ANNUAL REVIEW

KONE 2021

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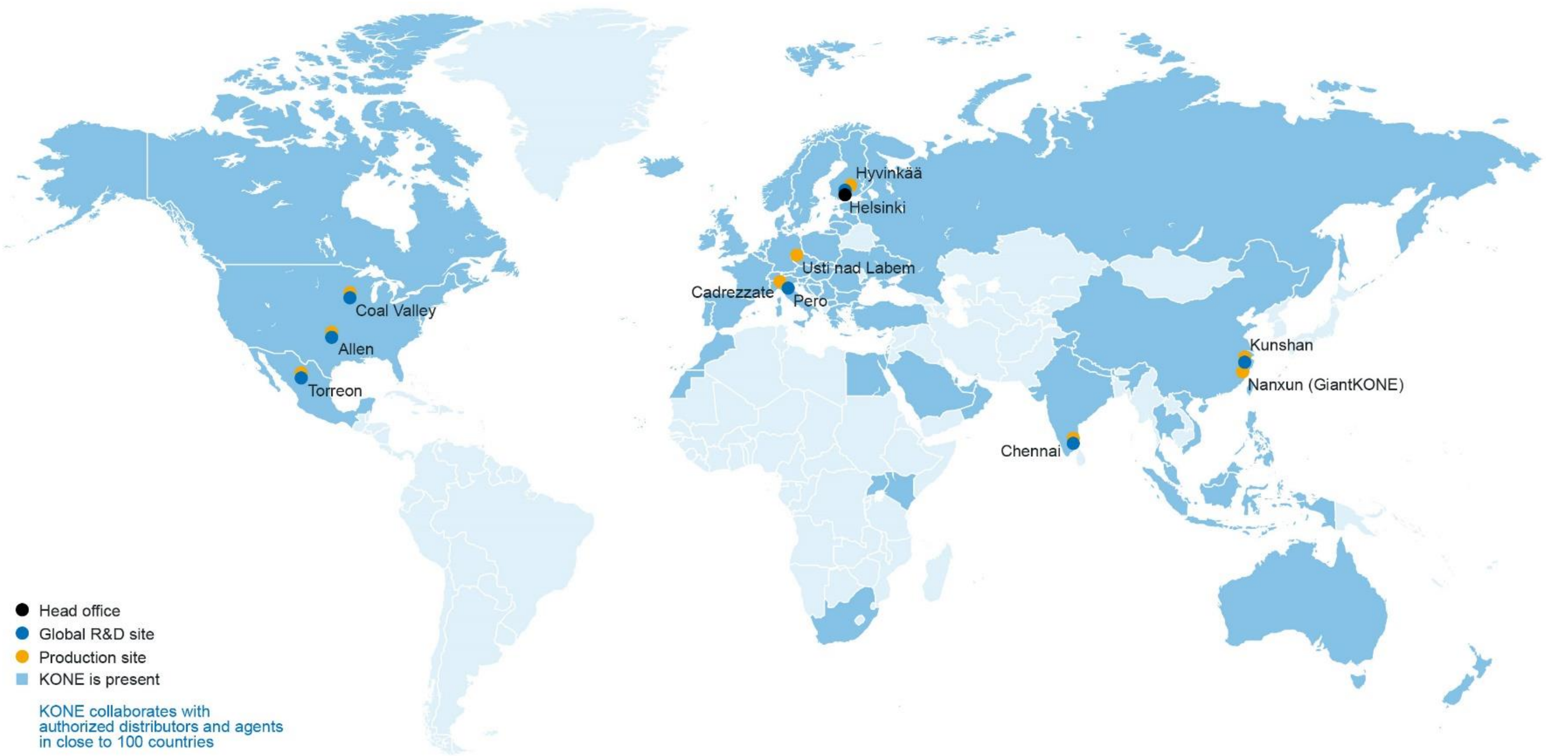
KONE IN BRIEF

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 to add value to buildings throughout their life cycle. Through more effective People Flow®, we make people's journeys safe, convenient and reliable, in taller, smarter buildings.

Sales MEUR **10,514** in 2021	**>60,000** employees	
We move over **1 billion** people every day	**~550,000** customers	**<1,500,000** equipment in KONE's maintenance base
Operations in over **60** countries	Authorized distributors and agents in close to 100 countries	

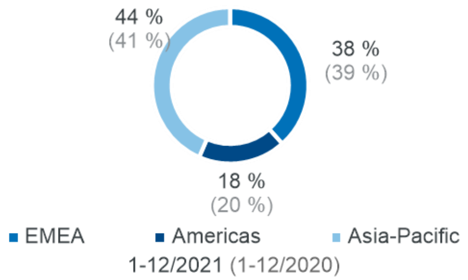


KEY FIGURES

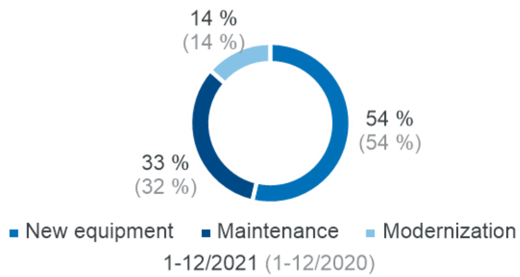
		1–12/2021	1–12/2020	Change	Change at comparable exchange rates
Orders received	MEUR	8,852.8	8,185.1	8.2%	7.4%
Order book	MEUR	8,564.0	7,728.8	10.8%	3.8%
Sales	MEUR	10,514.1	9,938.5	5.8%	5.3%
Operating income	MEUR	1,295.3	1,212.9	6.8%	
Operating income margin	%	12.3	12.2		
Adjusted EBIT*	MEUR	1,309.8	1,250.5	4.7%	
Adjusted EBIT margin*	%	12.5	12.6		
Income before tax	MEUR	1,320.8	1,224.2	7.9%	
Net income	MEUR	1,022.7	947.3	7.9%	
Basic earnings per share	EUR	1.96	1.81	7.9%	
Cash flow from operations (before financing items and taxes)	MEUR	1,828.7	1,907.5		
Interest-bearing net debt	MEUR	-2,164.1	-1,953.8		
Equity ratio	%	41.2	45.5		
Return on equity	%	32.0	29.7		
Net working capital (including financing items and taxes)	MEUR	-1,468.2	-1,160.1		
Gearing	%	-67.6	-61.1		

* KONE presents adjusted EBIT as an alternative performance measure to enhance comparability of the business performance between reporting periods. Restructuring costs related to significant restructuring programs are excluded from the calculation of the adjusted EBIT. In January–December 2021, the adjusted EBIT excluded costs of EUR 14.5 million related to restructuring measures in KONE's global business lines and functions. During 2017–2020, all restructuring costs excluded from the adjusted EBIT related to the Accelerate program.

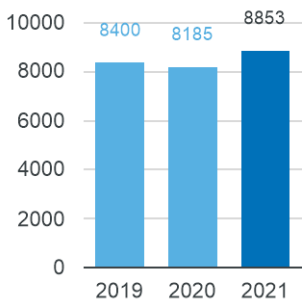
Sales by region



Sales by business

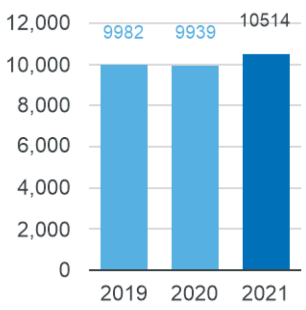


Orders received*, MEUR

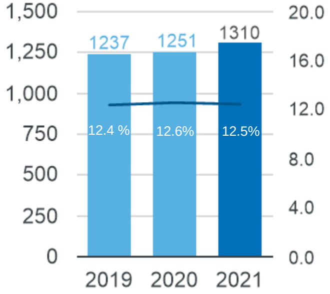


*) Orders received do not include maintenance contracts

Sales, MEUR

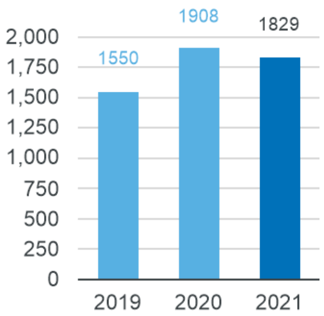


Adjusted EBIT, MEUR and adjusted EBIT margin, %



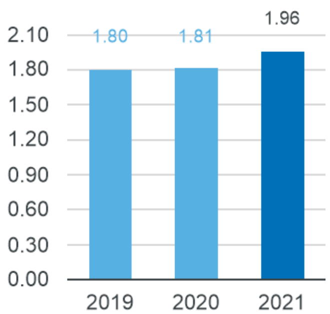
Adjusted EBIT
Adjusted EBIT margin

Cash flow*, MEUR

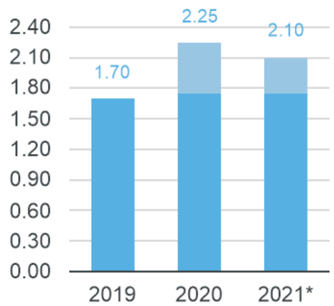


*) Cash flow from operations before financing items and taxes

Earnings per share, EUR



Dividend per class B share, EUR



*) Board's proposal
Dividend
Extraordinary dividend

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 ‘Sustainable success with customers’ focuses on increasing the value we create for our customers with new intelligent solutions and on embedding sustainability even deeper across all of our operations.

The global elevator and escalator industry is shaped by three major megatrends: urbanization, sustainability and technology. Against this backdrop, ‘Sustainable success with customers’ addresses the needs of a digitally enabled world, in which 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 deliver an improved user experience.

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:** 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.

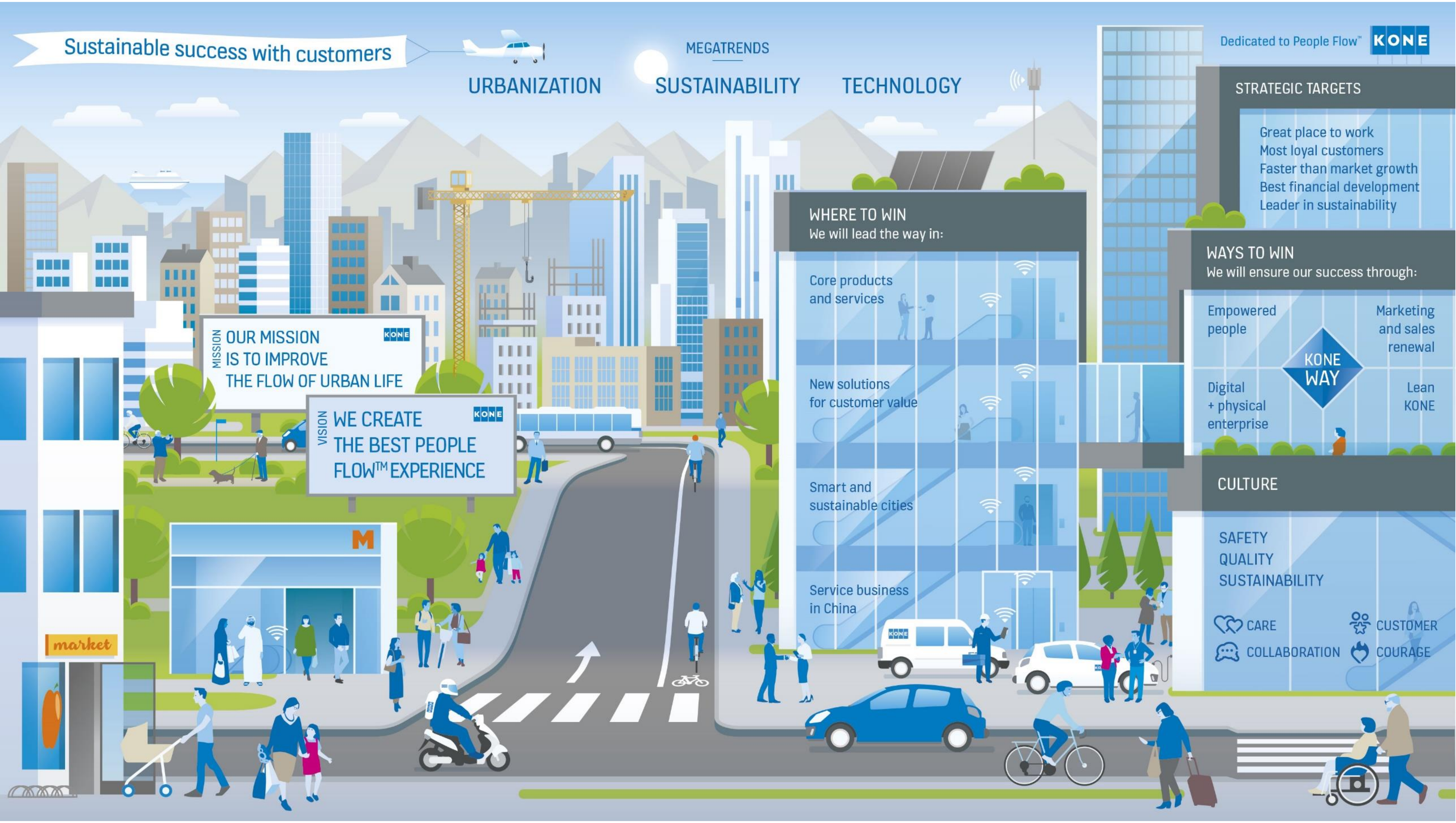
KONE’S STRATEGIC AND FINANCIAL TARGETS

We measure progress against five strategic targets:

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

Our 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
KONE
VISION
WE CREATE THE BEST PEOPLE FLOW™ EXPERIENCE
KONE
M
market

BOARD OF DIRECTORS' REPORT

KONE's business model

KONE provides value for customers during the whole life cycle 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.

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 the majority of units delivered will end up in KONE's maintenance base. In addition, KONE also maintains other OEM's equipment. The main growth drivers for modernization are the aging installed base and increased requirements for efficient people flow, safety and sustainability. Having a strong maintenance base is crucial for the growth of the 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. 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 the following strategic inputs that are crucial in creating value for customers, shareholders and the society: competent and engaged people and strong leadership; innovative, sustainable offering and global processes and systems; best partners; efficient manufacturing and delivery chain; solid financial position; environmentally sustainable operations as well as strong brand and solid reputation. In addition to these, KONE sees that the life cycle business model and the existing maintenance base of close to 1.5 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.

INPUTS

PEOPLE AND LEADERSHIP
- >60,000 employees representing 145 different nationalities, ca. half of employees in the field
- Global diversity and inclusion strategy
- Personnel voluntary turnover rate 7.8%
- Wide development opportunities on all organizational levels around the world
- Management systems and certificates (e.g. ISO 14001, ISO 9001, OHSAS 18001)
- Governance structures, ethical business practices and compliance, 96% of employees completed at least one compliance training during 2021

INNOVATIONS, PROCESSES AND SYSTEMS
- >5,000 granted or pending patents globally
- R&D spend 1.8% of sales, 7 global R&D units
- ~1,500 technology professionals in R&D, ca. half in software development
- 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 co-develop new technologies and solutions
- Collaboration with >300 universities and educational institutes
- Distributors and agents important part of go-to-market

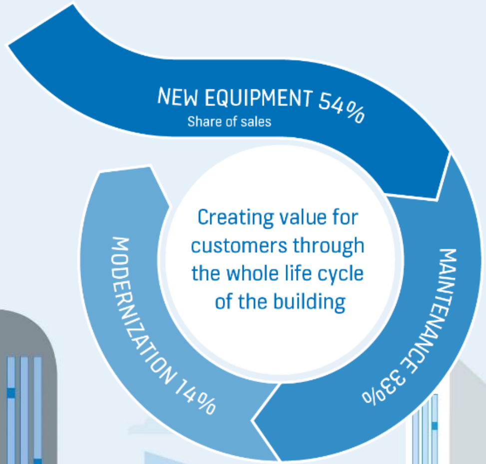
MANUFACTURING AND DELIVERY CHAIN
- 10 manufacturing units in 7 countries
- ~2,000 component suppliers and thousands of installation suppliers
- Optimized logistics network
- Supplier Sustainability Assessment

FINANCIAL
- Equity EUR 3.2 billion
- Interest-bearing net debt EUR -2.2 billion
- Net working capital EUR -1.5 billion
- Capital expenditure 2.1% of sales

NATURAL RESOURCES*
- Materials used 1,643,400 tonnes
- Heating and vehicle fleet fuels 408,200 MWh
- Electricity and district heat 81,600 MWh
- Water consumption 301,900 m3

BUSINESS MODEL

SUSTAINABLE SUCCESS WITH CUSTOMERS



OUTPUTS

MOVING OVER 1 BILLION PEOPLE EVERY DAY
- ~196,000 new elevators and escalators ordered in 2021
- Maintenance and modernization services, <1.5 million units in maintenance base

THE MOST SUSTAINABLE OFFERING
- 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 135,100 tCO2e
- Waste 39,600 tonnes
- Wastewater effluents 8 tonnes
- Carbon footprint from our products and value chain 14.1 MtCO2

IMPACT

SHAREHOLDERS
- Operating income EUR 1,295 million
- Dividend proposal EUR 2.10 per class B share (incl. extraordinary dividend), total amount of proposed dividends MEUR 1,087
- Return on equity 32.0%

SOCIETY
- Recognized for our contribution to better societies and urban environment by several external parties, e.g. CDP, EcoVadis, Forbes as well as The Financial Times' Diversity Leaders and Climate Leaders report
- Wages, salaries, other employment expenses and pensions EUR 3.2 billion
- Industrial Injury Frequency Rate (IIFR) 1.6
- 81% of external hires into leadership positions from local communities
- 21% of director level positions held by women
- Increased amount of skilled workforce
- Direct purchases EUR 4.3 billion
- Income taxes EUR 298.1 million with effective tax rate 22.6%

ENVIRONMENT*
- 12% reduction in absolute GHG emissions from our own operations (Scope 1 and 2) compared to 2018
- 0.7% increase in product-related GHG emissions (Scope 3) relative to ordered products compared to 2018
- 41% of green electricity
- 94.0% of waste recycled or incinerated
- Corporate units as well as all manufacturing and R&D units are ISO 9001 and ISO 14001 certified
- 88% of key suppliers with ISO 14001 certification at the end of 2021

*2020 figures. 2021 figures will be published in the 2021 Sustainability Report in Q2 2022.

KONE's operating environment

Activity in the global elevator and escalator markets was somewhat affected by the COVID-19 pandemic in the early part of the year, but recovered thereafter. However, global supply chain constraints affected the pace of the recovery in the second half. Throughout the year, activity was the strongest in the residential segment across all regions. The sentiment in the infrastructure segment was somewhat boosted by stimulus, whereas activity in the commercial segment remained limited.

Demand in the new equipment market increased clearly from 2020, when markets in most regions were heavily impacted by the pandemic. **In Asia-Pacific**, new equipment volumes grew clearly. **In China**, volumes grew clearly with strong growth in the first half and softer development in the second half due to tightened liquidity situation in the property sector. **In the rest of Asia-Pacific** the market grew significantly. In the EMEA region, the new equipment market grew slightly. The new equipment markets grew slightly in Central and North Europe and in the Middle East, whereas in South Europe the market was stable. **In North America**, the new equipment market grew clearly.

In the service market, **maintenance** activity picked up as of the second quarter and was largely at pre-COVID levels at the end of the year. Similarly, demand rebounded **in modernization** after a slow start to the year.

The pricing environment continued to be adversely affected by intense competition. That said, market prices started to improve in several areas in the second half of the year as a response to the increased component and logistics costs.

Operating environment by region

	New equipment market in units 1–12/2021	Maintenance market in units 1–12/2021	Modernization market 1–12/2021
Total market	++	+	++
EMEA	+	+	++
Central and North Europe	+	+	++
South Europe	Stable	+	++
Middle East	+	+	–
North America	++	+	+++
Asia-Pacific	++	++	+++
China	++	++	+++
Rest of Asia-Pacific	+++	++	+++

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

Orders received and order book

Orders received grew by 8.2% as compared to January–December 2020 and totaled EUR 8,852.8 million. At comparable exchange rates, KONE's orders received grew by 7.4%.

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

The margin of orders received declined year-on-year due to increased component and logistics costs. Some sequential improvement was seen towards the end of the year.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 196,000 units (2020: approximately 180,000).

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to January–December 2020. New equipment orders grew slightly and modernization orders grew slightly.

In the Americas region, orders received grew clearly at comparable rates as compared to January–December 2020. New equipment orders grew significantly and modernization orders declined significantly. The comparison period included an exceptionally sizeable modernization order from the Washington Metropolitan Area Transit Authority.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2020. In China, new equipment orders grew clearly in units and grew clearly in monetary value during the year. During the second half, orders were impacted by the tightened liquidity situation in the property markets. Like-for-like prices were stable while mix was slightly negative. In the rest of Asia-Pacific, new equipment orders received grew significantly. Modernization orders received grew significantly in China and declined slightly in the rest of Asia-Pacific.

The order book grew significantly compared to the end of December 2020 and stood at a strong level of EUR 8,564.0 million at the end of the reporting period. At comparable rates, the order book grew slightly.

The order book margin continued to be at a healthy level. Customer cancellations remained at a very low level.

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

Orders received

MEUR	2021	2020	Change	Change at comparable exchange rates
Orders received	8,852.8	8,185.1	8.2%	7.4%
Order book	8,564.0	7,728.8	10.8%	3.8%

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 development by region*

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

*) in monetary value at comparable exchange rates

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

Sales

KONE's sales grew by 5.8% as compared to January–December 2020, and totaled EUR 10,514.1 million. At comparable exchange rates, KONE's sales grew by 5.3%. The sales consolidated from the companies acquired in 2021 had only a minor impact on KONE's sales for the financial period.

New equipment sales grew by 4.4% at comparable exchange rates thanks to strong growth in China during the first half. Service sales grew by 6.3% at comparable exchange rates supported by a normalization in both maintenance and modernization activities. At comparable exchange rates, maintenance sales grew by 7.5% and modernization sales grew by 3.4%.

KONE's elevator and escalator maintenance base continued to grow and was close to 1.5 million units at the end of 2021 (over 1.4 million units at the end of 2020).

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 2021, 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 (~35%), The United States (15%), Germany (6%) and France (5%).

Sales in the EMEA region grew by 3.1% and totaled EUR 4,036.9 million. At comparable exchange rates, sales grew by 3.3%. New equipment sales grew slightly, maintenance sales grew clearly and modernization sales grew slightly in the region.

In the Americas, sales declined by 1.9% and totaled EUR 1,902.9 million. At comparable exchange rates, sales grew by 0.6%. New equipment sales declined clearly, maintenance sales grew clearly and modernization sales grew slightly in the region.

In Asia-Pacific, sales grew by 12.0% and totaled EUR 4,574.3 million. At comparable exchange rates, sales grew by 9.2%. New equipment sales grew clearly, maintenance sales grew significantly and modernization sales grew significantly in the region.

