14,686
Berkling Axel			24,760	+ 8,252
Brunila Anne			2,252	+ 339
Cawén Klaus			331,148	+ 25,686
Delval Hugues			10,593	+ 5,035
Ehrnrooth Henrik			274,716	+ 36,715
Hara Ilkka			11,351	+ 11,015
Herlin Antti	70,561,608	-	45,845,472	+ 860,495
Herlin Iiris			134,259	+ 339
Herlin Jussi			108,453	+ 403
Hinnerskov Thomas			18,015	+ 18,015
Johnson William			132,156	+ 28,686
Kant Ravi			1,412	+ 339
Kaskeala Juhani			2,236	+ 339
Korte Mikko			31,194	+ 14,686
Leppänen Heikki			181,948	+ 28,686
Liautaud Pierre			60,032	+ 28,686
Pietikäinen Sirpa			7,412	+ 339
Pihkala Tomio			69,444	+ 28,686
Skippari Susanne			2,518	+ 2,518
Wash Larry			60,032	+ 28,686

Pekka Kemppainen owned 192,062 KONE class B shares, and Kerttu Tuomas owned 179,462 KONE class B shares on January 31, 2017. Susanne Skippari sold 8,000 KONE option rights during the year. The shares owned by companies in which the Board Member or Management exercises controlling power and minor children are also included in these shareholdings.

Board of Directors

Antti Herlin

Chairman of the Board

b. 1956, D.Sc. (Econ.) h.c., D.Arts h.c., D.Sc. (Tech) h.c.
Member of the Board since 1991.
Has served as Chairman of the Board since 2003. Previously served as CEO of KONE Corporation 1996–2006 and as Deputy Chairman 1996–2003.
Current key positions of trust are Chairman of the Board of Security Trading Oy and Holding Manutas Oy, Vice Chairman of the Board of Sanoma Corporation and Member of the Board of Caverion Corporation.

Jussi Herlin

Vice Chairman of the Board

b. 1984, M.Sc. (Econ)
Member of the Board since 2012.
Senior Business Analyst, Strategy Development at KONE Corporation since 2016. Previously served as Consultant at Accenture between 2012–2014 and Deputy Member of the Board of KONE Corporation during the years 2007–2012.
Current key positions of trust are Member of the Board of Security Trading Oy, Member of the Board of the Tiina and Antti Herlin Foundation, Member of the Board of Technology Industries of Finland, Member of the Board of TT Foundation for the Confederation of Finnish Industry and Employers, Member of the Board of Foundation for Economic Education's Supporters' Association and Member of the Supervisory Board of The Finnish Fair Corporation.

Matti Alahuhta

b. 1952, D. Sc. (Tech.), D.Sc. (Tech.) h.c.
Member of the Board since 2003.
Previously served as President of KONE Corporation since 2005, and President & CEO since 2006 to 2014, as Executive Vice President of Nokia Corporation 2004, as President of Nokia Mobile Phones 1998–2003 and as President of Nokia Telecommunications 1993–1998.
Current key positions of trust are Chairman of the Board of DevCo Partners Corporation, Chairman of the Board of Outotec Corporation, Member of the Board of AB Volvo and Member of the Board of ABB Ltd.

Anne Brunila

b. 1957, D.Sc. (Econ.), D.Sc. (Econ.) h.c.
Member of the Board since 2009.
Professor of Practice, Hanken School of Economics since 2014. Previously served as Executive Vice President, Corporate Relations and Strategy and Member of the Management Team of Fortum 2009–2012, as President and CEO of the Finnish Forest Industries Federation 2006–2009, in the Finnish Ministry of Finance as Director General 2003–2006 and in several advisory and executive positions in the Bank of Finland 1992–2000 and in the European Commission 2000–2002.
Current key positions of trust are Member of the Board of Stora Enso, Member of the Board of Sanoma Corporation and Chairman of the Board of Aalto University Foundation.

