KONE

ANNUAL REVIEW

KONE 2016

Annual General Meeting February 28, 2017 in Helsinki

More information on page 88.

Board’s dividend proposal of 1.55 EUR per class B-Share

More information on page 88.

KONE’s financial reporting schedule in 2017

Financial Statement Bulletin and Financial Statements for 2016	Thursday, January 26, 2017
Printed Financial Statements for 2016	Week 8 February, 2017
Interim report for January 1–March 31, 2017	Thursday, April 27, 2017
Interim report for January 1–June 30, 2017	Wednesday, July 19, 2017
Interim report for January 1–September 30, 2017	Thursday, October 26, 2017

In the second quarter of 2017, KONE will publish a separate Corporate Responsibility Report for the year 2016.

Contents

* part of the official financial statements

We have renewed our Annual Review

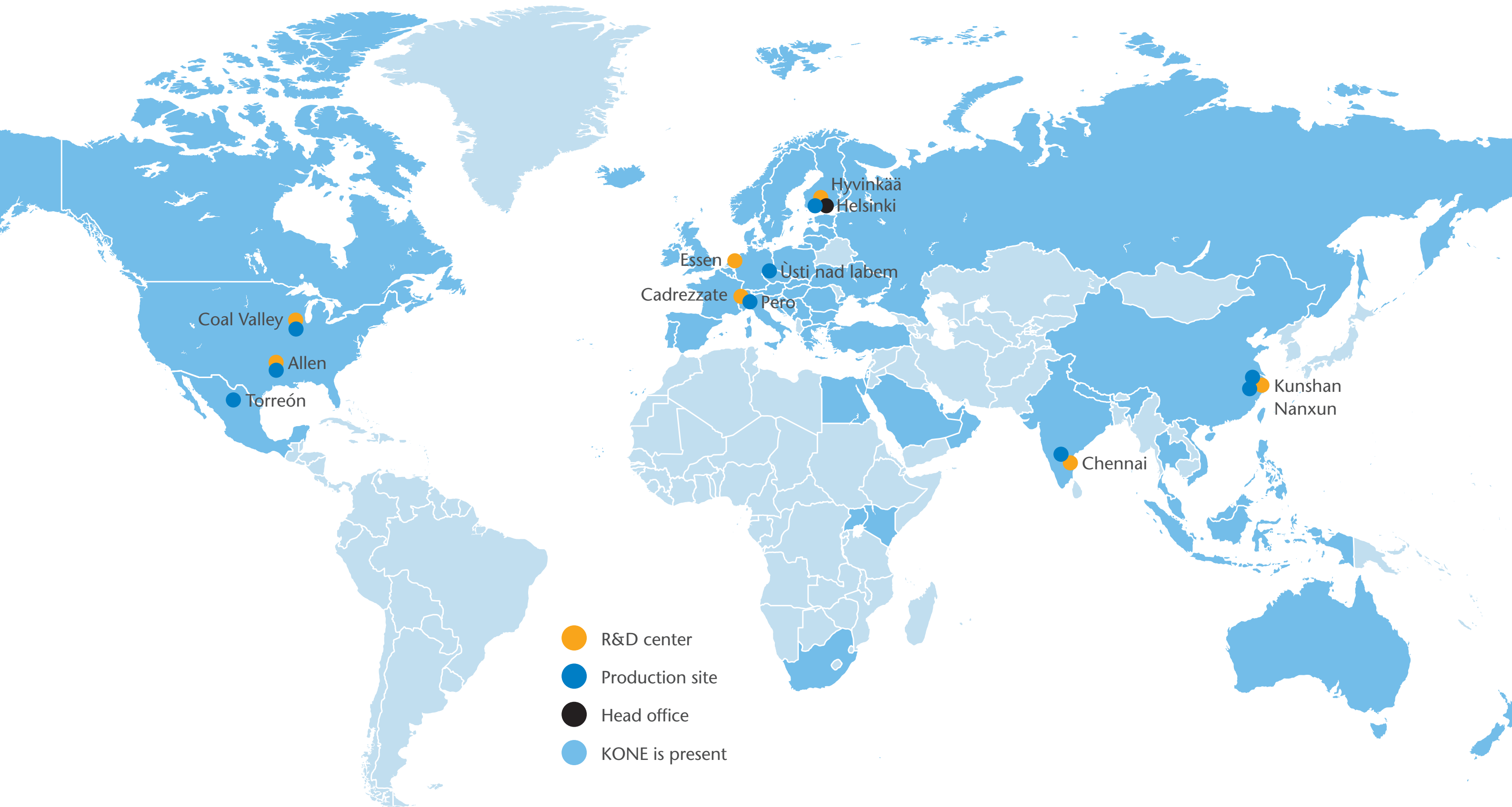
What's new in this report?

- The new Annual Review includes the Board of Directors' report, Audited financial statements, Corporate governance statement and Auditors' report
- More graphs and tables to make the report easier to read
- Note disclosures are split into six distinct sections to enable a better understanding of KONE's performance in 2016
- Accounting principles have been moved to the relevant part of the notes to make the report more user-friendly

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 **8,784** MEUR in 2016

>50,000 employees

Founded in Finland in 1910

~400,000 customers

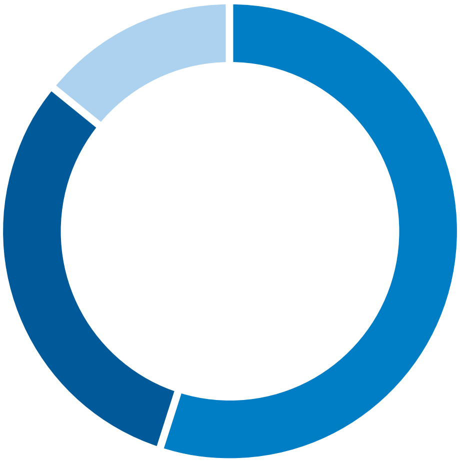
>1,100,000 equipment in KONE's maintenance base

Operations in over **60** countries

Authorized distributors and agents in close to 100 countries

Key figures

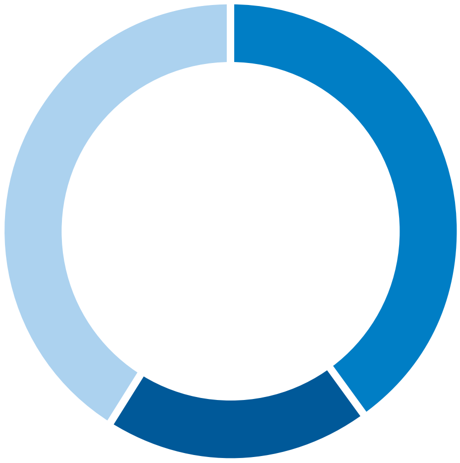
Sales by business



New equipment 55% (57%)
Maintenance 31% (31%)
Modernization 14% (12%)

1–12/2016 (1–12/2015)

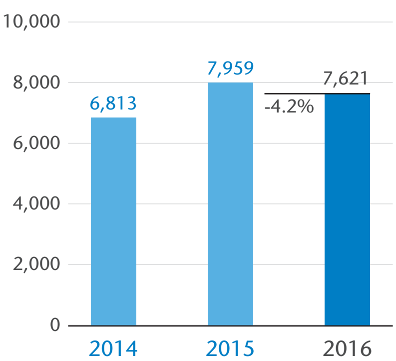
Sales by area



EMEA 40% (39%)
Americas 19% (17%)
Asia-Pacific 41% (44%)

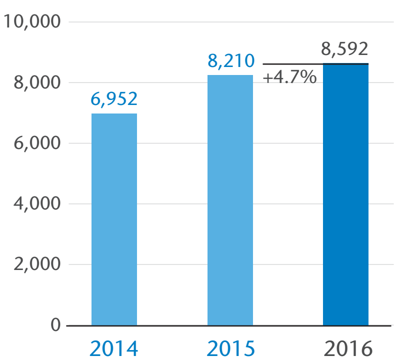
1–12/2016 (1–12/2015)

Orders received* (MEUR)

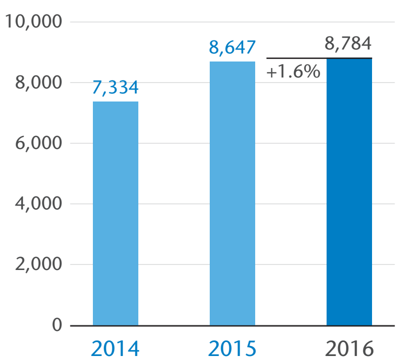


*) Orders received do not include maintenance contracts

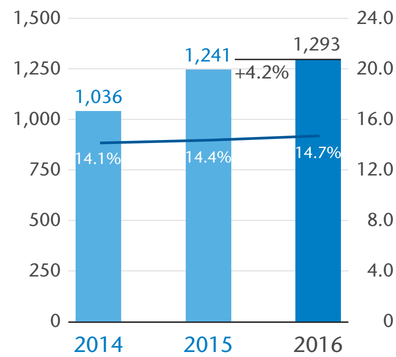
Order book (MEUR)



Sales (MEUR)

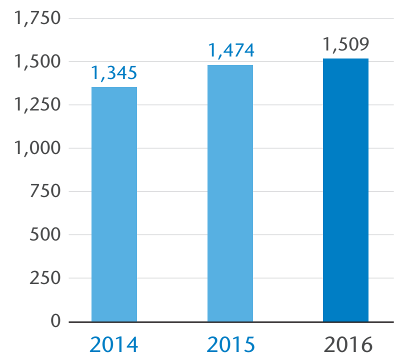


EBIT (MEUR) and EBIT margin (%)



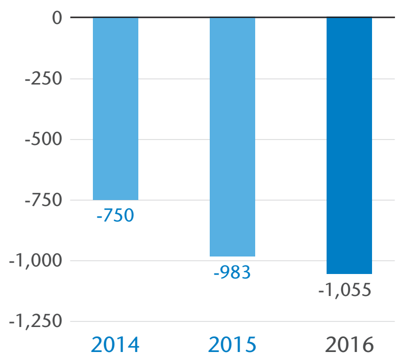
EBIT
EBIT margin

Cash flow* (MEUR)



*) Cash flow from operations before financing items and taxes

Net working capital* (MEUR)



*) Including financing and tax items

A new phase in KONE's strategy: "Winning with Customers"

OUR MISSION

At KONE, our mission is to improve the flow of urban life.

We understand People Flow in and between buildings, making people's journeys safe, convenient and reliable.

We make cities better places to live.

OUR VISION

KONE delivers the best People Flow experience.

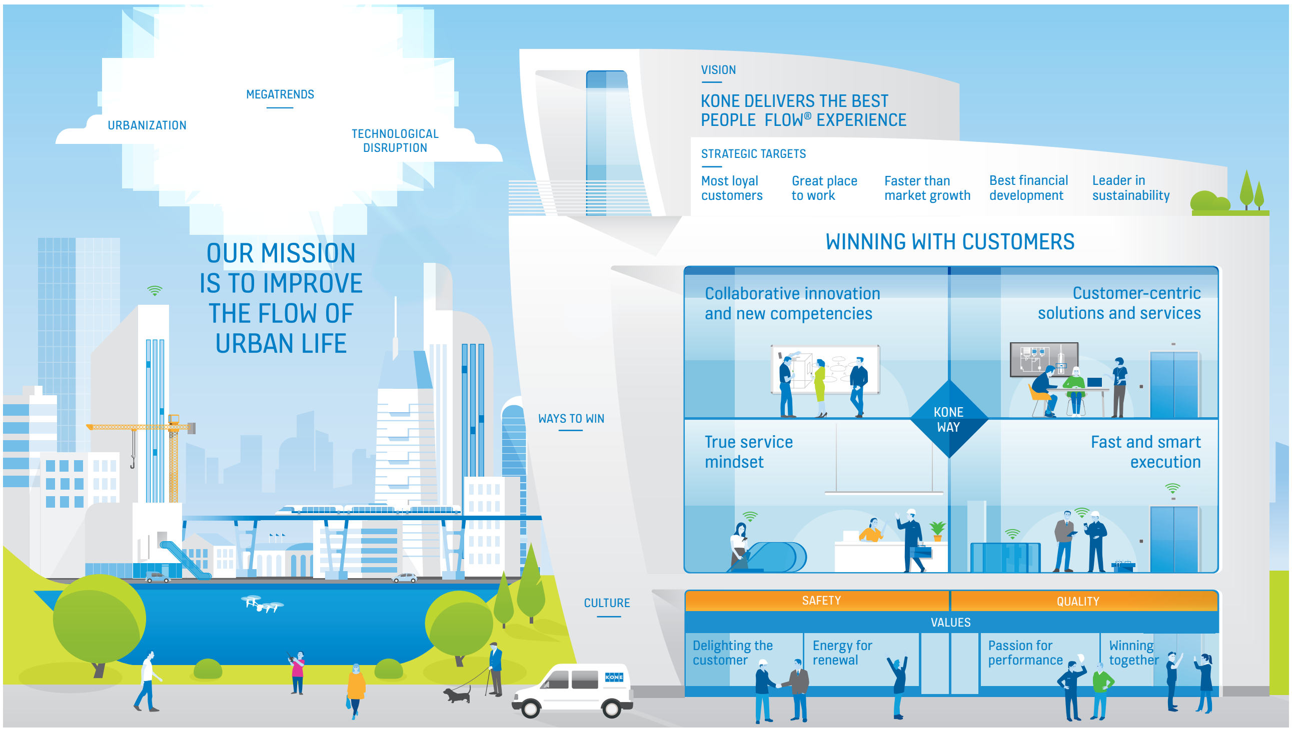
We provide Ease, Effectiveness and Experiences to users and customers, over the full life cycle of buildings.

KONE enters a new strategic phase for 2017–2020 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.

For the new strategic phase, KONE has defined four "Ways to Win" as a recipe on how to reach its goals:

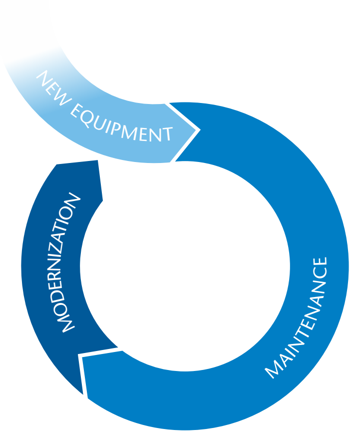
- Collaborative innovation and new competencies
- Customer-centric solutions and services
- Fast and smart execution and;
- True service mindset

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



Business model: Solutions throughout the lifecycle of buildings

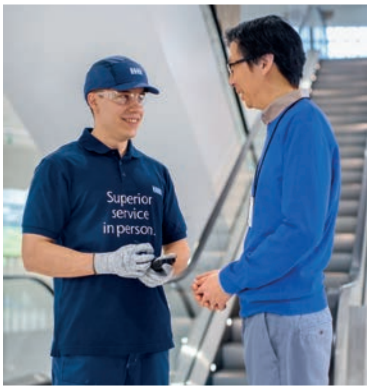
We provide value for our customers every step of the way for the entire lifespan of the building. We offer innovative and sustainable new equipment solutions, ensure safety and availability of the equipment in operation and offer modernization solutions for aging equipment.



New equipment

Elevators, escalators, autowalks, automatic doors and integrated access control systems

- **Customers:** Developers, builders, consultants, architects, building owners
- **Growth drivers:** Urbanization, changing demographics
- **Competitive landscape:** Handful of global companies; a higher fragmentation in Asia; high level of consolidation in Europe and North America
- **Business characteristics:** capital -light business model with negative working capital and asset-light manufacturing; somewhat cyclical; high conversion to maintenance base



Maintenance

Maintenance and equipment performance monitoring services to secure efficient People Flow

- **Customers:** Building owners, housing corporations and facility managers
- **Growth drivers:** growth of the installed base, shift towards higher value-added
- **Competitive landscape:** Handful of global companies; fragmented market with many small-to-medium-sized companies locally
- **Business characteristics:** stable business supported by requirements for safety and reliability, high customer retention providing recurring cash flow; fragmented customer base; capital-light business model

Modernization

Modernization solutions for aging equipment ranging from the replacement of components to full replacements

- **Customers:** building owners, housing corporations, facility managers
- **Growth drivers:** aging installed base, higher requirements for safety and sustainability
- **Competitive landscape:** Handful of global companies; fairly fragmented market with many small-to-medium-sized companies locally
- **Business characteristics:** requires often tailored solutions; more cyclical than maintenance; capital-light business model

Board of Directors' report

KONE's operating environment

Market environment by region

	New equipment market in units	Maintenance market	Modernization market
EMEA	Slight growth	Growth	Growth
Central and North Europe	Slight growth	Slight growth	Clear growth
South Europe	Rather stable	Rather stable	Signs of recovery
Middle East	Rather stable	Growth	Growth
Americas	Slight growth	Slight growth	Slight growth
Asia-Pacific	Slight decline	Significant growth	Significant growth
China	Some decline	Significant growth	Significant growth

Stable > slight > somewhat > clear > significant > strong

In 2016, the global new equipment market declined slightly due to a decline in the large Chinese new equipment market. Of the other markets, the new equipment markets in the EMEA region saw slight growth, and also the new equipment demand in North America grew slightly from a high level. The modernization market grew globally with positive development across regions. Also the maintenance market continued to grow globally. The fastest rate of growth was seen in Asia-Pacific, while the growth rate was lower in the more mature markets.

