ANNUAL REVIEW

KONE 2018

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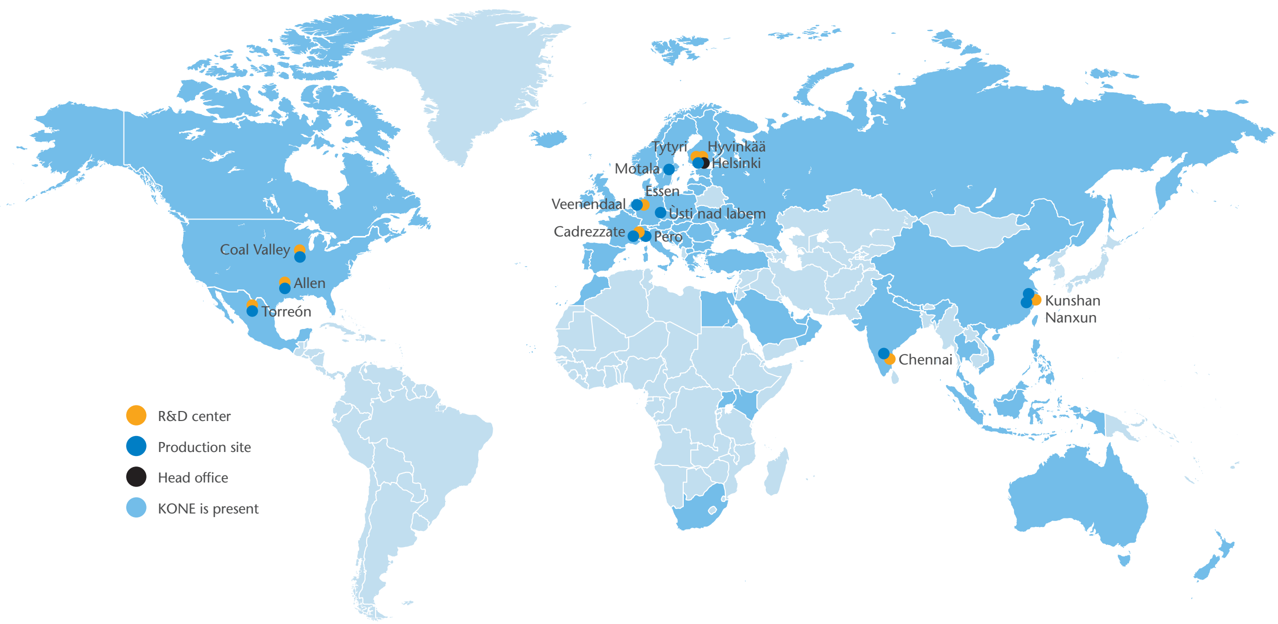
KONE in brief

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, which add value to the life cycle of any building.

Through more effective People Flow®, we make people's journeys safe, convenient and reliable, in taller, smarter buildings. Together with our partners and customers around the world, we help cities to become better places to live in.



Sales MEUR **9,071** in 2018

>57,000 employees

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

>450,000 customers

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

Operations in over **60** countries

Authorized distributors and agents in close to 100 countries

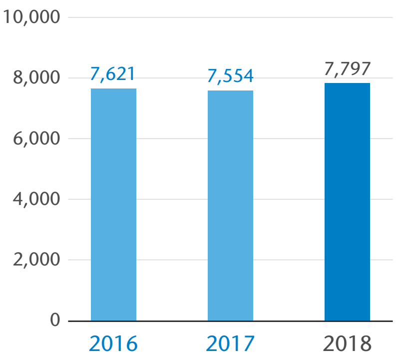
Key figures

Key figures

		1–12/2018	1–12/2017	Change	Comparable change
Orders received	MEUR	7,797.0	7,554.0	3.2%	6.6%
Order book	MEUR	7,950.7	7,357.8	8.1%	8.0%
Sales	MEUR	9,070.7	8,796.7	3.1%	6.3%
Operating income (EBIT)	MEUR	1,042.4	1,192.3	-12.6%	
Operating income margin (EBIT margin)	%	11.5	13.6		
Adjusted EBIT*	MEUR	1,112.1	1,205.5	-7.8%	
Adjusted EBIT margin*	%	12.3	13.7		
Income before tax	MEUR	1,087.2	1,250.4	-13.1%	
Net income	MEUR	845.2	960.2	-12.0%	
Basic earnings per share	EUR	1.63	1.86	-12.3%	
Cash flow from operations (before financing items and taxes)	MEUR	1,150.1	1,263.3		
Interest-bearing net debt	MEUR	-1,704.0	-1,690.2		
Equity ratio	%	49.9	50.0		
Return on equity	%	27.7	32.1		
Net working capital (including financing items and taxes)	MEUR	-757.8	-772.6		
Gearing	%	-55.3	-55.8		

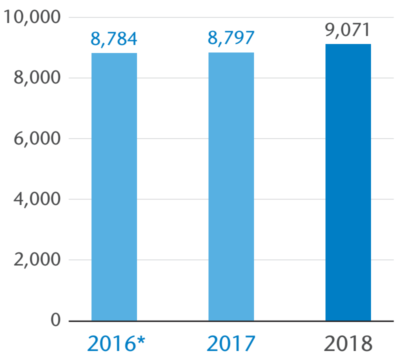
* In September 2017, KONE introduced a new alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. Restructuring costs related to the Accelerate program are excluded from the calculation of the adjusted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

Orders received*, MEUR



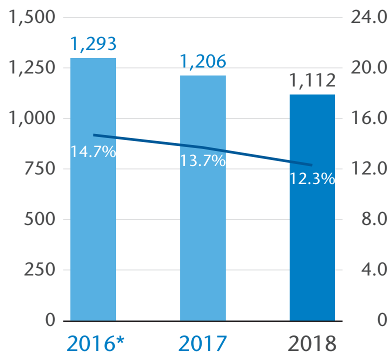
*) Orders received do not include maintenance contracts

Sales, MEUR



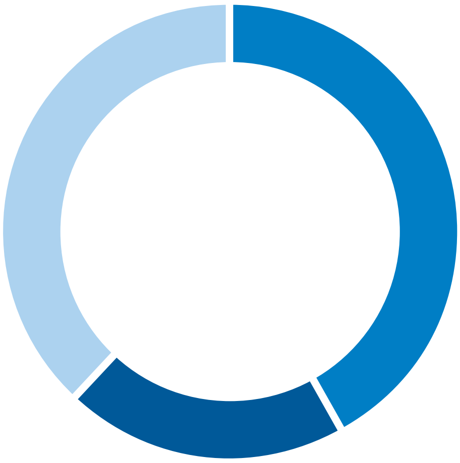
*) 2016 not restated with IFRS 15 and IFRS 9 changes

Adjusted EBIT, MEUR and adjusted EBIT margin, %



*) 2016 not restated with IFRS 15 and IFRS 9 changes

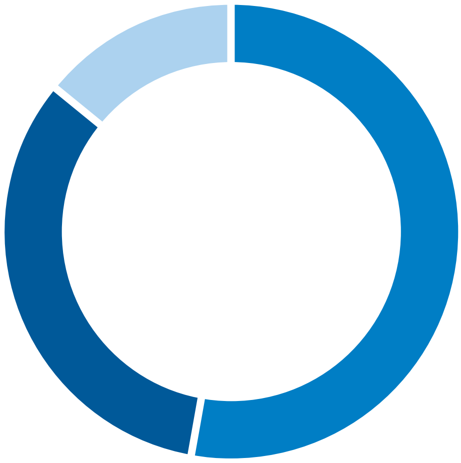
Sales by region



EMEA 42% (41%)
Americas 20% (20%)
Asia-Pacific 38% (39%)

1–12/2018 (1–12/2017)

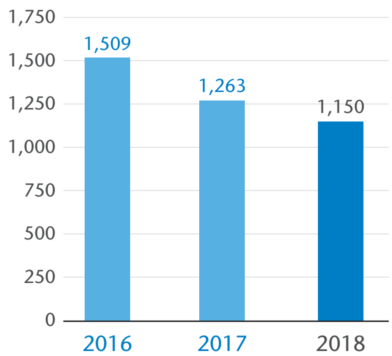
Sales by business



New equipment 53% (53%)
Maintenance 33% (33%)
Modernization 14% (14%)

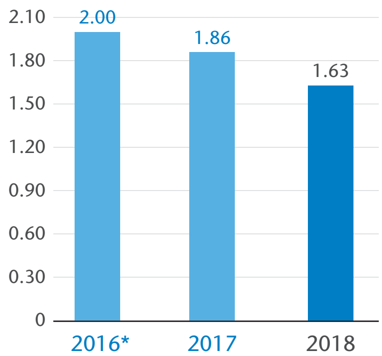
1–12/2018 (1–12/2017)

Cash flow*, MEUR



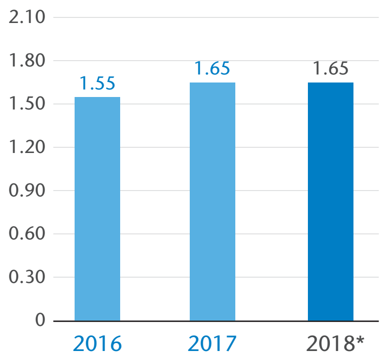
*) Cash flow from operations before financing items and taxes

Earnings per share, EUR



*) 2016 not restated with IFRS 15 and IFRS 9 changes

Dividend per class B share, EUR



*) Board's proposal

KONE's strategy: "Winning with Customers"

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

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

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

Everything starts with the customer

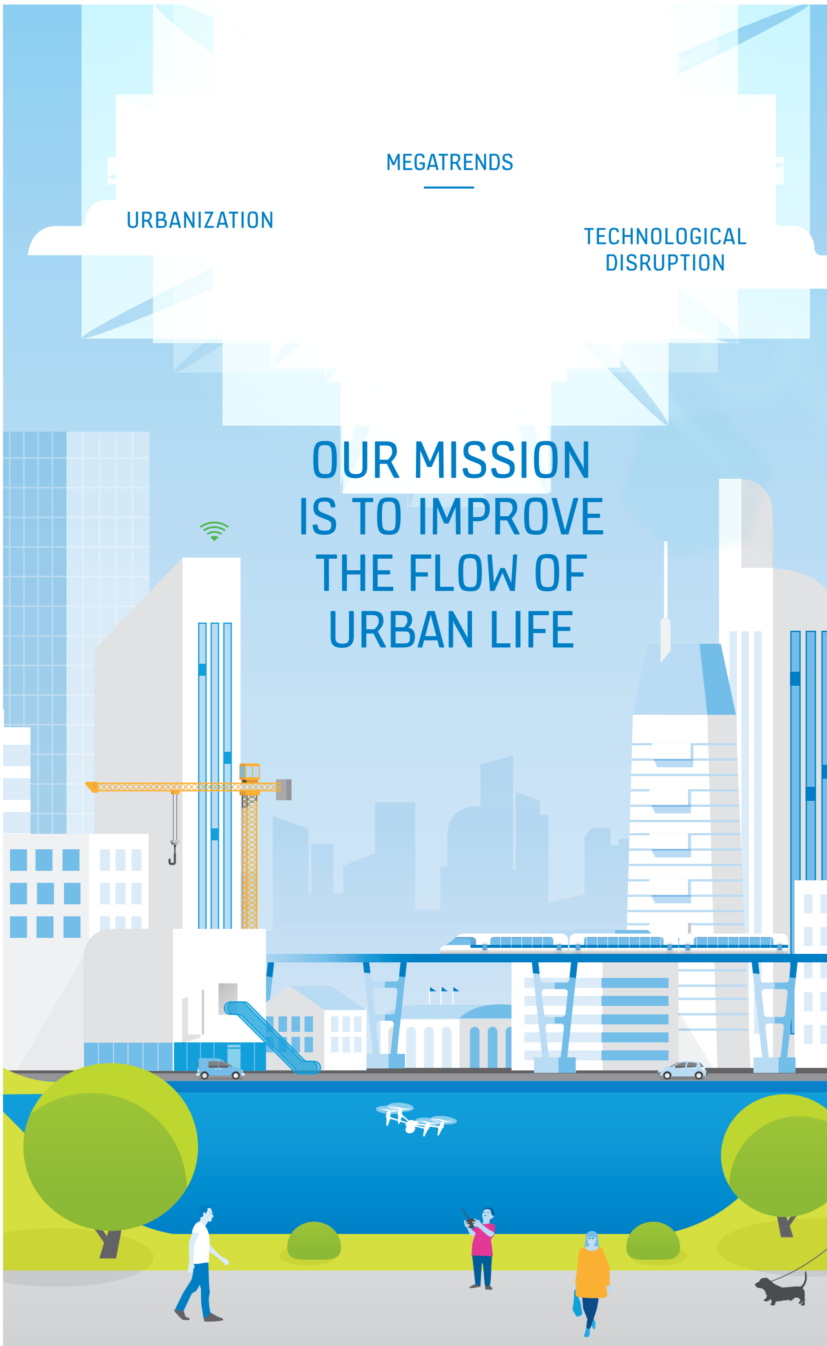
KONE's strategic phase for 2017–2020 is called "Winning with Customers". The objective is to drive differentiation further by putting the needs of customers and users at the center of all development.

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

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

Four ways to win

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



1 Collaborative innovation and new competencies

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

2 Customer-centric solutions and services

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

3 Fast and smart execution

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

4 True service mindset

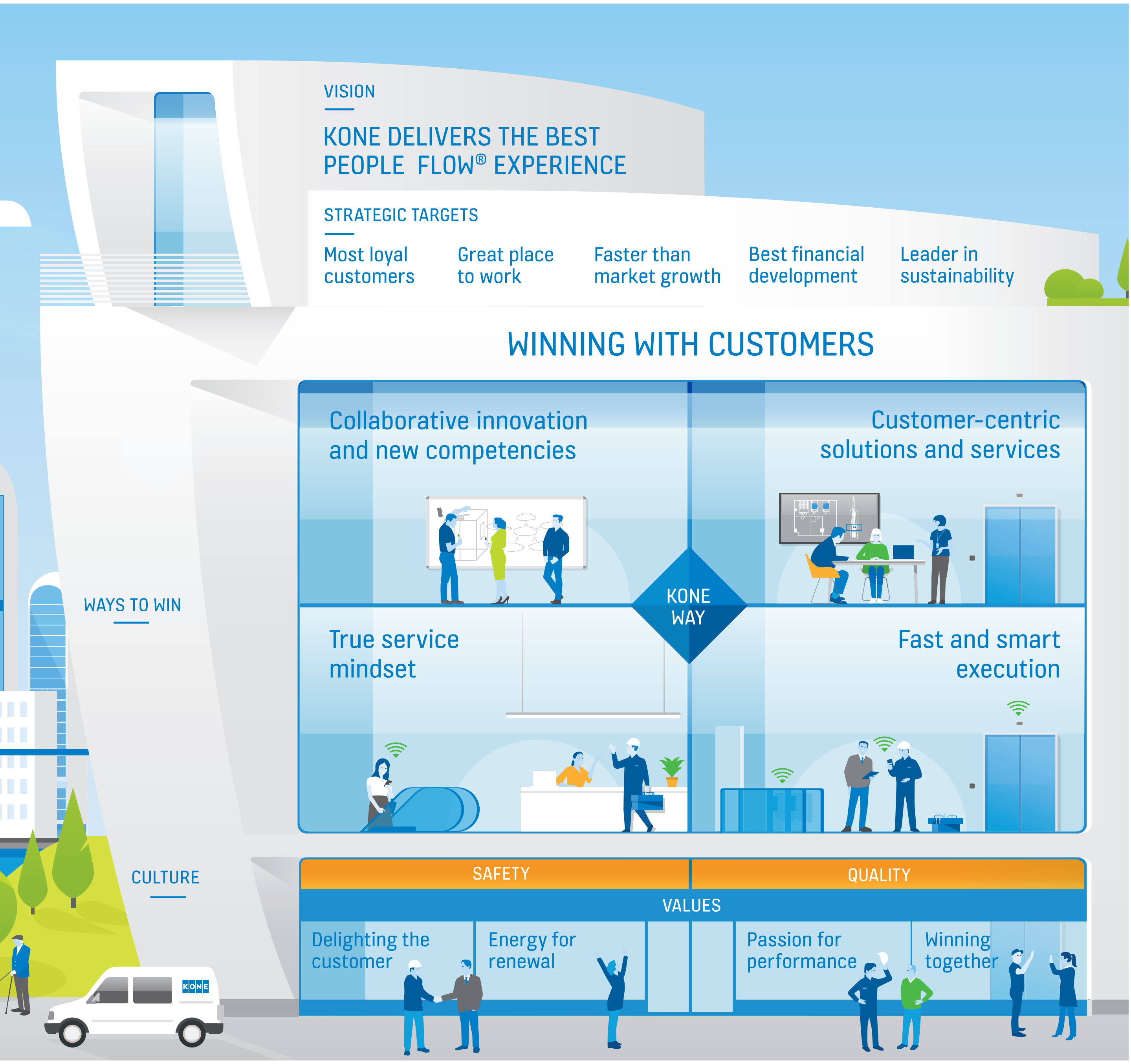
Customers value partners who strive to understand and take action to exceed expectations. We can make a difference by serving our customers better than anybody else.

Strategic targets

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

Our culture

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



Board of Directors' report

KONE's Business model

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

CREATING VALUE BY IMPROVING THE FLOW OF URBAN LIFE

INPUTS

PEOPLE AND LEADERSHIP

- >57,000 employees in >60 countries, ca. half of them in the field
- Personnel voluntary turnover rate 8.5%
- Wide training opportunities on all organizational levels around the world
  - 39 training centers
  - 4,700 courses in 30 different languages
- Management systems and certificates (e.g. ISO 14001, ISO 9001, OHSAS 18001)
- Governance structures and Code of Conduct

INNOVATIONS, PROCESSES AND SYSTEMS

- >3,000 patents
- R&D spend 1.8% of sales, 9 global R&D units
- >1,000 technology professionals in R&D
- Global KONE Way processes and systems
- Safe and efficient maintenance and installation methods

BRAND AND REPUTATION

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

PARTNERING

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

MANUFACTURING AND DELIVERY CHAIN

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

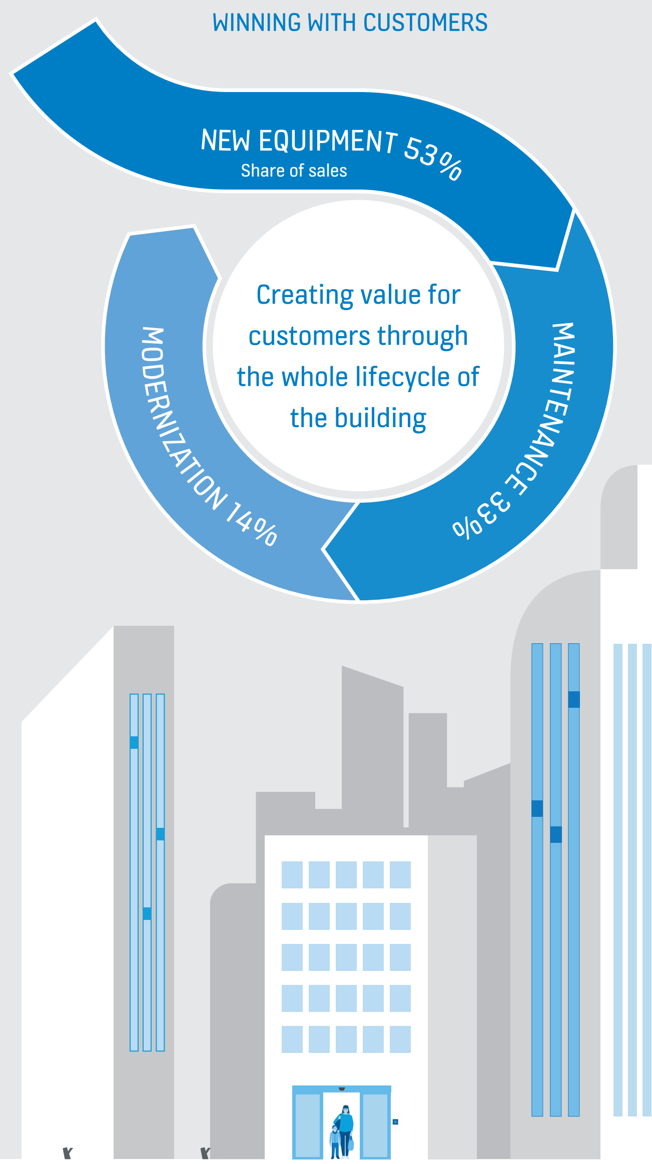
FINANCIAL

- Equity EUR 3.1 billion
- Interest-bearing net debt EUR -1.7 billion
- Net working capital EUR -0.8 billion
- Capital expenditure 1.2% of sales

NATURAL RESOURCES*

- Materials used 737,200 tonnes
- Heating and vehicle fleet fuels 424,600 MWh
- Electricity and district heat 82,000 MWh
- Water consumption 403,000 m^3

BUSINESS MODEL



*2017 figures. 2018 figures will be published in the 2018 Sustainability Report in Q2 2019.

