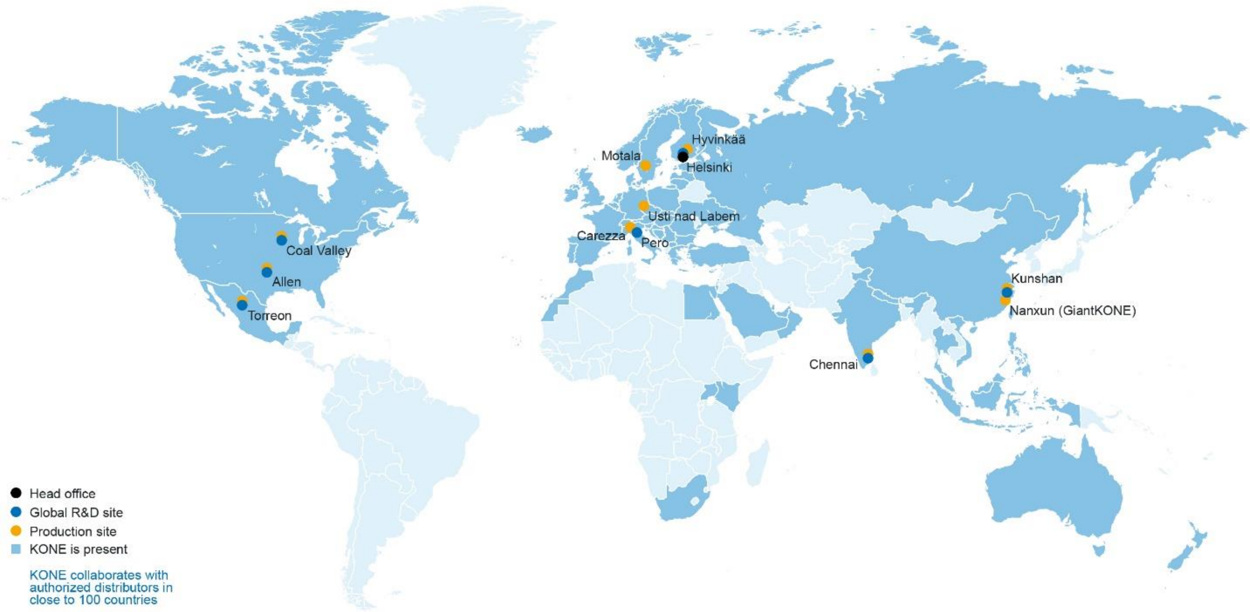
ANNUAL REVIEW

KONE 2020

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 **9,939** in 2020

>60,000 employees

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

~550,000 customers

>1,400,000 equipment in KONE's maintenance base

Operations in over **60** countries

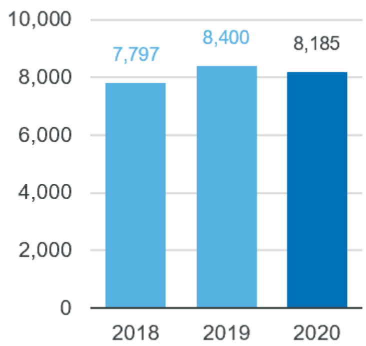
Authorized distributors and agents in close to 100 countries

KEY FIGURES

		1–12/2020	1–12/2019	Change	Change at comparable exchange rates
Orders received	MEUR	8,185.1	8,399.8	-2.6%	-0.6%
Order book	MEUR	7,728.8	8,051.5	-4.0%	0.7%
Sales	MEUR	9,938.5	9,981.8	-0.4%	1.4%
Operating income	MEUR	1,212.9	1,192.5	1.7%	
Operating income margin	%	12.2	11.9		
Adjusted EBIT*	MEUR	1,250.5	1,237.4	1.1%	
Adjusted EBIT margin*	%	12.6	12.4		
Income before tax	MEUR	1,224.2	1,217.5	0.6%	
Net income	MEUR	947.3	938.6	0.9%	
Basic earnings per share	EUR	1.81	1.80	0.6%	
Cash flow from operations (before financing items and taxes)	MEUR	1,907.5	1,549.6		
Interest-bearing net debt	MEUR	-1,953.8	-1,552.9		
Equity ratio	%	45.5	46.5		
Return on equity	%	29.7	30.1		
Net working capital (including financing items and taxes)	MEUR	-1,160.1	-856.0		
Gearing	%	-61.1	-48.6		

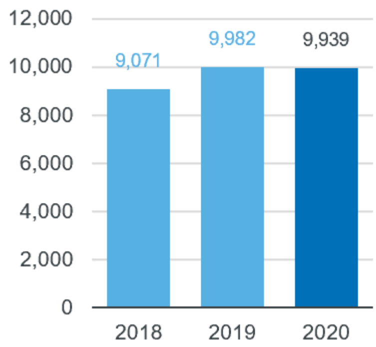
* In September 2017, KONE introduced a new alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. Restructuring costs related to the Accelerate program are excluded from the calculation of the adjusted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

Orders received*, MEUR

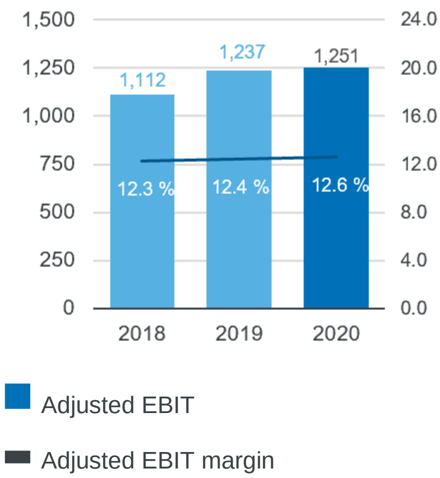


*) Orders received do not include maintenance contracts

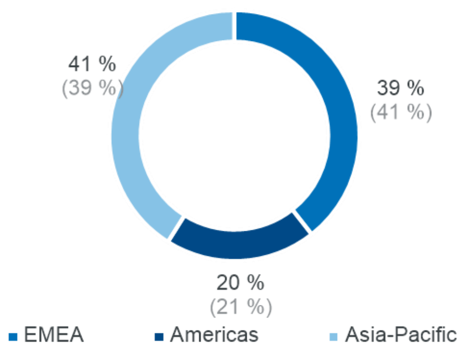
Sales, MEUR



Adjusted EBIT, MEUR and adjusted EBIT margin, %

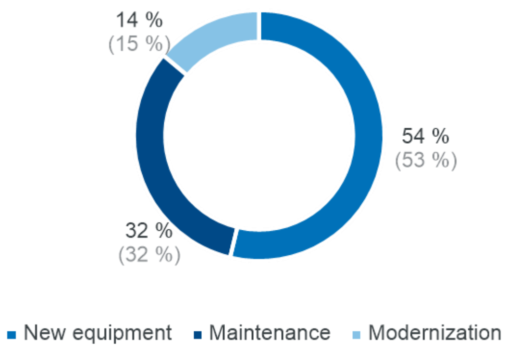


Sales by region



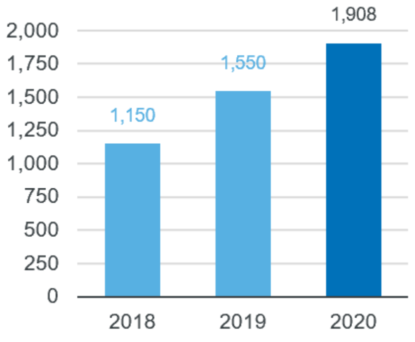
1-12/2020 (1-12/2019)

Sales by business



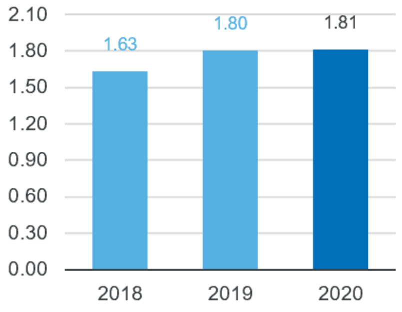
1-12/2020 (1-12/2019)

Cash flow*, MEUR

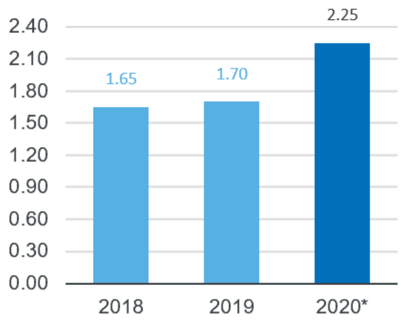


*) Cash flow from operations before financing items and taxes

Earnings per share, EUR



Dividend per class B share, EUR



*) Board's proposal. Includes proposed extraordinary dividend EUR 0.50 per class B share.

KONE'S STRATEGY

At KONE, our mission is to improve the flow of urban life. We understand urbanization and help our customers make the best of the world's cities, buildings and public spaces. Our vision is to create the best People Flow experience. We believe our vision can be best achieved by working together with our customers and partners in every step of the process.

KONE's strategic phase 2021–2024 is called 'Sustainable success with customers'. During the four-year strategy period, KONE will focus on increasing the value it creates for customers with new intelligent solutions and will embed sustainability even deeper across all of its operations.

Urbanization, sustainability and technology are three megatrends which continue to be key drivers in the development of the elevator and escalator industry. Against this backdrop, 'Sustainable success with customers' will address the needs of a digitally enabled world, where the ways people live, work and commute continue to change. KONE will focus on developing smart and sustainable solutions that adapt to future needs, together with its customers and partners. By doing this, KONE will enable customers' facilities to function more effectively and to deliver an improved user experience.

KONE MISSION AND VISION

KONE's mission is to improve the flow of urban life. This means understanding urbanization and helping customers make cities better and more sustainable places to live.

KONE's vision is to create the best People Flow experience. The best experience can be created by working together with customers and partners in every step of the process, from early engagement to upgrading equipment.

CLEAR FOCUS AREAS FOR SUCCESS

In order to bring clear direction to our strategy, KONE has defined four **Where to Win** areas, representing the biggest opportunities for profitable growth and differentiation:

- **Core products and services,** matching customer specific needs for a seamless experience through connectivity and adaptability. All products and services will be optimized for cost efficiency and sustainability.
- **New solutions for customer value,** which are developed and integrated with core products and services to create value for customers in new ways.
- **Smart and sustainable cities**: becoming the preferred partner for smart and sustainable city development.
- **Service business in China:** becoming a clear market leader in this very fast-growing and fragmented market.

In addition, the following **Ways to Win** are KONE-wide transformation and development initiatives which will enable us to create 'Sustainable success with customers':

- **Empowered people:** having the most capable and engaged team of professionals who succeed in a changing world and are able to develop with continuous learning opportunities.
- **Marketing and sales renewal:** creating a seamless, unified customer experience across multiple channels.
- **Lean KONE:** leveraging Lean skills, practices and leadership to eliminate waste and ensure continuous improvement.
- **Digital + physical enterprise:** having future-proof technology infrastructure, building the capabilities to use data and analytics and further developing the efficiency and resilience of our supply chain.

KONE'S STRATEGIC AND FINANCIAL TARGETS

KONE measures progress against five strategic targets:

- Great place to work
- Most loyal customers
- Faster than market growth
- Best financial development
- Leader in sustainability

The company's long-term financial targets are:

- Growth: Faster than the market
- Profitability: To reach an EBIT margin of 16%
- Cash flow: Improved working capital rotation


Sustainable success with customers
MEGATRENDS
URBANIZATION
SUSTAINABILITY
TECHNOLOGY
Dedicated to People Flow™ KONE
STRATEGIC TARGETS
Great place to work
Most loyal customers
Faster than market growth
Best financial development
Leader in sustainability
WHERE TO WIN
We will lead the way in:
Core products and services
New solutions for customer value
Smart and sustainable cities
Service business in China
WAYS TO WIN
We will ensure our success through:
Empowered people
Marketing and sales renewal
KONE WAY
Digital + physical enterprise
Lean KONE
CULTURE
SAFETY
QUALITY
SUSTAINABILITY
CARE
CUSTOMER
COLLABORATION
COURAGE
MISSION
OUR MISSION IS TO IMPROVE THE FLOW OF URBAN LIFE
VISION
WE CREATE THE BEST PEOPLE FLOW™ EXPERIENCE
market

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, intelligent 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 of 147 different nationalities, ca. half of employees in the field
- Personnel voluntary turnover rate 5.5%
- Wide development opportunities on all organizational levels around the world
- >6,000 courses in 40 different languages
- Management systems and certificates (e.g. ISO 14001, ISO 9001, OHSAS 18001)
- Governance structures, ethical business practices and compliance, 96% of employees completed our Code of Conduct training

INNOVATIONS, PROCESSES AND SYSTEMS

- >5,000 granted or pending patents globally
- R&D spend 1.8% of sales, 8 global R&D units
- ~1,400 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 institutes
- Distributors and agents important part of go-to-market

MANUFACTURING AND DELIVERY CHAIN

- 12 manufacturing units in 8 countries
- ~2,000 component suppliers and thousands of installation suppliers
- Logistics network
- Supplier Sustainability Maturity Assessment

FINANCIAL

- Equity EUR 3.2 billion
- Interest-bearing net debt EUR -2 billion
- Net working capital EUR -1.2 billion
- Capital expenditure 2.0% of sales

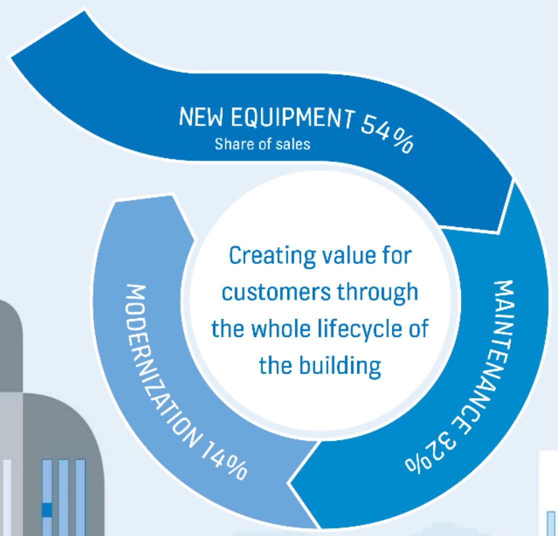
NATURAL RESOURCES*

- Materials used 1,514,500 tonnes
- Heating and vehicle fleet fuels 428,700 MWh
- Electricity and district heat 85,300 MWh
- Water consumption 325,600 m3

*2019 figures. 2020 figures will be published in the 2020 Sustainability Report in Q2 2021.

BUSINESS MODEL

SUSTAINABLE SUCCESS WITH CUSTOMERS



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. 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. KONE sees significant growth opportunities also in creating value for customers in new ways with the help of new technologies and connectivity.

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 engaged 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 1.4 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

- ~180,000 new elevators and escalators ordered in 2020
- Maintenance and modernization services, >1.4 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 327,100 tCO_2e
- Waste 42,900 tonnes
- Wastewater effluents 8 tonnes

MOVING OVER 1 BILLION PEOPLE EVERY DAY

IMPACT

SHAREHOLDERS

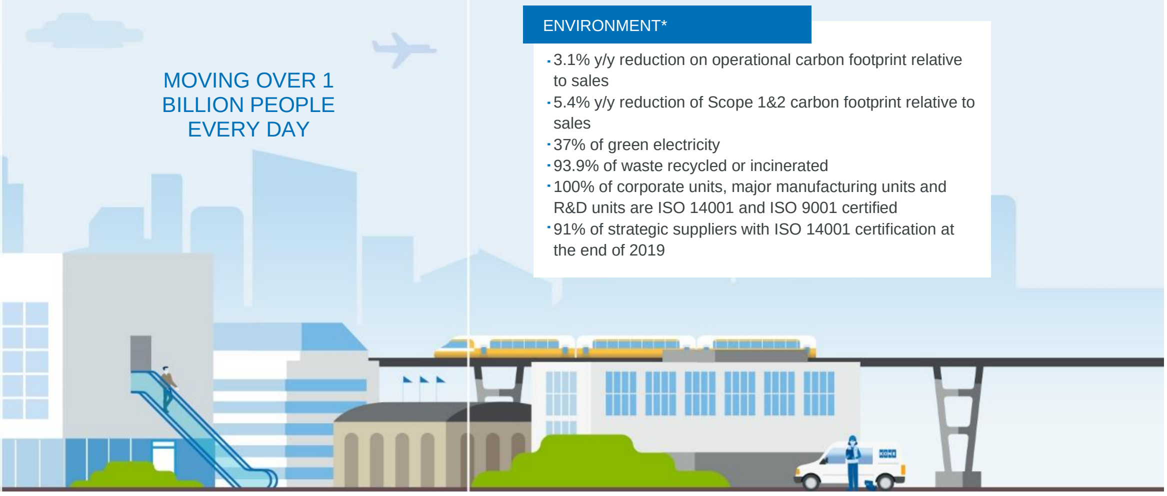
- Operating income EUR 1,213 million
- Dividend proposal EUR 2.25 per class B share (incl. extraordinary dividend), total amount of proposed dividends MEUR 1,166
- Return on equity 29.7%

SOCIETY

- Recognized for our contribution to better societies and urban environment by several external parties, e.g. CDP, Forbes and The Financial Times' Diversity leaders report
- Wages, salaries, other employment expenses and pensions EUR 3.0 billion
- Industrial Injury Frequency Rate (IIFR) 1.2
- 83% of external hires into leadership positions from local communities
- 19% of director level positions held by women
- Increased amount of skilled workforce
- Direct purchases EUR 4.0 billion
- Income taxes EUR 276.9 million with effective tax rate 22.6%

ENVIRONMENT*

- 3.1% y/y reduction on operational carbon footprint relative to sales
- 5.4% y/y reduction of Scope 1&2 carbon footprint relative to sales
- 37% of green electricity
- 93.9% of waste recycled or incinerated
- 100% of corporate units, major manufacturing units and R&D units are ISO 14001 and ISO 9001 certified
- 91% of strategic suppliers with ISO 14001 certification at the end of 2019



KONE's operating environment

Operating environment by region

	New equipment market in units 1–12/2020	Maintenance market in units 1–12/2020	Modernization market 1–12/2020
Total market	**Stable**	**+**	**Stable**
EMEA	–	+	– –
Central and North Europe	Stable	+	– –
South Europe	– –	Stable	– –
Middle East	– –	+	–
North America	– – –	+	+
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%)

In 2020, the global elevator and escalator market was impacted by the COVID-19 pandemic. Governments across the world were taking significant measures to contain the outbreak by restricting the movement of people. In many places, this resulted in actions such as closing down construction sites and limiting manufacturing operations especially in the first half of the year. In most countries, maintenance was deemed an essential service which was allowed with some limitations even during lockdowns. In the beginning of the year, COVID-19 had the biggest impacts on the market in China, whereas from the second quarter onwards China was driving the growth and other markets were more impacted.

In the **new equipment market**, demand decreased in most parts of the world. **In Asia-Pacific**, the new equipment volumes grew slightly as a result of high level of activity **in China** after the challenging first quarter. **In the rest of Asia-Pacific**, the new equipment markets declined significantly. **In the EMEA region**, the new equipment market declined slightly. The new equipment market in Central and North Europe was stable, whereas in South Europe and in the Middle East, the market declined clearly. **In North America**, the new equipment market declined significantly.

Global maintenance market was resilient during 2020. The increased uncertainty had a bigger impact on the **modernization markets** due to delayed decision-making.

Intensifying competition affected **pricing environment** adversely in January–December.

Orders received and order book

Orders received

MEUR	2020	2019	Change	Change at comparable exchange rates
Orders received	8,185.1	8,399.8	-2.6%	-0.6%
Order book	7,728.8	8,051.5	-4.0%	0.7%

Orders received development by region*

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

– – – 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 declined by 2.6% as compared to January–December 2019 and totaled EUR 8,185.1 million. At comparable exchange rates, KONE's orders received declined by 0.6%.

At comparable rates, new equipment orders received declined slightly with slight growth in the volume business and significant decline in major projects. In modernization, orders received grew slightly with slight decline development in the volume business and significant growth in major projects.