In the EMEA region, the new equipment market in Central and North Europe grew slightly, driven by the residential segment in particular. Of the larger markets, Germany continued to develop positively, while uncertainty in Great Britain increased in the second half of 2016. In South Europe, the new equipment market was rather stable and showed positive signs in demand. However, the market remained at a low level. The new equipment market in France and Italy was stable at a low level, while the market in Spain continued to grow, albeit from a low level. In the Middle East, the new equipment market was rather stable. The modernization market grew clearly in Central and North Europe, in Germany in particular. In South Europe, the modernization market showed signs of recovery compared to the previous year. The maintenance market grew in the EMEA region, although the growth rate varied by country.

In North America, the new equipment market grew slightly from a high level. The growth was driven by the United States, which saw a broad-based positive development across segments. Also the modernization demand continued to grow slightly in North America. In maintenance, the market saw slight growth, but competition remained rather intense.

In the Asia-Pacific region, the new equipment market declined slightly in 2016 due to the decline in China. In China, the new equipment market declined clearly in monetary value. In unit terms, the market declined somewhat. Both residential and commercial segments declined, while the smaller infrastructure segment grew significantly, supported by government stimulus actions. The market environment in China varied clearly between regions. The higher-tier cities continued to see a rather strong level of demand, while the development was weaker in the lower-tier cities. In other areas of the Asia-Pacific region, the new equipment market in India grew slightly compared to the previous year, while the Southeast Asian markets were mixed. In Australia, the new equipment market remained at a high level, while the modernization market continued to grow. Maintenance markets in Asia-Pacific continued to grow.

KONE competes with various companies in all geographic areas. Particularly in services, the market environment is fragmented with numerous smaller and larger competitors. In 2016, the pricing environment remained varied. In China, pricing competition in the new equipment market intensified compared to the previous year. In the EMEA region, the pricing environment in new equipment remained rather challenging in the South European markets in particular. The pricing of new equipment in North America continued to improve. In maintenance, 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. In North America, price competition remained rather intense in maintenance, but slightly eased in modernization.

Orders received

Orders received and order book, MEUR

	2016	2015	Change at historical exchange rates	Change at comparable exchange rates
Orders received	7,621	7,959	-4.2%	-1.6%
Order book	8,592	8,210	4.7%	5.4%

Orders received development by region*

	New equipment orders	Modernization orders	Total orders
EMEA	Some growth	Clear growth	Some growth
Central and North Europe	Some growth	Clear growth	Some growth
South Europe	Stable	Some growth	Slight growth
Middle East	Some growth	Very strong growth	Clear growth
Americas	Some growth	Significant growth	Clear growth
Asia-Pacific	Clear decline	Clear growth	Clear decline
China	Significant decline	Very strong growth	Significant decline

*) in monetary value at comparable exchange rates

Stable > slight > somewhat > clear > significant > strong

Orders received declined by 4.2% in 2016 and totaled EUR 7,621 (1–12/2015: 7,959) million. At comparable exchange rates, KONE's orders received decreased by 1.6%. In 2016, KONE's orders received declined somewhat in new equipment with clear decline in the volume business and clear growth in major projects. Also in modernization, orders received grew clearly. 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.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 158,000 units (2015: approximately 161,000 units).

The order book grew by 4.7% compared to the end of 2015 and stood at a level of EUR 8,592 (December 31, 2015: 8,210) million at the end of 2016. At comparable exchange rates, the increase was 5.4%. The relative margin of orders received declined slightly during the second half of the year, but the order book margin remained at a healthy level. 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 (2015: approximately 161,000 units).

Orders received in the EMEA region grew somewhat at comparable exchange rates as compared to 2015. New equipment orders grew somewhat in the region. They grew in Central and North Europe, with Germany and the Nordic countries contributing most to the growth. In South Europe, new equipment orders were stable with significant growth in Spain, clear growth in Italy, and slight decline in France. In the Middle East, new equipment orders grew somewhat. KONE's modernization order intake in the EMEA region grew clearly as compared to 2015, with positive development across the region.

Orders received in the Americas region grew clearly at comparable rates as compared to 2015. New equipment orders received grew somewhat, due to a positive development in the United States in particular. In modernization, orders received saw significant growth in the region.

Orders received in the Asia-Pacific region declined clearly at comparable rates as compared to the previous year. New equipment orders received declined clearly in the region with significant decline in China, the largest contributor in the region. In the rest of Asia-Pacific, the situation was mixed. In India, new equipment orders grew slightly, while in Australia orders declined clearly. Modernization orders received grew clearly in the Asia-Pacific region.

Net sales

Sales by region, MEUR

	2016	2015	Change at historical exchange rates	Change at comparable exchange rates
EMEA	3,477	3,370	3.2%	4.9%
Americas	1,659	1,466	13.1%	13.5%
Asia-Pacific	3,649	3,812	-4.3%	-0.7%
Total sales	8,784	8,647	1.6%	3.9%

Sales by business, MEUR

	2016	2015	Change at historical exchange rates	Change at comparable exchange rates
New equipment sales	4,793	4,935	-2.9%	0.2%
Service sales	3,991	3,713	7.5%	8.8%
Maintenance	2,773	2,642	5.0%	6.2%
Modernization	1,219	1,071	13.8%	15.4%
Total sales	8,784	8,647	1.6%	3.9%

Sales development by region and by business*

	New equipment	Maintenance	Modernization
EMEA	Some growth	Slight growth	Clear growth
Americas	Significant growth	Some growth	Significant growth
Asia-Pacific	Some decline	Significant growth	Very strong growth

*) in monetary value at comparable rates

Stable > slight > somewhat > clear > significant > strong

Net sales increased in 2016 by 1.6% as compared to the prior year, and totaled EUR 8,784 (1–12/2015: 8,647) million. At comparable exchange rates the increase was 3.9%. The sales consolidated from the companies acquired in 2016 did not have a material impact on KONE's net sales for the financial period.

New equipment sales accounted for EUR 4,793 (4,935) million and represented a decrease of 2.9% over the comparison period. At comparable exchange rates, new equipment sales grew by 0.2%.

> KONE delivered approximately 136,000 new elevator and escalator units in 2016 (2015: approximately 137,000 units).

KONE delivered approximately 136,000 new elevator and escalator units in 2016 (2015: approximately 137,000 elevator and escalator units).

Service (maintenance and modernization) sales increased by 7.5%, and totaled EUR 3,991 (3,713) million. At comparable exchange rates, service sales grew by 8.8%. Maintenance sales grew by 5.0% at historical and by 6.2% at comparable exchange rates, and totaled EUR 2,773 (2,642) million. Modernization sales increased by 13.8%, and totaled EUR 1,219 (1,071) million. At comparable exchange rates, modernization sales increased by 15.4%.

> KONE's elevator and escalator maintenance base continued to grow and was clearly over 1,100,000 units at the end of 2016 (close to 1,100,000 units at the end of 2015).

KONE's elevator and escalator maintenance base continued to grow by over

6% and was clearly over 1,100,000 units at the end of 2016 (close to 1,100,000 units at the end of 2015). 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 contributed to the growth. In 2016, the balance of maintenance contracts that were won from or lost to competition was still slightly 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 55% (57%) and the share of service sales 45% (43%) of total sales, with maintenance representing 31% (31%) and modernization 14% (12%) of total sales. The geographical distribution of net sales was 40% (39%) EMEA, 19% (17%) Americas and 41% (44%) Asia-Pacific. The largest individual countries in terms of net sales were China, the United States, France and Germany. China's share was approximately 30%, United States' share approximately 15%, France's and Germany's share approximately 5% of KONE's total net sales in 2016.

Sales in the EMEA region grew by 3.2% and totaled EUR 3,477 (3,370) million. At comparable exchange rates, the growth was 4.9%. New equipment sales grew somewhat, maintenance sales grew slightly and modernization sales grew clearly.

Sales in the Americas region grew by 13.1% and totaled EUR 1,659 (1,466) million. At comparable exchange rates, the growth was 13.5%. Sales grew significantly in new equipment and in modernization. Maintenance sales grew somewhat.

Sales in the Asia-Pacific region declined by 4.3% and totaled EUR 3,649 (3,812) million. At comparable exchange rates, the decline was 0.7% with some decline in new equipment but significant growth in maintenance and very strong growth in modernization.

Financial result

Financial result

	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Operating income, MEUR	1,293	1,241
Income before taxes, MEUR	1,330	1,364
Earnings per share, EUR	2.00	2.01

KONE's operating income (EBIT) grew in 2016 and reached EUR 1,293 (1–12/2015: 1,241) million or 14.7% (14.4%) of net sales. Operating income grew driven by a positive development in all businesses. The growth was driven by a broad-based positive development across geographical regions, in Europe and North America in particular. The progress made in product cost competitiveness as well as focused pricing actions helped in offsetting the intense price pressure that was seen in many markets. KONE continued to increase activity in areas that support the growth of the business, particularly in growth markets as well as R&D, process development and IT. Unfavorable translation exchange rates clearly burdened the growth in operating income with a negative impact of EUR 44 million.

Net financing items was EUR 35.8 (122.4) million. Net financing items consist mainly of interest income from investments. In the comparison period, an extraordinary dividend received from Toshiba Elevator and Building Systems Corporation (TELC), amounting to EUR 118.2 million, had a strongly positive impact on financing income. In addition, in the comparison period the revaluation of option liabilities related to the acquisitions burdened the net financing items.

KONE's income before taxes was EUR 1,330 (1,364) million. Taxes totaled EUR 307.7 (311.4) million. This represents an effective tax rate of 23.1% (22.8%) for the financial year. In the comparison period, the effective tax rate was favorably impacted by the extraordinary dividend from Toshiba Elevator and Building Systems Corporation (TELC). Net income for the period under review was EUR 1,023 (1,053) million.

Basic earnings per share was EUR 2.00 (2.01).

Financial position and cash flow

Financial position and cash flow

MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Cash flow from operations	1,509	1,474
Net working capital	-1,055	-983.4

KONE's financial position was very strong at the end of December 2016.

Cash flow from operations during January–December 2016 (before financing items and taxes) was EUR 1,509 (1–12/2015: 1,474) million. The cash flow was driven by growth in operating income and continued favorable development in net working capital.

Net working capital improved and was at the end of December 2016 EUR –1,055 (December 31, 2015: -983.4) million, including financing items and taxes. This was a result of an improved level of advances received relative to inventories.

Interest-bearing net debt at the end of December 2016 was EUR -1,688 (December 31, 2015: -1,513) million. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,086 (1,903) million at the end of the reporting period. Interest-bearing liabilities were EUR 405.5 (406.1) million, including a net pension liability of EUR 176.7 (169.2) million and short-term loans of EUR 15.4 (12.0) million. In addition, the interest-bearing net debt includes EUR 10.5 (192.4) million of option liabilities from acquisitions. The interest-bearing debt was impacted by the payment of the option liability related to GIantKONE during 2016. Gearing was –60.4%, compared with -58.7% at the end of 2015. KONE's total equity/total assets ratio was 46.8% at the end of December 2016 (December 31, 2015: 45.4%).

Equity per share was EUR 5.42 (4.94).

Capital expenditure and acquisitions

Capital expenditure

MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
In fixed assets	99.6	76.4
In leasing agreements	27.8	16.3
In acquisitions	99.2	64.9
Total	226.6	157.6

KONE's capital expenditure and acquisitions, totaled EUR 226.6 (1–12/2015: 157.6) million. Capital expenditure was mainly related to facilities and equipment in R&D, IT, operations and production. Acquisitions accounted for EUR 99.2 (64.9) million.

In 2016, KONE's larger acquisitions included a majority stake in Citylift in Spain, City Elevator Company in the United States, thyssenkrupp Hissit Oy, the Finnish subsidiary of thyssenkrupp, and Capital Elevator Services in the United States. In addition, KONE completed other smaller acquisitions of maintenance businesses in Europe 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.

During the reporting period, KONE completed the acquisition of the remaining 20% stake in its Chinese subsidiary GiantKONE for approximately EUR 180 million. KONE has fully consolidated GiantKONE in its consolidated financial statements since December 2011, and therefore the acquisition did not have an impact on KONE's sales or operating income.

Research and development

R&D expenditure

MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
R&D expenditure	140.5	121.7
As percentage of sales, %	1.6	1.4

Research and development expenses totaled EUR 140.5 (1–12/2015: EUR 121.7) million, representing 1.6% (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 the company's research and development efforts. KONE's vision is to deliver the best People Flow® experience by providing ease, effectiveness and experiences to its customers and thus improving the flow of urban life. KONE aims to offer industry-leading solutions that provide the best value for customers over the lifecycle through latest technologies and strong partnerships.

During the reporting year, KONE started co-operation with IBM. KONE will use IBM's Watson IoT Cloud Platform to collect and store equipment data, build applications and develop new solutions in order to create added value to its customers with cloud-based services. KONE also expanded its relationship with Salesforce in 2016 to further improve its customer service. Salesforce's Service Cloud Lightning will enable KONE to deliver faster, smarter and more personalized service for its customers worldwide.

In 2016, KONE continued to enhance its offering, launching both a number of new solutions as well as enhancements to its existing solutions. In the United States and Canada, KONE introduced the KONE MonoSpace® 500 volume elevator offering. In China and the rest of the Asia-Pacific region, KONE released several updates and enhancements to its existing elevators in both commercial and residential segments. In addition, KONE further extended its elevator range in India. In order to comply with various new safety standard requirements, KONE launched an updated offering and made updates to KONE NanoSpace™ and KONE ProSpace™ residential segment elevators in Europe. In modernization, KONE extended its offering in Europe with the launch of the KONE HydroMod™ 200 modernization solution for hydraulic elevators.

Globally KONE enhanced its People Flow Intelligence offering by launching a next generation destination product for office segment, and improving the KONE Access solution by making it fully compatible with almost any other access control system in the building.

During the reporting year, KONE also opened a new U.S. manufacturing and R&D facility in Allen, Texas. The new facility houses the supply operations of the KONE Americas region as well as a research and development center, including a test tower.

In 2016, KONE was ranked 56th out of the 100 most innovative companies in the world by business magazine Forbes (2015: 48th). KONE was included in the Forbes' list for the sixth consecutive year and was the only elevator and escalator company featured on the list in 2016. In addition, KONE received recognition for its design during 2016. KONE was awarded three design awards: the iF Design Award for KONE Card Collector and two Red Dot Product Design Awards, for KONE DT6 ride comfort measurement tool and KONE Rondel Light, new solution for elevator car lighting. This was the fourth time that KONE was recognized in the iF Design Awards.

Changes in the organization and in the Executive Board

In 2016, KONE announced changes in the organization and in the Executive Board.

KONE's internal management structure changed as of April 1, 2016. Pierre Liautaud, who has previously served as Executive Vice President for West and South Europe as well as Africa since 2011, also assumed responsibility for the Middle East. This change will enable synergies between the Middle East and Africa, and thus support KONE's growth strategy in both regions.

Thomas Hinnerskov joined KONE on September 1, 2016 as Executive Vice President for Central and North Europe and Member of the Executive board. He reports to Henrik Ehrnrooth, President and CEO. Thomas Hinnerskov succeeds Noud Veeger, who left KONE as of April 2, 2016.

Ilkka Hara joined KONE as CFO and member of the Executive Board on August 8, 2016. He reports to Henrik Ehrnrooth, President and CEO. Ilkka Hara succeeds Eriikka Söderström, who left KONE as of July 31, 2016.

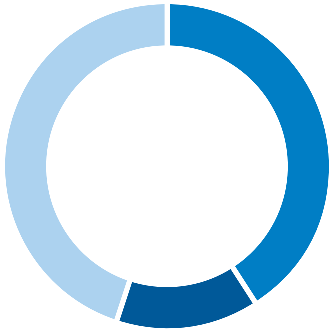
Axel Berkling was appointed as Executive Vice President for the Asia-Pacific region and member of the Executive Board as of October 1, 2016. He reports to Henrik Ehrnrooth, President and CEO. The Asia-Pacific region covers KONE's business in this geography excluding China. Axel Berkling succeeds Neeraj Sharma who has decided to pursue other interests outside KONE.

Personnel

Number of employees

	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Average	50,905	48,469
At the end of period	52,104	49,734

Personnel by area



- EMEA 41% (42%)
- Americas 14% (13%)
- Asia-Pacific 45% (45%)

Dec 31, 2016 (Dec 31, 2015)

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 development program as such was successfully completed in 2016. The program involved various initiatives, which targeted 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. KONE saw positive development across initiatives and will continue its active work with these topics going forward as well.