Growth drivers

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

Business characteristics

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

Key value drivers

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

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

OUTPUTS

THE MOST SUSTAINABLE OFFERING

- 166,000 new elevators and escalators ordered in 2018
- Maintenance and modernization services, ~1.3 million units in maintenance base
- Best in class energy efficiency, ISO 25745 A-class energy rating as the first elevator company
- Up to 70% energy savings through modernization of elevators
- Focus on safety and accessibility

EMISSIONS AND WASTE*

- Carbon footprint from own operations 319,600 tCO_2e
- Waste 40,600 tonnes
- Waste water effluents 9 tonnes

MOVING OVER
1 BILLION PEOPLE
EVERY DAY

IMPACT

SHAREHOLDERS

- Dividend proposal 1.65 EUR per class B share
- Basic earnings per share 1.63 EUR
- Return on equity 27.7%

SOCIETY

- Contribution to sustainable urban environment
- Wages, salaries, other employment expenses and pensions EUR 2.8 billion
- Industrial Injury Frequency Rate (IIFR) 2.1
- Promoting diversity and non-discrimination
- Increased amount of skilled workforce
- Direct purchases EUR 3.6 billion
- Income taxes EUR 241.9 million with effective tax rate 22.3%

ENVIRONMENT*

- -0.2% y/y reduction in operational carbon footprint relative to sales
- -2.6% y/y reduction of Scope 1&2 carbon footprint relative to sales
- 30% of green electricity
- 93% of waste recycled or incinerated
- 100% corporate units, manufacturing units and R&D units are ISO 14001 and ISO 9001 certified
- 90% of strategic suppliers with ISO 14001 certification

KONE's operating environment in 2018

Operating environment by region

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

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

In 2018, The global new equipment market grew slightly in units compared to the previous year. **In Asia-Pacific**, the new equipment volumes grew slightly with slight growth in both **China and in the rest of Asia-Pacific** driven by the Indian market and South-East Asia. **In the EMEA region**, the new equipment market was rather stable. New equipment market in Central and North Europe was rather stable at a high level, while in South Europe, the market continued to see slight growth from a low level. In the Middle East, the market grew in the first half of the year, but declined in the second half due to increased uncertainty across the region. **In North America**, the new equipment market continued to grow slightly from a high level.

Global service markets continued to develop positively. Both the maintenance and the modernization markets continued to see growth across the regions, with the strongest rate of growth seen in Asia-Pacific and a more moderate development in Europe and North America.

Pricing trends remained varied during January–December. Across the regions, cost increases, both for material and labor drove a need to increase prices. In China, competition remained intense but pricing was rather stable in the new equipment market. In the EMEA region, the pricing environment continued to be characterized by strong competition, particularly in the South Europe and Middle East region. In North America, competition increased in some segments but the overall pricing environment was more favorable than in some other regions.

Orders received

Orders received and order book, MEUR

MEUR	2018	2017	Change	Change at comparable exchange rates
Orders received	7,797	7,554	3.2%	6.6%
Order book	7,951	7,358	8.1%	8.0%

Orders received development by region*

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

*) in monetary value at comparable exchange rates

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

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

Orders received grew by 3.2% as compared to January–December 2017 and totaled EUR 7,797 million. At comparable exchange rates, KONE's orders received grew by 6.6%.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 166,000 units (2017: 158,000 units).

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

The relative margin of orders received was stable compared to the comparison period. We have taken focused pricing actions and continued to make progress in improving productivity to compensate for the cost pressures.

Orders received in the EMEA region grew clearly at comparable exchange rates as compared to January–December 2017. The clear growth in new equipment orders was driven by significant growth in Europe. Modernization orders in the region grew clearly.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 166,000 units (2017: 158,000 units).

In the Americas region, orders received saw clear growth at comparable rates as compared to January–December 2017. Modernization orders grew significantly, and new equipment orders grew slightly in the region.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2017. In China, new equipment orders grew clearly in units and in monetary value. Like-for-like prices were slightly higher than in the comparison period while mix was slightly negative. In the rest of Asia-Pacific, new equipment orders received grew clearly. Modernization orders grew significantly in China and slightly in the rest of Asia-Pacific

The order book grew clearly compared to the end of December 2017 and stood at a strong level of EUR 7,951 million at the end of the reporting period.

The order book margin remained at a healthy level. Cancellations of orders remained at a very low level.

Sales

Sales by region, MEUR

	2018	2017	Change	Change at comparable exchange rates
EMEA	3,791	3,595	5.5%	7.6%
Americas	1,805	1,778	1.5%	6.1%
Asia-Pacific	3,475	3,424	1.5%	4.9%
Total sales	9,071	8,797	3.1%	6.3%

Sales by business, MEUR

	2018	2017	Change	Change at comparable exchange rates
New equipment sales	4,797	4,654	3.1%	6.6%
Service sales	4,274	4,143	3.2%	5.9%
Maintenance	2,969	2,887	2.8%	5.4%
Modernization	1,305	1,256	3.9%	7.1%
Total sales	9,071	8,797	3.1%	6.3%

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%)

KONE's sales grew 3.1% as compared to the prior year, and totaled EUR 9,071 million. At comparable exchange rates, KONE's sales grew by 6.3%. The sales consolidated from the companies acquired in 2018 did not have a material impact on KONE's sales for the financial period.

New equipment sales accounted for EUR 4,797 million and grew by 3.1% over the comparison period. At comparable exchange rates, new equipment sales grew by 6.6%

Service (maintenance and modernization) sales grew by 3.2%, and totaled EUR 4,274 million. At comparable exchange rates, service sales grew by 5.9%. Maintenance sales grew by 2.8% (5.4% at comparable exchange rates) and totaled EUR 2,969 million. Modernization sales increased by 3.9% (7.1% at comparable exchange rates) and totaled EUR 1,305 million.

KONE's elevator and escalator maintenance base continued to grow and was approximately 1.3 million units at the end of 2018 (over 1.2 million units at the end of 2017).

KONE's elevator and escalator maintenance base continued to grow and was approximately 1.3 million units at the end of 2018 (over 1.2 million units at the end of 2017).

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 2018, 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 (>25% of sales), the United States (>15%), Germany (~6%) and France (~5%).

Sales in the EMEA region grew by 5.5% and totaled EUR 3,791 million. At comparable exchange rates, the growth was 7.6%. New equipment sales grew significantly, and maintenance and modernization sales grew slightly in the region.

In the Americas, sales grew by 1.5% and totaled EUR 1,805 million. At comparable exchange rates, sales grew by 6.1%. Modernization sales grew significantly, new equipment sales grew clearly and maintenance sales grew slightly.

In Asia-Pacific, sales grew by 1.5% and totaled EUR 3,475 million. At comparable exchange rates, sales grew by 4.9%. New equipment sales grew slightly, while maintenance and modernization sales grew significantly.

Financial result

Financial result

	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Operating income, MEUR	1,042.4	1,192.3
Operating income margin, %	11.5	13.6
Adjusted EBIT, MEUR	1,112.1	1,205.5
Adjusted EBIT margin, %	12.3	13.7
Income before taxes, MEUR	1,087.2	1,250.4
Net income, MEUR	845.2	960.2
Basic earnings per share, EUR	1.63	1.86

KONE's operating income (EBIT) declined to EUR 1,042 million or 11.5% of sales. The adjusted EBIT, which excludes restructuring costs related to the Accelerate program, was EUR 1,112 million or 12.3% of sales.

Several headwinds burdened the profitability. Focused pricing actions and productivity actions were taken to compensate for these headwinds. Translation exchange rates had a negative impact of somewhat over EUR 40 million on the operating income, and the restructuring costs related to the Accelerate program were EUR 69.6 million.

Net financing items was EUR 47.2 (58.3) million and consisted mainly of interest income from investments.

KONE's income before taxes was EUR 1,087 million. Taxes totaled EUR 241.9 (290.2) million. This represents an effective tax rate of 22.3% (23.2%) for the financial year. The effective tax rate from operations for the financial year 2018 was 22.9%, excluding the tax impact of the US tax reform and deferred tax impact from corporate income tax rate changes. Net income for the period under review was EUR 845.2 (960.2) million.

Basic earnings per share was EUR 1.63.

Cash flow and financial position

Cash flow and financial position

	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Cash flow from operations (before financing items and taxes), MEUR	1,150.1	1,263.3
Net working capital (including financing items and taxes), MEUR	-757.8	-772.6
Interest-bearing net debt, MEUR	-1,704.0	-1,690.2
Gearing, %	-55.3	-55.8
Equity ratio, %	49.9	50.0
Equity per share, EUR	5.94	5.85

KONE's financial position was very strong at the end of December 2018.

Cash flow from operations (before financing items and taxes) during January–December 2018 declined to EUR 1,150 million driven mainly by the decline in operating income.

Net working capital including financing items and taxes was EUR -757.8 million at the end of December 2018 and was rather stable compared to the beginning of the year.

Interest-bearing net debt was EUR -1,704 million at the end of December 2018. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,043 (December 31, 2017: 2,065) million at the end of the reporting period. Interest-bearing liabilities were EUR 369.1 (387.4) million, including a net pension liability of EUR 147.0 (152.2) million and short-term loans of EUR 17.9 (30.1) million. In addition, the interest-bearing net debt includes EUR 10.4 (10.3) million of option liabilities from acquisitions. Gearing was -55.3% and equity ratio was 49.9% at the end of December 2018.

Equity per share was EUR 5.94.

Capital expenditure and acquisitions

Capital expenditure

MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
On fixed assets	92.7	94.6
On leasing agreements	19.3	21.7
On acquisitions	27.8	35.1
Total	139.8	151.3

KONE's capital expenditure and acquisitions totaled EUR 139.8 million in January–December 2018. Capital expenditure was mainly related to equipment and facilities in R&D, IT, operations and production.

Acquisitions totaled EUR 27.8 million in January–December 2018. KONE completed small acquisitions of maintenance businesses in Europe and in the United States and a small divestment in the United States. The acquisitions completed during the reporting period did not individually or as a whole have a material impact on the result or financial position of KONE.

Non-financial information

One of KONE's strategic targets is to be a leader in sustainability. KONE is proud to conduct its business in a responsible and sustainable way, and we expect the same commitment from all our partners. We are committed to the laws and regulations of the countries where we operate. KONE is a member of the UN Global Compact and we are dedicated to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment.

We have also received external recognition for our efforts to conduct business in a sustainable way. For example, in 2018, KONE was again included in the FTSE4Good index and listed among the top climate change performers by CDP, an international not-for-profit organization that drives engagement for climate action. This is the sixth consecutive year that we achieve a leadership score of A or A-, which describes our long-term commitment to environmental work and sustainability. KONE was also listed as one of the best employers and one of the most innovative companies in the world by Forbes. In addition, KONE has been awarded the Ecovadis gold medal for our sustainability performance.

KONE Sustainability Report 2018

- Will be published during Q2 2019
- In the report, you can find more detailed information about sustainability

KONE's business model is described on pages 6–7. Risks related to matters below and risk management are described on page 18–19.

More information on KONE's approach to sustainability can be found in the Sustainability Report. KONE published its Sustainability Report for 2017 in April 2018. KONE's Sustainability Report for 2018 will be published in April 2019 according to the renewed GRI Standards.

Non-financial key performance indicators

Environmental matters	Annual reduction of KONE's carbon footprint relative to sales, %
	Share of strategic suppliers ISO 14001 certified, %
	Share of green electricity used in our facilities, %
	Share of landfill waste at our manufacturing units, %
Personnel and social matters	Gender distribution, %
	Gender distribution in director level positions, %
	Personnel voluntary turnover rate, %
	Employee engagement
	Industrial Injury Frequency Rate (IIFR)
Human rights, anti-corruption & bribery	Share of employees with completed Code of Conduct training, %
	Share of key suppliers who have signed the Supplier Code of Conduct, %
	Share of distributors who have signed the Distributor Code of Conduct, %

ENVIRONMENTAL MATTERS

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

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

The most significant environmental impact of KONE's business relates to the amount of electricity used by KONE's solutions during their lifetime, underlining the importance of eco-efficient innovations. During the year, KONE extended the classification coverage of its product range according to the ISO 25745 energy efficiency standard with the best possible A ratings for the high rise KONE MiniSpace™ elevator and for the KONE 3000 TranSys™ elevator, in addition to 15 elevators or escalators classified earlier.

In 2018, four additional KONE solutions, the KONE TransitMaster™ 140 escalator, and the KONE S MonoSpace®, KONE S MiniSpace™ and KONE 3000 TranSys™ elevators received the Singapore Green Building Product (SGBP) certificates with top ratings. KONE is the first elevator and escalator company to achieve such top ratings in the vertical transportation category. Three other KONE solutions have previously been granted the SGBP certificates. Through the certification, these solutions are recommended for Green Mark certified green buildings.

KONE's target is to reduce the carbon footprint relative to sales by 3% annually. Our 2018 operational carbon footprint results will be published in the second quarter of 2019. In 2017, KONE's overall carbon footprint (scope 1, 2 and 3) relative to sales decreased by 0.2% (4.1%) compared to 2016 with sales growth calculated at comparable exchange rates. The carbon footprint of scope 1 and 2 greenhouse gas emissions relative to sales decreased by 2.6%. The most significant impact of KONE's operational carbon footprint relates to logistics, our vehicle fleet, and electricity/district heat consumption at KONE's facilities. The main reason for not meeting the 3% overall carbon footprint reduction target in 2017 is related to increased logistics emissions, for example resulting from longer transportation distances. KONE is committed to reducing electricity consumption in our operations and encourages the use of green electricity in our facilities. In 2017, 30% of all electricity in KONE facilities was produced from renewable sources, our target being more than 50% by 2021. In addition, we have set a long-term target of 0% landfill waste from our manufacturing units by 2030. In 2017, only 0.8% of the waste in our 13 manufacturing units was landfilled (2016: 9.7%). KONE's greenhouse gas reporting, including carbon footprint, energy and waste data, is assured externally.

In New Zealand, KONE's country organization maintained the carboNZero™ certification and was listed among the top 20 reducers by Enviro-Mark Solutions. The certification acknowledges companies for their greenhouse gas management, reduction and neutralization efforts. Also, KONE Austria is carbon neutral for 2018 after offsetting their emissions by supporting renewable energy production in Mali and in India.

KONE uses the ISO 14001 environmental management system to enhance its environmental performance. It covers our corporate units, including all R&D and manufacturing units, and 20 major subsidiaries. During 2018, KONE achieved the ISO 9001 & 14001 quality and environmental management system recertification to the 2015 version of the two standards. At the end of 2018, 90% (94%) of our strategic suppliers were ISO 14001 certified, our target being 100%.

PERSONNEL AND SOCIAL MATTERS

Number of employees

	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Average number of employees	56,119	53,417
Number of employees at the end of period	57,359	55,075

Geographical distribution of KONE employees

	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
EMEA	22,645	22,013
Americas	7,465	7,320
Asia-Pacific	27,249	25,742
Total	57,359	55,075

The main goals of KONE's personnel strategy are to secure the availability, engagement, motivation and continuous development of the company's personnel. All KONE's activities are guided by ethical principles. Employee rights and responsibilities include the right to a safe and healthy working environment, personal well-being, freedom of association, collective bargaining, non-discrimination and the right to a working environment in which harassment of any kind is not tolerated.

We actively encourage diversity at KONE, and our values guide us in upholding an inclusive culture. To strengthen our global approach and deepen our insights on customers and markets, we have set goals for diversity in our teams. During the reporting year, KONE's workforce included 139 (129) nationalities. The majority of our employees are male representing 88% (88%) of our people globally. Women accounted for 17% (17%) of director level positions in 2018. We continue our efforts towards having a more balanced gender split.

One of our strategic targets is to be a great place to work, which we measure by employee engagement. During the second quarter of 2018, we conducted our annual employee engagement survey covering all employees. The response rate was 91% and employee engagement remained on a high level. Results were shared and actions planned together with employees in all countries and units.

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

KONE's strategy, Winning with Customers, focuses on putting the needs of our customers and users at the center of all development at KONE. People are key to the strategy's success, which requires us to develop and obtain new competences in the fields of leadership, digitalization, partnering, understanding customers' businesses and project management. In 2018, we launched a Leadership Fundamentals program for all new people leaders at KONE and a senior leader program with IMD, an independent business school, focusing on customer centricity and agile leadership. We continued strengthening our training capability by opening new training centers in Malaysia, India, and in Vietnam, adding up to a total of 39 (35) KONE training centers globally.

To further support competence development, KONE offered more than 4,700 training programs and online modules, and several new training programs were launched during the reporting year. Over 14,500 employees had the chance to try out new learning methods such as virtual reality, gamification and mobile learning. In addition, employee development through internal job rotation opportunities remained a focus area at KONE.

In September 2017, we launched a program to accelerate the execution of the strategy and to support profitable growth. The program, called Accelerate Winning with Customers, aims at creating a more customer-focused way of working on a country, area and global level, across the entire KONE organization. In 2018, we undertook organizational changes in several functions, such as Finance, Customer Solutions Engineering and Sourcing, in order to create a faster-moving, customer-centric organization that leverages our scale more efficiently.

A key focus area within the KONE people strategy is attracting the best talent. In 2018, targeting new competencies and increasing diversity through recruitment was one of the key focus areas of KONE's talent acquisition teams. Efforts to increase diversity through recruitment realized during the year with a large number of applicants outside of elevator and escalator industry. During the year 79% of all applicants for KONE positions are attracted from other industries. Furthermore, we received more than 2,400 applications to the annual KONE International Trainee Program (ITP), which offers several trainee positions across the KONE countries and is meant for university students who are at least halfway through their studies. KONE also continued to further strengthen its employer brand through active school collaboration.

KONE organizes the European Employee Forum every year to bring together employee representatives and top management to discuss issues ranging from safety to business development. A smaller working group meets two to four times a year to ensure continuous consultation and communication on important developments affecting KONE employees. In 2018, the newly elected participants enjoyed the sustainability theme in the Forum.

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

Over the year, improving safety at work remained a top priority. KONE introduced a companywide safety management system to guide us in achieving continual improvement. KONE employees receive health and safety training relevant to one's work enabling it to be performed in a professional and safe manner. Interactive learning application was developed to refresh and remind employees of existing knowledge and to raise safety awareness in day to day activities. Managers perform regular audits to measure compliance with KONE's policies, rules and defined working methods. Corrective actions are taken if deviations are identified. KONE also conducts process audits to identify possible obstacles to work safety. If any are found, the work in question is stopped until a safe method is approved.

In 2018, the IIFR (Industrial Injury Frequency Rate) remained at low level and was 2.1 (1.9). We continue to target zero incidents. The average lost days per incident improved to 27.4 days (28.9). Furthermore, the number of safety observations, which help KONE take actions proactively to improve safety, increased by 4%. Focus during the year was on improving the quality, analysis and investigation of these observations.

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

KONE had 57,359 (December 31, 2017: 55,075) employees at the end of December 2018. The average number of employees was 56,119 (1–12/2017: 53,417). Personnel voluntary turnover rate was 8.5% (7.6%). Employee costs for the reporting period totaled EUR 2,818 (2,725) million. The geographical distribution of KONE employees was 39% (December 31, 2017: 40%) in EMEA, 13% (13%) in the Americas and 48% (47%) in Asia-Pacific.

HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY

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

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

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

In 2018, we designed and launched a new Code of Conduct E-learning course for all KONE employees. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy, work safety and gifts & hospitality, and has a strong focus on scenarios that reflect day to day situations employees might face. Once globally rolled-out, the course will be available in over 30 languages. More than 25,000 employees in 16 countries were assigned the training in 2018 with a completion rate of 94%. Roll-out of the new training will be completed in 2019. Regular face-to-face compliance training is also provided to managers and other target groups. In 2018, nearly 4,000 employees received face-to-face compliance training.