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

Sales by region

MEUR	2021	2020	Change	Change at comparable exchange rates
EMEA	4,036.9	3,916.2	3.1%	3.3%
Americas	1,902.9	1,939.5	-1.9%	0.6%
Asia-Pacific	4,574.3	4,082.8	12.0%	9.2%
Total sales	10,514.1	9,938.5	5.8%	5.3%

Sales by business

MEUR	2021	2020	Change	Change at comparable exchange rates
New equipment sales	5,637.7	5,340.2	5.6%	4.4%
Service sales	4,876.4	4,598.4	6.0%	6.3%
Maintenance	3,450.6	3,215.6	7.3%	7.5%
Modernization	1,425.9	1,382.8	3.1%	3.4%
Total sales	10,514.1	9,938.5	5.8%	5.3%

Sales development by region and by business*

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

*) in monetary value at comparable exchange rates

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

Financial result

KONE's operating income (EBIT) was EUR 1,295.3 million or 12.3% of sales. The adjusted EBIT, which excludes costs of EUR 14.5 million related to restructuring measures in KONE's global business lines and functions, was EUR 1,309.8 million or 12.5% of sales. In the comparison period items affecting comparability consisted of restructuring costs related to the Accelerate program.

The adjusted EBIT margin developed in line with expectations despite the sharp increase in component and logistics costs. Pricing, productivity and product cost actions have been implemented to counteract the headwinds in the cost environment.

With comparable exchange rates, the translation impact on operating income for the comparison period was EUR 12.4 million.

KONE's income before taxes was EUR 1,320.8 million. Taxes totaled EUR 298.1 (276.9) million. This represents an effective tax rate of 22.6% for the full financial year. Net income for the period was EUR 1,022.7 million.

Basic earnings per share was EUR 1.96.

Financial result

	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Operating income, MEUR	1,295.3	1,212.9
Operating income margin, %	12.3	12.2
Adjusted EBIT, MEUR	1,309.8	1,250.5
Adjusted EBIT margin, %	12.5	12.6
Income before taxes, MEUR	1,320.8	1,224.2
Net income, MEUR	1,022.7	947.3
Basic earnings per share, EUR	1.96	1.81

Cash flow and financial position

KONE's financial position was very strong at the end of December 2021.

Cash flow from operations (before financing items and taxes) during January–December 2021 was exceptionally strong at EUR 1,828.7 million.

Net working capital (including financing items and taxes) was EUR -1,468.2 million at the end of December 2021. Accounts payable increased in the quarter due to higher raw material prices and the timing of payments. Foreign exchange rates had a EUR 117 million positive impact on the net working capital.

Interest-bearing net debt was EUR -2,164.1 million at the end of December 2021. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,885.1 (Dec 31, 2020: 2,629.4) million at the end of the reporting period. During the period, KONE signed a sustainability-linked revolving credit facility of EUR 850 million which replaces a previously existing EUR 800 million facility. The sustainability targets included in the facility relate to KONE's decarbonization and gender diversity commitments. Interest-bearing liabilities were EUR 746.5 (Dec 31, 2020: 695.8) million, including a pension liability of EUR 194.3 (Dec 31, 2020: 187.2) million and leasing liability of EUR 343.6 (Dec 31, 2020: 342.9) million. Additionally, KONE had an asset on employee benefits, EUR 22.9 (Dec 31, 2020: 19.2) million. Gearing was -67.6% and the equity ratio was 41.2% at the end of December 2021.

Equity per share was EUR 6.13.

Cash flow and financial position

	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Cash flow from operations (before financing items and taxes), MEUR	1,828.7	1,907.5
Net working capital (including financing items and taxes), MEUR	-1,468.2	-1,160.1
Interest-bearing net debt, MEUR	-2,164.1	-1,953.8
Gearing, %	-67.6	-61.1
Equity ratio, %	41.2	45.5
Equity per share, EUR	6.13	6.12

Capital expenditure and acquisition

KONE's capital expenditure and acquisitions totaled EUR 267.3 million in January–December 2021. Capital expenditure excluding acquisitions was mainly related to equipment and facilities in R&D, IT and production. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Acquisitions totaled EUR 50.1 million in January–December 2021. KONE completed acquisitions of small maintenance businesses in the EMEA region as well as in North America.

Capital expenditure & acquisitions

MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
On fixed assets	96.5	87.5
On leasing agreements	120.6	113.4
On acquisitions	50.1	29.0
Total	267.3	230.0

Research and development

The objective of KONE's research and development is to drive differentiation by putting the needs of customers and users at the center of all development. Our R&D activities focus on developing smart and sustainable solutions that adapt to future needs. By integrating elevators and escalators with digital systems, we enable an even smoother people flow and an improved user experience. Built-in connectivity in our newest elevator models makes them a digital platform for various services and new business models. We support our customers in achieving their eco-efficiency goals throughout the building's life cycle, for instance by continuously developing the energy-efficiency of our solutions.

Research and development expenditure totaled EUR 188.8 million, representing 1.8% of sales in January–December 2021. R&D expenditure includes the development of new product and service concepts as well as the further development of existing solutions and services.

During January–December 2021, we continued the global rollout and extension of the KONE DX Class offering. This new elevator series featuring built-in connectivity and an enhanced user experience was introduced at the end of 2019 and will replace the previous KONE elevator range across all areas. During the first quarter, we launched DX Class elevators in China, Asia Pacific and in India. We also introduced several enhancements to the DX Class offering during the year. These included expansions to the DX modernization solutions as well as new API (application programming interface) connectivity devices for elevators in the high-rise segment.

During the second quarter, we launched the KONE Lane turnstile. This next generation access gate solution offers improved space-efficiency, reducing the need for floorspace by up to 90% compared with conventional similar products. The solution is ideal for offices and multiuse developments and can be adjusted to suit various design styles. KONE Lane won two Red Dot Design Awards along with three other KONE solutions in May. Other awards were given to KONE Office Flow, KONE Digital Experience Car and the KONE TravelMaster Premium Kit escalator design solution, which were recognized for their design quality, innovation and smart connectivity.

During the fourth quarter, we introduced KONE Care™ DX maintenance service, the first carbon-neutral maintenance service in the elevator industry. By using AI-powered predictive maintenance, automatic updates, remote servicing and in person or digital support, KONE Care™ DX maximizes uptime and prolongs the equipment life. The service comes with KONE 24/7 Connected Services, KONE's flagship solution for predictive maintenance. All KONE Care™ DX maintenance activities will be carbon neutral through a combination of emission reduction actions that we are implementing to reach the targets of our climate pledge, and carbon offsetting programs.

During the fourth quarter, we also announced a collaboration with Amazon Web Services (AWS), the world's most comprehensive and broadly adopted cloud offering. AWS will provide KONE with global cloud capabilities such as Internet of Things (IoT) and analytics. The companies will also innovate together to develop new technologies that further strengthen the scalability and performance of KONE's connected services and solutions.

R&D expenditure

MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
R&D expenditure	188.8	179.6
As percentage of sales, %	1.8	1.8

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 conducts its business in a responsible and sustainable way, and we expect the same commitment from all our partners. We are committed to complying with the laws and regulations of the countries in which 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 Environmental Excellence Program, as well as in 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 reducing emissions in its own operations, offering and the value chain by 2030, showing climate leadership and commitment to limiting global warming to 1.5 degrees celsius in accordance with the Paris Climate Agreement. KONE applies the Task Force on Climate-related Financial Disclosure (TCFD) reporting principles in order to report about climate-related financial risks and opportunities. The table on this text maps the pages of the report where disclosures according to TCFD requirements can be found.

KONE's Sustainability Report 2021

- Will be published during Q2 2022
- In the report, you can find more detailed information about sustainability

KONE's strategy and business model are described on pages 3–5 of KONE's Annual Review 2021. Risks and risk management related to the matters below are described in the section 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, which is prepared according to GRI Standards. KONE published its Sustainability Report for 2020 in April 2021. KONE's Sustainability Report for 2021 will be published during the second quarter of 2022.

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 President and CEO and the Executive Board. KONE's Executive Board discusses sustainability topics, including e.g. environmental, social and compliance topics, in each meeting given the strong emphasis on sustainability in KONE's strategy "Sustainable Success with Customers". Furthermore, KONE has established forums where sustainability and climate-related topics are regularly discussed: The Quality and Environmental Board and the Offering and Technology Board, both chaired by KONE President and CEO and with Executive Board level members. KONE also has a separate Sustainability Board, a steering committee dedicated to sustainability topics, with climate and environment among the prioritized areas. Several members of KONE's Executive Board are members of the Sustainability Board, which is 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, including environmental, social and anti-corruption matters. In 2021, the Board decided on a new share-based long-term incentive plan, which introduced sustainability as a new key performance indicator. The Board and its Nomination and Compensation Committee worked on setting this new sustainability target as well as on monitoring KONE's progression against it.

External recognitions

KONE has received external recognition for its efforts to conduct business in a sustainable way. For example, KONE was again included in the FTSE4Good index as well as in 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 ninth consecutive year that KONE has achieved a leadership score of A or A- in the Climate Change rating, which demonstrates our long-term commitment to environmental work and sustainability. KONE was also awarded the best A grade in CDP's 2020 Supplier Engagement Rating, demonstrating leadership and best practice in engaging our suppliers on climate change issues. In addition, KONE was awarded the highest-scoring Platinum medal in the annual EcoVadis sustainability performance assessment covering environment, labor and human rights, ethics and sustainable procurement. This places KONE in the top 1% of all 75,000 companies assessed in 2021. KONE also earned a place in the first ever Financial Times Europe's Climate Leaders ranking. The ranking identifies companies that achieved the greatest reduction in their greenhouse gas (GHG) emissions relative to their revenue between 2014 and 2019.

Non-financial key performance indicators

	Key performance indicator	Target	2021 results	2020 results
Environmental matters	Greenhouse gas emissions from own operations (Scope 1 and 2)[1)]	Long-term target (2030): 50% reduction in absolute emissions, carbon neutral operations 2021 target: 7% reduction in Scope 1 and 2 absolute carbon footprint from 2019 baseline	Will be published in the Sustainability Report during Q2 2022	12% reduction in absolute emissions
	Product-related greenhouse gas emissions (Scope 3)[1)]	Long-term target (2030): 40% reduction in product-related Scope 3 emissions relative to ordered products	Will be published in the Sustainability Report during Q2 2022	0.7% increase relative to products ordered
	Share of renewable electricity used in our facilities, %	Long-term target (2030): 100% 2025 target: 80% 2021 target: 50%	Will be published in the Sustainability Report during Q2 2022	41%
	Share of key suppliers ISO 14001 certified, %	100%	88%	90%
	Share of landfill waste at our manufacturing units, %	0% by 2030	Will be published in the Sustainability Report during Q2 2022	0.6%
	Number of products covered by Environmental Product Declarations	17 by 2022	13	8
Personnel and social matters	Industrial Injury Frequency Rate (IIFR) [2)]	Zero injuries	IIFR 1.6	IIFR 1.2
	Employee engagement	Maintain employee engagement on a strong level	Slight decline. Remained above the external high-performance benchmark.	Great leap up. Engagement was at a very strong level.
	Personnel voluntary turnover rate, % [3)]	Maintain voluntary turnover below market level	7.8%	5.5%
	Share of women in director level positions, %	35% of director level positions occupied by women by 2030	21%	19%
	Average learning hours per employee	>40 hours in a year	43	38
Human rights, anti-corruption & bribery	% of total employees who have completed at least one ethics & compliance training during the year	90%	96%	Change of KPI. In 2020, 96% of employees had completed Code of Conduct training (cumulative % since the launch of the training in 2018).
	% of KONE's overall external spend that is covered by KONE Supplier Code of Conduct or equivalent accepted by KONE	80%	80%	Change of KPI. In 2020, 84% of key suppliers had signed the Supplier Code of Conduct
	% of distributors who have signed the Distributor Code of Conduct	100%	100% of our distributors in China and 99% in the rest of the world	100% of our distributors in China and 88% in the rest of the world

1) The greenhouse gas emissions from our own operations and value chain have been calculated 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).
2) The number of lost time injuries of one day or more, per million hours worked
3) Sum of voluntarily left employees (with permanent contract) over 12 months divided by average closing headcount over 12 months

ENVIRONMENTAL MATTERS

In line with KONE's 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 have defined our environmental ambition, objectives and commitment to environmental sustainability in all activities in our Environmental policy statement, which is publicly available at kone.com. In 2021, we renewed both this statement and our Environmental Excellence program, which guides us towards our environmental targets, to improve alignment with our heightened climate and environmental ambition. In line with the statement, 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 the KONE Global Vehicle Fleet, Facility and Travel Policies also set out environmental requirements relevant to the operations of KONE or its partners.

KONE has a climate pledge with science-based targets for significant greenhouse gas emissions reductions and an aim to have carbon neutral operations by 2030. We are committed to a 50% cut in the emissions from our 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 these ambitious emissions reduction targets, we aim to achieve carbon neutral operations by 2030 by offsetting the remaining emissions. In addition, we target a 40% reduction in the emissions related to our products' materials and lifetime energy use (scope 3 emissions) over the same target period, relative to orders received. KONE was the first to validate its science-based targets against the latest climate science in the elevator and escalator industry and KONE's targets are the most ambitious in the industry to date. 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

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 Directors' oversight of sustainability, p. 11
	Management's role in assessing and managing climate-related risks and opportunities	Non-financial information / Management and Board of Directors' oversight of sustainability, p. 11
Strategy	Climate-related risks and opportunities over the short, medium and long term	Non-financial information / Environmental matters, p. 13
	Impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	Strategy, p. 3 Risks and risk management related to the reporting of non-financial information, p. 23
	Resilience of strategy, taking into consideration different climate-related scenarios	KONE is planning to conduct scenario work during 2022.
Risk management	Processes for identifying and assessing climate-related risks	Risks and risk management related to the reporting of non-financial information, p. 23
	Processes for managing climate-related risks	Risks and risk management related to the reporting of non-financial information, p. 23
	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. 23
Metrics and targets	Metrics used to assess climate-related risks and opportunities	Non-financial information / Key performance indicators, p. 12 Non-financial information / Environmental matters, p. 13
	Scope 1, Scope 2 and Scope 3 emissions and the related risks	Non-financial information / Key performance indicators, p. 12 Non-financial information / Environmental matters, p. 13
	Targets used to manage climate-related risks and opportunities and performance against targets	Non-financial information / Key performance indicators, p. 12 Non-financial information / Environmental matters, p. 13

substances. We screen our suppliers' performance in terms of their environmental and social responsibility with our Supplier Sustainability Assessment. The assessment includes the basic criteria that must be met in order to continue doing business with KONE, as well as other, more advanced criteria.

Most of KONE's environmental figures for 2021 will be published in the 2021 Sustainability Report during the second quarter of 2022.

KONE's offering

The majority of the environmental impacts associated with KONE's activities are related to our products over their full life cycle. In 2020, our product-related Scope 3 emissions increased by 0.7% relative to ordered products. This was mainly due to an increased number of products sold especially in the Asia-Pacific region, where the lifetime energy use emissions of our products tend to be higher due to fossil fuel-based energy generation. KONE will publish the carbon emissions from 2021 in the Sustainability Report during the second quarter of 2022.

Requirements for smart and sustainable materials, solutions and buildings are increasing. We see these shifts in demand as a growth opportunity and want to be the preferred partner for our customers. 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.

Our innovations can have a significant role in advancing climate action. We support smart and sustainable building through our energy-efficient and innovative offering, functional and sustainable materials, as well as transparent documentation about our products' environmental impacts. 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 solutions. During the year, we obtained seven best in-class energy performance references for our DX elevator models according to the international ISO 25745 standard for the energy performance of lifts, escalators and moving walks. We currently have 31 best-in-class energy efficiency references for our products according to the standard.

Several KONE solutions have received external recognition for their environmental performance. During 2021, we received Singapore Green Building Product (SGBP) certifications for the KONE 3000S MonoSpace®, KONE 3000 Minispace™ and KONE 3000 TranSys™ elevators. KONE currently has seven SGBP-certified solutions and is the first 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. During 2021, approved assessments were received for the KONE TranSys™ DX and MonoSpace® 700 DX elevators as well as for the TransitMaster™ 140T escalator. BVB is a nonprofit organization that evaluates solutions for buildings and drives the use of sustainable building materials.

During 2021, important achievements were also made in the transparent communication about the environmental and health impacts of our products with Environmental Product Declarations (EPD) published for seven of our solutions. These EPDs included the first escalator EPD in the industry, which was received by the KONE TransitMaster™ 140.

In 2021, KONE launched the industry's first carbon neutral maintenance service offering. KONE Care DX™ maintenance activities will be carbon neutral through CO2e reduction actions that we are implementing to reach the targets of our climate pledge as well as by compensating the remaining CO2e emissions with our third-party certified carbon compensation program. We support carbon offsetting projects in different parts of the world. These projects reduce or avoid CO2e emissions, and are related to, for example, renewable energy such as solar and hydro power, as well as to reforestation or avoiding deforestation.

Own operations

During the first quarter of 2021, we finalized the calculations of our 2020 carbon footprint. KONE's target was to reduce its operational carbon footprint relative to sales by 3% annually. In 2020, we exceeded our annual target as our overall operational carbon footprint (Scope 1, 2 and selected Scope 3 categories) relative to sales decreased by 8.9 % compared to 2019, with sales growth calculated at comparable exchange rates. Our scope 1 and 2 greenhouse gas emissions relative to sales decreased by 11.8%. 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 2020, the share of landfill waste in our manufacturing units was 0.6% (2019: 0.9%).

We revised our target setting in 2021, both in terms of ambition and scope, to align with our climate pledge. Our long-term target for Scope 1 and 2 emissions is an absolute reduction of 50% by 2030 from the base-year 2018. The respective annual target for 2021 is an absolute reduction of 7%, compared to the base-year 2019 due to the exceptional circumstances in 2020. 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. During 2020, the greenhouse gas emissions from our own operations (Scope 1 and 2) reduced by 12.0% in absolute terms compared to 2019. In 2021, we have made good progress in terms of reducing emissions from our own operations. Many KONE subsidiaries are taking steps to renew their vehicle fleets. For example, in our maintenance operations KONE started piloting e-cargo bikes and e-scooters in Austria and replacing old motorcycles with new electric ones in Hong Kong. In terms of our facilities, we expect to reach our short-term target of 50% (2030 target: 100%) of electricity consumption from renewable sources by the end of 2021 thanks to good progress made during the year. Our manufacturing units in the United States, Mexico and China now purchase 100% renewable electricity, and the solar panels we installed in our new manufacturing unit in Chennai, India during 2020 were in operation from the beginning of 2021. The finalized 2021 carbon footprint results will be published in our Sustainability Report in the second quarter of 2022.

KONE uses the ISO 14001 environmental management system to enhance its environmental performance. It covers our corporate units, including all R&D, manufacturing units, and 26 major country organizations. Three KONE manufacturing units have ISO 50001 energy management system certification. At the end of 2021, 88% (2020: 90%) of our key suppliers were ISO 14001 certified, our target being 100%.

An increasing trend in customer demand is the focus on wooden buildings. To accommodate this, KONE's manufacturing unit in Finland continues to hold 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 continue to hold the FSC® Chain of Custody certification, meaning that customers can now be provided this assurance for the full delivery chain for elevators installed in these countries. To our knowledge, KONE is the only elevator company to have received FSC® certifications.

PERSONNEL AND SOCIAL MATTERS

Our main goal is to have the most capable and engaged team of professionals, who succeed in a changing world. We strive towards this goal through great employee experience, diverse and inclusive culture, continuous learning, flexibility and wellbeing. These are the core elements in our Empowered People Way to Win, one of the four KONE-wide transformation and development initiatives, which enable us to succeed in our strategy. All KONE's activities are guided by ethical principles. Employee rights and responsibilities include the right to a safe and healthy working environment, fair and equitable labor conditions, personal wellbeing, freedom of association, collective bargaining, non-discrimination and the right to a working environment in which harassment and bullying are not tolerated.

COVID-19 impact on the way we work

While the COVID-19 pandemic continued to have an impact globally in 2021, progress in vaccine rollouts resulted in restrictions being eased in many regions during the second half of the year. As regulations and practices varied from country to country, we encouraged our country organizations to actively follow the local rules and guidance to ensure that we are compliant and able to take into account our customers' requirements. Our main focus throughout the pandemic has been to continue serving our customers in the safest manner possible. We have supported our employees by offering flexibility where needed and by ensuring easy access to information on how to enhance wellbeing. The pandemic has accelerated a change in how we work. During 2021, we introduced the KONE flexible working statement confirming that KONE will support flexible working arrangements that are aligned with our business priorities.

Diversity and inclusion

We actively encourage diversity at KONE, and our values guide us in upholding an inclusive culture. In the beginning of 2021, KONE launched a new strategic phase with strong focus on sustainability and Diversity and Inclusion (D&I) as key elements of it. As one of the D&I specific goals, we committed to making a step-change in the share of women at director level and increase it to 35% by 2030. In 2021, the share of women in director level positions increased to 21% (19%). Most of our employees are male representing 88% (89%) of our people globally. We continue our efforts towards achieving a more balanced gender split. During the reporting year, KONE's workforce included 145 (147) nationalities. To strengthen our global approach and deepen our customer and market insights, we have goals to increase cultural diversity in our global teams.

In 2021, we engaged our senior leaders to a D&I learning journey to lead the way for an inclusive culture. We also continued to strengthen D&I maturity in our countries through various actions from transparent communication to data driven decision making and more inclusive talent practices and culture.

Our elevated focus on driving D&I is visible also in KONE's new share-based long-term incentive plan, launched in the beginning of 2021, where sustainability was introduced as a new metric in addition to the financial metrics. The sustainability metric is a combination of different elements with diversity and inclusion being one of them.

Employee engagement & KONE culture

Making KONE a great place to work is KONE's number one strategic target and it 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, as well as diversity and inclusion.

In 2021, we conducted a light version of the Pulse survey with 84% of all KONE employees taking part despite the challenging circumstances brought on by COVID-19. The global results show that KONE continues to be a great place to work with a healthy company culture and KONE employees are very engaged. Despite a slight decline from the very high 2020 scores in both engagement and enablement, the vast majority of the survey results were clearly above the external high-performance benchmarks. We also organized Pulse Talks across all teams at KONE with 85% of employees participating. The objective of the Talks was to ensure continuous dialogue on team wellbeing and make KONE an even better workplace.

During 2021, we continued developing KONE's culture to ensure that it supports our strategic targets. Throughout the year, employees continued sharing their thoughts about the development of KONE's culture, values and ways of working through facilitated online discussions. In addition, a new e-learning course focused on KONE's culture and values was

Number of employees

	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Number of employees at the end of period	62,720	61,380
Average number of employees	61,698	60,376

Geographical distribution of KONE employees

	Dec 31, 2021	Dec 31, 2020
EMEA	23,669	23,798
Americas	7,258	7,336
Asia-Pacific	31,792	30,246
Total	62,720	61,380

Personnel voluntary turnover rate was 7.8% (5.5%) Employee costs for the reporting period totaled EUR 3222 (3043) million. The geographical distribution of KONE employees was 38% (December 31,2020: 39%) in EMEA, 12% (12%) in the Americas and 51% (49%) in Asia-Pacific.

introduced during the second half of the year with approximately 12,000 employees completing the course.