In 2016, performance discussions were completed for 95% of KONE's eligible personnel and a record number of 97% had a documented individual development plan in place. During the year, KONE paid special attention to how to improve the quality of performance discussion, including preparation for the discussions, constructive two-way discussions, employee coaching and encouraging employees to use their strengths even better.

KONE continued its efforts on competence development during the reporting period. KONE offered over 3,600 training programs and online modules and several new trainings programs were launched during the year. At the end of 2016, KONE had over 30 training centers around the world. During the reporting year, special emphasis was given to local training capabilities, active school collaboration and development of training tools. KONE also continued to develop online learning with its e-learning platform in use in nearly all KONE countries with 124,000 completed courses in 2016. In addition, employee development through internal job rotation opportunities remained a focus area at KONE through the "Visit a job" concept. The concept has proved to be an efficient way to improve on-the-job learning and boost cross-unit collaboration. The short-term job rotation opportunities were warmly welcomed by employees with over 400 "Visit a job" rotations during 2016.

In 2016, talent attraction activities continued with a specific focus on strengthening KONE's global school collaboration. During 2016, co-operation started successfully with 75 new schools around the world. In addition to increased school collaboration, the number of trainee and internship positions at KONE increased clearly.

KONE's eleventh global employee survey was carried out in December 2016. The survey results will be published during the first quarter of 2017 and concrete actions plans will be made based on the results.

During the year, improving safety at work remained a high priority area at KONE. The IIFR (Industrial Injury Frequency Rate) improved further and was 2.1 in 2016 (2015: 2.3). The average lost days per incident improved as well to 32.5 days (2015: 38). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 70%. KONE's fifth annual Safety Week was held in all KONE units in May 2016 with the theme "Safety is our business". Various safety related activities were held during the week, both for internal and external stakeholders.

KONE had 52,104 (December 31, 2015: 49,734) employees at the end of December 2016. The average number of employees was 50,905 (1–12/2015: 48,469). Employee costs for the reporting period totaled EUR 2,634 (2,446) million. The geographical distribution of KONE employees was 41% (December 31, 2015: 42%) in EMEA, 14% (13%) in the Americas and 45% (45%) 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. In KONE's long-term environmental targets, the company aims to be a leading provider of low-carbon People Flow® solutions and to have efficient low-carbon operations. KONE strives to further strengthen its position as the industry leader in sustainability by supporting green building initiatives and the ongoing transformation of the urban environment into smart eco-cities globally.

The most significant environmental impact of KONE's business globally relates to the amount of electricity used by KONE's solutions during their lifetime, underlining the importance of eco-efficient innovations. Accordingly, KONE focuses on further improving the energy efficiency of its elevators, escalators, and building doors. KONE also continuously aims to minimize its operational carbon footprint and to ensure that its suppliers comply with corresponding requirements and environmental targets. The most significant impact of KONE's operational carbon footprint relates to logistics, the company's vehicle fleet, and the electricity consumption of KONE's facilities.

In line with its Environmental Excellence program, KONE continued to develop the energy efficiency of its solutions in 2016. During the fourth quarter of 2016, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard. KONE E MonoSpace® and KONE Z MiniSpace™ elevators achieved the highest A-class classification during 2016 in addition to ten elevators classified earlier. Also KONE TransitMaster™ 140 escalator achieved the highest A+++ classification for escalators in addition to KONE TravelMaster™ 110 escalator classified already in the previous year.

During the fourth quarter of 2016, CDP, an international non-profit organization focusing on environmental performance, identified KONE as a world leader for its actions in response to climate change. For the second year running, KONE was awarded a position on the global CDP Climate A List out of thousands of companies assessed by CDP. During 2016, KONE also received recognition as a leading supplier for action on climate change and was recognized on the new global CDP Supplier A List. The Supplier A list includes the best 2% of companies responding to CDP's supplier program at the request of 75 multinational purchasers, including KONE's customers.

In July and December 2016, KONE was confirmed as a constituent of the FTSE4Good Index, a global sustainability index measuring the performance of companies that demonstrate strong environmental, social and governance practices. KONE performed particularly well in environmental themes, reaching top marks in both climate change and pollution as well as resource related issues.

KONE published its Sustainability Report 2015 in June 2016. The report follows the Global Reporting Initiative G4 reporting guidelines when applicable. The most significant environmental achievements in 2015 included reductions in reported greenhouse gas emissions from the company's own operations. KONE's 2015 carbon footprint relative to overall operations (net sales) decreased by 4.4% compared to 2014, with sales growth calculated at comparable exchange rates. KONE's greenhouse gas reporting has been assured by an objective third party. In November 2016, KONE's Sustainability Report 2015 was chosen as the best report of the year in the NGO's Choice category of Sustainability Reporting Award Finland. This year the choice was made by Greenpeace Finland. According to the feedback from the jury, sustainability is strongly integrated into KONE's values and business operations.

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 237 million at the end of December 2016 (December 31, 2015: EUR 262 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 a deterioration of the market environment and the competitive situation in the industry. In particular, a stronger than anticipated decline or a prolonged weakness of the construction market could result in a significant decline in the new equipment market and a more challenging market environment for services. In particular, a sustained market decline in China, which accounts for approximately 30% of KONE's sales, could have an adverse effect on KONE's growth and profitability.

Digitalization, and the resulting new customer requirements as well as potential new competition, ecosystems and business models, could have a significant impact on the elevator and escalator industry. A 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 unanticipated changes in regulations, equipment codes or standards may result in a need for process or technology adjustments, which could adversely impact KONE's profit development in affected countries. In addition, 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 part of KONE's component suppliers and global supply capacity is located in China, both in the elevator and in the escalator business. Therefore KONE's operations may be adversely impacted by changes in trade agreements or introduction of restrictions to trade.

OPERATIONAL RISKS

As one of the leading companies in the industry, KONE has a strong brand and reputation, meaning that reputation or brand issues could have an impact on KONE's business and financial performance. Such reputation risks could materialize e.g. in the case of an incident or a product quality issue. Issues with 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 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 have an adverse impact on KONE's profitability.

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. KONE's operations also utilize information technology extensively and its business is dependent on the quality 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 of data or malfunctions which can result in disruptions in processes and equipment availability and therefore impact KONE's business. Such cyber incidents could be caused by, including but not limited to, cyber-attacks, computer malware, denial of service attacks, fraudulent attempts and data breaches.

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 raw material and component prices may have a significant impact on KONE's profitability.

FINANCIAL RISKS

The majority of KONE's sales is denominated in other currencies 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 that are deposited with financial institutions in the form of financial investments and in derivatives. Additionally, KONE is exposed to risks related to the liquidity and payment schedules of its customers, which may 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 2016.

Risk management

Risk	Mitigation actions
Weakening of the economic environment, in China in particular, and its impact on the global market environment	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 into research and development and having an open innovation approach. KONE also closely follows emerging market and industry trends.
Sudden changes in regulation, codes and standards, including a rise in regulatory protectionism.	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.
Disruption in the global supply chain, in China in particular.	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 and financial strength of its key suppliers. The aim is also 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 at transparent and reliable communication to prevent reputational risks. In addition, KONE has stringent corporate governance principles.
Availability of adequate operational resources	KONE manages these risks through proactive project and resource planning and strict quality control processes.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems in development and operation, to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers, and trusted and well-known technology partners to manage the risks through the control framework.
Changes in raw material prices	In order to reduce the impact of material and sourcing price fluctuations, KONE aims to enter into fixed-price contracts with its major suppliers for a significant part of its raw material and component purchases.
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 2016.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on March 7, 2016. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2015.

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 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, 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 the Company's auditors.

The General Meeting approved dividends of EUR 1.3975 for each of the 76,208,712 class A shares and EUR 1.40 for each of the outstanding 436,957,058 class B shares. The date of record for dividend distribution was March 9, 2016 and dividends were paid on March 16, 2016.

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 are held by KONE Corporation's subsidiary. During the reporting period, 749,438 new KONE class B shares were subscribed for with the 2013 option rights. On December 31, 2016 a maximum of 514,278 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, on December 31, 2016, EUR 24.00 per share. The share subscription period for the stock option 2013 is April 1, 2015–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, 13,130 class B shares were subscribed for with the 2014 option rights. On December 31, 2016, a maximum of 1,353,870 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, 2016, EUR 28.20 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. 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 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, 2016 is EUR 33.60. 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 accordingly 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.

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 425 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.

On December 31, 2016, KONE's share capital was EUR 65,771,110.26 comprising 449,960,170 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 21,851 million on December 31, 2016, 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 2016, KONE used its authorization to repurchase own shares. In April, 391,662 class B shares in the company's possession were assigned to the share-based incentive plan and 2,923 class B shares as a part of the board members' annual remuneration. In May, KONE bought back in total 1,000,000 of its own class B shares. In August, 21,752, in October 5,554 and in December, 10,876 class B shares were returned to KONE Corporation by virtue of the term of KONE Corporation's share-based incentive program for the years 2013–2015. At the end of December 2016, the Group had 12,884,141 class B shares in its possession. The shares in the Group's possession represent 2.9% of the total number of class B shares. This corresponds to 1.1% of the total voting rights.

Shares traded on the Nasdaq Helsinki Ltd.

The Nasdaq Helsinki Ltd. traded 194.7 million KONE Corporation's class B shares in January–December 2016, equivalent to a turnover of EUR 8,075 million. The daily average trading volume was 769,607 shares (1–12/2015: 1,032,543). The share price on December 31, 2016 was EUR 42.57. The volume weighted average share price during the period was EUR 41.47. The highest quotation during the period under review was EUR 47.89 and the lowest EUR 35.50. 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 28.7% of the total volume of KONE's class B shares traded in January–December 2016 (source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com).

The number of registered shareholders was 56,441 at the beginning of the review period and 57,471 at its end. The number of private households holding shares totaled 53,693 at the end of the period, which corresponds to approximately 13.2% of the listed B shares.

According to the nominee registers, 50.1% of the listed class B shares were owned by foreign shareholders on December 31, 2016. Other foreign ownership at the end of the period totaled 1.4%. Thus a total of 51.5% of KONE's listed class B shares were owned by international investors, corresponding to approximately 19.1% of the total votes in the company.

Flagging notifications

During January–December 2016, 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 January 6, January 7, January 8, March 17, March 18, March 21, April 29, September 1, October 20 and October 28. 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 October 31, 2016, 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 27, 2016.

Market outlook 2017

North America	
New equipment	Services
Slight growth	Maintenance Slight growth Modernization Slight growth

EMEA	
New equipment	Services
Slight growth	Maintenance Slight growth Modernization Slight growth

Asia-Pacific	
New equipment	Services
China To decline by 0–5% in units, competition to continue intense Outside China Growth	Maintenance Strong growth Modernization Strong growth

Market outlook 2017

In new equipment, the market in China is expected to decline by 0–5% in units ordered and also the competition to continue intense. In the rest of Asia-Pacific, the market is expected to grow. The market in North America and in the Europe, Middle East and Africa region is expected to grow slightly.

The modernization market is expected to grow slightly in Europe and 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 grow slightly also in other regions.

Business outlook 2017

KONE's net sales is estimated to grow by -1% to 3% at comparable exchange rates as compared to 2016.

The operating income (EBIT) is expected to be in the range of EUR 1,180–1,300 million, assuming that translation exchange rates would remain at approximately the average level of January 2017.

The sales outlook is based on KONE's maintenance base and order book as well as the market outlook.

KONE's operating income outlook is based on the current sales forecast combined with factors impacting profitability. In 2017, profitability is expected to be impacted by factors such as improved quality and productivity, pricing and business mix, a slight decrease in the margin of orders received in 2016 as well as cost pressures resulting from increased material costs and R&D and IT spend.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2016 was EUR 1,896,466,275.82 of which the net profit for the financial year is EUR 870,373,574.84.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.5475 be paid on the outstanding 76,208,712 class A shares and EUR 1.55 on the outstanding 437,076,029 class B shares, resulting in a total amount of proposed dividends of EUR 795,400,826.77.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,101,065,449.05 be retained and carried forward.

The Board proposes that the dividends be payable on March 9, 2017. All the shares existing on the dividend record date are entitled to dividend for the year 2016 except for the own shares held by the parent company.

Annual General Meeting 2017

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Tuesday, February 28, 2017 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 26, 2017

KONE Corporation's Board of Directors

Information required 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 59–62, which are part of the official Board of Directors' Report, as well as in the notes to the Financial Statements.

This report 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.

Consolidated statement of income

MEUR	Note	Jan 1–Dec 31, 2016	%	Jan 1–Dec 31, 2015	%
Sales	2.1	8,784.3		8,647.3	
Costs, expenses, depreciation and amortization	2.2, 2.3	-7,491.0		-7,405.8	
Operating income (EBIT)		1,293.3	14.7	1,241.5	14.4
Share of associated companies' net income	5.6	1.2		0.6	
Financing income	2.5	66.8		198.9	
Financing expenses	2.5	-31.0		-76.5	
Income before taxes		1,330.3	15.1	1,364.4	15.8
Taxes	2.6	-307.7		-311.4	
Net income		1,022.6	11.6	1,053.1	12.2
Net income attributable to:					
Shareholders of the parent company		1,023.7		1,032.3	
Non-controlling interests		-1.1		20.7	
Total		1,022.6		1,053.1	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	2.7				
Basic earnings per share, EUR		2.00		2.01	
Diluted earnings per share, EUR		1.99		2.00	

Consolidated statement of comprehensive income

MEUR	Note	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Net income		1,022.6	1,053.1
Other comprehensive income, net of tax:	2.8		
Translation differences		-23.2	177.4
Hedging of foreign subsidiaries		-8.6	-23.5
Cash flow hedges		-13.7	-10.7
Items that may be subsequently reclassified to statement of income		-45.5	143.2
Remeasurements of employee benefits		-9.9	-11.6
Items that will not be reclassified to statement of income		-9.9	-11.6
Total other comprehensive income, net of tax		-55.3	131.6
Total comprehensive income		967.3	1,184.6
Total comprehensive income attributable to:			
Shareholders of the parent company		968.4	1,163.9
Non-controlling interests		-1.1	20.7
Total		967.3	1,184.6

Consolidated statement of financial position

Assets MEUR		Note	Dec 31, 2016	Dec 31, 2015
Non-current assets				
Goodwill		4.2	1,371.8	1,306.7
Other intangible assets		4.3	292.9	271.5
Property, plant and equipment		4.4	368.3	345.4
Investments in associated companies		5.6	5.0	4.4
Shares and other non-current financial assets		5.3, 5.4	124.9	118.3
Non-current loans receivable	I	5.3, 5.5	7.4	7.0
Employee benefits	I	5.3, 5.7	-	8.4
Deferred tax assets	II	3.6	318.4	299.7
Total non-current assets			2,488.5	2,361.4
Current assets				
Inventories	II	3.1	1,373.5	1,326.7
Accounts receivable	II	3.2, 5.3	1,573.7	1,480.2
Deferred assets	II	3.3, 5.3	368.4	391.6
Income tax receivables	II		61.4	42.4
Current deposits and loans receivable	I	5.3, 5.5	1,496.6	1,350.6
Cash and cash equivalents	I	5.3	589.2	552.7
Total current assets			5,462.8	5,144.2
Total assets			7,951.3	7,505.6

Equity and liabilities MEUR		Note	Dec 31, 2016	Dec 31, 2015
Capital and reserves attributable to the shareholders of the parent company				
Share capital		5.2	65.8	65.7
Share premium account			100.3	100.3
Paid-up unrestricted equity reserve			166.1	140.7
Fair value and other reserves			-29.9	-16.2
Translation differences			240.3	272.1
Remeasurements of employee benefits			-113.5	-103.6
Retained earnings			2,353.8	2,068.5
Total shareholders' equity			2,782.9	2,527.5
Non-controlling interests			12.7	48.0
Total equity			2,795.6	2,575.5
Non-current liabilities				
Loans	I	5.3	203.1	32.5
Employee benefits	I	5.3, 5.7	176.7	169.2
Deferred tax liabilities	II	3.6	154.2	140.9
Total non-current liabilities			534.0	342.6
Provisions	II	3.5	183.2	173.6
Current liabilities				
Current portion of long-term loans	I	5.3	14.1	10.9
Short-term loans and other liabilities	I	5.3	11.6	193.5
Advance payments received	II	3.1	1,976.9	1,829.4
Accounts payable	II	5.3	743.3	728.9
Accruals	II	3.4, 5.3	1,610.0	1,575.2
Income tax payables	II		82.5	76.0
Total current liabilities			4,438.5	4,414.0
Total equity and liabilities			7,951.3	7,505.6

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, 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

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, 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:	2.8											
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:	5.2											
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

Consolidated statement of cash flows

MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Cash receipts from customers	8,872.8	8,586.1
Cash paid to suppliers and employees	-7,363.3	-7,112.3
Cash flow from operations before financing items and taxes	1,509.5	1,473.7
Interest received	43.8	33.0
Interest paid	-3.0	-2.1
Dividends received and capital repayments	7.2	136.8
Other financing items	-61.8	123.1
Income taxes paid	-317.2	-317.8
Cash flow from operating activities	1,178.4	1,446.7
Capital expenditure	-115.8	-92.7
Proceeds from sales of fixed assets	0.4	4.2
Acquisitions, net of cash	-82.2	-66.5
Cash flow from investing activities	-197.6	-155.0
Cash flow after investing activities	980.8	1,291.8
Change in deposits and loans receivable, net	-154.2	-373.3
Change of current creditors	-176.7	-1.4
Proceeds from long-term liabilities	160.0	-
Payments of long-term liabilities	-4.2	-14.5
Purchase of own shares	-39.3	-71.2
Increase in equity (option rights)	18.4	13.5
Profit distribution	-718.2	-616.3
Changes in non-controlling interests	-26.7	-18.4
Cash flow from financing activities	-941.0	-1,081.4
Change in cash and cash equivalents	39.8	210.3
Cash and cash equivalents at beginning of period	552.7	336.1
Translation differences	-3.3	6.2
Cash and cash equivalents at end of period	589.2	552.7

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, 2016	Jan 1–Dec 31, 2015
Operating income	1,293.3	1,241.5
Change in working capital before financing items and taxes	109.7	132.3
Depreciation and amortization	106.5	100.0
Cash flow from operations before financing items and taxes	1,509.5	1,473.7

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Interest-bearing net debt at beginning of period	-1,512.6	-911.8
Interest-bearing net debt at end of period	-1,687.6	-1,512.6
Change in interest-bearing net debt	-175.0	-600.8

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, 2016.