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

KONE expects its suppliers to comply with the requirements of the Supplier Code of Conduct in all their dealings with KONE, as well as with their own employees and suppliers, and third parties including government officials. All our new suppliers must sign KONE's Supplier Code of Conduct. At the end of 2018, 89% (98%) of current key suppliers of components for KONE's products have signed the Code. The scope of this group has been expanded since 2017. We carry out periodic checks on suppliers' compliance with the Supplier Code of Conduct.

KONE's Distributor Code of Conduct covers the same topics as the Supplier Code of Conduct. As business partners, our distributors are likewise expected to comply with the requirements of the Code in all their dealings with KONE, as well as in respect of their own employees, customers and suppliers, and third parties including government officials. Our target is to have the Code signed by all our distributors. By the end of 2018, 100% (100%) of our distributors in China, and 75% (60%) of our distributors in the rest of the world, have signed the Code.

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

Research and development

R&D expenditure

MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
R&D expenditure	164.0	158.4
As percentage of sales, %	1.8	1.8

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

Research and development expenditures totaled EUR 164.0 million, representing 1.8% of sales in January–December 2018. R&D expenditures include the development of new product and service concepts as well as further development of existing solutions and services.

During the first quarter of 2018, KONE introduced a new digital platform, which uses state-of-the-art technologies and is open to third-party solutions. KONE's digital platform connects customers, users and employees to equipment and data transforming the people flow experience in buildings and cities. In connection with the launch of the platform, KONE introduced a renewed products and services portfolio utilizing the platform and consisting of three layers: 1) KONE's core solutions 2) Advanced People Flow Solutions 3) People Flow Planning and Consulting Services. In addition, KONE 24/7 Connected Services, a KONE core solution using advanced IoT technologies, was extended to escalators in the first quarter of 2018. During the second quarter, KONE was ranked as one of the world's most innovative companies in 2018 by the business magazine Forbes. KONE ranked 59th and was the only elevator and escalator company on the list.

HIGHLIGHTS 2018

- KONE introduced a new digital platform and a renewed products and services portfolio
- KONE was ranked 59th on Forbes' list of the world's most innovative companies

KONE also launched new elevator models and made several updates and enhancements to its existing product offering during the reporting period. In January–March, KONE launched new elevator models, U MonoSpace®, a machine-roomless elevator, and U MiniSpace™, a small-machine room elevator in India. During the second quarter of 2018, KONE extended its offering in the residential and commercial segments and launched a renewed version of the JumpLift in China. During the third quarter, KONE made several enhancements to the MonoSpace®, EcoSpace™ and TranSys™ elevator models in the EMEA region. In China, KONE 24/7 Connected Services was made available for new escalator and autowalk deliveries. During the fourth quarter, KONE launched a new escalator product KONE TransitMaster 210 and 220 in the Americas. KONE Residential Flow was made available for most of the modernization offering in the residential segment In Europe.

Changes in the Executive Board

In 2018, there were no changes in the Executive Board.

Other events

In 2007, a decision was issued by the European Commission concerning alleged local anticompetitive practices before early 2004 in Germany, Luxembourg, Belgium and the Netherlands by leading elevator and escalator companies, including KONE's local subsidiaries. Also, the Austrian Cartel Court issued in 2007 a decision concerning anticompetitive practices that had taken place before mid-2004 in local Austrian markets by leading elevator and escalator companies, including KONE's local subsidiary. As announced by KONE earlier, a number of civil damage claims by certain companies and public entities, relating to the two 2007 decisions, are pending in related countries. The claims have been made against various companies concerned by the decisions, including certain KONE companies. All claims are independent and are progressing procedurally at different stages. The total capital amount claimed jointly and severally from all of the defendants together was EUR 198 million at the end of December 2018 (December 31, 2017: EUR 219 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 over 25% 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.

The risks related to geopolitical tensions and protectionism have increased during the past year. In addition to the potential adverse impacts on the general economic activity, geopolitical tensions and protectionism could impact the competitiveness of KONE's supply chain, and lead to increased costs from trade and customs tariffs. A significant portion of KONE's component suppliers and global supply capacity is located in China. A no-deal Brexit could also increase costs, create disruptions to KONE's operations in UK and affect KONE's UK based suppliers operations.

In addition to the level of market demand, competitiveness of KONE's offering is a key driver of the company's growth and profitability. A failure to anticipate or address changes in customer requirements and in competitors' offerings, ecosystems and business models could result in a deterioration of the competitiveness of KONE's offering.

OPERATIONAL RISKS

Digitalization is shaping the ways of working and business models also in the elevator and escalator industry. In order to be successful in this transformation, KONE needs new organizational capabilities and new competences on the individual employee level. The ability for fast roll out of new services and solutions and new sales capabilities are among other things considered to be critical for success. A failure to develop these capabilities could have an adverse impact on KONE's growth and profitability.

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

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

HAZARD, SECURITY AND INCIDENTAL RISKS

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

FINANCIAL RISKS

The majority of KONE's sales and result are denominated in currencies other than the Euro, which exposes KONE to risks arising from foreign exchange-rate fluctuations. KONE is also exposed to counterparty risks related to financial institutions, through the significant amounts of liquid funds deposited with financial institutions, in the form of financial investments and in derivatives. Additionally, KONE is exposed to risks related to the liquidity and payment schedules of its customers, which may impact cash flow or lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance and cash flow. For further information on financial risks, please refer to notes 2.4 and 5.3 in the Financial Statements for 2018.

Risk management

Risk	Mitigation actions
Weakening of the economic environment, particularly in China	KONE strives to continuously develop its competitiveness in all regions and businesses. KONE has a wide geographic presence and a balanced business portfolio with a high share of maintenance business.
Geopolitical tensions impacting the competitiveness of KONE's supply chain, leading to increased costs or causing potential disruptions	KONE actively monitors the development of the applicable and relevant regulations, policies and trade rules, and evaluates the competitiveness and viability of KONE's Supply Chain and sourcing channels.
Changes in customer requirements or competitors' offerings impacting the competitiveness of KONE's offering	KONE aims to be the industry leader by investing in research and development and by taking an open innovation approach. KONE also closely follows emerging industry and market trends.
A failure to develop the capabilities needed for the digital transformation	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 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 sub-contractor pools to ensure subcontractor capacity on a regional level. Subcontractors competences and capabilities are monitored and developed continuously, similarly as with own employees.
Product integrity, safety or quality issues as well as issues with reputation	To mitigate product risks, KONE has processes in place for product design, supply, manufacturing, installation and maintenance, involving strict quality control. In addition, KONE aims for transparent and reliable communication, to prevent reputational risks and to manage potential incidents. KONE also has stringent corporate governance principles in place.
Interruptions to KONE's or its suppliers' operations	KONE actively develops business continuity management capabilities to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations, business continuity management capabilities, financial strength and cybersecurity of its key suppliers. In addition, KONE aims to secure the availability of alternative sourcing channels for critical components and services. KONE also has a global property damage and business interruption insurance program in place.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems which are both in development and in operation, in order to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers and trusted, well-known technology partners to manage the risks through the control framework. KONE conducts tests, reviews and exercises to identify areas of risk and to ensure the appropriate preparedness. The company continues to invest in its cybersecurity capabilities based on these findings.
Financial risks	Centralized risk management in accordance with the KONE Treasury Policy. More information in notes 2.4 and 5.3 of KONE's Financial Statements 2018.

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

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

Environmental risks

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

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

Social and employee related risks

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

Human rights related risks

The most significant human rights related risks are in the supply and delivery chain and are related to terms and conditions of work . All new suppliers must sign KONE's Supplier Code of Conduct which sets out our ethical business practice requirements, including the standards we require in terms of labor and human rights. We have engaged a third party to conduct a human rights risk assessment in order to further prioritize our work in this area.

Anti-corruption and bribery related risks

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

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on February 26, 2018. The meeting approved the financial statements and discharged the responsible parties from liability for the financial period January 1-December 31, 2017.

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

At its meeting held after the General Meeting, the Board of Directors elected from among its members Antti Herlin as its Chairman and Jussi Herlin as Vice Chairman.

Jussi Herlin was elected as Chairman and Anne Brunila, Antti Herlin and Ravi Kant as members of the Audit Committee. Anne Brunila and Ravi Kant are independent of both the company and of significant shareholders.

Antti Herlin was elected as Chairman and Matti Alahuhta, Jussi Herlin and Juhani Kaskeala as members of the Nomination and Compensation Committee. Matti Alahuhta and Juhani Kaskeala are independent of both the company and of significant shareholders.

The General Meeting confirmed an annual compensation of EUR 55,000 (previously 54,000) for the Chairman of the Board, EUR 45,000 (44,000) for the Vice Chairman and EUR 40,000 (37,000) for Board Members. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings. For Committee members residing outside of Finland, a compensation of EUR 2,000 for attendance at Committee meetings was approved. Of the annual remuneration, 40 percent will be paid in class B shares of KONE Corporation and the rest in cash.

The General Meeting approved the authorization for the Board of Directors to repurchase KONE's own shares. Altogether no more than 52,440,000 shares may be repurchased, of which no more than 7,620,000 may be class A shares and 44,820,000 class B shares. The authorization shall remain in effect for a period of one year from the date of decision of the General Meeting.

Authorized public accountants PricewaterhouseCoopers Oy and Heikki Lassila were nominated as auditors.

Share capital and market capitalization

KONE has two separate share-based incentive plans. One plan is targeted for the senior management of KONE including the President & CEO, members of the Executive Board and other top management, consisting of approximately 60 individuals. A second plan is targeted for other key personnel of KONE, totaling approximately 450 individuals. The potential reward is based on KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2018, the reward was based on the development of orders received, the growth in maintenance business and operating income (EBIT) in both plans. The potential reward is to be paid as a combination of KONE class B shares and a cash payment equivalent to the taxes and similar charges that are incurred from the receipt of shares. The share-based incentive plans have a vesting period of two years. If the participant's employment or service contract is terminated during the vesting period, they are either obliged to return the shares already received or lose the entitlement to the shares they have not yet received. As part of the plan for the senior management, a long-term target for their ownership has been set. For the Executive Board members, the long-term ownership target is that the members have an ownership of KONE shares corresponding to at least five years' annual base salary. For other selected top management positions the ownership target is at least two years' base salary.

In December 2013, KONE granted a conditional 2014 option program. The stock options 2014 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2016. The total number of stock options was 1,500,000 and 133,000 of them were held by KONE Corporation's subsidiary. Each option entitled its holder to subscribe for one (1) new class B shares at the price of, from February 27, 2018, EUR 25.00 per share. During the reporting period, 865,638 class B shares were subscribed for with 2014 option rights. The subscription period for the KONE 2014 option ended on April 30, 2018. The 133,000 KONE 2014 option rights in possession of KONE Corporation's subsidiary, and the 4,060 KONE 2014 option rights not exercised during the subscription period expired upon the expiry of the subscription period.

In December 2014, KONE granted a conditional 2015 option program. The stock options 2015 were listed on the Nasdaq Helsinki Ltd. as of April 1, 2017. The total number of stock options was 1,500,000 and 131,000 of them are held by KONE Corporation's subsidiary. During the reporting period, 46,622 class B shares were subscribed for with 2015 option rights. On December 31, 2018, a maximum of 1,309,303 shares could be subscribed for with the remaining outstanding option rights. Each stock option entitles its holder to subscribe for one (1) new class B KONE share at the price of, from February 27, 2018, EUR 30.40 per share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019.

On December 31, 2018, KONE's share capital was EUR 66,011,583 comprising 451,883,955 listed class B shares and 76,208,712 unlisted class A shares. KONE's market capitalization was EUR 21,489 million on December 31, 2018, disregarding own shares in the Group's possession. Market capitalization is calculated on the basis of both the listed B shares and the unlisted A shares excluding treasury shares. Class A shares are valued at the closing price of the class B shares at the end of the reporting period.

Shares in KONE's possession

At the end of December 2018, the Group had 12,031,814 class B shares in its possession. The shares in the Group's possession represent 2.7% of the total number of class B shares. This corresponds to 1.0% of the total voting rights.

Shares traded on the Nasdaq Helsinki Ltd.

In addition to the Nasdaq Helsinki Ltd., KONE's class B share is traded also on various alternative trading platforms. The volume of KONE's B shares traded on the Nasdaq Helsinki Stock Exchange represented approximately 30.0% of the total volume of KONE's class B shares traded in January–December 2018 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 61,139 at the beginning of the review period and 62,491 at its end. The number of private households holding shares totaled 58,738 at the end of the period, which corresponds to approximately 12.8% of the listed B shares. At the end of December 2018, a total of 52.7% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–December 2018, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on March 29, June 13, June 26 and October 19. The notices have been released as stock exchange releases and are available on KONE Corporation's internet pages at www.kone.com. According to the latest notification, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds excluding financial instruments decreased below five (5) per cent of the total number of shares of KONE Corporation on October 18, 2018. The total number of shares including financial instruments owned by BlackRock, Inc. and its funds remained above five (5) per cent of the total number of shares of KONE Corporation on October 18, 2018.

Market outlook 2019

The increased uncertainty in many major markets impacts the visibility of the overall market development for 2019. The new equipment market is expected to be stable or to decline slightly. In China the market is expected to decline slightly or to be stable in units ordered, while in the rest of the Asia-Pacific, the market is expected to grow slightly. A more stable development is expected in North America and the Europe, Middle East and Africa region.

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

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

Market outlook 2019

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

Business outlook 2019

In 2019, KONE's sales is estimated to grow by 2–7% at comparable exchange rates as compared to 2018. The adjusted EBIT is expected to be in the range of EUR 1,120–1,240 million, assuming that foreign exchange rates would remain at the January 2019 level. Foreign exchange rates are estimated to impact EBIT positively by less than EUR 10 million.

The outlook is based on KONE's maintenance base and order book as well as the market outlook. KONE has a solid order book for 2019 in the new equipment business and the service business is expected to continue to grow. Targeted pricing and productivity improvement actions are expected to support profitability together with the savings from the Accelerate program. High component and labor costs together with trade tariffs are the main headwinds for the adjusted EBIT in 2019. The impact of high raw material prices and trade tariffs is estimated to be approximately EUR 50 million.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2018 was EUR 2,453,122,735.36 of which the net profit for the financial year is EUR 1,067,984,631.14.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6475 be paid on the outstanding 76,208,712 class A shares and EUR 1.65 on the outstanding 439,852,141 class B shares, resulting in a total amount of proposed dividends of EUR 851,309,885.67.

The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,601,812,849.69 be retained and carried forward.

The Board proposes that the dividends be payable on March 7, 2019. All the shares existing on the dividend record date are entitled to dividend for the year 2018 except for the own shares held by the parent company.

Annual General Meeting 2019

KONE Corporation's Annual General Meeting will be held at 11.00 a.m. on Tuesday, February 26, 2019 at the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 24, 2019
KONE Corporation's Board of Directors.

Information required by the Companies' Act and the Decree of the Ministry of Finance on the Regular Duty Disclosure of an Issuer of a Security, such as classes of shares, shareholders, related parties, share-based remuneration and terms of stock options and financial key figures are presented on pages 22–26, which are part of the official Board of Directors' Report, as well as in the notes to the Financial Statements.

Shares and shareholders

KONE SHARE

KONE has two classes of shares: A and B. Only B-class shares are listed on the Nasdaq Helsinki Ltd. Trading of the KONE class B shares started on January 2, 1967.

Voting rights

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

Dividend policy

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

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

Closing price (EUR)

December 31, 2018	41.64
December 31, 2017	44.78
Change	-7.0%

Share notations (EUR)

High	49.13
Low	38.05
Volume-weighted average price	43.68

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	451,883,955	56,485,494
Total	528,092,667	66,011,583

	KONE class B share	KONE 2014 option rights	KONE 2015 option rights
Trading code, Nasdaq Helsinki Ltd. in Finland	KNEBV	KNEBVEW114	KNEBVEW115
ISIN code	FI0009013403	FI4000197918	FI4000243605
Accounting par value	EUR 0.125		
Conversion rate		1:1	1:1

Market capitalization

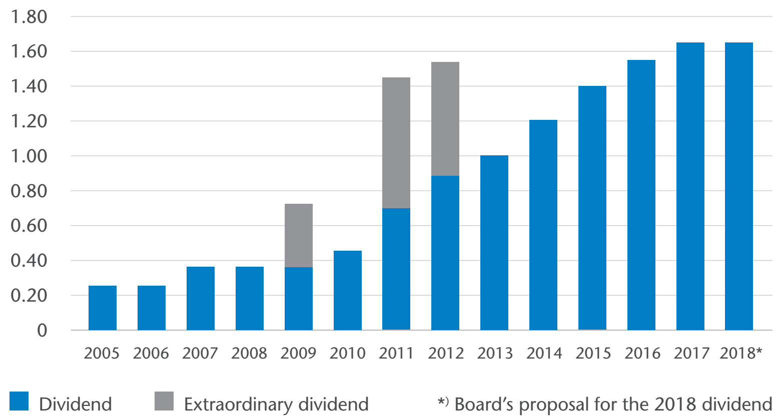
on December 31, 2018

EUR 21,489 million

Dividend proposal

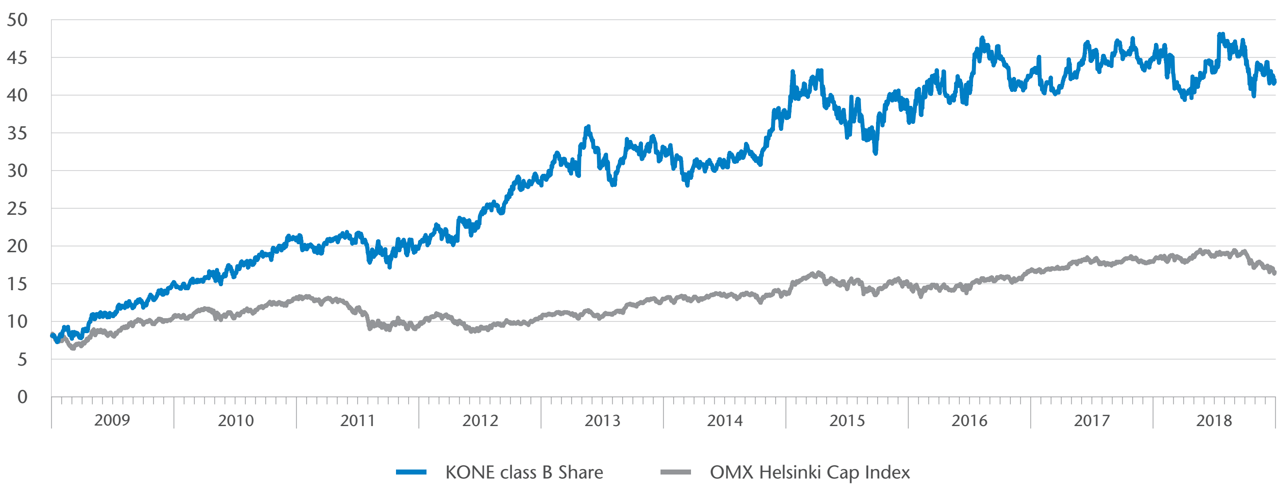
EUR 1.65 per class B share

KONE class B dividend per share, 2005–2018, EUR



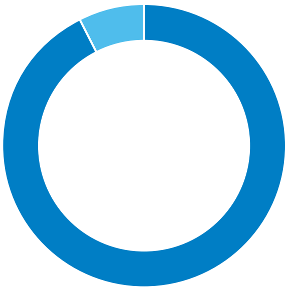
*) Board's proposal for the 2018 dividend

KONE class B share price development Jan 1, 2009–Dec 31, 2018, EUR



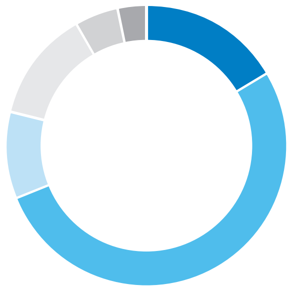
SHAREHOLDERS

Class A shares, %



- 92.6% Companies
- 7.4% Non-profit organizations

Class B shares, %



- 16.5% Companies
- 52.7% Foreign shareholders *)
- 10.0% Financial institutions and insurance companies
- 12.8% Individuals
- 4.8% Non-profit organizations
- 3.3% Public institutions

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

SHAREHOLDINGS ON DEC 31, 2018 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	6,419	10.3	37,197	0.0
11 – 100	24,553	39.3	1,248,815	0.2
101 – 1,000	23,999	38.4	8,759,999	1.7
1,001 – 10,000	6,620	10.6	18,658,564	3.5
10,001 – 100,000	789	1.3	20,483,173	3.9
100,001 –	113	0.2	478,850,900	90.7
Total	**62,493**	**100.0**	**528,038,648**	**100.0**
Shares which have not been transferred to the paperless book entry system			42,336	0.0
Shares from stock option subscriptions registered to the Trade Register on Dec 31, 2018			11,683	
Total		**100.00**	**528,092,667**	**100.0**

MAJOR SHAREHOLDERS ON DEC 31, 2018

		A-series	B-series	Total	% of shares	% of votes
1	**Herlin Antti**	70,561,608	46,836,014	117,397,622	22.23	61.99
	Holding Manutas Oy [1)]	54,284,592	37,264,254	91,548,846	17.34	47.79
	Security Trading Oy [2)]	16,277,016	7,883,016	24,160,032	4.58	14.06
	Herlin Antti	0	1,688,744	1,688,744	0.32	0.14
2	**Polttina Oy**	0	17,271,928	17,271,928	3.27	1.42
3	**Wipunen varainhallinta Oy**	0	16,350,000	16,350,000	3.10	1.35
4	**Riikantorppa Oy**	0	16,000,000	16,000,000	3.03	1.32
5	**KONE Foundation**	5,647,104	9,859,632	15,506,736	2.94	5.46
6	**KONE Oyj**	0	12,031,814	12,031,814	2.28	0.99
7	**Blåberg Olli Edvard**	0	4,540,000	4,540,000	0.86	0.37
8	**Ilmarinen Mutual Pension Insurance Company**	0	4,535,677	4,535,677	0.86	0.37
9	**The State Pension Fund**	0	3,100,000	3,100,000	0.59	0.26
10	**Varma Mutual Pension Insurance Company**	0	3,000,076	3,000,076	0.57	0.25
	10 largest shareholders total	76,208,712	133,525,141	209,733,853	39.72	73.78
	Foreign shareholders [3)]	0	238,244,638	238,244,638	52.73	19.63
	Repurchased own shares	0	12,031,814	12,031,814	2.66	0.99
	Others	0	68,082,362	68,082,362	4.89	5.60
Total		**76,208,712**	**451,883,955**	**528,092,667**	**100.00**	**100.00**

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

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

2) Antti Herlin's ownership of Security Trading Oy represents 56.4% of the shares and 57.5% of the voting rights. Together with the ownership of his children Antti Herlin's ownership in Security Trading Oy represents 99.9% of the shares and 99.8% of the voting rights. The shareholding of Security Trading Oy amounts to 8,083,016 KONE Corporation's class B shares, when taking into account 200,000 shares that have been stock loaned.