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 discussion on important developments affecting our employees. In 2021, the Employee Forum was conducted virtually due to the COVID-19 pandemic. In addition to regular business updates and discussion about the Sustainable Success with customers strategy, the specific focus areas in the forum were Lean KONE, smart and sustainable field operations as well as safety, sustainability and quality.

Training and development

We strive to have the best professionals with the right competencies in each position. We facilitate this effort, and 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.

We promote the 70-20-10 approach for learning. This means that we believe that 70% of our learning happens through experiences, 20% through social learning and 10% through formal development and training. We provide a rich training offering for our employees, which includes more than 8,500 courses in 36 languages. The courses vary from 2-minute digital nanomodules to trainer-led courses lasting several days. Amidst the COVID-19 pandemic, we have actively encouraged employees to make use of learning opportunities as well as continued to develop new online learning offerings and virtualize our current instructor-led programs. Total learning hours increased by 12% compared to 2020. On average, KONE employees used 43 hours on formal development and training.

In 2021, we established an upskilling program to support KONE Sustainable Success with Customer strategy realization from a competence development perspective. The program is focused on driving competence development efforts for organization-wide competences related to, for example, Lean thinking as well as digital and customer understanding, and it covers 80% of KONE employees.

We have continued to invest in building capabilities to sell and deliver digital solutions and services. In connection to the continuing roll-out of KONE DX Class elevators, salespeople, engineers and field teams have been actively trained on these topics as well as on KONE 24/7 Connected Services and KONE's ecosystem partnering.

Talent attraction

A key focus area within the KONE people strategy is attracting the best talent by providing a great employee experience.

Although recruitment volumes continued to fluctuate during 2021 due to COVID-19, we saw an overall increase in recruitment volumes. Targeting new competencies and increasing diversity through recruitment continued to be one of KONE's key focus areas. Efforts to increase diversity through recruitment realized during the year with a large number of applicants and hires outside of elevator and escalator industry. We were also able to recruit an increasing number of people with new competencies related to, for example, digitalization and solution selling to KONE. Systematic activities around talent attraction and building talent pipelines have helped us to reach shorter times to hire and improved quality of hires.

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.

Safety

Improving safety at work remained a top priority in 2021. KONE has a company-wide safety management system in place to guide us in achieving continual improvement. To support in controlling the main risks in the workplace and keep our workers safe, we introduced nine KONE core safety principles during the reporting year. The principles are common to all KONE employees, subcontractors and everyone we work with.

KONE employees receive health and safety training relevant to their work, enabling it to be performed in a professional and safe manner. All KONE employees are required to complete a general safety training related to our safety management framework and KONE's Health and Safety Policy. At the end of the reporting year, over 80% of KONE employees had completed the general safety training.

During the year, we focused on strengthening safety leadership competences by using a new interactive e-learning, which was completed by over 6,400 of our safety-, quality-, and people managers by the end of the year. 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 safely. If any are found, the work in question is stopped until a safe method is approved.

In 2021, the IIFR (Industrial Injury Frequency Rate) was 1.6 with the average lost days per incident of 27.8 (27.3). The previous year was exceptional due to the pandemic, with IIFR as low as 1.2. We continue to target zero injuries and expect our years of favorable safety progress to continue, with strong emphasis on safety culture and human factors. In order to move towards our ultimate target, we aim at getting IIFR below 1.0 by the end of 2024. The number of safety observations recorded in KONE Safety Solution, our global safety reporting tool that was fully deployed in 2021, increased by 22%. All employees are encouraged to actively report safety near misses and incidents as it provides valuable information for improving safety. Our objective during the year was to enhance the quality, investigation and analysis of our near miss and incident reports, as well as to improve transparency.

The global KONE Safety Week was organized in all KONE units in May 2021 with a continued theme of safe behavior, complemented with elements of psychological safety. Various safety related activities were held during the week for both internal and external stakeholders. Due to the pandemic, most of the activities were organized virtually. A new global year-end safety campaign was also organized to strengthen safety commitments.

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

KONE's Code of Conduct was renewed in 2021 as part of KONE's sustainability actions, to better reflect our new values and strategy. The Code of Conduct forms an integral part of KONE's company culture and is the foundation of our ethical business practices. The Code sets out the responsible and ethical conduct expected of KONE employees and companies and is available in 33 languages. With an even stronger emphasis on diversity and inclusion, expanded guidance on fraud, corruption and fair competition and new sections on human rights, trade compliance and cybersecurity, the Code of Conduct is well aligned with international practice as well as stakeholder expectations. Integrity, responsibility and accountability are highlighted as essential themes.

The topics covered in the new Code are: conflicts of interest, corruption, competition compliance, trade compliance, workplace well-being, health and safety, environmental compliance, human rights, privacy, fraud and theft, cybersecurity, intellectual property and confidentiality, external communications and insider trading. Also emphasized is KONE's non-retaliation policy which states that we do not tolerate any form of retaliation against anyone having made good faith compliance reports. The human rights section highlights our commitment to respect and endorse internationally recognized labor and human rights standards and specifies that we take steps to remediate adverse impacts on human rights that we become aware of.

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, suppliers and distributors 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 2021, we received a total of 152 reported compliance allegations, of which 41% were received through the Compliance Line. Of these reports, 35% were fraud/corruption related, 35% were HR related, 10% related to conflicts of interest, and the remaining 20% fell under various other categories. In total 40% of the 141 cases closed in 2021 were either substantiated or partially substantiated, and disciplinary actions in those cases ranged from coaching discussions to termination of employment, with 23 employees who were dismissed or resigned as a result of compliance investigations.

In 2021, the Code of Conduct e-learning course was refreshed to reflect the changes in the new Code of Conduct and assigned to all KONE employees. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy and confidentiality, work safety, harassment & discrimination, gifts & hospitality and trade compliance and has a strong focus on scenarios that reflect day to day situations employees might face. The course is available in 37 languages. Regular face-to-face compliance training is also provided to managers and other target groups. Of KONE employees, 96% have completed at least one compliance training in 2021, including the Code of Conduct e-learning.

KONE's general Code of Conduct is complemented by our Supplier and Distributor Codes of Conduct. Our Supplier Code of Conduct is available in 30 languages and 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 2021, 80% of KONE's total spend was with suppliers and installation subcontractors who have signed KONE's Supplier Code of Conduct or equivalent.

KONE's Distributor Code of Conduct was updated in 2021 and covers similar topics as the Supplier Code of Conduct. It is available in 6 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 2021, 100% (100%) of our distributors in China, and 99% (88%) 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 the year, we continued focusing on human rights in the supply chain by further developing a supplier human rights assessment process within KONE. The COVID-19 pandemic continued to impact the roll-out of planned on-site pilot assessments. However, an extensive online questionnaire was rolled-out to over 200 suppliers' production sites to assess their potential and actual human rights risks. Human rights training was also provided to our internal human rights assessors. The Global Compliance Committee is responsible for the oversight of the Human Rights program at KONE.

Disclosure according to the EU Taxonomy Regulation

KONE discloses information according to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (the "Taxonomy Regulation"). The Taxonomy Regulation forms the basis for the EU Taxonomy, a classification system that establishes a list of environmentally sustainable economic activities for six environmental objectives. The implementation of the Taxonomy Regulation will progress in phases. The first delegated act setting out technical screening criteria for the first two environmental objectives, climate change mitigation and adaptation (the "Climate Delegated Act"), was adopted in 2021. Another delegated act for the remaining four environmental objectives (the "Environmental Delegated Act") will be published in 2022.

In the report regarding fiscal year 2021, undertakings are required to disclose the proportion of Taxonomy-eligible economic activities in their turnover, capital expenditure and operational expenditure. Taxonomy-eligible activities currently include those in the scope of the Climate Delegated Act. Undertakings are not required to assess Taxonomy alignment in the first year. Taxonomy alignment requires Taxonomy-eligible activities to meet the detailed technical screening criteria and comply with the Do No Significant Harm (DNSH) criteria and the minimum social safeguards defined in the Taxonomy Regulation.

We have evaluated KONE's Taxonomy-eligibility according to the descriptions of economic activities listed in Annex I (climate change mitigation) and Annex II (climate change adaptation) of the Climate Delegated Act and the related NACE codes provided in these descriptions. Where the description has been ambiguous, we have reviewed the technical screening criteria laid out in the Annexes to help interpret the nature of the activity. We have not evaluated Taxonomy-alignment for 2021.

TAXONOMY-ELIGIBLE TURNOVER

At this stage, only economic activities with the most significant need and potential to make substantial contribution to climate change mitigation and adaptation have been included within the scope of the Climate Delegated Act. Our interpretation is that the majority of KONE's business, i.e. the manufacturing, maintenance and modernization of elevators and escalators, is currently not within the scope of the Taxonomy because it is not among the most high-emitting industries. Nonetheless, we support more sustainable urban environments and buildings with our energy-efficient and innovative offering and the use of healthy, functional, and sustainable materials. Furthermore, we have set ambitious science-based targets for significant reductions in our greenhouse gas (GHG) emissions by the year 2030. Read more about KONE's environmental sustainability in the 'Non-financial information' section of this report.

In addition to elevators and escalators, KONE's offering includes automatic building doors. We have identified certain aspects of our automatic building door business as being Taxonomy-eligible according to the economic activities 3.5 'Manufacture of energy efficiency equipment for buildings' and 7.3 'Installation, maintenance and repair of energy efficiency equipment' in Annex I. The description of the economic activity 3.5 includes NACE code C25.12 'Manufacture of doors and windows of metal', which comprises the manufacture of metal doors, windows and their frames, shutters and gates as well as metal room partitions for floor attachment. Based on this NACE code description, we have concluded that KONE's revenue related to manufacturing of sliding doors, swing doors, revolving doors, turnstiles, overhead doors, roller shutters, high speed doors, garage doors and gates is Taxonomy-eligible. We have also concluded that the installation, maintenance, and repair of these door/gate solutions is Taxonomy-eligible based on the description of activity 7.3, which includes individual renovation measures consisting in installation, maintenance or repair of energy efficiency equipment.

Furthermore, we have determined that elevators sold with a regenerative drive can be considered energy efficiency equipment and thus a Taxonomy-eligible economic activity based on the description of economic activity 3.5 'Manufacture of energy efficiency equipment for buildings' in Annex I. When descending with a heavily loaded car or ascending with a lightly loaded car, elevators can recover energy by converting the stored mechanical energy into electrical energy in the motor, which acts as a generator. Elevators equipped with a regenerative drive can push the generated energy back into the electrical grid of the building, where it can be used by other building appliances, such as HVAC. While the regenerated energy varies according to the building type, the saving can potentially amount to 20–40% in mid-rise buildings. As part of our science-based targets, validated against the latest climate science by The Science Based Targets initiative, we have set a scope 3 emission reduction target focused on reducing lifetime energy consumption of our products. Regenerative drive is currently the best available technology to reduce our product-related emissions from the use of the equipment. Therefore, increasing the share of sales of elevators with regenerative drive is one of the assumptions in reaching our product-related science-based target. This supports the argument for considering regenerative drives as energy efficiency equipment that help mitigate climate change.

In total, we have identified 5.0% of taxonomy-eligible turnover in 2021 from the economic activities mentioned above.

TAXONOMY-ELIGIBLE CAPEX AND OPEX

In line with KONE's science-based targets, we are investing in enabling significant reductions in greenhouse gas emissions in both our own operations and in the value chain. Some of the actions taken, e.g. the installation of solar panels in our facilities and enhancement of charging infrastructure for EVs could fit into the scope of the Taxonomy. These investments do not, however, represent a meaningful share of the total capex and/or are not considered to be part of KONE's own capital expenditure. Thus, we have not identified material Taxonomy-eligible CapEx in 2021.

In terms of OpEx, we have identified Taxonomy-eligible operating expenses related to the purchase of output from other companies' Taxonomy-eligible economic activities, i.e. purchased renewable energy for facilities according to Chapter 4 ('Energy') in Annex I and leasing costs of vehicles according to activity 6.5 ('Transport by motorbikes, passenger cars and commercial vehicles') in Annex I. Based on the description of activity 6.5 , we have concluded that the leasing costs related to our entire vehicle fleet are Taxonomy-eligible. In total, we have identified 20.7% of Taxonomy-eligible OpEx in 2021, of which the majority relates to KONE's vehicle fleet. KONE has defined the total OpEx (denominator), MEUR 536.7, based on the methodology specified in the Taxonomy Regulation. It includes research and development costs of KONE, in addition to costs related to maintenance and repair of facilities and buildings, energy purchases and costs for KONE's vehicle lease fleet.

Turnover, CapEx and OpEx from products or services associated with Taxonomy-eligible economic activities

	Taxonomy-eligible /non-eligible economic activities
Turnover	
Taxonomy-eligible activities, %	5.0 %
Taxonomy-non eligible activities, %	95.0 %
Total turnover*, MEUR	10,514.1
CapEx	
Taxonomy-eligible activities, %	0.0 %
Taxonomy-non-eligible activities, %	100.0 %
Total CapEx*, MEUR	267.3
OpEx	
OpEx of Taxonomy-eligible activities, %	20.7 %
Taxonomy-non-eligible activities, %	79.3 %
Total opEx, MEUR	536.7

*Total turnover and total capex as per KONE group reported figures. KONE's principles for defining turnover and capital expenditure can be found in sections 2.1., 4.3 and 4.4. in the Financial Statements.

Changes in the Executive Board

In January–December 2021, KONE announced the following 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 the 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 served as KONE's Executive Vice President, Central and North Europe. Axel Berkling was appointed Executive Vice President, Central and North Europe. Prior to this, Axel Berkling served as KONE's Executive Vice President, Asia-Pacific region, excluding China. 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.

After the reporting period, on January 18, 2022, KONE announced that Thomas Hinnerskov, Executive Vice President responsible for South Europe, Middle East and Africa, has decided to leave KONE for a position outside the company latest at the end of May 2022. Thomas has served as a member of KONE's Executive Board since 2016.

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 anti-competitive 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 154 million at the end of December 2021 (December 31, 2020: EUR 144 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 approximately 35% 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. Liquidity constraints in the Chinese property markets raised market concerns as of the third quarter of 2021, and the financing environment for Chinese property developers remains tight. KONE's customer portfolio is well diversified, limiting individual customer risks. However, a worsening liquidity situation among Chinese property developers could impact construction activity in China and, consequently, the demand for KONE's solutions.

Following the COVID-19 outbreak in 2020, many governments across the world have taken significant measures to contain the pandemic by restricting the movement of people and limiting some business activities. In 2021, construction markets started to recover in many countries despite the continuing pandemic thanks to successful vaccination campaigns, easing restrictions, and government stimulus. However, a deterioration of the situation could have an adverse impact on the overall economic environment, construction activity, availability of workforce and the demand for KONE's services and solutions.

Geopolitical tensions and protectionism continue to expose KONE to various business risks. In addition to the potential adverse impacts on 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. KONE aims to reduce the above risks to its supply chain with regionally diversified second source suppliers and safety stocks.

In addition to the level of market demand, the competitiveness of KONE's offering is a key driver for 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, such as increased competition and customer consolidation in China, could affect market dynamics and KONE's market share.

OPERATIONAL RISKS

Empowered employees with relevant competencies and skills are key to the successful execution of our strategy. With business models and ways of working changing in the elevator and escalator industry, KONE needs new organizational capabilities, as well as new competencies and talent on the individual employee level in the field of, for example, digitalization. At the same time, the competition over talent, such as skilled field workforce, is increasing. Securing the needed resources and their competence management is critical. A failure to develop and retain the required 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. KONE also subcontracts a significant amount of installation activity, outsources certain business support processes and works with partners in e.g. digital services and logistics. This exposes KONE to component and subcontracted labor availability and cost risk as well as to continuity risk in partnerships. A failure to secure the needed materials, components or resources, or quality issues within these, could cause business disruptions and cost increases. Labor availability constraints may also impact progress at construction sites. The recovery in the global economy witnessed during 2021 has put pressure on supply chains, resulting in, for example, increased prices and constraints in component availability and global logistics capacity. The shortage of semiconductors, in particular, is closely monitored and managed with detailed planning of delivery execution and active involvement of supply chain partners among other actions. Continued challenges in the global supply chains could have an adverse impact on KONE's financial performance.

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 in the case of e.g. safety, cybersecurity or non-compliance incidents, major delivery issues or product or service quality issues.

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. The operations of KONE, its suppliers and customers 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 disruption 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 incidents could be caused by, including but not limited to, cyber-crime, cyber-attacks, ransomware, information theft, fraud, or inadvertent actions from our employees and vendors. Physical damage caused by fire, extreme weather conditions, natural catastrophes or terrorism, among other things, could also 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 liquidity and payment discipline 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, 3.2 and 5.3 in the Financial Statements for 2021.

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, prepares for alternative scenarios 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 or other geopolitical actions.
Changes in the competitive or customer landscape, customer requirements or competitors' offerings impacting KONE's competitiveness	KONE aims to be the industry leader with its competitive offering 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 strict quality control processes for product design, supply, manufacturing, installation and maintenance. 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. KONE's global supply chain helps mitigate the risk of interruptions. KONE has 10 manufacturing facilities in 7 countries, multiple distribution centers and a large supplier network across the globe, which helps to mitigate the impacts from potential disruptions in individual locations or countries.
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	KONE applies centralized risk management in accordance with the KONE Treasury Policy. More information on financial risk management can be found in notes 2.4, 3.2 and 5.3 of KONE's Financial Statements 2021.

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 applies TCFD guidelines on the reporting of climate-related risks.

The typical effect of the non-financial risks materializing would be reputational damage to KONE or a negative impact on the surrounding society, environment or individuals. 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. While the effect is not determined to be significant, we expect climate risks to 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, e.g. the Supply Chain function or selected operational sites, conduct detailed climate and environmental risk assessments according to relevant business requirements.

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 or 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.

The most relevant transition risk to KONE arises from potential shifts in the supply and demand for low carbon materials, electricity and fuel, which may increase operating costs in the short to medium term. Also, technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economy may impact KONE's competitiveness and our customers' demand for both KONE's solutions and services. Not being able to 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 approximately 18,000 service and benefit vehicles.

To mitigate the market transition risks, KONE evaluates plausible scenarios for market supply and demand, as well as the impact of emerging regulation in our high-level business plans. KONE is an active member in relevant industry forums and research consortiums and proactively monitors the regulatory landscape. To mitigate the technology transition risk, KONE bases its innovation work on the needs of our customers and equipment users. All in all, KONE sees the transition towards sustainable solutions as a source of innovation and competitive edge rather than a threat. 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. We also identify and assess risks related to any type of bullying, harassment, equal employment practices, working conditions and any form of discriminations. We address such risks by having adequate policies and processes in place and by training our managers and employees. We offer our employees channels for reporting misconduct as there is zero tolerance for this type of behavior. In 2021, the safety and wellbeing of KONE employees continued to be a top priority due to the 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. We follow 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 and installation subcontractors 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. During 2021, we continued to prioritize our work on human rights in the supply chain and rolled-out online supplier human rights assessments to over 200 suppliers' production sites.

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.

In 2021, we completed an anti-bribery and corruption risk assessment, which identified our highest risks as relating to third party intermediaries, sourcing and sales activities. Follow-up actions to mitigate risks were started in 2021 and will continue in 2022.

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 2021, KONE implemented a supplier screening solution, which monitors entities against sanctions, watch lists and adverse media attention, including corruption and human rights issues. Processes under our Global Delegation of Authority policy help to mitigate the risk of unauthorized payments, donations and sponsorships. The most important action for internal mitigation continues to be the development of KONE's corporate culture through training and awareness building. Ethics & Compliance KPIs and actions have been integrated into our new Sustainability strategy. All employees are required to complete at least one annual training on ethics & compliance, and supplier and distributor Code of Conduct sign-up rates are tracked annually.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on March 2, 2021. The meeting was held based on the so-called temporary act so that shareholders participated in the meeting and exercised their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance.

The meeting approved the financial statements, considered the Remuneration Report for governing bodies and discharged the responsible parties from liability for the financial period January 1–December 31, 2020.

The number of Members of the Board of Directors was confirmed as eight. Re-elected as Members of the Board were Matti Alahuhta, Susan Duinhoven, Antti Herlin, Iiris Herlin, Jussi Herlin, Ravi Kant and Juhani Kaskeala. Jennifer Xin-Zhe Li was elected as a new member to the Board of Directors.

At its meeting held after the General Meeting on March 2, 2021, 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 Matti Alahuhta and Jussi Herlin as members of the Audit Committee. Ravi Kant and Matti Alahuhta 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 220,000 for the Chairman of the Board, EUR 125,000 for the Vice Chairman and EUR 110,000 for Board Members. Of the annual remuneration, 40 percent will be paid in class B shares of KONE Corporation and the rest in cash. In addition, it was resolved that compensation is not paid to a board member who is employed by the company.

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. This represents 10% of the total shares and 10% of the total votes for each share class. The authorization will be valid until the conclusion of the following annual general meeting, however, at the latest until 30 June 2022.

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. This represents 10% of the total shares and 10% of the total votes for each share class. 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 2022.

The audit firm Ernst & Young Oy was nominated as the auditor for the term 2021.

Share-based long-term incentives

KONE has two separate share-based incentive plans, one performance share plan and one restricted share plan.

On January 28, 2021, KONE's Board of Directors decided on a new performance share plan, which replaced the existing performance share plans. The new performance plan continues to emphasize profitable growth and as a new measure sustainability. It consists of annually commencing individual share plans, each with a three-year rolling performance period, after which the potential share awards vest. If the participant's employment or service relationship with KONE Group terminates before the end of the performance period, the participant, as a rule, forfeits the share award without compensation. 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 target group and targets within the plan as well as possible rewards are decided upon annually by the Board. As part of the performance share 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.

The 2021 performance share plan is targeted to approximately 55 members of the top management, including the President and CEO, members of the Executive Board and other top management, and approximately 500 other selected key personnel of KONE Group. The performance criteria applied to the 2021 performance share plan are based on annual growth in sales, adjusted EBIT margin and improvements in sustainability. The sustainability performance condition is a combination of reductions in carbon footprint, diversity and inclusion as well as safety related targets.

The restricted share plan serves as a complementary long-term share plan to be used as a commitment instrument for retention and recruitment purposes for top management (excluding the President and CEO) and other selected key persons. The restricted share plan does not have a performance condition. The plan has a commitment period up to 3 years, after which the potentially granted share awards will be paid to the participant, provided that their employment or service relationship with KONE Group is in force at the time of payment.

Shares and share capital

Share capital and market capitalization

	Dec 31, 2021	Dec 31, 2020
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
Treasury shares	11,433,525	11,006,006
Share capital, EUR	66,174,483	66,174,483
Market capitalization, MEUR*	32,652	34,452

* 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.

Treasury shares

	1–12/2021
Treasury shares at the beginning of the period	11,006,006
Changes in treasury shares during the period	427,519
Treasury shares at the end of the period	11,433,525

At the end of December 2021, the Group had 11,433,525 class B shares in its possession. The shares in the Group's possession represent 2.5% of the total number of class B shares. This corresponds to 0.9% of the total voting rights.