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 2017 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, 2016. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 26, 2017. 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 with a permission for early adoption for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.The European Union has endorsed the IFRS 15 and 9 standards but not yet IFRS 16.

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 plans to adopt the new standard on the required effective date using the full retrospective method.

KONE has performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Further, KONE is also considering the clarifications issued by the IASB in 2016 and will monitor any further developments. Based on the preliminary assessment the impact is expected to be mainly limited to revenue recognition of new equipment and modernization contracts where KONE expects the revenue recognition to 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 will be 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. Reported sales and operating profit (EBIT) will be impacted due to changes in timing of revenue recognition. 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. From balance sheet perspective, the application of new principles will significantly decrease work in progress and related advances received while receivables are expected to be somewhat increased. At this stage, KONE is not able to reliable estimate the quantitative impacts of the new principles on its consolidated financial statements. KONE will make more detailed assessments of the impact over the next twelve months.

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. KONE is currently evaluating the impact of this standard and amendments on its consolidated financial statements and plans to adopt the new standard on the required effective date. However, based on the KONE's preliminary assessment, application of IFRS 9 is not expected to have a material impact on the transactions and balances recognized 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. The transition approach has not yet been finalized – also an option for early adoption in conjunction with IFRS 15 is considered.

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.

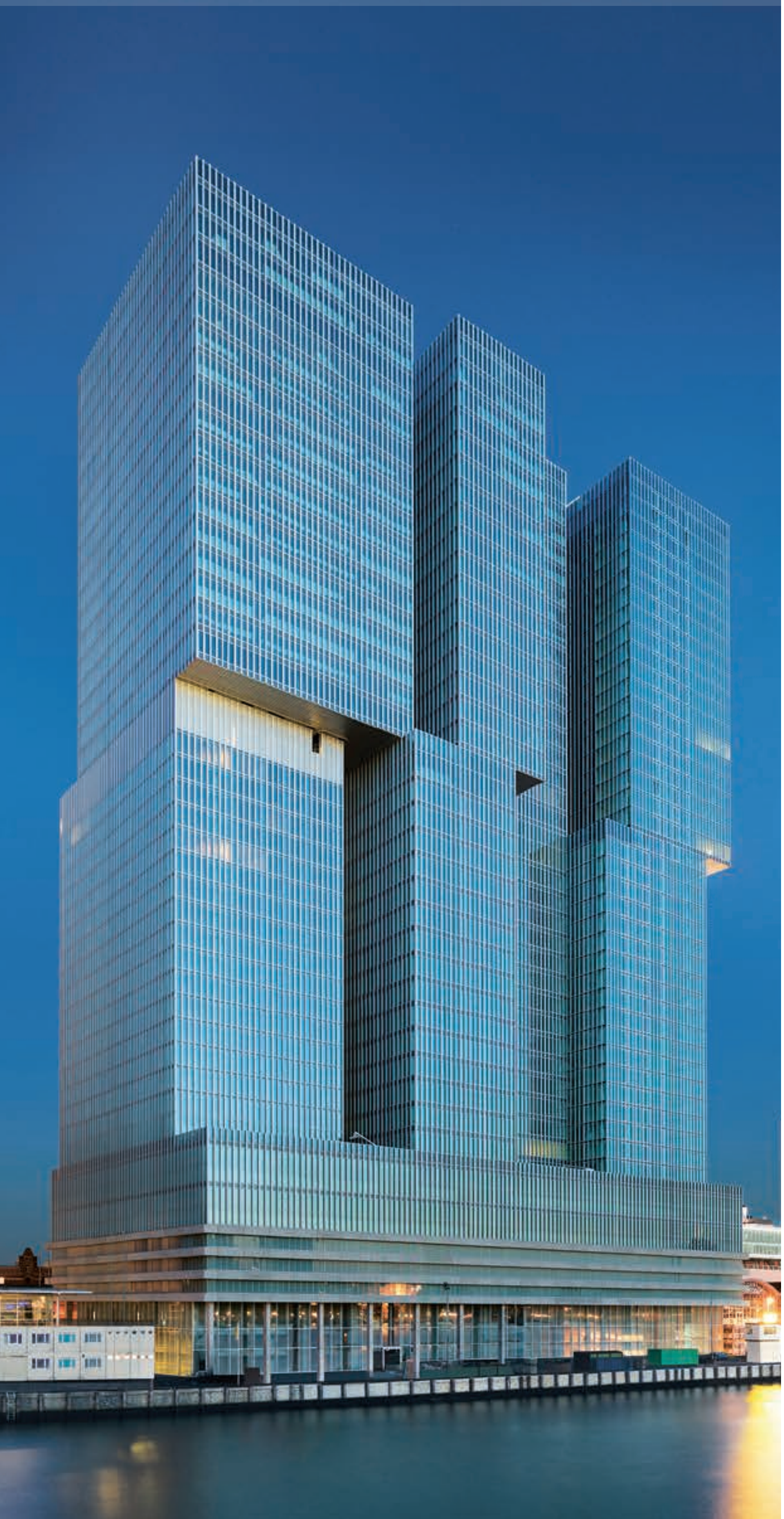
Accounting estimates

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
8,784 MEUR

EBIT
1,293 MEUR



2 FINANCIAL PERFORMANCE

IN THIS SECTION

This section comprises the following notes describing KONE's financial performance in 2016.

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

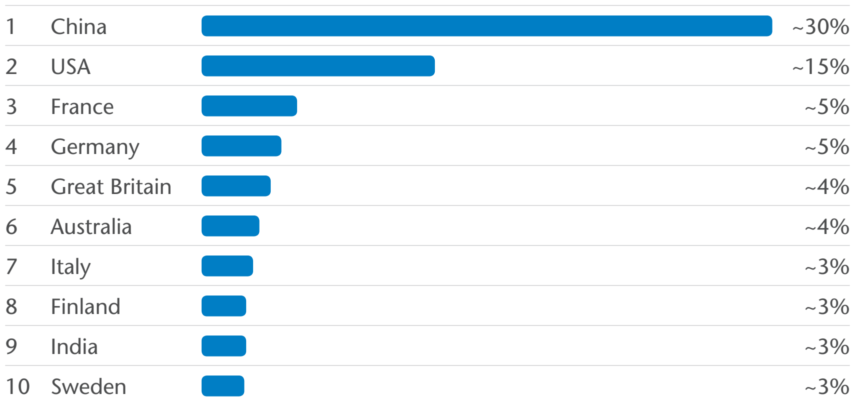
MEUR	Jan 1–Dec 31, 2016	%	Jan 1–Dec 31, 2015	%
New equipment	4,793.0	55	4,934.8	57
Services	3,991.2	45	3,712.5	43
Maintenance	2,772.5	31	2,641.5	31
Modernization	1,218.7	14	1,071.0	12
Total	8,784.3		8,647.3	

Sales by geographical area

MEUR	Jan 1–Dec 31, 2016	%	Jan 1–Dec 31, 2015	%
EMEA [1]	3,476.8	40	3,369.6	39
Americas	1,658.5	19	1,466.0	17
Asia-Pacific	3,648.9	41	3,811.8	44
Total	8,784.3		8,647.3	

[1] EMEA = Europe, Middle East, Africa

Top 10 countries by sales (MEUR)



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 622.7 (508.6) million. The consolidated statement of financial position includes EUR 135.7 (134.7) million of unbilled contract revenue and EUR 147.7 (129.3) million of advances received for ongoing major projects under 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.

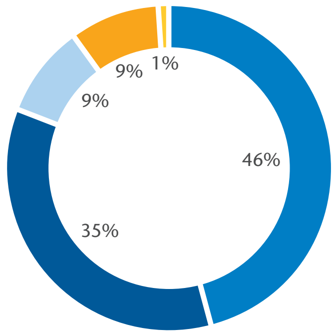
Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or over the contract term when the work is being carried out.

2.2 COSTS AND EXPENSES

Costs and expenses, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Change in work in progress	-12.4	-75.9
Direct materials, supplies and subcontracting	3,422.6	3,612.2
Wages, salaries, other employment expenses and pensions (note 5.7)	2,633.6	2,445.9
Other production costs [1]	682.7	665.9
Selling, administrative and other expenses [2]	681.4	674.5
Depreciation and amortization (note 2.3)	106.5	100.0
Costs, expenses, depreciation and amortization	7,514.4	7,422.5
Other income [3]	23.4	16.7
Total costs, expenses, depreciation and amortization	7,491.0	7,405.8

[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 rental income, received grants, interest on late payments, gains on sale of fixed assets and scrap as well as other miscellaneous income.

Cost breakdown 1–12/2016



Research and development costs, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
R&D costs included in total costs	140.5	121.7
as percentage of sales, %	1.6	1.4

Auditors' fees, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
To member firms of PricewaterhouseCoopers network		
Audit	3.1	3.0
Auditors' statements	0.0	0.0
Tax services	0.8	0.6
Other services	0.8	0.5
Total	4.7	4.1

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, 2016	Jan 1–Dec 31, 2015
Other intangible assets		
Maintenance contracts	29.5	27.9
Other	14.7	13.6
Buildings	10.1	9.0
Machinery and equipment	52.1	49.5
Total	106.5	100.0

Accounting principles

Depreciation and amortization

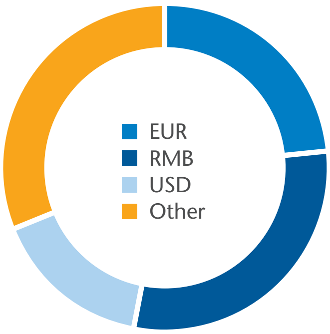
Depreciation and amortization is recorded on a straight-line basis over the economic useful lives of the assets as follows:

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 1–12/2016



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, Malaysian ringgit and British pound. 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 7.7% (7.7%) change in 2016 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 -23.2 (177.4) million in 2016. 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)
7.7% change in consolidated sales in euros	Higher impact on KONE' s operating income and some impact on KONE's 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 -2.0 (0.2) million on the statement of income and an impact of EUR 93.5 (66.9) million on equity.

	Exposure against EUR						Exposure against USD				
MEUR	HKD	USD	GBP	CNY	Others	Total	CNY	MYR	CAD	Others	Total
Exposure Dec 31, 2016	-442	-309	-66	90	-60	**-787**	132	-90	-61	-109	**-128**
Exposure Dec 31, 2015	-300	-228	-70	7	-85	**-676**	203	-82	-44	-82	**-5**

2.5 FINANCING INCOME AND EXPENSES

Financing income and expenses, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Dividend income 1)	7.2	136.8
Interest income		
Interest and foreign exchange rate derivatives		
Change in fair value of interest	5.8	1.9
Interest income	36.7	32.7
Interest income on loan receivables and financial assets	9.4	14.1
Other financing income	0.1	0.0
Exchange rate gains 2)	7.6	13.4
Financing income	66.8	198.9
Interest expenses		
Interest and foreign exchange rate derivatives		
Change in fair value of interest	-13.4	-8.9
Interest expenses	-0.1	-0.5
Interest expenses on other financial liabilities	-6.1	-5.5
Other financing expenses 3)	-8.6	-33.4
Exchange rate losses 2)	-2.8	-28.1
Financing expenses	-31.0	-76.5
Financing income and expenses	35.8	122.4

1) Dividend income 2015 included an EUR 118.2 million extraordinary dividend from Toshiba Elevator and Building Systems Corporation (TELC).

2) Exchange rate gains and losses include exchange rate differences on loans and other receivables of EUR 26.4 (-45.1) million, fair value changes of foreign exchange derivatives of EUR -34.9 (36.5) million and exchange rate differences of EUR 10.8 (-10.2) million on option liabilities related to acquisitions.

3) Includes commitment fees for undrawn revolving credit facilities EUR -0.7 (-0.6) million, fair value changes of option liabilities related to acquisitions EUR -4.2 (-26.7) million, as well as banking charges and other expenses EUR -3.7 (-6.1) million.

2.6 INCOME TAXES

Taxes in statement of income, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Tax expense for current year	310.0	317.6
Change in deferred tax assets and liabilities	-4.8	-8.7
Tax expense for previous years	2.5	2.5
Total	307.7	311.4

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Income before taxes	1,330.3	1,364.4
Tax calculated at the domestic corporation tax rate (20%)	266.1	272.9
Effect of different tax rates in foreign subsidiaries	8.2	9.5
Permanent differences	-2.2	-12.9
Results of associated companies	0.0	0.0
Taxes from previous years and reassessment of deferred tax assets	4.0	4.1
Deferred tax liability on undistributed earnings	28.0	34.2
Other	3.6	3.6
Total	307.7	311.4
Effective tax rate, %	23.1	22.8
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, 2016	Jan 1–Dec 31, 2015
Net income attributable to the shareholders of the parent company, MEUR	1,023.7	1,032.3
Weighted average number of shares (1,000 shares)	512,373	513,792
Basic earnings per share, EUR	2.00	2.01
Dilution effect of share options and share-based incentive plans (1,000 shares)	1,764	1,374
Weighted average number of shares, dilution adjusted (1,000 shares)	514,137	515,167
Diluted earnings per share, EUR	1.99	2.00

Basic earnings per share excluding the extraordinary dividend from Toshiba Elevator and Building Systems Corporation (TELC) was EUR 1.79 for 2015.

Accounting principles

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held own shares. Diluted earnings per share reflect the possible impact of the share-based incentive plans and option rights.

2.8 OTHER COMPREHENSIVE INCOME

Disclosure of components of other comprehensive income

MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Translation differences	-23.2	177.4
Hedging of foreign subsidiaries	-10.8	-29.4
Remeasurements of employee benefits	-9.5	-12.7
Cash flow hedges:		
Gains (losses) arising during the year	-28.3	-16.9
Reclassifications included in profit or loss	11.2	3.6
Cash flow hedges, net	-17.1	-13.4
Income tax relating to components of other comprehensive income	5.2	9.7
Other comprehensive income	-55.3	131.6

Disclosure of tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2016			Jan 1–Dec 31, 2015		
MEUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Translation differences	-23.2	-	-23.2	177.4	-	177.4
Hedging of foreign subsidiaries	-10.8	2.2	-8.6	-29.4	5.9	-23.5
Cash flow hedges	-17.1	3.4	-13.7	-13.4	2.7	-10.7
Items that may be subsequently reclassified to statement of income	-51.0	5.6	-45.5	134.6	8.6	143.2
Remeasurements of employee benefits	-9.5	-0.4	-9.9	-12.7	1.2	-11.6
Items that will not be reclassified to statement of income	-9.5	-0.4	-9.9	-12.7	1.2	-11.6
Total other comprehensive income	-60.5	5.2	-55.3	121.9	9.7	131.6

NET WORKING CAPITAL
-1,055 MEUR

OPERATIVE CASH FLOW
1,509 MEUR

3 NET WORKING CAPITAL

IN THIS SECTION

This section comprises the following notes, which describe KONE's net working capital for 2016.

