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KONE Q4

FINANCIAL STATEMENT BULLETIN 2015

KONE's January–December 2015 review

October–December 2015: Strong finish to the year

- In October–December 2015, orders received totaled EUR 1,947 (10–12/2014: 1,704) million. Orders received grew by 14.3% at historical exchange rates and 7.0% at comparable exchange rates.
- Net sales grew by 18.3% to EUR 2,562 (2,166) million. At comparable exchange rates the growth was 10.8%.
- Operating income was EUR 378.5 (315.3) million or 14.8% (14.6%) of net sales.
- Cash flow from operations (before financing items and taxes) was EUR 403.5 (367.8) million.

January–December 2015: Profitable growth in a changing market environment

- In January–December 2015, orders received totaled EUR 7,959 (1–12/2014: 6,813) million. Orders received grew by 16.8% at historical exchange rates and by 5.6% at comparable exchange rates. The order book stood at EUR 8,210 (December 31, 2014: 6,952) million at the end of December 2015.
- Net sales grew by 17.9% to EUR 8,647 (7,334) million. At comparable exchange rates the growth was 8.3%.
- Operating income was EUR 1,241 (1,036) million or 14.4% (14.1%) of net sales.
- Basic earnings per share was EUR 2.01 (1.47). Excluding the extraordinary dividend received during the financial year, earnings per share was EUR 1.79.
- Cash flow from operations (before financing items and taxes) was EUR 1,474 (1,345) million.
- In 2016, KONE's net sales is estimated to grow by 2–6% at comparable exchange rates as compared to 2015. The operating income is expected to be in the range of 1,220–1,320 million, assuming that translation exchange rates would remain at approximately the average level of January 2016.
- The Board proposes a dividend of EUR 1.40 per class B share for the year 2015.

KEY FIGURES

		10–12/2015	10–12/2014	change	1–12/2015	1–12/2014	change
Orders received	MEUR	1,947.2	1,703.8	14.3%	7,958.9	6,812.6	16.8%
Order book	MEUR	8,209.5	6,952.5	18.1%	8,209.5	6,952.5	18.1%
Sales	MEUR	2,561.8	2,165.8	18.3%	8,647.3	7,334.5	17.9%
Operating income (EBIT)	MEUR	378.5	315.3	20.0%	1,241.5	1,035.7	19.9%
Operating income (EBIT)	%	14.8	14.6		14.4	14.1	
Cash flow from operations (before financing items and taxes)	MEUR	403.5	367.8		1,473.7	1,345.4	
Net income	MEUR	372.7	210.7		1,053.1	773.9	
Basic earnings per share	EUR	0.71	0.40		2.01	1.47	
Interest-bearing net debt	MEUR	-1,512.6	-911.8		-1,512.6	-911.8	
Total equity/total assets	%	45.4	43.6		45.4	43.6	
Gearing	%	-58.7	-44.2		-58.7	-44.2	

KONE's January–December 2015 review

Henrik Ehrnrooth, President and CEO, in conjunction with the review:

"We ended the year with a strong fourth quarter. Sales was EUR 2,562 million, with growth accelerating to 18.3% at historical and 10.8% at comparable exchange rates. Orders also developed strongly, totaling EUR 1,947 million, which corresponded to a growth of 14.3% at historical and 7.0% at comparable rates. Operating income was EUR 379 million, and the relative operating income improved to 14.8% of net sales. Cash flow exceeded the previous year's level at EUR 404 million. Translation exchange rates again positively impacted our reported figures.

For 2015 as a whole, I am very happy with our broad-based strong performance in a market environment that saw significant changes in growth dynamics. We managed our business successfully in a slowing market in China and were able to accelerate our growth in many other areas. Overall, we again strengthened our competitiveness and achieved profitable growth, which shows in the good development in orders received, our solid result, and the very strong cash flow. The record-high cash flow reflects a continued healthy management of the fundamentals in our business.

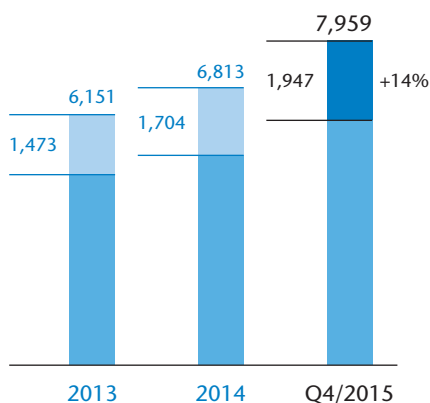
I am very satisfied with the progress we made during the year both in our new equipment and service business. In service, our objective has been to accelerate growth. We developed in line with this target, with higher sales growth in maintenance and clear growth in modernization orders. In our new equipment business, we made significant improvements in our product and cost competitiveness. In addition, for the business as a whole, important steps were taken to speed up our innovation activities and the use of new technologies in order to provide a better customer and user experience. Our achievements this year would not have been possible without the commitment of our personnel, for which I would like to thank everyone in the KONE team.

Looking ahead into 2016, the global market environment is expected to continue to be varied. The market development remains divided in Europe, with Central and North Europe expected to see some growth in new equipment and modernization demand, but South Europe to remain stable at a low level. For North America, our market outlook continues positive for both new equipment and modernization. In China, we expect the market to be challenging. The new equipment market in China, when measured in units, is expected to decline by 5–10% and to continue to see intense price pressure. In the global maintenance market, we continue to see good opportunities for growth.

In 2016, our sales is expected to grow by 2–6% at comparable rates. Operating income is expected to be in the range of EUR 1,220–1,320 million, assuming that the translation rates would remain at the average level of January 2016. Despite the mixed market conditions, I am convinced that we can continue our strong performance in the year ahead thanks to our further strengthened competitive positioning and committed team."

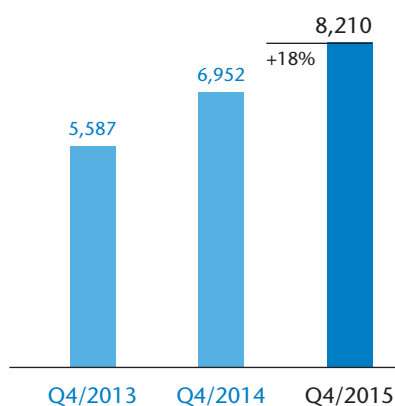
Key Figures

Orders received (MEUR)



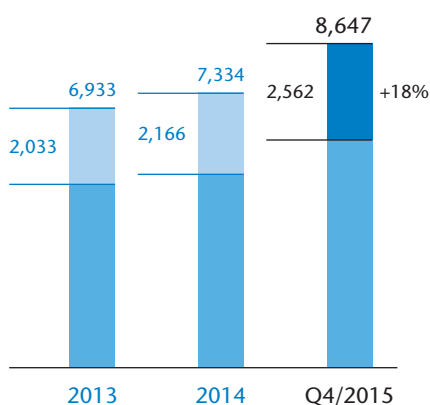
- In October–December 2015 orders received grew by 14.3% at historical exchange rates (at comparable exchange rates by 7.0%).
 - New equipment orders received grew somewhat, with slight growth in the volume business and strong growth in major projects in the quarter. In modernization, orders received grew significantly.
 - At comparable exchange rates, orders received grew significantly in the EMEA region, clearly in North America, and were stable in Asia-Pacific.
-
- In 2015 KONE's orders received grew in the volume business, and saw some growth also in the major projects business. Orders received grew somewhat in new equipment and clearly in modernization.
 - Orders received grew clearly in the EMEA region at comparable rates, significantly in the Americas and slightly in Asia-Pacific.

Order book (MEUR)



- The order book grew by 18.1% at historical rates (at comparable exchange rates by 11.9%).
 - In October–December 2015 the margins of orders received remained at a good level, despite the price competition seen in many markets. Improvements in the overall product competitiveness, including cost, helped in maintaining the healthy margins.
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- In 2015 the margin of the order book remained at a good level.