During the period, KONE completed the repurchase of the company's own class B shares, which started on November 11, 2021 and ended on November 17, 2021. A total of 750,000 own shares were repurchased for an average price of EUR 60.9629 per share. The shares were repurchased in public trading on Nasdaq Helsinki Ltd. at the market price prevailing at the time of purchase. The shares were repurchased on the basis of the authorization given by the Annual General Meeting on 2 March 2021 and will be used as a part of share-based incentive plans of KONE.

Shares traded on Nasdaq Helsinki

		1–12/2021	1–12/2020
Shares traded on the Nasdaq Helsinki Ltd., million		180.4	222.9
Average daily trading volume		715,964	884,675
Volume-weighted average share price	EUR	65.44	62.07
Highest share notation	EUR	73.86	76.20
Lowest share notation	EUR	55.48	42.39
Share notation at the end of the period	EUR	63.04	66.46

Flagging notifications

During January–December 2021, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on June 3, June 17, June 21, June 29, June 30, July 2, July 8 and July 9. The notices have been published 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 excluding financial instruments according to SMA 9:6a increased to above five (5) per cent of the total number of shares of KONE Corporation on July 8, 2021. The total number of shares including financial instruments according to SMA 9:6a owned by BlackRock, Inc. and its funds remained above five (5) per cent of the total number of shares of KONE Corporation.

In addition to the Nasdaq Helsinki Ltd., KONE's class B share is traded also on various alternative trading platforms.

The number of registered shareholders was 72,661 at the beginning of the review period and 88,182 at its end. The number of private households holding shares totaled 83,793 at the end of the period, which corresponds to approximately 12.3% of the listed B shares. At the end of December 2021, a total of 53.3% of the B shares were owned by nominee-registered and non-Finnish investors.

Outlook

NORTH AMERICA	
New equipment	Services
Slight growth	Maintenance Slight growth Modernization Clear growth

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

ASIA-PACIFIC	
New equipment	Services
China Activity below that of 2021 Outside China Significant growth	Maintenance Clear growth Modernization Significant growth

Market outlook 2022

The Chinese new equipment market is expected to remain solid although below that of 2021 due to the tightened liquidity situation in the property markets. In the rest of the world, the new equipment markets are expected to continue recovering. In North America and in the EMEA region, the new equipment markets are expected to grow slightly. The new equipment market in Asia-Pacific, excluding China, is expected to grow significantly.

Modernization markets are expected to grow across regions supported by pent-up demand and stimulus measures.

Continuing global supply chain constraints and potential labor shortages may limit growth in construction activity, which could impact demand in the new equipment and modernization markets.

Maintenance activity is expected to return to pre-pandemic growth trajectory with slight growth in the more mature markets and clear growth in Asia-Pacific.

Business outlook 2022

KONE estimates that in 2022, its sales growth will be in the range of 2% to 7% at comparable exchange rates as compared to 2021. The adjusted EBIT is expected to be in the range EUR 1,180-1,330 million, assuming that foreign exchange rates would remain at the January 2022 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 50 million.

KONE has a solid order book and a positive outlook for services. Furthermore, the effect of product cost, productivity and pricing actions are expected to support the results towards the latter part of the year.

The key headwinds for the 2022 results are increased material, component and logistics costs, as well as the competitive dynamics and liquidity constraints in China.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2021 is EUR 1,357,142,216.84 of which the net income for the financial year is EUR 501,757,193.86.

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 1.7500 on the outstanding 441,753,623 class B shares. Further, the Board proposes an extra dividend of EUR 0.3475 to be paid on the outstanding 76,208,712 class A shares and EUR 0.3500 on the outstanding 441,753,623 class B shares, resulting in a total amount of proposed dividend of EUR 1,087,339,859.94. The Board of Directors further proposes that the remaining non-restricted equity, EUR 269,802,356.90 be retained and carried forward.

The Board proposes that the dividends be payable from March 10, 2022. All the shares existing on the dividend record date are entitled to dividend for the year 2021 except for the own shares held by the parent company.

Annual General Meeting 2022

KONE Corporation's Annual General Meeting will be held on Tuesday 1 March 2022 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, February 2, 2022
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.

Closing price (EUR)

December 31, 2021	63.04
December 31, 2020	66.46
Change	-5.1 %

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.

Share notations (EUR)

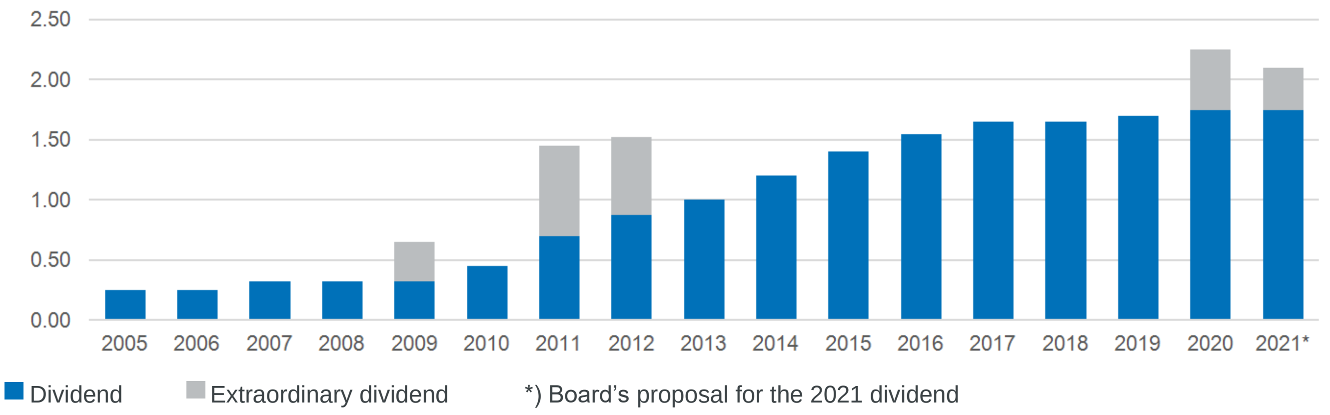
High	73.86
Low	55.48
Volume-weighted average price	65.44

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.	KNEBV
ISIN code	FI0009013403
Accounting par value	EUR 0.125

KONE class B dividend per share, 2005–2021, EUR



*) Board's proposal for the 2021 dividend

Market capitalization

on December 31, 2021

EUR 32,652 million

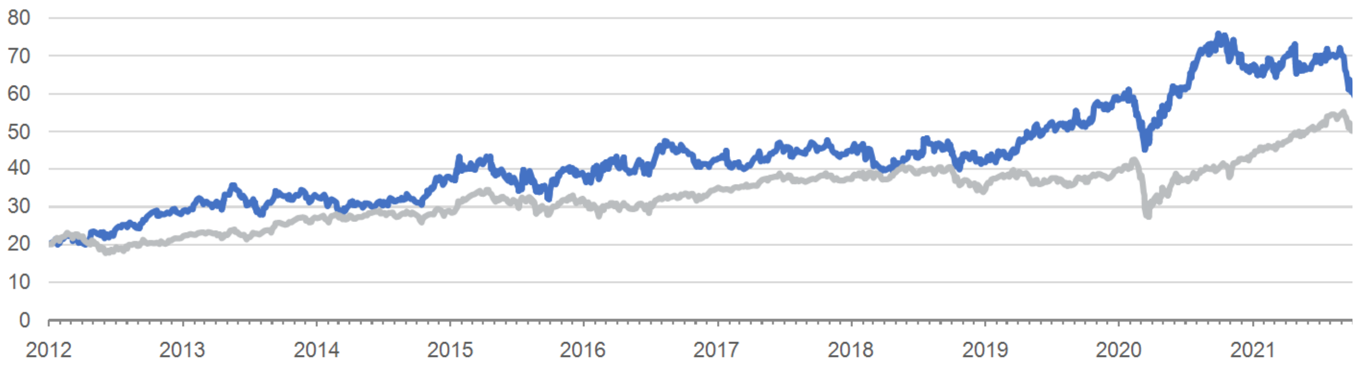
Dividend proposal

dividend
EUR 1.75

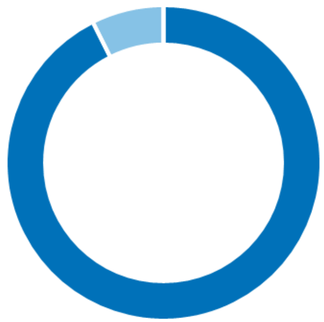
extraordinary dividend
EUR 0.35

per class B share

KONE class B share price development
Jan 1, 2012–Dec 31, 2021, EUR



Class A shares, %



Class B shares, %

*) Includes foreign-owned shares registered by Finnish nominees

Shareholders

SHAREHOLDINGS ON DEC 31, 2021 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 - 10	19,293	21.9 %	104,653	0.0 %
11 - 100	37,305	42.3 %	1,686,556	0.3 %
101 - 1,000	24,452	27.7 %	8,653,373	1.6 %
1,001 - 10,000	6,313	7.2 %	17,157,392	3.2 %
10,001 - 100,000	722	0.8 %	18,350,014	3.5 %
100,001 -	97	0.1 %	483,401,608	91.3 %
Total	**88,182**	**100.0 %**	**529,353,596**	**100.0 %**
Shares which have not been transferred to the paperless book entry system			42,264	0.0 %
Total			**529,395,860**	**100.0 %**

MAJOR SHAREHOLDERS ON DEC 31, 2021

	A-series	B-series	Total	% of shares	% of votes
1 Herlin Antti	70,561,608	49,949,192	120,510,800	22.8 %	62.2 %
Holding Manutas Oy 1)	54,284,592	40,275,254	94,559,846	17.9 %	48.0 %
Security Trading Oy 2)	16,277,016	7,983,016	24,260,032	4.6 %	14.1 %
Herlin Antti	0	1,690,922	1,690,922	0.3 %	0.1 %
2 Polttina Oy	0	17,271,928	17,271,928	3.3 %	1.4 %
3 Wipunen Varainhallinta Oy	0	16,350,000	16,350,000	3.1 %	1.3 %
4 KONE Foundation	5,647,104	9,859,632	15,506,736	2.9 %	5.5 %
5 Heikintorppa Oy	0	10,210,743	10,210,743	1.9 %	0.8 %
6 Varma Mutual Pension Insurance Company	0	6,441,222	6,441,222	1.2 %	0.5 %
7 Riikantorppa Oy	0	5,500,000	5,500,000	1.0 %	0.5 %
8 Blåberg Olli Edvard	0	5,000,000	5,000,000	0.9 %	0.4 %
9 Ilmarinen Mutual Pension Insurance Company	0	4,838,977	4,838,977	0.9 %	0.4 %
10 Elo Mutual Pension Insurance Company	0	2,646,321	2,646,321	0.5 %	0.2 %
10 largest shareholders total	76,208,712	128,068,015	204,276,727	38.6 %	73.2 %
Foreign / nominee registered shareholders 3)	0	241,708,237	241,708,237	45.7 %	19.9 %
Repurchased own shares	0	11,433,525	11,433,525	2.2 %	0.9 %
Others	0	71,977,371	71,977,371	13.6 %	5.9 %
Total	**76,208,712**	**453,187,148**	**529,395,860**	**100.0 %**	**100.0 %**

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

1) Antti Herlin's ownership of Holding Manutas represents 1.1% of the shares and 12.8% of the voting rights and, together with the ownership of Security Trading Oy 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.

More information on the shareholdings of KONE's Board of Directors and Executive Board on Dec 31, 2021 and changes in shareholding during Jan 1 – Dec 31, 2021 are available on page 111.

Key figures per share, Jan 1–Dec 31, 2021

KONE has adopted IFRS 16 standard effective January 1, 2019 using the modified retrospective approach and comparative figures have not been restated. IFRS 15 and IFRS 9 standards have been applied from January 1, 2018 onwards and 2017 financials are restated retrospectively.

	2021	2020	2019	2018	2017
Basic earnings per share, EUR	1.96	1.81	1.80	1.63	1.86
Diluted earnings per share, EUR	1.96	1.81	1.80	1.63	1.86
Equity per share, EUR	6.13	6.12	6.13	5.94	5.85
Dividend per class B share, EUR [1)]	2.10	2.25	1.70	1.65	1.65
Dividend per class A share, EUR [1)]	2.0950	2.2450	1.6975	1.6475	1.6475
Dividend per earnings, class B share, %	107.3	124.0	94.2	101.0	88.6
Dividend per earnings, class A share, %	107.0	123.7	94.1	100.9	88.5
Effective dividend yield, class B share, %	3.33	3.4	2.9	4.0	3.7
Price per earnings, class B share	32.20	36.63	32.31	25.49	24.05
Market value of class B share, average, EUR	65.44	62.07	49.82	43.68	43.73
Market value of class B share at end of period, EUR	63.04	66.46	58.28	41.64	44.78
Market capitalization at the end of period, MEUR [2)]	32,652	34,452	30,180	21,489	23,052
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)]	441,754	442,181	441,634	439,852	438,569
Weighted average number of class B shares, (1,000s) [3)]	441,847	442,055	440,897	439,875	438,628
Weighted average number of shares, (1,000s) [3)]	518,055	518,264	517,105	516,084	514,837

[1)] Board's proposal.
[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. IFRS 15 and IFRS 9 standards have been applied from January 1, 2018 onwards and 2017 financials are restated retrospectively.

Consolidated statement of income, Jan 1–Dec 31	2021	2020	2019	2018	2017
Sales, MEUR	10,514	9,939	9,982	9,071	8,797
- sales outside Finland, MEUR	10,342	9,745	9,783	8,879	8,620
Operating income, MEUR	1,295	1,213	1,192	1,042	1,192
- as percentage of sales, %	12.3	12.2	11.9	11.5	13.6
Adjusted EBIT, MEUR [1)]	1,310	1,251	1,237	1,112	1,206
- as percentage of sales, % [1)]	12.5	12.6	12.4	12.3	13.7
Income before taxes, MEUR	1,321	1,224	1,218	1,087	1,250
- as percentage of sales, %	12.6	12.3	12.2	12.0	14.2
Net income, MEUR	1,023	947	939	845	960

Consolidated statement of financial position, MEUR	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
Non-current assets	2,798	2,666	2,811	2,418	2,387
Current assets	6,922	6,126	5,802	5,316	5,075
Total equity	3,199	3,197	3,193	3,081	3,029
Non-current liabilities	717	522	760	489	491
Provisions	152	155	127	139	138
Current liabilities	5,652	4,918	4,533	4,025	3,804
Total assets	9,720	8,792	8,613	7,734	7,462
Interest-bearing net debt	-2,164	-1,954	-1,553	-1,704	-1,690
Assets employed [2)]	1,035	1,243	1,640	1,377	1,339
Net working capital [2)]	-1,468	-1,160	-856	-758	-773

[1)] Excluding significant restructuring costs arising from redundancy.
[2)] Items included are presented on page 39.

Alternative performance measure

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 from EBIT significant items impacting comparability such as significant restructuring costs. In 2021 items affecting comparability related to restructuring measures of KONE's global business lines and functions. In 2020 and earlier periods items affecting comparability arise from the Accelerate program, launched in September 2017, to speed up the execution of the strategy and to support profitable growth.

Other data, Jan 1–Dec 31	2021	2020	2019	2018	2017
Orders received, MEUR	8,853	8,185	8,400	7,797	7,554
Order book, MEUR	8,564	7,729	8,052	7,951	7,358
Cash flow from operations before financing items and taxes, MEUR	1,829	1,908	1,550	1,150	1,263
Capital expenditure excl. acquisitions, MEUR	217	201	200	112	116
- as percentage of sales, %	2.1	2.0	2.0	1.2	1.3
Expenditure on research and development, MEUR	189	180	171	164	158
- as percentage of sales, %	1.8	1.8	1.7	1.8	1.8
Average number of employees	61,698	60,376	58,369	56,119	53,417
Number of employees at end of period	62,720	61,380	59,825	57,359	55,075
Employee costs	3,222	3,043	3,048	2,818	2,725

Key ratios, %, Jan 1–Dec 31	2021	2020	2019	2018	2017
Return on equity	32.0	29.7	30.1	27.7	32.1
Return on capital employed	26.8	25.0	25.1	25.0	28.8
Equity ratio	41.2	45.5	46.5	49.9	50.0
Gearing	-67.6	-61.1	-48.6	-55.3	-55.8

	2021	2020	2019	2018	2017
Operating income (EBIT), MEUR	1,295	1,213	1,192	1,042	1,192
Operating income margin (EBIT margin), %	12.3	12.2	11.9	11.5	13.6
Items impacting comparability, MEUR	15	38	45	70	13
Adjusted EBIT, MEUR	1,310	1,251	1,237	1,112	1,206
Adjusted EBIT margin %	12.5	12.6	12.4	12.3	13.7

CALCULATION OF KEY FIGURES

Key figure			Formula
Basic earnings/share	=		Net income attributable to the shareholders of the parent company / Share issue and conversion-adjusted weighted average number of shares - own shares
Equity/share	=		Total shareholders' equity / Number of shares (issue adjusted) - own shares
Dividend/share	=		Dividend payable for the reporting period / Share issue and conversion-adjusted weighted average number of shares - own shares
Dividend/earnings (%)	=	100 x	Dividend/share / Earnings/share
Effective dividend yield (%)	=	100 x	Dividend/share / Price of class B shares at end of reporting period
Price/earnings	=		Price of class B shares at end of reporting period / Earnings/share
Average price	=		Total EUR value of all class B shares traded / Average number of class B shares traded during the reporting period
Market value of all outstanding shares	=		The number of shares [1] (A + B) at end of reporting period x the price of class B shares at end of reporting period
Shares traded	=		Number of class B shares traded during the reporting period
Shares traded (%)	=	100 x	Number of class B shares traded / 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 reporting period
Return on equity (%)	=	100 x	Net income / Total equity (average during the reporting period)
Return on capital employed (%)	=	100 x	Net income + financing expenses / Equity + interest-bearing-debt (average during the reporting period)
Equity ratio (%)	=	100 x	Total equity / Total assets - advance payments received and deferred revenue
Gearing (%)	=	100 x	Interest-bearing net debt / 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 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, 2021	%	Jan 1–Dec 31, 2020	%
Sales	2.1	10,514.1		9,938.5	
Costs, expenses and depreciation	2.2, 2.3	-9,218.8		-8,725.7	
Operating income		1,295.3	12.3	1,212.9	12.2
Financing income	2.5	52.9		41.8	
Financing expenses	2.5	-27.4		-30.4	
Income before taxes		1,320.8	12.6	1,224.2	12.3
Taxes	2.6	-298.1		-276.9	
Net income		1,022.7	9.7	947.3	9.5
Net income attributable to:					
Shareholders of the parent company		1,014.2		939.2	
Non-controlling interests		8.5		8.1	
Total		1,022.7		947.3	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	2.7				
Basic earnings per share, EUR		1.96		1.81	
Diluted earnings per share, EUR		1.96		1.81	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	Note	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Net income		1,022.7	947.3
Other comprehensive income, net of tax:	2.8		
Translation differences		205.6	-173.2
Hedging of foreign subsidiaries		-28.6	52.0
Cash flow hedges		-2.1	27.1
Items that may be subsequently reclassified to statement of income		175.0	-94.1
Changes in fair value		0.6	4.8
Remeasurements of employee benefits		-6.7	8.8
Items that will not be reclassified to statement of income		-6.1	13.6
Total other comprehensive income, net of tax		168.9	-80.5
Total comprehensive income		1,191.5	866.8
Total comprehensive income attributable to:			
Shareholders of the parent company		1,183.1	858.7
Non-controlling interests		8.5	8.1
Total		1,191.5	866.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets, MEUR		Note	Dec 31, 2021	Dec 31, 2020
Non-current assets				
Goodwill		4.2	1,405.2	1,327.0
Other intangible assets		4.3	216.9	223.2
Tangible assets		4.4	736.7	710.0
Shares and other non-current financial assets		5.3, 5.4	144.6	143.2
Non-current loans receivable	I	5.3, 5.5	2.6	1.0
Employee benefit assets	I	5.3, 5.7	22.9	19.2
Deferred tax assets	II	3.6	269.1	242.4
Total non-current assets			2,798.0	2,666.1
Current assets				
Inventories	II	3.1	717.8	597.0
Accounts receivable	II	3.2, 5.3	2,421.4	2,178.6
Deferred assets	II	3.3, 5.3	780.8	638.7
Income tax receivables	II		117.3	82.2
Current deposits and loan receivables	I	5.3, 5.5	2,394.7	2,171.4
Cash and cash equivalents	I	5.3	490.4	457.9
Total current assets			6,922.4	6,125.9
Total assets			9,720.4	8,792.0

Equity and liabilities, MEUR		Note	Dec 31, 2021	Dec 31, 2020
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			374.0	345.7
Fair value and hedge reserves			40.2	41.7
Translation differences			166.1	-10.9
Remeasurements of employee benefits			-121.6	-115.0
Retained earnings			2,549.0	2,746.6
Total shareholders' equity			3,174.2	3,174.6
Non-controlling interests			25.0	22.6
Total equity			3,199.2	3,197.3
Non-current liabilities				
Loans	I	5.3	435.4	244.0
Employee benefit liabilities	I	5.3, 5.7	194.3	187.2
Deferred tax liabilities	II	3.6	86.9	90.4
Total non-current liabilities			716.6	521.6
Provisions	II	3.5	152.3	154.7
Current liabilities				
Current portion of non-current loans	I	5.3	108.3	258.9
Current loans and other liabilities	I	5.3	8.5	5.6
Advance payments received and deferred revenue	II	3.2	1,957.0	1,766.8
Accounts payable	II	5.3	1,310.2	890.9
Accruals	II	3.4, 5.3	2,137.4	1,882.6
Income tax payables	II		130.9	113.6
Total current liabilities			5,652.3	4,918.4
Total equity and liabilities			9,720.4	8,792.0

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MEUR	Note	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2021		66.2	100.3	345.7	41.7	-10.9	-115.0	-164.7	2,911.3		22.6	3,197.3
Net income for the period										1,014.2	8.5	1,022.7
Other comprehensive income:	2.8											
Translation differences						205.6						205.6
Hedging of foreign subsidiaries						-28.6						-28.6
Cash flow hedges					-2.1							-2.1
Changes in fair value					0.6							0.6
Remeasurements of employee benefits							-6.7					-6.7
Transactions with shareholders and non-controlling interests:	5.2											
Profit distribution									-1,166.3			-1,166.3
Purchase of own shares								-45.8				-45.8
Change in non-controlling interests									0.3		-6.1	-5.8
Share-based compensation				28.3				11.9	-11.9			28.3
Dec 31, 2021		66.2	100.3	374.0	40.2	166.1	-121.6	-198.6	1,733.4	1,014.2	25.0	3,199.2

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
Purchase of own shares												-
Change in non-controlling interests											-5.5	-5.5
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

CONSOLIDATED STATEMENT OF CASH FLOWS

MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Cash receipts from customers	10,440.4	10,057.2
Cash paid to suppliers and employees	-8,611.7	-8,149.7
Cash flow from operations before financing items and taxes	1,828.7	1,907.5
Interest received	38.4	30.6
Interest paid	-11.6	-19.0
Dividends received and capital repayments	5.7	8.0
Other financing items	51.8	-43.7
Income taxes paid	-328.3	-333.2
Cash flow from operating activities	1,584.8	1,550.2
Capital expenditure	-96.5	-88.0
Proceeds from sales of fixed assets	10.8	5.1
Acquisitions, net of cash	-34.5	-26.9
Proceeds from sales of subsidiary shares	14.2	-
Cash flow from investing activities	-106.0	-109.8
Cash flow after investing activities	1,478.8	1,440.4
Change in deposits and loan receivables, net	-151.7	-606.1
Change of current creditors	-278.1	-130.2
Change in long-term liabilities	181.1	-3.9
Purchase of own shares	-45.8	-
Profit distribution	-1,166.3	-880.5
Changes in non-controlling interests	-1.2	-3.8
Cash flow from financing activities	-1,462.0	-1,624.5
Change in cash and cash equivalents	16.8	-184.1
Cash and cash equivalents at beginning of period	457.9	662.4
Translation differences	15.6	-20.4
Cash and cash equivalents at end of period	490.4	457.9

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, 2021	Jan 1–Dec 31, 2020
Operating income	1,295.3	1,212.9
Change in working capital before financing items and taxes	289.4	455.6
Depreciation and amortization	244.0	239.0
Cash flow from operations before financing items and taxes	1,828.7	1,907.5

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Interest-bearing net debt at beginning of period	-1,953.8	-1,552.9
Interest-bearing net debt at end of period	-2,164.1	-1,953.8
Change in interest-bearing net debt	-210.2	-401.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1

Basis of preparation

IN THIS SECTION

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 is global leader in the elevator and escalator industry with a vision to make the world's cities better and more sustainable places to live. KONE provides elevators, escalators and automatic building doors, as well as solutions for maintenance and modernization to add value to buildings throughout their life cycle. Through more effective People Flow®, KONE's ambition is to make people's journeys safe, convenient and reliable, in taller, smarter buildings. KONE operates in more than 60 countries around the world, serving approximately 550,000 customers. Headquartered in Helsinki, Finland, we have seven global R&D units and 10 manufacturing units in seven countries, as well as a worldwide network of agents and authorized distributors.

