ANNUAL REVIEW

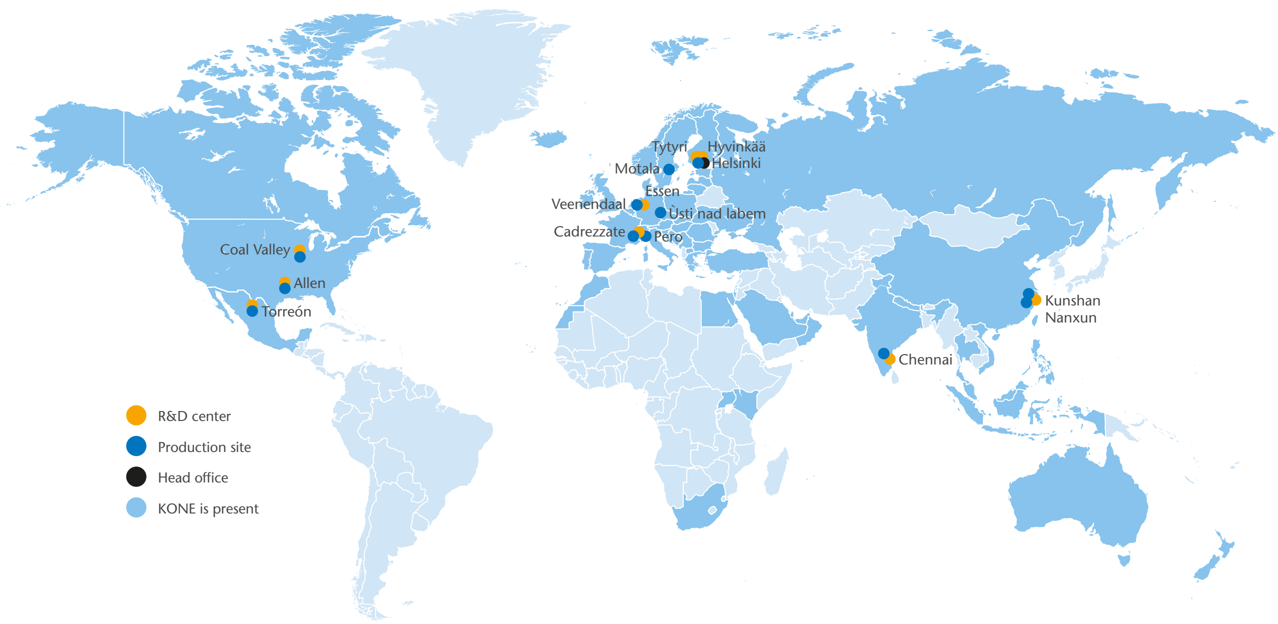
KONE 2019

Contents

KONE in brief

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 MEUR **9,982** in 2019

~60,000 employees

We move over **1 billion** people every day

~500,000 customers

>1,300,000 equipment in KONE's maintenance base

Operations in over **60** countries

Authorized distributors and agents in close to 100 countries

Key figures

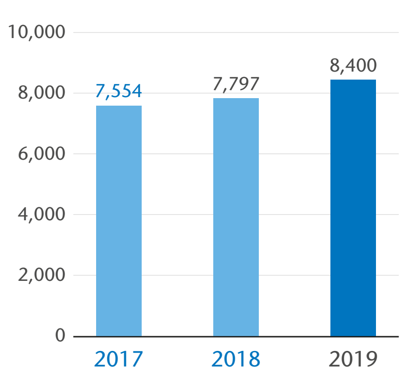
Key figures

		1–12/2019	1–12/2018	Change	Comparable change
Orders received	MEUR	8,399.8	7,797.0	7.7%	5.9%
Order book	MEUR	8,051.5	7,950.7	1.3%	-0.6%
Sales	MEUR	9,981.8	9,070.7	10.0%	8.2%
Operating income (EBIT)	MEUR	1,192.5	1,042.4	14.4%	
Operating income margin (EBIT margin)	%	11.9	11.5		
Adjusted EBIT*	MEUR	1,237.4	1,112.1	11.3%	
Adjusted EBIT margin*	%	12.4	12.3		
Income before tax	MEUR	1,217.5	1,087.2	12.0%	
Net income	MEUR	938.6	845.2	11.1%	
Basic earnings per share	EUR	1.80	1.63	10.4%	
Cash flow from operations (before financing items and taxes)	MEUR	1,549.6	1,150.1		
Interest-bearing net debt	MEUR	-1,552.9	-1,704.0		
Equity ratio	%	46.5	49.9		
Return on equity	%	30.1	27.7		
Net working capital (including financing items and taxes)	MEUR	-856.0	-757.8		
Gearing	%	-48.6	-55.3		

KONE has adopted new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. More information on the adoption of IFRS 16 and IFRIC 23 is presented on page 33.

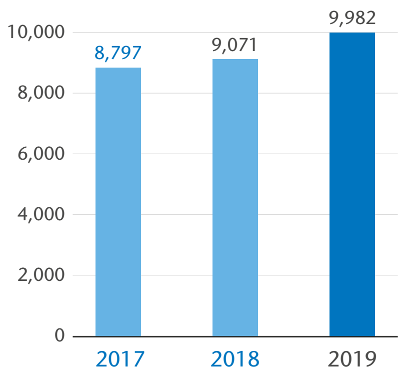
* In September 2017, KONE introduced a new alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. Restructuring costs related to the Accelerate program are excluded from the calculation of the adjusted EBIT.

Orders received*, MEUR

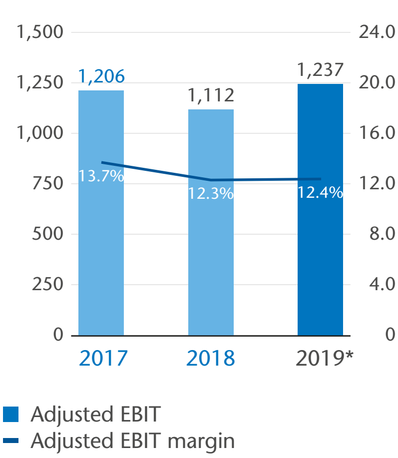


*) Orders received do not include maintenance contracts

Sales, MEUR

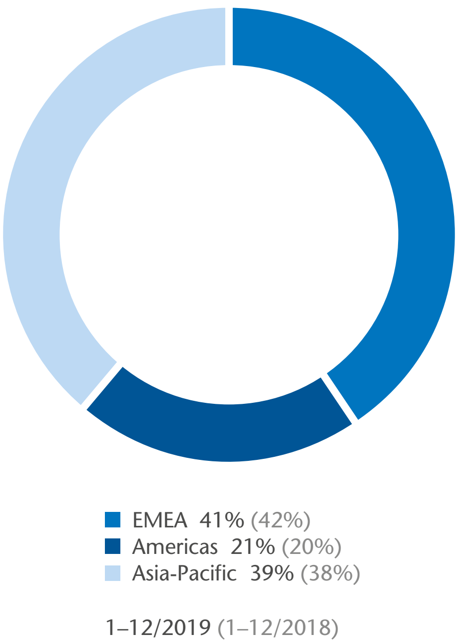


Adjusted EBIT, MEUR and adjusted EBIT margin, %

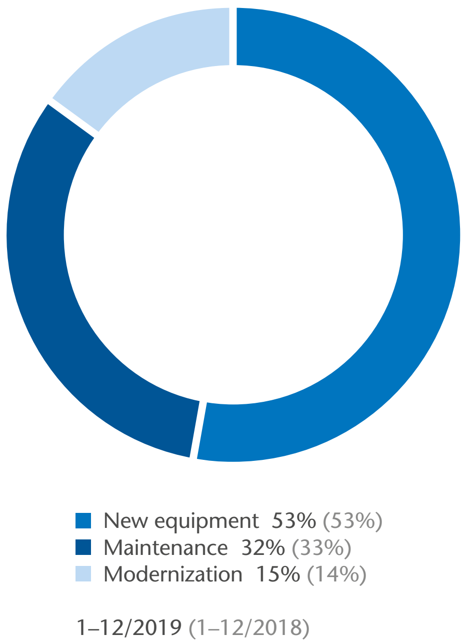


*) The adoption of IFRS 16 had a positive impact of EUR 6 million to the operating income.

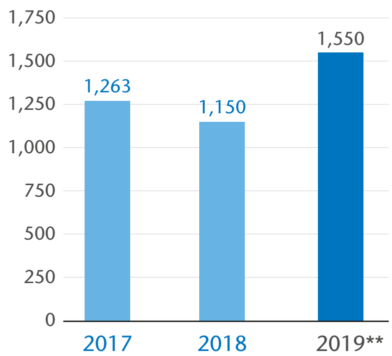
Sales by region



Sales by business



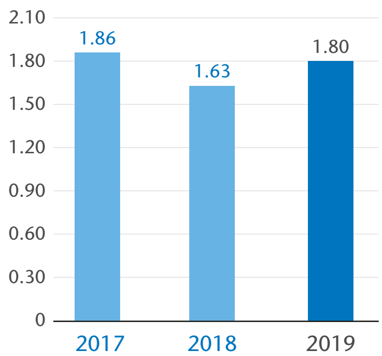
Cash flow*, MEUR



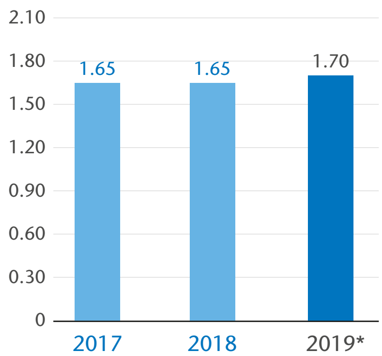
*) Cash flow from operations before financing items and taxes

**) The adoption of IFRS 16 had a positive impact of EUR 119 million on the cash flow from operations before financing items and taxes.

Earnings per share, EUR



Dividend per class B share, EUR



*) Board's proposal

KONE's strategy: "Winning with Customers"

At KONE, our vision is to deliver the best People Flow® experience by providing ease, effectiveness and experiences to equipment users and customers over the full life-cycle of the buildings. Our job is to make the best of the world's cities, buildings and public spaces, because we believe that cities are part of the solution for a better future. Our mission is to improve the flow of urban life.

Our cities will undergo enormous change, with the UN predicting that 6.7 billion people will be living in cities by 2050. Around 200,000 people move into cities across the globe each and every day. It is by understanding urbanization and focusing on improvements for people that we can create better buildings, better low-carbon cities and a better world.

Rapid technological advancements in connectivity, mobility, and computing power are changing many aspects of our lives. Technological disruption drives change and means a faster pace of business and new expectations for ways of working. New technologies give us a great opportunity to serve our customers in smarter and more exciting ways.

Everything starts with the customer

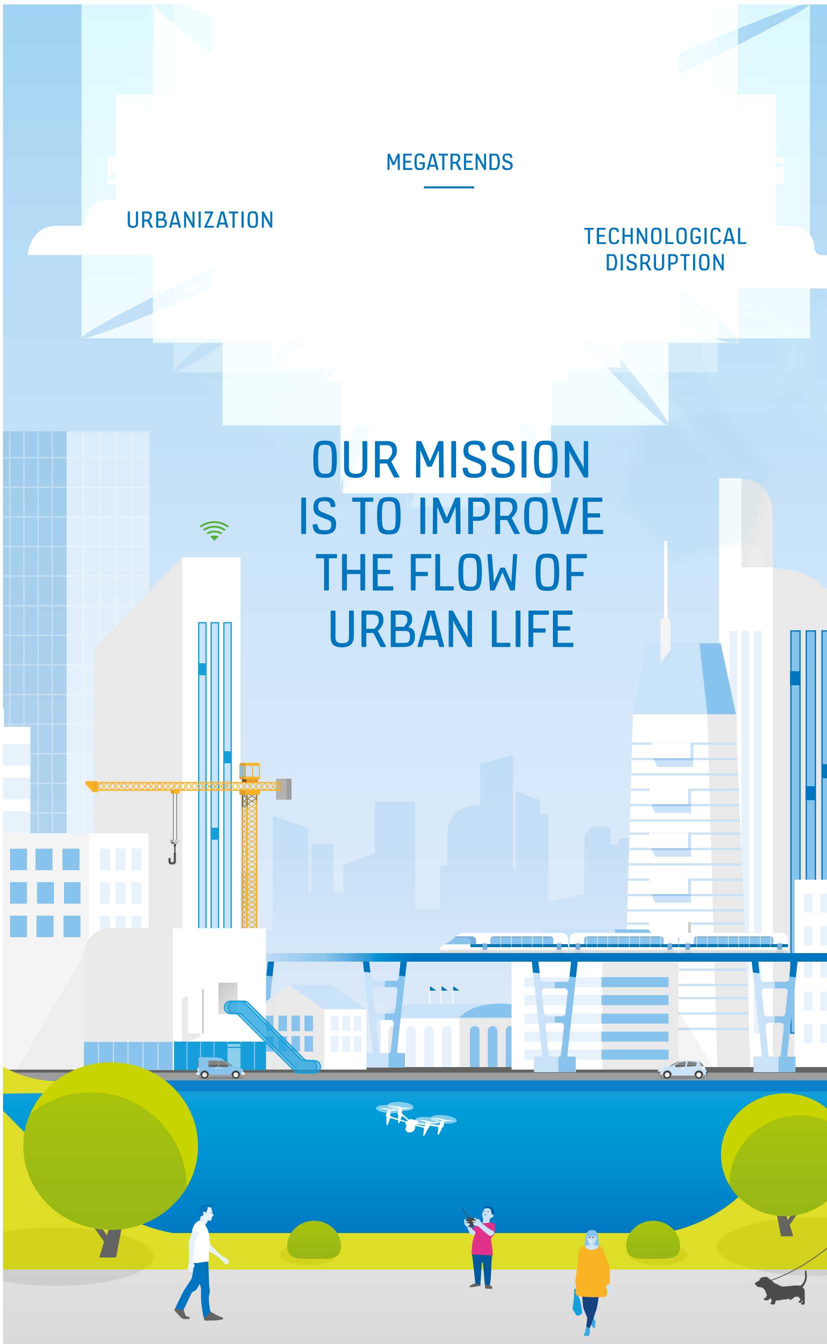
KONE's strategic phase for 2017–2020 is called "Winning with Customers". The objective is to drive differentiation further by putting the needs of customers and users at the center of all development.

Every one of our customers is different. We want to deliver better value and meet their individual needs. To do this, we are investing more than ever in new technologies, connectivity and new solutions. With new ways of working, partnering and co-creation, we help our customers improve their businesses.

Our Accelerate Winning with Customers program was launched in September 2017 to speed up the execution of our strategy and to support profitable growth. The objective of the program is to create a faster-moving, customer-centric organization that leverages scale efficiently in a rapidly changing environment. The program includes both organizational adjustments, as well as the development and further harmonization of roles, processes and tools.

Four ways to win

To bring the strategy to life, we have introduced four Ways to Win with our customers. Each of the Ways to Win has a number of development programs within them, which will be the practical way to make progress in our daily work. Our four Ways to Win are:



1 Collaborative innovation and new competencies

To be able to bring new solutions and services to our customers more quickly, we collaborate much more with our partners and customers. Our people drive our success in this change, which requires us to develop new competencies and innovate in new ways.

2 Customer-centric solutions and services

Customers choose partners who best understand their changing needs and help them succeed. We understand these needs, and offer flexible solutions and services which benefit customers and users in the best way.

3 Fast and smart execution

Customers want their partners in construction projects and building services to be professional, fast and reliable. They choose partners that continuously improve and focus on what is essential. We increase speed and work smarter to focus on what is valuable to the customer.

4 True service mindset

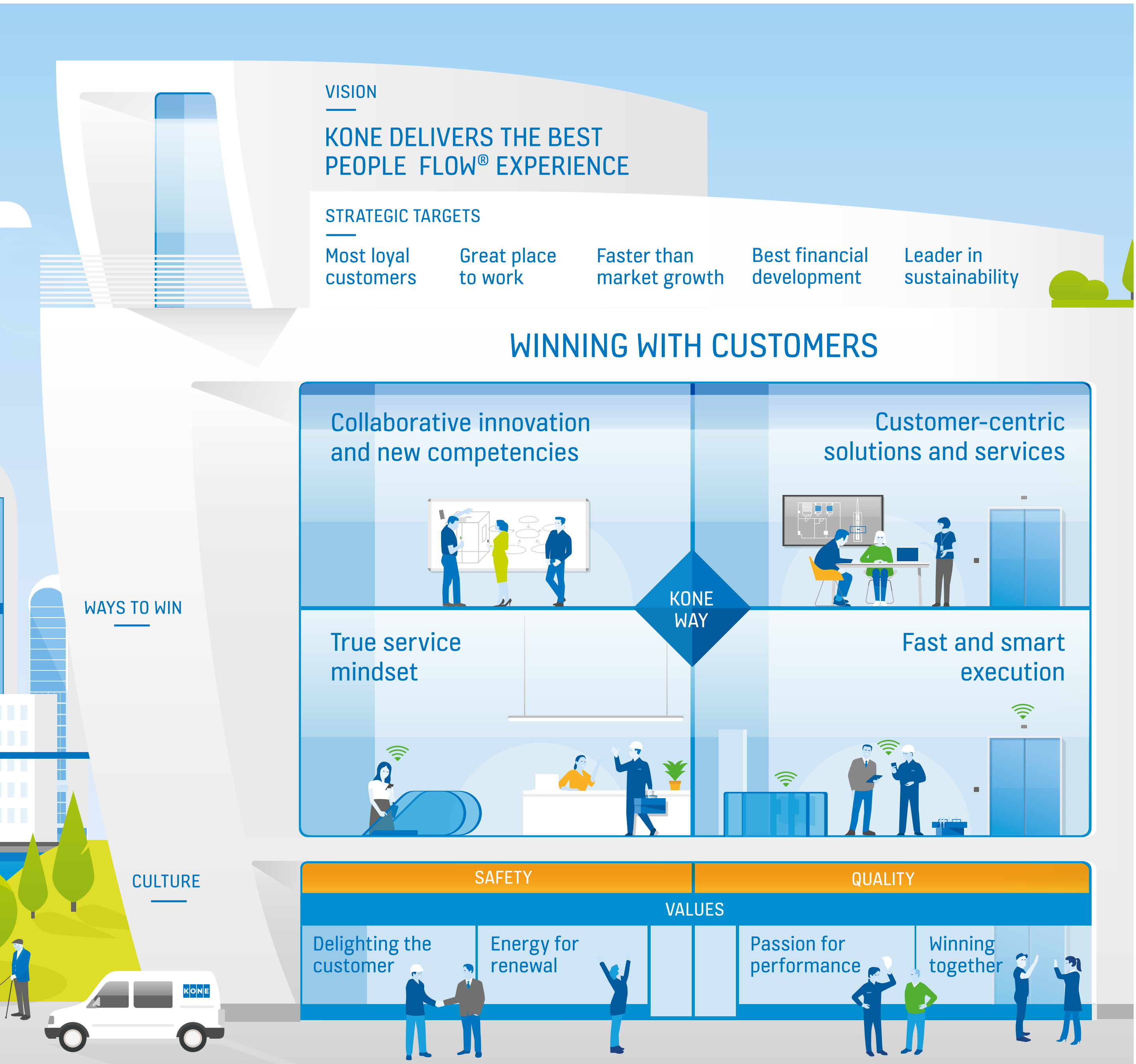
Customers value partners who strive to understand and take action to exceed expectations. We can make a difference by serving our customers better than anybody else.

Strategic targets

Our strategic targets are how we measure our success. We aim to have the most loyal customers, be a great place to work, grow faster than the market, have the best financial development in our industry and be a leader in sustainability.

Our culture

We are passionate about safety, quality, and our values, which together form a strong foundation for our company culture. Our culture builds on our values of delighting the customer, energy for renewal, passion for performance, and winning together.



Board of Directors' report

KONE's Business model

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

CREATING VALUE BY IMPROVING THE FLOW OF URBAN LIFE

INPUTS

PEOPLE AND LEADERSHIP

- ~60,000 employees in >60 countries, ca. half of them in the field
- Personnel voluntary turnover rate 7.6%
- Wide training opportunities on all organizational levels around the world
  - 41 training centers
  - 4,200 courses in >30 different languages
- Management systems and certificates (e.g. ISO 14001, ISO 9001, OHSAS 18001)
- Governance structures and Code of Conduct

INNOVATIONS, PROCESSES AND SYSTEMS

- >3,000 patents
- R&D spend 1.7% of sales, 9 global R&D units
- >1,200 technology professionals in R&D
- Global KONE Way processes and systems
- Safe and efficient maintenance and installation methods

BRAND AND REPUTATION

- One of the leading brands in the elevator and escalator industry

PARTNERING

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

MANUFACTURING AND DELIVERY CHAIN

- 13 manufacturing units in 9 countries
- ~2,000 component suppliers
- Thousands of installation suppliers
- Logistics network

FINANCIAL

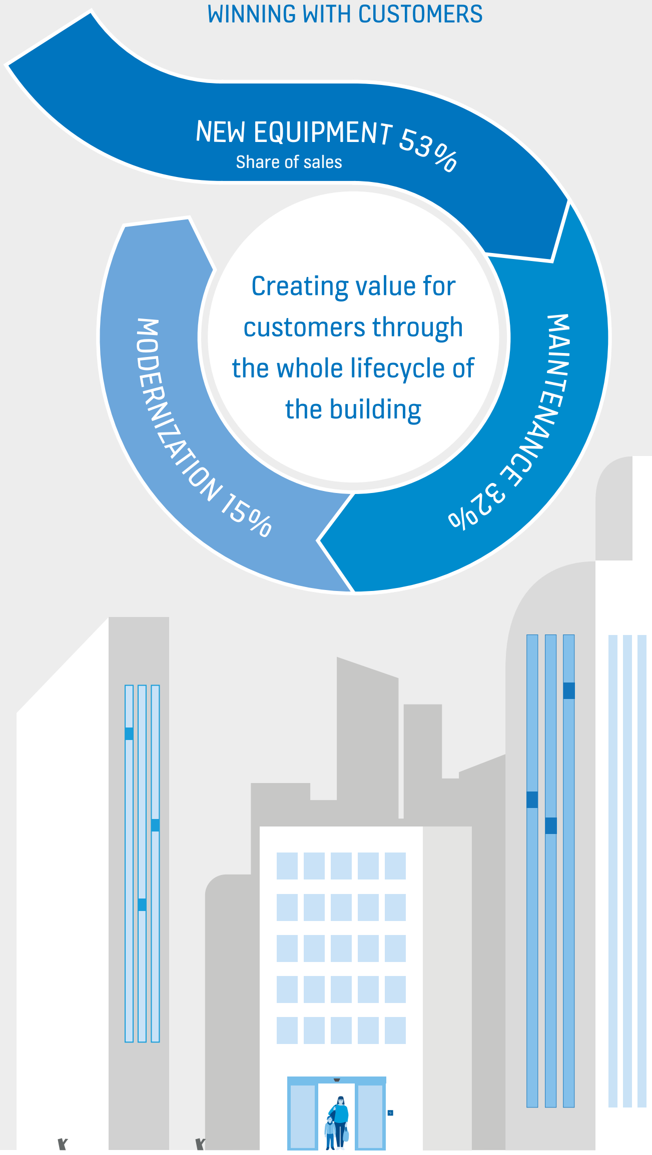
- Equity EUR 3.2 billion
- Interest-bearing net debt EUR -1.6 billion
- Net working capital EUR -0.9 billion
- Capital expenditure 2.0% of sales

NATURAL RESOURCES*

- Materials used 776,300 tonnes
- Heating and vehicle fleet fuels 427,800 MWh
- Electricity and district heat 80,100 MWh
- Water consumption 298,800 m^3

BUSINESS MODEL

WINNING WITH CUSTOMERS



*2018 figures. 2019 figures will be published in the 2019 Sustainability Report in Q2 2020.

Growth drivers

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

Business characteristics

KONE's business model is capital light as the working capital is negative in all businesses and we work extensively with component suppliers to complement our own manufacturing capacity. The maintenance business is very stable due to high requirements for safety and reliability. The customer relationships are also typically long and stable (>90% annual retention rate). New equipment and modernization are more cyclical in nature and follow the construction cycles.

Key value drivers

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

These are described in more detail in the picture below. In addition to these, KONE sees that the lifecycle business model and the existing maintenance base of over 1.3 million units have a crucial role in value creation. The different businesses support the growth of each other and together provide stability for the business.