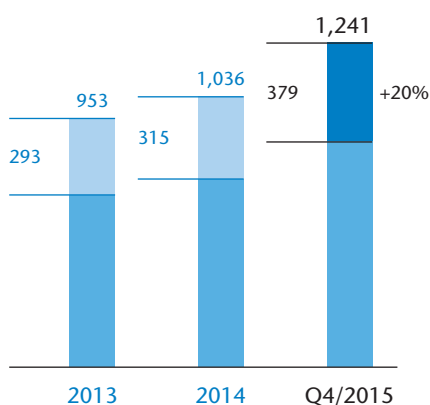
Sales (MEUR)



- During October–December 2015 net sales grew by 18.3% at historical exchange rates (at comparable exchange rates 10.8%).
 - New equipment sales grew by 24.7% (at comparable rates by 15.0%). Service (maintenance and modernization) sales grew by 10.5% (5.5%), with maintenance sales growing by 12.4% (7.5%) and modernization sales by 7.1% (2.2%).
 - Sales in the EMEA region grew by 8.2% at historical rates (at comparable exchange rates 6.1%), 33.4% in the Americas region (18.7%), and 23.3% in the Asia-Pacific region (12.4%).
-
- In 2015, sales in the EMEA region grew by 5.1% at historical rates (at comparable exchange rates 3.5%), 33.2% in the Americas region (15.6%), and 25.8% in the Asia-Pacific region (10.1%).
 - New equipment sales grew by 23.1% (at comparable rates by 10.6%). Service (maintenance and modernization) sales grew by 11.6% (5.4%), with maintenance sales growing by 13.0% (6.7%) and modernization sales by 8.5% (2.2%).

Key Figures

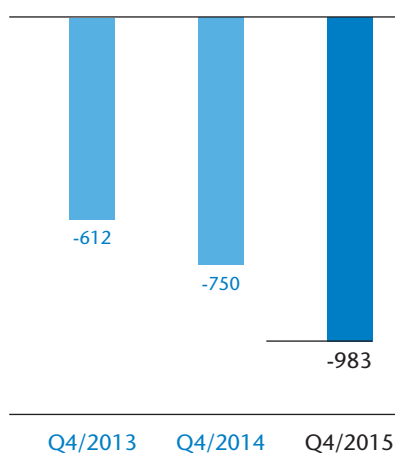
EBIT (MEUR)



- **In October–December 2015** operating income was 14.8% of net sales (10–12/2014: 14.6%).
- Operating income grew driven by a positive development in both the new equipment and the service business.
- The growth was driven by a broad-based positive development, in particular in the Asia-Pacific region.
- KONE continued to increase fixed costs in areas that support the growth of the business, in particular in North America as well as in R&D, process development and IT.

- **In 2015** operating income was 14.4% of net sales (1–12/2014: 14.1%).
- Favorable translation exchange rates clearly contributed to the growth in operating income with a positive impact of approximately EUR 120 million.

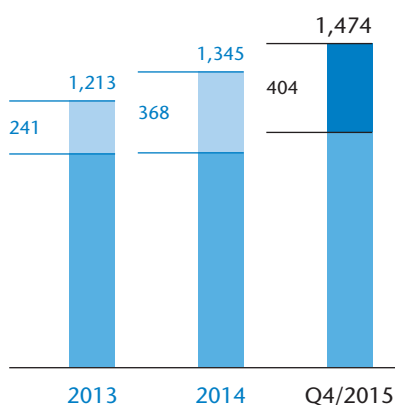
Net working capital¹ (MEUR)



- **In 2015** net working capital improved.
- The impact from translation exchange rates was significantly positive on the reported net working capital, but also at comparable rates, net working capital improved from a very good level. This was a result of a strong level of advances received relative to inventories and good collection of accounts receivable.

¹⁾ Including financing and tax items

Cash flow² (MEUR)



- **In October–December 2015** cash flow from operations was EUR 403.5 (10–12/2014: 367.8) million.
- The strong cash flow was driven by growth in operating income. Net working capital remained stable at a strong level.
- **In 2015** cash flow generated from operations was strong. The cash flow was driven by growth in operating income and continued favorable development in working capital.

²⁾ Cash flow from operations before financing items and taxes

KONE's January–December 2015 review

Accounting principles

The information presented in this report is based on the audited KONE 2015 Financial Statements. KONE Corporation's financial statement bulletin has been prepared in line with IAS 34, 'Interim Financial Reporting'. KONE has applied the same accounting principles in the preparation of the financial statement bulletin as in the Financial Statements for 2015.

October–December 2015 review

Operating environment in October–December

In the last quarter of 2015, the global new equipment market volumes weakened slightly following a somewhat declining market in China. In the Europe, Middle East and Africa (EMEA) region, new equipment demand grew slightly, and in North America, the market continued to grow. The major projects segment grew in the quarter. The modernization market grew in North America, and was on a slightly positive trend in Europe driven by Central and North Europe. Also the maintenance market continued to grow globally, although at low rates in such countries, where new equipment activity has been weak for the past years.

In the EMEA region, the new equipment market grew clearly in Central and North Europe driven by both the residential and non-residential segments. Of the larger markets, Germany, Great Britain and Scandinavia grew during the quarter. In South Europe, new equipment demand continued to stabilize from a weak level. The new equipment markets in Italy and France remained stable at a low level, while the Spanish market continued to slowly recover. In the Middle East, new equipment demand saw some growth driven by volume projects, but the major projects market remained uncertain in the region. The modernization market continued to grow in Central and North Europe, where Great Britain in particular contributed to the growth. In South Europe, modernization demand remained weak, with Spain being the only major market showing recovery. The maintenance market grew, although with significant variation between countries.

In North America, the new equipment market continued to grow across segments, driven by good development in the United States. In Canada, the new equipment market was rather stable. The modernization market also grew in North America. The maintenance market continued to grow in the region, albeit slowly as a result of the low volumes in new equipment deliveries in prior years.

In the Asia-Pacific region, the new equipment market volumes as a whole weakened slightly in the quarter due to a decline of the market in China. In the residential segment in China, affordable housing was rather stable, while demand in commercially-funded residential projects continued to decline. Other commercial segments also declined slightly. With support from stimulus measures, the infrastructure segment saw clear growth during the quarter. The first-tier cities and selected second-tier cities continued to show a rather stable level of demand, while the development in lower-tier cities was clearly weaker. Outside China, the new equipment market in India grew slightly, but the Southeast Asian new equipment markets continued to be affected by economic uncertainty. In Australia, both new equipment and modernization demand continued to

grow during the quarter. Maintenance markets in Asia-Pacific saw good growth, following the growth in new equipment installations in the region.

In the fourth quarter, trends in the pricing environment remained broadly unchanged. In China, competition for market share in the new equipment market further intensified, resulting in continued pressure on pricing. In the rest of Asia-Pacific, no major changes were seen, but the region continued to see economic uncertainty. In the EMEA region, the pricing environment in new equipment was the most challenging in South European markets with persisting low volumes. The pricing of new equipment in North America continued to improve slightly, particularly in the volume business. In maintenance and modernization, the pricing environment continued to be characterized by strong competition in the EMEA region, particularly in South Europe and also in some of the Central and North European markets. Also in North America, price competition remained rather intense in maintenance, but slightly eased in modernization.

Financial performance in October–December

Orders received grew by 14.3% as compared to October–December 2014, and totaled EUR 1,947 (10–12/2014: 1,704) million. At comparable exchange rates, KONE's orders received increased by 7.0%.

New equipment orders received grew somewhat, with slight growth in the volume business and strong growth in major projects in the quarter. In modernization, orders received grew significantly. 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 grew significantly in the EMEA region at comparable exchange rates. Orders saw significant growth in Central and North Europe, while in South Europe they were rather stable. In the Middle East, orders grew very strongly. In North America, KONE's order intake grew clearly, driven by continued positive development across the region. In Asia-Pacific, orders received were stable with orders in China declining somewhat.

The margins of orders received remained at a good level despite the price competition seen in many markets. Improvements in the overall product competitiveness, including cost, helped in maintaining the healthy margins.

KONE's net sales grew by 18.3% as compared to October–December 2014, and totaled EUR 2,562 (10–12/2014: 2,166) million. At comparable exchange rates KONE's net sales growth was 10.8%.

New equipment sales accounted for EUR 1,488 (1,194) million and represented an increase of 24.7% over the comparison period. At comparable exchange rates, new equipment sales grew by 15.0%.