The relative margin of orders received improved slightly compared to the comparison period. This was a result of solid pricing supported by new product and service launches and easing cost pressures.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 180,000 units (2019: 173,000).

Orders received in the EMEA region declined clearly at comparable exchange rates as compared to January–December 2019. New equipment orders declined clearly and modernization orders declined clearly.

In the Americas region, orders received declined clearly at comparable rates as compared to January–December 2019. New equipment orders declined significantly and modernization orders grew significantly.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2019. In China, new equipment orders grew significantly in units and grew significantly in monetary value. Like-for-like prices were slightly higher than in the comparison period and mix contributed also positively. In the rest of Asia-Pacific, new equipment orders received declined significantly. Modernization orders received grew significantly in China and declined clearly in the rest of Asia-Pacific.

The order book declined slightly compared to the end of December 2019 but stood at a strong level of EUR 7,728.8 million at the end of the reporting period.

The order book margin remained at a healthy level. Customer cancellations remained at a low level.

Terminology: Slight <5%, clear 5–10%, significant >10%

Sales

Sales by region

MEUR	2020	2019	Change	Change at comparable exchange rates
EMEA	3,916.2	4,045.4	-3.2%	-2.2%
Americas	1,939.5	2,046.7	-5.2%	-2.7%
Asia-Pacific	4,082.8	3,889.7	5.0%	7.5%
Total sales	9,938.5	9,981.8	-0.4%	1.4%

Sales by business

MEUR	2020	2019	Change	Change at comparable exchange rates
New equipment sales	5,340.2	5,318.8	0.4%	2.7%
Service sales	4,598.4	4,663.0	-1.4%	0.1%
Maintenance	3,215.6	3,192.0	0.7%	2.2%
Modernization	1,382.8	1,471.0	-6.0%	-4.5%
Total sales	9,938.5	9,981.8	-0.4%	1.4%

Sales development by region and by business*

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

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

KONE's sales declined by 0.4% as compared to January–December 2019, and totaled EUR 9,938.5 million. At comparable exchange rates, KONE's sales grew by 1.4%. The sales consolidated from the companies acquired in 2020 had only a minor impact on KONE's sales for the financial period.

Sales were impacted by the COVID-19 related restrictions in many markets.

New equipment sales accounted for EUR 5,340.2 million and grew by 0.4% over the comparison period. At comparable exchange rates, new equipment sales grew by 2.7%. The growth in China offset the decline in activity in many other areas.

Service (maintenance and modernization) sales declined by 1.4%, and totaled EUR 4,598.4 million. At comparable exchange rates, service sales grew by 0.1%. Maintenance sales grew by 0.7% (2.2% at comparable exchange rates) and totaled EUR 3,215.6 million with resilient contract sales but lower discretionary spend by customers. Modernization sales were more impacted by the restrictions and declined by 6.0% (declined by 4.5% at comparable exchange rates) totaling EUR 1,382.8 million.

KONE's elevator and escalator maintenance base continued to grow and was over 1.4 million units at the end of 2020 (over 1.3 million units at the end of 2019).

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 2020, 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%), The United States (>15%), Germany (6%) and France (5%).

Sales in the EMEA region declined by 3.2% and totaled 3,916.2 million. At comparable exchange rates, sales declined by 2.2%. New equipment sales declined clearly, maintenance sales grew slightly and modernization sales declined clearly in the region.

In the Americas, sales declined by 5.2% and totaled EUR 1,939.5 million. At comparable exchange rates, sales declined by 2.7%. New equipment sales declined slightly, maintenance sales declined slightly and modernization sales declined clearly in the region.

In Asia-Pacific, sales grew by 5.0% and totaled EUR 4,082.8 million. At comparable exchange rates, sales grew by 7.5%. New equipment sales grew clearly, maintenance sales grew clearly and modernization sales grew clearly in the region.

Terminology: Slight <5%, clear 5–10%, significant >10%

Financial result

Financial result

	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Operating income, MEUR	1,212.9	1,192.5
Operating income margin, %	12.2	11.9
Adjusted EBIT, MEUR	1,250.5	1,237.4
Adjusted EBIT margin, %	12.6	12.4
Income before taxes, MEUR	1,224.2	1,217.5
Net income, MEUR	947.3	938.6
Basic earnings per share, EUR	1.81	1.80

KONE's operating income (EBIT) was EUR 1,212.9 million or 12.2% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,250.5 million or 12.6% of sales.

Going into this year we had an overall positive outlook for our margins. Despite the uncertain environment, profitability improved. This was a result of earlier improved margin of orders and lower discretionary spend offsetting the negative impacts of the COVID-19 pandemic.

Translation exchange rates had a negative impact of 18.4 million on the operating income. Restructuring costs related to the Accelerate program were EUR 37.7 million and savings from the program were over EUR 50 million.

KONE's income before taxes was EUR 1,224.2 million. Taxes totaled EUR 276.9 (278.9) million. This represents an effective tax rate of 22.6% for the full financial year. Net income for the period was EUR 947.3 million.

Basic earnings per share was EUR 1.81.

Cash flow and financial position

Cash flow and financial position

	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Cash flow from operations (before financing items and taxes), MEUR	1,907.5	1,549.6
Net working capital (including financing items and taxes), MEUR	-1,160.1	-856.0
Interest-bearing net debt, MEUR	-1,953.8	-1,552.9
Gearing, %	-61.1	-48.6
Equity ratio, %	45.5	46.5
Equity per share, EUR	6.12	6.13

KONE's financial position was very strong at the end of December 2020.

Cash flow from operations (before financing items and taxes) during January–December 2020 was exceptionally strong at EUR 1,907.5 million.

Net working capital (including financing items and taxes) was EUR -1,160.1 million at the end of December 2020. The improvement was driven by a positive development in several net working capital items.

Interest-bearing net debt was EUR -1,953.8 million at the end of December 2020. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,629.4 (Dec 31, 2019: 2,252.0) million at the end of the reporting period. Interest-bearing liabilities were EUR 695.8 (Dec 31, 2019: 721.6) million, including a pension liability of EUR 187.2 (Dec 31, 2019: 172.9) million and leasing liability of EUR 342.9 (Dec 31, 2019: 371.0) million. Additionally, KONE had an asset on employee benefits, EUR 19.2 (Dec 31, 2019: 21.7) million. Gearing was -61.1% and equity ratio was 45.5% at the end of December 2020. Equity per share was EUR 6.12.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
On fixed assets	87.5	98.0
On leasing agreements	113.4	102.5
On acquisitions	29.0	36.0
Total	230.0	236.5

KONE's capital expenditure and acquisitions totaled EUR 230.0 million in January–December 2020. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Acquisitions totaled EUR 29.0 million in January–December 2020. KONE completed small acquisitions of maintenance businesses in the EMEA region.

In the Financial Statement Bulletin 2019, KONE mentioned it had been evaluating acquisition opportunities related to the thyssenkrupp Elevator Technology business. On February 17, 2020 KONE published a stock exchange release stating it has withdrawn from these discussions with thyssenkrupp.

Research and development

R&D expenditure

MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
R&D expenditure	179.6	170.9
As percentage of sales, %	1.8	1.7

KONE's vision is to create the Best People Flow® experience. 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 179.6 million, representing 1.8% of sales in January–December 2020. R&D expenditures include the development of new product and service concepts as well as further development of existing solutions and services. At KONE, we find it especially important to continue to invest in research and development in challenging market conditions and have thus accelerated some development programs during 2020.

During January–December 2020, KONE launched new solutions as well as updates to its offering.

In the beginning of 2020, KONE started the launch of a new elevator series, KONE DX Class elevators, from Europe and the roll-out continued to Middle East, Russia, Turkey and countries in the Asia-Pacific region during the year. This new elevator series featuring built-in connectivity and an enhanced user experience was introduced in the end of 2019 and will replace the current KONE elevator range across areas. In the second quarter, KONE DX Class elevators won four awards in the renowned Red Dot Award: Product Design 2020 competition. The KONE DX Class elevator interior collection and the KONE DX Class digital experience elevator concept were awarded for their outstanding design features, innovativeness and smart elements. During the year, the KONE DX Class elevators were made available also for modernization in many markets. This enables customers to access the digital services and applications offered by KONE and KONE's ecosystem partners by modernizing their equipment to DX Class.

In the second quarter, KONE introduced a range of people flow solutions to help make buildings and cities safer and healthier places to live, work and commute. These solutions address the challenges of adapting to a new way of life in the face of the current pandemic. The KONE People Flow Planning and Consulting service has been tailored to better support planning a safe return to offices and other buildings. By using data, simulation tools, and expertise from KONE's interior architects and data scientists, customers can quickly see how to reduce crowding and bottlenecks and enable people to move around safely in buildings. In addition, other new solutions introduced improve air quality in elevators, help disinfect escalator handrails and reduce the need to touch surfaces.

In the third quarter, KONE launched KONE MonoSpace® 300 elevator in the Americas. KONE MonoSpace 300 is a cost-efficient machine room-less elevator offering better ride comfort and improved energy-efficiency for a market segment previously dominated by hydraulic elevators.

In the fourth quarter, KONE introduced KONE Office Flow™ for offices in high-rise buildings in selected key markets in North America, Europe, Middle East and Asia Pacific. KONE Office Flow™ is a modular, connected people flow solution delivering personalized access and enhanced user experiences in smart, adaptive workplaces. With touchless access and predictive elevator calling it integrates with mobile devices, removing the need for key cards and tags. It features a newly designed destination control system, visitor management and guidance to reduce waiting and journey times.

Non-financial information

Sustainability is a source of innovation and a competitive advantage for KONE. We want to be the most trusted partner to our customers throughout the building life cycle and help them achieve their sustainability objectives, creating better urban environments. At KONE, sustainability covers our offering, operations and culture and encompasses the environmental aspect, diversity and inclusion, safety, quality and ethics and compliance. Our strategy and values reflect our commitment to sustainable practices.

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 and in 2020, set Science Based Targets for its operations, offering and the value chain, showing climate leadership and commitment to limiting global warming to 1.5 degrees Celsius in accordance with the Paris Climate Agreement. KONE has started applying the Task Force on Climate-related Financial Disclosure (TCFD) reporting principles in order to report about climate-related financial risks and opportunities. KONE's initial TCFD reporting will take place within this Non-Financial information section and in other parts of this report. The table on in this text maps the pages of the report where content according to TCFD requirements can be found.

KONE's strategy and business model are described on pages 4–7 of KONE's Annual Review 2020. Risks and risk management related to matters below are described in the risk section under Risks and risk management related to the reporting of non-financial information.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2019 in April 2020. KONE's Sustainability Report for 2020 will be published during Q2 2021 according to GRI Standards.

KONE's Sustainability Report 2020

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

Management and Board of Directors' oversight of sustainability

KONE has integrated the management of non-financial matters and sustainability into operations throughout the organization. KONE's management and supervisors work to ensure that employees are familiar with and comply with the legislation, regulations, and internal operating guidelines of their respective areas of responsibility, and that KONE's products and services are in full compliance with all codes and standards applicable to them.

Ultimately, sustainability and its management are the responsibilities of KONE's Executive Board and our President and CEO. KONE's Executive Board discusses sustainability topics, including e.g. environmental, social and compliance topics, in its meetings regularly. In 2020, climate related topics alone were discussed 3-4 times. Furthermore, KONE has established forums where sustainability and climate-related topics are regularly discussed: The Quality and Environmental Board and the Solution Board, both chaired by KONE President and CEO and with Executive Board level members. In 2020, KONE also established a Sustainability Board, a steering committee dedicated to sustainability topics, climate and environment among the priority areas. Several members of KONE's Executive Board are members of the Sustainability Board, chaired by KONE's EVP of Operations Development.

KONE's Board of Directors is responsible for overseeing and supervising the implementation of KONE's strategy, including sustainability topics and climate change issues. The Board also reviews risks and risk management of which environmental, social and anti-corruption matters are a part of.

During 2020, sustainability was on the agenda of Executive Board and Board of Directors meetings as part of the preparation of KONE's new strategy. In addition, one focus area during the year was Science-Based Targets, which KONE set in September 2020 (see more information in Environmental matters).

External recognitions

KONE has received external recognition for efforts to conduct business in a sustainable way. For example, in early 2020, KONE was ranked as the 32nd 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 eighth consecutive year that KONE has achieved a leadership score of A or A- in the Climate Change rating, which describes long-term commitment to environmental work and sustainability. KONE was also awarded the best A grade in CDP's 2019 Supplier Engagement Rating, demonstrating leadership and best practice in engaging our suppliers on climate change issues. In addition, KONE has been awarded the EcoVadis platinum medal for our sustainability performance, placing us among the top 1% of all assessed companies.

Non-financial key performance indicators

	Key performance indicator	Targets in 2020*	2020 results	2019 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 2021.	3.1% reduction relative to sales
	Share of key suppliers ISO 14001 certified, %	100%	90%	91%
	Share of green electricity used in our facilities, %	50% by 2021	Will be published in the Sustainability Report during Q2 2021.	37%
	Share of landfill waste at our manufacturing units, %	0% by 2030	Will be published in the Sustainability Report during Q2 2021.	0.9%
Personnel and social matters	Industrial Injury Frequency Rate (IIFR) [2]	Zero injuries	IIFR 1.2	IIFR 1.7
	Employee engagement	Maintain employee engagement on a strong level	The response rate in the Pulse employee engagement survey was record high at 92%. The global survey results took a great leap up and engagement was at a very strong level. All survey dimensions improved and the vast majority of KONE's global scores were above external high performance benchmarks.	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.
	Personnel voluntary turnover rate, % [3]	Maintain voluntary turnover below market level	5.5%	7.6%
	Gender distribution, %	More balanced gender split	11% women, 89% men	11% women, 89% men
	Gender distribution in director level positions, %	20% of director level positions occupied by women by 2020	19%	18%
Human rights, anti-corruption & bribery	Share of employees with completed Code of Conduct training, %	100%	96% of nearly 60,000 employees in 64 countries	90% of nearly 58,000 employees in 64 countries
	Share of key suppliers who have signed the Supplier Code of Conduct, %	100%	84% (scope expanded from previous year)	95%
	Share of distributors who have signed the Distributor Code of Conduct, %	100%	100% of our distributors in China and 88% in the rest of the world.	100% of distributors in China, and 87% in the rest of the world

* Some targets will be updated for 2021 in line with KONE's new sustainability ambitions.

[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 Resource 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

KONE's climate related disclosures according to TCFD

	TCFD recommended disclosures	Content in KONE's report
Governance	Board's oversight of climate-related risks and opportunities	Non-financial information / Management and Board of oversight of sustainability, p. 14
	Management's role in assessing and managing climate-related risks and opportunities	Non-financial information / Management and Board of oversight of sustainability, p. 14
Strategy	Climate-related risks and opportunities over the short, medium and long term	Non-financial information / Environmental matters, p. 17
	Impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	Strategy, p. 4 Risks and risk management related to the reporting of non-financial information, p. 24
	Resilience of strategy, taking into consideration different climate-related scenarios	KONE has not conducted scenario work yet.
Risk management	Processes for identifying and assessing climate-related risks	Risks and risk management related to the reporting of non-financial information, p. 24
	Processes for managing climate-related risks	Risks and risk management related to the reporting of non-financial information, p. 24
	How processes for identifying, assessing and managing climate-related risks are integrated into the organizations overall risk management	Risks and risk management related to the reporting of non-financial information, p. 24
Metrics and targets	Metrics used to assess climate-related risks and opportunities	Non-financial information / Key performance indicators, p. 15 Non-financial information / Environmental matters, p. 17
	Scope 1, Scope 2 and Scope 3 emissions and the related risks	Non-financial information / Key performance indicators, p. 15 Non-financial information / Environmental matters, p. 17
	Targets used to manage climate-related risks and opportunities and performance against targets	Non-financial information / Key performance indicators, p. 15 Non-financial information / Environmental matters, p. 17

ENVIRONMENTAL MATTERS

In line with KONE's strategic target of being a leader in sustainability, our environmental approach supports the ongoing green and digital transformation of the built environment into smart eco-cities, low-carbon communities, and net zero energy buildings.

We set out the environmental ambition and principles that guide our work in KONE's Environmental Policy. We develop smart and sustainable technologies for People Flow® and want to be the preferred partner for environmentally sustainable urban environments. We drive transformation towards sustainable, circular and carbon neutral operations, as well as engage our employees, customers, suppliers and partners on climate and environmental action. The KONE Code of Conduct, the Supplier Code of Conduct, the Distributor Code of Conduct and KONE Global Vehicle Fleet, Facility and Travel Policies also set out environmental requirements relevant to the operations of KONE or its partners.

In September 2020, we stepped up our environmental ambition by announcing KONE's climate pledge with science-based targets for significant greenhouse gas emissions reductions and an aim to have carbon neutral operations by 2030. KONE commits to a 50% cut in the emissions from its own operations (scope 1 and 2 emissions) by 2030, compared to a 2018 baseline. This target is in line with limiting global warming to 1.5°C, which is currently the most ambitious criteria for setting science-based targets. On top of the ambitious emissions reduction targets, KONE will achieve carbon neutral operations by 2030, through offsetting the remaining emissions. In addition, KONE targets a 40% reduction in the emissions related to its products' materials and lifetime energy use (scope 3 emissions) over the same target period, relative to orders received. KONE's targets are the most ambitious in the industry to date, and we were among the first 500 companies globally to have our targets officially validated by the Science Based Targets initiative. With the climate pledge, we are taking even stronger action and leading the way in our industry to create more sustainable urban environments.

We are taking strong actions across the supply chain and work together with our suppliers to cut emissions, increase the use of sustainable materials and limit the use of hazardous substances. Sustainability was also the theme of this year's KONE Supplier Day, during which we launched our Supplier Sustainability Assessment, a dedicated internal tool for screening our suppliers' performance in terms of their environmental and social responsibility. The assessment includes basic criteria that must be met in order to continue doing business with KONE, as well as other, more advanced criteria.

KONE's offering

The majority of the environmental impacts associated with KONE's activities are related to our products over their full life cycle. Our innovations can thus have a significant role in advancing climate action. Requirements for smart and energy-efficient solutions, healthy and sustainable materials and overall, green and sustainable buildings are increasing. We see these shifts in customer demand as a clear opportunity and want to be the preferred partner for sustainable urban environments. To further understand the emerging needs and technologies in sustainable, resilient urban environments and people's behavior in them, we actively participate in large-scale research projects and consortiums.

KONE supports sustainable and green building through our energy-efficient and innovative offering, functional and sustainable materials, as well as transparent documentation about our products' environmental impacts. We can help our customers meet various green building requirements even better with the KONE DX Class elevator range which continues to be launched to new markets. Lifetime energy consumption is one of the main considerations in green buildings and it is also the single most significant environmental impact of KONE's products overall. This underlines the importance of eco-efficient innovations. We currently have 19 best-in-class energy efficiency references for our products according to the international ISO 25745 standard for the energy performance of lifts, escalators and moving walks.

Several KONE solutions have received external recognition for their sustainability. During the reporting period, KONE renewed the Singapore Green Building Product (SGBP) certifications for several of its solutions. KONE currently has seven SGBP-certified solutions and is the first and only elevator and escalator company to have all certifications with the highest possible ratings. The SGBP-certified solutions are recommended for Green Mark -certified buildings. KONE has also received several approved Byggvarubedömningen (BVB) assessments for its products, the latest ones being KONE TranSys™ elevator and the TransitMaster™ 120 and TransitMaster™ 140 escalators in 2020. BVB is a nonprofit organization that evaluates solutions for buildings and drives the use of sustainable building materials.

During 2020, KONE also had important achievements in transparent communication about the environmental and health impacts of our products. We published Environmental Product Declarations (EPD) for six elevators. We currently have third-party verified EPDs for altogether eight elevator models and 11 automatic building door models, thus making KONE the people flow company with the most EPDs published to date. Furthermore, during the reporting year, we published two Health Product Declarations (HPD) for our products. KONE now has altogether six HPDs for its elevators and escalators.