OUTPUTS

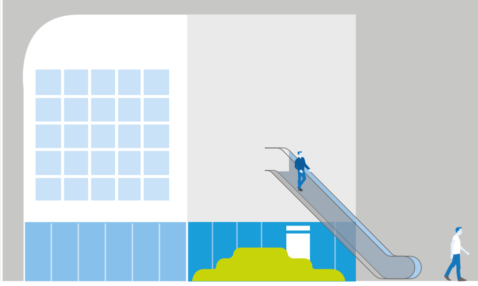
THE MOST SUSTAINABLE OFFERING

- ~173,000 new elevators and escalators ordered in 2019
- Maintenance and modernization services, >1.3 million units in maintenance base
- Best in class energy efficiency, ISO 25745 A-class energy rating as the first elevator company
- Up to 70% energy savings through modernization of elevators
- Focus on safety and accessibility

EMISSIONS AND WASTE*

- Carbon footprint from own operations 318,400 tCO_2e
- Waste 46,400 tonnes
- Waste water effluents 8 tonnes

MOVING OVER
1 BILLION PEOPLE
EVERY DAY



IMPACT

SHAREHOLDERS

- Dividend proposal EUR 1.70 per class B share
- Basic earnings per share EUR 1.80
- Return on equity 30.1%

SOCIETY

- Contribution to sustainable urban environment
- Wages, salaries, other employment expenses and pensions EUR 3.0 billion
- Industrial Injury Frequency Rate (IIFR) 1.7
- Promoting diversity and non-discrimination
- Increased amount of skilled workforce
- Direct purchases EUR 4.0 billion
- Income taxes EUR 278.9 million with effective tax rate 22.9%

ENVIRONMENT*

- 4.0% y/y reduction in operational carbon footprint relative to sales
- 5.5% y/y reduction of Scope 1&2 carbon footprint relative to sales
- 33% of green electricity
- 93.5% of waste recycled or incinerated
- 100% corporate units, manufacturing units and R&D units are ISO 14001 and ISO 9001 certified
- 91% of strategic suppliers with ISO 14001 certification in the end of 2019

KONE's operating environment in 2019

Operating environment by region

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

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

The global new equipment market grew slightly in units compared to the previous year. **In Asia-Pacific**, the new equipment market grew slightly. **In China**, infrastructure and residential segments developed positively, while non-residential segment declined. Government continued to balance between supporting the economic activity and restricting the residential market. Overall, the Chinese new equipment market grew slightly in units. **In the rest of Asia-Pacific**, the new equipment markets were stable. **In the EMEA region**, the new equipment market grew slightly. The market grew slightly both in Central and North Europe as well as in South Europe. In the Middle East, the market continued to decline. **In North America**, the new equipment market was stable on a high level.

Global service markets continued to develop positively. Both the maintenance and the modernization markets saw growth across the regions, with the strongest rate of growth seen in Asia-Pacific.

Pricing trends remained varied during January–December 2019. In China, competition remained intense but pricing was rather stable in the new equipment market. In the EMEA region, the pricing environment improved gradually. In North America, competition intensified somewhat.

Orders received and order book

Orders received and order book

MEUR	2019	2018	Change	Change at comparable exchange rates
Orders received	8,400	7,797	7.7%	5.9%
Order book	8,052	7,951	1.3%	-0.6%

Orders received development by region*

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

*) in monetary value at comparable exchange rates

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

Orders received consist predominantly of new equipment and modernization orders. Maintenance contracts are not included in orders received, but the figure includes orders related to the maintenance business, such as repairs.

Orders received grew by 7.7% as compared to January–December 2018 and totaled EUR 8,400 million. At comparable exchange rates, KONE's orders received grew by 5.9%.

At comparable rates, new equipment orders received grew clearly with clear growth in the volume business and slight decline in major projects. In modernization, orders received grew clearly with clear growth in the volume business and slight growth in major projects.

The relative margin of orders received improved slightly compared to the comparison period. This was a result of focused pricing actions and continued progress in improving productivity to compensate for cost pressures.

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to January–December 2018. New equipment orders grew slightly and modernization orders grew clearly.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 173,000 units (2018: 166,000 units).

In the Americas region, orders received grew slightly at comparable rates as compared to January–December 2018. New equipment orders declined slightly, while modernization orders grew clearly.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2018. **In China**, new equipment orders grew clearly in units and significantly in monetary value. Like-for-like prices were slightly higher than in the comparison period and mix contributed also positively. Modernization orders continued to grow significantly in China. In the rest of Asia-Pacific, new equipment orders declined clearly and modernization orders declined significantly.

The order book grew slightly compared to the end of December 2018 and stood on a strong level of EUR 8,052 million at the end of the reporting period. The order book margin remained at a healthy level.

Customer cancellations remained at a very low level. In addition to the typical cancellations, older Chinese new equipment orders, the delivery of which was considered unlikely, were removed from the order book. These orders had been booked before the significant price declines in the Chinese new equipment market in 2015 and 2016 and the projects were not progressing. These orders represented around 3% of KONE's order book.

Sales

Sales by region

MEUR	2019	2018	Change	Change at comparable exchange rates
EMEA	4,045	3,791	6.7%	6.2%
Americas	2,047	1,805	13.4%	8.0%
Asia-Pacific	3,890	3,475	11.9%	10.5%
Total sales	9,982	9,071	10.0%	8.2%

Sales by business

MEUR	2019	2018	Change	Change at comparable exchange rates
New equipment sales	5,319	4,797	10.9%	9.0%
Service sales	4,663	4,274	9.1%	7.4%
Maintenance	3,192	2,969	7.5%	5.9%
Modernization	1,471	1,305	12.7%	10.6%
Total sales	9,982	9,071	10.0%	8.2%

Sales development by region and by business*

2019	New equipment	Maintenance	Modernization
EMEA	++	+	+++
Americas	+++	++	++
Asia-Pacific	+++	+++	+++

*) in monetary value at comparable exchange rates

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

KONE's sales grew 10.0% as compared to the prior year, and totaled EUR 9,982 million. At comparable exchange rates, KONE's sales grew by 8.2%. The sales consolidated from the companies acquired in 2019 had only a minor impact on KONE's sales for the financial period.

New equipment sales accounted for EUR 5,319 million and grew by 10.9% over the comparison period. At comparable exchange rates, new equipment sales grew by 9.0%.

Service (maintenance and modernization) sales grew by 9.1%, and totaled EUR 4,663 million. At comparable exchange rates, service sales grew by 7.4%. Maintenance sales grew by 7.5% (5.9% at comparable exchange rates) and totaled EUR 3,192 million. Modernization sales increased by 12.7% (10.6% at comparable exchange rates) and totaled EUR 1,471 million.

KONE's elevator and escalator maintenance base continued to grow and was over 1.3 million units at the end of 2019 (approximately 1.3 million units at the end of 2018).

The growth of the maintenance base was driven, in particular, by a continued good level of conversions of new equipment deliveries to the maintenance base. Acquisitions had only a minor positive contribution to the growth. In 2019, the balance of maintenance contracts that were won from or lost to competition was slightly negative.

The largest individual countries in terms of sales were China (<30% of sales), the United States (>15%), Germany (~6%) and France (~5%).

Sales in the EMEA region grew by 6.7% and totaled EUR 4,045 million. At comparable exchange rates, the growth was 6.2%. New equipment sales grew clearly, maintenance sales grew slightly and modernization sales grew significantly.

In the Americas region, sales grew by 13.4% and totaled EUR 2,047 million. At comparable exchange rates, sales grew by 8.0%. New equipment sales grew significantly and modernization and maintenance sales grew clearly.

Sales in the Asia-Pacific region grew by 11.9% and totaled EUR 3,890 million. At comparable exchange rates, sales grew by 10.5%. New equipment, maintenance and modernization sales grew significantly.

Financial result

Financial result

	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Operating income, MEUR	1,192.5	1,042.4
Operating income margin, %	11.9	11.5
Adjusted EBIT, MEUR	1,237.4	1,112.1
Adjusted EBIT margin, %	12.4	12.3
Income before taxes, MEUR	1,217.5	1,087.2
Net income, MEUR	938.6	845.2
Basic earnings per share, EUR	1.80	1.63

The adoption of IFRS 16 had a positive impact of EUR 6 million on the operating income in January–December 2019.

KONE's operating income (EBIT) grew to EUR 1,192 million or 11.9% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,237 million or 12.4% of sales.

Adjusted EBIT margin was slightly above the level of the comparison period as a result of focused pricing and productivity actions and savings from the Accelerate program.

Translation exchange rates had a positive impact of EUR 23 million on the operating income. Restructuring costs related to the Accelerate program were EUR 45.0 million and savings from the program had a slightly over EUR 50 million positive impact on the operating income. Adoption of IFRS 16 positive impact of EUR 6 million on the operating income. Correspondingly, financing expenses increased by EUR 11 million as a result of the adoption of IFRS 16.

KONE's income before taxes was EUR 1,218 million. Taxes totaled EUR 278.9 (241.9) million. This represents an effective tax rate of 22.9%. Net income for the accounting period grew to EUR 938.6 million.

Basic earnings per share was EUR 1.80.

Cash flow and financial position

Cash flow and financial position

	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Cash flow from operations (before financing items and taxes), MEUR	1,549.6	1,150.1
Net working capital (including financing items and taxes), MEUR	-856.0	-757.8
Interest-bearing net debt, MEUR	-1,552.9	-1,704.0
Gearing, %	-48.6	-55.3
Equity ratio, %	46.5	49.9
Equity per share, EUR	6.13	5.94

The adoption of IFRS 16 had a positive impact of EUR 119 million on the cash flow from operations (before financing items and taxes) in January–December 2019. The adoption also increased the opening balance of interest-bearing net debt by EUR 358 million.

KONE's financial position was very strong at the end of December 2019.

Cash flow from operations (before financing items and taxes) during January–December 2019 was very strong at EUR 1,550 million due to growth in operating income and an improvement in net working capital. Adoption of IFRS 16 had a positive impact of EUR 119 million on the cash flow from operations (before financing items and taxes).

Net working capital (including financing items and taxes) was strong at EUR -856.0 million at the end of December

2019. Net working capital contributed positively to the cash flow driven by strong development in advances received and progress payments from customers.

Interest-bearing net debt was EUR -1,553 million at the end of December 2019. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,252 (December 31, 2018: 2,043) million at the end of the reporting period. Interest-bearing liabilities were EUR 721.6 (369.0) million, including a pension liability of EUR 172.9 (147.0) million and leasing liability of EUR 371.0 (49.3) million. Additionally, KONE had an asset on employee benefits, EUR 21.7 (29.0) million. Adoption of IFRS 16 increased the opening balance of interest-bearing liabilities by EUR 357.6. million. Gearing was -48.6% and equity ratio was 46.5% at the end of December 2019.

Equity per share was EUR 6.13.

Capital expenditure and acquisitions

Capital expenditure

MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
On fixed assets	98.0	92.7
On leasing agreements	102.5	19.3
On acquisitions	36.0	27.8
Total	236.5	139.8

The adoption of IFRS 16 increased capital expenditure on lease agreements by EUR 83 million in January–December 2019.

KONE's capital expenditure and acquisitions totaled EUR 236.5 million in January–December 2019. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production. KONE opened a new factory in India during the fourth quarter. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Acquisitions totaled EUR 36.0 million in January–December 2019. KONE completed small acquisitions of maintenance businesses in Europe and in the United States.

KONE has also been evaluating acquisition opportunities related to the structural changes that are expected to take place in the industry. More specifically, KONE has been looking at thyssenkrupp Elevator Technology business as thyssenkrupp is considering a potential sale or partial sale of the business. However, there is no certainty that this will result in any transaction.

Non-financial information

One of KONE's strategic targets is to be a leader in sustainability. KONE is proud to conduct its business in a responsible and sustainable way, and we expect the same commitment from all our partners. We are committed to the laws and regulations of the countries where we operate. KONE is a member of the UN Global Compact and dedicated to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment. The principles are embedded in our strategy, policies and procedures, such as KONE's Code of Conduct, Competition Compliance Policy, and our Environmental Excellence Program, as well as related processes. In addition, KONE supports the UN Sustainable Development agenda and its goals. KONE has also signed the Paris Pledge for Action climate initiative, showing climate leadership and commitment to limiting global warming to under 2 degrees Celsius in accordance with the Paris Climate Agreement.

We have also received external recognition for our efforts to conduct business in a sustainable way. For example, in 2019, KONE was ranked as the 43rd most sustainable company in the world by Corporate Knights Inc. KONE was second among peer companies in the machinery manufacturing industry category and the only elevator and escalator industry company to make the Global 100 Most Sustainable Corporations in the World ranking. Furthermore, KONE was again included in the FTSE4Good index and made CDP's Climate Change A List among the top climate change performers. CDP is an international non-profit organization that drives engagement for climate action. This is the seventh consecutive year that we achieve a leadership score of A or A- in the Climate Change rating, which describes our long-term commitment to environmental work and sustainability. KONE was also awarded the best A grade in CDP's 2018 Supplier Engagement Rating, demonstrating leadership and best practice in engaging our suppliers on climate change issues. In addition, KONE has been awarded the Ecovadis gold medal for our sustainability performance.

KONE Sustainability Report 2019

- Will be published during Q2 2020
- In the report, you can find more detailed information about sustainability

KONE's business model is described on pages 6–7. Risks related to matters below and risk management are described on pages 18–20.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2018 in April 2019. KONE's Sustainability Report for 2019 will be published during Q2 2020 according to GRI Standards.

Non-financial key performance indicators

	Key performance indicator	Target	2019 results	2018 results
Environmental matters	Annual reduction of KONE's carbon footprint relative to sales, % [1]	3% annual reduction relative to sales	Will be published in the Sustainability Report during Q2 2020	4.0% reduction relative to sales
	Share of strategic suppliers ISO 14001 certified, %	100%	91%	90%
	Share of green electricity used in our facilities, %	50% by 2021	Will be published in the Sustainability Report during Q2 2020	33%
	Share of landfill waste at our manufacturing units, %	0% by 2030	Will be published in the Sustainability Report during Q2 2020	0.6%
Personnel and social matters	Industrial Injury Frequency Rate (IIFR) [2]	Zero accidents	IIFR 1.7	IIFR 2.1
	Employee engagement	Maintain employee engagement on a strong level	Focused on completing the actions agreed based on 2018 employee engagement survey and organized dedicated discussions, Pulse Talks, across the organization. Almost 80% of employees participated in the Pulse Talks, which will continue in January 2020. The next employee engagement survey is scheduled for May 2020.	Employee engagement was on a strong level. 91% response rate in employee engagement survey. 85% of KONE employees globally felt that they are treated with respect. This score is clearly above the external global and high-performance benchmarks.
	Personnel voluntary turnover rate, % [3]	Maintain voluntary turnover below market level	7.6%	8.5%
	Gender distribution, %	More balanced gender split	11% women, 89% men	12% women, 88% men
	Gender distribution in director level positions, %	20% of director level positions occupied by women by 2020	18%	17%
Human rights, anti-corruption & bribery	Share of employees with completed Code of Conduct training, %	100%	90% of nearly 58,000 employees in 64 countries	94% of 25,000 employees in 16 countries
	Share of key suppliers who have signed the Supplier Code of Conduct, %	100%	95%	89%
	Share of distributors who have signed the Distributor Code of Conduct, %	100%	100% of our distributors in China and 87% of our distributors in the rest of the world	100% of our distributors in China, and 75% of our distributors in the rest of the world

1) The environmental performance has been reported in accordance with ISO 14064 and the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The Scope 2 emissions have been calculated according to the dual reporting principles of the GHG Protocol Scope 2 Guidance (market- and location- based method). RES-GO guarantees of origin subject to EECS (European Energy Certificate System) have been acquired for the purchased green electricity, as well as some supplier specific instruments. KONE's greenhouse gas emissions and water consumption at KONE's manufacturing units have been externally assured by Mitopro Oy. The emission factors are based on the data sources of DEFRA (UK Department for Environment, Food & Rural Affairs), World Resources Institute GHG Emission Factors Compilation, AIB (Association of Issuing Bodies) European Residual Mix Report and supplier specific factors for Finland.
2) The number of lost time injuries of one day or more, per million hours worked
3) Sum of voluntarily left employees (with permanent contract) over 12 months divided by average closing headcount over 12 months

ENVIRONMENTAL MATTERS

In line with KONE's ambition for climate leadership, our environmental targets for 2017–2021 are to be the leading provider of low-carbon People Flow® solutions and to have efficient low-carbon operations. Our Environmental Excellence program supports the transformation of the built environment into smart eco-cities, low-carbon communities, and net zero energy buildings. Improving resource efficiency is one of our top priorities.

KONE's environmental policy is to provide innovative, safe, high-quality and environmentally efficient products and services. We work continuously to reduce environmental impacts in all our business operations. We also work with our suppliers and customers to increase environmental awareness and to minimize our operational carbon footprint. In this way, we want to improve energy, material, and water efficiency. KONE Code of Conduct, the Supplier Code of Conduct, the Distributor Code of Conduct and KONE Global Vehicle Fleet and Facility Policies also set out environmental requirements relevant to the operations of KONE or its partners.

KONE's offering

The most significant environmental impact of KONE's business relates to the amount of electricity used by KONE's solutions during their lifetime, underlining the importance of eco-efficient innovations. During the year, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard with the best possible A ratings for the KONE MonoSpace® 700 and KONE TranSys™ elevators and the best possible A+++ escalator rating for KONE TravelMaster™ 120, in addition to 16 elevators or escalators classified earlier.

In 2019, KONE had achievements in new or renewed Singapore Green Building Product (SGBP) certifications for several products with the highest "Leader" rating. KONE is the first elevator and escalator company to achieve such top ratings in the vertical transportation category, and now altogether eight KONE solutions have been granted the SGBP certificates, through which these solutions are recommended for Green Mark certified green buildings. In Sweden, KONE received approved Byggvarubedömningen (BVB) assessments for three escalator models, in addition to several elevator assessments completed earlier. BVB is a non-profit organization that evaluates solutions for buildings and drives the use of sustainable building materials.

During the year, KONE had important accomplishments in transparent communication of environmental and health impacts of our materials and supply chain. In support of the launch of KONE DX Class elevators in the fourth quarter, we published externally verified Environmental Product Declarations for several volume elevators. We also published Health Product Declarations for several volume elevators and our most common escalator model KONE TravelMaster™ 110.

Own operations

KONE's target is to reduce our operational carbon footprint relative to sales by 3% annually. The 2019 carbon footprint results will be published in the second quarter of 2020. In 2018, we exceeded this target as our overall operational carbon footprint (Scope 1, 2 and 3) relative to sales decreased by 4.0% compared to 2017, with sales growth calculated at comparable exchange rates. Our scope 1 and 2 greenhouse gas emissions relative to sales decreased by 5.5%. KONE's 2018 absolute operational carbon footprint amounted to 318,400 tons of carbon dioxide equivalent (2017: 312,000; figure restated). KONE's carbon footprint data has been externally assured.

The most significant impacts of KONE's operational carbon footprint relate to logistics (2018: 51%), vehicle fleet (31%), and electricity and district heat consumption at KONE's facilities (10%). As a major achievement in terms of carbon footprint reduction in 2018, our absolute electricity and district heat emissions decreased by 5.6%. In 2018, 33% (2017: 30%) of all electricity in KONE facilities was produced from renewable sources, our target being over 50% by 2021. Additionally, we have set a long-term target of 0% landfill waste from our manufacturing units by 2030. In 2018, the share of landfill waste in our manufacturing units was down to 0.6% (2017: 0.8%).

In New Zealand, KONE's country organization maintained the carboNZero™ certification by Toitū Envirocare. The certification acknowledges companies for their greenhouse gas management, reduction and neutralization efforts. Also, KONE Austria is carbon neutral for 2019 after offsetting their emissions by supporting renewable energy production in Mali and in India.

KONE uses the ISO 14001 environmental management system to enhance its environmental performance. It covers our corporate units, including all R&D and manufacturing units, and 26 major subsidiaries. In addition, two of our European manufacturing units are ISO 50001 Energy management system certified. At the end of 2019, 91% (90%) of our strategic suppliers were ISO 14001 certified, our target being 100%.

PERSONNEL AND SOCIAL MATTERS

Number of employees

	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Number of employees at the end of period	59,825	57,359
Average number of employees	58,369	56,119

Geographical distribution of KONE employees

	Dec 31, 2019	Dec 31, 2018
EMEA	23,306	22,645
Americas	7,632	7,465
Asia-Pacific	28,887	27,249
Total	59,825	57,359

Personnel strategy

The main goals of KONE's personnel strategy are to secure the availability, engagement, motivation and continuous development of the company's personnel. All KONE's activities are guided by ethical principles. Employee rights and responsibilities include the right to a safe and healthy working environment, personal well-being, freedom of association, collective bargaining, non-discrimination and the right to a working environment in which harassment of any kind is not tolerated. In 2019, we developed and started to roll out a video for use in management-led meetings to raise awareness internally about harassment and discrimination and how to speak up about it.

We actively encourage diversity at KONE, and our values guide us in upholding an inclusive culture. To strengthen our global approach and deepen our insights on customers and markets, we have set goals for diversity in our teams. During the reporting year, KONE's workforce included 145 (139) nationalities. The majority of our employees are male representing 89% (88%) of our people globally. We continue our efforts towards having a more balanced gender split. As a result of focused recruitment and succession planning activities, the share of women at director level positions increased to 18% (17%) taking us closer to our global target of 20% (by 2020) than ever before. During the year, we ran a salary review in the majority of the KONE countries and made adjustments based on performance and market level comparisons. Based on the review, women and men are on a global level compensated equally at KONE. On a local level there are still differences, which we are addressing.

One of our strategic targets is to be a great place to work, which we measure by employee engagement and a related Pulse employee survey. In 2019, we concentrated on completing the actions agreed based on previous year's survey and organized dedicated discussions, Pulse Talks, across the organization. Almost 80% of employees participated in the Pulse Talks and the discussions continue in January 2020. The objective of the Pulse Talks is to discuss about the completed actions and to continue the dialogue with employees between the surveys. The next employee engagement survey is scheduled for May 2020.

We strive to have the best professionals with the right competencies in each position. We facilitate this effort as well as increase the motivation, engagement and continuous development of the personnel through regular performance discussions, which take place at least twice a year. In addition, we actively encourage all employees to prepare individual development plans and to complete their talent profiles.

KONE's strategy, Winning with Customers, focuses on putting the needs of our customers and users at the center of all development at KONE. People are key to the strategy's success, which requires us to develop and obtain new competences in the fields of leadership, digitalization, partnering, understanding customers' businesses and project management. In 2019, we launched new training programs in, for example, solution selling and strategic sourcing. We also introduced a new gamified learning solution for KONE 24/7 Connected Services. In total, KONE offered more than 4,200 training programs and online modules. Over 26,000 employees used the mobile version of KONE's learning management system to learn about, for example, safety, customer service and new services. To strengthen the leadership pipeline, we continued with our leadership programs and launched an HR initiative for developing and retaining our pool of global emerging leaders. Furthermore, we strengthened our training capability by opening new training centers in Israel and in Thailand, adding up to a total of 41 (39) training centers globally. In addition to employee training, the center in Thailand supports also customers visits and is equipped with modern learning solutions such as VR, AR and mobile learning.

A key focus area within the KONE people strategy is attracting the best talent. In 2019, targeting new competencies and increasing diversity through recruitment was one of the key focus areas for KONE. Efforts to increase diversity through recruitment realized during the year with a large number of applicants outside of elevator and escalator industry. During the year 78% of all applicants for KONE positions were attracted from other industries. We were also able to recruit an increasing number of people with new competencies related to, for example, digitalization and solution selling to KONE. Furthermore, we received more than 2,200 applications to the annual KONE International Trainee Program (ITP), which offers several trainee positions across the KONE countries and is meant for university students who are at least halfway through their studies. KONE also continued to further strengthen its employer brand through active school collaboration.

The Accelerate program, focusing on developing our operating model, continued with a focus on change management. The aim of the program is to create a more efficient and customer-focused way of working on a country, area and global level, across the entire KONE organization leveraging our scale. During 2019 we concentrated on continuing the transformations for business lines and in already established functions, such as a Human Resources. In addition, Customer Solutions Engineering and Logistics organizations were launched and together with re-established Sourcing organization they are now actively using new ways of working. Transformation continued in Finance, Customer Service, KONE Technology & Innovations and Quality functions.

KONE organizes the European Employee Forum every year to bring together employee representatives and top management to discuss issues ranging from safety to business development. A smaller working group meets two to four times a year to ensure continuous consultation and communication on important developments affecting KONE employees. In 2019, the theme of the Forum was KONE's new services and solutions.