Service (maintenance and modernization) sales grew by 10.5% and totaled EUR 1,073 (971.9) million. At comparable exchange rates, service sales grew by 5.5%. Maintenance sales was EUR 692.4 (616.0) million and grew by 12.4% at historical and by 7.5% at comparable exchange rates. Maintenance sales include elevator and escalator maintenance as well as KONE's automatic doors business. Modernization sales grew by

KONE's January–December 2015 review

SALES BY AREA, MEUR

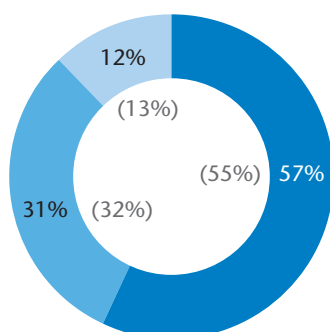
	1–12/2015	1–12/2014	Historical change	Comparable change
EMEA ¹⁾	3,369.6	3,204.6	5.1%	3.5%
Americas	1,466.0	1,100.6	33.2%	15.6%
Asia-Pacific	3,811.8	3,029.3	25.8%	10.1%
Total	8,647.3	7,334.5	17.9%	8.3%

¹⁾ EMEA = Europe, Middle East, Africa

SALES BY BUSINESS, MEUR

	1–12/2015	1–12/2014	Historical change	Comparable change
New equipment	4,934.8	4,008.8	23.1%	10.6%
Maintenance	2,641.5	2,338.3	13.0%	6.7%
Modernization	1,071.0	987.4	8.5%	2.2%
Total	8,647.3	7,334.5	17.9%	8.3%

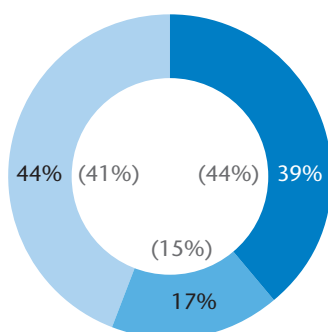
Sales by business



■ New equipment
■ Maintenance
■ Modernization

1–12/2015
(1–12/2014)

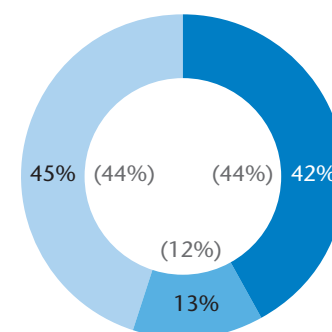
Sales by area



■ EMEA
■ Americas
■ Asia-Pacific

1–12/2015
(1–12/2014)

Personnel by area



■ EMEA
■ Americas
■ Asia-Pacific

December 31, 2015: 49,734
(December 31, 2014: 47,064)

7.1% and totaled EUR 381.1 (355.9) million. At comparable exchange rates, modernization sales grew by 2.2%.

Sales in the EMEA region grew by 8.2% and totaled EUR 1,030 (952.5) million. At comparable exchange rates, the growth was 6.1%. Sales in the Americas region accounted for EUR 468.6 (351.4) million and represented an increase of 33.4% over the comparison period. At comparable exchange rates, the growth was 18.7%. Sales in the Asia-Pacific region grew by 23.3% and totaled EUR 1,063 (862.0) million. At comparable rates, the growth was 12.4%.

KONE's operating income (EBIT) for the October–December 2015 period totaled EUR 378.5 (315.3) million or 14.8%

(14.6%) of net sales. Operating income grew driven by a positive development in both the new equipment and service businesses. The growth was driven by a broad-based positive development, in particular in the Asia-Pacific region. Also favorable translation exchange rates clearly contributed to the growth in operating income. KONE continued to increase fixed costs in areas that support the growth of the business, in particular in North America as well as in R&D, process development and IT.

Cash flow from operations in October–December 2015 (before financing items and taxes) was EUR 403.5 (367.8) million. The strong cash flow was driven by growth in operating income. Net working capital remained stable at a strong level.

KONE's January–December 2015 review

January–December 2015 review

Operating environment in January–December

In 2015, the global new equipment market volumes decreased slightly due to a decline in the large Chinese new equipment market. Of the other markets, new equipment demand in North America grew clearly, and markets in Europe and the Middle East also saw some growth. Globally the demand in modernization increased slightly, with positive development in North America and Asia-Pacific, and a slightly better trend overall also in Europe. The major projects segment saw some growth in the year, but the development varied from quarter to quarter. The maintenance market continued to grow globally. The fastest growth was seen in Asia-Pacific. In the more mature maintenance markets, the rate of growth was lower.

In the EMEA region, the new equipment market in Central and North Europe saw clear growth, driven by the residential segment in particular. Of the larger markets, Germany, Great Britain and Scandinavia developed positively. In South Europe, the new equipment market showed some signs of recovery, but still lacked substantial growth opportunities. The new equipment market in France and Italy remained weak, but in Spain the market continued to recover from a low level. In the Middle East, the new equipment market saw some growth. This was driven by the volume business, as the major project segment was negatively impacted by economic uncertainty in the region. The modernization market developed favorably in Central and Northern parts of the continent, in Great Britain in particular. It remained weaker in South Europe, although in Spain the recovery in demand continued also in modernization. The maintenance market grew in the EMEA region, but with variation in the competitive environment between different countries.

In North America, the new equipment demand developed strongly, driven by the United States, the largest market in the region. In the United States, the market grew clearly, with broad-based positive development across segments. In Canada, the new equipment market was rather stable. Demand for modernization grew in the region following the positive development in the United States. In maintenance, the market saw some growth, but remained rather competitive.

In the Asia-Pacific region, the new equipment market declined slightly in 2015 from the high level of the previous year. In China, the new equipment market declined somewhat, with the weakening becoming slightly more pronounced in the second half of the year. In the residential segment, affordable housing was rather stable, but demand in commercially-funded residential projects declined clearly. Other commercial segments declined slightly during the year, while the infrastructure segment grew significantly as a result of government stimulus actions. The market environment in China varied clearly between different regions. The first-tier cities and a part of second-tier cities continued to show a better level of demand, while the development in lower-tier cities was weak. Outside China, the market sentiment in India improved slightly with the new equipment market seeing some growth during the year. The Southeast Asian markets were rather stable overall, affected by the economic uncertainty in the region. In Australia, both new equipment and modernization demand developed posi-

tively. Maintenance markets in Asia-Pacific continued to grow following the positive development in new equipment installations.

KONE competes with various companies in all geographic areas. Particularly in services, the market environment is fragmented with numerous smaller and larger competitors. In 2015, the pricing environment was challenging in many regions. In China, competition for market share in the new equipment market was intense, resulting in further intensified price competition during 2015. The rest of Asia-Pacific saw no major changes in the competitive environment. In the EMEA region, the pricing environment in new equipment remained the most challenging in South European markets with persisting low volumes. The pricing of new equipment in North America continued to improve slightly, particularly in the volume business. In maintenance and modernization, the pricing environment was characterized by strong competition in the EMEA region, particularly in South Europe and also in some of the Central and North European markets. Also in North America, price competition remained rather intense in the service business.

Orders received and Order book in January–December

Orders received grew by 16.8% in 2015, and totaled EUR 7,959 (1–12/2014: 6,813) million. At comparable exchange rates, KONE's orders received increased by 5.6%. During January–December 2015, KONE's orders received grew in the volume business, and saw some growth also in the major projects business. Orders received grew somewhat in new equipment and clearly in modernization. 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.

The order book grew by 18.1% compared to the end of 2014, and stood at a level of EUR 8,210 (December 31, 2014: 6,952) million at the end of 2015. At comparable exchange rates, the increase was 11.9%. The margin of the order book remained at a good level. The overall margin of orders received also remained at a good level. This was achieved despite the price pressure in several markets with progress made in product and cost competitiveness. Cancellations of orders remained at a very low level.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 161,000 units (2014: approximately 154,000 elevator and escalator units).

Orders received in the EMEA region grew clearly at comparable exchange rates as compared to 2014. New equipment orders grew clearly in the region. They grew significantly in Central and North Europe, with Great Britain, Germany and the Nordic countries contributing most to the growth. In South Europe, new equipment orders were stable with strong growth in Spain, a stable development in France, and significant decline in Italy. In the Middle East, new equipment orders grew somewhat against a high comparison level. KONE's modernization order intake in the EMEA region grew somewhat as compared to 2014, driven by clear growth in Central and North Europe. In South Europe, modernization orders were stable.

KONE's January–December 2015 review

Orders received in the Americas region grew significantly at comparable rates as compared to 2014. New equipment orders received grew strongly, driven by the United States in particular. Also in modernization, orders received saw significant growth in the region.

Orders received in the Asia-Pacific region grew slightly at comparable rates as compared to the previous year. New equipment orders received were stable in the region with a stable development in China, the largest contributor. In the rest of Asia-Pacific, new equipment orders grew significantly in the volume business but declined in major projects due to several large projects in the comparison period. Modernization orders received grew significantly in the Asia-Pacific region.