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

Shareholdings of the Chairman and Members of the Board of Directors

On December 31, 2018, KONE Corporation's Chairman and Members of the Board of Directors owned 70,561,608 class A and 47,848,058 class B shares, representing approximately 22.4% of the total number of shares and 62.1% of the total votes.

Shareholdings of the Chairman and Members of the Board of Directors is available on page 93.

KEY FIGURES PER SHARE, JAN 1–DEC 31

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2014–2016 are not restated and thus not fully comparable.

	2018		2017	2016	2015	2014
Basic earnings per share, EUR	1.63		1.86	2.00	2.01	1.47
Diluted earnings per share, EUR	1.63		1.86	1.99	2.00	1.47
Basic earnings per share, EUR, adjusted [1]	-		-	-	1.79	-
Equity per share, EUR	5.94		5.85	5.42	4.94	3.93
Dividend per class B share, EUR [3]	1.65	[2]	1.65	1.55	1.40	1.20
Dividend per class A share, EUR [3]	1.6475	[2]	1.6475	1.5475	1.3975	1.1975
Dividend per earnings, class B share, %	101.0	[2]	88.6	77.5	69.7	81.5
Dividend per earnings, class A share, %	100.9	[2]	88.5	77.4	69.6	81.3
Effective dividend yield, class B share, %	4.0	[2]	3.7	3.6	3.6	3.2
Price per earnings, class B share	25.49		24.05	21.29	19.49	25.68
Market value of class B share, average, EUR	43.68		43.73	41.47	38.29	31.83
- at end of period, EUR	41.64		44.78	42.57	39.17	37.82
Market capitalization at end of period, MEUR [3]	21,489		23,052	21,851	20,101	19,429
Number of class A shares at end of period, (1,000s)	76,209		76,209	76,209	76,209	76,209
Weighted average number of class A shares, (1,000s)	76,209		76,209	76,209	76,209	76,209
Number of class B shares at end of period, (1,000s) [3]	439,852		438,569	437,076	436,957	437,518
Weighted average number of class B shares, (1,000s) [4]	439,875		438,628	437,928	438,958	438,794
Weighted average number of shares, (1,000s) [4]	516,084		514,837	514,137	515,167	515,002

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

Key figures and financial development

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2014–2016 are not restated and thus not fully comparable.

Consolidated statement of income, Jan 1–Dec 31	2018	2017	2016	2015	2014
Sales, MEUR	9,071	8,797	8,784	8,647	7,334
- sales outside Finland, MEUR	8,879	8,620	8,594	8,486	7,183
Operating income, MEUR	1,042	1,192	1,293	1,241	1,036
- as percentage of sales, %	11.5	13.6	14.7	14.4	14.1
Operating income excl. one-time items, MEUR [1]	1,112	1,206	1,293	1,241	1,036
- as percentage of sales, % [1]	12.3	13.7	14.7	14.4	14.1
Income before taxes, MEUR	1,087	1,250	1,330	1,364	1,016
- as percentage of sales, %	12.0	14.2	15.1	15.8	13.9
Net income, MEUR	845	960	1,023	1,053	774

Consolidated statement of financial position, MEUR	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Non-current assets	2,418	2,387	2,489	2,361	2,169
Current assets	5,316	5,075	5,463	5,144	4,191
Total equity	3,081	3,029	2,796	2,575	2,062
Non-current liabilities	489	491	534	343	321
Provisions	139	138	183	174	137
Current liabilities	4,025	3,804	4,438	4,414	3,839
Total assets	7,734	7,462	7,951	7,506	6,360
Interest-bearing net debt	-1,704	-1,690	-1,688	-1,513	-912
Assets employed [2]	1,377	1,339	1,108	1,063	1,151
Net working capital [2]	-758	-773	-1,055	-983	-750

Other data, Jan 1–Dec 31	2018	2017	2016	2015	2014
Orders received, MEUR	7,797	7,554	7,621	7,959	6,813
Order book, MEUR	7,951	7,358	8,592	8,210	6,952
Cash flow from operations before financing items and taxes, MEUR	1,150	1,263	1,509	1,474	1,345
Capital expenditure excluding acquisitions, MEUR	112	116	127	93	88
- as percentage of sales, %	1,2	1,3	1,5	1,1	1,2
Expenditure for research and development, MEUR	164	158	141	122	103
- as percentage of sales, %	1,8	1,8	1,6	1,4	1,4
Average number of employees	56,119	53,417	50,905	48,469	45,161
Number of employees at end of period	57,359	55,075	52,104	49,734	47,064
Employee costs	2,818	2,725	2,634	2,446	2,100

Key ratios, %, Jan 1–Dec 31	2018	2017	2016	2015	2014
Return on equity	27.7	32.1	38.1	45.4	40.9
Return on capital employed	25.0	28.8	34.1	41.7	37.7
Equity ratio	49.9	50.0	46.8	45.4	43.6
Gearing	-55.3	-55.8	-60.4	-58.7	-44.2

[1] 2017 & 2018: Excluding significant restructuring costs arising from redundancy and other costs directly associated to the Accelerate program.
[2] Items included are presented on page 28.

ALTERNATIVE PERFORMANCE MEASURE

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

	2018	2017	2016	2015	2014
Operating income (EBIT), MEUR	1,042.4	1,192.3	1,293.3	1,241.5	1,035.7
Operating income margin (EBIT margin), %	11.5	13.6	14.7	14.4	14.1
Items impacting comparability, MEUR	69.6	13.2	-	-	-
Adjusted EBIT, MEUR	1,112.1	1,205.5	1,293.3	1,241.5	1,035.7
Adjusted EBIT margin, %	12.3	13.7	14.7	14.4	14.1

Calculation of key figures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated Financial Statements

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively.

Consolidated statement of income

MEUR	Note	Jan 1–Dec 31, 2018	%	Jan 1–Dec 31, 2017	%
Sales	2.1	9,070.7		8,796.7	
Costs, expenses and depreciation	2.2, 2.3	-8,028.3		-7,604.4	
Operating income		1,042.4	11.5	1,192.3	13.6
Share of associated companies' net income	5.6	-2.5		-0.2	
Financing income	2.5	61.4		72.2	
Financing expenses	2.5	-14.2		-13.9	
Income before taxes		1,087.2	12.0	1,250.4	14.2
Taxes	2.6	-241.9		-290.2	
Net income		845.2	9.3	960.2	10.9
Net income attributable to:					
Shareholders of the parent company		840.8		955.8	
Non-controlling interests		4.4		4.4	
Total		845.2		960.2	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	2.7				
Basic earnings per share, EUR		1.63		1.86	
Diluted earnings per share, EUR		1.63		1.86	

Consolidated statement of comprehensive income

MEUR	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Net income		845.2	960.2
Other comprehensive income, net of tax:	2.8		
Translation differences		13.8	-204.9
Hedging of foreign subsidiaries		-14.9	52.8
Cash flow hedges		-16.3	39.6
Items that may be subsequently reclassified to statement of income		-17.4	-112.5
Changes in fair value		7.1	-12.2
Remeasurements of employee benefits		15.7	8.3
Items that will not be reclassified to statement of income		22.8	-3.9
Total other comprehensive income, net of tax		5.4	-116.4
Total comprehensive income		850.6	843.8
Total comprehensive income attributable to:			
Shareholders of the parent company		846.2	839.4
Non-controlling interests		4.4	4.4
Total		850.6	843.8

Consolidated statement of financial position

Assets MEUR		Note	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Non-current assets					
Goodwill		4.2	1,333.4	1,325.5	1,371.8
Other intangible assets		4.3	260.2	274.5	292.9
Property, plant and equipment		4.4	397.4	377.0	368.3
Investments in associated companies		5.6	-	1.4	5.0
Shares and other non-current financial assets		5.3, 5.4	143.3	133.0	145.1
Non-current loans receivable	I	5.3, 5.5	1.0	0.7	7.4
Employee benefits	I	5.3, 5.7	29.0	11.5	-
Deferred tax assets	II	3.6	253.7	263.3	302.7
Total non-current assets			2,418.2	2,386.9	2,493.1
Current assets					
Inventories	II	3.1	624.1	626.8	558.0
Accounts receivable	II	3.2, 5.3	1,988.3	1,910.8	1,901.9
Deferred assets	II	3.3, 5.3	601.5	404.5	454.7
Income tax receivables	II		59.0	67.5	61.4
Current deposits and loan receivables	I	5.3, 5.5	1,407.0	1,568.8	1,496.6
Cash and cash equivalents	I	5.3	636.0	496.5	589.2
Total current assets			5,315.9	5,075.0	5,061.7
Total assets			7,734.0	7,461.9	7,554.8

Equity and liabilities MEUR		Note	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Capital and reserves attributable to the shareholders of the parent company					
Share capital		5.2	66.0	65.9	65.8
Share premium account			100.3	100.3	100.3
Paid-up unrestricted equity reserve			259.1	205.8	166.1
Fair value and other reserves			27.0	36.2	8.9
Translation differences			64.8	65.9	218.0
Remeasurements of employee benefits			-89.5	-105.2	-113.5
Retained earnings			2,636.7	2,644.9	2,482.3
Total Shareholders' Equity			3,064.6	3,013.9	2,927.8
Non-controlling interests			16.0	15.0	17.6
Total Equity			3,080.6	3,028.9	2,945.4
Non-current liabilities					
Loans	I	5.3	193.8	194.7	203.1
Employee benefits	I	5.3, 5.7	147.0	152.2	176.7
Deferred tax liabilities	II	3.6	148.7	143.8	160.1
Total non-current liabilities			489.5	490.7	539.9
Provisions	II	3.5	139.4	137.9	179.6
Current liabilities					
Current portion of long-term loans	I	5.3	15.6	14.9	14.1
Short-term loans and other liabilities	I	5.3	12.7	25.5	11.6
Advance payments received and deferred revenue	II	3.2	1,562.2	1,404.6	1,428.6
Accounts payable	II	5.3	786.7	705.1	743.3
Accruals	II	3.4, 5.3	1,574.0	1,569.2	1,609.7
Income tax payables	II		73.3	85.1	82.5
Total current liabilities			4,024.5	3,804.4	3,890.0
Total equity and liabilities			7,734.0	7,461.9	7,554.8

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

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, 2017		65.8	100.3	166.1	-11.4	221.8	-113.5	-236.7	2,590.5		12.7	2,795.6
Restatement impact					20.2	-3.8			128.5		4.9	149.8
Jan 1, 2017, restated		65.8	100.3	166.1	8.9	218.0	-113.5	-236.7	2,718.9		17.6	2,945.4
Net income for the period										955.8	4.4	960.2
Other comprehensive income:	2.8											
Translation differences						-204.9						-204.9
Hedging of foreign subsidiaries						52.8						52.8
Cash flow hedges					39.6							39.6
Changes in fair value					-12.2							-12.2
Remeasurements of employee benefits							8.3					8.3
Transactions with shareholders and non-controlling interests:	5.2											
Profit distribution									-795.4			-795.4
Increase in equity (option rights)		0.1		24.7								24.9
Purchase of own shares												-
Change in non-controlling interests											-7.0	-7.0
Option and share-based compensation				15.0				18.9	-16.6			17.2
Dec 31, 2017		65.9	100.3	205.8	36.2	65.9	-105.2	-217.8	1,906.9	955.8	15.0	3,028.9

Consolidated statement of cash flows

MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Cash receipts from customers	9,002.5	8,818.0
Cash paid to suppliers and employees	-7,852.4	-7,554.7
Cash flow from operations before financing items and taxes	1,150.1	1,263.3
Interest received	40.9	57.8
Interest paid	-3.3	-3.3
Dividends received and capital repayments	8.9	3.4
Other financing items	-16.5	-54.5
Income taxes paid	-210.2	-303.0
Cash flow from operating activities	969.8	963.7
Capital expenditure	-113.6	-109.5
Proceeds from sales of fixed assets	3.3	0.5
Acquisitions, net of cash	-27.0	-34.6
Proceeds from sales of businesses	16.2	-
Cash flow from investing activities	-121.1	-143.5
Cash flow after investing activities	848.7	820.2
Change in deposits and loans receivable, net	155.3	-82.4
Change of current creditors	-12.8	13.5
Proceeds from long-term liabilities	-	-
Payments of long-term liabilities	-22.5	-46.7
Purchase of own shares	-	-
Increase in equity (option rights)	23.1	24.9
Profit distribution	-849.2	-795.4
Changes in non-controlling interests	-3.1	-5.5
Cash flow from financing activities	-709.2	-891.7
Change in cash and cash equivalents	139.5	-71.5
Cash and cash equivalents at beginning of period	496.5	589.2
Translation differences	-0.1	-21.1
Cash and cash equivalents at end of period	636.0	496.5

In drawing up the consolidated statement of cash flow, the impact of variations in exchange rates has been eliminated by adjusting the beginning balance to reflect the exchange rate prevailing at the time of the closing of the books for the period under review.

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

MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Operating income	1,042.4	1,192.3
Change in working capital before financing items and taxes	-11.2	-43.3
Depreciation and amortization	118.9	114.3
Cash flow from operations before financing items and taxes	1,150.1	1,263.3

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Interest-bearing net debt at beginning of period	-1,690.2	-1,687.6
Interest-bearing net debt at end of period	-1,704.0	-1,690.2
Change in interest-bearing net debt	-13.8	-2.6

Notes to the consolidated financial statements

1 BASIS OF PREPARATION

IN THIS SECTION

- Basis of preparation
- Changes in accounting standards
- New standards
- Consolidation principles
- Segment information
- Accounting estimates

Accounting principles can be found next to the relevant notes in sections 2–6

Basis of preparation

KONE Corporation is a Finnish, public limited company domiciled in Helsinki, Finland. KONE Corporation and its subsidiaries together form the consolidated KONE Group ("KONE" or "the Group"). KONE's vision is to deliver the best People Flow® experience, by providing Ease, Effectiveness and Experiences to users and customers over the full life-cycle of the buildings. KONE is developing and delivering services and solutions that enable people to move smoothly, safely, comfortably and without waiting in buildings in an increasingly urbanizing environment. KONE provides its customers with industry-leading elevators, escalators, automatic doors and integrated solutions to improve the customer experience in and between buildings. In addition, KONE offers maintenance and modernization services for existing equipment.

The consolidated financial statements of KONE Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, observing the standards and interpretations effective on December 31, 2018.

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

The IFRS standards that take effect in 2019 other than described below are not expected to have a material impact on the result or the financial position of the Group or on the presentation of the financial statements.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2018. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 24, 2019. According to the Finnish Companies' Act the Annual General Meeting has the right to approve, reject or make changes to the financial statements after the publication.

The consolidated financial statements are presented in millions of euros and prepared under the historical cost convention except as disclosed in the accounting principles. Figures presented in these financial statements have been rounded from exact figures and therefore the sum of figures presented individually can deviate from the presented sum figure. Key figures have been calculated using exact figures.

Trade date accounting is applied to all financial assets and liabilities.

Changes in accounting standards

KONE has adapted new accounting standards issued by the International Accounting Standards Board, IFRS 15, and Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, effective on January 1, 2018.

The most significant impact from the implementation of the IFRS 15 is the application of percentage of completion revenue recognition method also in the volume new equipment and modernization businesses. In these businesses revenue was previously recognized upon the handover of the project to the customer while long-term major projects were already recognized under percentage of completion method. With the new IFRS 15 principles revenue is recognized gradually for all construction contracts at KONE based on the progress from the point when materials arrive at customer site until the handover of the project. Implementation of IFRS 9 did not have a material impact in KONE's consolidated financial statements.

IFRS 15

IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognized when, or as, the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. KONE has adopted the new standard by using the full retrospective method.

The impact of the implementation of IFRS 15 is limited to revenue recognition of new equipment and modernization contracts where the revenue recognition will occur over time, measured based on the percentage of completion method as the customer obtains control of each asset, i.e. separately identifiable performance obligation. A performance obligation is a distinct good or service within a contract that customer can benefit on stand-alone basis. For KONE's new equipment and modernization contracts, a performance obligation typically means delivery and installation of a single unit, i.e. an elevator, escalator or other People Flow™ solution. Percentage of completion is defined as the proportion of an individual performance obligation's cost incurred to date from the total estimated costs for that particular performance obligation. The percentage of completion method requires accurate estimates of future revenues and costs over the full term of the contracts. These significant estimates form the basis for the amount of revenue to be recognized and include the latest updated total revenue, cost and risks adjusted by the typical estimation revisions for similar types of contracts. These estimates may materially change due to the stage of completion of the contract, changes in the contract scope, costs estimates and customer's plans and other factors.

Application of new revenue recognition principles under IFRS 15 has a material impact on KONE's consolidated financial statements. In practice, revenue is recognized earlier based on the progress also for those new equipment and modernization contracts which were not previously defined as long-term major projects already recognized under the percentage of completion method. From a balance sheet perspective, the application of new principles decreased inventories and related advances received and deferred revenue, while receivables were somewhat increased. Deferred tax assets and liabilities changed slightly. As a result of the restated timing of revenue recognition, retained earnings were increased. Also, reported new equipment and modernization order book decreased due to application of percentage of completion method also for other new equipment and modernization contracts than long-term major projects. These changes do not impact cash flow.

IFRS 9

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Additionally, IFRS 9 introduces expanded disclosure requirements and changes in presentation. KONE has adopted the new standard by using the full retrospective method.

The main impact of the IFRS 9 application for KONE is coming from the new expected credit loss model applied to assess impairment loss for the doubtful accounts receivable. KONE applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on shared credit risk characteristics and aging category and measured based on historical loss rates adjusted by forward looking estimates and individual assessment. The adaptation of the new principles slightly increased the accumulated impairment loss.