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

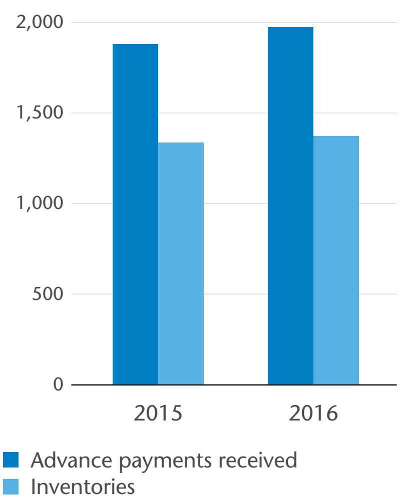
MEUR	Dec 31, 2016	Dec 31, 2015
Net working capital		
Inventories	1,373.5	1,326.7
Advance payments received	-1,976.9	-1,829.4
Accounts receivable	1,573.7	1,480.2
Deferred assets and income tax receivables	429.8	434.0
Accruals and income tax payables	-1,692.5	-1,651.3
Provisions	-183.2	-173.6
Accounts payable	-743.3	-728.9
Net deferred tax assets/liabilities	164.1	158.8
Total net working capital	-1,054.8	-983.4

3.1 INVENTORIES AND ADVANCE PAYMENTS RECEIVED

Inventories, MEUR	Dec 31, 2016	Dec 31, 2015
Raw materials, supplies and finished goods	240.4	230.6
Work in progress	1,117.2	1,081.4
Advance payments made	15.9	14.7
Total	1,373.5	1,326.7

Advance payments received, MEUR	Dec 31, 2016	Dec 31, 2015
Advance payments received	1,976.9	1,829.4

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 costs of sales orders included in work in progress.

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, 2016	Dec 31, 2015
Not past due and less than one month due receivables [1]	1,220.9	1,099.3
Past due 1–3 months [1]	208.7	207.6
Past due 3–6 months [1]	124.2	129.7
Past due > 6 months	19.9	43.6
Accounts receivable in the consolidated statement of financial position	1,573.7	1,480.2

[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 recognized to cover doubtful accounts was EUR 164.1 (146.5) million at the end of the financial period.

3.3 DEFERRED ASSETS

Deferred assets, MEUR	Dec 31, 2016	Dec 31, 2015
Deferred interests	1.8	1.1
Deferred income from maintenance contracts	21.3	22.2
Unbilled contract revenue (note 2.1)	135.7	134.7
Derivative assets (note 5.3)	33.9	47.1
Value added tax assets	51.2	102.1
Prepaid expenses and other receivables	124.5	84.4
Total	368.4	391.6

3.4 ACCRUALS

Accruals, MEUR	Dec 31, 2016	Dec 31, 2015
Accrued interests	0.2	0.2
Accrued income of maintenance contracts	314.8	309.7
Late costs accruals [1]	382.1	379.2
Accrued salaries, wages and employment costs	455.7	406.1
Share-based payments	27.2	31.0
Derivative liabilities (note 5.3)	40.3	36.8
Accrued value added tax	71.9	124.1
Accruals from acquisitions	26.5	22.6
Other accruals	291.3	265.6
Total	1,610.0	1,575.2

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

3.5 PROVISIONS

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

Jan 1–Dec 31, 2015, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	53.9	3.3	19.4	23.0	37.8	137.4
Translation differences	1.6	0.0	0.1	1.2	-0.7	2.1
Increase	46.6	7.4	15.5	16.9	29.9	116.3
Provisions used	-27.3	-0.9	-15.6	-14.4	-4.9	-63.1
Reversal of provisions	-4.8	-	-0.8	-2.2	-12.2	-20.1
Companies acquired	-	-	-	0.4	0.6	1.0
Total provisions at end of period	69.9	9.8	18.6	24.9	50.4	173.6

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2015	74.8	98.8	173.6

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, 2016	Dec 31, 2015
Tax losses carried forward	5.4	7.0
Provisions and accruals	215.7	197.8
Pensions	36.9	33.3
Inventory	14.9	14.4
Property, plant and equipment	11.4	9.9
Other temporary differences for assets	34.1	37.3
Total	318.4	299.7
Total at beginning of period	299.7	262.8
Translation differences	4.7	-4.0
Change in statement of income	14.4	31.2
Charged or credited to equity	-0.4	9.7
Acquisitions, divestments and other	-	-
Total at end of period	318.4	299.7

Deferred tax liabilities, MEUR	Dec 31, 2016	Dec 31, 2015
Property, plant and equipment	16.7	13.5
Goodwill	80.6	71.7
Other temporary differences for liabilities	56.9	55.7
Total	154.2	140.9
Total at beginning of period	140.9	110.6
Translation differences	2.9	6.4
Change in statement of income	9.6	22.4
Acquisitions, divestments and other	0.8	1.5
Total at end of period	154.2	140.9
Net deferred tax assets and liabilities	164.2	158.8

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

227 MEUR

19 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 2016.

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, a large share of production is outsourced to 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 2016 consisted of small maintenance companies in Europe and North America.

KONE's capital expenditure 1.5% of sales in 2016

4.1 ACQUISITIONS

Assets and liabilities of the acquired businesses, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Maintenance contracts	33.8	24.7
Other intangible assets	0.3	0.1
Tangible assets	1.0	1.5
Inventories	0.6	15.6
Accounts receivables and other assets	5.5	6.7
Cash and cash equivalents and other interest bearing receivables	1.3	3.0
Total assets	42.5	51.7
Interest-bearing loans	1.8	0.8
Provisions	0.0	1.0
Deferred tax liabilities	0.8	1.5
Other liabilities	7.7	20.7
Total liabilities	10.4	24.0
Non-controlling interest	-0.3	-
Net assets	32.4	27.6
Acquisition cost paid in cash	70.8	59.5
Contingent and deferred consideration	28.4	5.4
Acquisition cost at date of acquisitions	99.2	64.9
Goodwill	66.8	37.3

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 0.6 (0.3) 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 19 (23) acquisitions during 2016 for a total consideration of EUR 99.2 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 2016 financial statements. The sales consolidated from the companies acquired during 2016 did not have a material impact on the Group sales for the financial period.

The most significant acquisitions during 2016 were acquisitions of thyssenkrupp Hissit Oy in Finland, Capital Elevator Services and City Elevator Company in USA and Citylift S.A. in Spain. During 2016 KONE also acquired the remaining 20% stake in its Chinese subsidiary GiantKONE Elevators Co., Ltd. KONE has fully consolidated GiantKONE in its consolidated financial statements since December 2011, and therefore the acquisition did not have an impact on KONE's sales, operating income or goodwill.

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 2016, except for the acquisition of Citylift S.A.

The combined acquisition consideration of thyssenkrupp Hissit Oy, Capital Elevator Services, City Elevator Company and Citylift S.A. was EUR 67.5 million. Based on provisional assessments, the fair value of identified net assets of these acquisitions was EUR 7.0 million, including EUR 8.0 million of maintenance contracts. The increase in goodwill totaled EUR 60.5 million. Goodwill represents the value of the acquired market share, business knowledge and expected synergies. Note 4.2 provides more detail on goodwill.

During 2016, KONE completed other acquisitions for a total consideration of EUR 31.7 million, of which, based on provisional assessments, EUR 25.8 million was allocated to maintenance contracts in other intangible assets. Acquired maintenance contracts are typically amortized over ten years. Note 4.3 provides more detail on other 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. Five largest CGU's carry 76% of the goodwill. The carrying amount of goodwill is below EUR 10 million for ten CGUs. The goodwill allocation to the CGUs is presented in the table below:

Goodwill/CGU, MEUR	Dec 31, 2016	%	Dec 31, 2015	%
Five largest CGUs	1,035.9	76	973.5	74
Five smallest CGUs	19.1	1	19.7	2
Other CGUs	316.7	23	313.4	24
Total	1,371.8		1,306.7	
Mean	57.1		56.8	
Median	13.2		13.2	

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2016	Dec 31, 2015
Opening net book value	1,306.7	1,208.9
Translation differences	-1.8	55.4
Increase	0.1	5.7
Decrease	-	-0.6
Companies acquired (note 4.1)	66.8	37.3
Closing net book value	1,371.8	1,306.7

Discount interest rates used (pre-tax):	EMEA	Americas	Asia-Pacific
2016	6.55%	8.26%	9.11%
2015	7.03%	8.21%	9.47%

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 two 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 7.2 times higher than the CGU's assets employed. The respective ratio was for the five largest CGU's was 5.1; for the five smallest 26.7 and respectively for the other CGUs 12.2.

4.3 OTHER INTANGIBLE ASSETS

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

Jan 1–Dec 31, 2015, MEUR	Maintenance contracts	Other	Total
Jan 1, 2015:			
Acquisition cost	290.2	129.3	419.5
Accumulated amortization and impairment	-65.8	-92.0	-157.8
Net book value	224.5	37.3	261.8
Opening net book value	224.5	37.3	261.8
Translation differences	10.6	1.4	12.0
Increase	2.8	11.9	14.7
Decrease	-	-0.9	-0.9
Reclassifications	-	0.6	0.6
Companies acquired (note 4.1)	24.7	0.1	24.8
Amortization	-27.9	-13.6	-41.5
Closing net book value	234.6	36.9	271.5
Dec 31, 2015:			
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

Accounting principles

Other intangible assets

In connection with acquisitions, other intangible assets are identified and presented in other intangible assets in the statement of financial position. These assets 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.

Other 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, 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

During the period of Jan 1–Dec 31, 2016, capital expenditure on production facilities, customer service in the sales and maintenance operations, as well as on information systems, including new finance leases, totaled EUR 127.4 (92.7) 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 other 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, 2015, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2015:							
Acquisition cost	7.5	208.0	398.8	57.0	26.4	6.3	704.0
Accumulated depreciation	-	-76.6	-282.6	-27.7	-	-	-386.9
Net book value	7.5	131.4	116.2	29.4	26.4	6.3	317.1
Opening net book value	7.5	131.4	116.2	29.4	26.4	6.3	317.1
Translation differences	0.1	4.9	4.0	2.5	1.3	0.1	12.8
Increase	0.2	15.1	40.5	16.4	10.9	3.5	86.5
Decrease	-0.5	-0.5	-3.5	-2.6	-0.4	-2.8	-10.2
Reclassifications	-0.1	19.8	6.1	-0.1	-26.0	-3.5	-3.8
Companies acquired (note 4.1)	-	0.0	1.4	-	-	-	1.5
Depreciation	-	-9.0	-39.4	-10.1	-	-	-58.5
Closing net book value	7.2	161.6	125.1	35.5	12.3	3.7	345.4
Dec 31, 2015:							
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

5 CAPITAL STRUCTURE

KONE'S INTEREST-BEARING NET DEBT

-1,688 MEUR

EQUITY PER SHARE

5.42 EUR

IN THIS SECTION

This section comprises the following notes, which describe capital structure at KONE for 2016.

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 capital structure target.

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 2016, 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 2016, KONE had 12,884,141 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	2016	2015	2014	2013	2012 2)
Assets employed:					
Goodwill and shares	1,501.6	1,429.4	1,321.3	1,215.7	1,239.2
Other fixed assets 1)	661.2	616.9	578.9	498,4	459.8
Net working capital	-1,054.8	-983.4	-749.7	-611.5	-439.3
Total assets employed	1,108.0	1,062.9	1,150.5	1,102.6	1,259.7
Capital:					
Equity	2,795.6	2,575.5	2,062.4	1,724.6	1,833.7
Interest-bearing net debt	-1,687.6	-1,512.6	-911.8	-622.0	-574.0
Total capital	1,108.0	1,062.9	1,150.5	1,102.6	1,259.7
Gearing	-60.4%	-58.7%	-44.2%	-36.1%	-31.3%
Total equity/total assets	46.8%	45.4%	43.6%	43.7%	47.1%

1) Property, plant and equipment, acquired maintenance contracts and other intangible assets.
2) Figures for 2012 have been restated according to the revised IAS 19 'Employee Benefits'.
*) In 2012–2016, the dividend payout ratio has been 69.7–129.8% for class B shares (Board's proposal 2016).

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 2016 financial year, the number of shares outstanding was 526,168,882. The share capital was EUR 65.8 million and the total number of votes was 121,204,729. 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, 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

Changes in share capital	Class A	Class B	Total
Number of shares, Jan 1, 2015	76,208,712	448,201,216	524,409,928
Share subscription with 2010 and 2013 options, April 30, 2015		853,462	853,462
Share subscription with 2010 options, May 19, 2015		132,322	132,322
Share subscription with 2013 options, Aug 4, 2015		3,560	3,560
Share subscription with 2013 options, Nov 3, 2015		6,802	6,802
Share subscription with 2013 options, Dec 31, 2015		240	240
Number of shares, Dec 31, 2015	76,208,712	449,197,602	525,406,314
Number of votes, Dec 31, 2015	76,208,712	44,919,760	121,128,472
Share capital, Dec 31, 2015, MEUR	9.5	56.2	65.7

Authority to purchase own shares

The Shareholders' Meeting held in March 2016 authorized the Board of Directors to repurchase the company's own shares. The shares may be repurchased 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 may 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.

Class B shares can be purchased at public trading in the Nasdaq Helsinki Ltd. at market price. The class A shares shall be purchased outside public trading at the price equivalent to the average price of class B shares paid in the Nasdaq Helsinki Ltd. at the date of purchase.

During the financial year 2016, KONE repurchased 1,000,000 own shares.

Own shares

	Number of shares	Cost, MEUR
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
Jan 1, 2015	10,683,398	150.8
Distributed to the annual compensation of the Board, April	-3,210	-0.1
Distributed to the share based incentive plan, April	-354,838	-11.5
Returned from the share-based incentive plan, July	5,194	0.2
Purchase, July	1,910,000	71.2
Dec 31, 2015	12,240,544	210.6

Reconciliation of own shares, Dec 31, 2016

KONE Corporation and Group total	pcs	Acquisition cost	Average price
31.12.2015	12,240,544	210,553,399.24	17.20
April 28, 2016	-391,662	-14,439,747.00	36.87
April 28, 2016	-2,923	-108,407.70	37.09
May 2, 2016	110,000	4,373,437.64	39.76
May 3, 2016	135,000	5,314,005.72	39.36
May 4, 2016	141,000	5,532,948.39	39.24
May 6, 2016	180,000	7,031,990.96	39.07
May 9, 2016	160,000	6,261,221.80	39.13
May 10, 2016	130,000	5,082,756.37	39.10
May 11, 2016	144,000	5,670,635.08	39.38
August 9, 2016	21,752	806,734.26	37.09
October 27, 2016	5,554	205,985.75	37.09
December 22, 2016	10,876	403,367.13	37.09
31.12.2016	12,884,141	236,688,327.64	18.37

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 589.2 (552.7) million and s financial investments EUR 1,494.4 (1,349.6) million on December 31, 2016. 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 can nevertheless have an impact on the location of the cash and financial investments in the future. To ensure sufficient liquidity KONE has in 2016 signed a committed syndicated credit facility of EUR 800 million maturing in 2021. This facility has replaced the previous bilateral facilities (EUR 540 million). In 2016 KONE utilized an European Investment Bank (EIB) credit facility of EUR 160 million according to previously agreed conditions. The credit facility is a 5-year fixed interest rate loan which will be used for R&D purposes. 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 2,083.6 (1,902.3) million at the statement of financial position date. KONE's interest-bearing debt was EUR 405.4 (406.1) million at the statement of financial position date and consisted of EUR 218.1 (44.5) million of financial debt, EUR 10.5 (192.4) million of option liabilities from acquisitions, and EUR 176.7 (169.2) million of employee benefits.

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 2016 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, -2,060.0 (-1,886.7) million euros. For 2017 a 1 percentage point change in the interest rate level would mean a change of EUR 20.6 (18.9) 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, 2016				Dec 31, 2015			
MEUR	**< 1 year**	**1–5 years**	**> 5 years**	**Total**	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
Interest-bearing debt								
Long-term loans	-	-1.0	-160.0	**-161.0**	-	-0.8	-	**-0.8**
Finance lease liabilities	-13.9	-33.1	-1.7	**-48.7**	-10.9	-24.5	-	**-35.3**
Short-term loans	-	-	-	-	-0.1	-	-	**-0.1**
Used bank overdraft limits	-1.1	-	-	**-1.1**	-1.0	-	-	**-1.0**
Interest payments	-0.0	-0.1	-0.0	**-0.2**	-0.0	-	-	**-0.0**
Option liabilities from acquisitions	-10.5	-	-	**-10.5**	-192.4	-	-	**-192.4**
Employee benefits	-	-	-176.7	**-176.7**	-	-	-169.2	**-169.2**
Non-interest bearing debt								
Accounts payables	-743.3	-	-	**-743.3**	-728.9	-	-	**-728.9**
Derivatives								
Capital inflow	2,530.9	98.3	-	**2,629.2**	2,697.4	158.1	-	**2,855.4**
Capital outflow	-2,508.8	-98.5	-	**-2,607.3**	-2,669.7	-153.1	-	**-2,822.8**
Net interest	-	-	-	-	0.3	-	-	**0.3**
Net outflow	-746.8	-34.5	-338.4	**-1,119.7**	-905.2	-20.4	-169.2	**-1,094.8**

Values of financial assets and liabilities by categories

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 ".

2015 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			118.3		118.3
Non-current loans receivable	I	5.5		7.0			7.0
Employee benefits		5.7				8.4	8.4
Current assets							
Accounts receivable				1,480.2			1,480.2
Derivative assets			47.1				47.1
Current deposits and loans receivable	I	5.5		1,350.6			1,350.6
Cash and cash equivalents	I			552.7			552.7
Total financial assets			47.1	3,390.4	118.3	8.4	3,564.2
Non-current liabilities							
Loans	I					32.5	32.5
Employee benefits	I	5.7				169.2	169.2
Current liabilities							
Current portion of long-term loans	I					10.9	10.9
Short-term loans and other liabilities	I					1.1	1.1
Option liabilities from acquisitions	I		192.4				192.4
Accounts payable						728.9	728.9
Derivative liabilities			36.8				36.8
Unpaid acquisition consideration						22.6	22.6
Total financial liabilities			229.2	-	-	965.2	1,194.4

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 ".