Net sales

Net sales increased in 2015 by 17.9% as compared to the prior year, and totaled EUR 8,647 (1–12/2014: 7,334) million. At comparable exchange rates the increase was 8.3%. The sales consolidated from the companies acquired in 2015 did not have a material impact on KONE's net sales for the financial period.

New equipment sales accounted for EUR 4,935 (4,009) million and represented an increase of 23.1% over the comparison period. At comparable exchange rates, new equipment sales grew by 10.6%.

KONE delivered approximately 137,000 new elevator and escalator units in 2015 (2014: approximately 130,000 elevator and escalator units).

Service (maintenance and modernization) sales increased by 11.6%, and totaled EUR 3,713 (3,326) million. At comparable exchange rates, service sales grew by 5.4%. Maintenance sales grew by 13.0% at historical and by 6.7% at comparable exchange rates, and totaled EUR 2,642 (2,338) million. Modernization sales increased by 8.5%, and totaled EUR 1,071 (987.4) million. At comparable exchange rates, modernization sales increased by 2.2%.

KONE's elevator and escalator maintenance base continued to grow and was close to 1,100,000 units at the end of 2015 (the maintenance base exceeded 1,000,000 units at the end of 2014). 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 also somewhat contributed to the growth. During the reporting period, the balance of maintenance contracts that were won from or lost to competition was still negative, but it was at a better level than at the end of the previous year. Another factor burdening the growth of the maintenance base was the usual impact from equipment taken out of use due to building closures.

The share of new equipment sales was 57% (55%) and the share of service sales 43% (45%) of total sales, with maintenance representing 31% (32%) and modernization 12% (13%) of total sales. The geographical distribution of net sales was 39% (44%) EMEA, 17% (15%) Americas and 44% (41%) Asia-Pacific. The increase in the share of new equipment and Asia-Pacific was to a large extent due to changes in translation exchange rates. The largest individual countries in terms of net sales were China, the United States and France. China's share

was close to 35% and the United States' share close to 15% of KONE's total net sales in 2015.

Sales in the EMEA region grew by 5.1%, and totaled EUR 3,370 (3,205) million. At comparable exchange rates, the growth was 3.5%. New equipment and maintenance sales grew somewhat. Modernization sales declined slightly.

Sales in the Americas region grew by 33.2%, and totaled EUR 1,466 (1,101) million. At comparable exchange rates, the growth was 15.6%. Sales grew very strongly in new equipment and significantly in modernization. Maintenance sales grew somewhat.

Sales in the Asia-Pacific region grew by 25.8%, and totaled EUR 3,812 (3,029) million. At comparable exchange rates, the growth was 10.1% with clear growth in new equipment and significant growth in maintenance. Modernization sales saw a clear decline.

Financial result

KONE's operating income (EBIT) grew in 2015 and reached EUR 1,241 (1–12/2014: 1,036) million or 14.4% (14.1%) of net sales. Operating income grew driven by a positive development in both the new equipment and service businesses. The growth was driven by a broad-based positive development across geographical regions. Favorable translation exchange rates clearly contributed to the growth in operating income with a positive impact of approximately EUR 120 million. KONE continued to increase fixed costs in areas that support the growth of the business, in particular in Asia-Pacific and North America as well as R&D, process development and IT.

Net financing items was EUR 122.4 (-19.1) million. An extraordinary dividend received from Toshiba Elevator and Building Systems Corporation (TELCO), amounting to EUR 118.2 million, had a strongly positive impact on financing income. Net financing items also included the revaluation of option liabilities from acquisitions, totaling EUR -36.9 million of which EUR 10.2 million was negative impact from exchange rates.

KONE's income before taxes was EUR 1,364 (1,016) million. Taxes totaled EUR 311.4 (242.4) million. This represents an effective tax rate of 22.8% (23.9%) for the financial year. The main one-time items affecting the total effective tax rate for the full financial year were the extraordinary dividends received from TELCO and the revaluation of option liabilities from acquisitions. The effective tax rate resulting from the operations for the financial year was 23.2% (22.5%). Net income for the period under review was EUR 1,053 (773.9) million.

Basic earnings per share was EUR 2.01 (1.47). Basic earnings per share excluding the extraordinary dividend received from TELCO was EUR 1.79.

Consolidated statement of financial position and Cash flow

KONE's financial position was very strong at the end of December 2015.

Cash flow from operations during January–December 2015 (before financing items and taxes) was EUR 1,474 (1–12/2014: 1,345) million. The cash flow was driven by growth in operating income and continued favorable development in net working capital.

KONE's January–December 2015 review

Net working capital improved, and was at the end of December 2015 EUR -983.4 (December 31, 2014: -749.7) million, including financing items and taxes. The impact from translation exchange rates was significantly positive on the reported net working capital, but also at comparable rates, net working capital improved from a very good level. This was a result of a strong level of advances received relative to inventories and good collection of accounts receivable.

Interest-bearing net debt at the end of December 2015 was EUR -1,513 (December 31, 2014: -911.8) million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 1,903 (1,279) million at the end of the reporting period. Interest-bearing liabilities were EUR 406.1 (373.2) million, including a net pension liability of EUR 169.2 (178.9) million and short-term loans of EUR 12.0 (12.0) million. In addition, the interest-bearing net debt includes EUR 192.4 (151.0) million of option liabilities from acquisitions. Gearing was -58.7%, compared with -44.2% at the end of 2014. KONE's total equity/total assets ratio was 45.4% at the end of December 2015 (December 31, 2014: 43.6%).

Equity per share was EUR 4.94 (3.93).

Capital expenditure and acquisitions

KONE's capital expenditure, including acquisitions, totaled EUR 157.6 (1–12/2014: 154.8) million. Capital expenditure, excluding acquisitions, was mainly related to R&D, IT, business operations and production. Acquisitions accounted for EUR 64.9 (67.0) million of this figure.

During 2015, KONE's acquisitions included the service companies Janzhoff Aufzüge GmbH and Klostermann Aufzüge GmbH in Germany as well as KONE's authorized distributors in Croatia and Bosnia. In addition, KONE completed a number of smaller acquisitions in the EMEA region and in the United States 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.

Research and development

Research and development expenses totaled EUR 121.7 (1–12/2014: EUR 103.1) million, representing 1.4% (1.4%) of net sales. R&D expenses include the development of new product and service concepts and the further development of existing solutions and services. KONE's elevators and escalators are based on industry-leading energy efficient technology.

KONE's customers and users are at the center of its research and development efforts. In accordance with its vision of delivering the best People Flow® experience, KONE focuses on understanding the needs of its customers and the users of its solutions in order to make people flow in buildings smoother and to improve the user experience. The aim of one of KONE's five development programs, the Most Competitive People Flow® Solutions, is to offer industry-leading elevators, escalators and automatic building doors, and to further develop KONE's People Flow Intelligence solutions for the smart buildings of the future.

In 2015 KONE continued to enhance its offering, launching both a number of new solutions as well as enhancements to existing solutions. New solutions were released in various

markets. In India, two new elevator models for the residential market were introduced, the KONE I MonoSpace® and the KONE I MiniSpace™. The new elevators are designed for low- and mid-rise apartment buildings, providing customers and users with improved ride comfort and eco-efficiency as well as inspiring design. In China, KONE extended its offering in the affordable housing segment with the launch of the KONE Z MiniSpace™ elevator. In North America, KONE's offering was complemented with the launch for sales of the Turnstile 100 and the RemoteCall™ application, which allows the elevator to be called remotely from anywhere in the building with smartphone technology. KONE's global escalator offering was improved with the launch of an updated version of the KONE TransitMaster™ 140 escalator targeted for the infrastructure segment. Other releases during the reporting period included new solutions for elevator electrification and signalization modernization in Europe and China.

KONE initiated elevator installations at the Jeddah Tower (formerly known as Kingdom Tower) construction site in Saudi Arabia during the second quarter of 2015. The world's tallest building, scheduled to be completed in 2018, will be equipped with KONE's newest innovative technology including high-speed elevators that are set to make a new record for an elevator ride's vertical distance with 660 meters. In addition, KONE further strengthened its high-rise innovation capabilities in the fourth quarter by opening one of the tallest elevator test towers in the world at its R&D facility in Kunshan, China. With a height of 236 meters, the Kunshan test tower is the tallest among KONE's testing facilities, and it complements KONE's over 300-meter-deep underground testing facility in Tytyri, Finland, allowing KONE to test elevators at various speeds.