IFRS 9 contains a new classification and measurement guidance for financial assets and liabilities that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets and accordingly KONE has classified financial assets as measured at amortized cost, at fair value through other comprehensive income and at fair value through statement of income. The standard eliminated previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, all shares and non-current financial assets which were previously classified as available-for-sale investments and measured at cost are classified as investments measured at fair value through other comprehensive income. Investments in interest rate funds which were previously classified as loans and receivables and measured at amortized cost are classified at fair value through statement of income

Application of IFRS 9 did not have any material impact on KONE's Accounting Principles for financial liabilities or to hedge accounting. Thus, the implementation of IFRS 9 did not have a material impact on the transactions and balances recognized in KONE's consolidated financial statements.

New standards

The International Accounting Standards Board has issued a new standard IFRS 16, Leases which is relevant to KONE and is effective starting on January 1, 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items which KONE has selected to utilize and the lease expense will be recognized on a straight-line basis as permitted by IFRS 16. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. KONE does not have any material contracts as lessor.

KONE has decided to apply IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the standard in the opening balance sheet as at January 1, 2019, thus comparative information will not be restated. KONE has performed a preliminary analysis of the impacts on its consolidated financial statements, which is subject to changes arising from a finalization of the ongoing analysis. Most significant impact identified is that KONE will recognize new assets and liabilities, mainly for its operating leases of facilities and vehicles. Based on the preliminary analysis KONE expects to recognize right-of-use assets and respective lease liabilities of approximately in range of EUR 330 million to EUR 380 million as of 1 January 2019. The adoption of IFRS 16 is expected to improve operating profit somewhat more than EUR 10 million in the consolidated statement of income due to the fact that interest cost of leases will be presented in financing expenses. The adoption of new rules will also impact on the presentation of the consolidated statement of cash flows. It is expected that cash flow from operating activities will be increased and cash flow from financing activities decreased respectively, somewhat more than EUR 100 million. The analysis will be completed during the first quarter of 2019.

Consolidation principles

The consolidated accounts include the parent company and those companies in which the parent company held, directly or indirectly, more than 50 percent of the voting power or had control through management agreements with shareholders holding the majority of the voting power at the end of the accounting period. In addition to these holdings, the consolidated accounts include possible holdings that are of a controlling-right nature (units/companies established for a specific reason). Subsidiaries acquired during the period were included in the consolidated financial statements from the date of acquisition, and divested subsidiaries up to the date of sale. Intra-corporate shareholdings have been eliminated using the acquisition method. The acquisition consideration, including deferred and contingent consideration, as well as the identifiable assets acquired and liabilities assumed, is measured at the acquisition date fair values. The acquisition-related costs are accounted as expenses for the period in which they are incurred.

At the acquisition date, the non-controlling interests are valued either at the acquisition date fair values or at non-controlling interests' proportionate share in the recognized amounts of the identifiable net assets. Net income for the period is disclosed in the statement of income as an allocation to the shareholders of the parent company and non-controlling interests. The allocation of the comprehensive income to the shareholders of the parent company and non-controlling interests is presented in the statement of comprehensive income. Non-controlling interests are disclosed separately under consolidated total equity.

All intra-corporate transactions, receivables, liabilities and unrealized profits, as well as the distribution of profits within the Group have been eliminated in the consolidated financial statements.

Segment information

The profitability of KONE is presented as a single entity. The KONE business idea is to serve its customers by providing solutions throughout the entire lifecycle of the equipment, beginning from the installation of new equipment to the maintenance and modernization during their lifecycle and the full replacement of the equipment. Most of the equipment that are delivered are converted into long-term KONE maintenance contracts. KONE's operating business structure is globally harmonized based on defined business processes. Material operative decisions are made by the Board of Directors of KONE. Such decisions are prepared and presented by the full-time Chairman of the Board and the President and Chief Executive Officer. Due to the business model of KONE, the nature of its operations and its governance structure, the Group as a whole is the relevant operating segment to be reported.

Accounting estimates 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, and recognition of provisions and uncertain tax positions.

SALES

MEUR 9,071

EBIT

MEUR 1,042

2 FINANCIAL PERFORMANCE

IN THIS SECTION

This section comprises the following notes describing KONE's financial performance in 2018:

FINANCIAL TARGETS

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

GROWTH:
Faster than the market

PROFITABILITY:
EBIT 16%

CASH FLOW:
Improved working capital rotation

- KONE has not defined a time frame for the achievement of these financial targets.
- Given the capital and asset structure of KONE, the aim is not to maximize the EBIT margin in the short term, but rather to grow the absolute EBIT in an optimal way over the long term and as a result maintain a strong return on capital employed.
- The relative EBIT margin target is relevant in ensuring that growth and productivity improve continuously.

2.1 SALES

Due to KONE's business model, the nature of its operations and its governance structure, KONE has one operating segment.

Sales by business

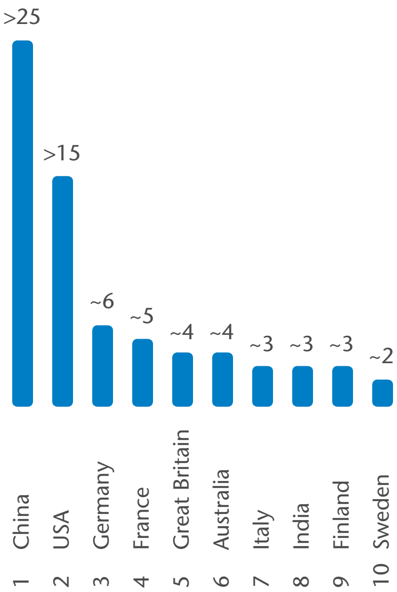
MEUR	Jan 1–Dec 31, 2018	%	Jan 1–Dec 31, 2017	%
New equipment	4,796.9	53	4,653.9	53
Services	4,273.9	47	4,142.8	47
Maintenance	2,968.7	33	2,887.3	33
Modernization	1,305.1	14	1,255.6	14
Total	9,070.7		8,796.7	

Sales by geographical area

MEUR	Jan 1–Dec 31, 2018	%	Jan 1–Dec 31, 2017	%
EMEA [1]	3,791.5	42	3,594.5	41
Americas	1,804.6	20	1,778.5	20
Asia-Pacific	3,474.6	38	3,423.7	39
Total	9,070.7		8,796.7	

[1] EMEA = Europe, Middle East, Africa

Top 10 countries by sales, %



Sales by customer

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

Accounting principles

Revenue recognition

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

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

A performance obligation is a distinct good or service within a contract that customer can benefit on stand-alone basis. For KONE's new equipment and modernization contracts, a performance obligation typically means delivery and installation of a single unit, i.e. an elevator, escalator or other People Flow™ solution. 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 the control occurs when KONE delivers to a customer site as then the customer has 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 cost-to-cost input method as based on KONE's assessment it best depicts the transfer of control to the customer. Percentage of completion is defined as the proportion of an individual performance obligation's cost incurred to date from the total estimated costs for that particular performance obligation.

The percentage of completion method requires accurate estimates of future revenues and costs over the full term of the contracts. These significant estimates form the basis for the amount of revenue to be recognized and include the latest updated total revenue, cost and risks adjusted by the typical estimation revisions for similar types of contracts. These estimates may materially change due to the stage of completion of the contract, changes in the contract scope, costs estimates and customer's plans and other factors.

Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or over the contract term when the work is being carried out. 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 the KONE's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. KONE customer contracts do not contain any significant financing components. In new equipment and modernization contracts payments terms are typically based on either performance according to specific contractual milestones or progress of work performed. In maintenance services contracts customer generally pays based on fixed payment schedule.

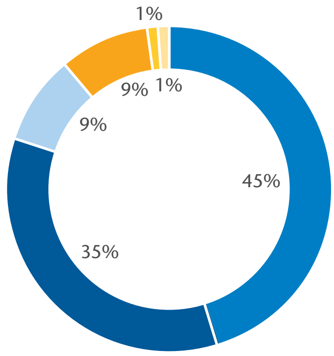
When customer contracts contain multiple performance obligations the transaction price is allocated to each performance obligation based on the standalone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

2.2 COSTS AND EXPENSES

Costs and expenses, MEUR		Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Direct materials, supplies and subcontracting		3,614.4	3,399.9
Wages, salaries, other employment expenses and pensions (note 5.7)		2,818.4	2,724.7
Other production costs [1]		739.0	692.9
Selling, administrative and other expenses [2]		690.1	683.1
Items impacting comparability [3]		69.6	13.2
Depreciation and amortization (note 2.3)		118.9	114.3
Costs, expenses, depreciation and amortization		8,050.3	7,628.2
Other income [4]		22.0	23.8
Total costs, expenses, depreciation and amortization		8,028.3	7,604.4

1) Includes costs of logistics, tools and consumables, operative carfleet and traveling as well as other miscellaneous operative costs.
2) Includes costs related to premises, consulting and external services, IT and traveling as well as other miscellaneous administrative costs.
3) Includes items impacting comparability such as significant restructuring costs arising from redundancy and other costs directly associated to the Accelerate program.
4) Includes rental income, received grants, interest on late payments, gains on sale of fixed assets and scrap as well as other miscellaneous income.

Cost breakdown 1–12/2018



Research and development costs, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
R&D costs included in total costs	164.0	158.4
as percentage of sales, %	1.8	1.8

Auditors' fees, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
To member firms of PricewaterhouseCoopers network		
Audit	3.4	4.0
Auditors' statements	0.0	0.0
Tax services	0.6	0.6
Other services	0.3	0.3
Total	4.4	4.9

PricewaterhouseCoopers Oy has provided non-audit services to the entities of KONE Group in total of 177 thousand euros during the financial year 2018. These services included auditors's statements (14 thousand euros) and other services (163 thousand euros).

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, 2018	Jan 1–Dec 31, 2017
Other intangible assets		
Maintenance contracts	33.1	31.7
Other	14.4	15.4
Buildings	10.9	10.3
Machinery and equipment	60.5	57.0
Total	118.9	114.3

Accounting principles

Depreciation and amortization

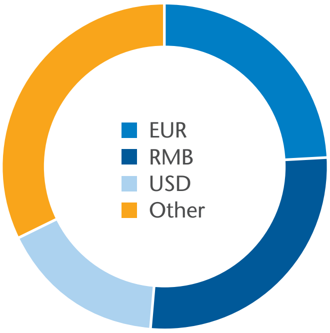
Depreciation and amortization is recorded on a straight-line basis over the economic useful lives of the assets as follows:

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

Land is not depreciated.

2.4 FOREIGN EXCHANGE SENSITIVITY

Sales by currency 1–12/2018



Foreign exchange risks

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

Transaction risks

A substantial part of KONE operations are denominated in local functional currencies and do not therefore give rise to transaction risk. The sales and installations of new equipment and modernizations typically take place in the local currency of the customer. Component and material expenses may occur in other currencies than the sales currency, which exposes KONE to transaction risks. The KONE policy is to hedge the foreign exchange exposure of the order book and other highly probable future sales and purchases with foreign exchange forward contracts. The business units are responsible for evaluating and hedging the transaction risks in their operations according to the foreign exchange policy. The most significant transaction risk exposures arising from business operations are in the Chinese renminbi, Saudi Arabian riyal, US dollar, Canadian dollar and Malaysian ringgit. The majority of the currency forward contracts expire within one year.

Hedge accounting is applied in business units, where there are significant revenues or expenses in foreign currency. When hedge accounting is applied the gains and losses from the hedges are recognized in the statement of income at the same time as the exchange rate gains and losses for the hedged items are recognized.

KONE's internal loans and deposits are primarily initiated in the local currencies of the subsidiaries in which case the possible foreign exchange risks are hedged, by the parent company, using foreign exchange swap contracts.

Translation risks

Changes in consolidation exchange rates affect KONE's statement of income, cash flow statement and statement of financial position, which are presented in euros. As approximately 75% of KONE's revenues occur in functional currencies other than euro, the translation risk is significant for KONE. A change of 10% in the annual average foreign exchange rates would have caused a 7.6% (7.6%) change in 2018 in the consolidated sales in euros. Such a change would have had a higher impact on KONE's operating income and therefore also some impact on KONE's relative operating income. The translation of the subsidiaries' balance sheets into euros caused translation differences of EUR 13.8 (-204.9) million in 2018. The translation risk is not hedged as a rule as KONE's business consists of continuous operations in various currency areas. However, in individual cases, KONE can also hedge translation risk related to net assets of subsidiaries. The most significant translation risk exposures in the subsidiaries are in the Chinese renminbi, Hong Kong dollar and US dollar.

A change of 10% in the annual average foreign exchange rates	
Impact on sales	**Impact on operating income (EBIT)**
7.6% change in consolidated sales in euros	Higher impact on operating income as compared to sales and some impact on relative operating income

Accounting principles

Foreign currency transactions and translations

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

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

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

Foreign exchange gains and losses related to business transactions are treated as adjustments to sales or costs. Foreign exchange gains and losses associated with financing transactions are included in financing income and expenses.

The statements of income of foreign subsidiaries, whose functional currency is not the euro, are translated into euros based on the average exchange rate of the accounting period. Items in the statement of financial position, with the exception of net income for the accounting period, are translated into euros at the closing date exchange rate. Exchange rate differences arising from net investments and associated companies in non-euro currency subsidiaries, as well as the exchange rate differences resulting from translating income and expenses at the average rates and assets and liabilities at the closing rate, are recorded in translation differences under equity. Respective changes during the period are presented in other comprehensive income. Exchange rate differences resulting from financial instruments designated as hedges on net assets in foreign subsidiaries have been entered as translation differences in other comprehensive income. The cumulative translation differences related to foreign operations are reclassified from equity to statement of income upon the disposal of the foreign operation.

Foreign exchange risk sensitivity analysis of financial assets and liabilities

The foreign exchange risk sensitivity analysis for the most important currency pairs has been calculated for the KONE companies' foreign currency nominated financial assets and liabilities, including foreign exchange forward contracts outstanding at the statement of financial position date. The order book or forecasted cash flows are not included. The exposures in the most important currency pairs are disclosed in the table below. The foreign exchange risk sensitivity analysis presents the impact of a change in the foreign exchange rates of 10 percent on the statement of income and on equity at the statement of financial position date. Changes in the equity are mainly caused by foreign exchange forwards designated in cash flow hedge accounting. The sensitivity analysis is calculated before taxes. A 10% change in the foreign exchange rates (strengthening of the euro and US dollar) at the statement of financial position date would have resulted in an impact of EUR -5.0 (-4.0) million on the statement of income and an impact of EUR 60.7 (69.9) million on equity.

	Exposure against EUR							Exposure against USD			
MEUR	HKD	USD	GBP	CNY	JPY	Others	Total	CNY	CAD	Others	Total
Exposure Dec 31, 2018	-358	-158	-54	86	137	-109	**-456**	112	-81	-88	**-57**
Exposure Dec 31, 2017	-384	-245	-52	45	130	-65	**-571**	139	-73	-131	**-65**

2.5 FINANCING INCOME AND EXPENSES

Financing income and expenses, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Dividend income	8.9	3.4
Interest income		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [1]	-	15.9
Interest income	32.1	40.6
Interest income on loans receivables and financial assets	13.1	12.0
Other financing income	0.5	0.2
Exchange rate gains [2]	6.9	0.1
Financing income	61.4	72.2
Interest expenses		
Interest and foreign exchange rate derivatives		
Change in fair value of interest [1]	-2.4	-0.8
Interest expenses	-	-
Interest expenses on other financial liabilities	-6.1	-6.9
Other financing expenses [3]	-5.7	-4.5
Exchange rate losses [2]	-0.1	-1.7
Financing expenses	-14.2	-13.9
Financing income and expenses	47.2	58.3

1) Change in fair value of interest includes EUR -1.7 (-0.2) million relating to interest rate funds measured at fair valued through statement of income.
2) Exchange rate gains and losses include exchange rate differences on loans and other receivables of EUR -10.3 (49.3) million and fair value changes of foreign exchange derivatives of EUR 17.2 (-51.5) million.
3) Includes commitment for fees undrawn revolving credit facilities EUR -0.7 (-0.7) million and banking charges and other expenses EUR -5.0 (-3.8) million.

2.6 INCOME TAXES

Taxes in statement of income, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Tax expense for current year	253.3	287.6
Change in deferred tax assets and liabilities	24.0	0.3
Tax expense for previous years	-35.4	2.3
Total	241.9	290.2

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Income before taxes	1,087.2	1,250.4
Tax calculated at the domestic corporation tax rate (20%)	217.4	250.1
Effect of different tax rates in foreign subsidiaries	12.7	9.1
Permanent differences	-3.9	-2.3
Results of associated companies	0.2	0.2
Taxes from previous years and reassessment of deferred tax assets	-11.1	3.1
Re-measurement of deferred taxes - changes in corporate tax rates	2.6	5.2
Deferred tax liability on undistributed earnings	20.3	22.8
Other	3.7	2.0
Total	241.9	290.2
Effective tax rate, %	22.3	23.2
Tax rate of parent company, %	20.0	20.0

Accounting principles

Income tax

The Group tax expense includes taxes of subsidiaries based on taxable income for the period, together with tax adjustments for previous periods and changes in deferred taxes. Deferred taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial reporting, and measured with enacted tax rates. Typical temporary differences arise from provisions, depreciations and amortizations, inter-company inventory margins, defined benefit plans and tax losses carried forward. Deferred tax assets on unused tax losses and other temporary differences are recognized to the extent it is probable that taxable profit is available.

The positions taken in tax returns are evaluated periodically by the management to identify situations in which applicable tax regulation is subject to interpretation. Based on the evaluation, provisions for the uncertain tax positions are recognized when it is considered more likely than not that certain tax positions will be challenged by the tax authorities. The amounts recorded are based upon the estimated final taxes to be paid to the tax authorities.

2.7 EARNINGS PER SHARE

	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Net income attributable to the shareholders of the parent company, MEUR	840.8	955.8
Weighted average number of shares (1,000 shares)	514,746	513,313
Basic earnings per share, EUR	1.63	1.86
Dilution effect of share options and share-based incentive plans (1,000 shares)	1,338	1,523
Weighted average number of shares, dilution adjusted (1,000 shares)	516,084	514,837
Diluted earnings per share, EUR	1.63	1.86

Accounting principles

Earnings per share

The basic earnings per share figure is calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of shares by the effect of potential diluting shares due to share options and share-based incentive plan in the Group.

2.8 OTHER COMPREHENSIVE INCOME

Disclosure of components of other comprehensive income

MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Translation differences	13.8	-204.9
Hedging of foreign subsidiaries	-18.6	66.1
Changes in fair value	7.1	-12.2
Remeasurements of employee benefits	30.4	15.3
Cash flow hedges:		
Gains (losses) arising during the year	-13.5	49.2
Reclassifications included in profit or loss	-7.5	2.6
Cash flow hedges, net	-21.0	51.8
Income tax relating to components of other comprehensive income	-6.3	-32.4
Other comprehensive income	5.4	-116.4

Disclosure of tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2018			Jan 1–Dec 31, 2017		
MEUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Translation differences	13.8	-	13.8	-204.9	-	-204.9
Hedging of foreign subsidiaries	-18.6	3.7	-14.9	66.1	-13.2	52.8
Cash flow hedges	-21.0	4.7	-16.3	51.8	-12.2	39.6
Items that may be subsequently reclassified to statement of income	-25.8	8.4	-17.4	-87.0	-25.4	-112.5
Changes in fair value	7.1	-	7.1	-12.2	-	-12.2
Remeasurements of employee benefits	30.4	-14.7	15.7	15.3	-7.0	8.3
Items that will not be reclassified to statement of income	37.5	-14.7	22.8	3.1	-7.0	-3.9
Total other comprehensive income	11.7	-6.3	5.4	-83.9	-32.4	-116.4

NET WORKING CAPITAL
MEUR -758

CASH FLOW*
MEUR 1,150

3 NET WORKING CAPITAL

IN THIS SECTION

This section comprises the following notes, which describe KONE's net working capital for 2018:

KONE'S NET WORKING CAPITAL

- Our business model enables us to operate with negative net working capital.
- KONE operates with advance payments across businesses and geographies.