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 3 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 17.6 (20.2) million and payables EUR 24.0 (9.9) million.

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2016	Derivative liabilities Dec 31, 2016	Fair value, net Dec 31, 2016	Fair value, net Dec 31, 2015
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	19.9	-34.5	-14.5	5.9
Other hedges	14.0	-5.4	8.6	-1.0
Cross-currency swaps	-	-	-	6.5
Electricity price forward contracts	0.0	-0.4	-0.4	-1.2
Total	33.9	-40.3	-6.4	10.3

Nominal values of derivative financial instruments, MEUR	Dec 31, 2016	Dec 31, 2015
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	1,157.4	1,074.4
Other hedges	1,471.9	1,642.7
Cross-currency swaps	-	138.9
Electricity price forward contracts	1.6	2.6
Total	2,630.9	2,858.5

5.4 SHARES AND OTHER NON-CURRENT FINANCIAL ASSETS

Shares and other non-current financial assets were EUR 121.8 and 3.0 million respectively (EUR 114.7 and 3.6 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-forsale 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, 2016	Dec 31, 2015
Non-current loans receivable	7.4	7.0
Current loans receivable	2.2	1.0
Current short-term deposits	1,494.4	1,349.6
Total	1,504.0	1,357.5

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, 2016	Dec 31, 2015
Total at beginning of period	4.4	4.5
Translation differences	-0.0	0.3
Share of associated companies' result after taxes	1.2	0.3
Dividends received	-0.5	-0.9
Increase	-	0.2
Decrease	-0.0	-
Total at end of period	5.0	4.4

The associated companies' financial information presented here is based on the latest official financial statements available and estimates for the year 2016.

The net income of KONE's associated companies for the year 2016 was EUR 2.1 million based on estimates available. Based on the official financial statements, the assets of KONE's associated companies totaled EUR 18.9 million and equity EUR 12.4 million. In the year 2015, the associated companies recognized total sales of EUR 37.4 million and a total net income of EUR 2.7 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, 2016	Jan 1–Dec 31, 2015
Sales of goods and services	0.0	0.0
Purchases of goods and services	20.9	28.6

Balances with associated companies

Liabilities to associated companies, MEUR	Dec 31, 2016	Dec 31, 2015
Accounts payable	1.9	6.7
Accruals	0.2	-
Total	2.1	6.7

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 handels 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, 2016	Dec 31, 2015
Employee benefits		
Defined benefit plans	159.4	142.6
Other post-employment benefits	17.3	18.2
Total	176.7	160.8

Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	Dec 31, 2016 Defined benefit plans	Dec 31, 2016 Other post-employment benefits	Dec 31, 2015 Defined benefit plans	Dec 31, 2015 Other post-employment benefits
Present value of unfunded obligations	83.0	0.8	84.0	0.7
Present value of funded obligations	474.3	17.5	453.7	18.4
Fair value of benefit plans' assets	-397.8	-1.0	-395.1	-0.9
Total	159.4	17.3	142.6	18.2

Net liability reconciliation	Dec 31, 2016 Defined benefit plans	Dec 31, 2016 Other post-employment benefits	Dec 31, 2015 Defined benefit plans	Dec 31, 2015 Other post-employment benefits
Employee benefit liability at beginning of period	151.1	18.2	161.3	17.7
Employee benefit assets at beginning of period	-8.4	-	-	-
Net liability at beginning of period	142.6	18.2	161.3	17.7
Translation differences	2.1	0.6	5.1	2.0
Costs recognized in statement of income	14.2	0.9	-0.4	0.9
Remeasurements	18.6	-2.0	4.2	-1.7
Paid contributions and benefits	-16.3	-0.5	-27.6	-0.7
Reclassifications	-1.9	-	-	-
Net liability at end of period	159.4	17.3	142.6	18.2
Employee benefit liability at end of period	159.4	17.3	151.1	18.2
Employee benefit assets at end of period	-	-	-8.4	-
Net liability at end of period	159.4	17.3	142.6	18.2

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Defined contribution pension plans	184.8	161.9
Defined benefit pension plans	14.2	-0.4
Other post-employment benefits	0.9	0.9
Total	199.9	162.3

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2016 Defined benefit plans	Jan 1–Dec 31, 2016 Other post-employment benefits	Jan 1–Dec 31, 2015 Defined benefit plans	Jan 1–Dec 31, 2015 Other post-employment benefits
Current service costs	12.0	0.3	13.6	0.3
Net interest	3.5	0.6	4.2	0.6
Past-service costs	-0.1	-	-0.2	-
Settlements	-	-	-	-
Curtailments	-1.1	-	-18.1	-
Total	14.2	0.9	-0.4	0.9

The actual return on defined benefit plans' assets was EUR 55.6 (-0.5) million.

Defined benefit plans: assumptions used in calculating benefit obligations	Jan 1–Dec 31, 2016 Europe	Jan 1–Dec 31, 2016 USA	Jan 1–Dec 31, 2015 Europe	Jan 1–Dec 31, 2015 USA
Discount rate, %	2.45	3.97	3.43	3.89
Future salary increase, %	2.9	4.0	2.9	4.0
Future pension increase, %	2.9	4.0	2.8	4.0

Sensitivity of the defined benefit obligation to changes in actuarial assumptions	Impact on defined benefit obligation Dec 31, 2016	Impact on defined benefit obligation Dec 31, 2015
Discount rate, +0.25 percentage points	-3.9%	-3.8%
Discount rate, -0.25 percentage points	4.4%	4.3%
Future pension increase, +0.25 percentage points	2.0%	2.1%
Future pension increase, -0.25 percentage points	-1.9%	-1.4%

The above sensitivity analyses cover 78 (79) 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, 2016	Dec 31, 2015
Minimum lease payments		
Less than 1 year	14.7	11.4
1–5 years	34.3	24.9
Over 5 years	2.3	-
	51.3	36.3
Future finance charges	-2.6	-0.9
Present value of finance lease liabilities	48.7	35.3

MEUR	Dec 31, 2016	Dec 31, 2015
Present value of finance lease liabilities		
Less than 1 year	13.9	10.9
1–5 years	33.1	24.5
Over 5 years	1.7	-
Total	48.7	35.3

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.

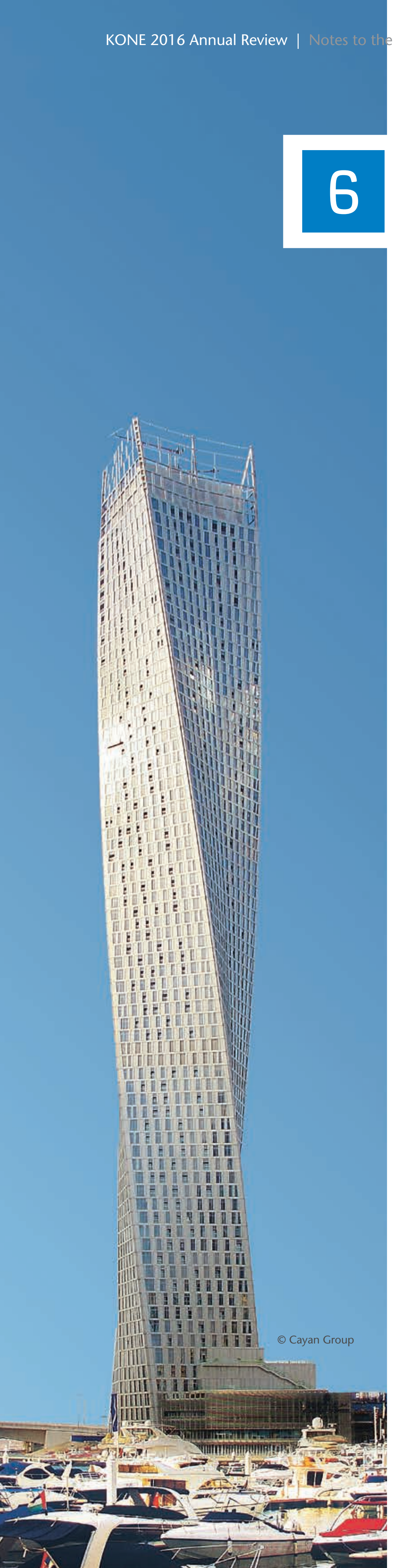
5.9 COMMITMENTS

Commitments, MEUR	Dec 31, 2016	Dec 31, 2015
Guarantees		
Others	11.2	6.9
Operating leases	315.6	277.7
Total	326.8	284.6

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,411.4 (1,322.7) million as of December 31, 2016. KONE leases vehicles, machinery and equipment and buildings under operating leases with varying terms.

The future minimum lease payments under non-cancellable operating leases, MEUR	Dec 31, 2016	Dec 31, 2015
Less than 1 year	73.1	73.6
1–5 years	162.6	153.8
Over 5 years	79.9	50.3
Total	315.6	277.7

The aggregate operating lease expenses totaled EUR 87.6 (92.7) million.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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, 2016	Jan 1–Dec 31, 2015
Salaries and other remunerations	8.0	7.5
Share-based payments	14.4	13.8
Total	22.4	21.3

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR thousand) [2]	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Herlin Antti, Chairman of the Board [1]	528.5	529.0
Herlin Jussi, Vice Chairman of the Board	105.8	51.5
Ehrnrooth Henrik, President & CEO [1]	750.0	750.0
Alahuhta Matti	36.5	38.0
Brunila Anne	37.0	38.0
Herlin Iiris	36.0	36.5
Kant Ravi	42.5	40.0
Kaskeala Juhani	37.5	39.0
Pietikäinen Sirpa	36.5	36.5
Matsubara Kazunori	-	33.5
Hämäläinen-Lindfors Sirkka	-	0.5
Total	1,610.3	1,592.5

[1] For the financial year 2016 in addition Antti Herlin's accrued bonus is EUR 391,800 and Henrik Ehrnrooth's accrued bonus is EUR 600,000. These will be paid during 2017. In April 2016, the share-based payments for the financial year 2015 received by Henrik Ehrnrooth was EUR 3,527,900.

[2] Includes also the annual compensation of the Board which was performed by using shares of KONE Corporation decided by the Annual General Meeting March 7, 2016.

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 2016, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2016 totaled EUR 391,800. He was also paid EUR 60,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 79. The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2016 was EUR 168,465. 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 2016, Henrik Ehrnrooth's basic salary was EUR 750,000. In addition, his accrued bonus for 2016 totaled EUR 600,000. Henrik Ehrnrooth's holdings of shares are presented in the table on page 79. 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 2016, on the basis of the incentive plan for year 2015, Henrik Ehrnrooth received a bonus of EUR 3,527,900, which consisted of 40,495 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 2016 and due for payment in April 2017 is 36,715 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 2016 was EUR 260,775. 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 79.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2016, on the basis of the incentive plan, the members of the Executive Board received a bonus of 183,732 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 2016 and due for payment in April 2017 is 282,142 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 6.6 million at the end of the year 2016 and the monthly pension paid by KONE to him is EUR 21,594 (December 2016).

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 425 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 391,662 KONE class B shares were granted in April 2016 to the management as a reward due to the achievement of the targets for the year 2015. During year 2016 a total of 38,182 of those KONE class B shares were returned to KONE Corporation. In April 2017, a total of 485,966 class B shares will be granted to the senior management as a reward due to the achievement of the targets for the year 2016. To the other key personnel of KONE the total reward from the year 2016 is based on the value of 326,113 KONE class B shares to be delivered in January 2019 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 2016. 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 is 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 2016 was 749,438. The subscription price paid totaled EUR 18.0 million during year 2016. The original share subscription price for the stock option was EUR 29.125 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, 2016 is EUR 24.00.

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 2016 was 13,130. The subscription price paid totaled EUR 0.4 million during year 2016. 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, 2016 is EUR 28.20.

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. 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, 2016 is EUR 33.60. 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 2015 will be April 1, 2017–April 30, 2019. The share subscription period begins accordingly 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.

Options	Options granted to employees	Unexercised options	Options held by the subsidiary Dec 31, 2016	Number of class B shares that can be subscribed for with the option	Share subscription price, EUR	Share subscription period
2013	695,000	257,139	55,000	2	24.00	1 April, 2015–30 April, 2017
2014	1,367,000	1,353,870	133,000	1	28.20	1 April, 2016–30 April, 2018
2015	1,409,000	1,409,000	91,000	1	33.60	1 April, 2017–30 April, 2019
Total	3,471,000	3,020,009	279,000			

Changes in the number of options outstanding	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Number of options outstanding, Jan 1	3,577,858	2,623,156
Granted options	0	1,488,000
Returned options	-170,000	-35,000
Expired options	0	-105
Exercised options	-387,849	-498,193
Number of options outstanding, Dec 31	3,020,009	3,577,858
Exercisable options, Dec 31	1,611,009	631,858

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, 2016	Jan 1–Dec 31, 2015
To be paid in shares	17.0	19.5
To be paid in cash	16.4	14.4

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

December 31, 2016	42.57
December 31, 2015	39.17
Change	+8.7%

Share notations

High	47.89
Low	35.50
Volume-weighted average price	41.47

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	449,960,170	56,245,021
Total	526,168,882	65,771,110

	KONE class B share	KONE 2013 option rights	KONE 2014 option rights
Trading code, Nasdaq Helsinki Ltd. in Finland	KNEBV	KNEBVEW113	KNEBVEW114
ISIN code	FI0009013403	FI4000146832	FI4000197918
Accounting par value	EUR 0.125		
Conversion rate		1:2	1:1

Market capitalization

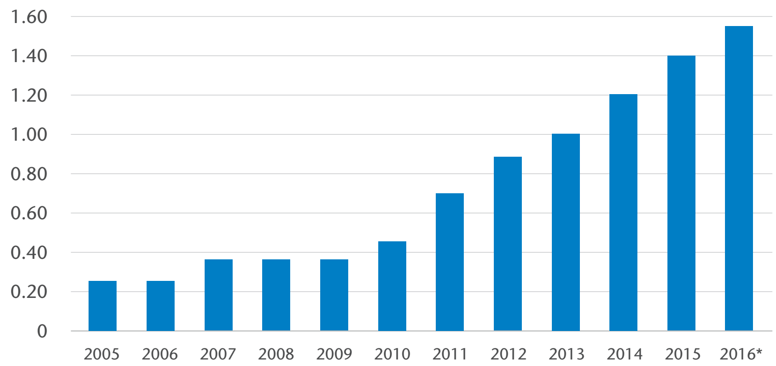
on December 31, 2016

EUR 21,851 million

Dividend proposal

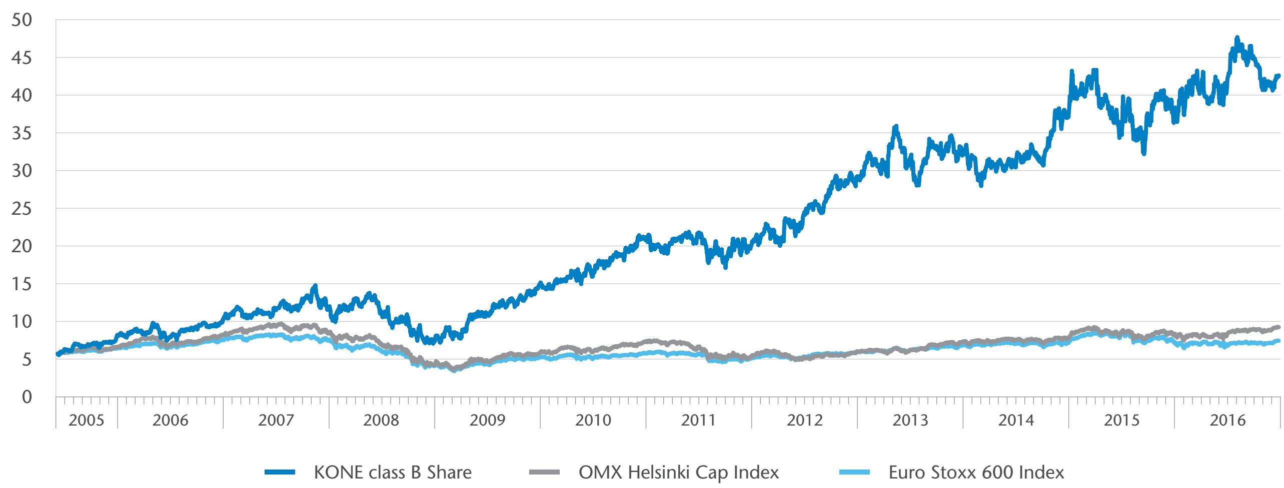
1.55 per class B share

KONE class B dividend per share, 2005–2016, EUR



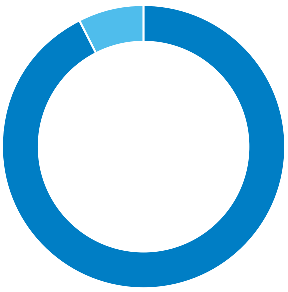
*) Board's proposal for the 2016 dividend