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, 2021.

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 2021 did not have a material impact on the result or the financial position of the Group or on the presentation of the financial statements.

The consolidated financial statements have been prepared for the reporting period of 12 months from January 1 to December 31, 2021. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on February 2, 2022. 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 reporting 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 recognized as expenses in 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 total consolidated 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 reporting 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. KONE's business concept is to serve its customers by providing solutions throughout the entire life cycle of the equipment, beginning from the installation of new equipment to the maintenance and modernization during their life cycle 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 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 considered 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
10,514
MEUR

EBIT
1,295
MEUR

2

Financial performance

IN THIS SECTION

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

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 customer

KONE's customer base consists of a large number of customers in several markets areas with no significant customer concentration. In 2021 the single biggest customer, residing in China, generated 1.3% of total revenue.

Sales by business

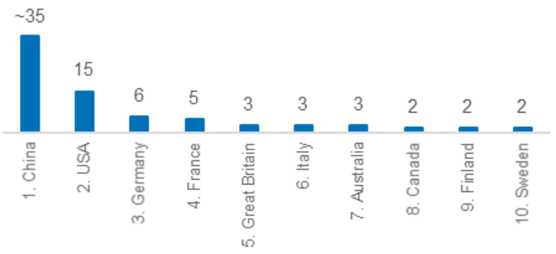
MEUR	Jan 1–Dec 31, 2021	%	Jan 1–Dec 31, 2020	%
New equipment	5,637.7	54	5,340.2	54
Services	4,876.4	46	4,598.4	46
Maintenance	3,450.6	33	3,215.6	32
Modernization	1,425.9	14	1,382.8	14
Total	10,514.1		9,938.5	

Sales by geographical area

MEUR	Jan 1–Dec 31, 2021	%	Jan 1–Dec 31, 2020	%
EMEA [1]	4,036.9	38	3,916.2	39
Americas	1,902.9	18	1,939.5	20
Asia-Pacific	4,574.3	44	4,082.8	41
Total	10,514.1		9,938.5	

[1] EMEA = Europe, Middle East, Africa

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 delivering 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 is initiated 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, 2021	Jan 1–Dec 31, 2020
Direct materials, supplies and subcontracting	4,297.3	3,957.6
Wages, salaries, and other employment expenses including pensions (note 5.7)	3,222.5	3,042.9
Other production costs	789.6	712.9
Selling, administrative and other expenses	703.3	762.2
Items impacting comparability	14.5	37.7
Depreciation and amortization (note 2.3)	244.0	239.0
Costs, expenses, depreciation and amortization	9,271.3	8,752.2
Other income [1)]	52.5	26.5
Total costs, expenses, depreciation and amortization	9,218.8	8,725.7

[1)] In 2021, other income includes EUR 19.9 million net gain from the sale of Motala Hissar AB and land area and adjacent building in India.

Expense arising from leases of low-value assets and short-term leases amounted to EUR 11.7 (11.2) million in 2021.

Research and development costs, MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
R&D costs included in total costs	188.8	179.6
As percentage of sales, %	1.8	1.8

Auditors´ fees, MEUR [1)]	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Audit	3.2	3.7
Auditors´ statements	-	0.0
Tax services	0.3	0.5
Other services	0.1	2.3
Total	3.7	6.5

[1)] Audit fees to member firms of Ernst & Young and PricewaterhouseCoopers networks in 2021 and 2020, respectively.

Ernst & Young Oy has provided non-audit services to the entities of KONE Group in total of 86.0 thousand euros during the financial year 2021. These services included tax advisory services 13.0 thousand euros and other services 73.0 thousand euros.

The majority of expenses of operations arise from direct materials and supplies, as well as cost of subcontracting. Other production costs comprise of logistics, tools and consumables, operative car fleet and traveling as well as other miscellaneous items of direct costs. Selling, administrative and other expenses include costs related to premises, consulting and external services, IT and traveling as well as other miscellaneous administrative costs.

Items affecting comparability consist of significant restructuring costs. In 2021 items affecting comparability related to restructuring measures of KONE's global business lines and functions, and in 2020 and earlier years to the Accelerate program.

Other income comprises of 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.

2.3 DEPRECIATION AND AMORTIZATION

Depreciation and amortization, MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Intangible assets		
Maintenance contracts	36.4	36.8
Other	11.3	11.6
Buildings	74.6	73.2
Machinery and equipment	121.8	117.5
Total	244.0	239.0

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, when applicable, if shorter.

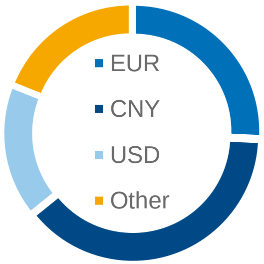
Economic useful lives:

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

Land is not depreciated.

2.4 FOREIGN EXCHANGE SENSITIVITY

Sales by currency 1–12/2021



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 substantially hedge the foreign exchange exposure of firm commitments 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, Canadian dollar, British pound, Singapore dollar and Saudi-Arabian rial. The majority of the currency forward contracts expire within one year.

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

Impact on sales	Impact on operating income (EBIT)
7.7% change in consolidated sales in euros	Higher impact on operating income as compared to sales and some impact on relative operating income

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.

The financial assets and liabilities of KONE subsidiaries are in the local currencies of the subsidiaries whenever possible. In case a subsidiary company has a financial asset or liability in other than its local currency, these assets and liabilities are hedged with foreign exchange forward contracts whenever possible and required by the KONE Treasury Policy.

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 77% of KONE's revenues occur in functional currencies other than euro, the translation risk is significant for KONE. A change of 10% in the annual average foreign exchange rates would have caused a 7.7% (7.6%) change in 2021 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 205.6 (-173.2) million in 2021. 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

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.

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.

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 -11.2 (-8.5) million on the net income and an impact of EUR 69.0 (90.1) million on equity.

	Exposure against EUR								Exposure against USD				Exposure against CNY	
MEUR	HKD	USD	GBP	SEK	CNY	JPY	Others	Total	CNY	CAD	Others	Total	Others	Total
Exposure Dec 31, 2021	-447	-107	-67	-56	77	140	-9	**-469**	107	-82	-15	**10**	-119	**-119**
Exposure Dec 31, 2020	-618	-124	-82	-44	80	139	-32	**-681**	112	-93	-43	**-24**	-111	**-111**

2.5 FINANCING INCOME AND EXPENSES

Financing income and expenses, MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Dividend income [1]	5.7	8.0
Interest income		
Interest income on foreign exchange rate derivatives	25.7	19.9
Interest income on loan receivables and financial assets	18.1	13.0
Other financing income	0.2	0.3
Exchange rate gains [2]	3.2	0.6
Financing income	52.9	41.8
Interest expenses		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [3]	-5.2	-6.3
Interest expenses on other financial liabilities [4]	-15.8	-17.0
Other financing expenses [5]	-5.8	-5.4
Exchange rate losses [2]	-0.7	-1.7
Financing expenses	-27.4	-30.4
Total	25.5	11.4

[1] Primarily consists of dividend received from TELC.
[2] Exchange rate gains and losses include exchange rate differences on loans and other receivables of EUR -128.9 (141.4) million and fair value changes of foreign exchange derivatives of EUR 131.3 (-142.5) million.
[3] Change in fair value of interest includes EUR -5.7 (-6.5) million relating to interest rate funds measured at fair value through the statement of income.
[4] Includes interest expenses on the lease liabilities amounting to EUR -8.9 (-10.2) million.
[5] Includes commitment fees for undrawn revolving credit facilities EUR -0.8 (-0.9) million and banking charges and other expenses EUR -5.0 (-4.5) million.

2.6 INCOME TAXES

Taxes in the statement of income, MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Tax expense for current year	310.0	304.2
Change in deferred tax assets and liabilities	-17.6	-23.4
Tax expense for previous years	5.7	-3.9
Total	298.1	276.9

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Income before taxes	1,320.8	1,224.2
Tax calculated at the domestic corporation tax rate (20%)	264.1	244.9
Effect of different tax rates in foreign subsidiaries	4.1	0.5
Permanent differences	-1.2	-4.4
Taxes from previous years and reassessment of deferred tax assets	0.8	3.5
Remeasurement of deferred taxes - changes in corporate tax rates	0.2	0.4
Deferred tax liability on undistributed earnings	27.6	27.8
Other	2.5	4.2
Total	298.1	276.9
Effective tax rate, %	22.6	22.6
Tax rate of parent company, %	20.0	20.0

Accounting principles

Income tax

The Group tax expense includes taxes of subsidiaries based on taxable income for the period, together with tax adjustments for previous periods and changes in deferred taxes. Deferred taxes are provided for temporary differences arising 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.

2.7 EARNINGS PER SHARE

	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Net income attributable to the shareholders of the parent company, MEUR	1,014.2	939.2
Weighted average number of shares (1,000 shares)	518,055	517,679
Basic earnings per share, EUR	1.96	1.81
Dilution effect of share-based incentive plans (1,000 shares)	578	585
Weighted average number of shares, dilution adjusted (1,000 shares)	518,634	518,264
Diluted earnings per share, EUR	1.96	1.81

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-based incentive plans of the Group. KONE has two classes of shares that are both included in the calculation of earnings per share.

2.8 OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Translation differences	205.6	-173.2
Hedging of foreign subsidiaries	-35.7	65.0
Changes in fair value	0.6	4.8
Remeasurements of employee benefits	-3.3	-2.9
Cash flow hedges:		
Gains/losses arising during the year	-8.2	36.4
Reclassifications included in profit or loss	8.6	-1.4
Cash flow hedges, net	0.4	35.0
Income tax relating to components of other comprehensive income	1.2	-9.2
Other comprehensive income	168.9	-80.5

Tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2021			Jan 1–Dec 31, 2020		
MEUR	Before-tax amount	Tax expense/ benefit	Net-of-tax amount	Before-tax amount	Tax expense/ benefit	Net-of-tax amount
Translation differences	205.6	-	205.6	-173.2	-	-173.2
Hedging of foreign subsidiaries	-35.7	7.1	-28.6	65.0	-13.0	52.0
Cash flow hedges	0.4	-2.5	-2.1	35.0	-7.9	27.1
Items that may be subsequently reclassified to statement of income	170.3	4.6	175.0	-73.2	-20.9	-94.1
Changes in fair value	0.6	-	0.6	4.8	-	4.8
Remeasurements of employee benefits	-3.3	-3.4	-6.7	-2.9	11.7	8.8
Items that will not be reclassified to statement of income	-2.7	-3.4	-6.1	1.9	11.7	13.6
Total other comprehensive income	167.7	1.2	168.9	-71.3	-9.2	-80.5

Net working capital
-1,468 MEUR

Cash flow*
1,829 MEUR

3

Net working capital

IN THIS SECTION

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

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.

Net working capital, MEUR	Dec 31, 2021	Dec 31, 2020
Inventories	717.8	597.0
Advance payments received and deferred revenue	-1,957.0	-1,766.8
Accounts receivable	2,421.4	2,178.6
Deferred assets and income tax receivables	898.1	720.9
Accruals and income tax payables	-2,268.2	-1,996.2
Provisions	-152.3	-154.7
Accounts payable	-1,310.2	-890.9
Net deferred tax assets/liabilities	182.2	152.0
Total	-1,468.2	-1,160.1

*) Cash flow from operations before financing items and taxes

3.1 INVENTORIES

Inventories, MEUR	Dec 31, 2021	Dec 31, 2020
Raw materials, supplies and finished goods	326.6	278.0
Work in progress	351.9	300.2
Advance payments made	39.2	18.7
Total	717.8	597.0

Accounting principles

Inventories

Inventories are valued at the lower of cost and net realizable value. Raw materials and supplies are valued based on weighted average cost method or at standard cost. Semi-manufactures are valued at production costs.

Work in progress includes direct labor and material costs as of the consolidated statement of financial position date with a proportion of indirect costs related to manufacturing and installation allocated to the firm customer order when control has not yet transferred to the customer. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment.

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

3.2 ACCOUNTS RECEIVABLE AND CONTRACT ASSETS AND LIABILITIES

Changes in contract assets and liabilities

The order book representing the unsatisfied performance obligations with respect to new equipment and modernization contracts stood at EUR 8,564.0 (7,728.8) million as at Dec 31, 2021. The vast majority of the order book is expected to be 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, advance payments received and deferred revenue follow the developments in business but are 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.

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 and geographic split of receivables and contract assets well mirrors distribution of sales. KONE management follows particularly closely the credit risks related to Chinese developers. Customer portfolio being well diversified is limiting risks arising from any individual customer.

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 a 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. A final impairment loss is recognized when receivership or bankruptcy is confirmed or when it is otherwise obvious that the customer will be unable to meet its payment obligations. Changes in impairment loss for doubtful accounts receivable and final impairment losses 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, 2021	Dec 31, 2020
Accounts receivable	2,421.4	2,178.6
Accrued income on maintenance contracts (note 3.3)	35.1	31.8
Unbilled contract revenue (note 3.3)	344.6	282.7
Assets related to contracts with customers	2,801.1	2,493.2
Deferred income on maintenance contracts (note 3.4)	462.7	406.3
Advance payments received and deferred revenue	1,957.0	1,766.8
Liabilities related to contracts with customers	2,419.8	2,173.1

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.

In 2020, KONE modified the 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 COVID-19. Overall, the disruption to the business arising from COVID-19 has been limited with a significant part of KONE's operations being considered essential and as such, allowed even during lockdowns. According to management assessment, at the end of the reporting period the pandemic no longer poses additional risk to collection of receivables.

The amount of bad debt provision recorded to cover doubtful accounts was EUR 284.4 (262.5) million at the end of the financial period.

Aging of accounts receivable

Aging structure of the accounts receivable after recognition of impairment, MEUR	Dec 31, 2021	Dec 31, 2020
Not past due and less than one month due receivables	1,923.4	1,674.5
Past due 1–3 months	278.5	277.5
Past due 3–6 months	133.1	134.8
Past due > 6 months	86.4	91.9
Accounts receivable in the consolidated statement of financial position	2,421.4	2,178.6

3.3 DEFERRED ASSETS

Deferred assets, MEUR	Dec 31, 2021	Dec 31, 2020
Deferred interests	2.7	0.7
Accrued income on maintenance contracts (note 3.2)	35.1	31.8
Unbilled contract revenue (note 3.2)	344.6	282.7
Derivative assets (note 5.3)	88.4	76.8
Value added tax assets	129.6	92.4
Prepaid expenses and other receivables	180.5	154.3
Total	780.8	638.7

3.4 ACCRUALS

Accruals, MEUR	Dec 31, 2021	Dec 31, 2020
Accrued interests	2.2	0.9
Deferred income on maintenance contracts (note 3.2)	462.7	406.3
Late cost accruals [1)]	342.7	305.7
Accrued salaries, wages and employment costs	551.0	479.5
Share-based payments	22.5	26.6
Derivative liabilities (note 5.3)	42.3	77.0
Value added tax liabilities	122.6	98.3
Accruals on acquisitions	21.2	13.4
Other accruals	570.0	474.9
Total	2,137.4	1,882.6

[1)] Includes accrual for invoicing still pending to be received on completed new equipment and modernization contracts.

3.5 PROVISIONS

Jan 1–Dec 31, 2021, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	67.4	6.3	18.1	28.3	34.5	154.7
Translation differences	2.8	0.0	0.3	1.3	0.3	4.7
Increase	15.0	5.7	14.3	17.4	20.6	73.0
Provisions used	-21.7	-1.1	-10.5	-10.7	-3.5	-47.7
Reversal of provisions	-4.6	-3.5	-6.2	-5.2	-14.3	-33.8
Companies acquired	0.1	-	-	0.4	0.9	1.4
Total provisions at end of period	58.8	7.4	16.0	31.4	38.6	152.3

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2021	101.4	50.9	152.3

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

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 repairs 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 onerous (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, labor relations or other regulatory matters.

3.6 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets, MEUR	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019
Tax losses carried forward	1.7	2.0	2.4
Provisions and accruals	267.8	236.7	193.2
Pensions	28.6	21.7	20.8
Inventory	23.5	24.5	25.7
Property, plant and equipment	16.0	14.7	9.2
Other temporary differences for assets	42.8	42.6	41.0
Offset against deferred tax liabilities	-111.3	-99.8	-
Total	269.1	242.4	292.3
Total at beginning of period	242.4	292.3	
Translation differences	21.1	-5.5	
Change in statement of income	11.5	-48.3	
Charged or credited to equity	-5.9	3.8	
Acquisitions, divestments and other	0.1	0.1	
Total at end of period	269.1	242.4	

Deferred tax liabilities, MEUR	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019
Property, plant and equipment	29.3	29.0	22.6
Goodwill and intangible assets	72.2	72.0	73.9
Other temporary differences for liabilities	96.7	89.3	63.8
Offset against deferred tax assets	-111.3	-99.8	-
Total	86.9	90.4	160.3
Total at beginning of period	90.4	160.3	
Translation difference	0.6	-2.1	
Change in statement of income	-6.1	-71.7	
Acquisitions, divestments and other	2.0	3.9	
Total at end of period	86.9	90.4	
Net deferred tax assets and liabilities	182.2	152.0	

Accounting principles

Deferred taxes

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

Acquisitions and capex
267 MEUR

Completed acquisitions
15

4

Acquisitions and capital expenditure

IN THIS SECTION

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

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, manufacturing and service operations.
- KONE's acquisitions in 2021 consisted of small maintenance companies in EMEA region as well as in North America.

KONE´s capital expenditure 2.1% of sales in 2021

4.1 ACQUISITIONS AND DISPOSALS

Acquisitions

KONE completed 15 (20) acquisitions during 2021 for a total consideration of EUR 50.1 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 2021 financial statements. The sales consolidated from the companies acquired during 2021 had only a minor impact on KONE's sales for the financial period. Of the total consideration, based on provisional assessments, EUR 22.7 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 adjacent table. The considerations were paid for in cash, except for certain deferred considerations, expected to 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. However, contingent considerations are typically realized in the amount initially recognized. KONE acquired a 100% interest in all businesses acquired in 2021, except for one minor acquisition.

Disposals

During the reporting period KONE sold its full ownership in Motala Hissar AB against cash consideration. The sale of the subsidiary did not have material impact on the assets or liabilities of the Group. A gain of EUR 13.9 million was recognized arising from the sale.

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, 2021	Jan 1–Dec 31, 2020
Maintenance contracts	22.7	26.6
Other intangible assets	0.2	1.3
Tangible assets	0.2	0.5
Deferred tax assets	0.1	0.1
Inventories	0.8	1.0
Accounts receivables and other assets	4.9	3.6
Cash and cash equivalents and other interest-bearing receivables	8.2	1.5
Total assets	37.2	34.5
Pension liabilities	0.1	1.6
Interest-bearing loans	0.2	0.6
Provisions	1.4	0.2
Deferred tax liabilities	2.0	3.9
Other liabilities	3.6	3.2
Total liabilities	7.3	9.4
Net assets	30.0	25.0
Acquisition cost paid in cash	36.4	21.7
Contingent and deferred consideration	13.7	7.3
Acquisition cost at date of acquisitions	50.1	29.0
Goodwill	20.1	4.0

Changes in the acquisition cost occurring after the acquisition date and recognized in the statement of income totaled EUR 0.2 (0.7) million.

4.2 GOODWILL

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 operates in accordance with KONE's business model and organization structure. As at Dec 31, 2021 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 adjacent table.

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, sales price and cost development assumptions embedded in the CGU specific cash flow projections are based on management assessment 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 material impairment losses was very low. Under the basic scenario, the value-in-use calculations were on average 10.0 times higher than the CGUs' assets employed. The respective ratio for the five largest CGUs was 8.5; for the five smallest 12.7 and respectively for the other CGUs 13.5.

Accounting principles

Goodwill

Acquisitions are accounted for using the acquisition method. Goodwill is calculated as the excess of acquisition cost over the fair values of identified assets and liabilities acquired. Goodwill typically 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 not amortized, but 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 area 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, MEUR	Dec 31, 2021	%	Discount interest rates used (pre-tax), %	Dec 31, 2020	%	Discount interest rates used (pre-tax), %
EMEA	814.9	58	5.52	784.9	59	5.15
Americas	349.0	25	7.22	319.6	24	6.46
Asia-Pacific	241.4	17	8.91	222.6	17	9.19
Total	1,405.2			1,327.0		

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2021	Dec 31, 2020
Opening net book value	1,327.0	1,366.5
Translation differences	58.6	-39.7
Increase	-	0.2
Decrease	-0.9	-3.8
Companies acquired (note 4.1)	20.5	4.0
Closing net book value	1,405.2	1,327.0

4.3 INTANGIBLE ASSETS

	Jan 1–Dec 31, 2021		
Intangible assets, MEUR	**Maintenance contracts**	**Other**	**Total**
Opening gross acquisition cost	439.5	261.8	701.3
Opening accumulated amortization and impairment	-249.5	-228.6	-478.1
Opening net book value	190.0	33.2	223.2
Opening net book value	190.0	33.2	223.2
Translation differences	6.5	1.7	8.3
Increase	2.8	8.7	11.5
Decrease	-	-1.4	-1.4
Reclassifications	-	0.0	0.0
Companies acquired (note 4.1)	22.7	0.2	22.9
Amortization	-36.4	-11.3	-47.7
Closing net book value	185.8	31.1	216.9
Closing gross acquisition cost	471.6	260.1	731.7
Closing accumulated amortization and impairment	-285.9	-229.0	-514.9
Closing net book value	185.8	31.1	216.9

	Jan 1–Dec 31, 2020		
Intangible assets, MEUR	**Maintenance contracts**	**Other**	**Total**
Opening gross acquisition cost	416.3	273.0	689.2
Opening 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
Closing gross acquisition cost	439.5	261.8	701.3
Closing accumulated amortization and impairment	-249.5	-228.6	-478.1
Closing net book value	190.0	33.2	223.2

Accounting principles

Intangible assets

Intangible assets identified in connection with acquisitions are amortized on a straight-line basis over their expected useful lifetime. KONE often acquires small elevator, escalator 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.