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

Safety

Over the year, improving safety at work remained a top priority. KONE continued the implementation of a company-wide safety management system which guides us in achieving improvement. All employees were invited to enroll for a new general safety training to learn about the safety management system and KONE's health and safety policy. By the end of 2019, 52,000 employees had completed the training. KONE employees receive health and safety training relevant to one's work enabling it to be performed in a professional and safe manner. Focus during the year was on strengthening safety competences using interactive learnings and mobile tools. Managers perform regular audits to measure compliance with KONE's policies, processes and defined working methods. Corrective actions are taken if deviations are identified. KONE also conducts process audits to identify possible obstacles to work safety. If any are found, the work in question is stopped until a safe method is approved.

In 2019, the IIFR (Industrial Injury Frequency Rate) improved to 1.7 (2.1) We continue to target zero incidents. The average lost days per incident was 33.7 days (27.4). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 21.3%. At the end of 2019, KONE Safety Solution for reporting and analyzing safety observations was in use in all KONE countries. Focus during the year was on improving the quality, analysis and investigation of safety observations. KONE Safety Week was organized in all KONE units in May 2019 with a focus on safe work environment. Various safety related activities were held during the week for both internal and external stakeholders. For instance, emergency preparedness and response related activities were organized to train our employees to stay safe and able to continue supporting customers and end users during severe weather conditions.

The safety of the people using elevators, escalators and automatic building doors involves everyone from technology and maintenance service providers to building owners and equipment users. We work closely with our customers to help them recognize and deal with situations that could lead to safety risks. We communicate actively about safety, organize activities and provide training along with educational materials to our customers and the general public to help equipment users stay safe.

KONE had 59,825 (December 31, 2018: 57,359) employees at the end of December 2019. The average number of employees was 58,369 (1–12/2018: 56,119). Personnel voluntary turnover rate was 7.6% (8.5%). Employee costs for the reporting period totaled EUR 3,048 (2,818) million. The geographical distribution of KONE employees was 39% (December 31, 2018: 39%) in EMEA, 13% (13%) in the Americas and 48% (48%) in Asia-Pacific.

HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY

The KONE Code of Conduct sets out our commitment to integrity, honesty, and fair play. The topics covered include: compliance with the laws and rules of society, the work environment and human rights, measures to combat fraud, bribery and corruption including guidance on gifts and corporate hospitality, health and safety, discrimination, fair competition, conflicts of interest, the marketing of products and services, and the environment and sustainability.

All KONE employees are expected to understand and abide by the Code and to report any violations using the channels available for this purpose. In addition to internal reporting channels, we have a confidential externally hosted reporting channel, the Compliance Line, to which all employees have phone and/or web access. Reports can be made in the employee's native language and can be anonymous where permitted under data protection laws.

Dedicated compliance officers help employees comply with KONE's Code of Conduct, and our global and regional compliance committees advise and take decisions on compliance matters, including investigations into allegations of employee misconduct as well as human rights and corruption violations.

We designed and launched a new Code of Conduct E-learning course for all KONE employees in 2018. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy, work safety, harassment & discrimination and gifts & hospitality, and has a strong focus on scenarios that reflect day to day situations employees might face. The roll-out was completed in 2019 and the course is available in 37 languages. Nearly 58,000 employees in 64 countries have been assigned the training with a completion rate of 90%. Regular face-to-face compliance training is also provided to managers and other target groups. In 2019, over 3,000 employees received face-to-face compliance training.

KONE's general Code of Conduct is complemented by our Supplier and Distributor Codes of Conduct which are available in several languages. KONE's Supplier Code of Conduct sets out the ethical business practice requirements that we expect from our suppliers. It covers areas such as legal compliance, ethical conduct, our zero tolerance for bribery and corruption, and the standards we require from our suppliers in terms of labor and human rights, health and safety, and environmental issues. KONE may terminate its contracts with suppliers for failure to adhere to the Code.

KONE expects its suppliers to comply with the requirements of the Supplier Code of Conduct in all their dealings with KONE, as well as with their own employees and suppliers, and third parties including government officials. All our new suppliers must sign KONE's Supplier Code of Conduct. By the end of 2019, 95% (89%) of KONE's current key non-product related and direct materials suppliers had signed the Code. The scope of this group was further expanded in 2019 to include key non-product related suppliers. We carry out periodic checks on suppliers' compliance with the Supplier Code of Conduct.

KONE's Distributor Code of Conduct covers the same topics as the Supplier Code of Conduct. As business partners, our distributors are likewise expected to comply with the requirements of the Code in all their dealings with KONE, as well as in respect of their own employees, customers and suppliers, and third parties including government officials. Our target is to have the Code signed by all our distributors. By the end of 2019, 100% (100%) of our distributors in China, and 87% (75%) of our distributors in the rest of the world, had signed the Code.

All the above Codes of Conduct are available on kone.com.

In 2019, a high level human rights risk assessment at KONE was conducted by a third party and included a review of relevant policies and processes, as well as management interviews. One of our key focus areas going forward is on human rights in the supply chain. We have created a human rights network of employee "champions", and are preparing a pilot project for supplier human rights assessments.

Research and development

R&D expenditure

MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
R&D expenditure	170.9	164.0
As percentage of sales, %	1.7	1.8

KONE's vision is to deliver the Best People Flow® experience by providing ease, effectiveness and experiences to its customers and users. In line with its strategy, Winning with Customers, the objective of KONE's solution and service development is to drive differentiation further by putting the needs of customers and users at the center of all development. By closer collaboration with customers and partners, KONE will increase the speed of bringing new services and solutions to the market.

Research and development expenditure totaled EUR 170.9 million, representing 1.7% of sales in January–December 2019. R&D expenditures include the development of new product and service concepts as well as further development of existing solutions and services.

During January–December 2019, KONE made updates and enhancements to its existing product offering and launched a new elevator series.

In the first quarter, the analytics tools and sensors in KONE 24/7 Connected Services were further improved. In the second quarter, KONE made enhancements to KONE MiniSpace™ offering in the residential segment in India improving the eco-efficiency, safety and reliability of the elevators. In China, we widened our coverage in the modernization business. In the third quarter, we continued developing our modernization offering in several areas. For example, we improved the flexibility of our modernization offering in India. For major projects, we introduced a new modernization solution which enhances the people flow during the modernization project and helps reduce the downtime.

HIGHLIGHTS 2019

- KONE DX Class elevators, featuring built-in connectivity and an enhanced user experience, were launched

In the fourth quarter, the KONE DX Class elevators, featuring built-in connectivity and an enhanced user experience, were launched. The new elevator series uses the KONE digital platform and enables customers to tailor and plug in additional software and services for elevators throughout the entire lifetime of a building. By using secure open application programming interfaces (APIs), KONE's approach makes it easy to manage and integrate different third-party devices, apps and services with new and existing systems. For KONE's customers, a key advantage is the ability to adapt and upgrade the elevator experience according to needs both now and in the future. For the users of the equipment, the new elevator series brings a host of customizable and multisensory experiences inside the elevators. Furthermore, the KONE DX Class elevators introduce several other enhancements to the existing offering, such as anti-stain, anti-scratch and anti-bacterial surfaces and a range of sustainable materials to meet green building criteria like BREEAM and LEED. The new KONE DX Class elevator series is first available in European markets from December 2019 onwards, and rolled out to other areas during 2020–2021. It will replace the current KONE elevator range.

Changes in the Executive Board

In January–December 2019, KONE announced changes in the Executive Board. Maciej Kranz (54, MBA, Business Administration), was appointed Chief Technology Officer and Executive Vice President, KONE Technology and Innovations, as of July 1, 2019.

Maciej Kranz succeeds Tomio Pihkala (43, M.Sc. Mechanical Engineering), who was appointed Executive Vice President, New Equipment Business as of July 1, 2019. In this role, Tomio Pihkala succeeds Heikki Leppänen, who served as Executive Vice President, New Equipment Business and member of the Executive Board since 2005. Heikki Leppänen has been employed by KONE since 1982. He decided to leave his position to focus on non-executive duties.

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 166 million at the end of December 2019 (December 31, 2018: EUR 198 million). KONE's position is that the claims are without merit. No provision has been made.

Risk management

Risk	Mitigation actions
Weakening of the economic environment, particularly in China	KONE strives to continuously develop its competitiveness in all regions and businesses. KONE has a wide geographic presence and a balanced business portfolio with a high share of maintenance business.
Geopolitical tensions impacting the competitiveness of KONE's supply chain, leading to increased costs or causing potential disruptions	KONE actively monitors the development of the applicable and relevant regulations, policies and trade rules, and evaluates the competitiveness and viability of KONE's supply chain and sourcing channels. KONE is taking actions to mitigate the impact of tariffs, for example by applying for tariff exemptions when applicable. KONE also applies increased scrutiny over business operations that may be affected by international trade restrictions.
Changes in the competitive or customer landscape, customer requirements or competitors' offerings impacting KONE's competitiveness	KONE aims to be the industry leader by investing in research and development and by taking an open innovation approach. KONE also closely follows emerging industry and market trends and actively monitors opportunities for industry consolidation.
A failure to secure and develop the needed organizational capabilities and competencies	KONE continuously evaluates the skills and competences required for the execution of the selected strategy and develops and/or acquires these from internal talent pools or externally. KONE also has extensive training programs in place to develop and retain critical talents.
Risks related to component and subcontracted labor availability	KONE's sourcing processes aim to identify critical suppliers and supply categories and implement dual sourcing, multi-year agreements, last-buy options and other measures to ensure the availability of the supply. KONE has also developed multinational subcontractor pools to ensure subcontractor capacity on a regional level. Subcontractors competences and capabilities are monitored and developed continuously, similarly as with own employees.
Product integrity, safety or quality issues as well as issues with reputation	To mitigate product risks, KONE has processes in place for product design, supply, manufacturing, installation and maintenance, involving strict quality control. In addition, KONE aims for transparent and reliable communication, to prevent reputational risks and to manage potential incidents. KONE also has stringent corporate governance principles in place.
Interruptions to KONE's or its suppliers operations	KONE actively develops business continuity management capabilities to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations, business continuity management capabilities, financial strength and cybersecurity of its key suppliers. In addition, KONE aims to secure the availability of alternative sourcing channels for critical components and services. KONE also has a global property damage and business interruption insurance program in place.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems which are both in development and in operation, in order to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers and trusted, well-known technology partners to manage the risks through the control framework. KONE conducts tests, reviews and exercises to identify areas of risk and to ensure the appropriate preparedness. The company continues to invest in its cybersecurity capabilities based on these findings. KONE also has a global cyber insurance program in place.
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 2019.

Most significant risks

KONE is exposed to risks that may arise from its operations or changes in the operating environment. The most significant 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

Demand for KONE's products and services and the competitive environment are impacted by the general economic cycles and especially the level of activity within the construction industry. As China accounts for close to 30% of KONE's sales, a sustained market decline in the Chinese construction industry, in particular, could have an adverse effect on KONE's growth and profitability.

Geopolitical tensions and protectionism continue to expose KONE to various business risks. In addition to the potential adverse impacts on the general economic activity, geopolitical tensions and protectionism could impact the competitiveness of KONE's supply chain, and lead to increased costs from trade and customs tariffs. A significant portion of KONE's component suppliers and global supply capacity is located in China.

In addition to the level of market demand, competitiveness of KONE's offering is a key driver of the company's growth and profitability. A failure to anticipate or address changes in customer requirements and in competitors' offerings, ecosystems and business models or in the regulatory environment could result in a deterioration of the competitiveness of KONE's offering. Furthermore, ongoing structural changes in the competitive landscape of the elevator and escalator industry and customer consolidation in China, for example, could affect market dynamics and KONE's market share.

OPERATIONAL RISKS

Engaged employees with relevant competencies and skills are key to the successful execution of our strategy. With the business models and ways of working changing in the elevator and escalator industry, KONE needs new organizational capabilities and new competencies on the individual employee level in the field of, for example, digitalization. At the same time, competition over skilled field workforce is increasing and securing the needed field resources and their competence management is critical. A failure to develop and retain the needed capabilities or obtain them through recruitment could have an adverse impact on KONE's growth and profitability.

The majority of components used in KONE's supply chain are sourced from external suppliers. In addition to this, KONE uses a significant amount of subcontracted installation resources, has outsourced some business support processes and collaborates with partners in digital services. These expose KONE to component and subcontracted labor availability and cost risk and continuity risk in partnerships. A failure to secure the needed components or resources or quality issues within these could cause business disruptions and cost increases.

As one of the leading companies in the industry, KONE has a strong brand and reputation. Issues that impact the company's reputation or brand could have an effect on KONE's business and financial performance. Such reputational risks could materialize; for example, in the case of an incident, a major delivery issue or a product or service quality issue. Matters concerning product integrity, safety or quality could also have an impact on KONE's financial performance and affect customer operations.

HAZARD, SECURITY AND INCIDENTAL RISKS

KONE's business activities are dependent on the uninterrupted operation, quality and reliability of its manufacturing facilities, sourcing channels, operational service solutions and logistics processes. KONE's, its suppliers' and customers' operations also utilize information technology extensively and KONE's business is dependent on the quality, integrity and availability of information. Thus, KONE is exposed to IT disruptions and cyber security risks, as operational information systems and products may be vulnerable to interruption, loss or manipulation of data, or malfunctions which can result in disruptions in processes and equipment availability. Any breach of sensitive employee or customer data may also result in significant penalties as well as reputational damage. Such cyber incidents could be caused by, including but not limited to, cybercrime, cyber-attacks, computer malware, information theft, fraud, misappropriation, or inadvertent actions from our employees and vendors. Also physical damage caused by fire, extreme weather conditions, natural catastrophes or terrorism, among other things, to these operations, could cause business interruption for KONE or its suppliers.

FINANCIAL RISKS

The majority of KONE's sales and result are denominated in currencies other than the Euro, which exposes KONE to risks arising from foreign exchange-rate fluctuations. KONE is also exposed to counterparty risks related to financial institutions, through the significant amounts of liquid funds deposited with financial institutions, in the form of financial investments and in derivatives. Additionally, KONE is exposed to risks related to the liquidity and payment schedules of its customers, which may impact cash flow or lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance, liquidity and cash flow. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 2019.

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

The assessment and analysis of KONE's most significant risks also covers non-financial risks. In line with the requirements of the Finnish Accounting Act, KONE has identified the most significant non-financial risks regardless of their materiality for KONE as a whole. The typical impact of the non-financial risks materializing would be reputational damage. In addition to the risk mitigation actions described below, KONE aims for transparent and reliable communication in order to prevent reputational risks and to enable proactive management and learning from incidents, should they occur.

Environmental risks

KONE actively identifies, assesses and monitors the development of existing and emerging environmental risks. Continuous environmental risk assessment process is included in KONE's ISO 14001 environmental system requirements and management activities. For example, environmental risks are managed by conducting internal and external audits, by regularly tracking compliance requirements and our environmental performance and by actively participating in different environmental research and discussion forums.

Although environmental risks related to KONE's business are overall not very material, the most significant identified environmental risks relate to climate change. Preparing for extreme weather conditions and minimizing potential damages or interruptions to our operations and delivery chain is an ongoing activity. Climate-related risks can also materialize due to introduction of new environmental legislation potentially causing increases in our cost base.

Social and employee related risks
Safety is a top priority at KONE and potential safety incidents are among the most significant social and employee related risks. Incidents are mitigated through, for example, extensive training and communication, consistent safety management practices, standardized maintenance and installation methods and regular process audits. Major repairs or retrofits in public infrastructure locations may also affect the daily life of many people and therefore, may have a reputational impact. Both safety and quality have a key role in product design, supply, manufacturing, installation and maintenance and they involve strict quality controls. KONE also follows globally implemented principles in how to manage potential incidents and implement improvements.

Human rights related risks
The most significant human rights related risks are in the supply and delivery chain and are related to terms and conditions of work. All new suppliers must sign KONE's Supplier Code of Conduct which sets out our ethical business practice requirements, including the standards we require in terms of labor and human rights. On the basis of the a risk assessment conducted in 2019, we are prioritizing our work on human rights in the supply chain and have set up a human rights network and are preparing a pilot project for supplier assessments.

Anti-corruption and bribery related risks
KONE requires its employees and partners to adhere to high ethical standards and to comply with its Code of Conduct, Distributor Code of Conduct and Supplier Code of Conduct. These codes cover numerous compliance topics, including competition law, trade sanctions compliance, and labor and human rights issues, as well as prohibiting corruption and bribery. Unethical business practices among KONE's employees or various stakeholders could cause reputational damage for KONE as well as a possible financial impact. The risks of such behaviors and practices materializing are included in the scope of KONE's regular audit programs. In addition, processes introduced under our Global Delegation of Authority policy help to mitigate the risk of unauthorized payments, donations and sponsorships. We have introduced more stringent disclosure requirements in China for conflicts of interest and this work will continue worldwide in 2020. The most important action for internal mitigation continues to be the development of KONE's corporate culture through training and awareness building.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 26, 2019. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1–December 31, 2018.

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. Matti Alahuhta and Juhani Kaskeala are independent of both the company and of significant shareholders.

The General Meeting confirmed an annual compensation of EUR 55,000 for the Chairman of the Board, EUR 45,000 for the Vice Chairman and EUR 40,000 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 Jouko Malinen were nominated as auditors.

Share capital and market capitalization

KONE has two separate share-based incentive plans. One plan is targeted for the senior management of KONE including the President & CEO, members of the Executive Board and other top management, consisting of approximately 60 individuals. A second plan is targeted for other key personnel of KONE, totaling approximately 450 individuals. The potential reward is based on KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2019, the reward was based on sales growth and profitability in both plans. 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.

The share-based incentive plans have a vesting period of three years, including the performance period. If the participant's employment or service contract is terminated during the vesting period, they are either obliged to return the shares already received or lose the entitlement to the shares they have not yet received. As part of the plan for the senior management, a long-term target for their ownership has been set. For the Executive Board members, the long-term ownership target is that the members have an ownership of KONE shares corresponding to at least five years' annual base salary. For other selected top management positions the ownership target is at least two years' base salary.

In December 2014, KONE granted a conditional 2015 option program. The stock options 2015 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2017. The total number of stock options was 1,500,000 and 131,000 of them were held by KONE Corporation's subsidiary. Each stock option entitled its holder to subscribe for one (1) new class B KONE share at the price of, from February 26, 2019, EUR 28.75 per share. During the reporting period, 1,303,193 new KONE class B shares were subscribed for with 2015 option rights. The share subscription period for the 2015 option rights ended on April 30, 2019. The 131,000 KONE 2015 option rights in possession of KONE Corporation's subsidiary, and the 6,110 KONE 2015 option rights not exercised during the subscription period have expired upon the expiry of the subscription period.

On December 31, 2019, KONE's share capital was EUR 66,174,483 comprising 453,187,148 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 30,180 million on December 31, 2019, 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

At the end of December 2019, the Group had 11,553,605 class B shares in its possession. The shares in the Group's possession represent 2.5% of the total number of class B shares. This corresponds to 1.0% of the total voting rights.

Shares traded on the Nasdaq Helsinki Ltd.

In addition to the Nasdaq Helsinki Ltd., 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 32.1% of the total volume of KONE's class B shares traded in January–December 2019 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 62,491 at the beginning of the review period and 62,100 at its end. The number of private households holding shares totaled 58,475 at the end of the period, which corresponds to approximately 12.4% of the listed B shares. At the end of December 2019, a total of 53.3% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–December 2019, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on January 28, January 30, February 1, February 4, February 7, May 22, May 23, October 2 and October 9. The 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, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds decreased below five (5) per cent of the total number of shares of KONE Corporation on October 8, 2019.

Market outlook 2020

North America		EMEA		Asia-Pacific	
New equipment	Services	New equipment	Services	New equipment	Services
Stable	Maintenance Slight growth Modernization Slight growth	Stable	Maintenance Slight growth Modernization Slight growth	China Relatively stable or slight growth Outside China Slight growth	Maintenance Strong growth Modernization Strong growth

Market outlook 2020

The new equipment market is expected to be relatively stable or to grow slightly. However, the coronavirus outbreak creates uncertainty to the outlook. In China, the market is expected to be relatively stable or to grow slightly in units ordered, while in the rest of the Asia-Pacific, the market is expected to grow slightly. The new equipment markets in North America and the Europe, Middle East and Africa region are expected to be rather stable.

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

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

Business outlook 2020

In 2020, KONE's sales is estimated to grow by 0–6% at comparable exchange rates as compared to 2019. The adjusted EBIT is expected to be in the range of EUR 1,250–1,400 million, assuming that foreign exchange rates would remain at the January 2020 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 15 million.

The outlook is based on KONE's maintenance base and order book as well as the market outlook. KONE has a solid order book for 2020 and the service business is expected to grow driven by KONE's growing and aging installed base and overall positive market outlook. Targeted pricing and productivity actions, which have impacted the margin of orders received positively, are expected to support profitability together with around EUR 50 million of savings from the Accelerate program. Increasing labor and subcontracting costs as well as the investment in building our capability to sell and deliver digital services and solutions are the main headwinds for the adjusted EBIT in 2020. Furthermore, the recent coronavirus outbreak creates additional uncertainty. KONE is also expecting to have around EUR 40 million of restructuring costs related to the Accelerate program in the final year of the program. These costs are excluded from the adjusted EBIT.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2019 was EUR 2,508,732,086.60 of which the net profit for the financial year is EUR 846,898,465.29.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6975 be paid on the outstanding 76,208,712 class A shares and EUR 1.70 on the outstanding 441.633.543 class B shares, resulting in a total amount of proposed dividends of EUR 880,141,311.72.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,628,590,774.88 be retained and carried forward. The Board proposes that the dividends be payable on March 5, 2020. All the shares existing on the dividend record date are entitled to dividend for the year 2019 except for the own shares held by the parent company.

Annual General Meeting 2020

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Tuesday, February 25, 2020 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 28, 2020
KONE Corporation's Board of Directors.

Information required by the Companies' Act and the Decree of the Ministry of Finance on the Regular Duty 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 23–27, 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.

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 provison that each shareholder is entitled to at least one vote.