Own operations

KONE's target for 2020 was to reduce our operational carbon footprint relative to sales by 3%. This target includes our Scope 1 & 2 emissions, extended by selected Scope 3 categories that are closely monitored by KONE: logistics, business air travel and waste. The 2020 carbon footprint results will be published in the second quarter of 2021. In 2019, we exceeded our annual target as our overall operational carbon footprint (Scope 1, 2 and selected Scope 3 categories) relative to sales decreased by 3.1% compared to 2018, with sales growth calculated at comparable exchange rates. Our scope 1 and 2 greenhouse gas emissions relative to sales decreased by 5.4%. This positive development was enabled by a 0.5% decrease in our absolute Scope 1 and 2 emissions (with comparable reporting scope) while our business grew strongly. KONE's 2019 absolute operational carbon footprint amounted to 327,100 tons of carbon dioxide equivalent (2018: 319,200; figure restated). KONE's carbon footprint data has been externally assured. Additionally, we have set a long-term target of 0% landfill waste from our manufacturing units by 2030. In 2019, the share of landfill waste in our manufacturing units was 0.9% (2018: 0.6%).

During the reporting year, we took steps to achieve our target of having 50% of our electricity consumption from renewable sources by the end of 2021. Along with our ambitious climate targets announced in September, we also raised our target for renewable electricity to 100% by 2030. Our manufacturing unit in Sweden now purchases

100% renewable electricity, and solar panels were installed in our new manufacturing unit in Chennai, India. Additionally, one of our subsidiaries, KONE Austria, is already carbon neutral for 2020 after offsetting their emissions by supporting renewable energy production in Uganda and Guatemala.

KONE uses the ISO 14001 environmental management system to enhance its environmental performance. It covers our corporate units, including all R&D and major manufacturing units, and 26 major subsidiaries. In addition, our manufacturing unit in Kunshan, China, received the ISO 50001 energy management system certification during the reporting year. Altogether, three KONE manufacturing units are now ISO 50001- certified. At the end of 2020, 90% (2019: 91%) of our key suppliers were ISO 14001 certified, our target being 100%.

KONE's manufacturing unit in Finland achieved the FSC® (Forest Stewardship Council) Chain of Custody certification, providing credible assurance that elevators manufactured in this unit come with wooden components from environmentally and socially responsible sources. KONE's subsidiaries in Great Britain and Ireland also achieved the FSC® Chain of Custody certification, meaning that customers can now be provided this assurance for the full delivery chain for elevators installed in those countries. To our knowledge, KONE is the only elevator company to have achieved FSC® certifications.

PERSONNEL AND SOCIAL MATTERS

Number of employees

	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Number of employees at the end of period	61,380	59,825
Average number of employees	60,376	58,369

Geographical distribution of KONE employees

	Dec 31, 2020	Dec 31, 2019
EMEA	23,798	23,306
Americas	7,336	7,632
Asia-Pacific	30,246	28,887
Total	61,380	59,825

KONE had 61,380 (December 31, 2019: 59,825) employees at the end of December 2020. The average number of employees was 60,376 (1–12/2019: 58,369). Personnel voluntary turnover rate was 5.5% (7.6%) Employee costs for the reporting period totaled EUR 3,043 (3,048) million. The geographical distribution of KONE employees was 39% (December 31, 2019: 39%) in EMEA, 12% (13%) in the Americas and 49% (48%) in Asia-Pacific.

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.

Year 2020 was exceptional due to the COVID-19 outbreak. Especially during the first half of the year, KONE leaders and HR teams around the world focused on ensuring that our vital business operations are functioning with good level of workforce available and safe working conditions. Field personnel was instructed of safe ways of working on sites and majority of office workers across the world started to work remotely. In some KONE units, the ability to work on construction and maintenance sites was limited due to national restrictions. In these cases, KONE approach was to first and foremost agree on flexible working arrangements and the use of accrued holidays and negative time banks to ensure that our employees stay also financially safe. Only in a few limited cases where it was not possible to use these measures, and where there were support mechanisms in place for employees locally, furloughs or temporary layoffs were used.

The wellbeing and safety of our employees was KONE's top priority in 2020. As many employees worked from home and field employees faced changed circumstances particularly the mental well-being of our workforce was in focus. Both global and local well-being resources were introduced to help managers and employees deal with remote work, anxiety and stress. In general, remote work worked well even for more challenging positions such call center employees and salespeople. During the year, new safety protocols for office environments were introduced to ensure safe return to the workplace.

Diversity and inclusion

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 147 (145) nationalities. The majority of our employees are male representing 89%

(89%) of our people globally. We continue our efforts towards having a more balanced gender split. The share of women at director level positions increased to 19% (18%) leaving us slightly behind our global target of 20% (by 2020). To strengthen diversity and inclusion (D&I) at KONE, we assessed D&I maturity in 53 KONE countries and created a global D&I strategy based on the findings. The strategy was turned into a global D&I roadmap with targeted initiatives to further increase diversity, and to build a more inclusive talent practices and culture.

Employee engagement & KONE culture

One of KONE's strategic targets is to be a great place to work, which is measured by employee engagement and a related Pulse employee survey. The Pulse survey offers employees an opportunity to give feedback and covers topics such as employee engagement and enablement, leadership, learning and growth, corporate responsibility, customer centricity, innovation and drive, and diversity and inclusion.

KONE's 13th global Pulse employee survey was carried out in spring 2020 and action plans were made in teams based on the results. A total of 52,745 employees provided feedback in the employee survey and we reached a record high global response rate of 92%. Overall, the global survey results took a great leap up and engagement is now at a very strong level. All survey dimensions improved and the vast majority of KONE's global scores were above external high performance benchmarks. In 2021, we will conduct a global light survey as well as organize Pulse Talks across all teams at KONE to ensure sustainable follow-up on the Pulse 2020 action plans and continuous dialogue on engagement.

During 2020, we also started a process for developing KONE's culture to ensure that it supports and aligns with our strategic priorities. First step in this process was a global culture survey in which more than 8,000 employees participated. The findings of the survey indicated that KONE's work environment is healthy and that employees find the direction of the company clear. As a second step, employees were encouraged to share their thoughts about the development of KONE's culture, values and ways of working as part of the global Pulse survey. A total of 25,370 employees provided feedback and these discoveries contributed to the review and refresh of KONE's values. The new values are "We care for each other", "We are committed to our customers' success", "We collaborate as one team" and "We perform with courage".

KONE hosts a European Employee Forum annually 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 discussion on important developments affecting KONE employees. In 2020, the Employee Forum was postponed due to the COVID-19 pandemic, but the smaller working group and top management had two virtual meetings focusing on safety as a topic.

Training and development

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 supports continuous learning and provides a rich training offering for its employees. There are over 6,000 in-house developed training programs available varying from several days trainer-led courses into 2-minutes online learning modules. These in-house programs are complemented by external learning libraries to enhance the training offering. In March 2020, we launched a new external online learning library with a lot of bite size courses. By the end of 2020, we reached 160,000 learning course completions in this new learning library alone.

In 2020, we had a strong focus on bringing new online learning opportunities for our employees and also digitizing current trainer-led programs by using mobile learning, AR games, VR, social learning and Microsoft Teams. Hence, by the end of 2020, the total amount of online learning course completions had increased by 92% compared to the previous year. Furthermore, total learning hours increased 26% compared to 2019. As an example, a new global COVID-19 safe working practices e-learning was launched in May with 32 language versions and with a special focus on our employees serving our customers in the field. Approximately 27,000 employees had completed the course by the end of 2020.

Amidst COVID-19, we encouraged everyone to use time to learn. As we encouraged salespeople to have virtual customer meetings, they were trained and supported on utilizing various virtual meeting tools and techniques. Also our trainers studied and took various virtual training tools in use and experimented camera technologies in virtual training sessions. This helped to re-purpose KONE's 41 training centers as broadcast and engagement hubs making them more efficient and increasing their reach and impact.

We continued our digital HR journey by implementing Workday Learning to support the learning activities of all KONE employees during 2020. By doing this, KONE has now all people data in one system, which allows for better end-to end employee experience, and the possibility for more advanced people analytics to support people development. For example, the new system offers AI powered recommendations on learners' role and interest.

Talent attraction

A key focus area within the KONE people strategy is attracting the best talent.

Even though recruitment volumes were reduced during 2020 due to COVID-19, targeting new competencies and increasing diversity through recruitment continued to be 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 new hires to 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. Due to Covid-19 related travel restrictions, the annual KONE International Trainee Program (ITP) could not be organized. Instead, we offered local trainee positions for university students. KONE also continued to further strengthen its employer brand through active school collaboration.

Accelerate program

Year 2020 was the final year of the Accelerate program, which was introduced in 2017 to create a more efficient and customer-focused way of working on a country, area and global level, across the entire KONE organization. During the Accelerate program, major changes were implemented in the KONE Way operating model. We harmonized job roles and defined our global reference organization model that provide a common set-up for all units. Three new functions, Customer Solutions Engineering, Customer Service & Admin and Logistics, were established and other already existing functions, e.g. HR, Sourcing, Finance, KONE Technology & Innovation and Quality, implemented major organizational and operating model changes. Alongside with the transformations, we introduced new learning and development opportunities both for function specific topics as well as on common topics such as change management. In 2020, the new global set-up has enabled us to react fast during the exceptional market environment caused by COVID-19.

Safety

Over the year, improving safety at work remained a top priority. KONE continued the implementation of a companywide safety management system which guides us in achieving continual improvement.

By the end of 2020, 56,000 KONE employees had completed general safety training related to our safety management framework, and KONE's Health and Safety Policy. KONE employees receive health and safety training relevant to their work enabling it to be performed in a professional and safe manner. The 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 2020, the IIFR (Industrial Injury Frequency Rate) improved to 1.2 (1.7). We continue to target zero injuries. In order to move towards our ultimate target of zero injuries, our target is IIFR below 1.0 by the end on 2024. The average lost days per incident was 27.3 (33.7). Furthermore, the number of safety observations, recorded in our global safety reporting tool, KONE Safety Solution, increased by 3.6%. All employees are encouraged to actively report safety near misses and incidents as it provides valuable information for improving safety. Focus during the year was on improving the quality, analysis and investigation of near misses and incidents.

KONE Safety Week was organized in all KONE units in June 2020 with a focus on safe behavior. In order to strengthen KONE's safety culture, agenda was complemented with elements of psychological safety. Various safety related activities were held during the week for both internal and external stakeholders. For the first time, majority of the activities we organized virtually.

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.

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.

Dedicated compliance officers help employees comply with KONE's Code of Conduct, and our global and regional compliance committees advise and take decisions on compliance matters, including investigations into allegations of employee misconduct as well as human rights and corruption violations. All KONE employees are expected to understand and abide by the Code and to report any violations using the channels available for this purpose. Our internal reporting channels include reporting to management, HR, Legal or Compliance. We also have a confidential externally hosted reporting channel, the Compliance Line, to which all employees and suppliers 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. Reports can be submitted on a range of topics including fraud and theft, fraudulent reporting, corruption, competition law, harassment and discrimination, data protection and confidentiality, environment and safety, trade compliance, and conflicts of interest. All reports are handled by a dedicated impartial KONE Compliance team. In 2020, we received a total of 136 compliance reports, of which 24% were received through the Compliance Line. In total 35% of 141 cases closed in 2020 were either substantiated or partially substantiated, and disciplinary actions in those cases ranged from coaching discussions to termination of employment.

Our Code of Conduct E-learning course for all KONE employees 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 course is available in 37 languages. Nearly 60,000 employees in 64 countries have been assigned the training since 2018 with a completion rate of 96%. Regular face-to-face compliance training is also provided to managers and other target groups. In 2020 approximately 3,000 employees received compliance training either face-to-face or via Teams, in light of the COVID-19 pandemic.

KONE's general Code of Conduct is complemented by our Supplier and Distributor Codes of Conduct. Our Supplier Code of Conduct was renewed in July 2020 and is available in 30 languages. It 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 suppliers are expected to sign KONE's Supplier Code of Conduct. By the end of 2020, 84% 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 2020. 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 and is available in 5 languages. 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 2020, 100% (100%) of our distributors in China, and 88% (87%) of our distributors in the rest of the world, had signed the Code.

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

During 2020, we continued focusing on human rights in the supply chain by developing a supplier human rights assessment process within KONE. Although this work was delayed by the COVID pandemic, an on-site pilot assessment was nevertheless conducted in Finland which included interviews with management and randomly selected workers. Training and risk management improvement recommendations were provided to the supplier. We also developed a supplier human rights on-line questionnaire which will be rolled-out to selected suppliers during 2021. Human rights training was also provided to our internal human rights network throughout the year.

Changes in the Executive Board

In January–December 2020, KONE announced changes in the Executive Board.

Ken Schmid (Master of Business Administration), was appointed Executive Vice President, KONE Americas as of April 1, 2020. In this role, Ken Schmid succeeds Larry Wash who served as Executive Vice President, KONE Americas and member of the Executive Board since July 2012.

Max Alfthan decided to step down from his role as Executive Vice President responsible for Marketing and Communications as of 31 March 2020. Max Alfthan served in this role and as a member of KONE's Executive Board since November 2014. Susanne Skippari, Executive Vice President, Human Resources, was named interim leader for Marketing and Communications in addition to her current role as of April 2020.

Tricia Weener, (BA, Hons) was appointed Chief Marketing Officer and Executive Vice President, Marketing and Communications, as of January 18, 2021. Current interim EVP of Marketing and Communications, Susanne Skippari concentrates on her duties as Executive Vice President of Human Resources from January 18, 2021 onwards.

Also after the reporting period, on January 20, 2021, KONE announced changes in the Executive Board. Johannes Frände was appointed Executive Vice President, General Counsel and a member of the Executive Board at KONE as of February 1, 2021. He succeeds Klaus Cawén, who has served in different roles at KONE for 38 years. Thomas Hinnerskov was appointed Executive Vice President, responsible for South Europe, Middle-East and Africa region as of April 1, 2021. He succeeds Pierre Liautaud, who has served 10 years at KONE as Executive Vice President, South Europe, Middle-East and Africa region. Prior to this, Thomas Hinnerskov has served as KONE's EVP, Central and North Europe. Axel Berkling was appointed new EVP, Central and North Europe. Prior to this, Axel Berkling has served as KONE's EVP, Asia-Pacific region, excluding China.

On January 27, 2021, KONE announced that Samer Halabi was appointed Executive Vice President, responsible for the Asia-Pacific region and a member of the Executive Board as of May 1, 2021.

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 144 million at the end of December 2020 (December 31, 2019: EUR 166 million). KONE's position is that the claims are without merit. No provision has been made.

Most significant risks

KONE is exposed to risks that may arise from its operations or changes in the operating environment. The 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 ~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. In 2020, many governments across the world took significant measures to contain the COVID-19 outbreak by restricting the movement of people and limiting business activities. The current level of uncertainty continues to be high despite of the ongoing vaccinations and further deterioration of the situation or prolonged restrictions to contain the pandemic could have an adverse impact on the overall economic environment, level of construction activity and the level of demand for KONE's services and solutions in the coming quarters.

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, structural changes in the competitive landscape of the elevator and escalator industry, increased competition 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 works with other partners in e.g. digital services and logistics. 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. In 2020, COVID-19 related government restrictions caused some disruptions to KONE's operations especially in China and in India, and the risk of such disruptions globally remains still high, however depending on how the pandemic develops.

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' operation 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 cybersecurity 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 2020.

Risk management

Risks	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. In the operating environment impacted by COVID-19, KONE's global supply chain helps mitigate the risk of interruptions. KONE has 12 manufacturing facilities in 8 countries, multiple distribution centers and a large supplier network across the globe, which helps to mitigate the challenges and restrictions in individual countries. During the COVID-19 crisis, KONE has also put extra focus on business continuity management.
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 2020.

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. In addition, KONE is applying TCFD guidelines on the reporting of climate-related risks.

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.

Climate and environmental risks

We recognize climate and environmental risks as having a potential negative impact on our business in the short to medium term, albeit they are not considered being very significant in comparison to other business risks which are reported under "Most significant risks". However, we see that climate risks will only keep increasing in relevance and potential impact. Overall, we identify, assess and manage climate and environmental risks as integral part of our company-wide business risk management process and ISO 14001 environmental management system. Certain KONE functions and locations conduct detailed climate and environmental risk assessments, according to relevant business requirements, e.g. in the Supply Chain function or at selected operational sites.

Climate and environmental risks are classified as transition risks and physical risks as well as risks of negative impacts on the climate. Some of the most relevant climate and environmental risks for KONE are physical risks to our supply chain and own operations, for example, as a result of extreme weather events. These risks can materialize, for example, in the form of delivery disruptions or interruptions in our own manufacturing, installation or maintenance activities. KONE's products are also subject to physical risks and possible damages due to changing environmental conditions or extreme weather events.

To mitigate the physical risks, we engage in several risk mitigation activities related to component availability and interruptions to our own or suppliers' operations, as described in the risk management table in this text. We use, for example, dedicated location-based software tools to regularly monitor our supply chain locations for risks related to extreme weather events such as fires, floods and hurricanes. In terms of our product development, we apply design specifications and specific procedures that aim to ensure product resilience even in harsh and changing environmental conditions. For example, rigorous environmental testing is a part of KONE's product development to ensure that our products sustain exceptional and changing weather conditions, such as temperature variations and moisture.

We have equally identified transition risks in the form of changing market demands and emerging regulation for both KONE's solutions and operations. Not being able to meet the climate-related demands and offer the solutions and services our customers require, could have a detrimental impact on KONE's business. In addition to potential product-related requirements, emerging climate-related regulation may also impact our operations. For example, the need to transition towards more sustainable mobility solutions is evident for KONE's current fleet of over 19,000 service and benefit vehicles.

To mitigate the transition risks, KONE constantly evaluates emerging regulation and market demands in our high-level business plans. KONE is an active member in relevant industry forums and research consortiums and proactively monitors the regulatory landscape. As part of KONE's climate pledge, we have set ambitious greenhouse gas reduction targets for our offering and operations and aim to have carbon neutral operations by 2030. The pledge will guide our work for more climate-friendly products, services and ways of working, and we actively collaborate with our suppliers and partners to achieve our targets.

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. KONE also identifies and assesses risks related to any type of harassment, equal employment practices, working conditions and any form of discriminations. KONE prevents such situations by having adequate policies and processes in place and training its managers. KONE also offers its employees channels for reporting misconduct as there is no tolerance for such behavior. In 2020, safety and wellbeing of KONE employees were highlighted as a risk mitigation focus area due to the changing conditions caused by COVID-19 pandemic.

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 our suppliers are expected to 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. These standards were further clarified in our 2020 Supplier Code of Conduct. On the basis of the 2019 human rights risk assessment we conducted, we have prioritized our work on human rights in the supply chain, set up a human rights network and prepared supplier on-site and online assessment processes and documentation for roll-out in 2021.

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 has continued 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. In addition, in 2020 we began an anti-bribery and corruption risk assessment, which will be completed in early 2021.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 25, 2020. The meeting approved the financial statements, considered the Remuneration Policy for governing bodies and discharged the responsible parties from liability for the financial period January 1-December 31, 2019.

The General Meeting approved dividends in line with the Board of Director's proposal of EUR 1.6975 for each of the 76,208,712 class A shares and EUR 1.70 for each of the outstanding 441,851,042 class B shares. The date of record for dividend distribution was February 27, 2020 and dividends were paid on March 5, 2020.

The number of Members of the Board of Directors was confirmed as nine. Re-elected as Members of the Board were Matti Alahuhta, Anne Brunila, Antti Herlin, Iiris Herlin, Jussi Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikäinen. Susan Duinhoven was elected as a new member to the Board of Directors.

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.