*) Cash flow from operations before financing items and taxes

NET WORKING CAPITAL

MEUR	Dec 31, 2018	Dec 31, 2017
Net working capital		
Inventories	624.1	626.8
Advance payments received and deferred revenue	-1,562.2	-1,404.6
Accounts receivable	1,988.3	1,910.8
Deferred assets and income tax receivables	660.5	472.0
Accruals and income tax payables	-1,647.3	-1,654.3
Provisions	-139.4	-137.9
Accounts payable	-786.7	-705.1
Net deferred tax assets/liabilities	105.0	119.5
Total net working capital	-757.8	-772.6

3.1 INVENTORIES

Inventories, MEUR	Dec 31, 2018	Dec 31, 2017
Raw materials, supplies and finished goods	290.0	254.2
Work in progress	308.0	360.1
Advance payments made	26.1	12.5
Total	624.1	626.8

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 of firm customer when control has not yet transferred to the customer. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment.

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

3.2 ACCOUNTS RECEIVABLE AND CONTRACT ASSETS AND LIABILITIES

MEUR	Dec 31, 2018	Dec 31, 2017
Accounts receivable	1,988.3	1,910.8
Deferred income from maintenance contracts (note 3.3)	27.2	24.6
Unbilled contract revenue (note 3.3)	312.2	148.0
Assets related to contracts with customers	2,327.7	2,083.4
Accrued income of maintenance contracts (note 3.4)	353.2	327.1
Advance payments received and deferred revenue	1,562.2	1,404.6
Liabilities related to contracts with customers	1,915.5	1,731.7

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 contract terms and conditions.

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

Unbilled contract revenue

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

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

Advance payments received and deferred revenue

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

Deferred and accrued income for maintenance contracts

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

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

Changes in contract assets and liabilities

The order book representing the unsatisfied performance obligations for new equipment and modernization contracts stood at EUR 7,951 (7,358) million. The vast majority of the order book is recognized as revenue within the next 12 months from the end of the reporting period. Furthermore, leadtimes especially in the long-term major projects are somewhat longer depending the size and complexity of the projects.

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

Accrued income of 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 from the contract assets.

Aging of accounts receivable

Aging structure of the accounts receivable after recognition of impairment, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Not past due and less than one month due receivables	1,553.2	1,502.9
Past due 1–3 months	253.9	249.6
Past due 3–6 months	122.2	112.5
Past due > 6 months	59.0	45.9
Accounts receivable in the consolidated statement of financial position	1,988.3	1,910.8

Customer credit risk management

Customer credit risks relate to advance payments receivable from customers or to accounts receivable related to equipment deliveries or to services rendered. This risk is managed by defining the rules for tendering, payment terms, authorizations and credit control as well as project management controls. Advance payments, documentary credits and guarantees are used in payment terms to minimize customer credit risks. KONE proactively manages its accounts receivable in order to minimize the risk of customer defaults. KONE's customer base consists of a large number of customers in several market areas. The management considers that there are no significant concentrations of credit risk with any individual customer or geographical region.

The credit quality of advance payments receivable and accounts receivable is evaluated according to KONE's credit policy. According to this policy, the rules for credit quality evaluation are set separately for the new equipment business and the service business. The credit quality is evaluated both on the basis of the aging of the receivables as well as on the basis of individual case by case customer analysis in order to identify customers with a potential higher credit risk due to individual customer specific reasons. The bad debt provision for the accounts receivable is recognized on the basis of this credit quality evaluation and using the expected credit loss model. The amount of bad debt provision recorded to cover doubtful accounts was EUR 226.6 (197.8) million at the end of the financial period. The amount restated through retained earnings in 1.1.2017 due to IFRS 9 and IFRS 15 application was EUR 18.5 miilion.

3.3 DEFERRED ASSETS

Deferred assets, MEUR	Dec 31, 2018	Dec 31, 2017
Deferred interests	3.7	2.0
Deferred income from maintenance contracts (note 3.2)	27.2	24.6
Unbilled contract revenue (note 3.2)	312.2	148.0
Derivative assets (note 5.3)	27.5	35.6
Value added tax assets	93.0	72.2
Prepaid expenses and other receivables	137.9	122.1
Total	601.5	404.5

3.4 ACCRUALS

Accruals, MEUR	Dec 31, 2018	Dec 31, 2017
Accrued interests	0.2	0.2
Accrued income of maintenance contracts (note 3.2)	353.2	327.1
Late costs accruals [1)]	264.8	349.8
Accrued salaries, wages and employment costs	445.3	430.3
Share-based payments	25.2	26.9
Derivative liabilities (note 5.3)	31.1	12.4
Accrued value added tax	111.6	105.7
Accruals from acquisitions	15.8	14.4
Other accruals	326.7	302.5
Total	1,574.0	1,569.2

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

3.5 PROVISIONS

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

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

Jan 1–Dec 31, 2017, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	66.7	14.4	20.1	24.1	54.3	179.6
Translation differences	-2.1	0.0	-0.1	-2.1	-0.9	-5.3
Increase	15.7	0.9	7.7	17.6	10.1	51.9
Provisions used	-8.5	-3.9	-16.2	-10.0	-12.1	-50.7
Reversal of provisions	-8.1	-7.7	-0.4	-6.0	-16.9	-39.1
Companies acquired	-	-	-	-	1.5	1.5
Total provisions at end of period	63.7	3.6	11.1	23.5	35.9	137.9

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2017	42.4	95.5	137.9

Accounting principles

Provisions

Provisions are recognized when KONE has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Recognition and measurement of a provision generally employs managerial estimates of the probability and the amount of the liability.

Provisions for warranties cover the estimated liability to repair or replace products still under warranty at the statement of financial position date. This provision is calculated based on historical experience of levels of repair and replacements.

Provision for claims is recognized when the claim has been received and it is probable that it will be settled and the settlement amount can be estimated reliably.

A provision for business restructuring is recognized only when a detailed and formal plan has been established, when there is a valid expectation that such a plan will be carried out and the plan has been communicated.

Provisions for loss contracts are recognized when it is probable that the costs will exceed the estimated total revenue. The probable loss is recognized as an expense immediately.

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

3.6 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets, MEUR	Dec 31, 2018	Dec 31, 2017
Tax losses carried forward	3.0	6.4
Provisions and accruals	160.8	181.6
Pensions	18.5	22.6
Inventory	25.9	12.0
Property, plant and equipment	11.6	12.2
Other temporary differences for assets	33.9	28.5
Total	253.7	263.3
Total at beginning of period	263.3	302.7
Translation differences	3.5	-6.2
Change in statement of income	-8.1	-14.1
Charged or credited to equity	-10.1	-19.1
Acquisitions, divestments and other	5.1	0.0
Total at end of period	253.7	263.3

Deferred tax liabilities, MEUR	Dec 31, 2018	Dec 31, 2017
Property, plant and equipment	20.4	19.2
Goodwill	59.5	69.6
Other temporary differences for liabilities	68.8	55.0
Total	148.7	143.8
Total at beginning of period	143.8	160.1
Translation differences	-3.9	-5.0
Change in statement of income	15.9	-13.8
Acquisitions, divestments and other	-7.1	2.5
Total at end of period	148.7	143.8
Net deferred tax assets and liabilities	105.0	119.5

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, depreciations and amortizations, inter-company inventory margins, defined benefit plans and tax losses carried forward. Deferred tax assets on unused tax losses and other temporary differences are recognized to the extent it is probable that taxable profit is available.

ACQUISITIONS AND CAPEX

MEUR 140

15 COMPLETED ACQUISITIONS

4 ACQUISITIONS AND CAPITAL EXPENDITURE

IN THIS SECTION

This section comprises the following notes, which describe acquisitions and capital expenditure at KONE for 2018:

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 is mainly related to R&D, IT, production and business operations.
- The majority of KONE's acquisitions in 2018 consisted of small maintenance companies in Europe and the Americas.

KONE's capital expenditure 1.2% of sales in 2018

4.1 ACQUISITIONS

Assets and liabilities of the acquired businesses, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Maintenance contracts	20.5	19.6
Other intangible assets	0.3	0.0
Tangible assets	0.3	0.3
Deferred tax assets	0.1	0.0
Inventories	0.3	6.5
Accounts receivables and other assets	2.5	7.2
Cash and cash equivalents and other interest bearing receivables	1.3	3.8
Total assets	25.3	37.5
Interest-bearing loans	0.1	0.5
Provisions	0.3	1.5
Deferred tax liabilities	0.6	2.5
Other liabilities	1.9	11.1
Total liabilities	2.9	15.5
Non-controlling interest	0.1	-
Net assets	22.2	21.9
Acquisition cost paid in cash	18.8	24.3
Previously held interest at fair value	-	1.5
Contingent and deferred consideration	9.0	9.2
Acquisition cost at date of acquisitions	27.8	35.1
Goodwill	5.6	13.1

Contingent considerations are typically realized in the amount initially recognized.

Changes in the acquisition cost occurred after the acquisition date and recognized in the statement of income totaled EUR 1.1 (1.5) million.

Accounting principles

Acquisitions

Subsidiaries acquired during the period were included in the consolidated financial statements from the date of acquisition, and divested subsidiaries up to the date of sale. Intra-corporate shareholdings are eliminated using the acquisition method. The acquisition consideration, including deferred and contingent consideration, as well as the identifiable assets acquired and liabilities assumed, is measured at the acquisition date fair values. The acquisition-related costs are recognized as expenses for the period in which they are incurred.

At the acquisition date, the non-controlling interests are valued either at the acquisition date fair values or at non-controlling interests' proportionate share in the recognized amounts of the identifiable net assets.

Acquisitions

KONE completed 15 (18) acquisitions during 2018 for a total consideration of EUR 27.8 million. The acquired businesses are specialized in the elevator, escalator and automatic building door business. The acquisitions completed during the financial period were not material individually or as a whole to KONE's 2018 financial statements. The sales consolidated from the companies acquired during 2018 did not have a material impact on the Group sales for the financial period. Of total consideration based on provisional assessments EUR 20.5 million was allocated to maintenance contracts in other intangible assets. Acquired maintenance contracts are typically amortized over ten years. Note 4.3 provides more detail on other intangible assets.

The fair values of the acquired net assets, based on a provisional assessment, as well as the acquisition costs, are summarized in the table above. The considerations were paid for in cash, except for certain deferred considerations, which will be paid later. For most of the completed acquisitions, the acquisition cost includes a contingent consideration, which is typically determined by the financial performance of the acquired business after the date of the acquisition. Changes in the fair value of the contingent consideration after the acquisition date are recognized as a profit or loss. KONE acquired a 100% interest in all businesses acquired in 2018 expect one minor acquisition.

4.2 GOODWILL

Accounting principles

Goodwill

Acquisitions are accounted for using the acquisition method. Goodwill represents the excess of acquisition cost over the fair values of identified acquired assets and liabilities of acquired companies.

Goodwill arises typically in connection with major acquisition, and represents the value of the acquired market share, business knowledge and the synergies obtained in connection with the acquisition. The carrying amount of goodwill is tested for impairment.

Impairment testing

The Group assesses the carrying amount of goodwill annually or more frequently if any indication of impairment exists. Goodwill is allocated to the cash generating units (CGUs) of the Group, which are identified according to the country of operation and business unit at the level at which goodwill is monitored for internal management purposes. The recoverable amount of a CGU is determined by value-in-use calculations. In assessing the recoverable amount, estimated future cash flows are discounted to their present value. Cash flow estimates are based on operative managerial estimates. The discount rate is the weighted average cost of capital (WACC) for the main currency area in the location of the CGU (country or business area), which reflects the market assessment for the time-value of money and for the risk specific in KONE's business.

Any impairment loss of goodwill is recognized immediately as an expense and is not subsequently reversed.

Goodwill allocation

Goodwill is allocated to cash-generating units (CGUs). Cash generating unit is typically the country unit in which the aquired business is operating, in accordance with KONE's management system and structures. The carrying amount of goodwill is allocated to 24 different CGU's. The five largest CGU's carry 75% of the goodwill. The carrying amount of goodwill is below EUR 10 million for ten CGU's. The geographical allocation of goodwill and the weighted average discount interest rates are presented in the table below:

Goodwill, MEUR	Dec 31, 2018	%	Discount interest rates used (pre-tax), %:	Dec 31, 2017	%	Discount interest rates used (pre-tax), %:
EMEA	768.9	58	6.43	768.4	58	6.32
Americas	339.8	25	8.91	331.2	25	8.34
Asia-Pacific	224.9	17	9.71	225.9	17	10.21
Total	1,333.4			1,325.5		

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2018	Dec 31, 2017
Opening net book value	1,325.5	1,371.8
Translation differences	10.6	-60.9
Increase	4.7	1.5
Decrease	-13.0	-
Companies acquired (note 4.1)	5.6	13.1
Closing net book value	1,333.4	1,325.5

Impairment testing

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

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

No goodwill impairment losses were recognized during the accounting period. The impairment testing process includes a sensitivity analysis in which the CGU specific cash flow estimates were reduced by 10–40 percent and the discount interest rates were increased by 1–4 percentage points. Based on the sensitivity analysis, the probability for impairment losses was very low. Under the basic scenario, the value-in-use calculations were on average 7.5 times higher than the CGU's assets employed. The respective ratio was for the five largest CGU's was 5.6; for the five smallest 26.8 and respectively for the other CGUs 11.4.

4.3 INTANGIBLE ASSETS

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

Jan 1–Dec 31, 2017, MEUR	Maintenance contracts	Other	Total
Jan 1, 2017:			
Acquisition cost	359.1	243.2	602.2
Accumulated amortization and impairment	-117.4	-191.9	-309.3
Net book value	241.7	51.2	292.9
Opening net book value	241.7	51.2	292.9
Translation differences	-6.5	-2.0	-8.5
Increase	0.2	15.8	16.0
Decrease	-	-0.3	-0.3
Reclassifications	-	1.9	1.9
Companies acquired (note 4.1)	19.6	0.0	19.6
Amortization	-31.7	-15.4	-47.1
Closing net book value	223.2	51.3	274.5
Dec 31, 2017:			
Acquisition cost	367.1	256.6	623.7
Accumulated amortization and impairment	-144.0	-205.3	-349.2
Net book value	223.2	51.3	274.5

Accounting principles

Intangible assets

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

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

4.4 PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2018, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2018:							
Acquisition cost	6.9	263.3	502.6	56.0	9.3	6.0	844.0
Accumulated depreciation	-	-99.9	-360.8	-6.4	-	-	-467.0
Net book value	6.9	163.4	141.8	49.6	9.3	6.0	377.0
Opening net book value	6.9	163.4	141.8	49.6	9.3	6.0	377.0
Translation differences	0.0	-0.5	-0.8	0.8	0.1	-0.2	-0.6
Increase	-	6.0	51.2	19.3	23.2	2.0	101.8
Decrease	-0.2	-0.5	-1.5	-6.1	-1.0	0.6	-8.6
Reclassifications	0.0	0.3	4.8	-	-3.5	-2.7	-1.1
Companies acquired (note 4.1)	-	-	0.3	-	-	-	0.3
Depreciation	-	-10.9	-46.1	-14.4	-	-	-71.4
Closing net book value	6.7	157.9	149.8	49.2	28.0	5.9	397.4
Dec 31, 2018:							
Acquisition cost	6.7	267.7	539.6	55.1	28.0	5.9	903.1
Accumulated depreciation	-	-109.8	-389.8	-6.0	-	-	-505.6
Net book value	6.7	157.9	149.8	49.2	28.0	5.9	397.4

During the period of Jan 1–Dec 31, 2018, capital expenditure on production facilities, customer service of sales and maintenance operations as well as on information systems, including new finance leases, totaled EUR 112.0 (116.2) million.

Accounting principles

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation is recognized on a straight-line basis over the economic useful lives of the assets as follows:

Buildings	5–40 years
Machinery and equipment	4–10 years

Land is not depreciated.

Expenditure on repairs and maintenance of property, plant and equipment is recognized as expense when incurred.

Impairment of assets

The carrying amounts of non-current tangible assets and intangible assets are reviewed upon each statement of financial position date to determine whether there is any indication of impairment, or more frequently should any indication arise. If any such indication arises, the recoverable amount is estimated as the higher of the asset's fair value less cost of disposal and the value in use. An impairment loss is recognized in the statement of income whenever the carrying amount exceeds the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, but not, however, to an extent higher than the carrying amount that would have been determined without the impairment loss recognized in prior years, deducted by accumulated depreciation.

Jan 1–Dec 31, 2017, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2017:							
Acquisition cost	6.9	246.3	474.4	55.0	21.0	2.5	806.2
Accumulated depreciation	-	-93.7	-338.0	-6.1	-	-	-437.9
Net book value	6.9	152.6	136.4	48.8	21.0	2.5	368.3
Opening net book value	6.9	152.6	136.4	48.8	21.0	2.5	368.3
Translation differences	-0.1	-5.5	-6.5	-5.8	-0.6	-0.2	-18.7
Increase	-	10.7	51.8	21.7	10.2	6.2	100.5
Decrease	0.0	-0.5	-2.1	-1.4	-0.0	-0.0	-4.1
Reclassifications	-	16.5	5.3	-	-21.4	-2.5	-2.1
Companies acquired (note 4.1)	-	-	0.3	-	-	-	0.3
Depreciation	-	-10.3	-43.3	-13.7	-	-	-67.2
Closing net book value	6.9	163.4	141.8	49.6	9.3	6.0	377.0
Dec 31, 2017:							
Acquisition cost	6.9	263.3	502.6	56.0	9.3	6.0	844.0
Accumulated depreciation	-	-99.9	-360.8	-6.4	-	-	-467.0
Net book value	6.9	163.4	141.8	49.6	9.3	6.0	377.0

5 CAPITAL STRUCTURE

KONE'S INTEREST-BEARING NET DEBT

MEUR -1,704

EQUITY PER SHARE

EUR 5.94

IN THIS SECTION

This section comprises the following notes, which describe capital structure at KONE for 2018:

KONE'S CAPITAL STRUCTURE

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

5.1 CAPITAL MANAGEMENT

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

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

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

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

In such cases, the level of debt and financial gearing could be higher for a period of time. At the end of 2018, the funding of KONE was guaranteed by existing committed credit facilities, cash and financial investments.

KONE has not defined a specific target for dividends or share buy-backs. The dividend proposal by the Board of Directors is determined on the basis of the overall business outlook, business opportunities, as well as the present capital structure and the anticipated changes in it.*) At the end of December 2018, KONE had 12,031,814 class B shares in its possession.

To ensure an efficient internal allocation and utilization of its capital resources, KONE measures the financial results of its business activities after a capital allocation charge. The capital allocation charge is based on the assets employed in the business activity and the weighted average cost of capital (WACC).

The WACC is also used as a hurdle rate when evaluating the shareholder value creation potential of new acquisitions, major capital expenditure and other investments. The valuation methods used are payback time, discounted cash flow and profitability.

Capital management, MEUR	2018	2017	2016	2015	2014
Assets employed:					
Goodwill and shares	1,476.8	1,459.8	1,501.6	1,429.4	1,321.3
Other fixed assets [1)]	657.6	651.5	661.2	616.9	578.9
Net working capital	-757.8	-772.6	-1,054.8	-983.4	-749.7
Total assets employed	1,376.6	1,338.7	1,108.0	1,062.9	1,150.5
Capital:					
Equity	3,080.6	3,028.9	2,795.6	2,575.5	2,062.4
Interest-bearing net debt	-1,704.0	-1,690.2	-1,687.6	-1,512.6	-911.8
Total capital	1,376.6	1,338.7	1,108.0	1,062.9	1,150.5
Gearing	-55.3%	-55.8%	-60.4%	-58.7%	-44.2%
Total equity/total assets	49.9%	50.0%	46.8%	45.4%	43.6%

1) Property, plant and equipment, acquired maintenance contracts and other intangible assets.
*) In 2014–2018, the dividend payout ratio has been 69.7–101.0% for class B shares (Board's proposal 2018).

KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2014–2016 are not restated and thus not fully comparable.

5.2 SHAREHOLDERS' EQUITY

Accounting principles

Equity and profit distribution

The total shareholders' equity consists of the share capital, the share premium account, the fair value and other reserves, translation differences, the paid-up unrestricted equity reserve, remeasurements of employee benefits and retained earnings. When options are exercised and if new shares are issued, the impacts of changes in the share capital, which exceed the accounting par value of the shares, are included in the paid-up unrestricted equity reserve. If treasury shares are used in subscriptions with option rights, the subscription price is included in the paid-up unrestricted equity reserve. The fair value and other reserves include changes in the fair value of cash flow hedges. Translation differences arising from the application of the acquisition method on the translation of the net investment in foreign subsidiaries and associated companies are recognized as translation differences. Exchange rate differences resulting from financial instruments intended as hedges on assets and liabilities in foreign subsidiaries are also recognized as translation differences. Actuarial gains and losses arising from employee benefits are recognized as remeasurements of employee benefits. The purchase price of own shares purchased by KONE Corporation is deducted from retained earnings. The net income for the accounting period is recognized directly in retained earnings.