Dividend policy

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

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

Closing price (EUR)

December 31, 2019	58.28
December 31, 2018	41.64
Change	+40.0%

Share notations (EUR)

High	59.34
Low	41.01
Volume-weighted average price	49.82

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	453,187,148	56,648,394
Total	529,395,860	66,174,483

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

Market capitalization

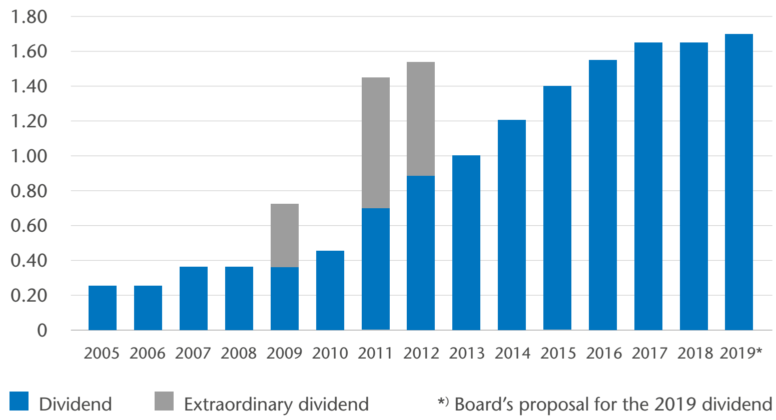
on December 31, 2019

EUR 30,180 million

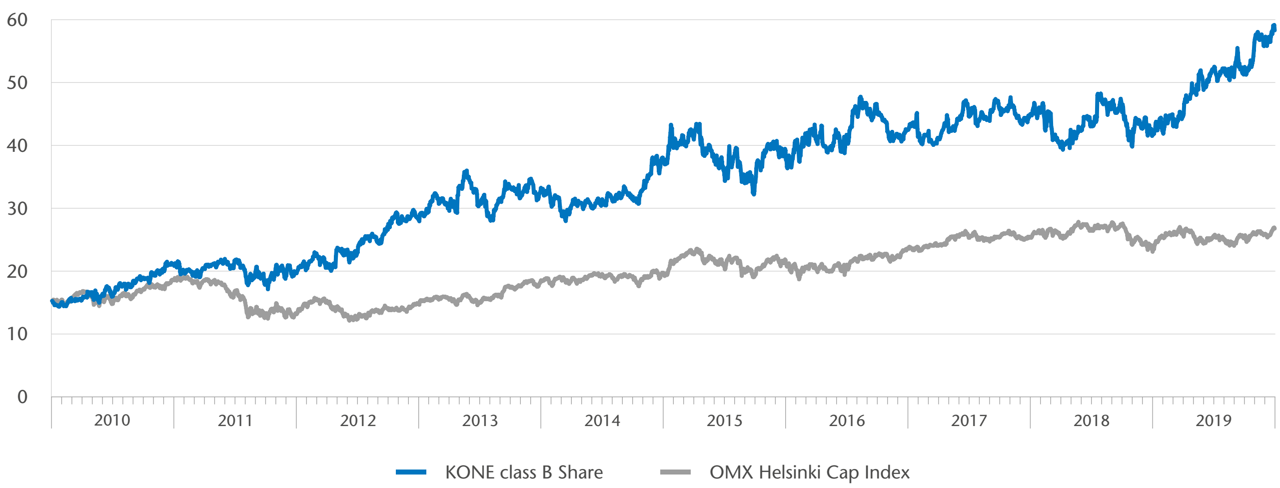
Dividend proposal

EUR 1.70 per class B share

KONE class B dividend per share, 2005–2019, EUR

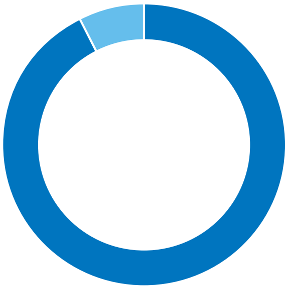


KONE class B share price development Jan 1, 2010–Dec 31, 2019, EUR

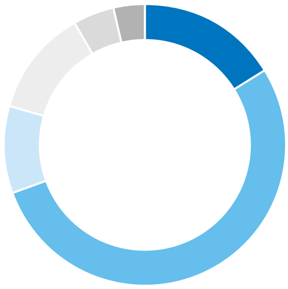


SHAREHOLDERS

Class A shares, %



Class B shares, %



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

SHAREHOLDINGS ON DEC 31, 2019 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	7,910	12.7	44,777	0.0
11 – 100	24,185	38.9	1,218,148	0.2
101 – 1,000	22,792	36.7	8,340,498	1.6
1,001 – 10,000	6,338	10.2	17,817,916	3.4
10,001 – 100,000	769	1.2	19,867,772	3.8
100,001 –	106	0.2	482,064,413	91.1
Total	**62,100**	**100.0**	**529,353,524**	**100.0**
Shares which have not been transferred to the paperless book entry system			42,336	0.0
Total			**529,395,860**	**100.0**

MAJOR SHAREHOLDERS ON DEC 31, 2019

		A-series	B-series	Total	% of shares	% of votes
1	**Herlin Antti**	70,561,608	46,936,478	117,498,086	22.19	61.92
	Holding Manutas Oy [1)]	54,284,592	37,264,254	91,548,846	17.29	47.73
	Security Trading Oy [2)]	16,277,016	7,983,016	24,260,032	4.58	14.05
	Herlin Antti	0	1,689,208	1,689,208	0.32	0.14
2	**Polttina Oy**	0	17,271,928	17,271,928	3.26	1.42
3	**Wipunen varainhallinta Oy**	0	16,350,000	16,350,000	3.09	1.35
4	**Riikantorppa Oy**	0	16,000,000	16,000,000	3.02	1.32
5	**KONE Foundation**	5,647,104	9,859,632	15,506,736	2.93	5.46
6	**KONE Corporation**	0	11,553,605	11,553,605	2.18	0.95
7	**Varma Mutual Pension Insurance Company**	0	5,226,460	5,226,460	0.99	0.43
8	**Blåberg Olli Edvard**	0	4,620,000	4,620,000	0.87	0.38
9	**Ilmarinen Mutual Pension Insurance Company**	0	4,409,977	4,409,977	0.83	0.36
10	**The State Pension Fund**	0	2,700,000	2,700,000	0.51	0.22
	10 largest shareholders total	76,208,712	134,928,080	211,136,792	39.88	73.81
	Foreign shareholders [3)]	0	237,292,724	237,292,724	44.82	19.53
	Repurchased own shares	0	11,553,605	11,553,605	2.18	0.95
	Others	0	69,412,739	69,412,739	13.11	5.71
Total		**76,208,712**	**453,187,148**	**529,395,860**	**100.00**	**100.00**

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

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

[2)] Antti Herlin's ownership of Security Trading Oy represents 56.4% of the shares and 57.5% of the voting rights. Together with the ownership of his children Antti Herlin's ownership in Security Trading Oy represents 99.9% of the shares and 99.8% of the voting rights.

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

Shareholdings KONE Board of Directors and Executive Board on Dec 31, 2019 and changes in shareholding during Jan 1–Dec 31, 2019 are available on page 93.

KEY FIGURES PER SHARE, JAN 1–DEC 31, 2019

KONE has adopted the new IFRS 16 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. KONE applied IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2015–2016 are not restated and thus not fully comparable.

	2019	2018	2017	2016	2015
Basic earnings per share, EUR	1.80	1.63	1.86	2.00	2.01
Diluted earnings per share, EUR	1.80	1.63	1.86	1.99	2.00
Basic earnings per share, EUR, adjusted [1]	-	-	-	-	1.79
Equity per share, EUR	6.13	5.94	5.85	5.42	4.94
Dividend per class B share, EUR [3]	1.70 [2]	1.65	1.65	1.55	1.40
Dividend per class A share, EUR [3]	1.6975 [2]	1.6475	1.6475	1.5475	1.3975
Dividend per earnings, class B share, %	94.2 [2]	101.0	88.6	77.5	69.7
Dividend per earnings, class A share, %	94.1 [2]	100.9	88.5	77.4	69.6
Effective dividend yield, class B share, %	2.9 [2]	4.0	3.7	3.6	3.6
Price per earnings, class B share	32.31	25.49	24.05	21.29	19.49
Market value of class B share, average, EUR	49.82	43.68	43.73	41.47	38.29
- at end of period, EUR	58.28	41.64	44.78	42.57	39.17
Market capitalization at end of period, MEUR [3]	30,180	21,489	23,052	21,851	20,101
Number of class A shares at end of period, (1,000s)	76,209	76,209	76,209	76,209	76,209
Weighted average number of class A shares, (1,000s)	76,209	76,209	76,209	76,209	76,209
Number of class B shares at end of period, (1,000s) [3]	441,634	439,852	438,569	437,076	436,957
Weighted average number of class B shares, (1,000s) [4]	440,897	439,875	438,628	437,928	438,958
Weighted average number of shares, (1,000s) [4]	517,105	516,084	514,837	514,137	515,167

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

Key figures and financial development

KONE has adopted the new IFRS 16 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. KONE applied IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2015–2016 are not restated and thus not fully comparable.

Consolidated statement of income, Jan 1–Dec 31	2019	2018	2017	2016	2015
Sales, MEUR	9,982	9,071	8,797	8,784	8,647
- sales outside Finland, MEUR	9,783	8,879	8,620	8,594	8,486
Operating income, MEUR	1,192	1,042	1,192	1,293	1,241
- as percentage of sales, %	11.9	11.5	13.6	14.7	14.4
Adjusted EBIT, MEUR [1)]	1,237	1,112	1,206	1,293	1,241
- as percentage of sales, % [1)]	12.4	12.3	13.7	14.7	14.4
Income before taxes, MEUR	1,218	1,087	1,250	1,330	1,364
- as percentage of sales, %	12.2	12.0	14.2	15.1	15.8
Net income, MEUR	939	845	960	1,023	1,053

Consolidated statement of financial position, MEUR	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Non-current assets	2,811	2,418	2,387	2,489	2,361
Current assets	5,802	5,316	5,075	5,463	5,144
Total equity	3,193	3,081	3,029	2,796	2,575
Non-current liabilities	760	489	491	534	343
Provisions	127	139	138	183	174
Current liabilities	4,533	4,025	3,804	4,438	4,414
Total assets	8,613	7,734	7,462	7,951	7,506
Interest-bearing net debt	-1,553	-1,704	-1,690	-1,688	-1,513
Assets employed [2)]	1,640	1,377	1,339	1,108	1,063
Net working capital [2)]	-856	-758	-773	-1,055	-983

Other data, Jan 1–Dec 31	2019	2018	2017	2016	2015
Orders received, MEUR	8,400	7,797	7,554	7,621	7,959
Order book, MEUR	8,052	7,951	7,358	8,592	8,210
Cash flow from operations before financing items and taxes, MEUR	1,550	1,150	1,263	1,509	1,474
Capital expenditure excluding acquisitions, MEUR	200	112	116	127	93
- as percentage of sales, %	2.0	1,2	1,3	1,5	1,1
Expenditure for research and development, MEUR	171	164	158	141	122
- as percentage of sales, %	1.7	1,8	1,8	1,6	1,4
Average number of employees	58,369	56,119	53,417	50,905	48,469
Number of employees at end of period	59,825	57,359	55,075	52,104	49,734
Employee costs	3,048	2,818	2,725	2,634	2,446

Key ratios, %, Jan 1–Dec 31	2019	2018	2017	2016	2015
Return on equity	30.1	27.7	32.1	38.1	45.4
Return on capital employed	25.1	25.0	28.8	34.1	41.7
Equity ratio	46.5	49.9	50.0	46.8	45.4
Gearing	-48.6	-55.3	-55.8	-60.4	-58.7

1) 2019, 2018 & 2017: Excluding significant restructuring costs arising from redundancy and other costs directly associated with the Accelerate program.
2) Items included are presented on page 29.

ALTERNATIVE PERFORMANCE MEASURE

In September 2017, KONE launched a program called Accelerate to speed up the execution of the strategy and to support profitable growth. KONE reports an alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. The adjusted EBIT is calculated by excluding significant items impacting comparability such as significant restructuring costs arising from redundancy and other costs directly associated to the Accelerate program.

	2019	2018	2017	2016	2015
Operating income (EBIT), MEUR	1,192.5	1,042.4	1,192.3	1,293.3	1,241.5
Operating income margin (EBIT margin), %	11.9	11.5	13.6	14.7	14.4
Items impacting comparability, MEUR	45.0	69.6	13.2	-	-
Adjusted EBIT, MEUR	1,237.4	1,112.1	1,205.5	1,293.3	1,241.5
Adjusted EBIT margin, %	12.4	12.3	13.7	14.7	14.4

Calculation of key figures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated financial statements

KONE has adopted the new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated.

Consolidated statement of income

MEUR	Note	Jan 1–Dec 31, 2019	%	Jan 1–Dec 31, 2018	%
Sales	2.1	9,981.8		9,070.7	
Costs, expenses and depreciation	2.2, 2.3	-8,789.4		-8,028.3	
Operating income		1,192.5	11.9	1,042.4	11.5
Share of associated companies' net income	5.6	-		-2.5	
Financing income	2.5	51.6		61.4	
Financing expenses	2.5	-26.5		-14.2	
Income before taxes		1,217.5	12.2	1,087.2	12.0
Taxes	2.6	-278.9		-241.9	
Net income		938.6	9.4	845.2	9.3
Net income attributable to:					
Shareholders of the parent company		931.3		840.8	
Non-controlling interests		7.3		4.4	
Total		938.6		845.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	2.7				
Basic earnings per share, EUR		1.80		1.63	
Diluted earnings per share, EUR		1.80		1.63	

Consolidated statement of comprehensive income

MEUR	Note	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Net income		938.6	845.2
Other comprehensive income, net of tax:	2.8		
Translation differences		54.0	13.8
Hedging of foreign subsidiaries		-8.5	-14.9
Cash flow hedges		-14.5	-16.3
Items that may be subsequently reclassified to statement of income		31.0	-17.4
Changes in fair value		-2.7	7.1
Remeasurements of employee benefits		-34.3	15.7
Items that will not be reclassified to statement of income		-37.0	22.8
Total other comprehensive income, net of tax		-6.0	5.4
Total comprehensive income		932.6	850.6
Total comprehensive income attributable to:			
Shareholders of the parent company		925.3	846.2
Non-controlling interests		7.3	4.4
Total		932.6	850.6

Consolidated statement of financial position

Assets MEUR		Note	Dec 31, 2019	Dec 31, 2018
Non-current assets				
Goodwill		4.2	1,366.5	1,333.4
Other intangible assets		4.3	248.2	260.2
Tangible assets		4.4	742.2	397.4
Shares and other non-current financial assets		5.3, 5.4	139.2	143.3
Non-current loans receivable	I	5.3, 5.5	0.8	1.0
Employee benefits	I	5.3, 5.7	21.7	29.0
Deferred tax assets	II	3.6	292.3	253.7
Total non-current assets			2,810.9	2,418.2
Current assets				
Inventories	II	3.1	648.6	624.1
Accounts receivable	II	3.2, 5.3	2,232.3	1,988.3
Deferred assets	II	3.3, 5.3	596.0	601.5
Income tax receivables	II		73.6	59.0
Current deposits and loan receivables	I	5.3, 5.5	1,589.5	1,407.0
Cash and cash equivalents	I	5.3	662.4	636.0
Total current assets			5,802.4	5,315.9
Total assets			8,613.3	7,734.0

Equity and liabilities MEUR		Note	Dec 31, 2019	Dec 31, 2018
Capital and reserves attributable to the shareholders of the parent company				
Share capital		5.2	66.2	66.0
Share premium account			100.3	100.3
Paid-up unrestricted equity reserve			322.1	259.1
Fair value and other reserves			9.8	27.0
Translation differences			110.3	64.8
Remeasurements of employee benefits			-123.8	-89.5
Retained earnings			2,687.9	2,636.7
Total Shareholders' Equity			3,172.9	3,064.6
Non-controlling interests			20.0	16.0
Total Equity			3,192.9	3,080.6
Non-current liabilities				
Loans	I	5.3	427.1	193.8
Employee benefits	I	5.3, 5.7	172.9	147.0
Deferred tax liabilities	II	3.6	160.2	148.7
Total non-current liabilities			760.2	489.5
Provisions	II	3.5	127.1	139.4
Current liabilities				
Current portion of long-term loans	I	5.3	103.7	15.6
Short-term loans and other liabilities	I	5.3	17.9	12.7
Advance payments received and deferred revenue	II	3.2	1,753.8	1,562.2
Accounts payable	II	5.3	809.8	786.7
Accruals	II	3.4, 5.3	1,725.0	1,574.0
Income tax payables	II		123.0	73.3
Total current liabilities			4,533.2	4,024.5
Total equity and liabilities			8,613.3	7,734.0

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, 2019		66.0	100.3	259.1	27.0	64.8	-89.5	-203.3	2,840.0		16.0	3,080.6
Restatement impact	6.4								-28.5			-28.5
Jan 1, 2019, restated		66.0	100.3	259.1	27.0	64.8	-89.5	-203.3	2,811.5		16.0	3,052.1
Net income for the period										931.3	7.3	938.6
Other comprehensive income:	2.8											
Translation differences						54.0						54.0
Hedging of foreign subsidiaries						-8.5						-8.5
Cash flow hedges					-14.5							-14.5
Changes in fair value					-2.7							-2.7
Remeasurements of employee benefits							-34.3					-34.3
Transactions with shareholders and non-controlling interests:	5.2											
Profit distribution									-851.7			-851.7
Increase in equity (option rights)		0.2		37.3								37.5
Purchase of own shares												-
Change in non-controlling interests											-3.3	-3.3
Option and share-based compensation				25.7				18.2	-18.2			25.7
Dec 31, 2019		66.2	100.3	322.1	9.8	110.3	-123.8	-185.1	1,941.7	931.3	20.0	3,192.9

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, 2018		65.9	100.3	205.8	36.2	65.9	-105.2	-217.8	2,862.7		15.0	3,028.9
Net income for the period										840.8	4.4	845.2
Other comprehensive income:	2.8											
Translation differences						13.8						13.8
Hedging of foreign subsidiaries						-14.9						-14.9
Cash flow hedges					-16.3							-16.3
Changes in fair value					7.1							7.1
Remeasurements of employee benefits							15.7					15.7
Transactions with shareholders and non-controlling interests:	5.2											
Profit distribution									-849.2			-849.2
Increase in equity (option rights)		0.1		22.9								23.1
Purchase of own shares												-
Change in non-controlling interests											-3.4	-3.4
Option and share-based compensation				30.4				14.5	-14.3			30.6
Dec 31, 2018		66.0	100.3	259.1	27.0	64.8	-89.5	-203.3	1,999.2	840.8	16.0	3,080.6

Consolidated statement of cash flows

MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Cash receipts from customers	9,967.4	9,002.5
Cash paid to suppliers and employees	-8,417.8	-7,852.4
Cash flow from operations before financing items and taxes	1,549.6	1,150.1
Interest received	39.2	40.9
Interest paid	-16.1	-3.3
Dividends received and capital repayments	5.9	8.9
Other financing items	-21.7	-16.5
Income taxes paid	-287.2	-210.2
Cash flow from operating activities	1,269.7	969.8
Capital expenditure	-98.0	-113.6
Proceeds from sales of fixed assets	-	3.3
Acquisitions, net of cash	-27.0	-27.0
Proceeds from sales of businesses	3.2	16.2
Cash flow from investing activities	-121.8	-121.1
Cash flow after investing activities	1,148.0	848.7
Change in deposits and loans receivable, net	-182.7	155.3
Change of current creditors	-119.8	-12.8
Proceeds from long-term liabilities	-	-
Payments of long-term liabilities	-14.3	-22.5
Purchase of own shares	-	-
Increase in equity (option rights)	37.5	23.1
Profit distribution	-851.7	-849.2
Changes in non-controlling interests	-3.7	-3.1
Cash flow from financing activities	-1,134.7	-709.2
Change in cash and cash equivalents	13.2	139.5
Cash and cash equivalents at beginning of period	636.0	496.5
Translation differences	13.2	-0.1
Cash and cash equivalents at end of period	662.4	636.0

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 operations before financing items and taxes

MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Operating income	1,192.5	1,042.4
Change in working capital before financing items and taxes	115.7	-11.2
Depreciation and amortization	241.5	118.9
Cash flow from operations before financing items and taxes	1,549.6	1,150.1

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Interest-bearing net debt at beginning of period	-1,346.4	-1,690.2
Interest-bearing net debt at end of period	-1,552.9	-1,704.0
Change in interest-bearing net debt	-206.5	-13.8

Adoption of IFRS 16 has a significant impact on presentation of the consolidated statement of cash flows improving cash flow from operations before financing items and taxes. Under IFRS 16 payments of lease liabilities are presented in financing activities and related interest expense as interest paid within cash flow from operating activities while previously the full amount of lease payments was included in the cash flow from operations before financing items and taxes.

In January–December 2019 cash flow from operations before financing items and taxes is improved by EUR 119.2 million as a result of adoption of IFRS 16. Interest expense paid on lease liability is included in cash flow from financing items and taxes and was EUR -10.8 million and the payments of lease liabilities included in financing activities were EUR -108.4 million in January–December 2019. Adoption of IFRS 16 increased the opening interest-bearing net debt by EUR 357.6 million. More information is presented in note 6.4 Information related to adoption of the new standards.

Notes to the consolidated financial statements

1 BASIS OF PREPARATION

IN THIS SECTION

- Basis of preparation
- Changes in accounting 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 vision is to deliver the best People Flow® experience, by providing Ease, Effectiveness and Experiences to users and customers over the full life-cycle of the buildings. KONE is developing and delivering services and 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, 2019.

KONE has adopted the new standards and interpretations that took effect during the accounting period and are relevant to its operations. The most significant of which are described below under changes in accounting standards.

The IFRS standards and amendments thereto that took effect in 2019 other than those described below 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 consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2019. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 28, 2020. 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. Further, trade date accounting has been applied to all financial assets and liabilities. 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 calculated based on the exact figures. Key figures have been calculated using exact figures.

Changes in accounting standards

KONE has adopted new accounting standards and interpretations issued by the International Accounting Standards Board, IFRS 16, Leases and IFRIC 23, Uncertainty over Income Tax Treatments, effective on January 1, 2019.

IFRS 16

KONE has adopted IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the standard in the opening balance sheet as at January 1, 2019, thus information for the comparative period has not been restated. 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. These right-of-use assets are depreciated over the contract period or over the useful life of the asset, which is the shorter. Interest cost of leases are presented in financing expenses. There are optional exemptions for short-term leases and leases of low value items which KONE has selected to utilize and the lease expense on these is recognized on a straight-line basis over the contract period as permitted by IFRS 16. Lessor accounting remains similar to IAS 17 standard – i.e. lessors continue to classify leases as finance or operating leases. KONE does not have any material contracts as lessor.

At initial application of IFRS 16 KONE has recognized new assets and liabilities, mainly for its operating leases of facilities and vehicles. KONE has measured a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17 at an amount equal to the lease liability. This includes also leases whose lease term will end within 12 months from the date of initial application of IFRS 16. Leases that were previously classified as finance leases applying IAS 17 are accounted for as right-of-use assets and lease liabilities applying IFRS 16 from the date of initial application. At initial application of IFRS 16 KONE has excluded initial direct costs from the measurement of the right-of-use asset, has not used hindsight when assessing the lease term and has relied on its assessment of whether leases are onerous by applying IAS 37 immediately before the date of initial application. As of January 1, 2019, KONE has recognized new right-of-use assets and respective lease liabilities of EUR 358 million. Operating lease obligation at December 31, 2018 was EUR 384 million. The difference to the lease liability value at initial application is mainly due to application of exemptions for short-term leases and leases of low-value items and discounting of the lease liability. At initial application lease liabilities were discounted at an incremental borrowing rate at January 1, 2019. The weighted average discount rate was 3.0%. Adoption of IFRS 16 has a significant impact on presentation of the consolidated statement of cash flows improving cash flow from operations before financing items and taxes. Under IFRS 16 payments of lease liabilities are presented in financing activities and related interest expense as interest paid while previously the full amount of lease payments was included in the cash flow from operations before financing items and taxes.

IFRIC 23

IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment. KONE has reviewed its income tax treatment and adopted the interpretation using a modified retrospective approach. An adjustment of EUR 29 million related to uncertain tax liabilities has been recognized in the opening balance of retained earnings and income tax payables at the date of the initial application, 1 January 2019. This adoption did not have impact to other accounts.

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' share of total equity is 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 and management judgements

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 consolidated 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 defining and determining principles for revenue recognition in project business, to project estimates for long-term major projects, assumptions used in impairment testing, valuation of accounts receivables and inventories, determining the lease term applied in the lease accounting and recognition of provisions and uncertain tax positions.

SALES
MEUR 9,982

EBIT
MEUR 1,192

2 FINANCIAL PERFORMANCE

IN THIS SECTION

This section comprises the following notes describing KONE's financial performance in 2019:

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 and productivity improve continuously.

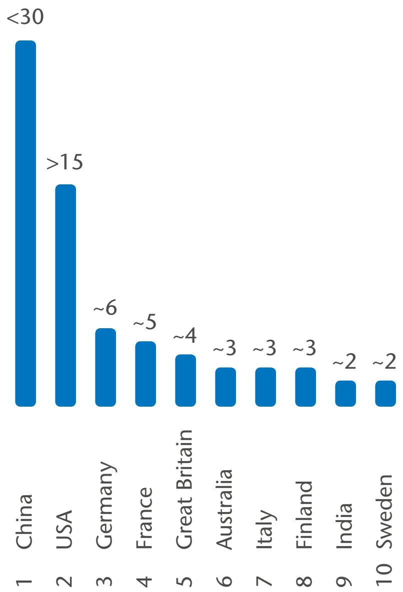
2.1 SALES

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, 2019	%	Jan 1–Dec 31, 2018	%
New equipment	5,318.8	53	4,796.9	53
Services	4,663.0	47	4,273.9	47
Maintenance	3,192.0	32	2,968.7	33
Modernization	1,471.0	15	1,305.1	14
Total	9,981.8		9,070.7	

Top 10 countries by sales, %



Sales by geographical area

MEUR	Jan 1–Dec 31, 2019	%	Jan 1–Dec 31, 2018	%
EMEA [1)]	4,045.4	41	3,791.5	42
Americas	2,046.7	21	1,804.6	20
Asia-Pacific	3,889.7	39	3,474.6	38
Total	9,981.8		9,070.7	

[1)] EMEA = Europe, Middle East, Africa

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.

Accounting principles

Revenue recognition

Revenue from contracts with KONE's customer is recognized at an amount that reflects the consideration to which KONE expects to be entitled in exchange for promised goods or services to a customer.

KONE recognizes revenue when or as it satisfies a performance obligation by transferring control on the promised goods or services (performance obligation) to a customer.

A performance obligation is a distinct good or service within a contract that a customer can benefit from on a 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, an escalator or other People Flow™ solutions. For KONE's maintenance contracts, maintenance of a single unit is considered as a distinct performance obligation and for repairs business, typically a service order is a performance obligation for KONE.

In new equipment and modernization contracts, KONE transfers the control of a single unit to the customer over time and, therefore, satisfies the performance obligation and recognizes revenue over time.