In 2015, KONE was ranked 48th out of the 100 most innovative companies in the world by business magazine Forbes (2014: 42nd). Out of all European companies listed, KONE was ranked fifth. KONE was listed by Forbes for the fifth consecutive year and was the only elevator and escalator company included on the list in 2015. In addition, KONE received recognition for its design during 2015. KONE was awarded two design awards, the iF Design Award and the Red Dot Product Design Award, for its KONE Turnstile 100 solution. KONE was recognized in the iF Design Awards already for the third time.

Change in the Board of Directors

Kazunori Matsubara, member of the Board of Directors of KONE since February 23, 2015, tendered his resignation from the Board of Directors as of July 22, 2015. Kazunori Matsubara resigned from the Board following the sale by Toshiba Elevator and Building Systems Corporation (TELCO) of their previously held 4.6% stake in KONE Corporation's share capital. Following the resignation of Kazunori Matsubara, the Board of Directors of KONE consists of eight members.

Changes in the Executive Board

In September 2015, KONE announced the establishment of a new Technology & Innovation unit bringing together KONE's Research & Development and IT functions. Tomio Pihkala was appointed KONE's Chief Technology Officer to head the new unit as of January 1, 2016. Tomio Pihkala was previously

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responsible for KONE's Operations Development. In his new position, he continues as a member of the Executive Board and reports to Henrik Ehrnrooth, President & CEO.

Mikko Korte was appointed Executive Vice President, Operations Development as of January 1, 2016. KONE Operations Development includes KONE's installation operations as well as the quality, safety and environment functions. Mikko Korte was previously responsible for KONE's new equipment business in the Americas region. In his new position he became a member of the Executive Board and reports to Henrik Ehrnrooth.

Personnel

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

One of the five development programs launched at the beginning of 2014 was defined as "A Winning Team of True Professionals." The implementation of various initiatives within this program continued during 2015, and targets for 2016 were defined. The initiatives target to help all employees perform at their best, to enhance the systematic development of field competences, and to ensure the attraction of the right talent to all positions.

During 2015, in line with the target of helping all employees perform at their best, conducting high-quality performance discussions was a focus area at KONE. The share of employees with documented performance reviews and development plans showed a significant increase during the year. A record number of employees also reported seeing a positive impact from the reviews on their personal development. In several countries, special focus was paid to supervisor competence evaluations and development plans. In addition to the individual development planning, job rotation continued as an important part of employee development at KONE. In 2015, a "Visit a job" concept was piloted to promote short term job rotation and the exchange of ideas across departments. In 2016, this concept will be further promoted and expanded, and actions to further improve the quality of performance evaluations will continue.

By the end of 2015, a majority of KONE's personnel had access to the company's online learning management system. With the increasing use of the system, over half of all active training registrations had been made for online modules at the end of the year. In addition, KONE continued to invest in the training of field employees, especially in the more emerging markets, and started new partnerships to enhance competence building of maintenance technicians in China. The delivery of existing leadership and general management programs also continued as throughout the year.

KONE also continued focusing on talent attraction during the reporting period. Various employer branding and school collaboration activities took place, and KONE had apprentice programs in use in more than 20 countries. In addition, KONE received over 2,000 applications for its International Trainee

Program, attracting top students and recent graduates for assignments in an international working environment.

KONE carried out its tenth annual global employee survey with a record high response rate of 93% (2014: 91%). The overall results showed a further improvement, particularly in indicators measuring views on career opportunities, collaboration and the perceived quality of KONE's products and services. Following the results, actions targeting identified improvement areas continued throughout the year extending also into 2016.

During the year, efforts to improve safety at work remained a high priority area at KONE. The IIFR (Industrial Injury Frequency Rate) improved further and was 2.3 in 2015 (2014: 2.8). KONE's fourth annual Safety Week was held in all KONE units with the theme "Set an example". Various safety-related activities were held during the week, both for internal and external stakeholders. Additionally, systematic internal sharing of practices and development ideas improving safety continued throughout the year. The indicator measuring KONE's commitment to safety again received the highest single score in the annual employee survey.

KONE had 49,734 (December 31, 2014: 47,064) employees at the end of December 2015. The average number of employees was 48,469 (1–12/2014: 45,161). Employee costs for the reporting period totaled EUR 2,446 (2,100) million. The geographical distribution of KONE employees was 42% (December 31, 2014: 44%) in EMEA, 13% (12%) in the Americas and 45% (44%) in Asia-Pacific.

Environment

For KONE, environmental responsibility is a combination of offering its customers innovative solutions that are both energy- and cost-efficient, and reducing the adverse environmental impacts of its own operations. The focus in developing eco-efficient solutions is on further improving energy-saving stand-by and hoisting solutions for elevators as well as innovative energy-saving solutions for escalators. KONE aims to strengthen its position as a leader in sustainability in its industry, supporting governmental and other green building initiatives and the ongoing transformation of the built environment into smart eco-cities globally.

KONE has set ambitious environmental targets in its Environmental Excellence program for the years 2014–2016, with the focus on further improving the energy efficiency of its solutions as well as reducing the adverse environmental impacts from its own operations. Overall, the most significant environmental impact comes from the energy used by KONE equipment during their lifetime, whereas the biggest impact on KONE's carbon footprint from its own operations relates to the company's vehicle fleet, electricity consumption, and logistics. KONE also continues to focus on the environmental aspects of its supply chain network.

As targeted in its Environmental Excellence program, KONE continued developing the energy-efficiency of its solutions in 2015. KONE extended the classification coverage of its product range according to the new energy efficiency standard ISO 25745. In addition to eight elevator models classified already in the previous year, the KONE N MonoSpace® elevator also achieved the highest A-class classification according to the new

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standard. Additionally, the KONE TravelMaster™ 110 escalator achieved the highest A+++ classification for escalators. In addition, KONE renewed the Green Label certifications of the Singapore Green Building Council for the KONE N MiniSpace™ and KONE N MonoSpace® elevators.

In addition to its solutions, KONE's manufacturing and office facilities also received recognition for their sustainability in 2015. The manufacturing unit in Italy achieved the ISO 50001 Energy management systems certification as the second KONE unit, in addition to the previously certified unit in the Czech Republic. In addition, the building housing the new head office of KONE's subsidiary in Finland was awarded LEED Platinum green building certification.

In June 2015, KONE published its Sustainability Report 2014. The report follows the application level B of the Global Reporting Initiative guidelines. The most significant environmental achievements in 2014 included reductions in reported greenhouse gas emissions from the company's own operations. KONE's 2014 carbon footprint relative to overall operations (net sales) decreased by 1.8% compared to 2013. KONE's greenhouse gas reporting has been assured by an objective third party.

KONE's score in CDP's (formerly known as Carbon Disclosure Project) climate change program further improved to the best possible 100 A in 2015 (2014: 100 A-). The program is designed to enable the management of greenhouse gas emissions and the risks and opportunities associated with climate change. In addition to carbon disclosure, CDP evaluates companies on their performance for mitigating climate change on a scale of A to E, with scores A to B considered high performance. In 2015, KONE reached the highest A score for the first time and was included on CDP's global A List of 113 leading companies. For the fifth year running, KONE achieved a top position on CDP's Nordic Climate Disclosure Leadership Index (CDLI) featuring the best 10% of companies included in the CDP Nordic report. Additionally, KONE was ranked in 2015 as one of the world's most sustainable companies and included in the Global 100 index fund managed by investment advisory company Corporate Knights. Ranked 28th, KONE is the only elevator and escalator company in the index.

As a signatory of the United Nations Global Compact, KONE supports the new UN agenda for Sustainable Development launched in the autumn of 2015, which addresses the social, economic and environmental dimensions of sustainability. KONE's solutions help in addressing the challenges created by urbanization, climate change, demographic change and increased safety demands, all of which are covered by the new agenda. In December 2015, KONE also signed the Paris Pledge for Action supporting the objectives of the Paris Agreement on climate change.

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 262 million at the end of December 2015 (December 31, 2014: EUR 280 million). KONE's position is that the claims are without merit. No provision has been made.

Risk management

KONE is exposed to risks that may arise from its operations or changes in the business 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.

A weakening of the global economic environment or an increase in geopolitical tensions could result in a deterioration of the market environment and the competitive situation in the global new equipment, modernization and maintenance markets. In particular, a disruption in the construction market or prolonged market weakness could result in a significant decline of the market for new elevators and escalators and a more challenging market environment in services. Such a decline in the market in China, the EMEA region or other regions that form a substantial part of KONE's orders, sales or profits, could lead to a decline in orders received, cancellations or delays of agreed deliveries and projects, or further intensified price competition, which could all, as a result, have a negative impact on KONE's growth and profitability. To counteract the pressures resulting from a possible deterioration of the economic environment and its impact on the elevator and escalator markets, KONE strives to continuously develop its competitiveness.