Iiris Herlin

b. 1989, M.Soc.Sc.
Member of the Board since 2015. Deputy Member of the Board between 2013 and 2014.
Current key positions of trust are Member of the Board of Security Trading Oy and Member of the Board of the Tiina and Antti Herlin Foundation.

Ravi Kant

b. 1944, B.Tech. (Hons.), M.Sc., D.Sc. (Hon)
Member of the Board since 2014.
Previously served in different positions in Tata Motors since 1999, and as Managing Director and CEO from 2005 to 2009 and after that as the Vice Chairman of the Board of Directors until 2014. Prior to that, he was Director, Consumer Electronics, Philips India; Director (Marketing), LML Ltd. and Vice President (Marketing), Titan Watches Ltd.
Current key positions of trust are Chairman of the Board of Indian Institute of Management Rohtak, Chairman of the Board of Indian Institute of Information Technology Allahabad, Member of the Board of Vedanta Ltd, Member of the Board of Hawkins Cookers Ltd and Member of the Advisory Board of Accenture India.

Juhani Kaskeala

b. 1946, Admiral.
Member of the Board since 2009.
Managing Director of Admiral Consulting Oy since 2011. Previously served in Finnish Defence Forces in several positions 1965–2009, last as Commander of the Finnish Defence Forces 2001–2009.
Current key positions of trust are Member of the Board of Oy Forcit Ab, Member of the Board of Nixu Oyj, Senior Advisor of Blic Oy and Member of the European Leadership Network.

Sirpa Pietikäinen

b. 1959, M.Sc. (Econ.)
Member of the Board since 2006.
Served as Member of the European Parliament since 2008 and as a negotiation theory lecturer and consultant since 1999. Previously served as a Member of Finland's Parliament 1983–2003 and as Finland's Minister of the Environment 1991–1995.
Current key positions of trust are Chairman of GLOBE EU, Vice Chairman of the Board of the Martha Organisation, Member of the Board of Alzheimer Europe, Member of the Board of Lammi Savings Bank and Member of the KVS Foundation Advisory Board.

Jukka Ala-Mello

b. 1963, M.Sc. (Econ.), Authorized Public Accountant
Secretary to the Board of Directors since 2006.
Has served as Director of KONE Corporation and Managing Director and Member of the Board of Security Trading Oy and Holding Manutas Oy since 2006. Previously served as a Partner and APA Auditor in PricewaterhouseCoopers Oy 1993–2006 and Financial Manager of Panostaja Corporation 1990–1993.
Current key positions of trust are Chairman of the Board of Panostaja Corporation and Chairman of the Board of OWH-Yhtiöt Corporation.

More information

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More information

Shareholdings of KONE Corporation's public insiders are available on page 83.

Executive Board

Henrik Ehrnrooth

President and CEO
b. 1969, M.Sc. (Econ).
President & CEO of KONE Corporation since 2014. Member of the Executive Board. Previously served as Chief Financial Officer of KONE Corporation 2009–2014. Earlier worked for Goldman Sachs from 1998–2009, most recently as a Managing Director in the Investment Banking Division and at UBS in various positions from 1994–1998.
Current key position of trust: Member of the Board of UPM-Kymmene Corporation, Member of the Foundation Board of the International Institute of Management Development (IMD, Switzerland), Member of the European Round Table of Industrialists (ERT).

Max Alfthan

Marketing and Communications
b. 1961, M.Sc. (Econ.)
Member of the Executive Board and employed by KONE Corporation since 2014. Previously served as Chief Strategy Officer of Fiskars 2008–2014, Senior Vice President for Communications of Amer Sports Corporation 2001–2008, Managing Director of Lowe Lintas & Partners Oy 1998–2001 and Marketing Director of Sinebrychoff 1989–1998.

Axel Berkling

Asia-Pacific
b. 1967, M.Sc. (Econ)
Member of the Executive Board since 2016. Employed by KONE Corporation since 1998. Previously served at KONE Corporation as Managing Director of KONE Germany from 2012–2016. Axel has held various regional commercial roles since 2007, including managing KONE's service business in Germany. Prior to joining KONE, he served as Managing Director of Nass Magnet GmbH 1996–1998, and held different roles at Arthur Andersen from 1992–1995.