Ravi Kant was elected as Chairman and Anne Brunila, Antti Herlin and Jussi Herlin 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 60,000 for the Chairman of the Board, EUR 50,000 for the Vice Chairman and EUR 45,000 for Board Members. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings but anyhow a fee of EUR 3,000 is paid per Committee meeting for a Chairman of the Committee residing outside of Finland and a fee of EUR 2,000 is paid per Committee meeting for those members residing outside of Finland. Of the annual remuneration, 40 percent will be paid in class B shares of KONE Corporation and the rest in cash.

The General Meeting approved the authorization for the Board of Directors to repurchase KONE's own shares. Altogether no more than 52,930,000 shares may be repurchased, of which no more than 7,620,000 may be class A shares and 45,310,000 class B shares. The authorization will be valid until the conclusion of the following annual general meeting, however, at the latest until 30 June 2021.

Furthermore, the General Meeting authorized the Board of Directors to decide on the issuance of shares as well as the issuance of options and other special rights entitling to shares referred to in chapter 10 section 1 of the Finnish Companies Act. The number of shares to be issued based on this authorization shall not exceed 7,620,000 class A shares and 45,310,000 class B shares. The Board of Directors decides on all the conditions of the issuance of shares and of special rights entitling to shares. The authorization concerns both the issuance of new shares as well as the transfer of treasury shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The authorization will be valid until the conclusion of the following annual general meeting, however, at the latest until 30 June 2021.

The General Meeting decided to amend the Articles of Association by updating the article concerning the line of business of the company (2 §) and changing the articles concerning the auditing (7§ and 10§).

Authorized public accountants Pricewaterhouse-Coopers Oy and APA Jouko Malinen were nominated as auditors for the term 2020. Audit firm Ernst & Young Oy was nominated as the auditor for the term 2021.

Share-based long-term incentives

KONE has three separate share-based incentive plans, two performance share plans and one restricted share plan. The first performance share 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. The second performance share plan is targeted for other key personnel of KONE, totaling approximately 500 individuals. The restricted share plan is targeted for senior management and other key personnel of KONE, excluding President & CEO. The potential reward for the performance share plans is based on KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2020, the reward was based on sales growth and profitability as well as growth of KONE's digital services in both plans. The restricted share plan does not have a performance condition. 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 performance share plans have a vesting period of three years, including the performance period. The restricted share plan has a vesting period from one to three years. 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.

Share capital and market capitalization

Share capital and market capitalization*

	Dec 31, 2020	Dec 31, 2019
Number of class B shares	453,187,148	453,187,148
Number of class A shares	76,208,712	76,208,712
Total shares	529,395,860	529,395,860
Share capital, EUR	66,174,483	66,174,483
Market capitalization, MEUR*	34,452	30,180

* 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

Shares in KONE's possession

	1–12/2020
Shares in KONE's possession at the beginning of the period	11,553,605
Changes in own shares during the period	-547,599
Shares in KONE's possession at the end of the period	11,006,006

At the end of December 2020, the Group had 11,006,006 class B shares in its possession. The shares in the Group's possession represent 2.4% of the total number of class B shares. This corresponds to 0.9% of the total voting rights.

Shares traded on the Nasdaq Helsinki Ltd

Trading on the KONE share

		1–12/2020	1–12/2019
Shares traded on the Nasdaq Helsinki Ltd., million		222.9	157.0
Average daily trading volume		884,675	628,085
Volume-weighted average share price	EUR	62.1	49.8
Highest share notation	EUR	76.2	59.3
Lowest share notation	EUR	42.4	41.0
Share notation at the end of the period	EUR	66.5	58.3

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 31.3% of the total volume of KONE's class B shares traded in October–December 2020 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 62,100 at the beginning of the review period and 72,661 at its end. The number of private households holding shares totaled 68,746 at the end of the period, which corresponds to approximately 12.1% of the listed B shares. At the end of December 2020, a total of 54.6% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–December 2020, BlackRock, Inc. announced two notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on January 17 and January 27. 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 to below five (5) per cent of the share capital of KONE Corporation on January 24, 2020.

Outlook

NORTH AMERICA		EMEA		ASIA-PACIFIC	
New equipment	Services	New equipment	Services	New equipment	Services
Decline in the first quarter, recovery after that	Maintenance Resilient excl. impact from lock-downs Modernization Uncertainty could delay decisions	Decline in the first quarter, recovery after that	Maintenance Resilient excl. impact from lock-downs Modernization Uncertainty could delay decisions	China Stable or growth Outside China Decline in the first quarter, recovery after that	Maintenance Resilient excl. impact from lock-downs Modernization Uncertainty could delay decisions

Market outlook 2021

The new equipment market is expected to be stable or to grow in China. In the rest of the world, the market is expected to decline year-on-year in the first quarter due to a high comparison point and then to start recovering.

The maintenance markets are expected to be resilient, excluding the direct impacts of the lockdown measures.

In the modernization markets, the fundamental growth drivers are intact, but uncertainty could delay decision-making in modernization projects.

Business outlook 2021

In 2021, KONE's sales growth is estimated to be in the range of 0 % to 6 % at comparable exchange rates as compared to 2020. The adjusted EBIT margin is expected to be in the range of 12.4% to 13.4%. Assuming that foreign exchange rates would remain at the January 2021 level, foreign exchange rates are estimated to impact the adjusted EBIT negatively by around EUR 20 million.

KONE has a solid order book and maintenance base for 2021. The improvement seen in the margin of orders received is expected to support profitability together with continual improvements in quality and productivity.

The key headwinds for 2021 results are the potential impacts from COVID-19 as well as the rising raw material and logistics costs. KONE also continues to invest actively in building the capability to sell and deliver digital services and solutions.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2020 is EUR 2,046,658,825.95 of which the net income for the financial year is EUR 389,581,522.35.
The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.7475 be paid on the outstanding 76,208,712 class A shares and EUR 1.75 on the outstanding 442,181,142 class B shares. Further, the Board proposes an extra dividend of EUR 0.4975 to be paid on the outstanding 76,208,712 class A shares and EUR 0.50 on the outstanding 442,181,142 class B shares, resulting in a total amount of proposed dividend of EUR 1,165,996,127.94. The Board of Directors further proposes that the remaining non-restricted equity, EUR 880,662,698.01 be retained and carried forward.
The Board proposes that the dividends be payable from March 11, 2021. All the shares existing on the dividend record date are entitled to dividend for the year 2020 except for the own shares held by the parent company.

Annual General Meeting 2021

KONE Corporation's Annual General Meeting will be held on Tuesday 2 March 2021 at 11.00 a.m. In order to prevent the spread of the COVID-19 pandemic, the company's shareholders may participate in the General Meeting and exercise their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance.

Helsinki, January 28, 2021

KONE Corporation's Board of Directors

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 provision 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.

Market capitalization

on December 31, 2020

EUR 34,452 million

Dividend proposal

Dividend
EUR 1.75

Extraordinary dividend
EUR 0.50

per class B share

Closing price (EUR)

December 31, 2020	66.46
December 31, 2019	58.28
Change	+14.0 %

Share notations (EUR)

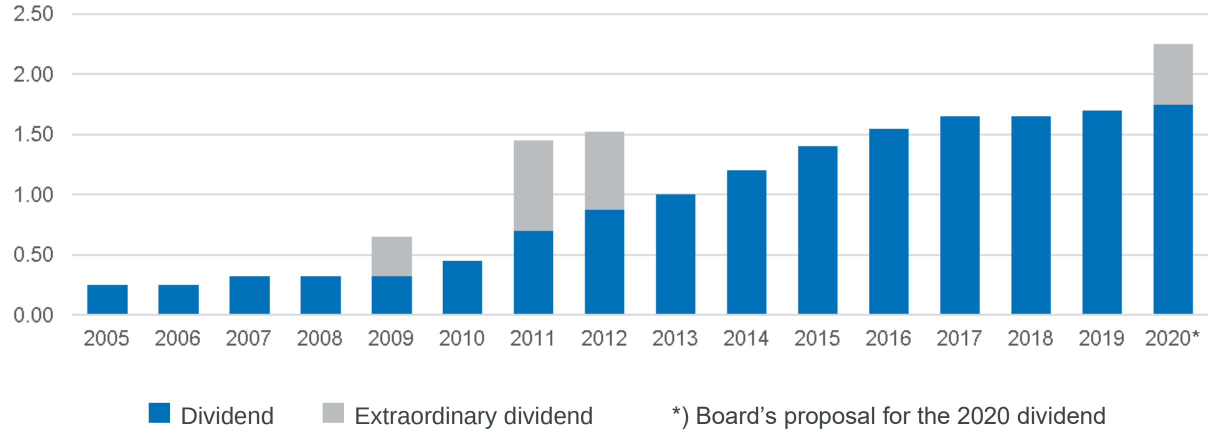
High	76.20
Low	42.39
Volume-weighted average price	62.07

KONE corporation's share capital consists of the following

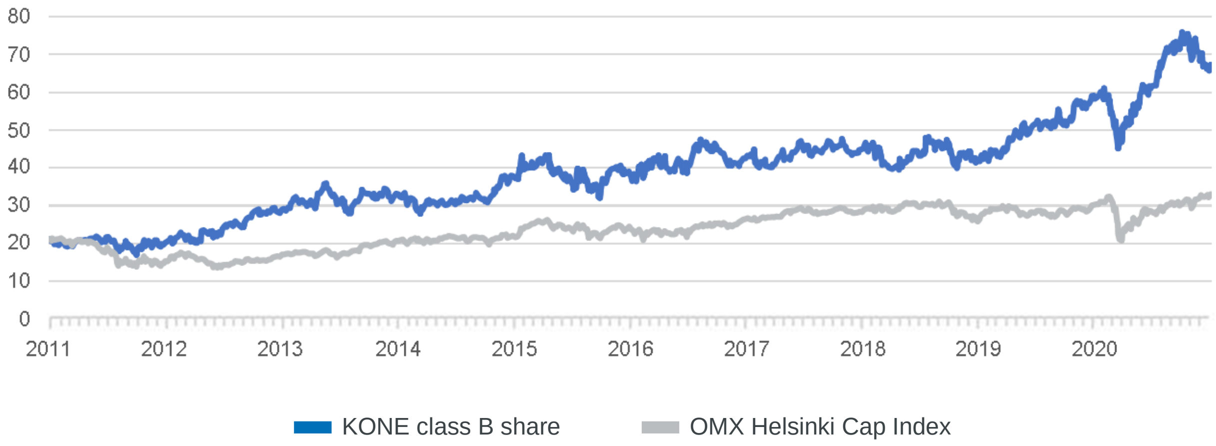
	Number of shares	Par value, EUR
Class A	76,208,712	9,526,089
Class B	453,187,148	56,648,394
Total	529,395,860	66,174,483

	KONE class B shares
Trading code, Nasdaq Helsinki Ltd. in Finland	KNEBV
ISIN code	FI0009013403
Accounting par value	EUR 0.125

KONE class B dividend per share, 2005–2020, EUR

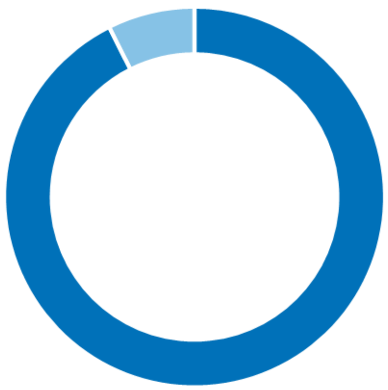


KONE class B share price development Jan 1, 2011–Dec 31, 2020, EUR



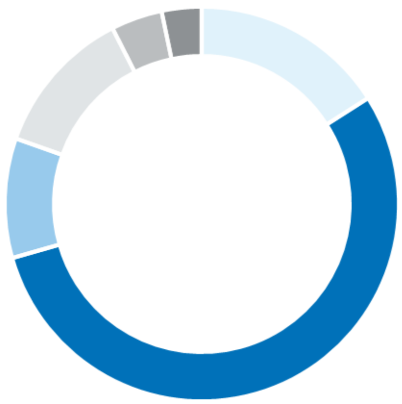
Shareholders

Class A shares, %



● 92.6% Companies
● 7.4% Non-profit organizations

Class B shares, %



● 54.6% Foreign / nominee registered shareholders *)
● 16.0% Companies
● 12.1% Individuals
● 9.8% Financial institutions and insurance companies
● 4.2% Non-profit organizations
● 3.3% Public institutions

*) Includes foreign-owned shares registered by Finnish nominees

Shareholdings on Dec 31, 2020 by number of shares

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 - 10	13,468	18.5 %	73,719	0.0 %
11 - 100	29,397	40.5 %	1,392,735	0.3 %
101 - 1,000	22,802	31.4 %	8,276,699	1.6 %
1,001 - 10,000	6,170	8.5 %	17,164,161	3.2 %
10,001 - 100,000	725	1.0 %	18,561,762	3.5 %
100,001 -	99	0.1 %	483,884,448	91.4 %
Total	**72,661**	**100.00%**	**529,353,524**	**100.00%**
Shares which have not been transferred to the paperless book entry system			42,336	0.0 %
Total			**529,395,860**	**100.00%**

Major shareholders on Dec 31, 2020

	A-series	B-series	Total	% of shares	% of votes
1 Herlin Antti	70,561,608	47,737,946	118,299,554	22.35%	61.99%
Holding Manutas Oy [1)]	54,284,592	38,065,254	92,349,846	17.44%	47.80%
Security Trading Oy [2)]	16,277,016	7,983,016	24,260,032	4.58%	14.05%
Herlin Antti	0	1,689,676	1,689,676	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 KONE Foundation	5,647,104	9,859,632	15,506,736	2.93%	5.46%
5 Heikintorppa Oy	0	10,210,743	10,210,743	1.93%	0.84%
6 Varma Mutual Pension Insurance Company	0	5,851,222	5,851,222	1.11%	0.48%
7 Riikantorppa Oy	0	5,500,000	5,500,000	1.04%	0.45%
8 Blåberg Olli Edvard	0	4,660,000	4,660,000	0.88%	0.38%
9 Ilmarinen Mutual Pension Insurance Company	0	3,828,977	3,828,977	0.72%	0.32%
10 The State Pension Fund	0	2,450,000	2,450,000	0.46%	0.20%
10 largest shareholders total	76,208,712	123,720,448	199,929,160	37.77%	72.89%
Foreign / nominee registered shareholders [3)]	0	247,471,223	247,471,223	46.75%	20.36%
Repurchased own shares	0	11,006,006	11,006,006	2.08%	0.91%
Others	0	70,989,471	70,989,471	13.41%	5.84%
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, 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, 2020 and changes in shareholding during Jan 1−Dec 31, 2020 are available on page 110.

Key figures per share, Jan 1−Dec 31, 2020

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

	2020	2019	2018	2017	2016
Basic earnings per share, EUR	1.81	1.80	1.63	1.86	2.00
Diluted earnings per share, EUR	1.81	1.80	1.63	1.86	1.99
Equity per share, EUR	6.12	6.13	5.94	5.85	5.42
Dividend per class B share, EUR [1)]	2.25	1.70	1.65	1.65	1.55
Dividend per class A share, EUR [1)]	2.2450	1.6975	1.6475	1.6475	1.5475
Dividend per earnings, class B share, %	124.0	94.2	101.0	88.6	77.5
Dividend per earnings, class A share, %	123.7	94.1	100.9	88.5	77.4
Effective dividend yield, class B share, %	3.4	2.9	4.0	3.7	3.6
Price per earnings, class B share	36.63	32.31	25.49	24.05	21.29
Market value of class B share, average, EUR	62.07	49.82	43.68	43.73	41.47
- at end of period, EUR	66.46	58.28	41.64	44.78	42.57
Market capitalization at the end of period, MEUR [2)]	34,452	30,180	21,489	23,052	21,851
Number of class A shares at the 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 the end of period, (1,000s) [2)]	442,181	441,634	439,852	438,569	437,076
Weighted average number of class B shares, (1,000s) [3)]	442,055	440,897	439,875	438,628	437,928
Weighted average number of shares, (1,000s) [3)]	518,264	517,105	516,084	514,837	514,137

[1)] Board's proposal. Includes proposed extraordinary dividend of EUR 0.4975 per class A share and EUR 0.50 per class B share.
[2)] Reduced by the number of repurchased own shares. Class A shares are valued at the closing price of the class B shares.
[3)] 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 IFRS 16 standard effective January 1, 2019 using the modified retrospective approach and comparative figures have not been restated. KONE applies IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2016 are not restated and thus not fully comparable.

Consolidated Statement of Income, Jan 1–Dec 31	2020	2019	2018	2017	2016
Sales, MEUR	9,939	9,982	9,071	8,797	8,784
- sales outside Finland, MEUR	9,745	9,783	8,879	8,620	8,594
Operating income, MEUR	1,213	1,192	1,042	1,192	1,293
- as percentage of sales, %	12.2	11.9	11.5	13.6	14.7
Adjusted EBIT, MEUR [1)]	1,251	1,237	1,112	1,206	1,293
- as percentage of sales, % [1)]	12.6	12.4	12.3	13.7	14.7
Income before taxes, MEUR	1,224	1,218	1,087	1,250	1,330
- as percentage of sales, %	12.3	12.2	12.0	14.2	15.1
Net income, MEUR	947	939	845	960	1,023

Consolidated statement of financial position, MEUR	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Non-current assets	2,666	2,811	2,418	2,387	2,489
Current assets	6,126	5,802	5,316	5,075	5,463
Total equity	3,197	3,193	3,081	3,029	2,796
Non-current liabilities	522	760	489	491	534
Provisions	155	127	139	138	183
Current liabilities	4,918	4,533	4,025	3,804	4,438
Total assets	8,792	8,613	7,734	7,462	7,951
Interest-bearing net debt	-1,954	-1,553	-1,704	-1,690	-1,688
Assets employed [2)]	1,243	1,640	1,377	1,339	1,108
Net working capital [2)]	-1,160	-856	-758	-773	-1,055

Other data, Jan 1–Dec 31	2020	2019	2018	2017	2016
Orders received, MEUR	8,185	8,400	7,797	7,554	7,621
Order book, MEUR	7,729	8,052	7,951	7,358	8,592
Cash flow from operations before financing items and taxes, MEUR	1,908	1,550	1,150	1,263	1,509
Capital expenditure excl. acquisitions, MEUR	201	200	112	116	127
- as percentage of sales, %	2.0	2.0	1.2	1.3	1.5
Expenditure on research and development, MEUR	180	171	164	158	141
- as percentage of sales, %	1.8	1.7	1.8	1.8	1.6
Average number of employees	60,376	58,369	56,119	53,417	50,905
Number of employees at end of period	61,380	59,825	57,359	55,075	52,104
Employee costs	3,043	3,048	2,818	2,725	2,634

Key ratios, %, Jan 1–Dec 31	2020	2019	2018	2017	2016
Return on equity	29.7	30.1	27.7	32.1	38.1
Return on capital employed	25.0	25.1	25.0	28.8	34.1
Equity ratio	45.5	46.5	49.9	50.0	46.8
Gearing	-61.1	-48.6	-55.3	-55.8	-60.4

[1)] 2017–2020 Excluding significant restructuring costs arising from redundancy and other costs directly associated with the Accelerate program.
[2)] Items included are presented on page 39.

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 the comparability of the business performance between reporting periods. 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.