The transfer of control occurs when KONE delivers the unit to a customer site as then the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, a unit constructed by KONE. Upon this milestone and onwards up to the project handover, revenue is recognized under the percentage of completion method using a cost-to-cost input method as based on KONE's assessment it best depicts the transfer of control to the customer. Percentage of completion is defined as the proportion of an 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, cost 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. For maintenance services the performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits provided as KONE performs the services.

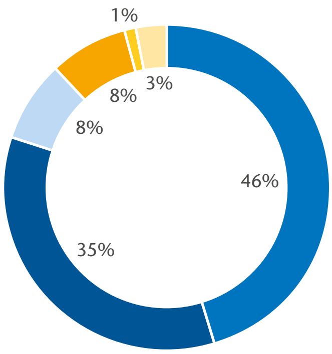
Most of KONE's revenue is derived from fixed-price contracts and, therefore, the amount of revenue to be earned from each contract is determined by reference to those fixed prices. KONE customer contracts do not contain any significant financing components. In new equipment and modernization contracts payment terms are typically based on either performance according to specific contractual milestones or progress of work performed. In maintenance services contracts the customer generally pays based on a fixed payment schedule.

When customer contracts contain multiple performance obligations the transaction price is allocated to each performance obligation based on the standalone selling prices. Where these are not directly observable, they are estimated based on estimated costs plus margin approach.

2.2 COSTS AND EXPENSES

Costs and expenses, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Direct materials, supplies and subcontracting	4,022.3	3,614.4
Wages, salaries, other employment expenses and pensions (note 5.7)	3,048.4	2,818.4
Other production costs [1]	745.1	739.0
Selling, administrative and other expenses [2]	706.2	690.1
Items impacting comparability [3]	45.0	69.6
Depreciation and amortization (note 2.3)	241.5	118.9
Costs, expenses, depreciation and amortization	8,808.4	8,050.3
Other income [4]	19.0	22.0
Total costs, expenses, depreciation and amortization	8,789.4	8,028.3

Cost breakdown 1–12/2019



Expense arising from leases of low-value assets and short-term leases amounted to EUR 11.0 million in 2019.

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) Restructuring costs related to the Accelerate-program
4) Includes rental income, received grants, interest on late payments, gains on sale of fixed assets and scrap as well as other miscellaneous income.

Research and development costs, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
R&D costs included in total costs	170.9	164.0
As percentage of sales, %	1.7	1.8

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.

Auditors' fees, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
To member firms of PricewaterhouseCoopers network		
Audit	3.8	3.4
Auditors' statements	0.0	0.0
Tax services	0.4	0.6
Other services	2.2	0.3
Total	6.4	4.4

PricewaterhouseCoopers Oy has provided non-audit services to the entities of KONE Group in total of 1.1 million euros during the financial year 2019. These services included tax advisory services 0.1 million euros and other services 1.0 million euros.

2.3 DEPRECIATION AND AMORTIZATION

Depreciation and amortization, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Other intangible assets		
Maintenance contracts	36.2	33.1
Other	13.7	14.4
Buildings	80.4	10.9
Machinery and equipment	111.2	60.5
Total	241.5	118.9

Accounting principles

Depreciation and amortization

Depreciation and amortization are recorded on a straight-line basis over the economic useful lives of the assets, or over the lease contract periods, if shorter.

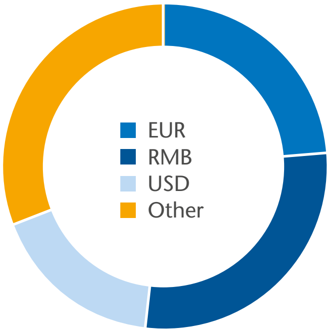
Economic useful lives:

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 1–12/2019



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, Singapore dollar, British pound, US dollar and Canadian dollar. 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, by the parent company, using foreign exchange swap contracts.

Translation risks

Changes in consolidation exchange rates affect KONE's statement of income, cash flow statement and statement of financial position, which are presented in euros. As approximately 75% of KONE's revenues occur in functional currencies other than euro, the translation risk is significant for KONE. A change of 10% in the annual average foreign exchange rates would have caused a 7.6% (7.6%) change in 2019 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 54.0 (13.8) million in 2019. The translation risk is not hedged as a rule as KONE's business consists of continuous operations in various currency areas. However, in individual cases, KONE can also hedge translation risk related to net assets of subsidiaries. The most significant translation risk exposures in the subsidiaries are in the Chinese renminbi, Hong Kong dollar and US dollar.

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

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

Accounting principles

Foreign currency transactions and translations

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

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

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

Foreign exchange gains and losses related to business transactions are treated as adjustments within operating income. 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 financial instruments designated as hedges of 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, Chinese renminbi and US dollar) at the statement of financial position date would have resulted in an impact of EUR -14.6 (-5.0) million on the statement of income and an impact of EUR 48.7 (60.7) million on equity.

	Exposure against EUR							Exposure against USD				Exposure against CNY		
MEUR	HKD	USD	GBP	CNY	JPY	Others	Total	CNY	CAD	Others	Total	MYR	Others	Total
Exposure Dec 31, 2019	-154	-135	-91	80	134	-77	**-243**	149	-87	-39	**23**	-53	-68	**-121**
Exposure Dec 31, 2018	-358	-158	-54	86	137	-109	**-456**	112	-81	-88	**-57**	-21	-23	**-44**

2.5 FINANCING INCOME AND EXPENSES

Financing income and expenses, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Dividend income	5.9	8.9
Interest income		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [1]	0.6	-
Interest income	25.2	32.1
Interest income on loans receivables and financial assets	16.2	13.1
Other financing income	1.5	0.5
Exchange rate gains [2]	2.2	6.9
Financing income	51.6	61.4
Interest expenses		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [1]	-0.3	-2.4
Interest expenses	-	-
Interest expenses on other financial liabilities [3]	-19.2	-6.1
Other financing expenses [4]	-6.9	-5.7
Exchange rate losses [2]	-0.1	-0.1
Financing expenses	-26.5	-14.2
Financing income and expenses	25.1	47.2

1) Change in fair value of interest includes EUR 0.4 (-1.7) million relating to interest rate funds measured at fair value through statement of income.

2) Exchange rate gains and losses include exchange rate differences on loans and other receivables of EUR -6.5 (-10.3) million and fair value changes of foreign exchange derivatives of EUR 8.6 (17.2) million.

3) Includes interest expenses on the lease liabilities amounting to EUR -13.3 (-1.7) million.

4) Includes commitment for fees undrawn revolving credit facilities EUR -0.7 (-0.7) million and banking charges and other expenses EUR -6.2 (-5.0) million.

2.6 INCOME TAXES

Taxes in statement of income, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Tax expense for current year	290.4	253.3
Change in deferred tax assets and liabilities	-16.7	24.0
Tax expense for previous years	5.2	-35.4
Total	278.9	241.9

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Income before taxes	1,217.5	1,087.2
Tax calculated at the domestic corporation tax rate (20%)	243.5	217.4
Effect of different tax rates in foreign subsidiaries	2.5	12.7
Permanent differences	1.1	-3.9
Results of associated companies	-	0.2
Taxes from previous years and reassessment of deferred tax assets	0.9	-11.1
Re-measurement of deferred taxes - changes in corporate tax rates	1.2	2.6
Deferred tax liability on undistributed earnings	24.9	20.3
Other	4.8	3.7
Total	278.9	241.9
Effective tax rate, %	22.9	22.3
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 to offset losses in the future.

A deferred tax liability is recognised on the undistributed profits of subsidiaries where such tax is applicable and it is expected to realize in the foreseeable future.

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, adjustments 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, 2019	Jan 1–Dec 31, 2018
Net income attributable to the shareholders of the parent company, MEUR	931.3	840.8
Weighted average number of shares (1,000 shares)	516,252	514,746
Basic earnings per share, EUR	1.80	1.63
Dilution effect of share options and share-based incentive plans (1,000 shares)	853	1,338
Weighted average number of shares, dilution adjusted (1,000 shares)	517,105	516,084
Diluted earnings per share, EUR	1.80	1.63

Accounting principles

Earnings per share

The basic earnings per share figure is calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of shares by the effect of potential diluting shares due to share options and share-based incentive plans of the Group. KONE has two classes of shares that are both included in the calculation of earnings per share.

2.8 OTHER COMPREHENSIVE INCOME

Disclosure of components of other comprehensive income

MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Translation differences	54.0	13.8
Hedging of foreign subsidiaries	-10.7	-18.6
Changes in fair value	-2.7	7.1
Remeasurements of employee benefits	-36.7	30.4
Cash flow hedges:		
Gains/losses arising during the year	-0.9	-13.5
Reclassifications included in profit or loss	-17.9	-7.5
Cash flow hedges, net	-18.8	-21.0
Income tax relating to components of other comprehensive income	8.8	-6.3
Other comprehensive income	-6.0	5.4

Disclosure of tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2019			Jan 1–Dec 31, 2018		
MEUR	Before-tax amount	Tax expense/ benefit	Net-of-tax amount	Before-tax amount	Tax expense/ benefit	Net-of-tax amount
Translation differences	54.0	-	54.0	13.8	-	13.8
Hedging of foreign subsidiaries	-10.7	2.1	-8.5	-18.6	3.7	-14.9
Cash flow hedges	-18.8	4.3	-14.5	-21.0	4.7	-16.3
Items that may be subsequently reclassified to statement of income	24.5	6.4	31.0	-25.8	8.4	-17.4
Changes in fair value	-2.7	-	-2.7	7.1	-	7.1
Remeasurements of employee benefits	-36.7	2.4	-34.3	30.4	-14.7	15.7
Items that will not be reclassified to statement of income	-39.4	2.4	-37.0	37.5	-14.7	22.8
Total other comprehensive income	-14.9	8.8	-6.0	11.7	-6.3	5.4

NET WORKING CAPITAL
MEUR -856

CASH FLOW*
MEUR 1,550

3 NET WORKING CAPITAL

IN THIS SECTION

This section comprises the following notes, which describe KONE's net working capital for 2019:

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.

*) Cash flow from operations before financing items and taxes

NET WORKING CAPITAL

MEUR	Dec 31, 2019	Dec 31, 2018
Net working capital		
Inventories	648.6	624.1
Advance payments received and deferred revenue	-1,753.8	-1,562.2
Accounts receivable	2,232.3	1,988.3
Deferred assets and income tax receivables	669.6	660.5
Accruals and income tax payables	-1,848.0	-1,647.3
Provisions	-127.1	-139.4
Accounts payable	-809.8	-786.7
Net deferred tax assets/liabilities	132.1	105.0
Total net working capital	-856.0	-757.8

3.1 INVENTORIES

Inventories, MEUR	Dec 31, 2019	Dec 31, 2018
Raw materials, supplies and finished goods	299.3	290.0
Work in progress	322.7	308.0
Advance payments made	26.6	26.1
Total	648.6	624.1

Accounting principles

Inventories

Inventories are valued at the lower of cost and net realizable value. Raw materials and supplies 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 allocated to the firm customer order when control has not yet transferred to the customer. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment.

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

3.2 ACCOUNTS RECEIVABLE AND CONTRACT ASSETS AND LIABILITIES

MEUR	Dec 31, 2019	Dec 31, 2018
Accounts receivable	2,232.3	1,988.3
Deferred invoicing on maintenance contracts (note 3.3)	25.6	27.2
Unbilled contract revenue (note 3.3)	321.0	312.2
Assets related to contracts with customers	2,578.8	2,327.7
Accrued invoicing on maintenance contracts (note 3.4)	385.0	353.2
Advance payments received and deferred revenue	1,753.8	1,562.2
Liabilities related to contracts with customers	2,138.7	1,915.5

Accounting principles

Accounts receivable

Accounts receivable are recognized when the right to consideration becomes unconditional and are measured at amortized cost. For KONE's new equipment and modernization contracts a receivable is recognized upon invoicing when the goods are delivered and for KONE maintenance contracts upon invoicing according to customer contract terms and conditions.

KONE applies the expected credit loss model to assess impairment loss for the doubtful accounts receivable since the accounts receivable do not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on shared credit risk characteristics and aging category and measured based on historical loss rates adjusted by forward looking estimates and individual assessment. Changes in impairment loss for doubtful accounts receivable are recognized under cost and expenses in the consolidated statement of income.

Unbilled contract revenue

Unbilled contract revenue relates to conditional right to consideration for performance obligations satisfied over time in KONE's new equipment and modernization contracts. It is recognized when the revenue recognized exceeds the amounts billed to the customer and is considered to be conditional upon factors other than the passage of time. Unbilled contract revenue is stated at net realizable value and is classified as contract assets and presented under deferred assets in the consolidated statement of financial position.

An impairment loss for contract assets, if needed, is estimated based on lifetime expected credit loss model and individual analysis.

Advance payments received and deferred revenue

Advance payments received and deferred revenue relates to payments received in advance of performance or billing in excess of revenue recognized under KONE's new equipment and modernization contracts. Advance payments received and deferred revenue are recognized as revenue as (or when) KONE performs under the contracts and are classified as contract liabilities.

Deferred and accrued invoicing on maintenance contracts

When the recognized revenue exceeds the amounts billed to the customer a deferred invoicing on maintenance contracts is recognized. It is stated at net realizable value and classified as contract assets and presented under deferred assets in the consolidated statement of financial position.

When the amounts billed to the customer exceeds the recognized revenue an accrued invoicing on maintenance contracts is recognized which is classified as contract liabilities and presented under accruals in the consolidated statement of financial position. Accrued invoicing on maintenance contracts is classified as contract liabilities.

Changes in contract assets and liabilities

The order book representing the unsatisfied performance obligations with respect to new equipment and modernization contracts stood at EUR 8,052 (7,951) million. The vast majority of the order book is recognized as revenue within the next 12 months from the end of the reporting period. However, lead-times especially in the long-term major projects are somewhat longer depending the size and complexity of the projects.

The changes in unbilled contract revenue and advance payments received and deferred revenue are following the growth of business but also impacted by the normal fluctuation in project progress when applying percentage of completion method for recognition of revenue.

Accrued invoicing on maintenance contracts represents the unsatisfied part of transaction price invoiced for maintenance contracts. Typically this will be recognized as revenue within the next 12 months from the end of the reporting period.

No material amounts of revenue were recognized during the reporting period due to changes in transaction prices or changes in estimates for performance obligations partially or fully satisfied in previous years. There were no significant impairment charges recognized during the reporting period for the contract assets.

Aging of accounts receivable

Aging structure of the accounts receivable after recognition of impairment, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Not past due and less than one month due receivables	1,742.3	1,553.2
Past due 1–3 months	275.9	253.9
Past due 3–6 months	136.6	122.2
Past due > 6 months	77.5	59.0
Accounts receivable in the consolidated statement of financial position	2,232.3	1,988.3

Customer credit risk management

Customer credit risks relate to advance payments receivable from customers or to accounts receivable related to equipment deliveries 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 and using the expected credit loss model. The amount of bad debt provision recorded to cover doubtful accounts was EUR 252.9 (226.6) million at the end of the financial period.

3.3 DEFERRED ASSETS

Deferred assets, MEUR	Dec 31, 2019	Dec 31, 2018
Deferred interests	3.1	3.7
Deferred invoicing on maintenance contracts (note 3.2)	25.6	27.2
Unbilled contract revenue (note 3.2)	321.0	312.2
Derivative assets (note 5.3)	9.1	27.5
Value added tax assets	101.3	93.0
Prepaid expenses and other receivables	135.9	137.9
Total	596.0	601.5

3.4 ACCRUALS

Accruals, MEUR	Dec 31, 2019	Dec 31, 2018
Accrued interests	0.9	0.2
Accrued invoicing on maintenance contracts (note 3.2)	385.0	353.2
Late costs accruals [1)]	281.8	264.8
Accrued salaries, wages and employment costs	477.5	445.3
Share-based payments	29.5	25.2
Derivative liabilities (note 5.3)	25.7	31.1
Accrued value added tax	108.3	111.6
Accruals from acquisitions	13.4	15.8
Other accruals	402.8	326.7
Total	1,725.0	1,574.0

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

3.5 PROVISIONS

Jan 1–Dec 31, 2019, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	56.6	2.9	24.1	28.4	27.3	139.4
Translation differences	0.1	-0.1	-0.7	0.8	0.1	0.2
Increase	22.9	3.2	4.3	12.5	4.0	46.9
Provisions used	-16.9	-0.1	-11.6	-9.6	-3.3	-41.5
Reversal of provisions	-4.8	-2.2	-1.0	-5.8	-4.3	-18.2
Companies acquired	-	-	-	-	0.2	0.2
Total provisions at end of period	57.8	3.7	15.2	26.4	24.0	127.1

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2019	32.0	95.1	127.1

Jan 1–Dec 31, 2018, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	63.7	3.6	11.1	23.5	35.9	137.9
Translation differences	0.4	0.0	-0.1	-0.4	-0.4	-0.4
Increase	20.0	0.7	22.8	16.9	2.9	63.3
Provisions used	-18.0	-1.2	-8.4	-8.9	-5.4	-41.9
Reversal of provisions	-9.6	-0.2	-1.6	-2.7	-5.7	-19.8
Companies acquired	-	-	0.3	-	-	0.3
Total provisions at end of period	56.6	2.9	24.1	28.4	27.3	139.4

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2018	39.1	100.4	139.4

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 or other income arising from the contract. The probable loss is recognized as an expense immediately.

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

3.6 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets, MEUR	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
Tax losses carried forward	2.4	3.0	6.4
Provisions and accruals	193.2	160.8	181.6
Pensions	20.8	18.5	22.6
Inventory	25.7	25.9	12.0
Property, plant and equipment	9.2	11.6	12.2
Other temporary differences for assets	41.0	33.9	28.5
Total	292.3	253.7	263.3
Total at beginning of period	253.7	263.3	
Translation differences	5.0	3.5	
Change in statement of income	26.9	-8.1	
Charged or credited to equity	6.7	-10.1	
Acquisitions, divestments and other	-	5.1	
Total at end of period	292.3	253.7	

Deferred tax liabilities, MEUR	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
Property, plant and equipment	22.6	20.4	19.2
Goodwill and intangible assets	73.9	59.5	69.6
Other temporary differences for liabilities	63.8	68.8	55.0
Total	160.3	148.7	143.8
Total at beginning of period	148.7	143.8	
Translation differences	-0.2	-3.9	
Change in statement of income	10.2	15.9	
Acquisitions, divestments and other	1.6	-7.1	
Total at end of period	160.3	148.7	
Net deferred tax assets and liabilities	132.0	105.0	

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 revenue recognition, provisions, depreciation and amortization, inter-company inventory margins, defined benefit plans, lease contracts 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 to offset losses in the future. A deferred tax liability is recognised on the undistributed profits of subsidiaries where such tax is applicable and it is expected to realize in the foreseeable future.

ACQUISITIONS AND CAPEX

MEUR 236

22 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 2019:

ACQUISITIONS AND CAPITAL EXPENDITURE AT KONE

- KONE's business is capital-light and labor-intensive in nature, particularly in services. On the new equipment side, we cooperate with many component suppliers. As a result, the level of tangible and intangible assets is relatively low in the business.
- Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.
- Capital expenditure is mainly related to R&D, IT, production and business operations.
- The majority of KONE's acquisitions in 2019 consisted of small maintenance companies in Europe and the Americas.

KONE's capital expenditure 2.0% of sales in 2019

4.1 ACQUISITIONS

Assets and liabilities of the acquired businesses, MEUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Maintenance contracts	22.3	20.5
Other intangible assets	-	0.3
Tangible assets	0.2	0.3
Deferred tax assets	0.0	0.1
Inventories	0.6	0.3
Accounts receivables and other assets	4.8	2.5
Cash and cash equivalents and other interest bearing receivables	2.9	1.3
Total assets	30.8	25.3
Pension liabilities	0.6	-
Interest-bearing loans	1.7	0.1
Provisions	0.2	0.3
Deferred tax liabilities	1.6	0.6
Other liabilities	3.2	1.9
Total liabilities	7.4	2.9
Non-controlling interest	-	0.1
Net assets	23.4	22.2
Acquisition cost paid in cash	25.4	18.8
Previously held interest at fair value	-	-
Contingent and deferred consideration	10.6	9.0
Acquisition cost at date of acquisitions	36.0	27.8
Goodwill	12.6	5.6

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 (1.1) million.

Accounting principles

Acquisitions

Subsidiaries acquired during the period have been combined in the consolidated financial statements from the date when Group has obtained control and divested subsidiaries up to the date when control has ceased. 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, are 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 22 (15) acquisitions during 2019 for a total consideration of EUR 36.0 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 2019 financial statements. The sales consolidated from the companies acquired during 2019 had only a minor impact on KONE's sales for the financial period. Of total consideration based on provisional assessments EUR 22.3 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.

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 2019.

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 a 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 of the time value of money and the risks 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). A 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 CGUs. The five largest CGUs carry 74% of the goodwill. The carrying amount of goodwill is below EUR 10 million for ten CGUs. The geographical allocation of goodwill and the weighted average discount interest rates are presented in the table below:

Goodwill, MEUR	Dec 31, 2019	%	Discount interest rates used (pre-tax), %:	Dec 31, 2018	%	Discount interest rates used (pre-tax), %:
EMEA	791.7	58	5.55	768.8	58	6.43
Americas	346.9	25	7.72	339.8	25	8.91
Asia-Pacific	228.0	17	9.31	224.9	17	9.71
Total	1,366.5			1,333.4		

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2019	Dec 31, 2018
Opening net book value	1,333.4	1,325.5
Translation differences	20.4	10.6
Increase	0.0	4.7
Decrease	-	-13.0
Companies acquired (note 4.1)	12.6	5.6
Closing net book value	1,366.5	1,333.4

Impairment testing

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

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

No goodwill impairment losses were recognized during the accounting period. The impairment testing process includes a sensitivity analysis in which the CGU specific cash flow estimates were reduced by 10–40 percent and the discount interest rates were increased by 1–4 percentage points. Based on the sensitivity analysis, the probability for impairment losses was very low. Under the basic scenario, the value-in-use calculations were on average 9.2 times higher than the CGU's assets employed. The respective ratio for the five largest CGUs was 6.9; for the five smallest 28.6 and respectively for the other CGUs 13.5.

4.3 INTANGIBLE ASSETS

Jan 1–Dec 31, 2019, MEUR	Maintenance contracts	Other	Total
Jan 1, 2019:			
Acquisition cost	388.3	264.4	652.8
Accumulated amortization and impairment	-176.6	-216.0	-392.6
Net book value	211.8	48.4	260.2
Opening net book value	211.8	48.4	260.2
Translation differences	5.1	0.2	5.3
Increase	0.8	9.6	10.4
Decrease	-0.2	-0.2	-0.4
Reclassifications	-	0.2	0.2
Companies acquired (note 4.1)	22.3	0.1	22.4
Amortization	-36.2	-13.7	-49.9
Closing net book value	203.5	44.7	248.2
Dec 31, 2019:			
Acquisition cost	416.3	273.0	689.2
Accumulated amortization and impairment	-212.7	-228.3	-441.0
Net book value	203.5	44.7	248.2

Jan 1–Dec 31, 2018, MEUR	Maintenance contracts	Other	Total
Jan 1, 2018:			
Acquisition cost	367.1	256.6	623.7
Accumulated amortization and impairment	-144.0	-205.3	-349.2
Net book value	223.2	51.3	274.5
Opening net book value	223.2	51.3	274.5
Translation differences	1.1	-0.1	1.0
Increase	0.8	10.8	11.6
Decrease	-0.8	-0.1	-0.8
Reclassifications	-	0.6	0.6
Companies acquired (note 4.1)	20.5	0.3	20.8
Amortization	-33.1	-14.4	-47.5
Closing net book value	211.8	48.4	260.2
Dec 31, 2018:			
Acquisition cost	388.3	264.4	652.8
Accumulated amortization and impairment	-176.6	-216.0	-392.6
Net book value	211.8	48.4	260.2

Accounting principles

Intangible assets

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

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

4.4 TANGIBLE ASSETS

Jan 1–Dec 31, 2019, MEUR	Land	Buildings	Buildings, leased for own use	Machinery & equip-ment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2019:								
Acquisition cost	6.7	267.7	-	539.6	55.1	28.0	5.9	903.1
Accumulated depreciation	-	-109.8	-	-389.8	-6.0	-	-	-505.6
Net book value	6.7	157.9	-	149.8	49.2	28.0	5.9	397.4
Opening net book value	6.7	157.9	-	149.8	46.7	28.0	5.9	397.4
Translation differences	0.0	1.4	0.2	2.7	0.1	0.3	0.0	4.8
Adoption of IFRS 16	-		268.5		89.0			357.6
Increase		14.6	34.1	65.0	68.3	5.1	2.9	190.1
Decrease		-0.3	-4.0	-1.1	-9.8	-0.4	-2.2	-17.7
Reclassifications		18.8	2.5	12.6	-2.5	-27.8	-2.2	1.4
Companies acquired (note 4.1)				0.2				0.2
Depreciation		-11.3	-69.1	-51.1	-60.2			-191.6
Closing net book value	6.8	181.2	232.3	178.1	134.1	5.3	4.4	742.2
Dec 31, 2019:								
Acquisition cost	6.8	302.1	301.4	610.4	200.2	5.3	4.4	1,430.6
Accumulated depreciation		-120.9	-69.1	-432.2	-66.1			-688.4
Net book value	6.8	181.2	232.3	178.1	134.1	5.3	4.4	742.2

During the period of Jan 1–Dec 31, 2019, capital expenditure on production facilities, customer service of sales and maintenance operations as well as on information systems, including new assets recognized for lease agreements, totaled EUR 200.5 (112.0) million. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Accounting principles

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses, when applicable. Depreciation is recognized on a straight-line basis over the economic useful lives of the assets or over the lease contract period, if shorter. Economic useful lives are 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.