Klaus Cawén

M&A and Strategic Alliances, Russia, Legal Affairs
b. 1957, LL.M.
Member of the Executive Board since 1991. Employed by KONE Corporation since 1983. Previously served as General Counsel of KONE Corporation 1991–2001.
Current key positions of trust: Member of the Board of Oy Karl Fazer Ab, Member of the Board of East Office of Finnish Industries Ltd, Member of the Board of Outotec Plc, Member of the Board of Toshiba Elevator and Building Systems Corporation (Japan), and Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company.

Hugues Delval

Service Business
b. 1971, M.Sc. (Commercial Engineering)
Member of the Executive Board since 2017. Employed by KONE Corporation since 1994. Previously served as Senior Vice President, Head of Global Maintenance, Service Business (2015–2017), Managing Director for KONE France (2011–2015), and Managing Director for KONE Belgium and Luxembourg (2009–2011). Since joining KONE, he has held various regional leadership positions and roles in several geographies.

Ilkka Hara

CFO
b. 1975, M. Sc. (Finance and Accounting)
Member of the Executive Board and employed by KONE Corporation since 2016. Previously served as GM and CFO of Microsoft Phones 2014–2016, in various leadership roles at Nokia 2004–2014. Prior to Nokia worked at ABN AMRO 2003–2004 and Morgan Stanley 2001–2003.
Current key positions of trust: member of the Board of Directors at Hartili Oy.

Thomas Hinnerskov

Central and North Europe
b. 1971, M.Sc. (Finance and Accounting)
Member of the Executive Board and employed by KONE Corporation since 2016. Previously served as Regional CEO for ISS Western Europe (2016) and for ISS APAC (2012–2016), as well as serving in various other leadership roles at ISS during 2003–2012. Prior to ISS, he worked at TEMA Kapital 2002–2003, McKinsey & Company 2001–2002 and Gudme Raaschou Investment Bank from 1995–2000.
Current key position of trust: Member of the Board of Caverion Corporation.

William B. Johnson

Greater China
b. 1958, MBA
Member of the Executive Board since 2012, and employed by KONE Corporation since 2004.
Previously served as Managing Director of KONE China since 2004, Service Vice President of Asia-Pacific, Carrier International Corporation (United Technologies) 2002–2004, as Managing Director Australia, Carrier Air Conditioning Ltd. (United Technologies) 2001–2002, and in various leadership roles with Otis Elevator Company and Trammell Crow Company.

Mikko Korte

Operations Development
b. 1968. M.Sc. (Eng)
Member of the Executive Board since 2016, and employed by KONE Corporation since 1995.
Previously served as Head of New Equipment Business for KONE Americas 2013–2015, Managing Director for KONE Finland and Baltics 2011–2013, Service Director for KONE Central and North Europe 2007–2011, Service Business Director for KONE Scandinavia 2004–2007 and Service Operations Manager for KONE Finland 1999–2004.

Heikki Leppänen

New Equipment Business
b. 1957, Licentiate in Technology
Member of the Executive Board since 2005. Employed by KONE Corporation since 1982. Previously served in KONE Corporation as Senior Vice President, Technology 2004–2005 and as Head of Global Research and Development 2000–2004.

Pierre Liautaud

South Europe, Middle East and Africa
b. 1958, M.Sc (Ecole Polytechnique, Ecole Nationale Supérieure des Télécommunications)
Member of the Executive Board and employed by KONE Corporation since 2011. Previously served in KONE as EVP, West & South Europe, Africa, Customer Experience 2011–2016, in Microsoft EMEA as Vice President, Enterprise & Partner Group 2003–2006, then Area Vice President Western Europe 2006–2009. Was CEO at @viso (Vivendi-Softbank, 1999–2001) and Activia Networks (2001–2003). Also served in IBM Corporation 1982–1999, most recently as Vice-President Marketing, Internet Division (1998) and General Manager, Global Electronics Industry (1999).