	2020	2019	2018	2017	2016
Operating income (EBIT), MEUR	1,213	1,192	1,042	1,192	1,293
Operating income margin (EBIT margin), %	12.2	11.9	11.5	13.6	14.7
Items impacting comparability, MEUR	38	45	70	13	-
Adjusted EBIT, MEUR	1,251	1,237	1,112	1,206	1,293
Adjusted EBIT margin %	12.6	12.4	12.3	13.7	14.7

CALCULATION OF KEY FIGURES

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

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

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

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

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

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

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

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

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

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

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

$$\text{Return on equity (\%)} = 100 \times \frac{\text{Net income}}{\text{Total equity (average during the accounting period)}}$$

$$\text{Return on capital employed (\%)} = 100 \times \frac{\text{Net income + financing expenses}}{\text{Equity + interest-bearing-debt (average during the accounting period)}}$$

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

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

Assets employed = Net working capital + goodwill + intangible assets + tangible assets + 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

CONSOLIDATED STATEMENT OF INCOME

MEUR	Note	Jan 1–Dec 31, 2020	%	Jan 1–Dec 31, 2019	%
Sales	2.1	9,938.5		9,981.8	
Costs, expenses and depreciation	2.2, 2.3	-8,725.7		-8,789.4	
Operating income		1,212.9	12.2	1,192.5	11.9
Financing income	2.5	41.8		51.6	
Financing expenses	2.5	-30.4		-26.5	
Income before taxes		1,224.2	12.3	1,217.5	12.2
Taxes	2.6	-276.9		-278.9	
Net income		947.3	9.5	938.6	9.4
Net income attributable to:					
Shareholders of the parent company		939.2		931.3	
Non-controlling interests		8.1		7.3	
Total		947.3		938.6	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	2.7				
Basic earnings per share, EUR		1.81		1.80	
Diluted earnings per share, EUR		1.81		1.80	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	Note	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Net income		947.3	938.6
Other comprehensive income, net of tax:	2.8		
Translation differences		-173.2	54.0
Hedging of foreign subsidiaries		52.0	-8.5
Cash flow hedges		27.1	-14.5
Items that may be subsequently reclassified to statement of income		-94.1	31.0
Changes in fair value		4.8	-2.7
Remeasurements of employee benefits		8.8	-34.3
Items that will not be reclassified to statement of income		13.6	-37.0
Total other comprehensive income, net of tax		-80.5	-6.0
Total comprehensive income		866.8	932.6
Total comprehensive income attributable to:			
Shareholders of the parent company		858.7	925.3
Non-controlling interests		8.1	7.3
Total		866.8	932.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets, MEUR		Note	Dec 31, 2020	Dec 31, 2019
Non-current assets				
Goodwill		4.2	1,327.0	1,366.5
Other intangible assets		4.3	223.2	248.2
Tangible assets		4.4	710.0	742.2
Shares and other non-current financial assets		5.3, 5.4	143.2	139.2
Non-current loans receivable	I	5.3, 5.5	1.0	0.8
Employee benefits	I	5.3, 5.7	19.2	21.7
Deferred tax assets	II	3.6	242.4	292.3
Total non-current assets			2,666.1	2,810.9
Current assets				
Inventories	II	3.1	597.0	648.6
Accounts receivable	II	3.2, 5.3	2,178.6	2,232.3
Deferred assets	II	3.3, 5.3	638.7	596.0
Income tax receivables	II		82.2	73.6
Current deposits and loan receivables	I	5.3, 5.5	2,171.4	1,589.5
Cash and cash equivalents	I	5.3	457.9	662.4
Total current assets			6,125.9	5,802.4
Total assets			8,792.0	8,613.3

Equity and liabilities, MEUR		Note	Dec 31, 2020	Dec 31, 2019
Equity attributable to the shareholders of the parent company				
Share capital		5.2	66.2	66.2
Share premium account			100.3	100.3
Paid-up unrestricted equity reserve			345.7	322.1
Fair value and hedge reserves			41.7	9.8
Translation differences			-10.9	110.3
Remeasurements of employee benefits			-115.0	-123.8
Retained earnings			2,746.6	2,687.9
Total Shareholders' Equity			3,174.6	3,172.9
Non-controlling interests			22.6	20.0
Total Equity			3,197.3	3,192.9
Non-current liabilities				
Loans	I	5.3	244.0	427.1
Employee benefits	I	5.3, 5.7	187.2	172.9
Deferred tax liabilities	II	3.6	90.4	160.2
Total non-current liabilities			521.6	760.2
Provisions	II	3.5	154.7	127.1
Current liabilities				
Current portion of long-term loans	I	5.3	258.9	103.7
Short-term loans and other liabilities	I	5.3	5.6	17.9
Advance payments received and deferred revenue	II	3.2	1,766.8	1,753.8
Accounts payable	II	5.3	890.9	809.8
Accruals	II	3.4, 5.3	1,882.6	1,725.0
Income tax payables	II		113.6	123.0
Total current liabilities			4,918.4	4,533.2
Total equity and liabilities			8,792.0	8,613.3

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MEUR	Note	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2020		66.2	100.3	322.1	9.8	110.3	-123.8	-185.1	2,873.0		20.0	3,192.9
Net income for the period										939.2	8.1	947.3
Other comprehensive income:	2.8											
Translation differences						-173.2						-173.2
Hedging of foreign subsidiaries						52.0						52.0
Cash flow hedges					27.1							27.1
Changes in fair value					4.8							4.8
Remeasurements of employee benefits							8.8					8.8
Transactions with shareholders and non-controlling interests:	5.2											
Profit distribution									-880.5			-880.5
Increase in equity (option rights)												-
Purchase of own shares												-
Change in non-controlling interests											-5.5	-5.5
Option and share-based compensation				23.6				20.4	-20.4			23.6
Dec 31, 2020		66.2	100.3	345.7	41.7	-10.9	-115.0	-164.7	1,972.0	939.2	22.6	3,197.3

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	2840.0		16.0	3080.6
Restatement impact									-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

CONSOLIDATED STATEMENT OF CASH FLOWS

MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Cash receipts from customers	10,057.2	9,967.4
Cash paid to suppliers and employees	-8,149.7	-8,417.8
Cash flow from operations before financing items and taxes	1,907.5	1,549.6
Interest received	30.6	39.2
Interest paid	-19.0	-16.1
Dividends received and capital repayments	8.0	5.9
Other financing items	-43.7	-21.7
Income taxes paid	-333.2	-287.2
Cash flow from operating activities	1,550.2	1,269.7
Capital expenditure	-88.0	-98.0
Proceeds from sales of fixed assets	5.1	-
Acquisitions, net of cash	-26.9	-27.0
Proceeds from sales of businesses	-	3.2
Cash flow from investing activities	-109.8	-121.8
Cash flow after investing activities	1,440.4	1,148.0
Change in deposits and loan receivables, net	-606.1	-182.7
Change of current creditors	-130.2	-119.8
Payments of long-term liabilities	-3.9	-14.3
Purchase of own shares	-	-
Increase in equity (option rights)	-	37.5
Profit distribution	-880.5	-851.7
Changes in non-controlling interests	-3.8	-3.7
Cash flow from financing activities	-1,624.5	-1,134.7
Change in cash and cash equivalents	-184.1	13.2
Cash and cash equivalents at beginning of period	662.4	636.0
Translation differences	-20.4	13.2
Cash and cash equivalents at end of period	457.9	662.4

The impact of changes in exchange rates has been eliminated in the statement of cash flows by translating the opening balance sheet with the closing rates of the period.

Reconciliation of operating income to cash flow from operations before financing items and taxes

MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Operating income	1,212.9	1,192.5
Change in working capital before financing items and taxes	455.6	115.7
Depreciation and amortization	239.0	241.5
Cash flow from operations before financing items and taxes	1,907.5	1,549.6

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Interest-bearing net debt at beginning of period	-1,552.9	-1,346.4
Interest-bearing net debt at end of period	-1,953.8	-1,552.9
Change in interest-bearing net debt	-401.0	-206.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

IN THIS SECTION

- Basis of preparation
- Consolidation principles
- Segment information
- Accounting estimates and management judgements

Accounting principles are presented in connection with 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 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, 2020.

KONE has adopted the new standards and interpretations that took effect during the accounting period and are relevant to its operations. The IFRS standards and amendments thereto that took effect in 2020 did not have a material impact on the result or the financial position of the Group or on the presentation of the financial statements. IFRS 16 and IFRIC 23 were adopted effective January 1, 2019 using the modified retrospective approach with transition impact of EUR 28.5 million recognized in the opening balance of retained earnings.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2020. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 28, 2021. 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. Amounts presented in these financial statements have been rounded from exact values and therefore the sum of amounts presented individually can deviate from the presented sum amount calculated based on the exact values. Key figures have been calculated using exact values.

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 acquiring the control, and divested subsidiaries up to the date of loss of control. Inter-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, are 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 inter-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.

The results and financial position of foreign operations that have a functional currency different from the presentation currency of the Group, have been translated into the presentation currency as follows: assets and liabilities at the statement of financial position date closing rate, and income and expenses at average exchange rates of the accounting period. The resulting exchange rate differences have been recognized in other comprehensive income.

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
9,939
MEUR

EBIT
1,213
MEUR

2 Financial performance

IN THIS SECTION

This section comprises the following notes describing KONE's financial performance in 2020:

Financial targets

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

GROWTH:
Faster than market growth

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, 2020	%	Jan 1–Dec 31, 2019	%
New equipment	5,340.2	54	5,318.8	53
Services	4,598.4	46	4,663.0	47
Maintenance	3215.6	32	3,192.0	32
Modernization	1,382.8	14	1,471.0	15
Total	9,938.5		9,981.8	

Sales by geographical area

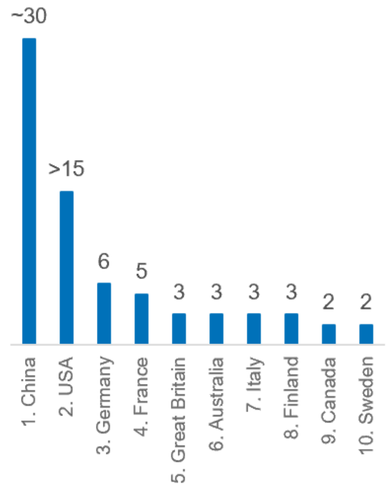
MEUR	Jan 1–Dec 31, 2020	%	Jan 1–Dec 31, 2019	%
EMEA [1)]	3,916.2	39	4,045.4	41
Americas	1,939.5	20	2,046.7	21
Asia-Pacific	4,082.8	41	3,889.7	39
Total	9,938.5		9,981.8	

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

Sales by customer

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

Top 10 countries by sales, %



Accounting principles

Revenue recognition

Revenue from contracts with KONE's customers 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™ solution. 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 completes full delivery of 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 estimate of total revenue and costs, adjusted with risks based on historical experience on 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's customer contracts do not contain any significant financing components. In new equipment and modernization contracts payment terms are typically based on either specific contractual milestones or progress of work performed. In maintenance services contracts customers generally pay based on fixed payment schedules.

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, 2020	Jan 1–Dec 31, 2019
Direct materials, supplies and subcontracting	3,957.6	4,022.3
Wages, salaries, and other employment expenses including pensions (note 5.7)	3,042.9	3,048.4
Other production costs [1]	712.9	745.1
Selling, administrative and other expenses [2]	762.2	706.2
Items impacting comparability [3]	37.7	45.0
Depreciation and amortization (note 2.3)	239.0	241.5
Costs, expenses, depreciation and amortization	8,752.2	8,808.4
Other income [4]	26.5	19.0
Total costs, expenses, depreciation and amortization	8,725.7	8,789.4

Expense arising from leases of low-value assets and short-term leases amounted to EUR 11.2 (11.0) million in 2020.

[1] Includes costs of logistics, tools and consumables, operative car fleet 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.

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.

Research and development costs, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
R&D costs included in total costs	179.6	170.9
As percentage of sales, %	1.8	1.7

Auditors´ fees, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
To member firms of PricewaterhouseCoopers network		
Audit	3.7	3.8
Auditors´ statements	0.0	0.0
Tax services	0.5	0.4
Other services	2.3	2.2
Total	6.5	6.4

PricewaterhouseCoopers Oy has provided non-audit services to the entities of KONE Group in total of 213.0 thousand euros during the financial year 2020. These services included tax advisory services 27.0 thousand euros and other services 187.0 thousand euros.

2.3 DEPRECIATION AND AMORTIZATION

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:

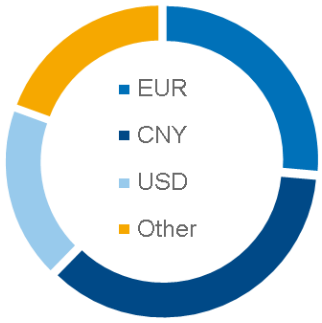
Maintenance contracts	10–15 years
Other intangible assets	3–10 years
Buildings	5–40 years
Machinery and equipment	4–10 years

Land is not depreciated.

Depreciation and amortization, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Other intangible assets		
Maintenance contracts	36.8	36.2
Other	11.6	13.7
Buildings	73.2	80.4
Machinery and equipment	117.5	111.2
Total	239.0	241.5

2.4 FOREIGN EXCHANGE SENSITIVITY

Sales by currency 1–12/2020



Foreign exchange risks

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

Transaction risks

A substantial part of KONE's operations are denominated in local functional currencies of the subsidiaries and do not therefore give rise to transaction risk. The sales of new equipment and modernizations, including installation, 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. 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 yuan, British pound, Canadian dollar, US dollar and Singapore 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, statement of cash flows 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 2020 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 -173.2 (54.0) million in 2020. 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 arising from operations of foreign subsidiaries are in the Chinese yuan, 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 recognition of transactions denominated in foreign currencies in the functional currency takes place 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 gains and losses 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 denominated 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 net 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 yuan and US dollar) at the statement of financial position date would have resulted in an impact of EUR -8.5 (-14.6) million on the net income and an impact of EUR 90.1 (48.7) 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, 2020	-618	-124	-82	80	139	-76	**-681**	112	-93	-43	**-24**	-45	-66	**-111**
Exposure Dec 31, 2019	-154	-135	-91	80	134	-77	**-243**	149	-87	-39	**23**	-53	-68	**-121**

2.5 FINANCING INCOME AND EXPENSES

Financing income and expenses, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Dividend income	8.0	5.9
Interest income		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [1]	-	0.6
Interest income	19.9	25.2
Interest income on loan receivables and financial assets	13.0	16.2
Other financing income	0.3	1.5
Exchange rate gains [2]	0.6	2.2
Financing income	41.8	51.6
Interest expenses		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [1]	-6.3	-0.3
Interest expenses on other financial liabilities [3]	-17.0	-19.2
Other financing expenses [4]	-5.4	-6.9
Exchange rate losses [2]	-1.7	-0.1
Financing expenses	-30.4	-26.5
Financing income and expenses	11.4	25.1

[1] Change in fair value of interest includes EUR -6.5 (0.4) 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 141.4 (-6.5) million and fair value changes of foreign exchange derivatives of EUR -142.5 (8.6) million.
[3] Includes interest expenses on the lease liabilities amounting to EUR -10.2 (-13.3) million.
[4] Includes commitment for fees undrawn revolving credit facilities EUR -0.9 (-0.7) million and banking charges and other expenses EUR -4.5 (-6.2) million.

2.6 INCOME TAXES

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 from difference 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, depreciation and amortization, 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 recognized 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.

Taxes in statement of income, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Tax expense for current year	304.2	290.4
Change in deferred tax assets and liabilities	-23.4	-16.7
Tax expense for previous years	-3.9	5.2
Total	276.9	278.9

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Income before taxes	1,224.2	1,217.5
Tax calculated at the domestic corporation tax rate (20%)	244.9	243.5
Effect of different tax rates in foreign subsidiaries	0.5	2.5
Permanent differences	-4.4	1.1
Taxes from previous years and reassessment of deferred tax assets	3.5	0.9
Remeasurement of deferred taxes - changes in corporate tax rates	0.4	1.2
Deferred tax liability on undistributed earnings	27.8	24.9
Other	4.2	4.8
Total	276.9	278.9
Effective tax rate, %	22.6	22.9
Tax rate of parent company, %	20.0	20.0

2.7 EARNINGS PER SHARE

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.

	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Net income attributable to the shareholders of the parent company, MEUR	939.2	931.3
Weighted average number of shares (1,000 shares)	517,679	516,252
Basic earnings per share, EUR	1.81	1.80
Dilution effect of share options and share-based incentive plans (1,000 shares)	585	853
Weighted average number of shares, dilution adjusted (1,000 shares)	518,264	517,105
Diluted earnings per share, EUR	1.81	1.80

2.8 OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Translation differences	-173.2	54.0
Hedging of foreign subsidiaries	65.0	-10.7
Changes in fair value	4.8	-2.7
Remeasurements of employee benefits	-2.9	-36.7
Cash flow hedges:		
Gains/losses arising during the year	36.4	-0.9
Reclassifications included in profit or loss	-1.4	-17.9
Cash flow hedges, net	35.0	-18.8
Income tax relating to components of other comprehensive income	-9.2	8.8
Other comprehensive income	-80.5	-6.0

Tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2020			Jan 1–Dec 31, 2019		
MEUR	Before-tax amount	Tax expense/ benefit	Net-of-tax amount	Before-tax amount	Tax expense/ benefit	Net-of-tax amount
Translation differences	-173.2	-	-173.2	54.0	-	54.0
Hedging of foreign subsidiaries	65.0	-13.0	52.0	-10.7	2.1	-8.5
Cash flow hedges	35.0	-7.9	27.1	-18.8	4.3	-14.5
Items that may be subsequently reclassified to statement of income	-73.2	-20.9	-94.1	24.5	6.4	31.0
Changes in fair value	4.8	-	4.8	-2.7	-	-2.7
Remeasurements of employee benefits	-2.9	11.7	8.8	-36.7	2.4	-34.3
Items that will not be reclassified to statement of income	1.9	11.7	13.6	-39.4	2.4	-37.0
Total other comprehensive income	-71.3	-9.2	-80.5	-14.9	8.8	-6.0

Net working capital
-1,160
MEUR

Cash flow*
1,908
MEUR

3 Net working capital

IN THIS SECTION

This section comprises the following notes, describing components of KONE's net working capital for 2020:

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

MEUR	Dec 31, 2020	Dec 31, 2019
Net working capital		
Inventories	597.0	648.6
Advance payments received and deferred revenue	-1,766.8	-1,753.8
Accounts receivable	2,178.6	2,232.3
Deferred assets and income tax receivables	720.9	669.6
Accruals and income tax payables	-1,996.2	-1,848.0
Provisions	-154.7	-127.1
Accounts payable	-890.9	-809.8
Net deferred tax assets/liabilities	152.0	132.1
Total net working capital	-1,160.1	-856.0

3.1 INVENTORIES

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.

Inventories, MEUR	Dec 31, 2020	Dec 31, 2019
Raw materials, supplies and finished goods	278.0	299.3
Work in progress	300.2	322.7
Advance payments made	18.7	26.6
Total	597.0	648.6

3.2 ACCOUNTS RECEIVABLE AND CONTRACT ASSETS AND LIABILITIES

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 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 asset and presented under deferred assets in the consolidated statement of financial position.

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

Deferred and accrued income on maintenance contracts

When revenue recognized exceeds the amounts billed to the customer an accrued income 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 exceed the recognized revenue deferred income on maintenance contracts is recognized. These balances are classified as contract liabilities and are presented under accruals in the consolidated statement of financial position.

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.

MEUR	Dec 31, 2020	Dec 31, 2019
Accounts receivable	2,178.6	2,232.3
Accrued income on maintenance contracts (note 3.3)	31.8	25.6
Unbilled contract revenue (note 3.3)	282.7	321.0
Assets related to contracts with customers	2,493.2	2,578.8
Deferred income on maintenance contracts (note 3.4)	406.3	385.0
Advance payments received and deferred revenue	1,766.8	1,753.8
Liabilities related to contracts with customers	2,173.1	2,138.7

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 7,728.8 (8,051.5) 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 changes in business but also impacted by the normal fluctuation in project progress when applying percentage of completion method for recognition of revenue.

Deferred income 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	Dec 31, 2020	Dec 31, 2019
Not past due and less than one month due receivables	1,674.5	1,742.3
Past due 1–3 months	277.5	275.9
Past due 3–6 months	134.8	136.6
Past due > 6 months	91.9	77.5
Accounts receivable in the consolidated statement of financial position	2,178.6	2,232.3

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 using the expected credit loss model.

During the current financial year, KONE has modified calculation parameters for the receivables aging based allowance as well as recorded impairment charges on certain individual cases to reflect the effect of increased risk for credit losses pertaining to COVID19. Overall the disruption to the business arising from COVID19 has been limited with significant part of KONE's operations being considered essential and as such, allowed even during lockdowns. Increased uncertainty of receivables collection is not expected to continue long-term.