KONE class B share price development Jun 1, 2005–Dec 31, 2016, EUR

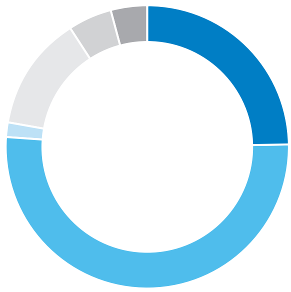


SHAREHOLDERS

Class A shares, %



Class B shares, %



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

SHAREHOLDINGS ON DEC 31, 2016 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	3,785	6.59	23,607	0.00
11 – 100	21,388	37.22	1,133,845	0.22
101 – 1,000	24,378	42.42	9,148,950	1.74
1,001 – 10,000	6,957	12.11	19,757,148	3.75
10,001 – 100,000	844	1.47	21,863,634	4.16
100,001 –	119	0.21	474,198,930	90.12
Total	**57,471**	**100.00**	**526,126,114**	**99.99**
Shares which have not been transferred to the paperless book entry system			42,768	0.01
Total		**100.00**	**526,168,882**	**100.00**

MAJOR SHAREHOLDERS ON DEC 31, 2016

		A-series	B-series	Total	% of shares	% of votes
1	**Herlin Antti**	70,561,608	44,984,977	115,546,585	21.96	61.93
	Holding Manutas Oy [1]	54,284,592	35,214,254	89,498,846	17.01	47.69
	Security Trading Oy [2]	16,277,016	8,083,016	24,360,032	4.63	14.10
	Herlin Antti	0	1,687,707	1,687,707	0.32	0.14
2	**Polttina Oy**	0	17,475,330	17,475,330	3.32	1.44
3	**Wipunen varainhallinta Oy**	0	16,350,000	16,350,000	3.11	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	2.95	5.47
6	**Varma Mutual Pension Insurance Company**	0	4,570,076	4,570,076	0.87	0.38
7	**Ilmarinen Mutual Pension Insurance Company**	0	4,300,860	4,300,860	0.82	0.35
8	**Blåberg Olli**	0	4,110,000	4,110,000	0.78	0.34
9	**The State Pension Fund**	0	3,500,000	3,500,000	0.67	0.29
10	**Blåberg Karolina**	0	2,411,960	2,411,960	0.46	0.20
	10 largest shareholders total	76,208,712	123,562,835	199,771,547	37.97	73.07
	Foreign shareholders [3]	0	231,511,970	231,511,970	44.00	19.10
	Repurchased own shares	0	12,884,141	12,884,141	2.45	1.06
	Others	0	82,001,224	82,001,224	15.58	6.77
Total		76,208,712	449,960,170	526,168,882	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 in 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 8,283,016 KONE Corporation's class B shares, when taking into account 200,000 shares that were lent out on December 31, 2016.

[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, 2016, KONE Corporation's Chairman and Members of the Board of Directors owned 70,561,608 class A shares and 46,191,776 class B shares, representing approximately 22.2% 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 79.

KEY FIGURES PER SHARE, JAN 1–DEC 31

	2016	2015	2014	2013	2012
Basic earnings per share, EUR	2.00	2.01	1.47	1.37	1.17
Diluted earnings per share, EUR	1.99	2.00	1.47	1.36	1.17
Basic earnings per share, EUR, adjusted [1]	-	1.79	-	-	1.23
Equity per share, EUR	5.42	4.94	3.93	3.30	3.53
Dividend per class B share, EUR [3]	1.55 [2]	1.40	1.20	1.00	1.525
Dividend per class A share, EUR [3]	1.5475 [2]	1.3975	1.1975	0.9975	1.52
Dividend per earnings, class B share, %	77.5 [2]	69.7	81.5	73.0	129.8
Dividend per earnings, class A share, %	77.4 [2]	69.6	81.3	72.8	129.4
Effective dividend yield, class B share, %	3.6 [2]	3.6	3.2	3.0	5.5
Price per earnings, class B share	21.29	19.49	25.68	23.96	23.74
Market value of class B share, average, EUR	41.47	38.29	31.83	31.60	23.69
- at end of period, EUR	42.57	39.17	37.82	32.80	27.90
Market capitalization at end of period, MEUR [4]	21,851	20,101	19,429	16,816	14,306
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) [4]	437,076	436,957	437,518	436,474	436,543
Weighted average number of class B shares, (1,000s) [5]	437,928	438,958	438,794	438,831	438,104
Weighted average number of shares, (1,000s) [5]	514,137	515,167	515,002	515,040	514,313

All share-related figures adjusted for the share split (1:2) done in December 2013. Comparative figures for 2012 have been restated according to the revised IAS 19 Employee Benefits.

[1] 2015: Excluding an EUR 118.2 million extraordinary dividend from TELC. 2012: Excluding a cost of EUR 37.3 million related to the support function development and cost adjustment programs.
[2] Board's proposal
[3] 2012: Including an extra dividend of EUR 0.65 per class B-share and EUR 0.6475 per class A-share.
[4] Reduced by the number of repurchased own shares. Class A shares are valued at the closing price of the class B shares.
[5] 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	2016	2015	2014	2013	2012
Sales, MEUR	8,784	8,647	7,334	6,933	6,277
- sales outside Finland, MEUR	8,594	8,486	7,183	6,807	6,114
Operating income, MEUR	1,293	1,241	1,036	953	791
- as percentage of sales, %	14.7	14.4	14.1	13.8	12.6
Operating income, adjusted, MEUR [1)]	1,293	1,241	1,036	953	829
- as percentage of sales, % [1)]	14.7	14.4	14.1	13.8	13.2
Income before taxes, MEUR	1,330	1,364	1,016	960	804
- as percentage of sales, %	15.1	15.8	13.9	13.9	12.8
Net income, MEUR	1,023	1,053	774	713	611

Consolidated statement of financial position, MEUR	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
Non-current assets	2,489	2,361	2,169	1,938	1,937
Current assets	5,463	5,144	4,191	3,405	3,197
Total equity	2,796	2,575	2,062	1,725	1,834
Non-current liabilities	534	343	321	262	302
Provisions	183	174	137	139	136
Current liabilities	4,438	4,414	3,839	3,217	2,862
Total assets	7,951	7,506	6,360	5,343	5,134
Interest-bearing net debt	-1,688	-1,513	-912	-622	-574
Assets employed [2)]	1,108	1,063	1,151	1,103	1,260
Net working capital [2)]	-1,055	-983	-750	-612	-439
Inventories, net of advance payments received	-603	-503	-417	-294	-261

Other data, Jan 1–Dec 31	2016	2015	2014	2013	2012
Orders received, MEUR	7,621	7,959	6,813	6,151	5,496
Order book, MEUR	8,592	8,210	6,952	5,587	5,050
Cash flow from operations before financing items and taxes, MEUR	1,509	1,474	1,345	1,213	1,071
Capital expenditure excluding acquisitions, MEUR	127	93	88	74	119
- as percentage of sales, %	1.5	1.1	1.2	1.1	1.9
Expenditure for research and development, MEUR	141	122	103	96	86
- as percentage of sales, %	1.6	1.4	1.4	1.4	1.4
Average number of employees	50,905	48,469	45,161	41,139	38,477
Number of employees at end of period	52,104	49,734	47,064	43,298	39,851
Employee costs	2,634	2,446	2,100	1,984	1,875

Key ratios, %, Jan 1–Dec 31	2016	2015	2014	2013	2012
Return on equity	38.1	45.4	40.9	40.1	32.1
Return on capital employed	34.1	41.7	37.7	36.3	29.4
Total equity/total assets	46.8	45.4	43.6	43.7	47.1
Gearing	-60.4	-58.7	-44.2	-36.1	-31.3

Comparative figures for 2012 have been restated according to the revised IAS 19 Employee Benefits.

[1)] 2012: Excluding a cost of EUR 37.3 million related to the support function development and cost adjustment programs.
[2)] Including tax receivables and liabilities, accrued interest and derivative items. Definition available on page 34.

Calculation of key figures

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

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

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

$$\text{Total equity/total assets (\%)} = 100 \times \frac{\text{total equity}}{\text{total assets - advance payments received}}$$

$$\text{Gearing (\%)} = 100 \times \frac{\text{interest-bearing-debt - liquid assets - loans receivable}}{\text{total equity}}$$

Parent company statement of income

EUR	Note	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Sales	1	615,293,683.74	543,447,039.93
Other operating income	2	14,615,917.52	7,995,425.19
Materials and services		-3,070,021.24	-2,865,216.19
Personnel expenses	3	-96,386,840.87	-78,872,864.25
Depreciation and amortization	4	-13,656,927.42	-13,072,140.30
Other operating expenses	5	-303,197,559.73	-298,001,215.18
Operating income		213,598,252.00	158,631,029.20
Financing income and expenses	6	657,802,108.57	1,032,117,087.91
Income before appropriations and taxes		871,400,360.57	1,190,748,117.11
Appropriations	7	50,202,675.38	42,315,354.29
Income taxes		-45,513,735.69	-32,005,093.71
Deferred taxes		-5,715,725.42	-90,138.53
Net income		870,373,574.84	1,200,968,239.16

Parent company statement of financial position

Assets, EUR	Note	Dec 31, 2016	Dec 31, 2015
Non-current assets			
Intangible assets	8	26,033,693.00	26,973,598.00
Property, plant and equipment	9	34,674,422.39	28,120,403.91
Investments			
Subsidiary shares	10	3,101,994,678.96	3,088,037,403.28
Other shares	11	2,460,313.53	2,374,307.53
		3,104,454,992.49	3,090,411,710.81
Total non-current assets		3,165,163,107.88	3,145,505,712.72
Current assets			
Long-term receivables	12		
Loans receivable		4,195,384.60	28,017,318.31
		4,195,384.60	28,017,318.31
Short-term receivables	13		
Accounts receivable		49,229,220.10	53,967,795.45
Loans receivable		614,991,884.78	376,592,637.89
Deferred tax assets		2,856,240.08	8,571,965.50
Other receivables		6,204,209.82	4,595,641.39
Deferred assets		200,066,393.80	182,902,357.88
		873,347,948.58	626,630,398.11
Financial investments		1,281,332,678.21	1,036,624,826.92
Cash and cash equivalents		211,719,944.69	315,985,202.73
Total current assets		2,370,595,956.08	2,007,257,746.07
Total assets		5,535,759,063.96	5,152,763,458.79

Equity and liabilities, EUR	Note	Dec 31, 2016	Dec 31, 2015
Equity			
Share capital		65,771,110.26	65,675,789.25
Share premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		159,080,452.89	140,702,748.16
Retained earnings		867,012,248.09	423,552,561.11
Net income		870,373,574.84	1,200,968,239.16
Total equity	14	2,062,565,450.66	1,931,227,402.26
Cumulative accelerated depreciation		7,797,349.02	7,300,024.40
Appropriations		7,797,349.02	7,300,024.40
Provisions	15	2,984,205.92	4,745,756.94
Liabilities			
Non-current liabilities	16		
Loans		1,451,233,866.11	1,333,527,173.54
		1,451,233,866.11	1,333,527,173.54
Current liabilities	17		
Accounts payable		67,991,410.43	56,413,885.24
Loans		1,797,340,910.21	1,702,631,049.64
Other liabilities		11,831,782.83	1,776,731.92
Accruals		134,014,088.78	115,141,434.85
		2,011,178,192.25	1,875,963,101.65
Total liabilities		3,462,412,058.36	3,209,490,275.19
Total equity and liabilities		5,535,759,063.96	5,152,763,458.79

Parent company cash flow statement

EUR	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Cash receipts from customers	623,045,926.38	520,535,189.07
Cash receipts from other operative income	14,505,177.52	7,848,265.20
Cash paid to suppliers and employees	-385,316,311.07	-376,229,094.68
Financing items	662,433,580.37	1,100,822,352.25
Taxes and other items	-45,605,594.47	-31,750,603.49
Cash flow from operating activities	869,062,778.73	1,221,226,108.35
Capital expenditure	-19,500,483.51	-21,380,942.48
Proceeds from sales of fixed assets	210,984.44	409,247.16
Subsidiary investments	-12,000,000.00	-95,376,569.00
Proceeds from sales of subsidiary shares	-	200,214,510.42
Cash flow from investing activities	-31,289,499.07	83,866,246.10
Purchase of own shares	-39,266,995.96	-71,156,511.97
Increase in equity (option rights)	18,356,778.00	13,540,074.85
Net change in short-term debt	94,709,860.57	24,843,578.82
Net change in long-term debt	117,706,692.57	320,883,625.93
Profit distribution	-718,241,556.22	-616,281,314.22
Group contributions received	44,000,000.00	30,600,000.00
Other financing items	-459,303,316.66	-804,384,444.42
Cash flow from financing activities	-942,038,537.70	-1,101,954,991.01
Change in cash and cash equivalents	-104,265,258.04	203,137,363.44
Cash and cash equivalents, Jan 1	315,985,202.73	112,847,839.29
Cash and cash equivalents, Dec 31	211,719,944.69	315,985,202.73
Change in cash and cash equivalents	-104,265,258.04	203,137,363.44
Reconciliation of net income to the cash flow from operating activities		
Net income	870,373,574.84	1,200,968,239.16
Depreciation and amortization	13,656,927.42	13,072,140.30
Other adjustments	-42,233,899.92	-38,297,671.28
Income before change in working capital	841,796,602.34	1,175,742,708.18
Change in receivables	-1,630,767.81	43,461,285.67
Change in liabilities	28,896,944.20	2,022,114.50
Cash flow from operating activities	869,062,778.73	1,221,226,108.35

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, 2016.

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 615 293,7 (543 447,0) thousand euros, which relates to revenues for the utilization of intellectual property rights.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Subsidies received	1,958.6	1,538.6
Recharged energy	2,561.4	1,968.9
Service charges	2,457.7	2,452.8
Others	7,638.2	2,035.2
Total	14,615.9	7,995.4

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Wages and salaries	81,740.3	65,527.8
Pension costs	11,249.6	10,067.2
Other employment expenses	3,396.9	3,277.9
Total	96,386.8	78,872.9

In 2016, the salaries and fees paid to the President & CEO and to the Board of Directors were together 6,265.3 (5,830.2) thousand euros. Average number of staff employed by the parent company was 848 during the financial year (785).