Leases

As a lessee, KONE 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, amounting to the present value of the future lease payments. The value of right-of-use asset corresponds the value of future lease payments at the inception of the lease, discounted with the incremental borrowing rate.

Right-of-use assets are depreciated over the contract period or over the useful life of the asset, which is the shorter. An option to extend or terminate the lease contract is included to the lease period when exercising such option is considered highly probable. Short-term leases and leases of low value items are recognized as an expense on a straight-line basis over the contract period.

Impairment of assets

The carrying amounts of non-current tangible assets and intangible assets are reviewed for impairment at each reporting date or whenever there is indication of that the carrying value of the asset may not be recoverable. Impairment test involves estimating the recoverable amount of the asset, subject to testing. The recoverable amount is 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, 2018, MEUR	Land	Buildings	Buildings, leased for own use	Machinery & equip-ment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2018:								
Acquisition cost	6.9	263.3	-	502.6	56.0	9.3	6.0	844.0
Accumulated depreciation	-	-99.9	-	-360.8	-6.4	-	-	-467.0
Net book value	6.9	163.4	-	141.8	49.6	9.3	6.0	377.0
Opening net book value	6.9	163.4	-	141.8	49.6	9.3	6.0	377.0
Translation differences	0.0	-0.5	-	-0.8	0.8	0.1	-0.2	-0.6
Increase	-	6.0	-	51.2	19.3	23.2	2.0	101.8
Decrease	-0.2	-0.5	-	-1.5	-6.1	-1.0	0.6	-8.6
Reclassifications	0.0	0.3	-	4.8	-	-3.5	-2.7	-1.1
Companies acquired (note 4.1)	-	-	-	0.3	-	-	-	0.3
Depreciation	-	-10.9	-	-46.1	-14.4	-	-	-71.4
Closing net book value	6.7	157.9	-	149.8	49.2	28.0	5.9	397.4
Dec 31, 2018:								
Acquisition cost	6.7	267.7	-	539.6	55.1	28.0	5.9	903.1
Accumulated depreciation	-	-109.8	-	-389.8	-6.0	-	-	-505.6
Net book value	6.7	157.9	-	149.8	49.2	28.0	5.9	397.4

5 CAPITAL STRUCTURE

KONE'S INTEREST-BEARING NET DEBT

MEUR **-1,553**

EQUITY PER SHARE

EUR **6.13**

IN THIS SECTION

This section comprises the following notes, which describe capital structure at KONE for 2019:

KONE'S CAPITAL STRUCTURE

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

5.1 CAPITAL MANAGEMENT

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

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

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

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

In such cases, the level of debt and financial gearing could be higher for a period of time. At the end of 2019, 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 2019, KONE had 11,553,605 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	2019	2018	2017	2016	2015
Assets employed:					
Goodwill and shares	1,505.7	1,476.8	1,459.8	1,501.6	1,429.4
Other non-current assets [1]	990.4	657.6	651.5	661.2	616.9
Net working capital	-856.0	-757.8	-772.6	-1,054.8	-983.4
Total assets employed	1,640.0	1,376.6	1,338.7	1,108.0	1,062.9
Capital:					
Equity	3,192.9	3,080.6	3,028.9	2,795.6	2,575.5
Interest-bearing net debt	-1,552.9	-1,704.0	-1,690.2	-1,687.6	-1,512.6
Total capital	1,640.0	1,376.6	1,338.7	1,108.0	1,062.9
Gearing	-48.6%	-55.3%	-55.8%	-60.4%	-58.7%
Equity ratio	46.5%	49.9%	50.0%	46.8%	45.4%

1) Property, plant and equipment, acquired maintenance contracts and other intangible assets.
*) In 2015–2019, the dividend payout ratio has been 69.7–101.0% for class B shares (Board's proposal 2019).

KONE has adopted the new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated. KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2015–2016 are not restated and thus not fully comparable.

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 financial instruments intended as hedges of the net assets in foreign subsidiaries are also recognized as translation differences. Actuarial gains and losses arising from revaluation of 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 2019 financial year, the number of shares outstanding was 529,395,860. The share capital was EUR 66 million and the total number of votes was 121,527,427. 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 25, 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, 2019	76,208,712	451,883,955	528,092,667
Share subscription with 2015 options, May 15, 2019		1,303,193	1,303,193
Number of shares, Dec 31, 2019	76,208,712	453,187,148	529,395,860
Number of votes, Dec 31, 2019	76,208,712	45,318,715	121,527,427
Share capital, Dec 31, 2019, MEUR	9.5	56.6	66.2

Changes in share capital	Class A	Class B	Total
Number of shares, Jan 1, 2018	76,208,712	450,971,695	527,180,407
Share subscription with 2014 and 2015 options, May 15, 2018		884,862	884,862
Share subscription with 2015 options, Aug 1, 2018		9,125	9,125
Share subscription with 2015 options, Nov 6, 2018		6,590	6,590
Share subscription with 2015 options, Dec 31, 2018		11,683	11,683
Number of shares, Dec 31, 2018	76,208,712	451,883,955	528,092,667
Number of votes, Dec 31, 2018	76,208,712	45,188,396	121,397,108
Share capital, Dec 31, 2018, MEUR	9.5	56.5	66.0

Authority to purchase own shares

KONE Corporation's Annual General Meeting held on February 26, 2019 authorized the Board of Directors to repurchase the company's own shares. The shares may be repurchased among others in order to develop the capital structure of the Company, finance or carry out possible acquisitions, implement the Company's share-based incentive plans, or to be transferred for other purposes or to be cancelled. Altogether no more than 52,440,000 shares may be repurchased, of which no more than 7,620,000 are to be class A shares and 44,820,000 class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the Company is allowed to possess.

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

During the financial year 2019, KONE did not repurchase own shares.

Own shares

	Number of shares	Cost, MEUR
Jan 1, 2019	12,031,814	203.3
Distributed to the share-based incentive plan, January	-217,899	-8.5
Distributed to the annual compensation of the Board, April	-2,866	-0.1
Distributed to the share-based incentive plan, April	-262,676	-9.8
Returned from the share-based incentive plan, August	1,744	0.1
Returned from the share-based incentive plan, December	3,488	0.1
Dec 31, 2019	11,553,605	185.1
Jan 1, 2018	12,402,796	217.8
Distributed to the annual compensation of the Board, April	-3,350	-0.1
Distributed to the share-based incentive plan, April	-372,560	-14.6
Returned from the share-based incentive plan, December	4,928	0.2
Dec 31, 2018	12,031,814	203.3

Reconciliation of own shares, Dec 31, 2019

KONE Corporation and Group total	pcs	Acquisition cost	Average price
December 31, 2018	12,031,814	203,325,873.28	16.90
January 28, 2019	-217,899	-8,509,071.57	39.05
April 29, 2019	-265,086	-9,887,736.74	37.30
April 29, 2019	2,410	94,150.55	39.07
April 29, 2019	-2,866	-106,293.69	37.09
August 7, 2019	1,744	64,681.16	37.09
December 19, 2019	3,488	129,362.33	37.09
December 31, 2019	11,553,605	185,110,965.32	16.02

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 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 arising from a 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.

In cash flow hedge accounting KONE uses foreign currency forward contracts to hedge its exposure in foreign currency dominated cash flows which ensures economic relationship between the hedged item and the hedging instrument and full effectiveness as the value of the hedging instrument and the value of the hedged item moves in the opposite direction because of the common underlying denominator. The full fair value of derivatives including transaction related forward points, is designated in the hedging relationship.

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 within equity. The cumulative changes of fair values are transferred into the statement of income as adjustment items to sales or purchases simultaneously when the hedged sale or purchase realizes. When cash flow hedge accounting is applied, at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items is documented including whether the hedging instrument is expected to offset changes in cash flows of hedged items. Also, the risk management objective and strategy for undertaking various hedge transactions is documented at the inception of each hedge relationship. Hedge effectiveness is assessed before hedge accounting is applied and at least on a quarterly basis thereafter.

The gain or loss relating to the ineffective portion is recognized immediately as an adjustment to cost and expenses. In hedges of foreign currency transaction, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated. 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 adjust cost and expenses immediately if the hedged cash flow is no longer expected to occur.

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 income or costs, or as financial income or expenses: if the hedged risk arises from an operative transaction, the fair values of the hedging instruments are recognized in 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 statement of income as adjustment items to purchases.

The effective portion of the change in the fair values of foreign currency hedges against the translation differences arising from consolidating net investments in foreign subsidiaries are recognized through the statement of comprehensive income to the translation differences within equity and would be transferred to the income statement in case the net investment were disposed of partially or in its entirety. The hedged risk is designated as movements in the spot rate (excluding changes due to interest rates i.e. forward points). Changes in fair value of the hedging instrument due to the forward points (cost of hedging) are immediately recognized in the consolidated statement of income.

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. Lease liabilities are measured to the present value of future lease payments discounted with the incremental borrowing rate.

Financial assets

Financial assets are classified into three categories: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss.

The classification is made at the time of the original acquisition based on the objective of the business model and the characteristics of contractual cash flows of the investment.

KONE assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and the impairment methodology applied depends on whether there has been a significant increase in credit risk. All of these financial assets are considered to have low credit risk, and thus the impairment provision assessment is based on 12 months expected losses.

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 except for interest rate funds which are classified and measured as investments at fair value through statement of income. Only substantial transaction costs are counted for when measuring the acquisition cost.

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. The fair values of interest rate funds are measured based on market information (fair value hierarchy level 2).

Refinancing and liquidity risks

KONE's cash and cash equivalents was EUR 662.4 (636.0) million and financial investments EUR 1,587.7 (1,404.2) million on December 31, 2019.

Cash and financial investments are managed centrally by KONE Treasury. Due to local regulations part of the funds are located in local investments and on decentralized bank accounts in a number of KONE countries. A substantial part of the funds is nevertheless accessible to KONE Treasury. Changes in the local regulations can also in the future have an impact on the location of the cash and financial investments.

KONE has a credit facility from European Investment Bank (EIB) of EUR 160 million. The credit facility is a 5-year fixed interest rate loan which will be used for R&D purposes. The loan will mature in 2021. The fair value of the loan is estimated based on discounted cash flows using a current borrowing rate (level 2 fair value hierarchy). KONE has also an uncommitted commercial paper program of EUR 500 million and existing committed credit facilities of EUR 1,000.0 million to ensure sufficient liquidity.

Interest rate risks

KONE's cash and short-term investments were EUR 2,250.2 (2,040.2) million at the statement of financial position date. KONE's interest-bearing debt was EUR 721.6 (369.0) million at the statement of financial position date and consisted of EUR 544.3 (240.6) million of financial debt including lease liabilities, EUR 4.4 (10.4) million of option liabilities from acquisitions, and EUR 172.9 (147.0) million of employee benefits. Additionally, KONE had an asset on employee benefits, EUR 21.7 (29.0) million.

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, excluding foreign exchange forward contracts, is assumed to remain on the level of the closing balance of 2019 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, -2,130.3 (-2,014.7) million euros. For 2020 a 1 percentage point change in the interest rate level would mean a change of EUR -21.3 (-20.1) 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, 2019				Dec 31, 2018			
MEUR	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Interest-bearing debt								
Long-term loans	-	-160.0	-	**-160.0**	-	-160.0	-	**-160.0**
Lease liabilities	-103.7	-210.3	-56.7	**-370.7**	-15.6	-32.6	-1.1	**-49.3**
Used bank overdraft limits	-13.5	-	-	**-13.5**	-2.3	-	-	**-2.3**
Option liabilities from acquisitions	-4.4	-	-	**-4.4**	-10.4	-	-	**-10.4**
Employee benefits	-	-	-172.9	**-172.9**	-	-	-147.0	**-147.0**
Non-interest bearing debt								
Accounts payables	-809.8	-	-	**-809.8**	-786.7	-	-	**-786.7**
Derivatives								
Capital inflow	2,425.5	143.9	-	**2,569.4**	2,562.1	206.9	-	**2,769.0**
Capital outflow	-2,437.7	-146.3	-	**-2,584.0**	-2,565.3	-206.8	-	**-2,772.0**
Interest payments	-0.6	-14.2	-4.4	**-19.2**	-0.2	-0.3	-	**-0.6**
Net outflow	-944.2	-386.9	-234.0	**-1,565.1**	-818.3	-192.9	-148.1	**-1,159.3**

Values of financial assets and liabilities by categories

2019 Consolidated statement of financial position item, MEUR		Notes	Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income	Other	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			139.2		139.2
Non-current loans receivable	I	5.5		0.8			0.8
Employee benefits		5.7				21.7	21.7
Current assets							
Accounts receivable				2,232.3			2,232.3
Derivative assets			2.5	6.6			9.1
Current deposits and loans receivable	I	5.5	973.2	616.3			1,589.5
Cash and cash equivalents	I			662.4			662.4
Total financial assets			975.7	3,518.4	139.2	21.7	4,655.1
Non-current liabilities							
Loans [1]	I			160.0		267.1	427.1
Employee benefits	I	5.7				172.9	172.9
Current liabilities							
Loans [2]	I					103.7	103.7
Short-term loans and other liabilities	I					13.5	13.5
Option liabilities from acquisitions	I		4.4				4.4
Accounts payable				809.8			809.8
Derivative liabilities			3.1		22.6		25.7
Unpaid acquisition consideration						13.4	13.4
Total financial liabilities			7.5	969.8	22.6	570.7	1,570.5

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 ".

[1] Includes lease liabilities of EUR 267.0 millon.
[2] Includes lease liabilities of EUR 103.7 millon.

2018 Consolidated statement of financial position item, MEUR		Notes	Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income	Other	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			143.3		143.3
Non-current loans receivable	I	5.5		1.0			1.0
Employee benefits		5.7				29.0	29.0
Current assets							
Accounts receivable				1,988.3			1,988.3
Derivative assets			15.3	12.2			27.5
Current deposits and loans receivable	I	5.5	908.4	498.6			1,407.0
Cash and cash equivalents	I			636.0			636.0
Total financial assets			923.7	3,136.1	143.3	29.0	4,232.1
Non-current liabilities							
Loans	I			160.0		33.7	193.8
Employee benefits	I	5.7				147.0	147.0
Current liabilities							
Current portion of long-term loans	I					15.6	15.6
Short-term loans and other liabilities	I					2.3	2.3
Option liabilities from acquisitions	I		10.4				10.4
Accounts payable				786.7			786.7
Derivative liabilities			4.9		26.2		31.1
Unpaid acquisition consideration						15.8	15.8
Total financial liabilities			15.3	946.7	26.2	214.5	1,202.7

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 and swaps mature within a year.

The fair values of foreign exchange forward contracts and swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2). 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 0.4 (6.3) million and payables EUR 17.0 (9.9) million.

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2019	Derivative liabilities Dec 31, 2019	Fair value, net Dec 31, 2019	Fair value, net Dec 31, 2018
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	6.2	-22.2	-16.0	-5.2
In net investment hedging	0.4	-0.4	0.0	-8.8
Other hedges	2.5	-3.1	-0.6	10.4
Total	9.1	-25.7	-16.5	-3.6

Nominal values of derivative financial instruments, MEUR	Dec 31, 2019	Dec 31, 2018
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	1,126.0	1,039.9
In net investment hedging	152.9	339.6
Other hedges	1,290.5	1,389.5
Total	2,569.4	2,769.0

5.4 SHARES AND OTHER NON-CURRENT FINANCIAL ASSETS

Shares and other non-current financial assets were EUR 134.2 and 4.9 million respectively (EUR 136.9 and 6.4 million).

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. Investment also include other non-current financial assets which are investments in smaller holdings in other companies without public quotation.

Accounting principles

Shares and other non-current financial assets

Shares include long-term strategic investments, which are investments in equity instruments that do not have a quoted price in an active market. Other non-current financial assets include investments in smaller holdings in other companies without public quotation.

Shares and other non-current financial assets are classified as investments measured at fair value through other comprehensive income. The fair value is measured using income or market approach valuation techniques under fair value hierarchy level 3. Upon disposal of these investments, any balance within the fair value and other reserves for these investments is reclassified to retained earnings and is not reclassified to the statement of income.

5.5 DEPOSITS AND LOANS RECEIVABLE

Deposits and loans receivable, MEUR	Dec 31, 2019	Dec 31, 2018
Non-current loans receivable	0.8	1.0
Current loans receivable	1.8	2.8
Current short-term deposits	1,587.7	1,404.2
Total	1,590.3	1,408.0

The fair values of deposits and loans receivable are not materially different from their carrying amounts. Current short-term deposits mature within one year and consist of EUR 973.2 million and EUR 614.5 million of interest rate funds and short-term bank deposits, respectively (EUR 908.4 and 495.8 million).

5.6 ASSOCIATED COMPANIES

Investments in associated companies, MEUR	Dec 31, 2019	Dec 31, 2018
Total at beginning of period	-	1.4
Translation differences	-	0.0
Share of associated companies' result after taxes	-	-0.6
Dividends received	-	-
Decrease	-	-0.7
Total at end of period	-	-

The associated companies' financial information presented here is based on the latest official financial statements available and estimates. KONE did not have any investments in associated companies in 2019.

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, 2019	Jan 1–Dec 31, 2018
Sales of goods and services	-	-
Purchases of goods and services	-	1.6

5.7 EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

Some of the Group's defined benefit obligations are linked to general inflation and salary level development. Higher level of inflation and salary level will result in 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 arising from the defined benefit post-employment plans is the present value of the defined benefit obligation less the fair value of plan assets. The discount rates used in the 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, 2019	Dec 31, 2018
Employee benefits		
Defined benefit plans	142.0	104.5
Other post-employment benefits	9.0	13.5
Total	151.0	118.0

	Dec 31, 2019		Dec 31, 2018	
Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	**Defined benefit plans**	**Other post-employment benefits**	**Defined benefit plans**	**Other post-employment benefits**
Present value of unfunded obligations	99.3	-	41.5	0.1
Present value of funded obligations	530.4	10.2	480.5	14.3
Fair value of benefit plans' assets	-487.7	-1.2	-417.5	-1.0
Total	142.0	9.0	104.5	13.5

	Dec 31, 2019		Dec 31, 2018	
Net liability reconciliation, MEUR	**Defined benefit plans**	**Other post-employment benefits**	**Defined benefit plans**	**Other post-employment benefits**
Employee benefit liability at beginning of period	133.5	13.5	136.3	16.0
Employee benefit assets at beginning of period	-29.0	-	-11.5	-
Net liability at beginning of period	104.5	13.5	124.7	16.0
Translation differences	-0.6	0.3	0.3	0.6
Costs recognized in statement of income	19.0	-3.4	22.2	0.8
Remeasurements	37.5	-0.8	-26.8	-3.6
Paid contributions and benefits	-18.6	-0.5	-19.6	-0.3
Reclassifications	0.1	-	3.7	-
Net liability at end of period	142.0	9.0	104.5	13.5
Employee benefit liability at end of period	163.2	9.0	133.5	13.5
Employee benefit assets at end of period	-21.3	-	-29.0	-
Net liability at end of period	142.0	9.0	104.5	13.5

Amounts recognized in the statement of income, MEUR	**Jan 1–Dec 31, 2019**	**Jan 1–Dec 31, 2018**
Defined contribution pension plans	215.2	202.7
Defined benefit pension plans	19.0	22.2
Other post-employment benefits	-3.4	0.8
Total	230.8	225.7

	Jan 1–Dec 31, 2019		Jan 1–Dec 31, 2018	
Amounts recognized in the statement of income, MEUR	**Defined benefit plans**	**Other post-employment benefits**	**Defined benefit plans**	**Other post-employment benefits**
Current service costs	16.4	0.1	14.3	0.4
Net interest	2.4	0.3	2.5	0.5
Past-service costs	0.2	-3.9	5.4	-
Settlements	-	-	0.0	-
Total	19.0	-3.4	22.2	0.8

The actual return on defined benefit plans' assets was EUR 59.8 (-6.6) million.

	Jan 1–Dec 31, 2019		Jan 1–Dec 31, 2018	
Defined benefit plans: assumptions used in calculating benefit obligations	**Europe**	**USA**	**Europe**	**USA**
Discount rate, %	1.61	3.19	2.53	4.27
Future salary increase, %	2.5	4.0	2.4	4.0
Future pension increase, %	1.6	-	1.8	-

	Impact on defined benefit obligation	
Sensitivity of the defined benefit obligation to changes in actuarial assumptions	**Dec 31, 2019**	**Dec 31, 2018**
Discount rate, +0.25 percentage points	-3.6%	-3.6%
Discount rate, -0.25 percentage points	3.9%	3.4%
Future pension increase, +0.25 percentage points	2.2%	3.2%
Future pension increase, -0.25 percentage points	-2.0%	-0.5%

Sensitivities are calculated by changing one assumption at a time while keeping other variables constant.

5.8 FINANCE LEASE LIABILITIES AND COMMITMENTS

KONE has adopted IFRS 16 January 1, 2019, and consequently no finance lease liabilities are reported as of December 31, 2019 in accordance with IAS 17. Instead, KONE reports lease liabilities in accordance with IFRS 16. Refer to note 5.3 for further details on lease liabilities as of December 31, 2019.

MEUR	Dec 31, 2019	Dec 31, 2018
Minimum lease payments		
Less than 1 year	-	15.9
1–5 years	-	35.4
Over 5 years	-	1.2
	-	52.5
Future finance charges	-	-3.2
Present value of finance lease liabilities	-	49.3

MEUR	Dec 31, 2019	Dec 31, 2018
Present value of finance lease liabilities		
Less than 1 year	-	15.6
1–5 years	-	32.6
Over 5 years	-	1.1
Total	-	49.3

Accounting principles

Finance leases

Following adoption of IFRS 16 as at January 1, 2019 accounting policy for leases where the Group is the lessee changed. The new policy is described in the basis of preparation and the impact of the adoption in presented under impact from adoption of new standards.

Until December 31, 2018, payments related to operating lease contracts were 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 beared all the rewards and risks of ownership were classified as finance leases. Finance leases were 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, were included in interest-bearing liabilities. Lease payments related to finance lease contracts were apportioned between the finance charge and the reduction of outstanding liability.

Plant and equipment acquired under finance lease contracts was depreciated over either the useful life of the asset or the lease period, whichever was shorter.

Commitments

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,576.6 (1,629.6) million as of December 31, 2019.

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, 2019	Jan 1–Dec 31, 2018
Salaries and other remunerations	7.8	8.0
Share-based payments	14.8	18.3
Total	22.6	26.3

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR thousand) [2]	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Herlin Antti, Chairman of the Board [1]	529.5	528.5
Herlin Jussi, Vice Chairman of the Board	114.1	115.7
Ehrnrooth Henrik, President & CEO [1]	750.0	750.0
Alahuhta Matti	45.0	44.5
Brunila Anne	44.5	45.0
Herlin Iiris	43.5	43.0
Kant Ravi	49.5	49.0
Kaskeala Juhani	45.0	44.5
Pietikäinen Sirpa	43.0	42.5
Total	1,664.1	1,662.7

1) For the financial year 2019 in addition Antti Herlin's accrued bonus is EUR 401,963 and Henrik Ehrnrooth's accrued bonus is EUR 727,500. These will be paid during 2020. In April 2019, the share-based payments for the financial year 2018 received by Henrik Ehrnrooth was EUR 2,579,150.

2) Includes also the annual compensation of the Board which was performed by using shares of KONE Corporation decided by the Annual General Meeting February 26, 2019.