KONE operates in an industry with various local regulatory requirements in both the new equipment and service businesses. Sudden or unanticipated changes in regulations, codes or standards may result in a need for process or technology adjustments, which could adversely affect KONE's profit development in affected countries. In order to mitigate the risk of unanticipated changes in the regulatory environment, KONE is actively involved in the development of regulations, codes and standards that aim to further improve the safety and other technological features of elevators, escalators and automatic doors.

KONE introduces new technology and continuously develops the competitiveness of its existing offering and solutions based on anticipated future developments in relevant technologies, customer needs and market requirements. The development of new technology and execution of product releases involve risks related to the functioning of the delivery chain as well as product integrity and quality. Additionally, a failure to anticipate or address changes in the external environment –

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including the industry and end markets, the competitive environment, relevant technology, or customer needs and behavior – could result in a deterioration of KONE's growth, competitiveness, market share or profitability. Such risks could materialize also in the case of an incident causing reputational or other damage to the company. To mitigate these risks, KONE has processes in place for product design, supply, manufacturing, installation and maintenance involving strict quality control. KONE also follows closely emerging trends in the industry and markets as well as the developments in various fields of new technology.

KONE operates in certain high growth markets, where focused management of rapid business growth is required. This applies in particular to the availability of skilled personnel, the adequate supply of components and materials, and the ability to ensure the quality of delivered products and services. Failure to adequately manage resourcing, quality of delivery, or other critical aspects in projects, could result in delays in deliveries and unplanned costs, which in turn could have an adverse impact on the profitability of the company. KONE manages these risks through proactive project and resource planning and strict quality control processes.

KONE's business activities are dependent on the uninterrupted operation, quality and reliability of its manufacturing facilities, sourcing channels, and logistics processes. A significant part of KONE's component suppliers and global supply capacity is located in China, both in the elevator and in the escalator business. The risks related to the supply chain are controlled by analyzing and improving the fault tolerance of processes, focusing on diligent forecasting, fostering close cooperation with KONE's suppliers, and by increasing the readiness for transferring the manufacturing of critical components from one production line or supplier to another. KONE actively monitors the operations and financial strength of its key suppliers. The aim is also to secure the availability of alternative sourcing channels for critical components and services. Additionally, KONE has a global property damage and business interruption insurance program in place.

KONE's operations utilize information technology extensively and its business is dependent on the quality and availability of information. This may expose KONE to information security violations, the misuse, theft or other loss of systems and/or data, viruses, malwares and to such malfunctions, which can result in system failures or disruptions in processes and therefore impact KONE's business. Clear roles and responsibilities have been defined to manage IT security risks to ensure that adequate security is inbuilt within the IT management processes according to security policies, principles and guidelines. KONE uses trusted and well known technology partners to mitigate information-related risks in all parts of its operations.

Changes in prices of raw materials and components are reflected in the production costs of elevators, escalators and automatic doors, and may therefore have a significant impact on KONE's profitability. In order to reduce the impact of material and sourcing price fluctuation, KONE aims to enter into fixed-price contracts with its major suppliers for a significant part of its raw material and component purchases whenever feasible and relevant considering the market situation.

KONE is exposed to counterparty risks related to financial institutions through the significant amounts of liquid funds deposited with financial institutions, financial investments and in derivatives. In order to diversify the financial credit risk, KONE deposits its funds into several banks and invests a part of its liquidity into highly liquid money market funds. KONE also manages its counterparty risk by accepting only counterparties with high creditworthiness. The size of each counterparty limit reflects the creditworthiness of the counterparty and KONE constantly evaluates such limits.

KONE is also exposed to risks related to the liquidity and payment schedules of its customers, which may lead to credit losses. To mitigate this risk, defined rules for tendering, levels of approval authority, and credit control have been established. The risks related to accounts receivable are minimized also through the use of advance payments, documentary credits and guarantees in KONE's payment terms. KONE's customer base consists of a large number of customers in several market areas, with no individual customer representing a material share of KONE's sales.

KONE operates internationally and is thus exposed to risks arising from foreign exchange rate fluctuations related to currency flows from revenues and expenses, as well as from the translation of income statement and statement of financial position items of foreign subsidiaries into euros. The KONE Treasury is responsible for the centralized management of financial risks in accordance with the KONE Treasury Policy approved by the Board of Directors.

For further information regarding financial risks, please refer to note 2 in the consolidated Financial Statements for 2015.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 23, 2015. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2014.

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

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. Jussi Herlin was independent of the company until January 10, 2016, after which he has become employed by the company.

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 and Matti Alahuhta is independent of significant shareholders.

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 33,000 for Board Members. In addition,

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tion, a compensation of EUR 500 was approved for attendance at Board and Committee meetings, but such that an EUR 2,000 compensation for Committee meetings will be paid for members residing outside of Finland. 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.

Further, the General Meeting authorized the Board of Directors to decide on the issuance of shares as well as the issuance of options and other special rights entitling to shares referred to in chapter 10 section 1 of the Finnish Companies Act. The amount of shares to be issued based on this authorization shall not exceed 7,620,000 class A shares and 44,820,000 class B shares. The Board of Directors decides on all the conditions of the issuance of shares and of special rights entitling to shares. The authorization concerns both the issuance of new shares as well as the transfer of treasury shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The authorization shall remain in effect for a period of five years following the date of decision of the General Meeting.

Authorized public accountants PricewaterhouseCoopers Oy and Niina Vilske were nominated as the Company's auditors.

The General Meeting approved dividends of EUR 1.1975 for each of the 76,208,712 class A shares and EUR 1.20 for each of the outstanding 437,517,818 class B shares. The date of record for dividend distribution was February 25, 2015 and dividends were paid on March 4, 2015.

Share capital and Market capitalization

In 2010, KONE granted a conditional option program. The 2010 stock options were listed on the Nasdaq Helsinki Ltd. on April 2, 2013. Each option entitled its holder to subscribe for two (2) new class B shares at the price of, from February 24, 2015, EUR 11.875 per share. As the subscription period ended on April 30, 2015, the 896,000 KONE 2010 option rights held by KONE Capital Oy, a subsidiary of KONE Corporation, and otherwise unused 105 KONE 2010 option rights expired. The rest of the remaining 2,103,895 options had been used.

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 are held by KONE Corporation's subsidiary. During the reporting period 126,284 new KONE class B shares were subscribed for with the 2013 option rights. On December 31, 2015 a maximum of 1,263,716 shares could be subscribed for with the remaining outstanding option rights. Each option entitles its holder to subscribe for two (2) new class B shares at the price of, from February 24, 2015, EUR 25.40 per share. The share subscription period for the stock option 2010 is April 1, 2015–April 30, 2017.

In December 2013, KONE granted a conditional option program. Stock options 2014 are granted according to the decision of the Board of Directors on December 20, 2013 to approximately 550 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. The original share subscription price for the 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, 2015 was EUR 29.60. 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 2014 is April 1, 2016–April 30, 2018. The share subscription period begins April 1, 2016, since the financial performance of the KONE Group for the financial years 2014–2015, based on the total consideration of the Board of Directors, has been equal to or better than the average performance of the key competitors of KONE.

In December 2014, KONE granted a conditional option program. Stock options 2015 are granted according to the decision of the Board of Directors on December 18, 2014 to approximately 560 key employees. 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. The original share subscription price for the option is 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, 2015 was EUR 35.00. Each stock option entitles its holder to subscribe for one (1) new or an existing company's own class B KONE share. The share subscription period for the stock options 2015 will be April 1, 2017–April 30, 2019. The share subscription period begins only if the financial performance of the KONE Group for the financial years 2015–2016 based on the total consideration of the Board of Directors is equal to or better than the average performance of the key competitors of KONE.

In December 2015, KONE's Board of Directors decided that KONE's share-based remuneration will be based on two separate plans starting from the financial year 2016. One share-based incentive plan will be targeted for the senior management of KONE, including the President and CEO, members of the Executive Board and other top management, consisting of approximately 60 individuals. A second plan will be targeted for other key personnel of KONE, totaling approximately 425 individuals. The incentive plans will be part of these individuals' remuneration starting from the financial year 2016. According to the decision, the potential reward is based on the annual growth in sales and earnings before interest and taxes (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 the 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 dur-

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ing a period of two years following the ending of each earning period. Following the decision, KONE does not grant new stock option plans. The current existing stock option plans 2013, 2014 and 2015 shall be carried out based on the original terms of these programs.