Tomio Pihkala

Chief Technology Officer
b. 1975, M. Sc. (Mechanical Engineering)
Member of the Executive Board since 2013. Employed by KONE Corporation since 2001. Previously served in KONE Corporation as Executive Vice President, Operations Development 2013–2015, Vice President, Technology Finland 2011–2013, as Director, Service Equipment Business, in KONE China 2009–2010, as Director, Product Strategy and Marketing, in KONE China 2007–2008.
Current key positions of trust: Member of the Board of Toshiba Elevator and Building Systems Corporation, and Member of the Board of Vexve Oy.

Susanne Skippari

Human Resources
b. 1974, M.Sc. (Econ.)
Member of the Executive Board since 2017. Employed by KONE Corporation since 2007. Previously served as Head of Human Resources in New Equipment Business (2015–2017), and Head of Talent Management (2007–2008 and 2011–2015). Susanne has also worked as Area Human Resources Director for Europe, Middle-East and Africa between 2009–2011.
Prior to joining KONE, she served eight years at Nokia and worked in many Human Resources roles in Finland and in Argentina.

Larry Wash

Americas
b. 1961, M. Sc. (Electrical Engineering), M. (Business Administration)
Member of the Executive Board and employed by KONE Corporation since 2012. Previously worked as President of Global Services for the Climate Solutions sector of Ingersoll Rand, as Vice President of service and contracting business for Trane within North and Latin America, and in various leadership roles with Xerox and Eastman Kodak.

In 2017, Pekka Kemppainen served as Executive Vice President responsible for Service Business until Jan 31, and Kerttu Tuomas served as Executive Vice President responsible for HR until Jan 31.

Dividend proposal, signatures for the Board of Directors' report and Financial statements and Auditor's note.

Dividend proposal

The parent company's non-restricted equity on December 31, 2017 is EUR 2,195,493,551.80 of which the net income for the financial year is EUR 1,054,610,239.57.

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 438,568,899 class B shares, resulting in a total amount of proposed dividends of EUR 849,192,536.37. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,346,301,015.43 be retained and carried forward.

The Board proposes that the dividends be payable from March 7, 2018.

Signatures for the Financial statements and Board of Directors' report

Helsinki, January 25, 2018

Antti Herlin	Jussi Herlin
Matti Alahuhta	Anne Brunila
Iiris Herlin	Ravi Kant
Juhani Kaskeala	Sirpa Pietikäinen

Henrik Ehrnrooth,
President & CEO

The Auditors' Note

Our auditors' report has been issued today.

Helsinki, January 25, 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen Authorised Public Accountant	Niina Vilske Authorised Public Accountant

Auditor's report

To the Annual General Meeting of KONE Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of KONE Oyj (business identity code 1927400-1) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

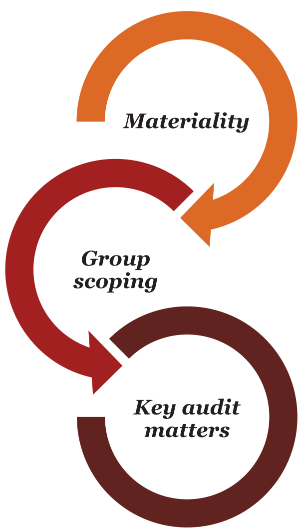
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.2 to the Financial Statements.

Our Audit Approach

Overview



Materiality

- We have applied an overall group materiality of € 60 million.

Group scoping

- The group audit scope encompassed all significant group companies, as well as a number of smaller group companies in Europe, Asia, the Middle East and North America, covering the vast majority of revenue, assets and liabilities.

Key audit matters

- Revenue recognition of new equipment and modernisation sales
- Revenue recognition of major projects
- Late cost accruals

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 60 million (previous year € 65 million)
How we determined it	5% of operating profit
Rationale for the materiality benchmark applied	We chose operating profit as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users of these financial statements. We applied 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the KONE Group, the industry in which it operates as well as the group's processes and controls related to financial reporting.