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 2019, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2019 totalled EUR 401,963. He was also paid EUR 61,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 93. The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2019 was EUR 131,174. 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 2019, Henrik Ehrnrooth's basic salary was EUR 750,000. In addition, his accrued bonus for 2019 totalled EUR 727,500. Henrik Ehrnrooth's holdings of shares are presented in the table on page 93. Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. In April 2019, on the basis of the incentive plan for year 2018, Henrik Ehrnrooth received a reward of EUR 2,579,150, which consisted of 25,344 KONE class B shares together with a cash payment to cover taxes and similar charges arising from the receipt of shares. The corresponding reward accrued from 2019 and due for payment in April 2020 is 32,531 KONE class B shares together with a cash payment 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 2019 was EUR 221,677. 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 93. The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2019, on the basis of the incentive plan, the members of the Executive Board received a reward of 131,794 KONE class B shares together with a cash payment equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding reward accrued from 2019 and due for payment in April 2020 is 194,169 KONE class B shares together with a cash payment 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 5.8 million at the end of the year 2019 and the monthly pension paid by KONE to him is EUR 22,160 (December 2019).

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, totalling approximately 450 individuals. The potential reward is based on KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2019, the reward was based on sales growth and profitability in both plans. 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. The share-based incentive plans have a vesting period of three years including the performance period. If the participant's employment or service contract is terminated during the vesting period, they are either obliged to return the shares already received or lose the entitlement to the shares they have not yet received. As part of the plan for the senior management, a long-term target for their ownership has been set. For the Executive Board members, the long-term ownership target is that the members have an ownership of KONE shares corresponding to at least five years' annual base salary. For other selected top management positions the ownership target is at least two years' base salary.

As part of the previous share-based incentive plan a total of 265,086 KONE class B shares were granted in April 2019 to the management as a reward due to the achievement of the targets for the year 2018 and 217,899 shares in January 2019 to other key personnel. During year 2019 a total of 7,642 of those KONE class B shares were returned to KONE Corporation. In April 2020, a total of 363,012 class B shares will be granted to the senior management as a reward due to the achievement of the targets for the year 2019. To the other key personnel of KONE the total reward from the year 2019 is based on the value of 320,046 KONE class B shares to be delivered in January 2022 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 one option program during the financial period 2019. The purpose of the stock options was 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. Stock options 2015 were 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. Each option entitled 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 was April 1, 2017–April 30, 2019. The share subscription period began on April 1, 2017 and the 2015 stock options were listed on the Nasdaq Helsinki stock exchange on April 1, 2017, as the financial performance of the KONE Group for the financial years 2015–2016, based on the total consideration of the Board of Directors, was equal to or better than the average performance of the key competitors of KONE. The amount of KONE class B shares subscribed with the 2015 option rights during 2019 was 1,303,193. The subscription price paid totalled EUR 37.5 million during year 2019. The original share subscription price for the stock option was EUR 36.20 per share and it was further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares.

Options	Options granted to employees	Unexercised options	Options held by the subsidiary Dec 31, 2019	Number of class B shares that can be subscribed for with the option	Share subscription price, EUR	Share subscription period
2015	1,409,000	-	-	1	28.75	1 April, 2017–30 April, 2019

Changes in the number of options outstanding	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Number of options outstanding, Jan 1	1,309,303	2,225,623
Granted options	-	-
Returned options	-	-
Expired options	-6,110	-4,060
Exercised options	-1,303,193	-912,260
Number of options outstanding, Dec 31	-	1,309,303
Exercisable options, Dec 31	-	1,309,303

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
Share price at the date of issue, EUR	37.37
Original subscription price, EUR	36.20
Duration (years)	4.4
Expected volatility, %	24
Risk-free interest rate, %	0.6
Fair value of option at the date of issue, EUR	8.44

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 have 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 a share-based incentive plan to the senior management of KONE and other key personnel. Pursuant to the share ownership plan, 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 have 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, 2019	Jan 1–Dec 31, 2018
To be paid in shares	25.6	30.4
To be paid in cash	20.0	10.1

6.3 RELATED PARTY TRANSACTIONS

KONE's related parties comprise its subsidiaries as well as the Board of Directors, the President & CEO, the Executive Board including any companies controlled or significantly influenced by them. The Corporate Controlling function evaluate and monitor transactions between the company and its related parties to ensure that any conflicts of interest are taken into account appropriately in KONE's decision-making process.

Except for management remuneration, there have not been any material transactions between KONE and its members of the Board of Directors, the President & CEO, the Executive Board including any companies controlled or significantly influenced by them. Information concerning management remuneration is disclosed in note 6.1 and shares held by the members of the Board of Directors, the President & CEO, the Executive Board is disclosed in page 93. KONE's subsidiaries are disclosed in pages 81–83.

6.4 INFORMATION RELATED TO ADOPTION OF THE NEW STANDARDS

KONE has adopted the new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated.

Assets MEUR		Dec 31, 2018	Impact from the adoption	Jan 1, 2019
Non-current assets				
Goodwill		1,333.4		1,333.4
Other intangible assets		260.2		260.2
Tangible assets		397.4	357.6	755.0
Loan receivables and other interest-bearing assets	I	1.0		1.0
Investments		143.3		143.3
Employee benefits	I	29.0		29.0
Deferred tax assets	II	253.7		253.7
Total non-current assets		2,418.2	357.6	2,775.7
Current assets				
Inventories	II	624.1		624.1
Accounts receivable	II	1,988.3		1,988.3
Deferred assets	II	601.5		601.5
Income tax receivables	II	59.0		59.0
Current deposits and loan receivables	I	1,407.0		1,407.0
Cash and cash equivalents	I	636.0		636.0
Total current assets		5,315.9		5,315.9
Total assets		7,734.0	357.6	8,091.6

Equity and liabilities MEUR		Dec 31, 2018	Impact from the adoption	Jan 1, 2019
Equity		3,080.6	-28.5	3,052.1
Non-current liabilities				
Loans	I	193.8	250.3	444.1
Employee benefits	I	147.0		147.0
Deferred tax liabilities	II	148.7		148.7
Total non-current liabilities		489.5	250.3	739.8
Provisions	II	139.4		139.4
Current liabilities				
Loans	I	28.3	107.3	135.5
Advance payments received and deferred revenue	II	1,562.2		1,562.2
Accounts payable	II	786.7		786.7
Accruals	II	1,574.0		1,574.0
Income tax payables	II	73.3	28.5	101.8
Total current liabilities		4,024.5	135.8	4,160.3
Total equity and liabilities		7,734.0	357.6	8,091.6

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

Reconciliation of IAS 17 Lease commitment to IFRS 16 opening balance lease liability

The lease commitment as of December 31, 2018 in accrodance with IAS 17 can be reconciled to the opening lease liability as of January 1, 2019 in accordance with IFRS 16 as follows:

MEUR	
IAS 17 operating lease commitments as at December 31, 2018	384.0
Finance lease liabilities as at December 31, 2018	49.3
Impact from discounting the future lease payments	-50.2
Other changes [1]	23.7
IFRS 16 lease liability in the opening balance sheet as at January 1, 2019	406.7

[1] Other changes include impact from the exclusion of short-term and low-value leases as well as from the different determination of lease term in IAS 17 compared to IFRS 16.

Parent company statement of income

EUR	Note	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Sales	1	684,511,130.42	593,871,070.64
Other operating income	2	14,567,247.60	25,666,847.17
Materials and services		-3,191,452.20	-1,233,546.46
Personnel expenses	3	-139,636,277.67	-129,355,873.58
Depreciation and amortization	4	-15,035,552.47	-14,940,135.34
Other operating expenses	5	-390,087,370.19	-354,524,056.93
Operating income		151,127,725.49	119,484,305.50
Financing income and expenses	6	679,920,814.03	934,459,136.06
Income before appropriations and taxes		831,048,539.52	1,053,943,441.56
Appropriations	7	59,243,425.09	45,451,199.81
Income taxes		-43,699,372.89	-33,164,225.18
Deferred taxes		305,873.57	1,754,214.95
Net income		846,898,465.29	1,067,984,631.14

Parent company statement of financial position

Assets, EUR	Note	Dec 31, 2019	Dec 31, 2018
Non-current assets			
Intangible assets	8	20,134,338.21	22,054,776.21
Property, plant and equipment	9	34,825,427.20	35,607,837.12
Investments			
Subsidiary shares	10	2,631,178,172.87	2,622,075,436.86
Other shares	11	2,462,629.44	2,463,349.44
		2,633,640,802.31	2,624,538,786.30
Total non-current assets		2,688,600,567.72	2,682,201,399.63
Current assets			
Long-term receivables	12		
Loans receivable		346,879,043.00	294,961,244.54
		346,879,043.00	294,961,244.54
Short-term receivables	13		
Accounts receivable		147,276,682.67	164,065,346.70
Loans receivable		879,343,158.82	790,528,125.41
Deferred tax assets		5,355,604.15	5,320,730.58
Other receivables		16,127,584.07	19,712,448.13
Deferred assets		238,401,080.76	192,499,735.05
		1,286,504,110.47	1,172,126,385.87
Financial investments		687,464,343.38	894,779,989.76
Cash and cash equivalents		269,462,126.90	203,365,928.35
Total current assets		2,590,309,623.75	2,565,233,548.52
Total assets		5,278,910,191.47	5,247,434,948.15

Equity and liabilities, EUR	Note	Dec 31, 2019	Dec 31, 2018
Equity			
Share capital		66,174,482.53	66,011,583.40
Share premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		298,115,709.83	237,735,404.86
Retained earnings		1,363,717,911.48	1,147,402,699.36
Net income		846,898,465.29	1,067,984,631.14
Total equity	14	2,675,234,633.71	2,619,462,383.34
Cumulative accelerated depreciation		9,216,627.63	10,060,052.72
Appropriations		9,216,627.63	10,060,052.72
Provisions	15	3,684,116.72	3,340,639.69
Liabilities			
Non-current liabilities	16		
Loans		253,180,335.72	474,767,206.98
		253,180,335.72	474,767,206.98
Current liabilities	17		
Accounts payable		91,370,151.60	108,140,108.74
Loans		2,107,909,509.79	1,863,570,717.77
Deferred tax liabilities		804,000.00	1,075,000.00
Other liabilities		26,491,719.75	21,501,072.29
Accruals		111,019,096.55	145,517,766.62
		2,337,594,477.69	2,139,804,665.42
Total liabilities		2,590,774,813.41	2,614,571,872.40
Total equity and liabilities		5,278,910,191.47	5,247,434,948.15

Parent company cash flow statement

EUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Cash receipts from customers	617,231,180.44	483,553,600.60
Cash receipts from other operative income	14,567,247.60	21,217,380.57
Cash paid to suppliers and employees	-511,632,305.52	-380,255,692.61
Financing items	693,569,259.45	953,364,815.16
Taxes paid	-36,046,855.37	-44,696,611.90
Other financing items	-11,016,481.92	-10,157,335.12
Cash flow from operating activities	766,672,044.68	1,023,026,156.70
Capital expenditure	-12,421,278.54	-10,568,732.16
Proceeds from sales of fixed assets	-	41,612.91
Subsidiary investments	-11,157,233.74	-13,471,956.51
Proceeds from sales and decreases of subsidiary shares	1,793,416.47	497,492,630.76
Cash flow from investing activities	-21,785,095.81	473,493,555.00
Purchase of own shares	-	-
Increase in equity (option rights)	37,466,798.76	23,058,258.80
Net change in short-term debt	499,057,211.85	-275,544,315.75
Net change in long-term debt	-476,305,291.09	-619,527,971.95
Profit distribution	-851,669,419.02	-849,192,536.37
Group contributions received	45,940,250.00	44,800,000.00
Other financing items	66,719,699.18	192,123,523.09
Cash flow from financing activities	-678,790,750.32	-1,484,283,042.18
Change in cash and cash equivalents	66,096,198.55	12,236,669.52
Cash and cash equivalents, Jan 1	203,365,928.35	191,129,258.83
Cash and cash equivalents, Dec 31	269,462,126.90	203,365,928.35
Change in cash and cash equivalents	66,096,198.55	12,236,669.52
Reconciliation of net income to the cash flow from operating activities		
Net income	846,898,465.29	1,067,984,631.14
Depreciation and amortization	15,035,552.47	14,940,135.34
Other adjustments	-30,240,972.28	-28,588,062.19
Income before change in working capital	831,693,045.48	1,054,336,704.29
Change in receivables	-15,610,941.19	-91,496,124.36
Change in liabilities	-49,410,059.61	60,185,576.77
Cash flow from operating activities	766,672,044.68	1,023,026,156.70

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, 2019.

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

Derivative 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 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 of 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 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 at the date when estimates are revised.

Notes to the parent company financial statements

Notes to the statement of income

1. SALES

Sales to subsidiaries was 684,511.1 (593,871.1) thousand euros, which relates to revenues for the utilization of intellectual property rights.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Subsidies received	1,102.7	1,702.4
Recharged energy	2,083.7	1,876.9
Service charges	703.7	753.9
Others	10,677.2	21,333.7
Total	14,567.2	25,666.8

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Wages and salaries	121,803.4	111,614.7
Pension costs	16,002.1	15,335.4
Other employment expenses	1,830.8	2,405.8
Total	139,636.3	129,355.9

In 2019, the salaries and fees paid to the President & CEO and to the Board of Directors were together 5,000.2 (5,782.0) thousand euros. Average number of staff employed by the parent company was 1,053 during the financial year (1,045).

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Intangible rights	272.2	336.1
Other long term expenditure	8,381.9	8,999.6
Buildings	1,273.3	1,271.2
Machinery and equipment	5,108.1	4,333.2
Total	15,035.6	14,940.1

5. AUDITORS' FEES

EUR 1,000	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Audit	710.0	551.0
Auditors' statements	0.8	11.3
Tax advisory services	80.0	-
Other services	1,008.0	162.5
Total	1,798.8	724.9

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Dividend income from subsidiaries	698,468.0	945,208.7
Other dividends received	3.0	1.4
Interest income from subsidiaries	8,213.1	8,550.8
Interest income from others	26,368.6	32,714.3
Interest expenses to subsidiaries	-37,601.0	-29,156.9
Interest expenses to others	-2,423.0	-4,051.1
Other financing income and expenses	-13,107.8	-18,808.0
Total	679,920.8	934,459.1

7. APPROPRIATIONS

EUR 1,000	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Cumulative accelerated depreciation change	843.4	-489.1
Group contributions received	58,400.0	45,940.3
Total	59,243.4	45,451.2

Notes to the statement of financial position

8. INTANGIBLE ASSETS

Jan 1–Dec 31, 2019, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2019				
Acquisition cost	4,503.1	119,294.3	1,866.4	125,663.8
Accumulated amortization and impairment	-3,594.7	-100,014.2	-	-103,608.9
Net book value	908.4	19,280.0	1,866.4	22,054.8
Opening net book value	908.4	19,280.0	1,866.4	22,054.8
Increase	209.7	6,526.4	-	6,736.1
Decrease	-	-2.5	-	-2.5
Amortization	-272.2	-8,381.9	-	-8,654.1
Closing net book value	845.9	17,422.0	1,866.4	20,134.3
Dec 31, 2019				
Acquisition cost	4,712.8	125,818.1	1,866.4	132,397.4
Accumulated amortization and impairment	-3,866.9	-108,396.1	-	-112,263.1
Net book value	845.9	17,422.0	1,866.4	20,134.3

Jan 1–Dec 31, 2018, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2018				
Acquisition cost	4,313.6	112,886.7	1,866.4	119,066.7
Accumulated amortization and impairment	-3,258.6	-91,014.6	-	-94,273.2
Net book value	1,055.0	21,872.1	1,866.4	24,793.4
Opening net book value	1,055.0	21,872.1	1,866.4	24,793.4
Increase	189.5	6,407.6	-	6,597.1
Decrease	-	-	-	-
Amortization	-336.1	-8,999.6	-	-9,335.7
Closing net book value	908.4	19,280.0	1,866.4	22,054.8
Dec 31, 2018				
Acquisition cost	4,503.1	119,294.3	1,866.4	125,663.8
Accumulated amortization and impairment	-3,594.7	-100,014.2	-	-103,608.9
Net book value	908.4	19,280.0	1,866.4	22,054.8

9. PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2019, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2019					
Acquisition cost	182.3	30,314.7	38,054.1	27.8	68,578.9
Accumulated depreciation	-	-8,515.6	-24,432.3	-23.3	-32,971.2
Net book value	182.3	21,799.2	13,621.8	4.5	35,607.8
Opening net book value	182.3	21,799.2	13,621.8	4.5	35,607.8
Increase	-	165.6	5,303.6	216.0	5,685.1
Decrease	-	-4.8	-81.3	-	-86.1
Reclassifications	-	4.5	-	-4.5	-
Depreciation	-	-1,273.3	-5,108.1	-	-6,381.4
Closing net book value	182.3	20,691.1	13,736.0	215.9	34,825.4
Dec 31, 2019					
Acquisition cost	182.3	30,472.6	40,835.7	234.8	71,734.3
Accumulated depreciation	-	-9,781.5	-27,099.7	-27.8	-36,909.0
Net book value	182.3	20,691.1	13,736.0	215.9	34,825.4

Jan 1–Dec 31, 2018, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2018					
Acquisition cost	182.3	29,797.3	34,686.2	23.3	64,689.1
Accumulated depreciation	-	-7,244.5	-20,196.6	-	-27,441.1
Net book value	182.3	22,552.8	14,489.6	23.3	37,248.0
Opening net book value	182.3	22,552.8	14,489.6	23.3	37,248.0
Increase	-	494.1	3,465.7	4.5	3,964.3
Decrease	-	-	-	-	-
Reclassifications	-	23.3	-	-23.3	-
Depreciation	-	-1,271.1	-4,333.3	-	-5,604.4
Closing net book value	182.3	21,799.2	13,621.8	4.5	35,607.8
Dec 31, 2018					
Acquisition cost	182.3	30,314.7	38,054.1	27.8	68,578.9
Accumulated depreciation	-	-8,515.6	-24,432.3	-23.3	-32,971.2
Net book value	182.3	21,799.2	13,621.8	4.5	35,607.8

10. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2019	Dec 31, 2018
Acquisition cost, Jan 1	2,622,075.4	3,101,687.6
Increase	11,703.1	13,472.0
Decrease	-2,600.3	-493,084.2
Net book value, Dec 31	2,631,178.2	2,622,075.4

11. OTHER SHARES

EUR 1,000	Dec 31, 2019	Dec 31, 2018
Acquisition cost, Jan 1	2,463.3	2,458.3
Increase	167.2	7.4
Decrease	-0.7	-2.4
Reclassifications	-167.2	-
Net book value, Dec 31	2,462.6	2,463.3

12. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2019	Dec 31, 2018
Loans receivable from subsidiaries	346,879.0	293,961.2
Loans receivable from externals	-	1,000.0
Long-term receivables	346,879.0	294,961.2

13. SHORT-TERM RECEIVABLES

Receivables from subsidiaries, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Accounts receivable	146,659.7	163,262.2
Loans receivable	879,343.2	790,528.1
Deferred assets	199,820.4	129,060.9
Total	1,225,823.2	1,082,851.2

Receivables from externals, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Accounts receivable	617.0	803.2
Others	16,127.6	19,712.4
Deferred assets	38,580.7	63,438.8
Total	55,325.3	83,954.4
Deferred tax assets	5,355.6	5,320.7
Total short-term receivables	1,286,504.1	1,172,126.4

Deferred assets, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Derivative assets	22,897.2	34,814.0
Deferred income taxes	11,811.9	10,904.4
Unbilled revenue	124,436.7	73,280.0
Group contributions	58,400.0	47,364.3
Others	20,855.3	26,137.2
Total	238,401.1	192,499.7

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, 2019	66,011.6	100,328.1	237,735.4	-203,325.9	2,418,713.2		2,619,462.4
Profit distribution					-851,669.4		-851,669.4
Purchase of own shares							-
Option and share-based compensation	162.9		60,380.3	18,214.9	-18,214.9		60,543.2
Net income for the period						846,898.5	846,898.5
Net book value Dec 31, 2019	66,174.5	100,328.1	298,115.7	-185,111.0	1,548,828.9	846,898.5	2,675,234.6

Non-restricted equity includes the paid-up unrestricted equity reserve, retained earnings deducted by own shares and the profit for the financial year. The non-restricted equity was EUR 2,508,732,086.60 (2,453,122,735.36) 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, 2018	65,897.6	100,328.1	198,898.3	-217,820.5	2,214,415.7		2,361,719.2
Profit distribution					-849,192.5		-849,192.5
Purchase of own shares							-
Option and share-based compensation	114.0		38,837.1	14,494.6	-14,494.6		38,951.1
Net income for the period						1,067,984.6	1,067,984.6
Net book value Dec 31, 2018	66,011.6	100,328.1	237,735.4	-203,325.9	1,350,728.6	1,067,984.6	2,619,462.4

15. PROVISIONS

EUR 1,000	Dec 31, 2019	Dec 31, 2018
Warranty provisions	3,684.1	3,340.6
Total	3,684.1	3,340.6

16. NON-CURRENT LIABILITIES

Liabilities to subsidiaries EUR 1,000	Dec 31, 2019	Dec 31, 2018
Liabilities falling due in 1–5 years	93,180.3	314,767.2
Total	93,180.3	314,767.2

Liabilities to externals, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Liabilities falling due in 1–5 years	160,000.0	160,000.0
Total	160,000.0	160,000.0
Total current liabilities	253,180.3	474,767.2

17. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Accounts payable	31,869.4	43,917.5
Loans	2,107,909.5	1,863,570.7
Accruals	27,487.8	68,475.4
Total	2,167,266.7	1,975,963.6

Liabilities to externals, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Accounts payable	59,500.8	64,222.6
Other liabilities	26,491.7	21,501.1
Accruals	83,531.3	77,042.3
Total	169,523.8	162,766.0
Deferred tax liabilities	804.0	1075.0
Total current liabilities	2,337,594.5	2,139,804.7

Accruals, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Accrued wages, salaries and employment costs	27,744.4	24,587.8
Derivative liabilities	23,317.7	33,143.1
Others	59,957.0	87,786.8
Total	111,019.1	145,517.8

18. COMMITMENTS

EUR 1,000	Dec 31, 2019	Dec 31, 2018
Guarantees		
For subsidiaries	2,710,431.1	2,652,924.0
For others	82.4	89.6
Leasing commitments		
Due next year	6,364.7	6,500.0
Due over a year	8,829.0	10,627.0
Other commitments	2,334.7	2,687.7
Total	2,728,041.9	2,672,828.3

19. DERIVATIVES

Fair values of derivative instruments, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Foreign exchange forward contracts with external parties	-12,222.4	3,599.8
Foreign exchange forward contracts with subsidiaries	11,801.9	-1,928.9
Total	-420.5	1,670.9

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2019	Dec 31, 2018
Foreign exchange forward contracts with external parties	2,169,789.0	2,450,309.3
Foreign exchange forward contracts with subsidiaries	746,230.9	742,174.7
Total	2,916,019.9	3,192,484.0

Derivatives are hedging transactions in line with KONE hedging policy and recognized at fair value. Derivatives are classified as financial assets at fair value through profit or loss. The majority of the foreign exchange forward contracts mature within a year. The fair values of the foreign exchange forward contracts are measured based on the price information derived from the active markets and commonly used valuation methods.