Impairment of assets

The carrying amounts of non-current intangible assets and tangible 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.

4.4 TANGIBLE ASSETS

Tangible assets, MEUR	Jan 1–Dec 31, 2021 Land	Buildings	Buildings, leased for own use	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Opening gross acquisition cost	6.7	317.3	321.6	602.2	208.6	10.6	3.2	1,470.3
Opening accumulated depreciation	-	-137.7	-105.5	-427.6	-89.4	-	-	-760.2
Opening net book value	6.7	179.6	216.1	174.7	119.2	10.6	3.2	710.0
Opening net book value	6.7	179.6	216.1	174.7	119.2	10.6	3.2	710.0
Translation differences	0.0	10.3	9.5	8.6	4.7	0.6	0.3	34.0
Increase	-	6.0	57.0	69.0	63.3	10.0	2.5	207.8
Decrease	0.0	-3.5	-10.5	-1.4	-3.1	-0.7	-	-19.2
Reclassifications	-	2.7	0.0	8.8	-	-9.0	-2.5	-
Companies acquired (note 4.1)	-	-	-	0.2	-	-	-	0.2
Depreciation	0.0	-14.0	-60.6	-59.9	-61.8	-	-	-196.4
Closing net book value	6.7	181.0	211.4	200.0	122.6	11.5	3.5	736.7
Closing gross acquisition cost	6.7	333.3	365.5	664.4	232.2	11.5	3.5	1,617.1
Closing accumulated depreciation	-	-152.2	-154.1	-464.5	-109.6	-	-	-880.4
Closing net book value	6.7	181.1	211.4	200.0	122.6	11.5	3.5	736.7

Decrease for the period includes write downs of EUR 2.5 million in the buildings and machinery and equipment categories arising from fire in KONE's facilities in Hyvinkää, Finland.

During the period of Jan 1–Dec 31, 2021, capital expenditure on production facilities, installation equipment, R&D tools, as well as on information systems, including new assets recognized for lease agreements, totaled to EUR 217.1 (201.0) million. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Lease payments in cash flow totaled to EUR -121.0 (-117.9) million.

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	4–15 years

Land is not depreciated.

Expenditure on repairs and maintenance of property, plant and equipment is recognized as expense when incurred. The carrying amount of any tangible asset is impairment tested (see impairment of assets accounting principles) when an indication of impairment exists.

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.

Tangible assets, MEUR	Jan 1–Dec 31, 2020							
	Land	Buildings	Buildings, leased for own use	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Opening gross acquisition cost	6.8	302.1	301.4	610.4	200.2	5.3	4.4	1,430.6
Opening accumulated depreciation	-	-120.9	-69.1	-432.2	-66.1	-	-	-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
Closing gross acquisition cost	6.7	317.3	321.6	602.2	208.6	10.6	3.2	1,470.3
Closing accumulated depreciation	-	-137.7	-105.5	-427.6	-89.4	-	-	-760.2
Closing net book value	6.7	179.6	216.1	174.7	119.2	10.6	3.2	710.0

KONE's interest bearing net debt
-2,164 MEUR

Equity per share
6.13 EUR

5

Capital structure

IN THIS SECTION

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

KONE'S CAPITAL STRUCTURE

- KONE's cash position is strong due to the cash-generative operating model including collection of significant advance payments in the new equipment business.
- 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 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 adjacent table. 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 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 2021, 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. In 2017–2021, the dividend payout ratio has been 88.6–124.0% for class B shares (2021 proposal by the Board of Directors at KONE Corporation). At the end of December 2021, KONE had 11,433,525 class B shares in its possession.

Capital management, MEUR	2021	2020	2019	2018	2017
Assets employed:					
Goodwill and shares	1,550	1,470	1,506	1,477	1,460
Other non-current assets [1)]	954	933	990	658	652
Net working capital	-1,468	-1,160	-856	-758	-773
Total assets employed	1,035	1,243	1,640	1,377	1,339
Capital:					
Equity	3,199	3,197	3,193	3,081	3,029
Interest-bearing net debt	-2,164	-1,954	-1,553	-1,704	-1,690
Total capital	1,035	1,243	1,640	1,377	1,339
Gearing	-67.6%	-61.1%	-48.6%	-55.3%	-55.8%
Equity ratio	41.2%	45.5%	46.5%	49.9%	50.0%

1) Tangible assets, acquired maintenance contracts and other intangible assets.

KONE has adopted the IFRS 16 and IFRIC 23 effective January 1, 2019 using the modified retrospective approach and the comparative amounts have not been restated. IFRS 15 and IFRS 9 standards have been applied from January 1, 2018 onwards and 2017 financials are restated retrospectively.

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.

Non-current assets by country

MEUR	Dec 31, 2021	Dec 31, 2020
China	482.5	412.6
USA	441.8	412.5
Spain	240.9	227.3
Germany	219.6	227.1
France	206.1	208.2
Other	1,207.2	1,178.5
Total	2,798.0	2,666.1

5.2 SHAREHOLDERS' EQUITY

Shares and share capital

At the end of the 2021 financial year, the number of shares outstanding was 529,395,860. The share capital was EUR 66.2 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. The accounting par value of both classes of shares is EUR 0.125.

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 March 2021 to increase the share capital and to issue stock options. The authorization remains in effect until the conclusion of the following annual general meeting, however at the latest until 30 June 2022.

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.

In 2021 or 2020 there were no changes in the share capital of KONE Corporation.

Authority to buy own shares

KONE Corporation's Annual General Meeting held on March 2, 2021 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.

A total of 750,000 B class shares were purchased by KONE on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd) in 2021. The total amount paid to acquire shares amounted to EUR 45.8 million with the average price totaling EUR 60.96 per share. All shares held by KONE at the end of the reporting period consisted of B class shares.

More information

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

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. 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.

Own shares

	Number of shares	Cost, MEUR
Jan 1, 2021	11,006,006	164.7
Distributed to the share-based incentive plan, January	-155,115	-5.7
Distributed to the annual compensation of the Board, April	-4,984	-0.2
Distributed to the share-based incentive plan, April	-171,231	-6.3
Returned from the share-based incentive plan, April	8,849	0.3
Purchase, November	150,000	8.9
Purchase, November	160,000	9.7
Purchase, November	150,000	9.1
Purchase, November	150,000	9.3
Purchase, November	140,000	8.8
Dec 31, 2021	11,433,525	198.6
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

Reconciliation of own shares, Dec 31, 2021

KONE Corporation and Group total	quantity	Acquisition cost	Average price
Dec 31, 2020	11,006,006	164,661,923.36	14.96
January 29, 2021	-155,115	-5,713,819.90	36.84
April 29, 2021	-4,984	-184,398.53	37.00
April 29, 2021	-171,231	-6,313,755.17	36.87
April 29, 2021	8,849	333,819.76	37.72
November 11, 2021	150,000	8,943,630.35	59.62
November 12, 2021	160,000	9,677,710.82	60.49
November 15, 2021	150,000	9,086,058.68	60.57
November 16, 2021	150,000	9,274,335.67	61.83
November 17, 2021	140,000	8,809,001.71	62.92
Dec 31, 2021	11,433,525	198,574,506.75	17.37

5.3 FINANCIAL RISKS AND INSTRUMENTS

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

Financial credit risk

KONE has substantial amounts of cash and financial investments. In order to diversify the financial credit risk and manage liquidity 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 490.4 (457.9) million and financial investments EUR 2,393.7 (2,170.4) million on December 31, 2021.

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 the European Investment Bank (EIB) of EUR 200 million. The credit facility is a 5-year fixed interest rate loan which will be used for R&D purposes.

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.

The loan will mature in 2026. 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 and a sustainability-linked revolving credit facility of EUR 850 million to ensure sufficient liquidity. The sustainability targets included in the facility relate to KONE's decarbonization and gender diversity commitments.

Interest rate risks

KONE's cash and short-term investments were EUR 2,884.1 (2,628.3) million at the statement of financial position date. At the same time, KONE's interest-bearing debt was EUR 746.5 (695.8) million and consisted of EUR 547.1 (504.3) million of financial debt including lease liabilities, EUR 5.1 (4.2) million of option liabilities from acquisitions, and EUR 194.3 (187.2) million of employee benefit liabilities. Additionally, KONE had an asset on employee benefits of EUR 22.9 (19.2) 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 2021 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 -2,768.5 (-2,364.8) million. For 2021 a 1 percentage point change in the interest rate level would mean a change of EUR -27.7 (-23.6) million in net interest income. The interest rate sensitivity is calculated before taxes.

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

Accounting principles

Loans

Loans payable are classified in the valuation category other financial liabilities. They are measured initially at fair value net of directly attributable transaction costs incurred and are subsequently carried at amortized cost using the effective interest rate method. Lease liabilities are measured to the present value of future lease payments discounted with the incremental borrowing rate.

Financial assets

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

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

KONE assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost. 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.

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 49.9 (9.6) million and payables EUR 3.9 (9.9) million.

Maturity analysis of financial liabilities and interest payments

	Dec 31, 2021				Dec 31, 2020			
MEUR	**< 1 year**	**1-5 years**	**> 5 years**	**Total**	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Interest-bearing debt								
Long-term loans	-	-200.0	-	-200.0	-	-	-	-
Lease liabilities	-108.3	-199.6	-35.8	-343.6	-98.9	-199.8	-44.2	-342.9
Short-term loans	-	-	-	-	-160.0	-	-	-160.0
Used bank overdraft limits	-3.4	-	-	-3.4	-1.4	-	-	-1.4
Option liabilities from acquisitions	-3.8	-1.3	-	-5.1	-4.2	-	-	-4.2
Employee benefits	-	-	-194.3	-194.3	-	-	-187.2	-187.2
Non-interest-bearing debt								
Accounts payable	-1,310.2	-	-	-1,310.2	-890.9	-	-	-890.9
Derivatives								
Capital inflow	3,515.1	90.3	-	3,605.3	3,676.9	113.4	-	3,790.3
Capital outflow	-3,455.7	-88.6	-	-3,544.2	-3,667.7	-113.8	-	-3,781.5
Interest payments	-6.6	-8.9	-2.4	-17.9	-7.6	-8.5	-4.6	-20.7
Net outflow	-1,372.9	-408.0	-232.5	-2,013.5	-1,154.0	-208.6	-236.0	-1,598.6

Fair values of derivative financial instruments, MEUR	**Derivative assets Dec 31, 2021**	**Derivative liabilities, Dec 31, 2021**	**Fair value, net Dec 31, 2021**	**Fair value, net Dec 31, 2020**
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	20.4	-15.2	5.2	4.9
In net investment hedge accounting	-	-23.3	-23.3	49.2
Other hedges	68.0	-3.8	64.1	-54.4
Total	88.4	-42.3	46.0	-0.3

Nominal values of derivative financial instruments, MEUR	**Dec 31, 2021**	**Dec 31, 2020**
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	945.6	981.1
In net investment hedge accounting	429.5	670.5
Other hedges	2,230.2	2,138.6
Total	3,605.3	3,790.3

Values of financial assets and liabilities by categories

Dec 31, 2021		Notes	Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income	Other	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			144.6		144.6
Non-current loans receivable	I	5.5		2.6			2.6
Employee benefits	I	5.7				22.9	22.9
Current assets							
Accounts receivable				2,421.4			2,421.4
Derivative assets			88.4				88.4
Current deposits and loans receivable	I	5.5	1,906.6	488.1			2,394.7
Cash and cash equivalents	I			490.4			490.4
Total financial assets			1,995.0	3,402.5	144.6	22.9	5,565.0
Non-current liabilities							
Loans [1)]	I			200.0		235.4	435.4
Employee benefits	I	5.7				194.3	194.3
Current liabilities							
Loans [2)]	I					108.3	108.3
Short-term loans and other liabilities	I			3.4			3.4
Option liabilities from acquisitions	I		5.1				5.1
Accounts payable				1,310.2			1,310.2
Derivative liabilities			3.8		38.5		42.3
Unpaid acquisition consideration						21.2	21.2
Total financial liabilities			9.0	1,513.6	38.5	559.2	2,120.3

[1)] Includes lease liabilities of EUR 235.4 million.
[2)] Includes lease liabilities of EUR 108.3 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, 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	I	5.5		1.0			1.0
Employee benefits	I	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 ".

5.4 SHAREHOLDINGS AND OTHER NON-CURRENT FINANCIAL ASSETS

On the date of the statement of financial position, shares and other non-current financial assets were EUR 139.6 (139.0) million and EUR 4.9 (4.2) 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. The fair value of TELC shares is estimated using a dividend discount model with the key inputs to the model including forecasted dividend and the discount rate. While the fair value of the investment is sensitive to changes in these two assumptions, there is no reasonably possible change that would result in significant impact on total assets or equity of KONE.

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

Accounting principles

Shares and other non-current financial assets

Shares include long-term strategic investments, which are investments in equity instruments that do not have a quoted price in an active market. Other 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.

5.5 DEPOSITS AND LOANS RECEIVABLE

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 1,906.6 (1,790.1) million and EUR 487.1 (380.2) million of interest rate funds and short-term bank deposits.

Deposits and loans receivable, MEUR	Dec 31, 2021	Dec 31, 2020
Non-current loans receivable	2.6	1.0
Current loans receivable	1.0	1.1
Current short-term deposits	2,393.7	2,170.4
Total	2,397.3	2,172.5

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 1,735.7 (1,485.1) million as of December 31, 2021.

5.7. EMPLOYEE BENEFITS

KONE operates various employee benefit plans throughout its locations. 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 their 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.

	Defined benefit plan liability		Other post-employment benefit liability		Fair value of plan assets		Net defined benefit balance	
MEUR	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Balance at beginning of period	638.9	638.0	10.1	9.9	480.8	489.2	168.1	158.7
Current service costs	17.5	17.4	0.1	0.1	-	-	17.7	17.5
Interest expense	11.2	13.3	0.1	0.3	-	-	11.3	13.6
Interest income	-	-	-	-	8.8	11.2	-8.8	-11.2
Other	-0.6	-2.9	-	-	-2.0	-2.3	1.3	-0.5
Components of defined benefit costs recognized in the consolidated statements of income	28.1	27.8	0.2	0.4	6.9	8.9	21.5	19.3
Return on plan assets, excluding interest income	-	-	-	-	36.1	38.7	-36.1	-38.7
Remeasurements	42.7	40.4	-3.4	1.1	-	-	39.3	41.5
Remeasurements recognized in the consolidated statements of comprehensive income	42.7	40.4	-3.4	1.1	36.1	38.7	3.3	2.9
Employer contributions	-	-	-	-	13.0	12.6	-13.0	-12.6
Plan participants' contributions	0.4	0.4	0.2	0.3	0.6	0.7	-	-
Benefits paid	-29.3	-26.9	-0.7	-0.8	-23.1	-21.7	-6.9	-5.9
Settlement payments	-0.3	-16.8	-	-	-	-16.6	-0.3	-0.3
Business combinations, disposals and other	-0.1	8.0	-	-	-	-1.2	-0.1	9.1
Foreign currency translation effects	34.1	-32.0	0.7	-0.9	36.0	-29.8	-1.2	-3.2
Other reconciling items	4.9	-67.4	0.1	-1.4	26.5	-56.0	-21.5	-12.8
Balance at end of period	714.5	638.9	7.1	10.1	550.2	480.8	171.4	168.1
Present value of unfunded obligations	114.8	112.5	7.1	0.4	-	-	121.9	112.9
Present value of funded obligations	599.7	526.3	-	9.7	-	-	599.7	536.0
Fair value of benefit plans' assets	-	-	-	-	550.2	480.8	-550.2	-480.8
Total	714.5	638.9	7.1	10.1	550.2	480.8	171.4	168.1

The expected contributions to defined benefit type arrangements in 2022 are EUR 15.6 million.

The actual return on defined benefit plans' assets was EUR 44.9 (49.8) million.

Fair values of major classes of plan assets, MEUR	Dec 31, 2021	Dec 31, 2020
Fair value of plan assets with a quoted market price	521.5	453.6
Other	28.7	27.2
Total	550.2	480.8

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Defined contribution pension plans [1)]	281.5	238.5
Defined benefit pension plans	21.2	19.0
Other post-employment benefits	0.2	0.4
Total	302.9	257.8

[1)] In 2021 certain contributions made to governmental bodies have been reassessed to qualify for reporting as defined contribution pension plan costs. Considering the same in comparison period defined contribution pension plan costs would have increased by EUR 21.9 million.

Defined benefit plans: assumptions used in calculating benefit obligations	Jan 1–Dec 31, 2021		Jan 1–Dec 31, 2020	
	Europe	USA	Europe	USA
Discount rate, %	1.55	2.87	1.27	2.52
Future salary increase, %	2.3	4.0	2.4	4.0
Future pension increase, %	1.5	-	1.7	-

Sensitivity of the defined benefit obligation to changes in actuarial assumptions	Impact on defined benefit obligation	
	Dec 31, 2021	Dec 31, 2020
Discount rate, +0.25 percentage points	-3.6%	-3.8%
Discount rate, -0.25 percentage points	3.8%	4.1%
Future pension increase, +0.25 percentage points	2.1%	2.4%
Future pension increase, -0.25 percentage points	-1.8%	-2.3%

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 to KONE:

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

6.1 MANAGEMENT REMUNERATION

Antti Herlin has had a separate employment contract for his role as Full-time Chairman of the Board at KONE until March 2, 2021. The employment-based compensation for Antti Herlin consisted of a base salary and an annual bonus decided by the Board on the basis of the Group's financial result. The annual bonus may not exceed 100 percent of his annual salary. In 2021, Antti Herlin's base salary was EUR 74,600. In addition, he received a bonus of EUR 290,462, which was earned in 2020. He was also paid EUR 223,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 111. Statutory pension cost for the year 2021 was EUR 64,433.

A separate employment contract was entered into with Vice Chairman of the Board Jussi Herlin for his role as the Executive Vice Chairman of the Board as of March 2, 2021. The employment-based compensation for Jussi Herlin consists of a base salary and an annual bonus decided by the Board on the basis of the Group's financial result. The annual bonus may not exceed 100 percent of the recipient's annual base salary. In 2021, Jussi Herlin's base salary was EUR 104,365. In addition, his accrued bonus for 2021 totaled EUR 26,166. This bonus will be paid in 2022. He was also paid EUR 3,500 in meeting fees for Board and Committee work during the time preceding March 2, 2021. Jussi Herlin's holdings of shares are presented in the table on page 111. The Executive Vice Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2021 was EUR 16,855. No separate agreement regarding early retirement has been made.

The compensation for the President and CEO Henrik Ehrnrooth consists of a base salary and an annual bonus determined by the Board on the basis of the Corporation's key targets. The annual bonus may not exceed 150 percent of his annual salary. In 2021, Henrik Ehrnrooth's base salary was EUR 750,000. In addition, his accrued bonus for 2021 totaled to EUR 835,350. The performance criteria applied to this annual short-term incentive is based on financial, strategic and individual performance. The bonus will be paid in 2022. Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. In April 2021, on the basis of the incentive plan for the year 2020, Henrik Ehrnrooth received a reward of EUR 2,512,242, which consisted of 17,625 KONE class B shares together with a cash payment to cover taxes and similar charges arising from the receipt of shares. The maximum number of KONE class B shares available for earning for the President and CEO for the year 2020 was 30,000 KONE shares. The reward was based on sales growth and profitability as well as growth of KONE's digital services. In January 2021, KONE's Board of Directors decided on a new performance share plan. The performance criteria applied to the 2021 performance year are based on a combination of annual sales growth and adjusted EBIT margin, as well as improvements in sustainability. The sustainability performance condition is a combination of reductions in carbon footprint, as well as diversity and inclusion and safety related targets. The maximum number of shares available for earning for the President and CEO for the 2021 share-based incentive plan is 53,541 KONE class B shares (gross before deduction for applicable taxes). The final outcome and any potential share awards under the incentive plan for the year 2021 will be confirmed in January 2024, depending on the performance during the years 2021, 2022 and 2023. Henrik Ehrnrooth's holdings of shares are

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, 2021	Jan 1–Dec 31, 2020
Salaries and other remunerations	9.1	10.1
Share-based payments	12.9	20.1
Total	22.0	30.2

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR, thousand) [2]	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Herlin Antti, Chairman of the Board	298.1	535.0
Herlin Jussi, Vice Chairman of the Board [1] [3]	107.9	112.4
Ehrnrooth Henrik, President & CEO [1]	750.0	750.0
Alahuhta Matti	113.0	50.5
Duinhoven Susan	111.0	48.0
Herlin Iiris	111.0	48.5
Kant Ravi	114.0	56.5
Kaskeala Juhani	113.0	50.5
Xin-Zhe Li Jennifer	110.0	-
Brunila Anne*	1.5	49.0
Pietikäinen Sirpa*	1.0	48.5
Total	1,830.5	1,748.9

* Board member until March 2,2021

[1] In addition, for the financial year 2021 Jussi Herlin's accrued bonus is EUR 26,166 and Henrik Ehrnrooth's accrued bonus is EUR 835,350. These will be paid during 2022. In April 2021, the share-based payments for the financial year 2020 received by Henrik Ehrnrooth was EUR 2,512,242.

[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, 2021.

[3] Comparison period has been adjusted to align compensation disclosed for all members of management.

presented in the table on page 111. Henrik Ehrnrooth's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2021 was EUR 200,825. No separate agreement regarding early retirement has been made. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

The compensation for the members of the Executive Board comprises a base salary and an annual bonus, based on the Group's annual result and the achievement of individual 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 75 percent of the annual salary. The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2021, on the basis of the incentive plan, the members of the Executive Board received a reward of 83,897 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 maximum number of shares available for earning for the Executive Board for the 2021 share-based incentive plan is 233,794 KONE class B shares (gross before deduction for applicable taxes). The final outcome and any potential share awards under the incentive plan for the year 2021 will be confirmed in January 2024, depending on the performance during the years 2021, 2022 and 2023. The Executive Board members' holdings of shares are presented in the table on page 111. 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 carrying value of the pension liability for Board Member Matti Alahuhta (served as President & CEO until March 31, 2014) included in the balance sheet is EUR 5.8 million at the end of 2021 and the monthly pension paid by KONE to him is EUR 22,554 (December 2021).