The amount of bad debt provision recorded to cover doubtful accounts was EUR 262.5 (252.9) million at the end of the financial period.

3.3 DEFERRED ASSETS

Deferred assets, MEUR	Dec 31, 2020	Dec 31, 2019
Deferred interests	0.7	3.1
Accrued income on maintenance contracts (note 3.2)	31.8	25.6
Unbilled contract revenue (note 3.2)	282.7	321.0
Derivative assets (note 5.3)	76.8	9.1
Value added tax assets	92.4	101.3
Prepaid expenses and other receivables	154.3	135.9
Total	638.7	596.0

3.4 ACCRUALS

Accruals, MEUR	Dec 31, 2020	Dec 31, 2019
Accrued interests	0.9	0.9
Deferred income on maintenance contracts (note 3.2)	406.3	385.0
Late cost accruals [1)]	305.7	281.8
Accrued salaries, wages and employment costs	479.5	477.5
Share-based payments	26.6	29.5
Derivative liabilities (note 5.3)	77.0	25.7
Value added tax liabilities	98.3	108.3
Accruals on acquisitions	13.4	13.4
Other accruals	474.9	402.8
Total	1,882.6	1,725.0

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

3.5 PROVISIONS

Accounting principles

Provisions

Provisions are recognized when KONE has a current legal or constructive obligation as a result of past event, 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, 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.

Jan 1–Dec 31, 2020, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	57.8	3.7	15.2	26.4	24.0	127.1
Translation differences	-1.0	0.0	-0.2	-1.9	-0.4	-3.6
Increase	31.4	3.2	20.9	18.5	19.9	94.0
Provisions used	-16.2	-0.1	-16.1	-9.5	-4.6	-46.5
Reversal of provisions	-4.6	-0.5	-1.6	-5.1	-4.6	-16.4
Companies acquired	-	-	-	-	0.2	0.2
Total provisions at end of period	67.4	6.3	18.1	28.3	34.5	154.7

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2020	39.9	114.7	154.7

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

3.6 DEFERRED TAX ASSETS AND LIABILITIES

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 take advantage of the asset in the future.

A deferred tax liability is recognized on the undistributed profits of subsidiaries where such tax is applicable and it is expected to realize in the foreseeable future. Deferred tax assets and liabilities are offset for presentation purposes when there is a legally enforceable right to offset income tax receivables against income tax payables and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority

Deferred tax assets, MEUR	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Tax losses carried forward	2.0	2.4	3.0
Provisions and accruals	236.7	193.2	160.8
Pensions	21.7	20.8	18.5
Inventory	24.5	25.7	25.9
Property, plant and equipment	14.7	9.2	11.6
Other temporary differences for assets	42.6	41.0	33.9
Offset against deferred tax liabilities [1)]	-99.8	-	-
Total	242.4	292.3	253.7
Total at beginning of period	292.3	253.7	-
Translation differences	-5.5	5.0	-
Change in statement of income	-48.3	26.9	-
Charged or credited to equity	3.8	6.7	-
Acquisitions, divestments and other	0.1	-	-
Total at end of period	242.4	292.3	-

Deferred tax liabilities, MEUR	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Property, plant and equipment	29.0	22.6	20.4
Goodwill and intangible assets	72.0	73.9	59.5
Other temporary differences for liabilities	89.3	63.8	68.8
Offset against deferred tax assets [1)]	-99.8	-	-
Total	90.4	160.3	148.7
Total at beginning of period	160.3	148.7	-
Translation difference	-2.1	-0.2	-
Change in statement of income	-71.7	10.2	-
Acquisitions, divestments and other	3.9	1.6	-
Total at end of period	90.4	160.3	-
Net deferred tax assets and liabilities	152.0	132.0	-

[1)] From the beginning of 2020 deferred tax assets and liabilities are offset for presentation purposes. In 2019, the balance sheet values of both deferred tax assets and deferred tax liabilities would have been EUR 72.8 million lower had they been offset against each other.

Acquisitions and capex

230 MEUR

Completed acquisitions

20

4 Acquisitions and capital expenditure

IN THIS SECTION

This section comprises the following notes, which describe acquisitions and capital expenditure at KONE for 2020:

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 2020 consisted of small maintenance companies in EMEA.

KONE´s capital expenditure 2.0% of sales in 2020

4.1 ACQUISITIONS

Accounting principles

Acquisitions

Businesses acquired during the period have been combined in the consolidated financial statements from the date when Group has obtained control of the business and divested businesses up to the date when control has ceased. 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, any non-controlling interest is measured either at the acquisition date fair value or at non-controlling interest's proportionate share in the recognized amounts of the identifiable net assets.

Assets and liabilities of the acquired businesses, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Maintenance contracts	26.6	22.3
Other intangible assets	1.3	-
Tangible assets	0.5	0.2
Deferred tax assets	0.1	0.0
Inventories	1.0	0.6
Accounts receivables and other assets	3.6	4.8
Cash and cash equivalents and other interest-bearing receivables	1.5	2.9
Total assets	34.5	30.8
Pension liabilities	1.6	0.6
Interest-bearing loans	0.6	1.7
Provisions	0.2	0.2
Deferred tax liabilities	3.9	1.6
Other liabilities	3.2	3.2
Total liabilities	9.4	7.4
Net assets	25.0	23.4
Acquisition cost paid in cash	21.7	25.4
Contingent and deferred consideration	7.3	10.6
Acquisition cost at date of acquisitions	29.0	36.0
Goodwill	4.0	12.6

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 0.7 (0.6) million.

Acquisitions

KONE completed 20 (22) acquisitions during 2020 for a total consideration of EUR 29.0 million. The acquired businesses are specialized in the elevator, escalator and automatic building door businesses. The acquisitions completed during the financial period were not material individually or as a whole to KONE's 2020 financial statements. The sales consolidated from the companies acquired during 2020 had only a minor impact on KONE's sales for the financial period. Of total consideration based on provisional assessments EUR 26.6 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 in the profit or loss. KONE acquired a 100% interest in all businesses acquired in 2020.

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 defined as the country unit in which the acquired business is operating in accordance with KONE’s business model and organization structure. As at Dec 31, 2020 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 10 CGUs. The geographical allocation of goodwill and the weighted average discount rates are presented in the table below:

Goodwill, MEUR	Dec 31, 2020	%	Discount interest rates used (pre-tax), %	Dec 31, 2019	%	Discount interest rates used (pre-tax), %
EMEA	784.9	59	5.15	791.7	58	5.55
Americas	319.6	24	6.46	346.9	25	7.72
Asia-Pacific	222.6	17	9.19	228.0	17	9.31
Total	1,327.0			1,366.5		

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2020	Dec 31, 2019
Opening net book value	1,366.5	1,333.4
Translation differences	-39.7	20.4
Increase	0.2	0.0
Decrease	-3.8	-
Companies acquired (note 4.1)	4.0	12.6
Closing net book value	1,327.0	1,366.5

Impairment testing

The value-in-use calculations based on CGU specific cash flow projections are based on financial estimates prepared by the management. The explicit forecast period covers the following three years for each CGU.

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 cash flows for subsequent terminal year are assumed prudently without growth.

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 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 9.9 times higher than the CGU's assets employed. The respective ratio for the five largest CGUs was 8.0; for the five smallest 13.9 and respectively for the other CGUs 13.8.

4.3 INTANGIBLE ASSETS

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, is 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.

	Jan 1–Dec 31, 2020		
Intangible assets, MEUR	**Maintenance contracts**	**Other**	**Total**
Jan 1, 2020:			
Acquisition cost	416.3	273.0	689.2
Accumulated amortization and impairment	-212.7	-228.3	-441.0
Opening net book value	203.5	44.7	248.2
Opening net book value	203.5	44.7	248.2
Translation differences	-3.5	-2.0	-5.5
Increase	0.1	9.3	9.4
Decrease	-	-0.1	-0.1
Reclassifications	-	-8.3	-8.3
Companies acquired (note 4.1)	26.6	1.3	27.9
Amortization	-36.8	-11.6	-48.4
Closing net book value	190.0	33.2	223.2
Dec 31, 2020			
Acquisition cost	439.5	261.8	701.3
Accumulated amortization and impairment	-249.5	-228.6	-478.1
Closing net book value	190.0	33.2	223.2

Intangible assets, MEUR	Jan 1–Dec 31, 2019 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
Opening 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
Closing net book value	203.5	44.7	248.2

4.4 TANGIBLE ASSETS

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. The cost arising from short-term leases and leases of low value assets 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 amount higher than the carrying amount that would have been determined without the impairment loss recognized in prior years, deducted by accumulated depreciation.

Tangible assets, MEUR	Land	Buildings	Buildings, leased for own use	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
	Jan 1–Dec 31, 2020							
Jan 1, 2020:								
Acquisition cost	6.8	302.1	301.4	610.4	200.2	5.3	4.4	1,430.6
Accumulated depreciation	0.0	-120.9	-69.1	-432.2	-66.1	0.0	0.0	-688.4
Opening net book value	6.8	181.2	232.3	178.1	134.1	5.3	4.4	742.2
Opening net book value	6.8	181.2	232.3	178.1	134.1	5.3	4.4	742.2
Translation differences	-0.1	-6.4	-8.8	-7.4	-4.9	-0.4	-0.1	-28.2
Increase	0.1	7.7	58.2	57.7	55.1	10.1	2.7	191.6
Decrease	-0.1	-0.3	-6.0	-1.8	-3.3	-0.9	-1.2	-13.6
Reclassifications	-	10.7	0.0	3.7	0.2	-3.6	-2.6	8.3
Companies acquired (note 4.1)	-	0.2	-	0.2	-	-	-	0.5
Depreciation	0.0	-13.6	-59.6	-55.8	-61.7	-	-	-190.7
Closing net book value	6.7	179.6	216.1	174.7	119.3	10.6	3.2	710.0
Dec 31, 2020:								
Acquisition cost	6.7	317.3	321.6	602.2	208.6	10.6	3.2	1,470.3
Accumulated depreciation	0.0	-137.7	-105.5	-427.6	-89.4	0.0	0.0	-760.2
Closing net book value	6.7	179.6	216.1	174.7	119.2	10.6	3.2	710.0

During the period of Jan 1–Dec 31, 2020, 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 to EUR 201.0 (200.5) million. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Lease payments in cash flow in 2020 totaled to EUR -117.9 (-108.4) million.

	Jan 1–Dec 31, 2019							
Tangible assets, MEUR	**Land**	**Buildings**	**Buildings, leased for own use**	**Machinery & equipment**	**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
Opening 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	49.2	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
Closing net book value	6.8	181.2	232.3	178.1	134.1	5.3	4.4	742.2

KONE's interest bearing net debt
-1,954 MEUR

Equity per share
6.12 EUR

5 Capital structure

IN THIS SECTION

This section comprises the following notes, which describe capital structure of KONE for 2020:

KONE'S CAPITAL STRUCTURE

- KONE's cash position is strong due to the cash-generative business model including 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 example 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 financial 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 2020, 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 2020, KONE had 11,006,006 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	2020	2019	2018	2017	2016
Assets employed:					
Goodwill and shares	1,470	1,506	1,477	1,460	1,502
Other non-current assets 1)	933	990	658	652	661
Net working capital	-1,160	-856	-758	-773	-1,055
Total assets employed	1,243	1,640	1,377	1,339	1,108
Capital:					
Equity	3,197	3,193	3,081	3,029	2,796
Interest-bearing net debt	-1,954	-1,553	-1,704	-1,690	-1,688
Total capital	1,243	1,640	1,377	1,339	1,108
Gearing	-61.1%	-48.6%	-55.3%	-55.8%	-60.4%
Equity ratio	45.5%	46.5%	49.9%	50.0%	46.8%

1) Tangible assets, acquired maintenance contracts and other intangible assets.
*) In 2016–2020, the dividend payout ratio has been 77.6–124.0% for class B shares (2020 proposal by the Board of Directors at KONE Corporation).

KONE has adopted the new IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative amounts have not been restated. Further, KONE has applied IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Amounts for 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. 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 costs directly attributable to the purchase transaction 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 of Directors of KONE Corporation for the financial year ended, is not deducted from the equity prior to acceptance by a Shareholders' Meeting.

Shares and share capital

At the end of the 2020 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 KONE Corporation had a valid authorization granted by the Annual General Meeting in February 2020 to increase the share capital and to issue stock options. The authorization shall remain in effect until the conclusion of the following annual general meeting, however at the latest until 30 June 2021.

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.

During 2020 there were no changes in the share capital of KONE Corporation. In 2019, share capital increased by 1,303,193 or EUR 0.2 million through subscription of Class B shares with 2015 options.

More information

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

Authority to buy own shares

KONE Corporation's Annual General Meeting held on February 25, 2020 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 52,930,000 shares may be repurchased, of which no more than 7,620,000 are to be class A shares and 45,310,000 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 2020, KONE did not repurchase own shares.

Own shares

	Number of shares	Cost, MEUR
Jan 1, 2020	11,553,605	185.1
Distributed to the share-based incentive plan, January	-217,499	-8.2
Distributed to the annual compensation of the Board, April	-3,315	-0.1
Distributed to the share-based incentive plan, April	-294,497	-11.0
Distributed to the share-based incentive plan, May	-38,013	-1.4
Returned from the share-based incentive plan, April	3,487	0.1
Returned from the share-based incentive plan, December	2,238	0.1
Dec 31, 2020	11,006,006	164.7
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

Reconciliation of own shares, Dec 31, 2020

KONE Corporation and Group total	pcs	Acquisition cost	Average price
Dec 31, 2019	11,553,605	185,110,965.32	16.02
January 29, 2020	-217,499	-8,159,470.77	37.51
April 28, 2020	-3,315	-122,156.59	36.85
April 28, 2020	-294,497	-10,978,976.56	37.28
April 28, 2020	3,487	-1,400,765.81	37.09
May 19, 2020	-38,013	129,325.23	36.85
December 17, 2020	2,238	83,002.54	37.09
Dec 31, 2020	11,006,006	164,661,923.36	14.96

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 as at the forward contract date and balance sheet date in euros.

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 move 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 transactions 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 item, 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.

The effective portion of the change in the fair values of currency forward contracts hedging translation differences arising from 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.

Accounting principles

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. 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 profit or loss. Only substantial transaction costs are considered 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 assets

KONE has substantial amounts of cash and financial investments. In order to diversify the financial credit risk, funds are invested into highly liquid interest rate funds and 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 assets, 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 457.9 (662.4) million and financial investments EUR 2,170.4 (1,587.7) million on December 31, 2020.

Cash and financial investments are managed centrally by KONE Treasury. Due to local regulations part of the funds reside 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 flow method using a current borrowing rate (level 2 fair value hierarchy) as the discount rate. KONE has also an uncommitted commercial paper program of EUR 500 million, an existing committed European Investment Bank (EIB) credit facility of EUR 200 million and bank credit facilities of EUR 800 million to ensure sufficient liquidity.

Interest rate risks

KONE's cash and short-term investments were EUR 2,628.3 (2,250.2) million at the statement of financial position date. At the same time, KONE's interest-bearing debt was EUR 695.8 (721.6) million and consisted of EUR 504.3 (544.3) million of financial debt including lease liabilities, EUR 4.2 (4.4) million of option liabilities from acquisitions, and EUR 187.2 (172.9) million of employee benefit liabilities. Additionally, KONE had an asset on employee benefits of EUR 19.2 (21.7) 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 2020 during the following financial period. The sensitivity analysis presents the impact of a 1 percentage point change in the interest rate level on the net interest income for the financial period by taking into account the net financial debt tied to interest periods of less than one year, EUR -2,364.8 (-2,130.3) million. For 2021 a 1 percentage point change in the interest rate level would mean a change of EUR -23.6 (-21.3) 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 acquisition.

Maturity analysis of financial liabilities and interest payments

	Dec 31, 2020				Dec 31, 2019			
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
Lease liabilities	-98.9	-199.8	-44.2	-342.9	-103.7	-210.3	-56.7	-370.7
Short-term loans	-160.0	-	-	-160.0	-	-	-	-
Used bank overdraft limits	-1.4	-	-	-1.4	-13.5	-	-	-13.5
Option liabilities from acquisitions	-4.2	-	-	-4.2	-4.4	-	-	-4.4
Employee benefits	-	-	-187.2	-187.2	-	-	-172.9	-172.9
Non-interest-bearing debt								
Accounts payables	-890.9	-	-	-890.9	-809.8	-	-	-809.8
Derivatives								
Capital inflow	3,676.9	113.4	-	3,790.3	2,425.5	143.9	-	2,569.4
Capital outflow	-3,667.7	-113.8	-	-3,781.5	-2,437.7	-146.3	-	-2,584.0
Interest payments	-7.6	-8.5	-4.6	-20.7	-0.6	-14.2	-4.4	-19.2
Net outflow	-1,154.0	-208.6	-236.0	-1,598.6	-944.2	-386.9	-234.0	-1,565.1

Values of financial assets and liabilities by categories

Dec 31, 2020		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	I	5.4			143.2		143.2
Non-current loans receivable		5.5		1.0			1.0
Employee benefits		5.7				19.2	19.2
Current assets							
Accounts receivable				2,178.6			2,178.6
Derivative assets			7.7		69.1		76.8
Current deposits and loans receivable	I	5.5	1,790.1	381.3			2,171.4
Cash and cash equivalents	I			457.9			457.9
Total financial assets			1,797.9	3,018.9	212.2	19.2	5,048.2
Non-current liabilities							
Loans [1]	I					244.0	244.0
Employee benefits	I	5.7				187.2	187.2
Current liabilities							
Loans [2]	I			160.0		98.9	258.9
Short-term loans and other liabilities	I					1.4	1.4
Option liabilities from acquisitions	I		4.2				4.2
Accounts payable				890.9			890.9
Derivative liabilities			62.1		15.0		77.0
Unpaid acquisition consideration						13.4	13.4
Total financial liabilities			66.3	1,050.9	15.0	545.0	1,677.1

[1] Includes lease liabilities of EUR 244.0 million.
[2] Includes lease liabilities of EUR 98.9 million.

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 ".

Dec 31, 2019		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	I	5.4			139.2		139.2
Non-current loans receivable		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	3,511.8	145.8	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

1) Includes lease liabilities of EUR 267.0 million.
2) Includes lease liabilities of EUR 103.9 million.

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 entered into in accordance with 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 9.6 (0.4) million and payables EUR 9.9 (17.0) million.

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2020	Derivative liabilities Dec 31, 2020	Fair value, net Dec 31, 2020	Fair value, net Dec 31, 2019
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	19.9	-15.0	4.9	-16.0
In net investment hedging	49.2	-	49.2	0.0
Other hedges	7.7	-62.1	-54.4	-0.6
Total	76.8	-77.0	-0.3	-16.5

Nominal values of derivative financial instruments, MEUR	Dec 31, 2020	Dec 31, 2019
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	981.1	1,126.0
In net investment hedging	670.5	152.9
Other hedges	2,138.6	1,290.5
Total	3,790.3	2,569.4

5.4 SHAREHOLDINGS AND OTHER NON-CURRENT FINANCIAL ASSETS

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 noncurrent 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.

On the date of the statement of financial position, shares and other non-current financial assets were EUR 139.0 and 4.2 million, respectively (EUR 134.2 and 4.9 million).

The shares held include a 19.9% holding in Toshiba Elevator and Building Systems Corporation (TELC). TELC consists of 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.

5.5 DEPOSITS AND LOANS RECEIVABLE

Deposits and loans receivable, MEUR	Dec 31, 2020	Dec 31, 2019
Non-current loans receivable	1.0	0.8
Current loans receivable	1.1	1.8
Current short-term deposits	2,170.4	1,587.7
Total	2,172.5	1,590.3

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 1,790.1 million and EUR 380.2 million of interest rate funds and short-term bank deposits, respectively (EUR 973.2 and 614.5 million).

5.6 COMMITMENTS

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,485.1 (1,576.6) million as of December 31, 2020.