When KONE purchases its own shares, the consideration paid and directly attributable costs are recognized as a deduction in equity. When such shares are sold, the consideration received, net of directly attributable transaction costs, is included in equity.

Profit distribution includes dividends and donations decided by the Shareholders' Meeting. The dividend and distribution of profits proposed by the Board is not deducted from the equity prior to acceptance by a Shareholders' Meeting.

Shares and share capital

At the end of the 2018 financial year, the number of shares outstanding was 528,092,667. The share capital was EUR 66.0 million and the total number of votes was 121,397,108. Each class A share is assigned one vote, as is each block of 10 class B shares, with the provision that each shareholder is entitled to at least one vote. At the end of the financial year, the Board of Directors of the company had a valid authorization granted by the Annual General Meeting in February 2015 to increase the share capital and to issue stock options. The authorization shall remain in effect until February 23, 2020.

In accordance with the Articles of Association, class B shares are preferred for a dividend which is at least 1% and no more than 2.5% higher than the dividend paid to the holders of class A shares, calculated based on the amount obtained by dividing the share capital entered into the Trade Register by the number of shares entered into the Trade Register.

More information

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

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

Changes in share capital	Class A	Class B	Total
Number of shares, Jan 1, 2017	76,208,712	449,960,170	526,168,882
Share subscription with 2013, 2014 and 2015 options, May 11, 2017		624,151	624,151
Share subscription with 2014 and 2015 options, Aug 1, 2017		265,478	265,478
Share subscription with 2014 and 2015 options, Nov 7, 2017		112,360	112,360
Share subscription with 2014 and 2015 options, Dec 29, 2017		9,536	9,536
Number of shares, Dec 31, 2017	76,208,712	450,971,695	527,180,407
Number of votes, Dec 31, 2017	76,208,712	45,097,170	121,305,882
Share capital, Dec 31, 2017, MEUR	9.5	56.4	65.9

Authority to purchase own shares

KONE Corporation's Annual General Meeting held on February 26, 2018 authorized the Board of Directors to repurchase the company's own shares. The shares may be repurchased among others in order to develop the capital structure of the Company, finance or carry out possible acquisitions, implement the Company's share-based incentive plans, or to be transferred for other purposes or to be cancelled. Altogether no more than 52,440,000 shares may be repurchased, of which no more than 7,620,000 are to be class A shares and 44,820,000 class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the Company is allowed to possess.

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

During the financial year 2018, KONE did not repurchase own shares.

Own shares

	Number of shares	Cost, MEUR
Jan 1, 2018	12,402,796	217.8
Distributed to the annual compensation of the Board, April	-3,350	-0.1
Distributed to the share-based incentive plan, April	-372,560	-14.6
Returned from the share-based incentive plan, December	4,928	0.2
Dec 31, 2018	12,031,814	203.3
Jan 1, 2017	12,884,141	236.7
Distributed to the annual compensation of the Board, April	-2,932	-0.1
Distributed to the share-based incentive plan, April	-483,448	-18.9
Returned from the share-based incentive plan, December	5,035	0.2
Dec 31, 2017	12,402,796	217.8

Reconciliation of own shares, Dec 31, 2018

KONE Corporation and Group total	pcs	Acquisition cost	Average price
December 31, 2017	12,402,796	217,820,488.21	17.56
April 27, 2018	-3,350	-130,978.74	39.10
April 27, 2018	-372,560	-14,557,898.71	39.08
December 20, 2018	4,928	194,262.52	39.42
December 31, 2018	12,031,814	203,325,873.28	16.90

5.3 FINANCIAL RISKS AND INSTRUMENTS

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

Accounting principles

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially and subsequently recognized at fair value in the statement of financial position. The fair values of foreign exchange forward contracts are calculated by discounting the future cash flows of the contracts with the relevant market interest rate yield curves on the valuation date and by calculating the difference between the discounted values in euros. The fair value of electricity price forwards is based on electricity stock exchange prices on the valuation date.

At the contract date the derivatives are classified according to the foreign exchange policy as hedging instruments of a business transaction or firm or highly probable purchase or sales contract. These are partly included in cash flow hedge accounting, hedges against fair value changes of assets or liabilities or hedges of net investments in foreign entities.

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

The effective portion of changes in the fair values of the foreign exchange derivatives initiated for hedging firm or highly probable future purchase or sales contracts is recognized through the statement of comprehensive income to the hedge reserve. The cumulative changes of fair values are transferred into the statement of income in adjustment items to sales or purchases simultaneously when the hedged sale or purchase realizes. 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 in the adjustment items to cost and expenses. If a foreign exchange derivative included in the cash flow hedge accounting expires or is sold or when a hedge no longer meets the criteria for hedge accounting, the cumulative change in the fair value of the hedging instrument will remain in the hedge reserve and is recognized in the income statement at the same time with the hedged sale or purchase. The cumulative fair values of the hedging instruments are transferred from the hedge reserve to adjustment items to 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 costs or as financial income or expenses: if the hedged item is an operative transaction, the fair values of the hedging instruments are recognized in costs and expenses, and if the hedged item is a monetary transaction, the fair values are recognized in financing items.

Changes in the fair values of foreign exchange derivatives are recognized in financing income and expenses if the hedged item is a loan receivable, deposit or a financial asset or liability denominated in a foreign currency. Fair value changes of electricity price forwards designated as hedges against future electricity purchases are recognized in the income statement as adjustment items to purchases.

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

Fair values of derivative instruments are recognized under current assets and liabilities in the balance sheet.

Loans

Loans payable are classified in the valuation category other financial liabilities. They are measured initially at fair value, net of directly attributable transaction costs incurred and are subsequently carried at amortized cost using the effective interest rate method.

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 statement of income.

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

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

Current deposits and loans receivable

Current deposits and loans receivable are initially recognized at fair value and thereafter at amortized cost using the effective interest rate method except for interest rate funds which are classified and measured as investments at fair value through statement of income. Only substantial transaction costs are counted for when measuring the acquisition cost.

Investments in commercial papers, short-term bank deposits, interest rate funds and other money market instruments are included in deposits and loans receivable.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand and bank account balances. Bank overdrafts are included in other current liabilities.

Financial credit risks

KONE has substantial amounts of cash and financial investments. In order to diversify the financial credit risk, KONE invests its funds into highly liquid interest rate funds and into deposits with several banks. Global counterparty limits are approved by the Board of Directors. All open exposures such as cash on bank accounts, investments, deposits and other financial transactions, for example derivatives contracts, are included when measuring the financial credit risk exposure. When selecting counterparty banks and other investment targets, only counterparties with high creditworthiness are approved. The size of each limit reflects the creditworthiness of the counterparty. Counterparty creditworthiness is evaluated constantly and the required actions are considered case by case if significant changes in the creditworthiness of a counterparty occur.

Refinancing and liquidity risks

KONE's cash and cash equivalents was EUR 636.0 (496.5) million and financial investments EUR 1,404.2 (1,566.1) million on December 31, 2018.

Cash and financial investments are managed centrally by KONE Treasury. Due to local regulations part of the funds are located in local investments and on decentralized bank accounts in a number of KONE countries. A substantial part of the funds is nevertheless accessible to KONE Treasury. Changes in the local regulations can also in the future have an impact on the location of the cash and financial investments. To ensure sufficient liquidity KONE signed in 2016 a committed syndicated credit facility of EUR 800 million maturing in 2023.

In 2016 KONE utilized an European Investment Bank (EIB) credit facility of EUR 160 million according to previously agreed conditions. The credit facility is a 5-year fixed interest rate loan which will be used for R&D purposes. The fair value of the loan is estimated based on discounted cash flows using a current borrowing rate (level 2 fair value hierarchy). KONE has also an uncommitted commercial paper program of EUR 500 million.

Interest rate risks

KONE's cash and short-term investments were EUR 2,040.2 (2,062.6) million at the statement of financial position date. KONE's interest-bearing debt was EUR 369.0 (387.4) million at the statement of financial position date and consisted of EUR 240.6 (224.8) million of financial debt, EUR 10.4 (10.3) million of option liabilities from acquisitions, and EUR 118.0 (140.7) million of net employee benefits. financial debt, reported under financing activities in KONE's consolidated statement of cash flows, did not result in material cash flow impact in 2018.

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 2018 during the following financial period. The sensitivity analysis presents the impact of a 1 percentage point change in the interest rate level on the net interest income for the financial period by taking into account the net financial debt tied to interest periods of less than one year, -2,014.7 (-2,024.9) million euros. For 2019 a 1 percentage point change in the interest rate level would mean a change of EUR -20.1 (-20.2) million in net interest income. The interest rate sensitivity is calculated before taxes.

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

Maturity analysis of financial liabilities and interest payments

	Dec 31, 2018				Dec 31, 2017			
MEUR	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Interest-bearing debt								
Long-term loans	-	-160.0	-	**-160.0**	-	-160.0	-	**-160.0**
Finance lease liabilities	-15.6	-32.6	-1.1	**-49.3**	-14.9	-33.5	-1.1	**-49.5**
Used bank overdraft limits	-2.3	-	-	**-2.3**	-15.2	-	-	**-15.2**
Interest payments	-0.2	-0.3	-	**-0.6**	-0.4	-0.5	-	**-0.9**
Option liabilities from acquisitions	-10.4	-	-	**-10.4**	-10.3	-	-	**-10.3**
Employee benefits	-	-	-147.0	**-147.0**	-	-	-152.2	**-152.2**
Non-interest bearing debt								
Accounts payables	-786.7	-	-	**-786.7**	-705.1	-	-	**-705.1**
Derivatives								
Capital inflow	2,562.1	206.9	-	**2,769.0**	2,302.5	88.1	-	**2,390.6**
Capital outflow	-2,565.3	-206.8	-	**-2,772.0**	-2,267.1	-90.2	-	**-2,357.4**
Net outflow	-818.3	-192.9	-148.1	**-1,159.3**	-710.6	-196.1	-153.3	**-1,060.0**

Values of financial assets and liabilities by categories

2018 Consolidated statement of financial position item, MEUR		Notes	Financial assets & liabilites at fair value through profit or loss	Financial assets measured at amortized cost	Investments measured at FVOCI	Other financial assets & liabilities	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			143.3		143.3
Non-current loans receivable	I	5.5		1.0			1.0
Employee benefits		5.7				29.0	29.0
Current assets							
Accounts receivable				1,988.3			1,988.3
Derivative assets			27.5				27.5
Current deposits and loans receivable	I	5.5	908.4	498.6			1,407.0
Cash and cash equivalents	I			636.0			636.0
Total financial assets			935.9	3,123.9	143.3	29.0	4,232.1
Non-current liabilities							
Loans	I					193.8	193.8
Employee benefits	I	5.7				147.0	147.0
Current liabilities							
Current portion of long-term loans	I					15.6	15.6
Short-term loans and other liabilities	I					2.3	2.3
Option liabilities from acquisitions	I		10.4				10.4
Accounts payable						786.7	786.7
Derivative liabilities			31.1				31.1
Unpaid acquisition consideration						15.8	15.8
Total financial liabilities			41.5	-	-	1,161.2	1,202.7

The fair values of the financial assets and liabilities are not materially different from their book values.
Interest-bearing net debt comprises items marked with " I ".

2017 Consolidated statement of financial position item, MEUR		Notes	Financial assets & liabilites at fair value through profit or loss	Financial assets measured at amortized cost	Investments measured at FVOCI	Other financial assets & liabilities	Total book value
Non-current assets							
Shares and other non-current financial assets		5.4			133.0		133.0
Non-current loans receivable	I	5.5		0.7			0.7
Employee benefits		5.7				11.5	11.5
Current assets							
Accounts receivable				1,910.8			1,910.8
Derivative assets			35.6				35.6
Current deposits and loans receivable	I	5.5	1,233.1	335.7			1,568.8
Cash and cash equivalents	I			496.5			496.5
Total financial assets			1,268.7	2,743.8	133.0	11.5	4,157.0
Non-current liabilities							
Loans	I					194.7	194.7
Employee benefits	I	5.7				152.2	152.2
Current liabilities							
Current portion of long-term loans	I					14.9	14.9
Short-term loans and other liabilities	I					15.2	15.2
Option liabilities from acquisitions	I		10.3				10.3
Accounts payable						705.1	705.1
Derivative liabilities			12.4				12.4
Unpaid acquisition consideration						17.6	17.6
Total financial liabilities			22.7	-	-	1,099.8	1,122.4

The fair values of the financial assets and liabilities are not materially different from their book values.
Interest-bearing net debt comprises items marked with " I ".

Derivatives

All derivative contracts have been made according to the KONE Treasury policy for hedging purposes.

The majority of the foreign exchange forward contracts 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). The price for electricity price forward contracts was based on the stock exchange price (fair value hierarchy level 1). Financial contracts are executed only with counterparties that have high credit ratings. The credit risk of these counterparties, as well as that of KONE, is considered when calculating the fair values of outstanding financial assets and liabilities.

The fair values of the derivatives are represented in the balance on a gross basis and can be set off on conditional terms such as breach of contract or bankruptcy. Derivative financial receivables from counterparties after set off would be EUR 6.3 (26.9) million and payables EUR 9.9 (3.7) million.

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2018	Derivative liabilities Dec 31, 2018	Fair value, net Dec 31, 2018	Fair value, net Dec 31, 2017
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	12.2	-17.4	-5.2	13.0
In net investment hedging	-	-8.8	-8.8	-
Other hedges	15.3	-4.9	10.4	10.5
Electricity price forward contracts	-	-	-	-0.3
Total	27.5	-31.1	-3.6	23.2

Nominal values of derivative financial instruments, MEUR	Dec 31, 2018	Dec 31, 2017
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	1,039.9	1,068.4
In net investment hedging	339.6	-
Other hedges	1,389.5	1,321.2
Electricity price forward contracts	-	1.0
Total	2,769.0	2,390.6

5.4 SHARES AND OTHER NON-CURRENT FINANCIAL ASSETS

Shares and other non-current financial assets were EUR 136.9 and 6.4 million respectively (EUR 129.8 and 3.1 million).

The shares held include a 19.9% holding in Toshiba Elevator and Building Systems Corporation (TELC). TELC is an investment in equity instruments that does not have a quoted price in an active market. Investment also include other non-current financial assets which are investments in smaller holdings in other companies without public quotation.

Accounting principles

Shares and other non-current financial assets

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

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

5.5 DEPOSITS AND LOANS RECEIVABLE

Deposits and loans receivable, MEUR	Dec 31, 2018	Dec 31, 2017
Non-current loans receivable	1.0	0.7
Current loans receivable	2.8	2.8
Current short-term deposits	1,404.2	1,566.1
Total	1,408.0	1,569.5

The fair values of deposits and loans receivable are not materially different from their carrying amounts. Current short-term deposits mature within one year and consist of EUR 908.4 million and EUR 495.8 million of interest rate funds and short-term bank deposits, respectively (EUR 1,233.1 and 333.0 million).

5.6 ASSOCIATED COMPANIES

Investments in associated companies, MEUR	Dec 31, 2018	Dec 31, 2017
Total at beginning of period	1.4	5.0
Translation differences	0.0	-0.4
Share of associated companies' result after taxes	-0.6	-1.1
Dividends received	-	-1.0
Decrease	-0.7	-1.2
Total at end of period	-	1.4

The associated companies' financial information presented here is based on the latest official financial statements available and estimates for the year 2018. KONE did not have any investments in associated companies at the end of year 2018.

Accounting principles

Associated companies

An associated company is a company in which the Group holds 20–50 percent of the voting power and has a participating interest of at least 20 percent or in which the Group has considerable influence. Investments in associated companies are accounted for in the consolidated financial statements under the equity method. KONE's share of the profit or loss of an associated company is shown in the consolidated statement of income as a separate item, and its investments in the associated companies upon the date of acquisition, adjusted for changes in the associated companies' equity after the date of acquisition, are shown in the consolidated statement of financial position under "Investments in associated companies". The share of associated companies' net income includes also the revaluations of the previously held interest in connection with step acquisitions.

Transactions with associated companies, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Sales of goods and services	-	0.1
Purchases of goods and services	1.6	11.1

Balances with associated companies

Liabilities to associated companies, MEUR	Dec 31, 2018	Dec 31, 2017
Accounts payable	-	0.3
Accruals	-	-
Total	-	0.3

5.7 EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

Some of the Group's defined benefit obligations are linked to general inflation and salary level development. Higher level of inflation and salary level will result to a higher present value of the benefit obligation.

Some of the defined benefit plans obligate KONE to provide benefits to plan members for a lifetime. Therefore any increase in life expectancy will increase defined benefit liability of these plans.

Accounting principles

Employee benefits

The Group operates various employee benefit plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The pension plans are generally funded by payments from employees and by the relevant KONE companies. The assets of these plans are generally held in separate insurance companies or trustee-administered funds. Pension costs and liabilities are based on calculations by the local authorities or independent qualified actuaries. Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. For defined benefit plans, pension cost is determined based on the advice of qualified actuaries who carry out a full valuation of the plan on a regular basis using the projected unit credit method. Under this method, the costs of providing pensions are charged to the statement of income so as to spread the regular costs over the working lives of employees. KONE presents the service cost relating to defined benefit obligations in employment expenses while the net interest is presented in financing expenses.

The liability of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets. The discount rates used in actuarial calculations of employee benefits liabilities are adjusted to market rates. Obligations to pay long-term disability benefit, the level of which is dependent on the length of service of the employee, are measured to reflect the probability that payments will be required and the length of service for which it is expected to be made.

Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	Dec 31, 2018	Dec 31, 2017
Employee benefits		
Defined benefit plans	104.5	124.7
Other post-employment benefits	13.5	16.0
Total	118.0	140.7

Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	Dec 31, 2018		Dec 31, 2017	
	Defined benefit plans	Other post-employment benefits	Defined benefit plans	Other post-employment benefits
Present value of unfunded obligations	41.5	0.1	83.6	0.7
Present value of funded obligations	480.5	14.3	468.8	16.3
Fair value of benefit plans' assets	-417.5	-1.0	-427.7	-1.1
Total	104.5	13.5	124.7	16.0

Net liability reconciliation, MEUR	Dec 31, 2018		Dec 31, 2017	
	Defined benefit plans	Other post-employment benefits	Defined benefit plans	Other post-employment benefits
Employee benefit liability at beginning of period	136.3	16.0	159.4	17.3
Employee benefit assets at beginning of period	-11.5	-	-	-
Net liability at beginning of period	124.7	16.0	159.4	17.3
Translation differences	0.3	0.6	-6.4	-2.1
Costs recognized in statement of income	22.2	0.8	17.8	1.2
Remeasurements	-26.8	-3.6	-9.6	-0.2
Paid contributions and benefits	-19.6	-0.3	-36.5	-0.2
Reclassifications	3.7	-	-	-
Net liability at end of period	104.5	13.5	124.7	16.0
Employee benefit liability at end of period	133.5	13.5	136.3	16.0
Employee benefit assets at end of period	-29.0	-	-11.5	-
Net liability at end of period	104.5	13.5	124.7	16.0

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Defined contribution pension plans	202.7	191.7
Defined benefit pension plans	22.2	17.8
Other post-employment benefits	0.8	1.2
Total	225.7	210.7

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2018		Jan 1–Dec 31, 2017	
	Defined benefit plans	Other post-employment benefits	Defined benefit plans	Other post-employment benefits
Current service costs	14.3	0.4	13.9	0.6
Net interest	2.5	0.5	3.2	0.6
Past-service costs	5.4	-	0.6	-
Settlements	0.0	-	-	-
Curtailments	-	-	0.0	-
Total	22.2	0.8	17.8	1.2

The actual return on defined benefit plans' assets was EUR -6.6 (23.3) million.