6.2 SHARE-BASED PAYMENTS

Share based incentive plans

KONE has two separate share-based incentive plans, one performance share plan and one restricted share plan.

On January 28, 2021, KONE's Board of Directors decided on a new performance share plan, which replaced the existing performance share plans. The new performance plan continues to emphasize profitable growth and as a new measure sustainability. It consists of annually commencing individual share plans, each with a three-year rolling performance period, after which the potential share awards vest. If the participant's employment or service relationship with KONE Group terminates before the end of the performance period, the participant, as a rule, forfeits the share award without compensation. 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 target group and targets within the plan as well as possible rewards are decided upon annually by the Board. As part of the performance share 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.

The 2021 performance share plan is targeted to approximately 55 members of the top management, including the President and CEO, members of the Executive Board and other top management, and approximately 500 other selected key personnel of KONE Group. The performance criteria applied to the 2021 performance share plan are based on annual growth in sales, adjusted EBIT margin and improvements in sustainability. The sustainability performance condition is a combination of reductions in carbon footprint, diversity and inclusion as well as safety related targets. The restricted share plan serves as a complementary long-term share plan to be used as a commitment instrument for retention and recruitment purposes for top management (excluding the President and CEO) and other selected key persons. The restricted share plan does not have a performance condition. The plan has a commitment period up to three years, after which the potentially granted share awards will be paid to the participant, provided that their employment or service relationship with KONE Group is in force at the time of payment.

As part of the previous share-based incentive plan a total of 171,231 KONE class B shares were delivered in April 2021 to the management as a reward due to the achievement of the targets for the year 2020 and 155,115 shares in January 2021 to other key personnel. During the year 2021 a total of 8,849 of those KONE class B shares were returned to KONE Corporation. The maximum number of shares to be delivered in the first quarter of 2024 as part of the 2021 share-based incentive plan is 751,334 KONE class B shares based on the performance period 2021–2023, reduced by an amount of shares equivalent to the taxes and similar charges that are incurred by the receipt of shares.

As part of the restricted share plan, the maximum number of shares granted in 2021 and to be delivered in 2023 is 6,700 KONE class B shares (gross before deduction for applicable taxes) and 8,950 KONE class B shares (gross before deduction for applicable taxes) to be delivered in 2024.

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, 2021	Jan 1–Dec 31, 2020
To be paid in shares	28.0	23.4
To be paid in cash	11.4	16.3

6.3 RELATED PARTY TRANSACTIONS

KONE's related parties comprise its subsidiaries as well as the Board of Directors, the President & CEO, and 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 on page 111. KONE's subsidiaries are disclosed on pages 97–99.

PARENT COMPANY STATEMENT OF INCOME

EUR	Note	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Sales	1	705,519,412.07	666,309,719.40
Other operating income	2	16,925,994.41	12,597,014.82
Materials and services		-1,971,238.59	-3,104,920.68
Personnel expenses	3	-142,660,363.96	-161,658,709.12
Depreciation and amortization	4	-15,227,231.21	-15,236,243.68
Other operating expenses		-395,350,143.35	-405,805,333.71
Operating income		167,236,429.37	93,101,527.03
Financing income and expenses	6	341,369,407.91	297,451,763.44
Income before appropriations and taxes		508,605,837.28	390,553,290.47
Appropriations	7	30,930,877.77	41,048,579.61
Income taxes		-34,339,891.92	-40,924,770.98
Deferred taxes		-3,439,629.27	-1,095,576.75
Net income		501,757,193.86	389,581,522.35

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

Assets, EUR	Note	Dec 31, 2021	Dec 31, 2020
Non-current assets			
Intangible assets	8	16,116,546.21	18,278,548.21
Property, plant and equipment	9	40,178,708.16	37,746,453.05
Investments			
Subsidiary shares	10	2,050,333,523.58	2,627,011,289.86
Other shares	11	2,460,845.44	2,460,845.44
		2,052,794,369.02	2,629,472,135.30
Total non-current assets		2,109,089,623.39	2,685,497,136.56
Current assets			
Long-term receivables	12		
Loans receivable		192,328,791.72	372,009,023.74
		192,328,791.72	372,009,023.74
Short-term receivables	13		
Accounts receivable		111,349,087.72	108,111,218.15
Loans receivable		941,765,351.84	722,058,681.04
Deferred tax assets		16,398.13	3,456,027.40
Other receivables		11,821,982.98	15,786,952.75
Deferred assets		326,391,045.80	248,784,957.83
		1,391,343,866.47	1,098,197,837.17
Financial investments		1,575,082,252.03	1,509,966,813.95
Cash and cash equivalents		182,453,102.95	158,423,651.17
Total current assets		3,341,208,013.17	3,138,597,326.03
Total assets		5,450,297,636.56	5,824,094,462.59

Equity and liabilities, EUR	Note	Dec 31, 2021	Dec 31, 2020
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		244,987,601.61	326,971,986.85
Retained earnings		610,397,421.37	1,330,105,316.75
Net income		501,757,193.86	389,581,522.35
Total equity	14	1,523,644,763.95	2,213,161,373.06
Cumulative accelerated depreciation		9,502,036.20	8,932,913.97
Appropriations		9,502,036.20	8,932,913.97
Provisions	15	4,168,821.97	4,964,668.60
Liabilities			
Non-current liabilities	16		
Loans		507,058,858.40	272,550,427.14
		507,058,858.40	272,550,427.14
Current liabilities	17		
Accounts payable		85,284,752.45	82,095,305.56
Loans		3,130,795,115.29	3,024,448,429.10
Other liabilities		7,890,923.91	34,045,510.30
Accruals		181,952,364.39	183,895,834.86
		3,405,923,156.04	3,324,485,079.82
Total liabilities		3,912,982,014.44	3,597,035,506.96
Total equity and liabilities		5,450,297,636.56	5,824,094,462.59

PARENT COMPANY CASH FLOW STATEMENT

EUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Cash receipts from customers	714,972,591.58	805,514,007.31
Cash receipts from other operative income	16,822,694.41	12,542,014.82
Cash paid to suppliers and employees	-566,050,655.47	-586,702,664.86
Financing items	378,316,531.10	235,019,188.40
Taxes paid	-60,127,725.90	-52,206,429.88
Other financing items	-84,078,698.21	67,538,690.58
Cash flow from operating activities	399,854,737.51	481,704,806.37
Capital expenditure	-17,037,594.16	-16,302,543.53
Proceeds from sales of fixed assets	103,300.00	55,000.00
Subsidiary investments	-4,876.04	-
Proceeds from sales and decreases of subsidiary shares	576,682,642.32	276,870.56
Cash flow from investing activities	559,743,472.12	-15,970,672.97
Purchase of own shares	-45,790,737.23	-
Net change in short-term debt	106,346,686.19	916,538,919.31
Net change in long-term debt	234,508,431.26	19,370,091.42
Profit distribution	-1,166,345,136.69	-880,511,060.02
Group contributions received	40,764,865.95	58,400,000.00
Other financing items	-105,052,867.33	-690,570,559.84
Cash flow from financing activities	-935,568,757.85	-576,772,609.13
Change in cash and cash equivalents	24,029,451.78	-111,038,475.73
Cash and cash equivalents, Jan 1	158,423,651.17	269,462,126.90
Cash and cash equivalents, Dec 31	182,453,102.95	158,423,651.17
Change in cash and cash equivalents	24,029,451.78	-111,038,475.73

Reconciliation of net income to the cash flow from operating activities, EUR	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Net income	501,757,193.86	389,581,522.35
Depreciation and amortization	15,227,231.21	15,236,243.68
Other adjustments	-30,229,771.93	-2,663,581.15
Income before change in working capital	486,754,653.14	402,154,184.88
Change in receivables	-87,621,274.82	16,499,225.51
Change in liabilities	721,359.19	63,051,395.98
Cash flow from operating activities	399,854,737.51	481,704,806.37

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Accounting principles

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, 2021.

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.

LOAN RECEIVABLES AND FINANCIAL INVESTMENTS

Loan receivables are initially recognized at nominal values and subsequently measured at amortized cost. Management estimates that the fair values of the loan receivables do not materially differ from the carrying values at the statement of financial position dates.

Financial investments in commercial papers, short-term bank deposits, interest rate funds and other money market instruments 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.

DERIVATIVE INSTRUMENTS

Derivative financial instruments are used to hedge currency and the interest rate risks. Derivatives are measured at fair value in accordance with Accounting Act 5:2a §. The fair values of foreign exchange forward contracts are estimated 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 separate share-based incentive plans covering the senior management of KONE, other key personnel and additional targeted to senior management and other key personnel, excluding President and CEO of KONE. Pursuant to the share ownership plans, the reward to the management is either settled with KONE class B shares, or 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 shares to be transferred as part of the plans are obtained in public trading. The acquisition of shares is recognized as an increase of own shares, reducing equity, and transfer of shares as decrease in own shares and retained earnings within equity.

In 2021, KONE changed its' accounting policy for recognition of expense for the share settled part of share-based payments rewards. Plans for which settlement of reward is expected to take place in future years, recognition of expense, if any, have been discontinued. For plans for which reward has been settled already in prior years in the fair value of KONE class B shares, as determined at the grant date, the total expense has been distributed across the vesting period.

The fair value of the share-based payments settled with cash has been determined so that it covers taxes and social security costs that are incurred. The cost arising from cash settled part of share-based payment rewards is recognized as an expense over the earnings period. The liability recognized is measured based on the fair value of the shares 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.

Notes to the statement of income

1. SALES

Sales primarily comprises of sales to subsidiaries, amounting to 705,519.4 (666,309.7) thousand euros, which relates to revenues for the utilization of intellectual property rights.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Subsidies received	7,455.3	1,429.7
Recharged energy	1,645.4	1,873.1
Service charges	825.9	785.4
Others	6,999.5	8,508.7
Total	16,926.0	12,597.0

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Wages and salaries	119,058.4	145,115.3
Pension costs	20,395.3	13,864.3
Other employment expenses	3,206.6	2,679.1
Total	142,660.4	161,658.7

In 2021, the salaries and fees paid to the President & CEO and to the Board of Directors were together 5,126.6 (6,621.7) thousand euros. Average number of staff employed by the parent company was 1,307 during the financial year (1,207)

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Intangible rights	270.2	261.6
Other long-term expenditure	7,235.2	7,835.3
Buildings	1,342.8	1,247.6
Machinery and equipment	6,379.0	5,891.8
Total	15,227.2	15,236.2

5. AUDITORS' FEES

EUR 1,000	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Audit	639.0	613.0
Auditors´ statements	-	21.9
Tax advisory services	13.0	26.7
Other services	65.0	164.8
Total	717.0	826.3

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Dividend income from subsidiaries	387,900.8	249,410.1
Other dividends received	4.2	3.3
Interest income from subsidiaries	6,741.7	7,119.8
Interest income from others	21,089.0	13,805.0
Interest expenses to subsidiaries	-34,557.6	-35,226.7
Interest expenses to others	-1,205.8	-690.3
Other financing income and expenses	-38,602.9	63,030.5
Total	341,369.4	297,451.8

7. APPROPRIATIONS

EUR 1,000	Jan 1–Dec 31, 2021	Jan 1–Dec 31, 2020
Cumulative accelerated depreciation charge	-569.1	283.7
Group contributions received	31,500.0	40,764.9
Total	30,930.9	41,048.6

Notes to the statement of financial position

8. INTANGIBLE ASSETS

Jan 1–Dec 31, 2021, EUR 1, 000	Intangible rights	Other long-term expenditure	Advance payments	Total
Opening gross acquisition cost	4,886.8	132,482.8	-	137,369.6
Opening accumulated amortization and impairment	-4,128.5	-114,962.6	-	-119,091.1
Opening net book value	758.3	17,520.3	-	18,278.5
Opening net book value	758.3	17,520.3	-	18,278.5
Increase	330.1	6,152.4	-	6,482.5
Decrease	-	-1,139.1	-	-1,139.1
Reclassifications	-	-	-	-
Amortization	-270.2	-7,235.2	-	-7,505.4
Closing net book value	818.2	15,298.4	-	16,116.5
Closing gross acquisition cost	5,216.9	126,282.0	-	131,498.9
Closing accumulated amortization and impairment	-4,398.7	-110,983.7	-	-115,382.4
Closing net book value	818.2	15,298.4	-	16,116.5

Jan 1–Dec 31, 2020, EUR 1, 000	Intangible rights	Other long-term expenditure	Advance payments	Total
Opening gross acquisition cost	4,712.8	124,549.3	1,866.4	131,128.6
Opening 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
Closing gross acquisition cost	4,886.8	132,482.8	-	137,369.6
Closing 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

9. PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2021, EUR 1, 000	Land	Buildings	Machinery & equipment	Fixed assets under construction	Total
Opening gross acquisition cost	182.3	31,468.7	49,729.0	216.3	81,596.3
Opening accumulated amortization and impairment	-	-11,029.1	-32,820.8	-	-43,849.8
Opening net book value	182.3	20,439.6	16,908.2	216.3	37,746.5
Opening net book value	182.3	20,439.6	16,908.2	216.3	37,746.5
Increase	-	52.4	10,487.8	21.6	10,561.7
Decrease	-	-34.8	-372.8	-	-407.6
Reclassifications	-	-	-	-	-
Depreciation	-	-1,342.8	-6,379.0	-	-7,721.8
Closing net book value	182.3	19,114.3	20,644.1	237.9	40,178.7
Opening gross acquisition cost	182.3	31,472.5	57,689.5	237.9	89,582.2
Opening accumulated amortization and impairment	-	-12,358.1	-37,045.4	-	-49,403.5
Closing net book value	182.3	19,114.3	20,644.1	237.9	40,178.7

Jan 1–Dec 31, 2020, EUR 1, 000	Land	Buildings	Machinery & equipment	Fixed assets under construction	Total
Opening gross acquisition cost	182.3	30,472.6	40,835.7	216.0	71,706.6
Opening accumulated amortization and impairment	-	-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
Opening gross acquisition cost	182.3	31,468.7	49,729.0	216.3	81,596.3
Opening accumulated amortization and impairment	-	-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

10. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2021	Dec 31, 2020
Acquisition cost, Jan 1	2,627,011.3	2,631,178.2
Increase	4.9	-
Decrease	-576,682.6	-4,166.9
Net book value, Dec 31	2,050,333.5	2,627,011.3

11. OTHER SHARES

EUR 1,000	Dec 31, 2021	Dec 31, 2020
Acquisition cost, Jan 1	2,460.8	2,462.6
Decrease	-	-1.8
Net book value, Dec 31	2,460.8	2,460.8

12. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2021	Dec 31, 2020
Loans receivable from subsidiaries	190,328.8	371,684.9
Loans receivable from externals	2,000.0	324.1
Long-term receivables	192,328.8	372,009.0

13. SHORT-TERM RECEIVABLES

Receivables from subsidiaries, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Accounts receivables	110,692.2	107,410.7
Loans receivable	941,765.4	722,058.7
Deferred assets	161,440.2	144,761.3
Total	1,213,897.8	974,230.6

Receivables from externals, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Accounts receivables	656.8	700.5
Others	11,822.0	15,787.0
Deferred assets	164,950.8	104,023.7
Total	177,429.6	120,511.2
Deferred tax assets	16.4	3,456.0
Total short-term receivables	1,391,343.9	1,098,197.8

Deferred assets, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Derivative assets	91,682.4	79,362.2
Deferred income taxes	44,628.8	17,059.7
Unbilled revenue	118,059.8	90,231.8
Group contributions	31,500.0	40,764.9
Others	40,520.1	21,366.3
Total	326,391.0	248,785.0

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, 2021	66,174.5	100,328.1	326,972.0	-164,662.0	1,884,348.8		2,213,161.4
Profit distribution					-1,166,345.1		-1,166,345.1
Purchase of own shares				-45,790.7			-45,790.7
Share-based compensation			-81,984.4	11,878.2	90,968.3		20,862.1
Net income for the period						501,757.2	501,757.2
Net book value Dec 31, 2021	66,174.5	100,328.1	244,987.6	-198,574.5	808,971.9	501,757.2	1,523,644.8

Non-restricted equity includes the paid-up unrestricted equity reserve, retained earnings deducted by own shares and the profit for the financial year. The non-restricted equity was EUR 1,357,142,216.84 (2,046,658,825.95) at the end of the period. As at 31 December, 2021 cost recognized in prior years for the share settled part of share-based payment rewards in the cumulative amount of EUR 82,315 thousand has been reclassified from paid-up unrestricted equity reserve to retained earnings. Further, EUR 20,531 thousand of accrued expenses have been reclassified to retained earning pertaining to share based payments arrangements where payment of the reward has not yet taken place.

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
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

15. PROVISIONS

EUR 1,000	Dec 31, 2021	Dec 31, 2020
Warranty provisions	4,168.8	4,964.7
Total	4,168.8	4,964.7

16. NON-CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Liabilities falling due in 1–5 years	307,058.9	272,550.4
Total	307,058.9	272,550.4

Liabilities to externals, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Liabilities falling due in 1–5 years	200,000.0	-
Total	200,000.0	-
Total non-current liabilities	507,058.9	272,550.4

17. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Accounts payable	26,935.9	15,888.1
Loans	3,130,795.1	2,864,448.4
Accruals	75,744.4	42,226.1
Total	3,233,475.4	2,922,562.6

Liabilities to externals, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Accounts payable	58,348.8	66,207.2
Loans	-	160,000.0
Other liabilities	7,890.9	34,045.5
Accruals	106,208.0	141,669.7
Total	172,447.7	401,922.5
Total current liabilities	3,405,923.2	3,324,485.1

Accruals, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Accrued wages, salaries and employment costs	36,339.9	33,347.7
Derivative liabilities	51,135.2	84,290.9
Others	94,477.3	66,257.2
Total	181,952.4	183,895.8

18. COMMITMENTS

EUR 1,000	Dec 31, 2021	Dec 31, 2020
Guarantees		
For subsidiaries	2,778,456.8	2,731,483.7
For others	79.2	80.9
Leasing commitments		
Due next year	6,232.2	7,359.9
Due over a year	14,384.3	7,182.9
Other commitments	1,654.2	3,774.7
Total	2,800,806.7	2,749,882.1

19. DERIVATIVES

Fair values of derivative instruments, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Foreign exchange forward contracts with external parties	42,112.4	-9,072.1
Foreign exchange forward contracts with subsidiaries	-1,565.2	4,143.5
Total	40,547.1	-4,928.7

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2021	Dec 31, 2020
Foreign exchange forward contracts with external parties	3,278,646.5	3,450,680.9
Foreign exchange forward contracts with subsidiaries	623,535.1	667,343.7
Total	3,902,181.6	4,118,024.7

Derivative contracts are entered for hedging purposes in line with KONE Treasury policy and are 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, 2021 1)

		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 W.L.L.	0	
	KONE Elevators W.L.L.	49	
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	

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Finland	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 ATS 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	
	Multitech's S.A.S.	100	
	Prokodis S.A.S.	100	
	R.M.D. S.A.S.	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	
	KONE GmbH	100	
	KONE Montage GmbH	100	
	KONE Servicezentrale GmbH	100	
	SK-Fördertechnik GmbH	100	
Greece	KONE S.A.	100	

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
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
	PT. Mitra Indo Utama	0	
Ireland	Ennis Lifts Limited	100	
	KONE (Ireland) Limited	100	
Israel	KONE LTD	100	100
Italy	Ascensori & Ascensori S.r.l.	64	
	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	
	Ferrara Ascensori S.r.l.	60	
	Gianfranceschi Ascensori S.r.l.	100	
	GSB Ascensori S.r.l.	65	
	ITA S.r.l.	100	
	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	
	Rimma S.r.l.	60	
	Slimpa S.p.A.	100	

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Italy	Tecnocram S.r.l.	84	
	Tosca Ascensori S.r.l.	66.67	
	Unilift S.r.l.	78.54	
Kazakhstan	KONE Kazakhstan LLP	100	
Kenya	KONE Kenya Limited	49	
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 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	100
	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
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

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Serbia	KONE d.o.o. Beograd-Novi Beograd	100	
Singapore	KONE Pte Ltd	100	
Slovak Republic	KONE s.r.o.	100	100
	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 Muguerza, S.A.U.	100	
	Ascensores R Casado, S.A.	100	
Spain	Baleares Elevación, S.L.	100	
	KONE Elevadores, S.A.	100	99.99
Sweden	KONE 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	

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Thailand	Thai Elevators and Escalators Company Limited	74	
	Thai Elevators Holding Company Limited	49	
Tunisia	KONE Elevators & Escalators Assembly	100	
	KONE Elevators & Escalators Sarl	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	KONE (NI) Limited	100	
	KONE Pension Trustees Ltd.	100	
	KONE Plc	100	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	

[1)] Includes all companies where parent company KONE Oyj has control. Additional information included in note 1 of the consolidated financial statements.

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, 2021 is EUR 1,357,142,216.84 of which the net income for the financial year is EUR 501,757,193.86.

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 1.7500 on the outstanding 441,753,623 class B shares. Further, the Board proposes an extra dividend of EUR 0.3475 to be paid on the outstanding 76,208,712 class A shares and EUR 0.3500 on the outstanding 441,753,623 class B shares, resulting in a total amount of proposed dividend of EUR 1,087,339,859.94. The Board of Directors further proposes that the remaining non-restricted equity, EUR 269,802,356.90 be retained and carried forward.

The Board proposes that the dividends be payable from March 10, 2022.

SIGNATURES FOR THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Helsinki, February 2, 2022

Antti Herlin	Iiris Herlin
Jussi Herlin	Ravi Kant
Matti Alahuhta	Juhani Kaskeala
Susan Duinhoven	Henrik Ehrnrooth, President & CEO

THE AUDITOR'S NOTE

Our auditor´s report has been issued today.

Helsinki, February 2, 2022

Ernst & Young Oy
Authorized Public Accountants

Heikki Ilkka
Authorized Public Accountant

AUDITOR´S REPORT

To the Annual General Meeting of KONE Oyj

Report on the Audit of the Financial Statements

OPINION

We have audited the financial statements of KONE Oyj (business identity code 1927400-1) for the year ended 31 December, 2021. The financial statements comprise the consolidated statement of financial position, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including summaries of significant accounting policies, as well as the parent company's statement of financial position, statement of income, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its 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 financial statements in Finland and comply with statutory requirements.

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

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 Financial Statements* section of our report.

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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 2.2 to the consolidated financial statements and note 5 to the parent company financial statements.

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

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.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td>

Revenue recognition of new equipment and modernization sales and related accruals
The accounting principles and disclosures about revenue recognition of new equipment and modernization sales and related accruals are included in notes 1 and 2.1.

In accordance with its accounting principles KONE applies the percentage of completion (PoC) method for recognizing revenue over time from new equipment and modernization contracts. The percentage of completion is based on the cost-to-cost method. In year 2021, approximately 68 % percent of the KONE´s sales of 10,5 billion euro were recognized under the PoC method.

The recognition of revenue by applying PoC method and the estimation of the outcome of projects require significant management judgement in estimating the cost-to-complete. We assessed the risk to mainly relate to the stage of completion of projects, which were incomplete at 31 December 2021.

The Group makes several types of accruals related to risks associated with revenue recognition by applying PoC method. These accruals require high level of management judgment.