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 to its employees 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 calculation of defined benefit plan related 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, 2020	Dec 31, 2019
Employee benefits		
Defined benefit plans	158.1	142.0
Other post-employment benefits	10.1	9.0
Total	168.1	151.0

	Jan 1–Dec 31, 2020		Jan 1–Dec 31, 2019	
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	112.5	0.4	99.3	-
Present value of funded obligations	526.3	9.7	530.4	10.2
Fair value of benefit plans' assets	-480.8	-	-487.7	-1.2
Total	158.1	10.1	142.0	9.0

	Dec 31, 2020		Dec 31, 2019	
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	163.2	9.0	133.5	13.5
Employee benefit assets at beginning of period	-21.3	-	-29.0	-
Net liability at beginning of period	142.0	9.0	104.5	13.5
Translation differences	-2.6	-1.2	-0.6	0.3
Acquisitions of new companies	1.6	-	-	-
Costs recognized in statement of income	19.0	0.4	19.0	-3.4
Remeasurements	1.8	1.1	37.5	-0.8
Paid contributions and benefits	-18.3	-0.4	-18.6	-0.5
Reclassifications	6.4	1.2	0.1	-
Transfer	8.4	-	-	-
Net liability at end of period	158.1	10.1	142.0	9.0
Employee benefit liability at end of period	177.2	10.1	163.2	9.0
Employee benefit assets at end of period	-19.2	-	-21.3	-
Net liability at end of period	158.1	10.1	142.0	9.0

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Defined contribution pension plans	238.5	215.2
Defined benefit pension plans	19.0	19.0
Other post-employment benefits	0.4	-3.4
Total	257.8	230.8

	Jan 1–Dec 31, 2020		Jan 1–Dec 31, 2019	
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	19.4	0.1	16.4	0.1
Net interest	2.1	0.2	2.4	0.3
Past-service costs	-1.9	-	0.2	-3.9
Settlements	-0.7	-	-	-
Total	19.0	0.4	19.0	-3.4

The actual return on defined benefit plans’ assets was EUR 49.8 (59.8) million.

Defined benefit plans: assumptions used in calculating benefit obligations	Jan 1–Dec 31, 2020		Jan 1–Dec 31, 2019	
	Europe	USA	Europe	USA
Discount rate, %	1.27	2.52	1.61	3.19
Future salary increase, %	2.4	4.0	2.5	4.0
Future pension increase, %	1.7	-	1.6	-

Sensitivity of the defined benefit obligation to changes in actuarial assumptions	Impact on defined benefit obligation	
	Dec 31, 2020	Dec 31, 2019
Discount rate, +0.25 percentage points	-3.8%	-3.6%
Discount rate, -0.25 percentage points	4.1%	3.9%
Future pension increase, +0.25 percentage points	2.4%	2.2%
Future pension increase, -0.25 percentage points	-2.3%	-2.0%

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

6 Others

IN THIS SECTION

This section comprises the following notes concerning rewards and related parties:

6.1 Management remuneration
6.2 Share-based payments
6.3 Related party transactions

6.1 MANAGEMENT REMUNERATION

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

Compensation paid to the key management, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Salaries and other remunerations	10.1	7.8
Share-based payments	20.1	14.8
Total	30.2	22.6

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR, thousand) [2)]	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Herlin Antti, Chairman of the Board [1)]	535.0	529.5
Herlin Jussi, Vice Chairman of the Board	119.0	114.1
Ehrnrooth Henrik, President & CEO [1)]	750.0	750.0
Alahuhta Matti	50.5	45.0
Brunila Anne	49.0	44.5
Duinhoven Susan	48.0	-
Herlin Iiris	48.5	43.5
Kant Ravi	56.5	49.5
Kaskeala Juhani	50.5	45.0
Pietikäinen Sirpa	48.5	43.0
Total	1,755.5	1,664.1

[1)] For the financial year 2020 in addition Antti Herlin's accrued bonus is EUR 290,462 and Henrik Ehrnrooth's accrued bonus is EUR 493,500. These will be paid during 2021. In April 2020, the share-based payments for the financial year 2019 received by Henrik Ehrnrooth was EUR 3,736,669.
[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 25, 2020.

The compensation for Antti Herlin, fulltime 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 2020, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2020 totalled EUR 290,462. He was also paid EUR 66,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 110. The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2020 was EUR 149,870. 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 2020, Henrik Ehrnrooth's basic salary was EUR 750,000. In addition, his accrued bonus for 2020 totaled to EUR 493,500. Henrik Ehrnrooth's holdings of shares are presented in the table on page 110. Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. In April 2020, on the basis of the incentive plan for year 2019, Henrik Ehrnrooth received a reward of EUR 3,736,669, which consisted of 32,531 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 2020 and due for payment in April 2021 is 17,625 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 2020 was EUR 255,530. 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 110. The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2020, on the basis of the incentive plan, the members of the Executive Board received a reward of 172,619 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 2020 and due for payment in April 2021 is 83,897 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 5.9 million at the end of the year 2020 and the monthly pension paid by KONE to him is EUR 22,434 (December 2020).

6.2 SHARE-BASED PAYMENTS

Share based incentive plans

KONE has three separate share-based incentive plans, two performance share plans and one restricted share plan. The first performance share 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. The second performance share plan is targeted for other key personnel of KONE, totaling approximately 500 individuals. The restricted share plan is targeted for senior management and other key personnel of KONE, excluding President & CEO. The potential reward for the performance share plans are based on KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2020, the reward was based on sales growth and profitability as well as growth of KONE's digital services in both plans. The restricted share plan does not have a performance condition. 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 from one to 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 294,497 KONE class B shares were granted in April 2020 and a total of 38,013 KONE class B shares were granted in May 2020 to the management as a reward due to the achievement of the targets for the year 2019 and 217,499 shares in January 2020 to other key personnel. During year 2020 a total of 5,725 of those KONE class B shares were returned to KONE Corporation. In April 2021, a total of 175,461 class B shares will be granted to the senior management as a reward due to the achievement of the targets for the year 2020. To the other key personnel of KONE the total reward from the year 2020 is based on the value of 186,265 KONE class B shares to be delivered in January 2023 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 open in 2019. During the year, a total of 1,303,193 KONE class B shares were subscribed with the open 2015 option program rights. The original share subscription price for the stock option was EUR 36.20 per share. By Dec 31, 2019 all outstanding options had either been subscribed or had expired.

Accounting principles

Share-based payments

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 cash settled part of share-based payments reward 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 incentive plan

Share-based payments recognized as an expense in the statements of income, MEUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
To be paid in shares	23.4	25.6
To be paid in cash	16.3	20.0

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 evaluates and monitors transactions between the Group 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 110. KONE's subsidiaries are disclosed in pages 95–98.

PARENT COMPANY STATEMENT OF INCOME

EUR	Note	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Sales	1	666,309,719.40	684,511,130.42
Other operating income	2	12,597,014.82	14,567,247.60
Materials and services		-3,104,920.68	-3,191,452.20
Personnel expenses	3	-161,658,709.12	-139,636,277.67
Depreciation and amortization	4	-15,236,243.68	-15,035,552.47
Other operating expenses		-405,805,333.71	-390,087,370.19
Operating income		93,101,527.03	151,127,725.49
Financing income and expenses	6	297,451,763.44	679,920,814.03
Income before appropriations and taxes		390,553,290.47	831,048,539.52
Appropriations	7	41,048,579.61	59,243,425.09
Income taxes		-40,924,770.98	-43,699,372.89
Deferred taxes		-1,095,576.75	305,873.57
Net income		389,581,522.35	846,898,465.29

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

Assets, EUR	Note	Dec 31, 2020	Dec 31, 2019
Non-current assets			
Intangible assets	8	18,278,548.21	20,134,338.21
Property, plant and equipment	9	37,746,453.05	34,825,427.20
Investments			
Subsidiary shares	10	2,627,011,289.86	2,631,178,172.87
Other shares	11	2,460,845.44	2,462,629.44
		2,629,472,135.30	2,633,640,802.31
Total non-current assets		2,685,497,136.56	2,688,600,567.72
Current assets			
Long-term receivables	12		
Loans receivable		372,009,023.74	346,879,043.00
		372,009,023.74	346,879,043.00
Short-term receivables	13		
Accounts receivable		108,111,218.15	147,276,682.67
Loans receivable		722,058,681.04	879,343,158.82
Deferred tax assets		3,456,027.40	5,355,604.15
Other receivables		15,786,952.75	16,127,584.07
Deferred assets		248,784,957.83	238,401,080.76
		1,098,197,837.17	1,286,504,110.47
Financial investments		1,509,966,813.95	687,464,343.38
Cash and cash equivalents		158,423,651.17	269,462,126.90
Total current assets		3,138,597,326.03	2,590,309,623.75
Total assets		5,824,094,462.59	5,278,910,191.47

Equity and liabilities, EUR	Note	Dec 31, 2020	Dec 31, 2019
Equity			
Share capital		66,174,482.53	66,174,482.53
Share premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		326,971,986.85	298,115,709.83
Retained earnings		1,330,105,316.75	1,363,717,911.48
Net income		389,581,522.35	846,898,465.29
Total equity	14	2,213,161,373.06	2,675,234,633.71
Cumulative accelerated depreciation		8,932,913.97	9,216,627.63
Appropriations		8,932,913.97	9,216,627.63
Provisions	15	4,964,668.60	3,684,116.72
Liabilities			
Non-current liabilities	16		
Loans		272,550,427.14	253,180,335.72
		272,550,427.14	253,180,335.72
Current liabilities	17		
Accounts payable		82,095,305.56	91,370,151.60
Loans		3,024,448,429.10	2,107,909,509.79
Deferred tax liabilities			804,000.00
Other liabilities		34,045,510.30	26,491,719.75
Accruals		183,895,834.86	111,019,096.55
		3,324,485,079.82	2,337,594,477.69
Total liabilities		3,597,035,506.96	2,590,774,813.41
Total equity and liabilities		5,824,094,462.59	5,278,910,191.47

PARENT COMPANY CASH FLOW STATEMENT

EUR	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Cash receipts from customers	805,514,007.31	617,231,180.44
Cash receipts from other operative income	12,542,014.82	14,567,247.60
Cash paid to suppliers and employees	-586,702,664.86	-511,632,305.52
Financing items	235,019,188.40	693,569,259.45
Taxes paid	-52,206,429.88	-36,046,855.37
Other financing items	67,538,690.58	-11,016,481.92
Cash flow from operating activities	481,704,806.37	766,672,044.68
Capital expenditure	-16,302,543.53	-12,421,278.54
Proceeds from sales of fixed assets	55,000.00	-
Subsidiary investments		-11,157,233.74
Proceeds from sales and decreases of subsidiary shares	276,870.56	1,793,416.47
Cash flow from investing activities	-15,970,672.97	-21,785,095.81
Increase in equity (option rights)	-	37,466,798.76
Net change in short-term debt	916,538,919.31	499,057,211.85
Net change in long-term debt	19,370,091.42	-476,305,291.09
Profit distribution	-880,511,060.02	-851,669,419.02
Group contributions received	58,400,000.00	45,940,250.00
Other financing items	-690,570,559.84	66,719,699.18
Cash flow from financing activities	-576,772,609.13	-678,790,750.32
Change in cash and cash equivalents	-111,038,475.73	66,096,198.55
Cash and cash equivalents, Jan 1	269,462,126.90	203,365,928.35
Cash and cash equivalents, Dec 31	158,423,651.17	269,462,126.90
Change in cash and cash equivalents	-111,038,475.73	66,096,198.55
Reconciliation of net income to the cash flow from operating activities		
Net income	389,581,522.35	846,898,465.29
Depreciation and amortization	15,236,243.68	15,035,552.47
Other adjustments	-2,663,581.15	-30,240,972.28
Income before change in working capital	402,154,184.88	831,693,045.48
Change in receivables	16,499,225.51	-15,610,941.19
Change in liabilities	63,051,395.98	-49,410,059.61
Cash flow from operating activities	481,704,806.37	766,672,044.68

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, 2020.

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 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 as at the forward contract date and balance sheet date in euros. 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.

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 are 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 and unavoidable losses the occurrence of which are probable 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 to the Group level financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include 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 666,309.7 (684,511.1) thousand euros, which relates to revenues for the utilization of intellectual property rights.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Subsidies received	1,429.7	1,102.7
Recharged energy	1,873.1	2,083.7
Service charges	785.4	703.7
Others	8,508.7	10,677.2
Total	12,597.0	14,567.2

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Wages and salaries	145,115.3	121,803.4
Pension costs	13,864.3	16,002.1
Other employment expenses	2,679.1	1,830.8
Total	161,658.7	139,636.3

In 2020, the salaries and fees paid to the President & CEO and to the Board of Directors were together 6,621.7 (5,000.2) thousand euros. Average number of staff employed by the parent company was 1,207 during the financial year (1,053).

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Intangible rights	261.6	272.2
Other long-term expenditure	7,835.3	8,381.9
Buildings	1,247.6	1,273.3
Machinery and equipment	5,891.8	5,108.1
Total	15,236.2	15,035.6

5. AUDITORS’ FEES

EUR 1,000	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Audit	613.0	710.0
Auditors´ statements	21.9	0.8
Tax advisory services	26.7	80.0
Other services	164.8	1,008.0
Total	826.3	1,798.8

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Dividend income from subsidiaries	249,410.1	698,468.0
Other dividends received	3.3	3.0
Interest income from subsidiaries	7,119.8	8,213.1
Interest income from others	13,805.0	26,368.6
Interest expenses to subsidiaries	-35,226.7	-37,601.0
Interest expenses to others	-690.3	-2,423.0
Other financing income and expenses	63,030.5	-13,107.8
Total	297,451.8	679,920.8

7. APPROPRIATIONS

EUR 1,000	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Cumulative accelerated depreciation charge	283.7	843.4
Group contributions received	40,764.9	58,400.0
Total	41,048.6	59,243.4

Notes to the statement of financial position

8. INTANGIBLE ASSETS

Jan 1–Dec 31, 2020, EUR 1, 000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2020				
Acquisition cost	4,712.8	124,549.3	1,866.4	131,128.6
Accumulated amortization and impairment	-3,866.9	-107,127.3	-	-110,994.2
Opening net book value	845.9	17,422.0	1,866.4	20,134.3
Opening net book value	845.9	17,422.0	1,866.4	20,134.3
Increase	173.9	6,067.1		6,241.1
Reclassifications		1,866.4	-1,866.4	
Amortization	-261.6	-7,835.3		-8,096.9
Closing net book value	758.3	17,520.3	-	18,278.5
Dec 31, 2020				
Acquisition cost	4,886.8	132,482.8	-	137,369.6
Accumulated amortization and impairment	-4,128.5	-114,962.6		-119,091.1
Closing net book value	758.3	17,520.3	-	18,278.5

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
Opening 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	124,549.3	1,866.4	131,128.6
Accumulated amortization and impairment	-3,866.9	-107,127.3	-	-110,994.2
Closing net book value	845.9	17,422.0	1,866.4	20,134.3

9. PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2020, EUR 1, 000	Land	Buildings	Machinery & equipment	Fixed assets under construction	Total
Jan 1, 2020					
Acquisition cost	182.3	30,472.6	40,835.7	216.0	71,706.6
Accumulated depreciation	-	-9,781.5	-27,099.7	-	-36,881.2
Opening net book value	182.3	20,691.1	13,736.0	216.0	34,825.4
Opening net book value	182.3	20,691.1	13,736.0	216.0	34,825.4
Increase		943.9	9,064.0	52.6	10,060.4
Decrease			-170.7		-170.7
Reclassifications		52.2		-52.2	
Depreciation		-1,247.6	-5,721.0		-6,968.6
Closing net book value	182.3	20,439.6	16,908.2	216.3	37,746.5
Dec 31, 2020					
Acquisition cost	182.3	31,468.7	49,729.0	216.3	81,596.3
Accumulated depreciation	-	-11,029.1	-32,820.8	-	-43,849.8
Closing net book value	182.3	20,439.6	16,908.2	216.3	37,746.5

Jan 1–Dec 31, 2019, EUR 1, 000	Land	Buildings	Machinery & equipment	Fixed assets under construction	Total
Jan 1, 2019					
Acquisition cost	182.3	30,314.7	38,054.1	4.5	68,555.7
Accumulated depreciation	-	-8,515.6	-24,432.3		-32,947.9
Opening 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	216.0	34,825.4
Dec 31, 2019					
Acquisition cost	182.3	30,472.6	40,835.7	216.0	71,706.6
Accumulated depreciation	-	-9,781.5	-27,099.7	-	-36,881.2
Closing net book value	182.3	20,691.1	13,736.0	216.0	34,825.4

10. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2020	Dec 31, 2019
Acquisition cost, Jan 1	2,631,178.2	2,622,075.4
Increase	-	11,703.1
Decrease	-4,166.9	-2,600.3
Net book value, Dec 31	2,627,011.3	2,631,178.2

11. OTHER SHARES

EUR 1,000	Dec 31, 2020	Dec 31, 2019
Acquisition cost, Jan 1	2,462.6	2,463.3
Increase	-	167.2
Decrease	-1.8	-0.7
Reclassifications	-	-167.2
Net book value, Dec 31	2,460.8	2,462.6

12. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2020	Dec 31, 2019
Loans receivable from subsidiaries	371,684.9	346,879.0
Loans receivable from externals	324.1	-
Long-term receivables	372,009.0	346,879.0

13. SHORT-TERM RECEIVABLES

Receivables from subsidiaries, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Accounts receivables	107,410.7	146,659.7
Loans receivable	722,058.7	879,343.2
Deferred assets	144,761.3	199,820.4
Total	974,230.6	1,225,823.2

Receivables from externals, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Accounts receivables	700.5	617.0
Others	15,787.0	16,127.6
Deferred assets	104,023.7	38,580.7
Total	120,511.2	55,325.3
Deferred tax assets*	3,456.0	5,355.6
Total short-term receivables	1,098,197.8	1,286,504.1

Deferred assets, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Derivative assets	79,362.2	22,897.2
Deferred income taxes	17,059.7	11,811.9
Unbilled revenue	90,231.8	124,436.7
Group contributions	40,764.9	58,400.0
Others	21,366.3	20,855.3
Total	248,785.0	238,401.1

*As from 1.1.2020 deferred tax assets and liabilities are offset for presentation purposes. In 2019, the balance sheet value of deferred tax assets would have been 804.0 thousand euros lower if the offset would have been done.

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, 2020	66,174.5	100,328.1	298,115.7	-185,111.0	2,395,727.4		2,675,234.6
Profit distribution					-880,511.1		-880,511.1
Option and share-based compensation			28,856.3	20,449.0	-20,449.0		28,856.3
Net income for the period						389,581.5	389,581.5
Net book value Dec 31, 2020	66,174.5	100,328.1	326,972.0	-164,662.0	1,494,767.3	389,581.5	2,213,161.4

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 2,046,658,825.95 (2,508,732,086.60) 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, 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
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

15. PROVISIONS

EUR 1,000	Dec 31, 2020	Dec 31, 2019
Warranty provisions	4,964.7	3,684.1
Total	4,964.7	3,684.1

16. NON-CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Liabilities falling due in 1–5 years	272,550.4	93,180.3
Total	272,550.4	93,180.3

Liabilities to externals, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Liabilities falling due in 1–5 years	-	160,000.0
Total	-	160,000.0
Total non-current liabilities	272,550.4	253,180.3

17. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Accounts payable	15,888.1	31,869.4
Loans	2,864,448.4	2,107,909.5
Accruals	42,226.1	27,487.8
Total	2,922,562.6	2,167,266.7

Liabilities to externals, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Accounts payable	66,207.2	59,500.8
Loans	160,000.0	-
Other liabilities	34,045.5	26,491.7
Accruals	141,669.7	83,531.3
Total	401,922.5	169,523.8
Deferred tax liabilities*	-	804.0
Total current liabilities	3,324,485.1	2,337,594.5

Accruals, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Accrued wages, salaries and employment costs	33,347.7	27,744.4
Derivative liabilities	84,290.9	23,317.7
Others	66,257.2	59,957.0
Total	183,895.8	111,019.1

* As from 1.1.2020 deferred tax assets and liabilities are offset for presentation purposes. In 2019, the balance sheet value of deferred tax liabilities would have been 804.0 thousand euros lower if the offset would have been done.