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

Subsidiaries

SUBSIDIARIES, DEC 31, 2019

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

		Shareholding %	
Country/Region	Company	Group	Parent company
Germany	KONE Servicezentrale GmbH	100	
	SK-Fördertechnik GmbH	100	
	WBM Ostfalen-Aufzüge GmbH	100	
Greece	KONE S.A	100	
Hong Kong SAR	Ben Fung Machineries & Engineering Ltd.	100	0.1
	KONE Elevator (HK) Ltd.	100	
	Shan On Engineering Company Limited	100	
Hungary	KONE Felvono Kft	100	100
Iceland	KONE ehf	100	100
India	KONE Elevator India Private Ltd.	100	99.99
Indonesia	PT Kone Indo Elevator	100	1.04
Ireland	Ennis Lifts Limited	100	
	KONE (Ireland) Limited	100	
Israel	KONE LTD	100	100
Italy	Cerqueti Servizi S.r.l.	100	
	Cofam S.r.l.	60	
	Damiani S.r.l	89	
	Elevant Servizi S.r.l.	70	
	Elevatori Bari S.r.l.	89	
	Elevators S.r.l.	60	
	EP Servizi S.r.l.	70	
	Ferrara Ascensori S.r.l.	60	
	Fiore Ascensori S.a.s. di Fiore Donato	100	
	Gianfranceschi Ascensori S.r.l.	100	
	GSB Ascensori S.r.l.	65	
	KONE Industrial S.p.A.	100	100
	KONE S.p.A.	100	26.86
	L.A.M. Lombarda Ascensori Montacarichi S.r.l.	70	
	MA.RI.IVRE S.r.l.	100	
	Mingot S.r.l.	97	
	Nettuno S.r.l.	75	
	Neulift S.p.A.	100	
	Neulift S.r.l.	100	
	Neulift Service Molise S.r.l.	51	
	Neulift Service Triveneto S.r.l.	100	
	Pavignano ascensori S.r.l.	100	
	Rimma S.r.l.	60	
	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	99.80	
Montenegro	KONE d.o.o. Podgorica	100	
Morocco	KONE Elevators and Escalators Sarl AU	100	100
Netherlands	Hissi B.V.	100	
	KONE B.V.	100	
	KONE Deursystemen B.V.	100	

		Shareholding %	
Country/Region	Company	Group	Parent company
Netherlands	Kone Finance Holding B.V.	100	
	Kone Holland B.V.	100	53.22
	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
Oman	KONE Assarain LLC	70	
Philippines	Elevators Philippines Construction, Inc.	40	
	KPI Elevators Inc.	100	
Poland	KONE Sp.z o.o.	100	100
Portugal	Citylift Portugal Lda.	100	
	KONE Portugal Elevadores Lda.	100	1
Qatar	KONE Elevators W.L.L.	49	49
Romania	KONE Ascensorul S.A.	100	99.99
Russia	JSC KONE Lifts	100	100
Saudi-Arabia	KONE Areeco Limited	50	10
Serbia	KONE d.o.o. Beograd-Zemun	100	
Singapore	KONE Pte Ltd.	100	
Slovak Republic	KONE s.r.o.	100	99.91
	KONE SSC s.r.o.	100	100
Slovenia	KONE d.o.o.	100	100
South Africa	KONE Elevators South Africa (Pty) Ltd.	100	
Spain	Ascensores Carillo Alcalá S.L.	100	
	Ascensores Muralla, S.A.	100	
	Ascensores R Casado, S.A.	100	
	Citylift S.A.	80	
	Instalación y Mantenimiento Ascensores MP Baleares, S.L	80	
	KONE Elevadores, S.A.	100	99.99
	Marvi Ascensores S.L	100	
Sweden	KONE AB	100	
	KONE Door AB	100	
	KONE Metro AB	100	
	Motala Hissar AB	100	
	Uppsala Hiss Montage och El AB	100	
Switzerland	KONE (Schweiz) AG	100	100
Taiwan, China	Kang-En Taiwan Elevator Technology Service Co. Ltd	100	
	KONE Elevators Taiwan Co. Ltd.	100	
Thailand	KONE Public Company Limited	84.07	
	Thai Elevators & Escalators Ltd.	74	
	Thai Elevators Holding Ltd.	49	
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100	
Uganda	KONE Uganda Limited	100	
UK	21st Century Lifts Limited	100	
	Acre Lifts Limited	100	
	CrownAcre Lifts Limited	100	
	Express Elevators Ltd.	100	
	KONE (NI) Ltd.	100	
	KONE Pension Trustees Ltd.	100	
	KONE Plc.	100	100
	Lift Maintenance Limited	100	
	Rob Willder Lifts Limited	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	
	Marine Elevators LLC	100	
Vietnam	KONE Vietnam Limited Liability Company	100	

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, 2019 is EUR 2,508,732,086.60 of which the net income for the financial year is EUR 846,898,465.29.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6975 be paid on the outstanding 76,208,712 class A shares and EUR 1.70 on the outstanding 441,633,543 class B shares, resulting in a total amount of proposed dividends of EUR 880,141,311.72. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,628,590,774.88 be retained and carried forward.

The Board proposes that the dividends be payable from March 5, 2020.

Signatures for the Financial statements and Board of Directors' report

Helsinki, January 28, 2020

Antti Herlin

Jussi Herlin

Matti Alahuhta

Iiris Herlin

Ravi Kant

Juhani Kaskeala

Sirpa Pietikäinen

Henrik Ehrnrooth,
President & CEO

The Auditor´s Note

Our auditor´s report has been issued today.

Helsinki, January 28, 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Lauri Kallaskari
Authorised Public Accountant

Jouko Malinen
Authorised Public Accountant

Auditor’s report

To the Annual General Meeting of KONE Oyj

Report on the Audit of the Financial Statements

Opinion

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

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

What we have audited

We have audited the financial statements of KONE Oyj (business identity code 1927400-1) for the year ended 31 December 2019. The financial statements comprise:
- the consolidated statement of financial position, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company’s statement of financial position, statement of income statement, cash flow statement and notes.

Basis for Opinion

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

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

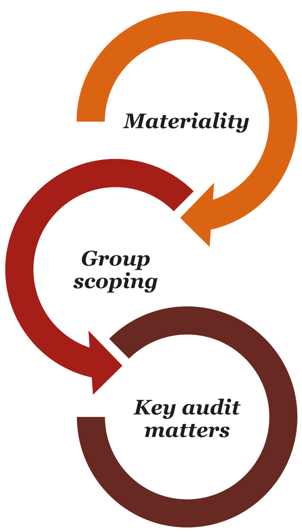
Independence

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

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

Our Audit Approach

Overview



Materiality
- We have applied an overall group materiality of € 59 million.

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

Key audit matters
- Revenue recognition of new equipment and modernisation sales

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	€ 59 million (previous year € 52 million)
How we determined it	Approximately 5% of operating income
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 notes 1 and 2.1 in the consolidated 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 for new equipment and modernisation contracts is primarily recognised by applying the over-time model, whereby the revenue recognised is determined based on the stage of completion of the ongoing projects. The stage of completion is determined by comparing actual costs incurred to date with the total estimated costs of the project. Revenue recognition for a project starts upon delivery of equipment to the customer site. We assessed the risk to mainly relate to the stage of completion of projects, which were open at the end of 2019. Our audit procedures focused on the revenue recognition of new equipment and modernisation projects because of the degree of management judgement included in the project estimates, impacting the amount of revenue recognised and project profitability. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	Our audit of revenue from new equipment and modernisation projects included both testing of controls and substantive audit procedures. Our substantive testing focused on the accounting estimates used by management as follows: • we agreed total project revenues per management's calculations to sales agreements including possible amendments for selected projects • we tested cost estimates for selected 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 at the end of 2018 to actual outcomes in 2019 • we tested the stage of completion of projects open at the end of 2019 by comparing actual costs incurred by that date to the estimated total costs of the projects. We also tested a sample of revenue transactions recorded during the financial year 2019.
We have no key audit matters to report with respect to our audit of the parent company financial statements.	
There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.	

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other Reporting Requirements

Appointment

The auditors who have signed the audit report have been acting as the auditors appointed by the annual general meeting of KONE Oyj as follows: PricewaterhouseCoopers Oy has, without interruption, been acting as the auditor for 63 years since first being appointed on 2 March 1957, when one Authorised Public Accountant (KHT) working for our firm was appointed as the auditor. The other auditor of KONE Oyj has been an auditor working for our firm since 1.1.1988. Authorised Public Accountant (KHT) Jouko Malinen has, without interruption, been acting as the auditor since 26 February 2019 for one year. Our firm and Authorised Public Accountants (KHT) working for our firm have been acting as the auditors of KONE Oyj for the entirety of the duration that it has been a public interest entity.

Other Information

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

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

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

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

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

Helsinki 28 January 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Lauri Kallaskari
Authorised Public Accountant (KHT)

Jouko Malinen
Authorised Public Accountant (KHT)

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 is considered to justify the main shareholder serving as either Chairman or Member of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

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

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

Board of Directors

Duties and responsibilities

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

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

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

Members of the Board

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

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 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.

Risk Management, Internal Control, Related Party Transactions and Internal and External Audit at KONE

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

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 Risk Management function oversees and facilitates the assessment of risks and opportunities related to KONE's business environment, operations, assets and financial performance in order to limit unnecessary or excessive risks. KONE's business units are responsible for identifying, assessing and managing risks that can threaten the achievement of their business objectives as part of the strategic planning and budgeting processes. Key risks are reported to the Risk Management function, which consolidates the risk information to the Executive Board. The Board of Directors reviews the KONE risk portfolio regularly based on the Executive Board's assessment. The ownership of identified risk exposures is assigned to specific business units, and the Risk Management function facilitates and follows-up the execution of the identified actions.

Internal control

The goal of KONE's internal control system is to ensure that the Group's operations are efficient and profitable, risks are managed, eliminated or mitigated to an acceptable level and that the financial and operational reporting is reliable and in compliance with the applicable regulations, policies and practices.

The Board's Audit Committee monitors the efficiency and functioning of the internal control process. The management is responsible for establishing and maintaining adequate internal controls and for monitoring the effectiveness as part of operative management. This is supported by dedicated Internal Controls function, which is responsible for facilitating and coordinating the internal control design, implementation and monitoring across the organization.

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.

The KONE internal control framework is built and based on corporate values, Code of Conduct, a culture of honesty and high ethical standards. Such framework is promoted by dedicated leadership, training programs, positive and disciplined corporate culture and working environment as well as by attracting and promoting dedicated and competent employees.

KONE internal controls are designed to manage, eliminate and mitigate the relevant operational, financial, and compliance risks, and they are linked to KONE's processes and employee job roles. Controls are supported by global and local policies and principles, and control design is continuously maintained by incorporating the changes and development from the business operations and information systems.

KONE business units are responsible for implementing the control framework and for monitoring adherence of globally and locally agreed policies and principles. Global Finance and Control has the oversight responsibility of the overall framework.

Internal control procedures over financial reporting

Correct financial reporting in KONE's internal control framework means that its financial statements give a true and fair view of the financial performance 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.

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.

KONE's monthly business planning and financial reporting process represents a key control procedure within KONE in ensuring the effectiveness and efficiency of operations. This process includes in-depth analyses of deviations between actual performance, budgets, prior year performance and latest forecasts for the business on multiple levels of the organization. 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. KONE's financial statements are based on this management reporting process.

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 new equipment and service businesses as well as for treasury and tax matters. The models have been defined to ensure that the financial control covers the relevant tasks in an efficient and timely manner.

The interpretation, application and monitoring of the compliance of accounting standards is centralized in the Global Finance and Control function, which maintains, under the supervision of the Audit Committee, the KONE Accounting Standards. Reporting and forecasting 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 reporting 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 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.

Internal Audit

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.

Related party transactions

KONE evaluates and monitors related party transactions between the company and its related parties. KONE maintains a list of related parties. KONE's related parties comprise its subsidiaries as well as the Board of Directors, the President and CEO, the Executive Board including any companies controlled or significantly influenced by them. KONE's Board of Directors has approved guidelines on how to recognize, handle, approve, monitor and report related party transactions. According to the guidelines, the Corporate Controlling function follows and monitors related party transactions as part of KONE's normal reporting and control procedures and reports related party transactions to the Audit Committee annually.

KONE's Board of Directors decides on any related party transactions which are not considered normal business activities or differ from market terms. KONE reports relevant and material related party transactions annually in the notes of the consolidated financial statements.

External Audit

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.

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.

Corporate governance in 2019

Annual General Meeting

The Annual General Meeting was held in Helsinki, Finland on February 26, 2019.

Board of Directors and committees

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

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

In 2019, the Board of Directors convened 9 times, with an average attendance rate of 97%. 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 2019, 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 member), Jussi Herlin and Juhani Kaskeala (independent member).

The Nomination and Compensation Committee held 3 meetings in 2019, with an average attendance rate of 100%.

Number of Board and Committee meetings in 2019 and participant attendance:

	Board	Audit Committee	Nomination and Compensation Committee
Antti Herlin	9/9	2/3	3/3
Jussi Herlin	9/9	3/3	3/3
Matti Alahuhta	9/9		3/3
Anne Brunila	8/9	3/3	
Iiris Herlin	9/9		
Ravi Kant	9/9	3/3	
Juhani Kaskeala	9/9		3/3
Sirpa Pietikäinen	8/9		

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2019 confirmed the fees of the members of the Board as follows (annual fees in EUR):

Chairman of the Board	55,000
Vice chairman	45,000
Member	40,000

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 2019, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2019 totaled EUR 401,963. He was also paid EUR 61,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 93.

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 2019 totaled EUR 727,500. 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. In April 2019, on the basis of the incentive plan for year 2018, Henrik Ehrnrooth received a reward of EUR 2,579,150 which consisted of 25,344 KONE class B shares together with a cash payment arising from the receipt of shares. The corresponding reward accrued from 2019 and due for payment in April 2020 is 32,531 KONE class B shares together with a cash payment to cover taxes and similar charges arising from the receipt of shares.

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

Executive Board

KONE's Executive Board consists of President and CEO and 13 Members. Henrik Ehrnrooth serves as President and CEO. The other members of Executive Board are Max Alfthan, Axel Berkling, Klaus Cawén, Hugues Delval, Ilkka Hara, Thomas Hinnerskov, William Johnson, Mikko Korte, Maciej Kranz (from July 1, 2019), Pierre Liautaud, Tomio Pihkala, Susanne Skippari and Larry Wash. During the year, Executive Board members also included Heikki Leppänen (until 30 June, 2019).

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, which can relate to, for example, strategy execution, safety or quality. 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 2019, on the basis of the incentive plan, the members of the Executive Board received a reward 131,794 KONE class B shares together with a cash payment equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding reward accrued from 2019 and due for payment in April 2020 is 194,169 KONE class B shares together with a cash payment 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 Jouko Malinen, Authorized Public Accountant, and PricewaterhouseCoopers Oy, Authorized Public Accountants. The fees paid to companies in the PricewaterhouseCoopers chain for 2019 were EUR 3.8 million for auditing and EUR 2.6 million for other consulting services.

Insiders

The holdings of the Board of Directors and Management of KONE on December 31, 2019 and the changes occurring in them during the financial year are presented in the table below.

Related party transactions

Except for management remuneration, there have not been any material transactions between KONE and its members of the Board of Directors, the President & CEO, the Executive Board including any companies controlled or significantly influenced by them.

More information

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

More information

Board of Directors, page 94
Executive Board, page 95

Shareholdings of KONE Board and Management on Dec 31, 2019 and changes in shareholding during the period Jan 1–Dec 31, 2019

	Class A shares	Change	Class B shares	Change
Alahuhta Matti			753,943	+337
Alfthan Max			58,875	+10,138
Berkling Axel			48,911	+10,138
Brunila Anne			2,983	+337
Cawén Klaus			355,299	+10,138
Delval Hugues			49,186	+10,138
Ehrnrooth Henrik			338,741	+25,344
Hara Ilkka			35,502	+10,138
Herlin Antti	70,561,608	-	46,936,478	+100,464
Herlin Iiris			134,990	+337
Herlin Jussi			109,277	+380
Hinnerskov Thomas			42,166	+10,138
Johnson William			126,109	+10,138
Kant Ravi			2,143	+337
Kaskeala Juhani			2,967	+337
Korte Mikko			55,345	+10,138
Liautaud Pierre			69,283	-4,862
Pietikäinen Sirpa			8,143	+337
Pihkala Tomio			93,595	+10,138
Skippari Susanne			26,669	+10,138
Wash Larry			69,035	+10,138

Heikki Leppänen owned 206,099 KONE class B shares on June 30, 2019. 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, Chairman of the Board of Holding Manutas Oy, Chairman of the Board of the Tiina and Antti Herlin Foundation, Vice Chairman of the Board of Sanoma Corporation and Member of the Board of Caverion Corporation.

Jussi Herlin

Vice Chairman of the Board
b. 1984, M.Sc. (Econ)
Member of the Board since 2012.
Strategy Development Manager, served at 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 Holding Manutas Oy, Member of the Board of the Tiina and Antti Herlin Foundation, Member of the Board of Kaskas Media Oy and Member of the Board of Technology Industries of Finland.

Matti Alahuhta

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

Anne Brunila

b. 1957, D.Sc. (Econ.), D.Sc. (Econ.) h.c.
Member of the Board since 2009.
Previously served as Professor of Practice, Hanken School of Economics 2014–2018, 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 Chair of the Board of the Finnish Film Foundation and Member of the Board of Sanoma Corporation.

Iiris Herlin

b. 1989, M.Soc.Sc.
Member of the Board since 2015. Deputy Member of the Board during the years 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 Member of the Board of Hawkins Cookers Ltd, Member of the Advisory Board of Accenture India and Chairman of the Advisory Board of Akhandjyoti Eye Hospital.

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, 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 Chair of GLOBE EU, Chair of the Board of the Martha Organisation, Vice Chair of the Board of Lammi Savings Bank, Chair of the KVS Foundation Advisory Board and Member of the Board of Alzheimer Europe.

More information

Shareholdings of KONE Corporation's public insiders are available on page 93.

More information

Corporate governance, page 90.

Executive Board

Henrik Ehrnrooth

President and CEO

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

Max Alfthan

Marketing and Communications

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

Axel Berkling

Asia-Pacific

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

Klaus Cawén

M&A and Strategic Alliances, Legal Affairs

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

Hugues Delval

Service Business

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

Ilkka Hara

CFO

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

Thomas Hinnerskov

Central and North Europe

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

William B. Johnson

Greater China

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

Mikko Korte

Operations Development

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

Maciej Kranz

Chief Technology Officer

b. 1964. MBA. Business Administration
Member of the Executive Board since July, 2019. Employed by KONE Corporation since July, 2019.
Previously served at Cisco Systems as Vice President and General Manager of Corporate Strategic Innovation Group (2013–2019), General Manager of the Connected Industries Group (2012–2013), Vice President of Borderless Networks (2009–2011), Vice President of Wireless Networking (2006–2009) and Vice President of Ethernet Switching (1999–2006).
Current key positions of trust: member of the Board of IoTecha Corporation.

Pierre Liautaud

South Europe, Middle East and Africa

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

Tomio Pihkala

New Equipment Business

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, Chief Technology Officer 2015–2019, Operations Development 2013–2015, Vice President, Technology Finland 2011–2013, as Director, Service Equipment Business, in KONE China 2009–2010, as Director, Product Strategy and Marketing, in KONE China 2007–2008. Current key positions of trust: Member of the Board of Toshiba Elevator and Building Systems Corporation, and Member of the Board of Vexve Oy.

Susanne Skippari

Human Resources

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

Larry Wash

Americas

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

In 2019, Heikki Leppänen served as Executive Vice President responsible for New Equipment Business until June 30.

Information for shareholders

Annual General Meeting

KONE Corporation's Annual General Meeting will be held on February 25, 2020 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 13, 2020, and must register for attending the meeting over the internet (www.kone.com/en/investors/annual-general-meetings/), by fax (+358 (0)204 75 4523), by telephone (+358 (0)20 770 6873) or by mail (KONE Corporation, Share Register, P.O. Box 7, FI-02151 Espoo, Finland) no later than on February 20, 2020, by 3:00 p.m. EET. The registration must be received by the end of the registration period. Any proxies must be submitted at the same time.

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

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that for the financial year 2019 a dividend of EUR 1.6975 be paid for each class A share and a dividend of EUR 1.70 be paid for each class B share. All shares existing on the dividend record date, February 27, 2020 are entitled to the dividend. The dividend will be paid on March 5, 2020.

More information

The Board of Directors' proposal for the distribution of profit, page 84
Shares and shareholders, page 23

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 2015 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2017. The subscription period for the KONE 2015 option rights expired on April 30, 2019.

Investor Relations

Investor Relations policy

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

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

Silent period

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

Contact information

Ms Sanna Kaje
Vice President, Investor Relations
Tel. +358 (0)204 75 4705
investors@kone.com

KONE's financial reporting schedule in 2020

Financial Statement Bulletin and Financial Statements for 2019	Tuesday, January 28, 2020
Printed Financial Statements for 2019	Week 8–9 February, 2020
Interim report for January 1–March 31, 2020	Wednesday, April 22, 2020
Half-year Financial Report for January 1–June 30, 2020	Friday, July 17, 2020
Interim report for January 1–September 30, 2020	Thursday, October 22, 2020

In the second quarter of 2020, KONE will publish a separate Sustainability Report for the year 2019.

Design Avidly, printing Painotalo Plus Digital, Lahti

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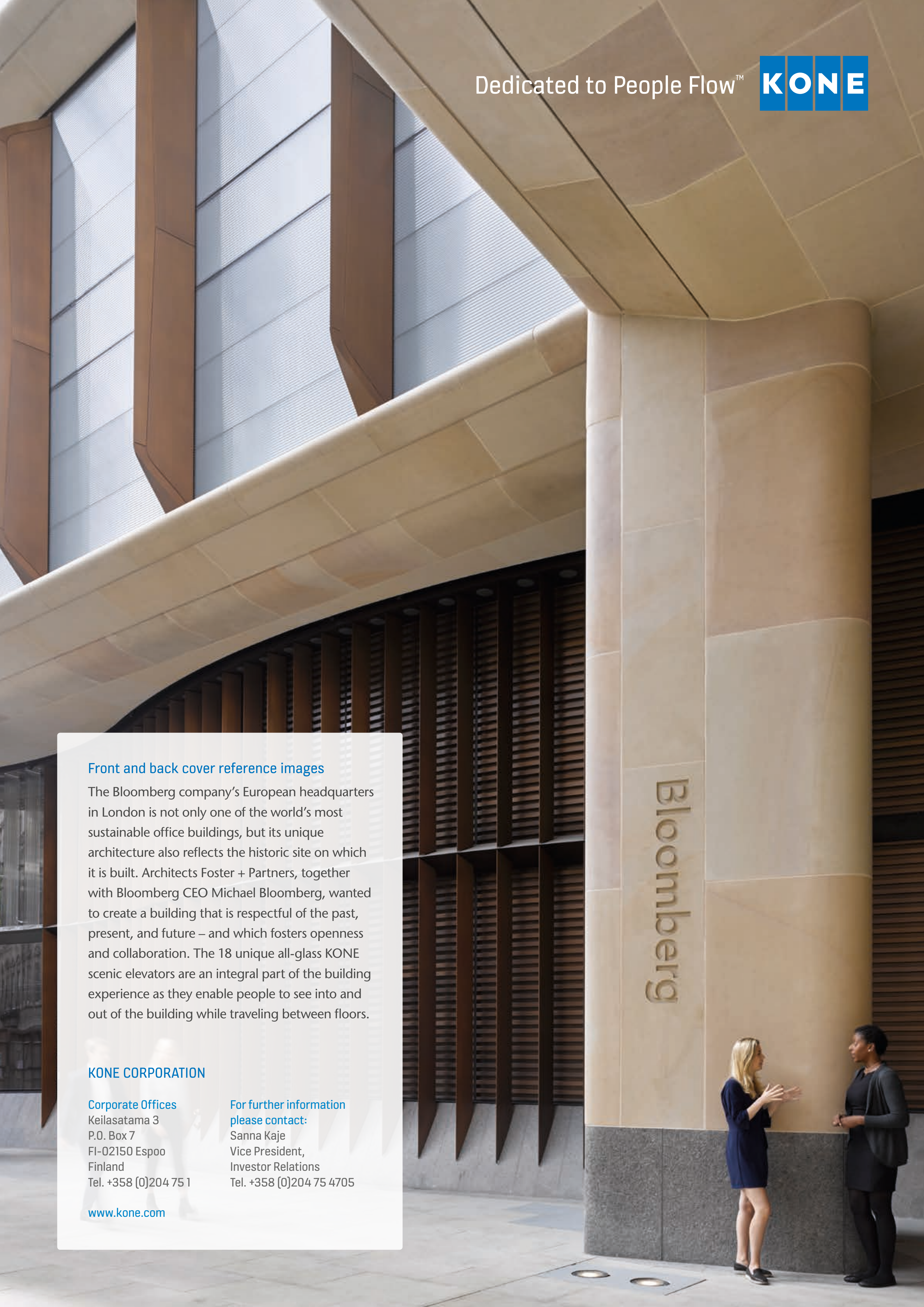

Front and back cover reference images

The Bloomberg company's European headquarters in London is not only one of the world's most sustainable office buildings, but its unique architecture also reflects the historic site on which it is built. Architects Foster + Partners, together with Bloomberg CEO Michael Bloomberg, wanted to create a building that is respectful of the past, present, and future – and which fosters openness and collaboration. The 18 unique all-glass KONE scenic elevators are an integral part of the building experience as they enable people to see into and out of the building while traveling between floors.

KONE CORPORATION

Corporate Offices
Keilasatama 3
P.O. Box 7
FI-02150 Espoo
Finland
Tel. +358 (0)204 75 1

For further information please contact:
Sanna Kaje
Vice President,
Investor Relations
Tel. +358 (0)204 75 4705

www.kone.com