Based on above, revenue recognition based on PoC method, including related accruals, was a key audit matter. Revenue recognition based on PoC method was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

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Our audit procedures to address the risk of material misstatement in respect of the revenue recognition from new equipment and modernization projects and related provisions, included, among others:

• Assessment of the Group's accounting policies over revenue recognition over time and recognition of project related accruals;
• Gaining an understanding of the revenue recognition process including related accruals;
• Inspecting on a sample basis the project documentation such as contracts and other written communication;
• Testing on a sample basis the percentage of completion and accrual calculations and the inputs of estimates in the calculations, as well as comparing the estimates to actuals;
• Analytical procedures;
• Evaluation of financial development and current status by
    ○ analyzing the changes in assumptions relating to estimated revenues, costs, and related accruals and receipts of project payments, and
    ○ discussions with different levels of the organization including project level and financial organization; and
• Performing inquiries with management with regards to any significant events or legal matters that could affect the project estimates and provisions;
• Assessing the Group's disclosures in respect of revenue recognition and related accruals.

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Valuation of accounts receivable
The accounting principles and disclosures relating to accounts receivable are included in notes 1 and 3.2.

Valuation of accounts receivable was a key audit matter due to the significance of the account balance and because valuation requires management to make significant judgments especially due to prolonged COVID-19 pandemic related considerations. Valuation of accounts receivable requires management to evaluate the probability of the recoverability of receivables and to record an impairment loss for doubtful accounts over the portion for which payment is unlikely.

As of balance sheet date 31 December 2021, the carrying value of accounts receivable amounted to 2 421,4 million euros.

The carrying value of account receivable shown in the balance sheet as of 31 December 2021 is a result of gross receivables deducted by reserve of expected credit losses which is based on management's judgment and amounting to 284,4 million euros as of 31 December 2021.

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We performed, among others, the following audit procedures:
• we evaluated the valuation methods applied on valuation of accounts receivable as well as performed quarterly analyses of overdue and undue gross receivable balance development and corresponding movement in expected credit loss reserve during the year.
• we sent receivable balance confirmation requests to counterparties and compared trade receivable balances to subsequent cash receipts.
• we analysed management's estimates of expected credit losses of the most significant aged and overdue receivables considering historical payment patterns as well as recent communications with the counterparties and dunning procedures.
• we considered the appropriateness of the Group's disclosures in respect of trade receivables.

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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 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 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 on 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 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

INFORMATION ON OUR AUDIT ENGAGEMENT

We were appointed as auditors by the Annual General Meeting with effect from 2 March 2021.

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 Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to 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 and 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 2 February, 2022

Ernst & Young Oy
Authorized Public Accountant Firm

Heikki Ilkka
Authorized Public Accountant

INDEPENDENT AUDITOR'S REPORT ON KONE OYJ'S ESEF CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of KONE Oyj

We have performed a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 2138001CNF45JP5XZK38-2021-12-31-FI.zip of KONE Oyj for the financial year 1.1. – 31.12.2021 to ensure that the financial statements are tagged with iXBRL mark ups in accordance with the requirements of Article 4 of EU Commission Delegated Regulation (EU) 2018/815 (ESEF RTS).

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

The Board of Directors and Managing Director are responsible for the preparation of the Report of Board of Directors and financial statements (ESEF financial statements) that comply with the ESEF RTS. This responsibility includes:

- preparation of ESEF financial statements in accordance with Article 3 of ESEF RTS
- tagging the consolidated financial statements included within the ESEF financial statements by using the iXBRL mark ups in accordance with Article 4 of ESEF RTS
- ensuring consistency between ESEF financial statements and audited financial statements

The Board of Directors and Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of ESEF financial statements in accordance the requirements of ESEF RTS.

AUDITOR'S INDEPENDENCE AND QUALITY CONTROL

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

The auditor applies International Standard on Quality Control (ISQC) 1 and therefore maintains a comprehensive quality control system including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

AUDITOR'S RESPONSIBILITIES

In accordance with the Engagement Letter we will express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the Article 4 of ESEF RTS. We have conducted a reasonable assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000.

The engagement includes procedures to obtain evidence on:

- whether the tagging of the primary financial statements in the consolidated financial statements complies in all material respects with Article 4 of the ESEF RTS
- whether the ESEF financial statements are consistent with the audited financial statements

The nature, timing and extent of the procedures selected depend on the auditor's judgement including the assessment of risk of material departures from requirements sets out in the ESEF RTS, whether due to fraud or error.
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our statement.

OPINION

In our opinion the tagging of the consolidated financial statement included in the ESEF financial statements of KONE Oyj for the year ended 31.12.2021 complies in all material respects with the requirements of ESEF RTS.

Our audit opinion on the consolidated financial statements of KONE Oyj for the year ended 31.12.2021 is included in our Independent Auditor's Report 2.2.2022. In this report, we do not express an audit opinion or any other assurance on the consolidated financial statements.

Helsinki, 2 February, 2022

Ernst & Young Oy
Authorized Public Accountant Firm

Heikki Ilkka
Authorized Public Accountant

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 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 23 percent of its shares. The significant entrepreneurial risk associated with ownership is considered to justify the main shareholder serving as the Chairman of the Board of Directors and of its Nomination and Compensation Committee and, in this capacity, overseeing the shareholders' interests.

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

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

BOARD OF DIRECTORS

Duties and responsibilities

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

- compiling of the Board of Directors' report, interim reports and financial statements
- ensuring the proper organization and surveillance of the accounting and asset management
- 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
- possible appointment of a full-time Chairman of the Board, executive Vice 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 by 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. It also deals with the Corporation's internal audit plans and reports. The Head of Assurance 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

Chairman of the Board, executive Vice Chairman of the Board and the President and CEO

KONE Corporation's Board of Directors appoints Chairman of the Board, the possible executive Vice Chairman of the Board and the President and CEO. The Board determines the terms and conditions of employment of the executive Vice Chairman of the Board and the President and CEO, and these are defined in their respective written contracts. The Chairman of the Board and the Vice Chairman of the Board prepare matters to be considered by the Board together with the President and CEO and the corporate staff. The Chairman of the Board, the Vice 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's 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 a 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, a 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 changes and developments from the business operations and information systems.

KONE's 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,

More information

The 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.

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 management's ongoing business supervision and monitoring. KONE has established Financial Control Models for the 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 the 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 function, which is separate from the management. The KONE Assurance function is responsible for auditing both the internal control system and the management of business risks. It reports its findings to the Audit Committee. The Head of Assurance reports to the Vice Chairman of the Board.

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 for how to recognize, handle, approve, monitor and report related party transactions. According to the guidelines, the Corporate Controlling function follows and monitors related party transactions as part of KONE's normal reporting and control procedures and reports related party transactions to the Audit Committee annually.

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

External audit

The objective of a statutory audit is to express an opinion on 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 also encompasses the audit of the accounting and governance in the company. The auditor considers whether the information in the Board of Directors' report is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable legal requirements.

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

INSIDERS

KONE Corporation adheres to the insider guidelines of the Nasdaq Helsinki Ltd, which have been supplemented with internal insider guidelines approved by the Board of Directors. In compliance with the Market Abuse Regulation, the person discharging managerial responsibilities in KONE Corporation (managers) include the members and deputy members of the Board of Directors, the President and CEO and the 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 2021

Annual General Meeting

The Annual General Meeting was held in Helsinki, Finland on March 2, 2021. The meeting was held based on the so-called temporary act so that shareholders participated in the meeting and exercised their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance.

Board of Directors and committees

The Annual General Meeting elected eight members to KONE's Board of Directors. The Chairman of the Board of Directors of KONE Corporation is Antti Herlin. Jussi Herlin is the executive Vice Chairman of the Board. The other members of the Board are Matti Alahuhta, Susan Duinhoven, Iiris Herlin, Ravi Kant, Juhani Kaskeala and Jennifer Xin-Zhe Li. Out of the eight Board Members, five are male and three females.

Of the Board members, Matti Alahuhta, Susan Duinhoven, Iiris Herlin, Ravi Kant, Juhani Kaskeala and Jennifer Xin-Zhe Li are independent of the Corporation. With the exception of Antti Herlin, Iiris Herlin and Jussi Herlin, the other Board

Number of Board and Committee meetings in 2021 and participant attendance:

	Board	Audit Committee	Nomination and Compensation Committee
Antti Herlin	7/7	1/1	4/4
Jussi Herlin	7/7	3/3	4/4
Matti Alahuhta	7/7	2/2	4/4
Susan Duinhoven	7/7		
Iiris Herlin	7/7		
Ravi Kant	7/7	3/3	
Juhani Kaskeala	7/7		4/4
Jennifer Xin-Zhe Li	6/6		
Anne Brunila	1/1	1/1	
Sirpa Pietikäinen	1/1		

Anne Brunila and Sirpa Pietikäinen served as Board members until March 2,2021. Jennifer Xin-Zhe Li was elected to the Board on March 2,2021.

members are independent of the Corporation's significant shareholders.

The Board of Directors convened seven times in 2021, with an average attendance rate of 100%. 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), Matti Alahuhta (independent member), and Jussi Herlin.

The Audit Committee held three meetings in 2021, with an average attendance rate of 100%

Kristian Snäll serves as the Head of Assurance.

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 four meetings in 2021, with an average attendance rate of 100%.

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in March 2021 confirmed the fees of the members of the Board as follows (annual fees in EUR):

Chairman of the Board	220,000
Vice Chairman	125,000
Member	110,000

Of the remuneration, 40 percent was paid in class B shares of KONE Corporation and the rest in cash. Annual board fee is not paid to a board member who is employed by the company with a separate employment contract. 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 and the Vice Chairman

Antti Herlin has had a separate employment contract for his role as Full-time Chairman of the Board at KONE until March 2, 2021. The employment-based compensation for Antti Herlin consisted of a base salary and an annual bonus decided by the Board on the basis of the Group's financial result. The annual bonus may not exceed 100 percent of the recipient's annual salary. In 2021, Antti Herlin's base salary was EUR 74,600. In addition, he received a bonus of EUR 290,462 which was earned in 2020. He was also paid EUR 223,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 111.

A separate employment contract was entered into with Vice Chairman of the Board Jussi Herlin for his role as the Executive Vice Chairman of the Board as of March 2, 2021. The employment-based compensation for Jussi Herlin consists of a base salary and an annual bonus decided by the Board on the basis of the Group's financial result. The annual bonus may not exceed 100 percent of the recipient's annual base salary. In 2021, Jussi Herlin's base salary was EUR 104,365. In addition, his accrued bonus for 2021 totaled EUR 26,166. This bonus will be paid in 2022. He was also paid EUR 3,500 in meeting fees for Board and Committee work during the time preceding March 2, 2021. Jussi Herlin's holdings of shares are presented in the table on page 111. The Executive Vice 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 base salary and an annual bonus determined by the Board on the basis of the Corporation's key targets. The annual bonus may not exceed 150 percent of the recipient's annual salary.

Henrik Ehrnrooth's annual base salary is EUR 750,000. In addition, his accrued bonus for 2021 totaled EUR 835,350. The performance criteria applied to this annual short-term incentive is based on financial, strategic and individual performance. The bonus will be paid in 2022.

Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. In April 2021, on the

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.

basis of the incentive plan for the year 2020, Henrik Ehrnrooth received a reward of EUR 2,512,242 which consisted of 17,625 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The maximum number of KONE class B shares available for earning for the President and CEO for the year 2020 was 30,000 KONE shares. The reward was based on sales growth and profitability as well as growth of KONE's digital services.

In January 2021, KONE's Board of Directors decided on a new performance share plan. The performance criteria applied to the 2021 performance year are based on a combination of annual sales growth and adjusted EBIT margin, as well as improvements in sustainability. The sustainability performance condition is a combination of reductions in carbon footprint, as well as diversity and inclusion and safety related targets. The maximum number of shares available for earning for the President and CEO for the 2021 share-based incentive plan is 53,541 KONE class B shares (gross before deduction for applicable taxes). The final outcome and any potential share awards under the incentive plan for the year 2021 will be confirmed in January 2024, depending on the performance during the years 2021, 2022 and 2023.

Henrik Ehrnrooth's holdings of shares are presented in the adjacent table.

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.

Shareholdings and options of KONE Board and Management on Dec 31, 2021 and changes in shareholding during the period Jan 1–Dec 31, 2021

	Class A share	Change	Class B shares	Change
Alahuhta Matti			754,917	+623
Berkling Axel			68,974	+7,050
Delval Hugues			54,602	+7,403
Duinhoven Susan			974	+623
Ehrnrooth Henrik			385,014	+13,742
Frände Johannes			952	+259
Halabi Samer			32,111	+2,820
Hara Ilkka			55,683	+7,168
Herlin Antti	70,561,608	-	49,949,192	+2,211,246
Herlin Iiris			135,964	+623
Herlin Jussi			109,667	0
Hinnerskov Thomas			62,229	+7,050
Johnson William			77,787	-56,335
Kant Ravi			3,117	+623
Kaskeala Juhani			3,941	+623
Korte Mikko			67,256	+198
Kranz Maciej			45,063	+7,050
Xin-Zhe Li Jennifer			623	+623
Pihkala Tomio			113,658	+7,050
Schmid Ken			24,516	+6,698
Skippari Susanne			32,898	-6,784
Weener Tricia			0	0

Anne Brunila and Sirpa Pietikäinen were members of the Board of Directors until March 2, 2021 and owned 3,334 and 8,494 KONE class B shares on that date.
Klaus Cawén was a member of the Executive Board until January 31, 2021 and owned 368,312 KONE class B shares on that date. Pierre Liautaud was a member of the Executive Board until March 31, 2021 and owned 53,296 KONE class B shares on that date.
The shares owned by companies in which the Board Member or Management exercises controlling power and by minor children are also included in these shareholdings.

Executive Board

In 2021, KONE's Executive Board consisted of the President and CEO and 12-13 Members. Henrik Ehrnrooth serves as President and CEO. The other members of the Executive Board in 2021 were Axel Berkling, Klaus Cawén (until January 31, 2021), Hugues Delval, Johannes Frände (as of February 1, 2021), Samer Halabi (as of May 1, 2021), Ilkka Hara, Thomas Hinnerskov, William Johnson, Mikko Korte, Maciej Kranz, Pierre Liautaud (until March 31, 2021), Tomio Pihkala, Ken Schmid, Susanne Skippari and Tricia Weener (as of January 18, 2021).

Compensation and other benefits of the Executive Board

The compensation for the members of the Executive Board comprises a base salary and an annual bonus, based on the Group's annual result and the achievement of individual 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 75 percent of the annual salary.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2021, on the basis of the incentive plan, the members of the Executive Board received a reward of 83,897 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 maximum number of shares available for earning for the Executive Board for the 2021 share-based incentive plan is 233,794 KONE class B shares (gross before deduction for applicable taxes). The final outcome and any potential share awards under the incentive plan for the year 2021 will be confirmed in January 2024, depending on the performance during the years 2021, 2022 and 2023. 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 Executive Board members' holdings of shares are presented in the table above.

Auditing

As of March 2, 2021, KONE Corporation's Auditor is audit firm Ernst & Young Oy. The fees to Ernst & Young Oy for 2021 were EUR 3.2 million for auditing and EUR 86 thousand for other consulting services.

Insiders

The shareholding of the members of the Board of Directors, the Management of KONE and the corporations under their control amounted to 122,540,746 shares on December 31, 2021, which represents 23.1 % of total shares and 62.3 % of voting rights. Antti Herlin's ownership is 120,510,800 shares and 75,556,527 votes. The individual holdings of the members of the Board of Directors and Management of KONE, and the changes occurred in them during the financial year, are presented on page 111.

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 or the members of the Executive Board including any companies controlled or significantly influenced by them.

More information

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

More information

Board of Directors page 113

Executive Board pages 114-115

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 Executive Chairman of the Board of KONE 2006–2021, 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, and Chairman of the Board of the Tiina and Antti Herlin Foundation.

Jussi Herlin

Vice Chairman of the Board

b. 1984, M.Sc. (Econ)
Member of the Board since 2012.
Serves as Executive Vice Chair of the Board of KONE since 2021 and Vice Chair of the Board since 2014. Previously served as Senior Business Analyst and Strategy Development Manager at KONE 2016–2020, as Consultant at Accenture 2012–2014, and as Deputy Member of the Board of KONE Corporation 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, Member of the Board of the Confederation of Finnish Industries, Member of the Board of Technology Industries of Finland, and Member of the Board of the Finnish Foundation for Share Promotion.

Matti Alahuhta

b. 1952, D. Sc. (Tech.), D.Sc. (Tech.) h.c.
Member of the Board since 2003.
Previously served as President and CEO of KONE 2006–2014, as President of KONE 2005–2006, 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 and Member of the Board of AB Volvo.

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. 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 at Tata Motors 1999–2014 (as Managing Director and CEO 2005–2009 and after that as the Vice Chairman of the Board of Directors until 2014). Prior to that, he served as Director, Consumer Electronics at Philips India, as Director (Marketing) at LML Ltd., and as Vice President (Marketing) at Titan Watches Ltd.
Current key positions of trust are Member of the Board of Hawkins Cookers Ltd 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.
Serves as Managing Director of Admiral Consulting Oy since 2011. Previously served in the Finnish Defence Forces in several positions 1965–2009, latest 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.

Jennifer Xin-Zhe Li

b. 1967, MBA
Member of the Board since 2021.
Previously served as CEO of Baidu Capital, China 2017–2018, CFO of Baidu, China 2008–2017, and in different positions at General Motors (GM) 1994–2008 (as Controller, North American Operations, GMAC U.S. 2005–2008, as CFO, GM China 2004–2005, as Controller and Treasurer, GM China 2001–2004, as Corporate Finance Member, GM Singapore 1999–2001, and as Senior Financial analyst, both at GM U.S. and at GM Canada 1994–1999).
Current key positions of trust are Member of the Board of ABB Ltd, Member of the Board of Flex Ltd (Singapore / U.S), and Member of the Board of Full Truck Alliance Co. Ltd (Cayman Islands / P.R. China).

Anne Brunila and Sirpa Pietikäinen served as Board members until March 2,2021. Jennifer Xin-Zhe Li was elected to the Board on March 2,2021.

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

Central and North Europe

b. 1967, M.Sc. (Econ)
Member of the Executive Board since 2016. Employed by KONE since 1998.
Previously served at KONE as Executive Vice President responsible for Asia-Pacific 2016–2021 and Managing Director for KONE Germany 2012–2016. Prior to that 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.

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.

Johannes Frände

General Counsel

b. 1979, LL.M., M.Sc. (Computer Science)
Member of the Executive Board since February 2021. Employed by KONE since 2012.
Previously served as Head of Legal for KONE's Service Business and KONE's Technology and Innovation unit 2017–2021 and as Senior Legal Counsel 2012–2016. Prior to joining KONE, Johannes worked as an attorney at Roschier Attorneys Ltd. 2005–2007 and 2009–2012 and at Debevoise & Plimpton LLP 2008–2009.

Samer Halabi

Asia-Pacific

b. 1970, M.Sc. (Mechanical Engineering)
Member of the Executive Board since May 2021. Employed by KONE since 2001.
Previously served at KONE as Regional Managing Director for KONE Middle East and Africa 2010–2021. Prior to that Samer has held various leadership positions in the region, including Managing Director for KONE Qatar 2007–2010 and Managing Director for KONE Distributor Business 2004–2007.

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

South Europe, Middle-East and Africa

b. 1971, M.Sc. (Finance and Accounting)
Member of the Executive Board and employed by KONE since 2016.
Previously served at KONE as Executive Vice President responsible for Central and North Europe 2016–2021. Prior to joining KONE, Thomas served as Regional CEO for ISS Western Europe 2016 and for ISS APAC 2012–2016. He has also held 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, 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.

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 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 Armatury Group.

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 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.

Tricia Weener

Marketing and Communications

b. 1970, B.A. Business studies
Member of the Executive Board and employed by KONE since January 2021.
Previously served at HSBC as Chief Marketing Officer, Commercial & Global Banking & Markets 2019–2020 and Commercial Banking 2016–2020, Group Head of Brand Partnerships 2017–2019, Asia Head of Marketing, Commercial & Global Banking & Markets 2013-2019, Head of Integrated Marcoms 2011–2013, and Europe Head of Marketing and Comms, Commercial Bank 2009–2011. Prior to HSBC, Tricia was the CEO and Founder of Intelligent Marketing & Communications Ltd 2003–2009, worked at The Marketing Partnership Ltd 1997–2003, ALPHA Airports Group 1996-1997 and British Aerospace Defence Ltd 1989–1994.

Susanne Skippari served as interim Executive Vice President, Marketing and Communications until January 18, 2021. Klaus Cawén served as Executive Vice President responsible for M&A, Strategic Alliances and Legal Affairs until January 31, 2021 and Pierre Liautaud served as Executive Vice President responsible for South Europe, Middle East and Africa until March 31, 2021.

After the reporting period, on January 18, 2022, KONE announced that Thomas Hinnerskov, Executive Vice President responsible for South Europe, Middle East and Africa, has decided to leave KONE for a position outside the company latest at the end of May 2022.

More information
Corporate governance page 107

More information
Shareholdings of KONE Corporation's public insiders are available on page 111

INFORMATION FOR SHAREHOLDERS

Annual General Meeting

KONE Corporation’s Annual General Meeting will be held on Tuesday 1 March 2022 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 2021 dividend of EUR 1.7475 be paid for each class A share and a dividend of EUR 1.7500 be paid for each class B share. Further, the Board proposes an extraordinary dividend of EUR 0.3475 to be paid on the outstanding class A shares and EUR 0.3500 on the outstanding class B shares, resulting total dividend of 2.0950 per class A share and 2.1000 per class B share. All shares existing on the dividend record date, March 3, 2022 are entitled to the dividend. The dividend is proposed to be paid on March 10, 2022.

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 100.

Shares and shareholders, page 28.

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. The aim of 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 that of all other communication with investors and analysts is to accomplish this task.

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 are 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 and other means of communication.

Contact information

Natalia Valtasaari
Head of Investor Relations
Tel. +358 (0)204 75 4705
investors@kone.com

KONE's financial reporting schedule 2022

Financial Statement Bulletin and Financial Statements for 2021	Wednesday, February 2, 2022
Interim report for January 1–March 31, 2022	Wednesday, April 27, 2022
Half-year Financial Report for January 1–June 30, 2022	Wednesday, July 20, 2022
Interim report for January 1–September 30, 2022	Thursday, October 27, 2022

KONE will publish its Sustainability Report for the year 2021 during the second quarter of 2022.

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

Front and back cover reference images

With an estimated 25 million visitors over the 6 months the Expo 2020 Dubai is open, the event brings the world together. At the Expo, a striking tent-meets-snow motif forms the basis for the structure that is the Finland Pavilion. The theme for Finland is 'Sharing future happiness' – a task that it will accomplish by showcasing the best and brightest in Finnish expertise, innovations, and solutions. KONE is helping provide smooth people flow and multisensory experiences to visitors to the pavilion. The company has a lot to offer when it comes to technology and know-how on enabling smart and sustainable urbanization with an emphasis on well-being and happiness.

KONE
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