18. COMMITMENTS

EUR 1,000	Dec 31, 2020	Dec 31, 2019
Guarantees		
For subsidiaries	2,731,483.7	2,710,431.1
For others	80.9	82.4
Leasing commitments		
Due next year	7,359.9	6,364.7
Due over a year	7,182.9	8,829.0
Other commitments	3,774.7	2,334.7
Total	2,749,882.1	2,728,041.9

19. DERIVATIVES

Fair values of derivative instruments, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Foreign exchange forward contracts with external parties	-9,072.1	-12,222.4
Foreign exchange forward contracts with subsidiaries	4,143.5	11,801.9
Total	-4,928.7	-420.5

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2020	Dec 31, 2019
Foreign exchange forward contracts with external parties	3,450,680.9	2,169,789.0
Foreign exchange forward contracts with subsidiaries	667,343.7	746,230.9
Total	4,118,024.7	2,916,019.9

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

SUBSIDIARIES

SUBSIDIARIES, DEC 31, 2020

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Andorra	KONE Ascensors i Escales, S.A.	100	
Australia	KONE Elevators Pty Limited	100	
	KONE Elevators Employee Benefits Pty Limited	100	
	KONE Holdings (Australia) Limited	100	
Austria	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
Bosnia and Herzegovina	KONE d.o.o. Sarajevo	100	
Bulgaria	KONE EOOD	100	100
Canada	KONE Inc.	100	
China mainland	Giant Kone Elevator Co., Ltd.	100	40
	KONE Elevators Co., Ltd.	100	
	KONE Elevator (Shanghai) 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
	KONE Digital Services 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	
	KONE Développement S.N.C.	100	
	KONE Holding France S.A.S.	100	100
	KONE S.A.	99.99	
	Liftman S.A.S.	100	
	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	
	2STP S.A.S.	100	
	Technique & Mecanique des Elevateurs S.A.S.	100	
Germany	Alois Kasper GmbH	100	
	Aufzugstechnik Rhein Ruhr GmbH	100	
	KONE Automatiktüren GmbH	100	
	KONE Escalator Supply Service Center Europe GmbH	100	
	KONE Garant Aufzug GmbH	100	

Germany	KONE GmbH	100	
	KONE Montage GmbH	100	
	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 Limited	100	0.1
	KONE Elevator (HK) Limited	100	
	Shan On Engineering Company Limited	100	
Hungary	KONE Felvonó Kft.	100	100
Iceland	KONE ehf	100	100
India	KONE Elevator India Private Limited	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	
	Elevant Servizi S.r.l.	70	
	Elevatori Bari S.r.l.	89	
	Elevators S.r.l.	60	
	EP Servizi S.r.l.	70	
	Euro Elevator S.r.l.	100	
	Ferrara Ascensori S.r.l.	60	
	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	
	Mingot S.r.l.	100	
	Nettuno S.r.l.	75	
	Neulift S.p.A.	100	
	Neulift Service Molise S.r.l.	51	
	Neulift Service Triveneto S.r.l.	100	
	Pinna Ascensori S.r.l.	100	
	Rimma S.r.l.	60	
	Slimpa S.p.A.	100	
	Tecnocram S.r.l.	84	
	Tecnolift La Spezia S.r.l.	100	
	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 Sàrl	100	
Macedonia	KONE Makedonija Dooel Skopje	100	
Malaysia	KONE Elevator (M) Sdn. Bhd.	47.85	47.85
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. KONE	99.87	
Montenegro	KONE d.o.o. Podgorica	100	
Morocco	KONE Elevators and Escalators Sàrl AU	100	100

Netherlands	Hissi B.V.	100	
	KONE B.V.	100	
	KONE Deursystemen B.V.	100	
	KONE Finance Holding B.V.	100	
	KONE Holland B.V.	100	53.22
	KONE Nederland Holding 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.	99.99	
Poland	KONE Sp.z o.o.	100	100
Portugal	KONE Portugal - Elevadores, Lda.	100	1
	JCC Companhia de Elevadores LDA	100	
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-Novi Beograd	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	
	United Elevators (Pty) Ltd	100	
	Addo Private Equity Fund 2 (Pty) Ltd	100	
Spain	Ascensores Carrillo Alcalá S.L.	100	
	Ascensores Muralla, S.L.	100	
	Ascensores R Casado, S.A.	100	
	Citylift S.A.	100	
	Instalación y Mantenimiento Ascensores MP Baleares, S.L	100	
	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	
Switzerland	KONE (Schweiz) AG	100	100
Taiwan, China	KONE Elevators Taiwan Co., Ltd	100	
	Kang-En Taiwan Elevator Technology Service Co., Ltd	100	
Thailand	KONE Public Company Limited	84.08	
	Thai Elevators and Escalators Company Limited	74	
	Thai Elevators Holding Company Limited	49	
Tunisia	KONE Elevators & Escalators Assembly	100	
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100	
Uganda	KONE Uganda Limited	100	
Ukraine	KONE Lifts LLC	100	
United Arab Emirates	KONE (Middle East) LLC	49	49
United Kingdom	21st Century Lifts Limited	100	
	Acre Lifts Limited	100	
	CrownAcre Lifts Limited	100	
	Express Elevators Limited	100	
	KONE (NI) Limited	100	

United Kingdom	KONE Pension Trustees Ltd.	100	
	KONE Plc	100	100
	Lift Maintenance Limited	100	
(Jersey)	Rob Willder Lifts Limited	100	
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, 2020 is EUR 2,046,658,825.95 of which the net income for the financial year is EUR 389,581,522.35.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.7475 be paid on the outstanding 76,208,712 class A shares and EUR 1.75 on the outstanding 442,181,142 class B shares. Further, the Board proposes an extra dividend of EUR 0.4975 to be paid on the outstanding 76,208,712 class A shares and EUR 0.50 on the outstanding 442,181,142 class B shares, resulting in a total amount of proposed dividend of EUR 1,165,996,127.94. The Board of Directors further proposes that the remaining non-restricted equity, EUR 880,662,698.01 be retained and carried forward.

The Board proposes that the dividends be payable from March 11, 2021

SIGNATURES FOR THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Helsinki, January 28, 2021

Antti Herlin

Sirpa Pietikäinen

Matti Alahuhta

Jussi Herlin

Anne Brunila

Iiris Herlin

Susan Duinhoven

Juhani Kaskeala

Ravi Kant

Henrik Ehrnrooth,
President & CEO

THE AUDITOR'S NOTE

Our auditor´s report has been issued today.

Helsinki, January 28, 2021

PricewaterhouseCoopers Oy
Authorized Public Accountants

Lauri Kallaskari
Authorized Public Accountant

Jouko Malinen
Authorized 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 2020. The financial statements comprise:

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

BASIS FOR OPINION

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

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

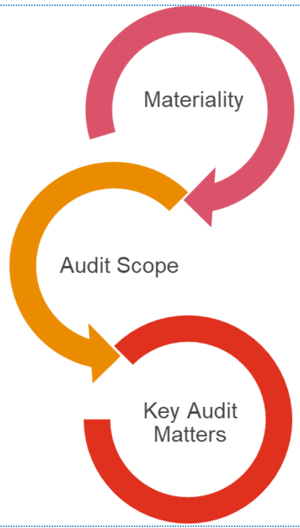
Independence

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

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

OUR AUDIT APPROACH

Overview



Materiality

- Overall group materiality: € 60 million, which represents approximately 5 % of the group's operating income.

Audit Scope

- 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	€ 60 million (previous year € 59 million)
How we determined it	Approximately 5% of operating income
Rationale for the materiality benchmark applied	We chose operating income 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 accounting processes and controls, and the industry in which the group operates.

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 2020. 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 2019 to actual outcomes in 2020 • we tested the stage of completion of projects open at the end of 2020 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 2020.
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 64 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 two years. Our firm and Authorised Public Accountants (KHT) working for our firm have been acting as the auditors of KONE Oyj for the entirety of the duration that it has been a public interest entity.

OTHER INFORMATION

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

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

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

In our opinion

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

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

Helsinki 28 January 2021

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 2020 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 18 (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
- preparation of proposals for the General Meeting and the convocation of the General Meetings
- approval and confirmation of strategic guidelines and the principles of risk management
- ratification of annual budget and plans
- 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 evaluates how agreements and other transactions between the company and its related parties meet the requirements relating to ordinary business operations and general market terms and 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 and prepares the remuneration policy and remuneration report for the company´s governing bodies.

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 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.

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 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 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 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.

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.

INSIDERS

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

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

CORPORATE GOVERNANCE IN 2020

Annual General Meeting

The Annual General Meeting was held in Helsinki, Finland on February 25 February, 2020.

Board of Directors and committees

The Annual General Meeting elected nine 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, Susan Duinhoven, Iiris Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikäinen. Out of the nine Board Members, five are male and four females.

Of the Board members, Matti Alahuhta, Anne Brunila, Susan Duinhoven, 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 2020, the Board of Directors convened 8 times, with an average attendance rate of 99%. Jukka Ala-Mello serves as Secretary to the Board and to its Committees.

Audit committee

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

The Audit Committee held 3 meetings in 2020, with an average attendance rate of 83%

Kristian Snäll 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 4 meetings in 2020, with an average attendance rate of 100%.

Number of Board and Committee meetings in 2020 and participant attendance:

	Board	Audit Committee	Nomination and Compensation Committee
Antti Herlin	8/8	2/3	4/4
Jussi Herlin	8/8	3/3	4/4
Matti Alahuhta	8/8		4/4
Anne Brunila	7/8	2/3	
Susan Duinhoven	7/7		
Iiris Herlin	8/8		
Ravi Kant	8/8	3/3	
Juhani Kaskeala	8/8		4/4
Sirpa Pietikäinen	8/8		

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2020 confirmed the fees of the members of the Board as follows (annual fees in EUR):

Chairman of the Board	60 000
Vice chairman	50 000
Member	45 000

Of the annual remuneration, 40 percent was paid in class B shares of KONE Corporation and the rest in cash. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings but anyhow a fee of EUR 3,000 is paid per Committee meeting for a Chairman of the Committee residing outside of Finland and a fee of EUR 2,000 is paid per Committee meeting for those 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 base 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 2020, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2020 totaled EUR 290,462. He was also paid EUR 66,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 110.

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 2020 totaled EUR 493,500. 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 2020, on the basis of the incentive plan for year 2019, Henrik Ehrnrooth received a bonus of EUR 3,736,669 which consisted of 32,531 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2020 and due for payment in April 2021 is 17,625 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares.

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

Executive Board

In 2020, KONE's Executive Board consisted of President and CEO and 12-13 Members. Henrik Ehrnrooth serves as President and CEO. The other members of Executive Board in 2020 were Max Alfthan (until 31 March, 2020), Axel Berkling, Klaus Cawén, Hugues Delval, Ilkka Hara, Thomas Hinnerskov, William Johnson, Mikko Korte, Maciej Kranz, Pierre Liautaud, Tomio Pihkala, Ken Schmid (from March 1, 2020), Susanne Skippari and Larry Wash (until 28 February, 2020).

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 2020, on the basis of the incentive plan, the members of the Executive Board received a bonus 172,619 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2020 and due for payment in April 2021 is 83,897 KONE class B shares together with a cash bonus equal to the amount of taxes and similar charges. No separate agreement regarding early retirement has been made for the members of the Executive Board. The compensation for the termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

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.

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 2020 were EUR 3.7 million for auditing and EUR 2.8 million for other consulting services.

Insiders

The holdings of the Board of Directors and Management of KONE on December 31, 2020 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.

Shareholdings and options of KONE Board and Management on Dec 31, 2020 and changes in shareholding during the period Jan 1–Dec 31, 2020

	Class A share	Change	Class B shares	Change
Alahuhta Matti			754,294	+351
Berkling Axel			61,924	+13,013
Brunila Anne			3,334	+351
Cawén Klaus			368,312	+13,013
Delval Hugues			47,199	-1,987
Duinhoven Susan			351	+351
Ehrnrooth Henrik			371,272	+32,531
Hara Ilkka			48,515	+13,013
Herlin Antti	70,561,608	-	47,737,946	+801,468
Herlin Iiris			135,341	+351
Herlin Jussi			109,667	+390
Hinnerskov Thomas			55,179	+13,013
Johnson William			134,122	+8,013
Kant Ravi			2,494	+351
Kaskeala Juhani			3,318	+351
Korte Mikko			67,058	+11,713
Kranz Maciej			38,013	+38,013
Liautaud Pierre			53,296	-15,987
Pietikäinen Sirpa			8,494	+351
Pihkala Tomio			106,608	+13,013
Schmid Ken			17,818	+4,476
Skippari Susanne			39,682	+13,013

Max Alfthan was a member of the Executive Board until March 31, 2020 and owned 58,875 KONE class B shares on that date. Larry Wash was a member of the Executive Board until February 28, 2020 and owned 69,033 KONE class B shares on that date. The shares owned by companies in which the Board Member or Management exercises controlling power and minor children are also included in these shareholdings.

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 111

Executive Board pages 112-113

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 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 and Vice Chairman of the Board of Sanoma Corporation.

Jussi Herlin

Vice Chairman of the Board

b. 1984, M.Sc. (Econ)
Member of the Board since 2012.
Previously served as Senior Business Analyst and Strategy Development Manager at KONE 2016-2020, as Consultant at Accenture between 2012-2014 and as 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 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, Vice Chairman of the Board of Metso 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 position of trust is Chair of the Board of the Finnish Film Foundation.

Susan Duinhoven

b. 1965, Ph.D. (Physical Chemistry), B. Sc. (Physical Chemistry)
Member of the Board since 2020.
Serves as President and CEO of Sanoma Corporation since 2015. Previously served as CEO of Koninklijke Wegener N.V. 2013-2015, as CEO of Western Europe/CEO Netherlands at Thomas Cook Group Plc 2010-2013, as Managing Director of Benelux & New Acquisitions Europe at Reader's Digest 2008-2010, and as CEO at De Gule Sider A/S 2005-2007 and started her career at Unilever in 1988.

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 both MedTherapy India and 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 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 Board of Federation Mieli Mental Health Finland and Member of the Board of Alzheimer Europe.

EXECUTIVE BOARD

Henrik Ehrnrooth

President and CEO

b. 1969, M.Sc. (Econ).
President & CEO of KONE since 2014. Member of the Executive Board. Previously served as Chief Financial Officer of KONE 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).

Axel Berkling

Asia-Pacific

b. 1967, M.Sc. (Econ)
Member of the Executive Board since 2016. Employed by KONE since 1998. Previously served at KONE 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 since 1983. Previously served as General Counsel of KONE 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 Metso Outotec Corporation, 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 since 1994. Previously served as Senior Vice President, Head of Global Maintenance, Service Business (2015–2017), Managing Director for KONE France (2011–2015), and Managing Director for KONE Belgium and Luxembourg (2009–2011). Since joining KONE, he has held various regional leadership positions and roles in several geographies.

Ilkka Hara

CFO

b. 1975, M. Sc. (Finance and Accounting)
Member of the Executive Board and employed by KONE 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 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. Employed by KONE 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. Employed by KONE 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 and employed by KONE since 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 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 since 2001. Previously served in KONE 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.

Ken Schmid

Americas

b. 1963, B.A. (History), MBA (Business Administration)
Member of the Executive Board since March 2020. Employed by KONE since 1986 (Montgomery Elevator Company until 1994). Previously served in KONE as Senior Vice President, Finance for KONE Americas and member of KONE's Global Finance Leadership Team 2005-2020; Senior Vice President of Global Information Services 2003-2005; Senior Vice President, CIO for KONE Americas 1998-2003; Vice President of Quality 1995-1998. Earlier in his career Ken held various new equipment sales roles in multiple branch offices within KONE. Current key positions of trust: Member of the Board of National Elevator Industry, Inc. (NEII), Member of the Board of Advisory Board to Invest in Finland, USA.

Susanne Skippari

Human Resources

b. 1974, M.Sc. (Econ.)
Member of the Executive Board since 2017. Employed by KONE 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.

In 2020, Max Alfthan served as a Executive Vice President, Marketing and Communications until March 31, 2020. Susanne Skippari was interim Executive Vice President, Marketing and Communications from April 2020 until January 2021. Tricia Weener was appointed as the new Executive Vice President, Marketing and Communications as of 18 January 2021.

Larry Wash served as a Executive Vice President, Americas until February 28, 2020. After that, Ken Schmid has served as the Executive Vice President, Americas.

After the reporting period, on January 20, 2021, KONE announced changes in the Executive Board. Johannes Frände was appointed Executive Vice President, General Counsel and a member of the Executive Board at KONE as of February 1, 2021. He succeeds Klaus Cawén. Thomas Hinnerskov was appointed Executive Vice President, responsible for South Europe, Middle-East and Africa region as of April 1, 2021. He succeeds Pierre Liautaud. Prior to this, Thomas Hinnerskov has served as KONE's EVP, Central and North Europe. Axel Berkling was appointed new EVP, Central and North Europe. Prior to this, Axel Berkling has served as KONE's EVP, Asia-Pacific region, excluding China. On January 27, 2021, KONE announced that Samer Halabi was appointed Executive Vice President, responsible for the Asia-Pacific region and a member of the Executive Board as of May 1, 2021.

More information
Shareholdings of KONE Corporation's public insiders are available on page 110

More information
Corporate governance page 105

INFORMATION FOR SHAREHOLDERS

Annual General Meeting

KONE Corporation's Annual General Meeting will be held on Tuesday 2 March 2021 at 11.00 a.m. In order to prevent the spread of the COVID-19 pandemic, the company's shareholders may participate in the General Meeting and exercise their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance.

Further instructions and schedules for shareholders can be found on KONE's website at kone.com and in the Notice to the General meeting.

At general meetings, each KONE 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.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that for the financial year 2020 dividend of EUR 1.7475 be paid for each class A share and a dividend of EUR 1.75 be paid for each class B share. Further, the Board proposes an extraordinary dividend of EUR 0.4975 to be paid on the outstanding class A shares and EUR 0.50 on the outstanding class B shares, resulting total dividend of 2.2450 per class A share and 2.25 per class B share. All shares existing on the dividend record date, March 4, 2020 are entitled to the dividend. The dividend is proposed to be paid on March 11, 2020.

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.

More information

The Board of Directors' proposal for the distribution of profit, page 99.

Shares and shareholders, page 30.

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

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

KONE's financial reporting schedule 2021

Financial Statement Bulletin and Financial Statements for 2020	Thursday, January 28, 2020
Printed Financial Statements for 2020	Week 8-9 February, 2021
Interim report for January 1–March 31, 2021	Wednesday, April 28, 2021
Half-year Financial Report for January 1–June 30, 2021	Tuesday, July 20, 2021
Interim report for January 1–September 30, 2021	Thursday, October 28, 2021

In the second quarter of 2021, KONE will publish a separate Sustainability Report for the year 2020.

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

Front and back cover reference images

Beijing Daxing Airport is Beijing’s second-largest airport, capable of accommodating 45 million passengers by 2021. The capacity will grow to 100 million annually with planned expansions. Designed to look like a mythical phoenix bird in flight, the building was inspired by traditional Chinese architecture and blends classical and modern elements.

First opened in 2019 with planned expansions already in the pipeline, the 700,000 square meter airport was designed with efficiency and convenience to passengers as a priority. Departure and arrival gates are located on the same floor, and the radial design aims to allow passengers to enter the building and easily reach their flight gates. Once the expansion is completed, a total of 174 KONE TravelMaster™ escalators and a KONE E-Link™ monitoring system will help provide reliable, smooth people flow to transport millions of passengers.

KONE
CORPORATION

Corporate Offices
Keilasatama 3
P.O. Box 7
FI-02150 Espoo Finland
Tel. +358 (0)204 751
www.kone.com

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