We determined the type of work that needed to be performed at group companies by us, as the group engagement team, or by auditors from other PwC network firms operating under our instruction. Audits were performed in group companies which are considered significant either because of their individual financial significance or due to their specific nature, covering the vast majority of revenue, assets and liabilities of the Group. Selected specified procedures as well as analytical procedures were performed to cover the remaining companies.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

<table>
<tr><th>Key audit matter in the audit of the group</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Revenue recognition of new equipment and modernisation sales
Refer to note 2.1 in the financial statements

The sales of the group comprise new equipment, modernisation and maintenance sales.

Given the different nature of the revenue streams, we consider their related risks to be different. While the accounting for maintenance revenue is less complex, we consider the accounting for new equipment and modernisation business revenue to constitute focus areas of the audit. Revenue recognition of major projects is a separate key audit matter.

Revenue for new equipment and modernisation contracts is recognized when the group has transferred the significant risks and rewards of ownership of the equipment to the customer in accordance with the underlying sales contract and applicable regulation. We considered the revenue recognition in the correct financial year to be a focus area of the audit due to the risk of either too early or late revenue recognition.

This matter is a significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.</td><td>Our procedures included obtaining an understanding of the processes and controls related to the timing of revenue recognition, testing of certain key controls as well as substantive testing of revenue transactions. Our procedures also included the testing of relevant IT controls and system configuration.

Our substantive tests of revenue included
• reviewing a sample of sales contracts or other relevant documentation, ensuring appropriate revenue recognition criteria were applied;
• testing a sample of transactions occurring within proximity of the financial year-end;
• testing journal entries posted to revenue on a sample basis; and
• testing revenue related balances recognized in the balance sheet.

We also audited a sample of revenue transactions recorded during the financial year.</td></tr>
</table>

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Revenue recognition of major projects Refer to note 2.1 in the financial statements Major projects relate to elevator or escalator solutions, which often are significant in size and complex from a technical perspective and usually involve customised solutions. Due to their specific nature, such projects are usually long-term and meet the definition of a construction contract. Revenue from major projects is recognised using the percentage of completion method, where progress is determined by comparing actual costs incurred to date with the total estimated costs of the project. The percentage of completion method requires accurate estimates of future revenues and costs over the full term of the major project. The total revenues and costs related to a project include estimates, as the project scope may change and the total costs of a project depend on various factors including material and labour costs. Our audit procedures focused on the revenue recognition of major projects because of the degree of management judgement included in the project estimates, impacting the amount of revenue recognised and project profitability. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	Our audit of revenue from major projects has included both testing of controls and substantive audit procedures. Our testing of controls has focused on the IT system used by the group, as well as controls covering revenue recognition. Our substantive testing of revenue from major projects has focused on the assumptions and estimates applied by management in the accounting, as follows: • We have agreed total project revenue estimates per management's calculations to sales agreements including possible amendments for selected major projects. • We have tested cost estimates for selected major projects by obtaining an understanding of management's process for making the estimates, and evaluating them based on supporting documentation in the project accounting. • We evaluated the reliability of estimates used by management by comparing forecasts made in prior years to actual results at the project level. • We tested the completion stage by comparing actual costs in the accounting to the estimated total costs of the projects.
Late cost accruals Refer to note 3.4 in the financial statements Late cost accruals relate to new equipment and modernisation contracts, which have been completed and revenue recognised. The late cost accruals primarily include costs for material and subcontracting costs for which invoices have not yet been received, however, they also include expected costs still to be incurred based on management's judgement and experience. Costs can arise after the completion of a customer contract, as post-handover work is performed related to already delivered and installed elevators and escalators. The balance recorded in late cost accruals is based on the total estimated costs for the projects, thereby reflecting management judgement. We considered the recording of the late cost accruals at an appropriate level to constitute a focus area of the audit because of the degree of management judgement included in the estimates.	We have discussed the principles and methods for accruing the late costs with management and verified the compliance of these with IFRS. Our audit of late cost accruals has included both the testing of controls and substantive procedures targeted at the balances recorded. Our testing of controls was in particular targeted at the group's IT system and related automatic controls, whereby management ensures late cost accruals are recorded. Our substantive procedures have been focused around the cost estimates used in the project accounting. We have, where applicable, compared planned costs of projects to supply contracts, labour costs or other supporting documentation. Actual costs incurred project to date have been agreed to the accounting records.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