On December 31, 2015, KONE's share capital was EUR 65,675,789.25 comprising 449,197,602 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 20,101 million on December 31, 2015, 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

During January–December 2015, KONE used its authorization to repurchase own shares. In April, 354,838 class B shares in the company's possession were assigned to the share-based incentive plan and 3,210 class B shares as a part of the board members' annual remuneration. In July, 5,194 class B shares were returned to KONE Corporation by virtue of the terms of KONE Corporation's share-based incentive program for the years 2013–2015. In addition, KONE bought back in total 1,910,000 of its own class B shares in July. At the end of December, the Group had 12,240,544 class B shares in its possession. The shares in the Group's possession represent 2.7% of the total number of class B shares. This corresponds to 1.0% of the total voting rights.

Shares traded on the Nasdaq Helsinki Ltd.

The Nasdaq Helsinki Ltd. traded 259.2 million KONE Corporation's class B shares in January–December 2015, equivalent to a turnover of EUR 9,930 million. The daily average trading volume was 1,032,543 shares (1–12/2014: 945,356). The share price on December 31, 2015 was EUR 39.17. The volume weighted average share price during the period was EUR 38.29. The highest quotation during the period under review was EUR 44.35 and the lowest EUR 31.50. 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 31.0% of the total volume of KONE's class B shares traded in January–December 2015 (source: Fidessa Fragmentation Index, <http://fragmentation.fidessa.com>).

The number of registered shareholders was 51,075 at the beginning of the review period and 56,441 at its end. The number of private households holding shares totaled 52,507 at the end of the period, which corresponds to approximately 13.5% of the listed B shares.

According to the nominee registers, 49.3% of the listed class B shares were owned by foreign shareholders on December 31, 2015. Other foreign ownership at the end of the period totaled 1.3%. Thus a total of 50.6% of KONE's listed class B shares were owned by international investors, corresponding to approximately 18.8% of the total votes in the company.

Market outlook 2016

In new equipment, the market in China is expected to decline by 5–10% in units ordered and also the price competition to continue intense. In the rest of Asia-Pacific and in North America, the market is expected to see some growth. Also the market in Europe, Middle East and Africa region is expected to grow slightly with growth in Central and North Europe and a more stable development in South Europe and the Middle East.

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

Maintenance markets are expected to see the strongest growth rate in Asia-Pacific, and to develop rather well also in other regions.

Business outlook 2016

KONE's net sales is estimated to grow by 2–6% at comparable exchange rates as compared to 2015.

The operating income (EBIT) is expected to be in the range of EUR 1,220–1,320 million, assuming that translation exchange rates would remain at approximately the average level of January 2016.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2015 is EUR 1,765,223,548.43 of which the net profit for the financial year is EUR 1,200,968,239.16.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.3975 be paid on the outstanding 76,208,712 class A shares and EUR 1.40 on the outstanding 436,957,058 class B shares, resulting in a total amount of proposed dividends of EUR 718,241,556.22.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,046,981,992.21 be retained and carried forward.

The Board proposes that the dividends be payable from March 16, 2016. All the shares existing on the dividend record date are entitled to dividend for the year 2015 except for the own shares held by the parent company.

Annual General Meeting 2016

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Monday, March 7, 2016 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 28, 2016

KONE Corporation's Board of Directors

Consolidated statement of income

MEUR	10-12/2015	%	10-12/2014	%	1-12/2015	%	1-12/2014	%
Sales	2,561.8		2,165.8		8,647.3		7,334.5	
Costs and expenses	-2,157.7		-1,828.0		-7,305.9		-6,214.6	
Depreciation and amortization	-25.6		-22.5		-100.0		-84.2	
Operating income	378.5	14.8	315.3	14.6	1,241.5	14.4	1,035.7	14.1
Share of associated companies' net income	-0.0		-0.7		0.6		-0.3	
Financing income	130.3		13.4		198.9		43.5	
Financing expenses	-33.7		-46.0		-76.5		-62.6	
Income before taxes	475.0	18.5	282.1	13.0	1,364.4	15.8	1,016.4	13.9
Taxes	-102.4		-71.3		-311.4		-242.4	
Net income	372.7	14.5	210.7	9.7	1,053.1	12.2	773.9	10.6
Net income attributable to:								
Shareholders of the parent company	364.6		204.9		1,032.3		755.6	
Non-controlling interests	8.1		5.8		20.7		18.4	
Total	372.7		210.7		1,053.1		773.9	
Earnings per share for profit attributable to the shareholders of the parent company, EUR								
Basic earnings per share, EUR	0.71		0.40		2.01		1.47	
Diluted earnings per share, EUR	0.71		0.40		2.00		1.47	

Consolidated statement of comprehensive income

MEUR	10-12/2015	10-12/2014	1-12/2015	1-12/2014
Net income	372.7	210.7	1,053.1	773.9
Other comprehensive income, net of tax:				
Translation differences	32.1	39.6	177.4	152.7
Hedging of foreign subsidiaries	-7.4	-8.4	-23.5	-27.5
Cash flow hedges	-12.1	2.9	-10.7	-12.9
Items that may be subsequently reclassified to statement of income	12.6	34.1	143.2	112.4
Remeasurements of employee benefits	2.1	-4.2	-11.6	-41.5
Items that will not be reclassified to statement of income	2.1	-4.2	-11.6	-41.5
Total other comprehensive income, net of tax	14.7	29.9	131.6	70.9
Total comprehensive income	387.3	240.6	1,184.6	844.8
Total comprehensive income attributable to:				
Shareholders of the parent company	379.2	234.8	1,163.9	826.5
Non-controlling interests	8.1	5.8	20.7	18.4
Total	387.3	240.6	1,184.6	844.8

Condensed consolidated statement of financial position

Assets

MEUR	Dec 31, 2015	Dec 31, 2014
Non-current assets		
Goodwill	1,306.7	1,208.9
Other intangible assets	271.5	261.8
Tangible assets	345.4	317.1
Loans receivable and other interest-bearing assets	7.0	6.3
Investments	122.7	112.5
Employee benefits	8.4	-
Deferred tax assets	299.7	262.8
Total non-current assets	2,361.4	2,169.4
Current assets		
Inventories	1,326.7	1,211.8
Accounts receivable	1,480.2	1,368.3
Deferred assets and income tax receivables	434.0	331.9
Current deposits and loan receivables	1,350.6	942.7
Cash and cash equivalents	552.7	336.1
Total current assets	5,144.2	4,190.6
Total assets	7,505.6	6,360.0

Equity and liabilities

MEUR	Dec 31, 2015	Dec 31, 2014
Equity	2,575.5	2,062.4
Non-current liabilities		
Loans	32.5	31.2
Employee benefits	169.2	178.9
Deferred tax liabilities	140.9	110.6
Total non-current liabilities	342.6	320.8
Provisions	173.6	137.4
Current liabilities		
Loans	204.4	163.0
Advance payments received	1,829.4	1,628.7
Accounts payable	728.9	597.1
Accruals and income tax payables	1,651.3	1,450.6
Total current liabilities	4,414.0	3,839.4
Total equity and liabilities	7,505.6	6,360.0

Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2015	65.6	100.3	127.0	-5.5	118.3	-92.0	-150.8	1,855.0		44.5	2,062.4
Net income for the period									1,032.3	20.7	1,053.1
Other comprehensive income:											
Translation differences					177.4						177.4
Hedging of foreign subsidiaries					-23.5						-23.5
Cash flow hedges				-10.7							-10.7
Remeasurements of employee benefits						-11.6					-11.6
Transactions with shareholders and non-controlling interests:											
Profit distribution								-616.3			-616.3
Increase in equity (option rights)	0.1		13.7								13.8
Purchase of own shares							-71.2				-71.2
Change in non-controlling interests										-17.3	-17.3
Option and share-based compensation							11.4	8.0			19.4
Dec 31, 2015	65.7	100.3	140.7	-16.2	272.1	-103.6	-210.6	1,246.7	1,032.3	48.0	2,575.5