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Intangible rights	483.3	473.1
Other long term expenditure	9,548.9	9,745.2
Buildings	599.8	530.0
Machinery and equipment	3,024.9	2,323.8
Total	13,656.9	13,072.1

5. AUDITORS' FEES

EUR 1,000	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Audit	452.6	386.5
Auditors' statements	15.6	6.8
Tax advise	-	2.0
Other services	362.6	293.0
Total	830.8	688.3

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Dividend income from subsidiaries	666,254.6	1,074,413.2
Other dividends received	0.5	0.5
Interest income from subsidiaries	2,094.5	1,761.2
Interest income from others	36,468.0	32,298.2
Interest expenses to subsidiaries	-27,759.6	-31,803.5
Interest expenses to others	-8,010.8	-6,589.7
Other financing income and expenses	-11,245.1	-37,962.8
Total	657,802.1	1,032,117.1

7. APPROPRIATIONS

EUR 1,000	Jan 1–Dec 31, 2016	Jan 1–Dec 31, 2015
Cumulative accelerated depriciation change	-497.3	-1,684.6
Group contributions received	50,700.0	44,000.0
Total	50,202.7	42,315.4

Notes to the statement of financial position

8. INTANGIBLE ASSETS

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

Jan 1–Dec 31, 2015, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2015				
Acquisition cost	3,025.1	90,226.3	5,132.6	98,383.9
Accumulated amortization and impairment	-1,854.5	-68,351.0	-	-70,205.5
Net book value	1,170.6	21,875.3	5,132.6	28,178.5
Opening net book value	1,170.6	21,875.3	5,132.6	28,178.5
Increase	195.5	8,957.8	-	9,153.3
Decrease	-	-920.7	-	-920.7
Reclassifications	760.3	2,684.1	-2,663.5	781.0
Amortization	-473.1	-9,745.2	-	-10,218.3
Closing net book value	1,653.2	22,851.3	2,469.1	26,973.6
Dec 31, 2015				
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

9. PROPERTY, PLANT AND EQUIPMENT

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

Jan 1–Dec 31, 2015, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2015					
Acquisition cost	182.3	10,491.2	33,015.0	5,622.4	49,310.9
Accumulated depreciation	-	-5,506.2	-24,961.8	-	-30,467.9
Net book value	182.3	4,985.0	8,053.2	5,622.4	18,843.0
Opening net book value	182.3	4,985.0	8,053.2	5,622.4	18,843.0
Increase	-	2,977.6	4,332.0	4,908.2	12,217.7
Decrease	-	-4.1	-61.8	-	-65.8
Reclassifications	-	3,371.3	99.6	-3,491.5	-20.6
Depreciation	-	-530.0	-2,323.8	-	-2,853.8
Closing net book value	182.3	10,799.8	10,099.2	7,039.1	28,120.4
Dec 31, 2015					
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

10. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2016	Dec 31, 2015
Acquisition cost, Jan 1	3,088,037.4	3,196,747.9
Increase	14,010.0	95,376.6
Decrease	-52.7	-203,326.8
Reclassifications	-	-760.3
Net book value, Dec 31	3,101,994.7	3,088,037.4

11. OTHER SHARES

EUR 1,000	Dec 31, 2016	Dec 31, 2015
Acquisition cost, Jan 1	2,374.3	3,114.6
Increase	86.0	10.0
Decrease	-	-750.3
Net book value, Dec 31	2,460.3	2,374.3

12. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2016	Dec 31, 2015
Loans receivable from subsidiaries	4,195.4	28,017.3
Long-term receivables	4,195.4	28,017.3

13. SHORT-TERM RECEIVABLES

Receivables from subsidiaries, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Accounts receivable	48,889.5	53,658.9
Loans receivable	614,991.9	376,592.6
Deferred assets	150,001.1	125,932.0
Total	813,882.5	556,183.5

Receivables from externals, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Accounts receivable	339.7	308.9
Others	6,204.2	4,595.6
Deferred assets	50,065.2	56,970.4
Total	56,609.2	61,874.9
Deferred tax assets	2,856.2	8,572.0
Total short-term receivables	873,347.9	626,630.4

Deferred assets, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Derivative assets	55,728.6	50,977.2
Deferred income taxes	5,700.9	7,048.1
Unbilled contract revenue	67,518.5	67,835.9
Group contributions	50,700.0	44,000.0
Others	20,418.4	13,041.1
Total	200,066.4	182,902.4

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, 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	13,535.4	-13,535.4		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	-236,285.0	1,103,297.2	870,373.6	2,062,565.5

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 1,896,466,275.82 (1,765,223,548.43) 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, 2015	65,551.2	100,328.1	127,026.8	-150,793.6	1,261,914.8		1,404,027.2
Profit distribution					-616,281.3		-616,281.3
Purchase of own shares				-71,156.5			-71,156.5
Option and share-based compensation	124.5		13,676.0	11,396.7	-11,527.5		13,669.8
Net income for the period						1,200,968.2	1,200,968.2
Net book value Dec 31, 2015	65,675.8	100,328.1	140,702.7	-210,553.4	634,106.0	1,200,968.2	1,931,227.4

15. PROVISIONS

EUR 1,000	Dec 31, 2016	Dec 31, 2015
Warranty provisions	2,984.2	4,363.9
Other provisions	-	381.9
Total	2,984.2	4,745.8

16. NON-CURRENT LIABILITIES

Liabilities to subsidiaries EUR 1,000	Dec 31, 2016	Dec 31, 2015
Liabilites falling due in 1–5 years	1,291,233.9	1,333,527.2
Liabilities falling due later than five years	-	-
Total	1,291,233.9	1,333,527.2

Liabilities to externals, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Liabilites falling due in 1–5 years	160,000.0	-
Liabilities falling due later than five years	-	-
Total	160,000.0	-
Total current liabilities	1,451,233.9	1,333,527.2

17. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Accounts payable	24,939.8	21,244.2
Loans	1,797,340.9	1,702,631.0
Accruals	45,252.3	39,387.1
Total	1,867,533.1	1,763,262.3

Liabilities to externals, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Accounts payable	43,051.6	35,169.7
Other liabilities	11,831.8	1,776.7
Accruals	88,761.8	75,754.4
Total	143,645.1	112,700.8
Total current liabilities	2,011,178.2	1,875,963.1

Accruals, EUR 1,000	Dec 31, 2016	Dec 31, 2015
Accrued wages, salaries and employment costs	20,683.2	19,386.8
Derivative liabilities	48,610.0	47,060.5
Others	64,721.0	48,694.1
Total	134,014.1	115,141.4

18. COMMITMENTS

EUR 1,000	Dec 31, 2016	Dec 31, 2015
Guarantees		
For subsidiaries	2,192,142.0	1,820,580.5
For others	3,203.2	5,831.5
Leasing commitments		
Due next year	5,432.1	5,131.2
Due over a year	15,446.6	17,082.1
Other commitments	2,922.0	3,275.1
Total	2,219,145.9	1,851,900.4

19. DERIVATIVES

Fair values of derivative instruments, EUR 1,000	Dec 31, 2016	Dec 31, 2015
FX forward contract with external parties	-1,605.5	800.5
FX forward contract with subsidiaries	9,160.4	-2,209.9
Cross currency and interest rate swaps	-	6,490.5
Electricity derivatives	-436.2	-1,164.3
Total	7,118.7	3,916.7

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2016	Dec 31, 2015
FX forward contract with external parties	2,287,331.7	2,256,016.6
FX forward contract with subsidiaries	1,025,603.3	737,929.3
Cross currency and interest rate swaps	-	138,894.5
Electricity derivatives	1,601.9	2,595.2
Total	3,314,536.9	3,135,435.5

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 according to IAS39 standard. The majority of the foreign exchange forward contracts, swaps and gross-currency swaps mature within a year. Electricity price forward contracts mature within 3 years' time.

The fair values of the foreign exchange forward contracts, swaps as well as the fair value of cross currency swaps are measured based on the price information derived from the active markets and commonly used valuation methods (fair value hierarchy level 2). For electricity level 1) 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, 2016

		Shareholding %	
Country	**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	KONE AG	100	
	KONE Investition GmbH	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
China/Hong Kong	Ben Fung Machineries & Engineering Ltd.	100	
	KONE Elevator (HK) Ltd.	100	
China/Macau	KONE Elevator (Macau) Ltd.	100	
Croatia	KONE d.o.o.	100	
Cyprus	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	
	Ascenseurs Technologie Serrurerie (S.A.S.)	99.8	
	ATPE-AMIB S.A.S.	100	
	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	Aufzug- und Maschinenbau Gesellschaft mbH	100	
	Fritz Schmitt GmbH + Co	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	

		Shareholding %	
Country	**Company**	**Group**	**Parent company**
Germany	KONE Montage GmbH	100	
	KONE Servicezentrale GmbH	100	
	SK-Fördertechnik GmbH	100	
	WBM Ostfalen-Aufzüge GmbH	100	
	WM Wahl Menzel Aufzugsdienst GmbH	100	
Greece	KONE S.A	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	
	Ennis Lifts Limited	100	
	Industrial Logistics Limited	100	
	KONE (Ireland) Limited	100	
Israel	Isralift Industries 1972 Ltd.	100	100
Italy	Antoniana S.r.l.	100	
	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.p.A.	100	
	Neulift Service Molise S.r.l.	51	
	Neulift Service Reggio Calabria S.r.l.	70	
	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
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	
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

		Shareholding %	
Country	Company	Group	Parent company
Oman	KONE Assarain LLC	70	
Philippines	Elevators Philippines Construction, Inc.	40	
Philippines	KPI Elevators Inc.	100	
Poland	KONE Sp.z o.o.	100	100
Portugal	KONE Portugal- Elevadores LDA.	100	1
	VTP-Tractores S.A.	100	0.71
Qatar	KONE Elevators LLC	49	49
Romania	KONE Ascensorul S.A.	100	99.99
Russia	CJSC 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	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	
Taiwan	KONE Elevators Taiwan Co. Ltd.	100	
Thailand	KONE Public Company Limited	83.93	
	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) Limited	100	
	KONE Pension Trustees Ltd.	100	
	KONE Plc.	100	100
	Lift Maintenance Limited	100	
	Rob Willder Lifts Limited	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, 2016

		Shareholding %	
Country	Company	Group	Parent company
China	Hong Kong Shan On Engineering Company Limited	35.294	
	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 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 2016

Annual General Meeting

The Annual General Meeting was held in Helsinki, Finland on March 7, 2016.

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, 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 2016, the Board of Directors convened 7 times, with an average attendance rate of 93 %. 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 2016, with an average attendance rate of 92 %.

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 of significant shareholders), Jussi Herlin and Juhani Kaskeala (independent member).

The Nomination and Compensation Committee held 2 meetings in 2016, with an average attendance rate of 100 %.

Number of Board and Committee meetings in 2016 and participant attendance:

	Board	Audit Committee	Nomination and Compensation Committee
Antti Herlin	7/7	3/3	2/2
Jussi Herlin	7/7	3/3	2/2
Matti Alahuhta	5/7		2/2
Anne Brunila	6/7	2/3	
Iiris Herlin	6/7		
Ravi Kant	7/7	3/3	
Juhani Kaskeala	7/7		2/2
Sirpa Pietikäinen	7/7		

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in March 2016 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	33,000

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 2016, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2016 totaled EUR 391,800 He was also paid EUR 60,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 79.

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 2016 totaled EUR 600,000. 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 2016, on the basis of the incentive plan for year 2015, Henrik Ehrnrooth received a bonus of EUR 3,527,900 which consisted of 40,495 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 2016 and due for payment in April 2017 is 36,715 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 (from October 1, 2016), Klaus Cawén, Ilkka Hara (from August 8, 2016), Thomas Hinnerskov (from September 1, 2016), William Johnson, Pekka Kemppainen, Mikko Korte, Heikki Leppänen, Pierre Liautaud, Tomio Pihkala, Kerttu Tuomas, and Larry Wash. During the year, Executive Board members also included Neeraj Sharma (until September 30, 2016), Eriikka Söderström (until July 31, 2016) and Noud Veeger (until April 2, 2016).

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 2016, on the basis of the incentive plan, the members of the Executive Board received a bonus of 183,732 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 2016 and due for payment in April 2017 is 282,142 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 2016 were EUR 3.1 million for auditing and EUR 1.6 million for other consulting services.

Insiders

The holdings of the Board of Directors and Management of KONE on December 31, 2016 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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Shareholdings and options of KONE Board and Management on on Dec 31, 2016 and changes in shareholding during the period Jan 1–Dec 31, 2016

	Class A shares	Change	Class B shares	Change
Alahuhta Matti			752,873	+ 326
Alfthan Max			20,038	+ 16,198
Berkling Axel			16,508	+5,554
Brunila Anne			1,913	+ 326
Cawén Klaus			305,462	+ 16,198
Ehrnrooth Henrik			238,001	+ 80,495
Hara Ilkka			336	0
Herlin Antti	70,561,608	0	45,184,977	+ 1,335,533
Herlin Iiris			133,920	+ 626
Herlin Jussi			108,050	+ 684
Hinnerskov Thomas			0	0
Johnson William			103,470	+ 16,198
Kant Ravi			1,073	+ 326
Kaskeala Juhani			1,897	+ 76
Kemppainen Pekka			192,062	+ 16,198
Korte Mikko			16,508	+5,554
Leppänen Heikki			153,262	+ 16,198
Liautaud Pierre			31,346	+ 16,198
Pietikäinen Sirpa			7,073	+ 326
Pihkala Tomio			40,758	+ 11,198
Tuomas Kerttu			179,462	+ 16,198
Wash Larry			31,346	- 7,802

Noud Veeger owned 73,884 KONE class B shares on April 2, 2016, Eriikka Söderström owned 22,208 KONE class B shares on July 31, 2016 and Neeraj Sharma owned 42,601KONE class B shares on September 30, 2016. 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 Deputy Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company.

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 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 from 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, B.Soc. Sc.
Member of the Board since 2015. Deputy Member of the Board 2013–2014.
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 and Member of the Board of Vedanta Ltd and Member of the Board of Hawkins Cookers Ltd.

Juhani Kaskeala

b. 1946, Admiral
Member of the Board since 2009.
Managing director of Admiral Consulting Oy since 2011. Previously served in the 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, Member of the Board of John Nurminen Foundation, 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, Chairman of the Finnish Association of Landscape Industries, Vice Chairman of the Board of the Martha Organisation, Member of the Board of Alzheimer Europe, Member of the Board of Lammi Savings Bank, Member of the Finn Church EU Advisory Board 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 79.

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 at 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 positions of trust are Member of the Board of UPM Kymmene Corporation, Member of the Foundation Board of the International Institute for Management Development (IMD, Switzerland) and Member of the Board of the Mannerheim Foundation.

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 (from October 1, 2016)

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 MgbH 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 are 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 Oyj and Member of the Board of Toshiba Elevator and Building Systems Corporation (Japan).

Ilkka Hara

CFO (from August 8, 2016)

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 are Member of the Board at Hartili Oy.

Thomas Hinnerskov

Central and North Europe (from September 1, 2016)

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.

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.

Pekka Kemppainen

Service Business

b. 1954, Licentiate in Technology

Member of the Executive Board since 2005. Employed by KONE Corporation since 1984. Previously served in KONE Corporation as Executive Vice President, Asia-Pacific 2004–2010, as Executive Vice President, New Equipment Business, Elevators and Escalators 2001–2004, as Senior Vice President, New Equipment Business and Technology 1995–2001 and as Director of the Research Center 1990–1994.

Mikko Korte

Operations Development

b. 1968, M. Sc. (Eng)

Member of the Executive Board since 2016. 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

West and 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 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

Technology & Innovation

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 2014–2015, as Executive Vice President, Safety, Quality and Installation 2013–2014, as Vice President, Technology Finland 2011–2013, as Director, Service Business, in KONE China 2009–2010, as Director, Product Strategy and Marketing, in KONE China 2007–2008.

Current key positions of trust are Member of the Board of Toshiba Elevator and Building Systems Corporation and Member of the Board of Vexve Oy.

Kerttu Tuomas

Human Resources

b. 1957, B. Sc. (Econ.)

Member of the Executive Board and employed by KONE Corporation since 2002. Previously served as Group Vice President, Human Resources of Elcoteq Network Corporation 2000–2002, as Personnel & Organization Manager of Masterfoods Oy (Mars) 1994–1999 and as Consultant at Mercuri Urval 1987–1993.

Current key positions of trust are Vice Chairman of the Board of Kemira Corporation, member of the Strategic Board of CEMS, the Global Alliance In Management Education and member of the Board of Directors of the Finnish National Opera Ballet.

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 served 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.

Neeraj Sharma

Asia-Pacific (until September 30, 2016)

b. 1960, B.E (Marine)

Eriikka Söderström

CFO (until July 31, 2016)

b. 1968, M.Sc. (Econ.)

Noud Veeger

Central and North Europe (until April 2, 2016)

b. 1961, M.Sc. (Econ.)

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, 2016 is EUR 1,896,466,275.82 of which the net income for the financial year is EUR 870,373,574.84.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.5475 be paid on the outstanding 76,208,712 class A shares and EUR 1.55 on the outstanding 437,076,029 class B shares, resulting in a total amount of proposed dividends of EUR 795,400,826.77. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,101,065,449.05 be retained and carried forward.

The Board proposes that the dividends be payable from March 9, 2017.

Signatures for the Financial statements and Board of Directors' report

Helsinki, January 26, 2017

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 26, 2017

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 Corporation

Report on the audit of the financial statements

Opinion

In our opinion,

- the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group 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.

What we have audited

We have audited the financial statements of KONE Corporation (Business ID: 1927400-1) for the year ended 31 December 2016. The financial statements comprise:

- the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

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.

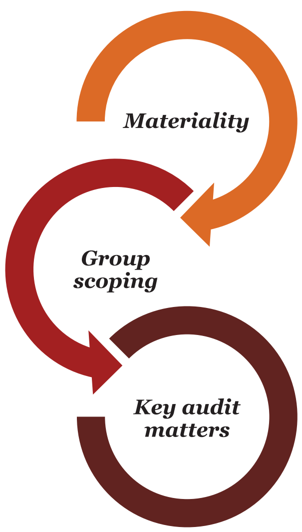
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group 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.

Our audit approach

Overview



Materiality

- We have applied an overall group materiality of € 65 million

Group scoping

- The group audit scope encompassed all significant companies, as well as a number of smaller 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	€ 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.

Key audit matter in the audit of the Group	How our audit addressed the key audit matter
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.	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, ensuring appropriate revenue recognition criteria have been 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.

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.	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.	

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, as well as for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of the 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have 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 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 in a manner that achieves fair presentation.
- 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

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and 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 identified above 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 Board of Directors has been prepared in accordance with the applicable legal requirements.

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 legal requirements.

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 26 January, 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen	Niina Vilske
Authorised Public Accountant	Authorised Public Accountant

Information for shareholders

Annual General Meeting

KONE Corporation's Annual General Meeting will be held on February 28, 2017 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 16, 2017, by 3:00 p.m 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). EET on February 23, 2017. 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 2016 a dividend of EUR 1.5475 be paid for each class A share and a dividend of EUR 1.55 be paid for each class B share. All shares existing on the dividend record date, March 2, 2017 are entitled to the dividend. The dividend will be paid on March 9, 2017.

More information

The Board of Directors' proposal for the distribution of profit, page 82
Shares and shareholders, page 59

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 2013 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2015. Stock options 2014 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2016.

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.

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