The auditors who have signed the audit report have been acting as the auditors appointed by the annual general meeting of KONE Oyj as follows: PricewaterhouseCoopers Oy has, without interruption, been acting as the auditor for 61 years since first being appointed on 2 March 1957, when one Authorised Public Accountant (KHT) working for our firm was appointed as the auditor. Since 26 February 1993 the other auditor of KONE Oyj has been an auditor working for our firm. Authorised Public Accountant (KHT) Niina Vilske has, without interruption, been acting as the auditor since 23 February 2015 for three years. Our firm and Authorised Public Accountants (KHT) working for our firm have been acting as the auditors of KONE Oyj for the entirety of the duration that it has been a public interest entity.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Review, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 25 January 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen
Authorised Public Accountant

Niina Vilske
Authorised Public Accountant

Information for shareholders

Annual General Meeting

KONE Corporation's Annual General Meeting will be held on February 26, 2018 at 11.00 a.m. in the Finlandia Hall, Mannerheimintie 13, Helsinki, Finland.

Shareholders wishing to attend the meeting must be registered in the KONE shareholder register at Euroclear Finland Ltd. no later than on February 14, 2018, and must register for attending the meeting over the internet (www.kone.com/en/investors/annual-general-meetings/), by fax (+358 (0)204 75 4523), by telephone (+358 (0)20 770 6873) or by mail (KONE Corporation, Share Register, P.O. Box 7, FI-02151 Espoo, Finland) no later than on February 21, 2018, by 3:00 p.m. EET. The registration must be received by the end of the registration period. Any proxies must be submitted at the same time.

At general meetings, each KONE class A share is assigned one vote, as is each block of 10 class B shares, with the proviso that each shareholder is entitled to at least one vote.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that for the financial year 2017 a dividend of EUR 1.6475 be paid for each class A share and a dividend of EUR 1.65 be paid for each class B share. All shares existing on the dividend record date, February 28, 2018 are entitled to the dividend. The dividend will be paid on March 7, 2018.

More information

The Board of Directors' proposal for the distribution of profit, page 86
Shares and shareholders, page 62

Listing of KONE securities

KONE Corporation has two classes of shares: the listed class B shares and the non-listed class A shares. The KONE class B shares are listed on the Nasdaq Helsinki Ltd. and are registered at Euroclear Finland Ltd. Stock options 2014 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2016. Stock options 2015 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2017.

Investor Relations

Investor Relations policy

KONE strives to offer liquid shares that present an attractive investment alternative to domestic and foreign investors. The primary task of KONE's Investor Relations is to ensure that the market has correct and sufficient information at its disposal in order to determine the value of the KONE share at all times. This task is being performed in KONE's written communications, such as the financial statements and interim reports, the corporate responsibility report, stock exchange and press releases, the internet pages as well as in all other communication with investors and analysts.

In all of its communications, KONE complies with the requirements for listed companies as defined by the Securities Markets Act, the rules of the Nasdaq Helsinki Ltd. and any other applicable regulation concerning prompt and simultaneous disclosure of information.

Silent period

KONE observes a period of silence prior to releasing financial results. This means that there will be no discussions regarding financial issues with the capital markets or the financial media during the three-week period preceding the publication of interim results and the four-week period preceding the publication of the annual financial statements. This applies to meetings, telephone conversations or other means of communication.

Contact information

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