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2014	65.3	100.3	105.4	7.3	-7.0	-50.6	-128.8	1,602.2		30.4	1,724.6
Net income for the period									755.6	18.4	773.9
Other comprehensive income:											
Translation differences					152.7						152.7
Hedging of foreign subsidiaries					-27.5						-27.5
Cash flow hedges				-12.9							-12.9
Remeasurements of employee benefits						-41.5					-41.5
Transactions with shareholders and non-controlling interests:											
Profit distribution								-512.5			-512.5
Increase in equity (option rights)	0.2		21.6								21.8
Purchase of own shares							-32.8				-32.8
Change in non-controlling interests								-0.7		-4.2	-4.9
Option and share-based compensation							10.8	10.5			21.3
Dec 31, 2014	65.6	100.3	127.0	-5.5	118.3	-92.0	-150.8	1,099.4	755.6	44.5	2,062.4

Condensed consolidated statement of cash flows

MEUR	10-12/2015	10-12/2014	1-12/2015	1-12/2014
Operating income	378.5	315.3	1,241.5	1,035.7
Change in working capital before financing items and taxes	-0.6	30.0	132.3	225.5
Depreciation and amortization	25.6	22.5	100.0	84.2
Cash flow from operations before financing items and taxes	403.5	367.8	1,473.7	1,345.4
Cash flow from financing items and taxes	32.2	-65.7	-27.0	-221.1
Cash flow from operating activities	435.7	302.1	1,446.7	1,124.3
Cash flow from investing activities	-41.3	-56.5	-155.0	-145.9
Cash flow after investing activities	394.4	245.6	1,291.8	978.4
Purchase of own shares	-	-32.8	-71.2	-32.8
Increase in equity (option rights)	0.2	16.9	13.5	21.8
Profit distribution	-	-	-616.3	-537.5
Change in deposits and loans receivable, net	-360.0	-172.1	-373.3	-359.3
Change in loans payable and other interest-bearing debt	-4.1	-65.5	-15.9	-69.7
Changes in non-controlling interests	-	-	-18.4	-12.3
Cash flow from financing activities	-363.9	-253.5	-1,081.4	-989.8
Change in cash and cash equivalents	30.5	-7.9	210.3	-11.4
Cash and cash equivalents at beginning of period	518.8	344.5	336.1	339.1
Translation difference	3.4	-0.5	6.2	8.4
Cash and cash equivalents at end of period	552.7	336.1	552.7	336.1

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	10-12/2015	10-12/2014	1-12/2015	1-12/2014
Interest-bearing net debt at beginning of period	-1,137.6	-767.3	-911.8	-622.0
Interest-bearing net debt at end of period	-1,512.6	-911.8	-1,512.6	-911.8
Change in interest-bearing net debt	-375.0	-144.6	-600.8	-289.9

Notes for the interim report

KEY FIGURES

		1-12/2015	1-12/2014
Basic earnings per share	EUR	2.01	1.47
Diluted earnings per share	EUR	2.00	1.47
Equity per share	EUR	4.94	3.93
Interest-bearing net debt	MEUR	-1,512.6	-911.8
Total equity/total assets	%	45.4	43.6
Gearing	%	-58.7	-44.2
Return on equity	%	45.4	40.9
Return on capital employed	%	41.7	37.7
Total assets	MEUR	7,505.6	6,360.0
Assets employed	MEUR	1,062.9	1,150.5
Net working capital (including financing and tax items)	MEUR	-983.4	-749.7

QUARTERLY FIGURES

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

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

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

		Q4/2009	Q3/2009	Q2/2009	Q1/2009	Q4/2008	Q3/2008	Q2/2008	Q1/2008
Orders received	MEUR	813.5	766.5	953.9	898.5	845.2	892.4	1,092.4	1,117.5
Order book	MEUR	3,309.1	3,603.4	3,754.1	3,753.1	3,576.7	4,002.8	3,838.7	3,617.4
Sales	MEUR	1,426.8	1,127.3	1,168.6	1,021.0	1,431.6	1,123.8	1,142.1	905.3
Operating income	MEUR	202.7	160.1	146.3 ²⁾	91.2	189.2	146.0	136.7	86.5
Operating income	%	14.2	14.2	12.5 ²⁾	8.9	13.2	13.0	12.0	9.6

¹⁾ Excluding a MEUR 37.3 one-time cost related to the support function development and cost adjustment programs.

²⁾ Excluding a MEUR 33.6 one-time restructuring cost related to the fixed cost adjustment program.

Notes for the interim report

SALES BY GEOGRAPHICAL REGIONS

MEUR	1-12/2015	%	1-12/2014	%
EMEA ¹⁾	3,369.6	39	3,204.6	44
Americas	1,466.0	17	1,100.6	15
Asia-Pacific	3,811.8	44	3,029.3	41
Total	8,647.3		7,334.5	

¹⁾ EMEA = Europe, Middle East, Africa

ORDERS RECEIVED

MEUR	1-12/2015	1-12/2014
	7,958.9	6,812.6

ORDER BOOK

MEUR	Dec 31, 2015	Dec 31, 2014
	8,209.5	6,952.5

CAPITAL EXPENDITURE

MEUR	1-12/2015	1-12/2014
In fixed assets	76.4	73.3
In leasing agreements	16.3	14.6
In acquisitions	64.9	67.0
Total	157.6	154.8

DEPRECIATION AND AMORTIZATION

MEUR	1-12/2015	1-12/2014
Depreciation	72.1	61.9
Amortization of acquisition-related intangible assets	27.9	22.3
Total	100.0	84.2

R&D EXPENDITURE

MEUR	1-12/2015	1-12/2014
	121.7	103.1
R&D Expenditure as percentage of sales	1.4	1.4

NUMBER OF EMPLOYEES

	1-12/2015	1-12/2014
Average	48,469	45,161
At the end of the period	49,734	47,064

Notes for the interim report

COMMITMENTS

MEUR	Dec 31, 2015	Dec 31, 2014
Guarantees		
Associated companies	-	1.9
Others	6.9	4.2
Operating leases	277.7	277.8
Total	284.6	283.9

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,323 (1,064) million as of December 31, 2015.

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, 2015	Dec 31, 2014
Less than 1 year	73.6	72.0
1–5 years	153.8	151.7
Over 5 years	50.3	54.1
Total	277.7	277.8

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.

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

Notes for the interim report

DERIVATIVES

Fair values of derivative financial instruments	Derivative assets	Derivative liabilities	Fair value, net	Fair value, net
MEUR	Dec 31, 2015	Dec 31, 2015	Dec 31, 2015	Dec 31, 2014
Foreign exchange forward contracts and swaps	40.3	-35.2	5.0	27.8
Cross-currency swaps	6.7	-0.3	6.5	19.7
Electricity price forward contracts	-	-1.2	-1.2	-1.1
Total	47.1	-36.8	10.3	46.4

Nominal values of derivative financial instruments

MEUR	Dec 31, 2015	Dec 31, 2014
Foreign exchange forward contracts and swaps	2,717.0	1,879.7
Cross-currency swaps	138.9	138.9
Electricity price forward contracts	2.6	5.5
Total	2,858.5	2,024.1

The fair values of foreign exchange forward contracts and swaps as well as the fair values of cross-currency swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2). For electricity price forward contracts there exists a stock exchange price, based on which the fair value can be measured reliably (fair value hierarchy level 1).

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

Shares and shareholders

Dec 31, 2015	Class A shares	Class B shares	Total
Number of shares	76,208,712	449,197,602	525,406,314
Own shares in possession ¹⁾		12,240,544	
Share capital, EUR			65,675,789
Market capitalization, MEUR			20,101
Number of B shares traded (millions), 1–12/2015		259.2	
Value of B shares traded, MEUR, 1–12/2015		9,930	
Number of shareholders	3	56,441	56,441

	Close	High	Low
Class B share price, EUR, Jan–Dec 2015	39.17	44.35	31.50

¹⁾ During January–December 2015, KONE used its authorization to repurchase own shares. In April, 354,838 class B shares in the company's possession were assigned to the share-based incentive plan and 3,210 class B shares as a part of the board members' annual remuneration. In July, 5,194 class B shares were returned to KONE Corporation by virtue of the terms of KONE Corporation's share-based incentive program for the years 2013–2015. In addition, KONE bought back in total 1,910,000 of its own class B shares in July.

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KONE is one of the global leaders in the elevator and escalator industry. 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 industry-leading elevators, escalators, automatic building doors and integrated solutions to enhance the People Flow in and between buildings. KONE's services cover the entire lifetime of a building, from the design phase to maintenance, repairs and modernization solutions. In 2015, KONE had annual net sales of EUR 8.6 billion, and at the end of the year close to 50,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd. in Finland. www.kone.com

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