Defined benefit plans: assumptions used in calculating benefit obligations	Jan 1–Dec 31, 2018		Jan 1–Dec 31, 2017	
	Europe	USA	Europe	USA
Discount rate, %	2.53	4.27	2.49	3.51
Future salary increase, %	2.4	4.0	2.8	4.0
Future pension increase, %	1.8	-	2.9	-

Sensitivity of the defined benefit obligation to changes in actuarial assumptions	Impact on defined benefit obligation	
	Dec 31, 2018	Dec 31, 2017
Discount rate, +0.25 percentage points	-3.6%	-3.9%
Discount rate, -0.25 percentage points	3.4%	3.6%
Future pension increase, +0.25 percentage points	3.2%	2.1%
Future pension increase, -0.25 percentage points	-0.5%	-2.0%

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

5.8 FINANCE LEASE LIABILITIES

KONE has non-cancellable finance leases for machinery and equipment with varying terms and renewal rights.

MEUR	Dec 31, 2018	Dec 31, 2017
Minimum lease payments		
Less than 1 year	15.9	15.3
1–5 years	35.4	34.7
Over 5 years	1.2	2.6
	52.5	52.6
Future finance charges	-3.2	-3.0
Present value of finance lease liabilities	49.3	49.6

MEUR	Dec 31, 2018	Dec 31, 2017
Present value of finance lease liabilities		
Less than 1 year	15.6	14.9
1–5 years	32.6	33.5
Over 5 years	1.1	1.1
Total	49.3	49.6

Accounting principles

Leases

KONE has entered into various operating leases under which payments are treated as rentals and charged to the statement of income on a straight-line basis over the leasing term. Leases of plant and equipment where KONE fundamentally bears all the rewards and risks of ownership are classified as finance leases.

Finance leases are recognized as assets at the inception of the lease at the lower of the fair value of the leased equipment and the estimated present value of the underlying lease payments. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. Lease payments are apportioned between the finance charge and the reduction of outstanding liability.

Plant and equipment acquired under finance leasing contracts are depreciated over either the useful life of the asset or the lease period, whichever is less.

5.9 COMMITMENTS

Commitments, MEUR	Dec 31, 2018	Dec 31, 2017
Guarantees		
Others	3.1	5.0
Operating leases	384.0	294.5
Total	387.1	299.5

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 1,629.6 (1,341.7) million as of December 31, 2018. KONE leases cars, machinery & equipment and buildings under operating leases with varying terms.

The future minimum lease payments under non-cancellable operating leases, MEUR	Dec 31, 2018	Dec 31, 2017
Less than 1 year	115.0	73.0
1–5 years	209.8	161.3
Over 5 years	59.2	60.2
Total	384.0	294.5

The aggregate operating lease expenses totaled EUR 123.0 (123.2) million.

6 OTHERS

6.1 MANAGEMENT REMUNERATION

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

Compensation paid to the key management, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Salaries and other remunerations	8.0	7.9
Share-based payments	18.3	22.2
Total	26.3	30.1

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR thousand) [2]	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Herlin Antti, Chairman of the Board [1]	528.5	529.0
Herlin Jussi, Vice Chairman of the Board	115.7	113.5
Ehrnrooth Henrik, President & CEO [1]	750.0	750.0
Alahuhta Matti	44.5	41.5
Brunila Anne	45.0	41.5
Herlin Iiris	43.0	40.5
Kant Ravi	49.0	46.5
Kaskeala Juhani	44.5	42.0
Pietikäinen Sirpa	42.5	40.5
Total	1,662.7	1,645.0

1) For the financial year 2018 in addition Antti Herlin's accrued bonus is EUR 305,400 and Henrik Ehrnrooth's accrued bonus is EUR 451,500. These will be paid during 2019. In April 2018, the share-based payments for the financial year 2017 received by Henrik Ehrnrooth was EUR 3,179,444.

2) Includes also the annual compensation of the Board which was performed by using shares of KONE Corporation decided by the Annual General Meeting February 26, 2018.

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Group's financial result. The yearly bonus may not exceed 100 percent of his annual salary. In 2018, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2018 totaled EUR 305,400. He was also paid EUR 60,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 93. The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2018 was EUR 151,403. No separate agreement regarding early retirement has been made.

The compensation for the President and CEO Henrik Ehrnrooth consists of a basic salary and a yearly bonus decided annually by the Board on the basis of the Corporation's key targets. The yearly bonus may not exceed 100 percent of his annual salary. In 2018, Henrik Ehrnrooth's basic salary was EUR 750,000. In addition, his accrued bonus for 2018 totaled EUR 451,500. Henrik Ehrnrooth's holdings of shares are presented in the table on page 93. Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. In April 2018, on the basis of the incentive plan for year 2017, Henrik Ehrnrooth received a bonus of EUR 3,179,444, which consisted of 35,031 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2018 and due for payment in April 2019 is 25,344 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. Henrik Ehrnrooth's retirement age and pension are determined in accordance with Finland's Pensions Act. Statutory pension cost for the year 2018 was EUR 244,597. No separate agreement regarding early retirement has been made. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

The compensation for the members of the Executive Board comprises a base salary and a yearly bonus, based on the Group's annual result and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary. The Executive Board members' holdings of shares are presented in the table on page 93. The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2018, on the basis of the incentive plan, the members of the Executive Board received a bonus of 182,169 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2018 and due for payment in April 2019 is 131,794 KONE class B shares together with a cash bonus equal to the amount of taxes and similar charges. No separate agreement regarding early retirement has been made for the members of the Executive Board. The compensation for the termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

The amount of the pension liability for Board Member Matti Alahuhta (served as President & CEO until March 31, 2014) included in the balance sheet is EUR 6.0 million at the end of the year 2018 and the monthly pension paid by KONE to him is EUR 21,843 (December 2018).

6.2 SHARE-BASED PAYMENTS

Share-based incentive plan

KONE has two separate share-based incentive plans. One plan is targeted for the senior management of KONE including the President & CEO, members of the Executive Board and other top management, consisting of approximately 60 individuals. A second plan is targeted for other key personnel of KONE, totaling approximately 450 individuals. The potential reward is based on KPIs as decided by the Board on an annual basis in line with the strategic targets. In 2018, the reward was based on the development of orders received, the growth in maintenance business and operating income (EBIT) in both plans. The potential reward is to be paid as a combination of KONE class B shares and a cash payment equivalent to the taxes and similar charges that are incurred from the receipt of shares. The share-based incentive plans have a vesting period of two years. If the participant's employment or service contract is terminated during the vesting period, they are either obliged to return the shares already received or lose the entitlement to the shares they have not yet received. As part of the plan for the senior management, a long-term target for their ownership has been set. For the Executive Board members, the long-term ownership target is that the members have an ownership of KONE shares corresponding to at least five years' annual base salary. For other selected top management positions the ownership target is at least two years' base salary.

As part of the previous share-based incentive plan a total of 372,560 KONE class B shares were granted in April 2018 to the management as a reward due to the achievement of the targets for the year 2017. During year 2018 a total of 4,928 of those KONE class B shares were returned to KONE Corporation. In April 2019, a total of 266,830 class B shares will be granted to the senior management as a reward due to the achievement of the targets for the year 2018. To the other key personnel of KONE the total reward from the year 2018 is based on the value of 239,656 KONE class B shares to be delivered in January 2021 and reduced by such an amount of shares to be equivalent to the taxes and similar charges that are incurred by the receipt of shares.

Options

KONE Corporation had two option programs during the financial period 2018. The purpose of the stock options is to encourage long-term efforts by key personnel to increase shareholder value and their commitment to the company by offering them an internationally competitive incentive program. The company´s Board Members, President & CEO, members of the Executive Board and other key personnel covered by KONE's share-based incentive programs other than option programs earlier than year 2016 are not included in the option plans.

Stock options 2014 were granted according to the decision of the Board of Directors on December 20, 2013 to approximately 530 key employees and the decision was based on the authorization received from the Shareholders' Meeting on March 1, 2010. A maximum total of 1,500,000 options were granted. Each option entitles its holder to subscribe for one (1) new class B KONE share. The share subscription period for the stock options 2014 is April 1, 2016–April 30, 2018. The share subscription period began on April 1, 2016 and the 2014 stock options were listed on the Nasdaq Helsinki stock exchange on April 1, 2016, as the financial performance of the KONE Group for the financial years 2014–2015 based on the total consideration of the Board of Directors was equal to or better than the average performance of the key competitors of KONE. The amount of KONE class B shares subscribed with the 2014 option rights during 2018 was 865,638. The subscription price paid totaled EUR 21.6 million during year 2018.

Stock options 2015 are granted according to the decision of the Board of Directors on December 18, 2014 to approximately 560 key employees and the decision was based on the authorization received from the Shareholders' Meeting on March 1, 2010. A maximum total of 1,500,000 options are granted. Each option entitles its holder to subscribe for one (1) new or existing company's own class B KONE share. The share subscription period for the stock options 2015 is April 1, 2017–April 30, 2019. The share subscription period began on April 1, 2017 and the 2015 stock options were listed on the Nasdaq Helsinki stock exchange on April 1, 2017, as the financial performance of the KONE Group for the financial years 2015–2016 based on the total consideration of the Board of Directors was equal to or better than the average performance of the key competitors of KONE. The amount of KONE class B shares subscribed with the 2015 option rights during 2018 was 46,622. The subscription price paid totaled EUR 1.4 million during year 2018. The original share subscription price for the stock option was EUR 36.20 per share and it is further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. The effective subscription price as per December 31, 2018 is EUR 30.40.

Options	Options granted to employees	Unexcercised options	Options held by the subsidiary Dec 31, 2018	Number of class B shares that can be subscribed for with the option	Share subscription price, EUR	Share subscription period
2014	1,367,000	-	-	1	25.00	1 April, 2016–30 April, 2018
2015	1,409,000	1,309,303	131,000	1	30.40	1 April, 2017–30 April, 2019
Total	3,471,000	1,309,303	131,000			

Changes in the number of options outstanding	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Number of options outstanding, Jan 1	2,225,623	3,020,009
Granted options	-	-
Returned options	-	-40,000
Expired options	-4,060	-
Exercised options	-912,260	-754,386
Number of options outstanding, Dec 31	1,309,303	2,225,623
Exercisable options, Dec 31	1,309,303	2,225,623

The value of the option program is calculated using the Black-Scholes option pricing model. The parameters used in defining the fair value of the option program are:

	2015	2014
Share price at the date of issue, EUR	37.37	32.40
Original subscription price, EUR	36.20	31.80
Duration (years)	4.4	4.4
Expected volatility, %	24	24
Risk-free interest rate, %	0.6	1.9
Fair value of option at the date of issue, EUR	8.44	7.83

The share subscription price is reduced by the amount of dividends decided before the share subscription at the record date of each dividend distribution.

Accounting principles

Share-based payments

The fair value of the options granted to the key employees has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the options that are expected to be vested by the end of the vesting period. The fair value of the options granted is determined by the Black-Scholes pricing model. The impact of any non-market vesting conditions have been excluded, but they are included in the assumptions about the number of options that are expected to become exercisable. At each consolidated statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates is recognized in the statement of income. When options are exercised and new shares given, the impacts of changes in the share capital which exceed the accounting par value of the shares are included in the paid-up unrestricted equity reserve. If treasury shares are used in subscriptions with option rights, the subscription price is included in the paid-up unrestricted equity reserve.

KONE has two separate share-based incentive plans to the senior management of KONE and other key personnel. Pursuant to the share ownership plans, the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of any non-market vesting conditions have been excluded, but they are included in assumptions about the number of shares that are expected to be distributed. At each statement of financial position date, the Group revises its estimates of the number of shares that are expected to be distributed. It recognizes the impact of the revision of original estimates in the statement of income. The fair value of the share-based payments settled with cash has been determined so that it covers taxes and taxable benefit costs that are incurred. The liability shall be measured, initially and at each reporting date until settled, based on the fair value of the shares expected to be distributed and expensed based on the extent to which the employees have rendered service to date. KONE recognizes the impact of the revision of original estimates, if any, in the statement of income.

Share-based payments

Share-based payments recognized as an expense in the statements of income, MEUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
To be paid in shares	30.4	17.1
To be paid in cash	10.1	19.0

6.3 RESTATED INFORMATION RELATED TO THE NEW STANDARDS

KONE has adapted new accounting standards issued by the International Accounting Standards Board, IFRS 15, and Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, effective on January 1, 2018.

Consolidated statement of income

MEUR	Published Jan 1–Dec 31, 2017	Restatement impact	Restated Jan 1–Dec 31, 2017
Sales	8,942.4	-145.7	8,796.7
Costs, expenses, depreciation and amortization	-7,725.3	121.0	-7,604.4
Operating income	1,217.1	-24.8	1,192.3
Share of associated companies' net income	-0.2		-0.2
Financing income	72.2		72.2
Financing expenses	-13.9		-13.9
Income before taxes	1,275.2	-24.8	1,250.4
Taxes	-300.1	9.8	-290.2
Net income	975.1	-14.9	960.2
Net income attributable to:			
Shareholders of the parent company	968.0	-12.2	955.8
Non-controlling interests	7.1	-2.7	4.4
Total	975.1	-14.9	960.2
Earnings per share for profit attributable to the shareholders of the parent company, EUR			
Basic earnings per share, EUR	1.89	-0.03	1.86
Diluted earnings per share, EUR	1.88	-0.02	1.86

Consolidated statement of comprehensive income

MEUR	Published Jan 1–Dec 31, 2017	Restatement impact	Restated Jan 1–Dec 31, 2017
Net income	975.1	-14.9	960.2
Other comprehensive income, net of tax:			
Translation differences	-203.9	-1.1	-204.9
Hedging of foreign subsidiaries	52.8		52.8
Cash flow hedges	39.3	0.3	39.6
Items that may be subsequently reclassified to statement of income	-111.7	-0.8	-112.5
Changes in fair value	-	-12.2	-12.2
Remeasurements of employee benefits	8.3		8.3
Items that will not be reclassified to statement of income	8.3	-12.2	-3.9
Total other comprehensive income, net of tax	-103.4	-13.0	-116.4
Total comprehensive income	871.7	-27.9	843.8
Total comprehensive income attributable to:			
Shareholders of the parent company	864.6	-25.2	839.4
Non-controlling interests	7.1	-2.7	4.4
Total	871.7	-27.9	843.8

Consolidated statement of financial position

Assets, MEUR	Published Dec 31, 2017	Restatement impact	Restated Dec 31, 2017	Published Jan 1, 2017	Restatement impact	Restated Jan 1, 2017
Non-current assets						
Goodwill	1,325.5		1,325.5	1,371.8		1,371.8
Other intangible assets	274.5		274.5	292.9		292.9
Property, plant and equipment	377.0		377.0	368.3		368.3
Investments in associated companies	1.4		1.4	5.0		5.0
Shares and other non-current financial assets	114.5	18.5	133.0	124.9	20.2	145.1
Non-current loans receivable	0.7		0.7	7.4		7.4
Employee benefits	11.5		11.5	-		-
Deferred tax assets	268.3	-5.0	263.3	318.4	-15.7	302.7
Total non-current assets	2,373.4	13.5	2,386.9	2,488.5	4.6	2,493.1
Current assets						
Inventories	1,244.6	-617.8	626.8	1,373.5	-815.5	558.0
Accounts receivable	1,608.7	302.1	1,910.8	1,573.7	328.2	1,901.9
Deferred assets	378.3	26.2	404.5	368.4	86.2	454.7
Income tax receivables	67.5		67.5	61.4		61.4
Current deposits and loan receivables	1,568.8		1,568.8	1,496.6		1,496.6
Cash and cash equivalents	496.5		496.5	589.2		589.2
Total current assets	5,364.4	-289.4	5,075.0	5,462.8	-401.0	5,061.7
Total assets	7,737.8	-275.9	7,461.9	7,951.3	-396.5	7,554.8

Equity and liabilities, MEUR	Published Dec 31, 2017	Restatement impact	Restated Dec 31, 2017	Published Jan 1, 2017	Restatement impact	Restated Jan 1, 2017
Capital and reserves attributable to the shareholders of the parent company						
Share capital	65.9		65.9	65.8		65.8
Share premium account	100.3		100.3	100.3		100.3
Paid-up unrestricted equity reserve	205.8		205.8	166.1		166.1
Fair value and other reserves	17.5	18.8	36.2	-11.4	20.2	8.9
Translation differences	81.2	-15.3	65.9	221.8	-3.8	218.0
Remeasurements of employee benefits	-105.2		-105.2	-113.5		-113.5
Retained earnings	2,528.6	116.3	2,644.9	2,353.8	128.5	2,482.3
Total shareholders' equity	2,894.2	119.8	3,013.9	2,782.9	144.9	2,927.8
Non-controlling interests	13.3	1.7	15.0	12.7	4.9	17.6
Total equity	2,907.4	121.5	3,028.9	2,795.6	149.8	2,945.4
Non-current liabilities						
Loans	194.7		194.7	203.1		203.1
Employee benefits	152.2		152.2	176.7		176.7
Deferred tax liabilities	136.1	7.7	143.8	154.2	5.8	160.1
Total non-current liabilities	483.0	7.7	490.7	534.0	5.8	539.9
Provisions	142.3	-4.4	137.9	183.2	-3.6	179.6
Current liabilities						
Current portion of long-term loans	14.9		14.9	14.1		14.1
Short-term loans and other liabilities	25.5		25.5	11.6		11.6
Advance payments received and deferred revenue	1,806.1	-401.6	1,404.6	1,976.9	-548.2	1,428.6
Accounts payable	705.1		705.1	743.3		743.3
Accruals	1,568.3	0.9	1,569.2	1,610.0	-0.3	1,609.7
Income tax payables	85.1	0.0	85.1	82.5		82.5
Total current liabilities	4,205.0	-400.6	3,804.4	4,438.5	-548.5	3,890.0
Total equity and liabilities	7,737.8	-275.9	7,461.9	7,951.3	-396.5	7,554.8

Parent company statement of income

EUR	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Sales	1	593,871,070.64	621,061,408.55
Other operating income	2	25,666,847.17	9,671,765.57
Materials and services		-1,233,546.46	-2,328,883.71
Personnel expenses	3	-129,355,873.58	-111,196,413.57
Depreciation and amortization	4	-14,940,135.34	-15,639,564.29
Other operating expenses	5	-354,524,056.93	-337,497,075.77
Operating income		119,484,305.50	164,071,236.78
Financing income and expenses	6	934,459,136.06	909,392,380.94
Income before appropriations and taxes		1,053,943,441.56	1,073,463,617.72
Appropriations	7	45,451,199.81	43,026,346.49
Income taxes		-33,164,225.18	-61,515,000.19
Deferred taxes		1,754,214.95	-364,724.45
Net income		1,067,984,631.14	1,054,610,239.57

Parent company statement of financial position

Assets, EUR	Note	Dec 31, 2018	Dec 31, 2017
Non-current assets			
Intangible assets	8	22,054,776.21	24,793,418.21
Property, plant and equipment	9	35,607,837.12	37,247,988.84
Investments			
Subsidiary shares	10	2,622,075,436.86	3,101,687,644.51
Other shares	11	2,463,349.44	2,458,313.53
		2,624,538,786.30	3,104,145,958.04
Total non-current assets		2,682,201,399.63	3,166,187,365.09
Current assets			
Long-term receivables	12		
Loans receivable		294,961,244.54	288,201,972.82
		294,961,244.54	288,201,972.82
Short-term receivables	13		
Accounts receivable		164,065,346.70	100,395,362.37
Loans receivable		790,528,125.41	645,974,457.65
Deferred tax assets		5,320,730.58	3,513,515.63
Other receivables		19,712,448.13	20,161,177.34
Deferred assets		192,499,735.05	165,951,830.76
		1,172,126,385.87	935,996,343.75
Financial investments		894,779,989.76	1,238,319,601.37
Cash and cash equivalents		203,365,928.35	191,129,258.83
Total current assets		2,565,233,548.52	2,653,647,176.77
Total assets		5,247,434,948.15	5,819,834,541.86

Equity and liabilities, EUR	Note	Dec 31, 2018	Dec 31, 2017
Equity			
Share capital		66,011,583.40	65,897,550.89
Share premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		237,735,404.86	198,898,316.07
Retained earnings		1,147,402,699.36	941,984,996.16
Net income		1,067,984,631.14	1,054,610,239.57
Total equity	14	2,619,462,383.34	2,361,719,167.27
Cumulative accelerated depreciation		10,060,052.72	9,571,002.53
Appropriations		10,060,052.72	9,571,002.53
Provisions	15	3,340,639.69	3,375,680.01
Liabilities			
Non-current liabilities	16		
Loans		474,767,206.98	708,347,158.22
		474,767,206.98	708,347,158.22
Current liabilities	17		
Accounts payable		108,140,108.74	71,383,509.04
Loans		1,863,570,717.77	2,525,063,054.23
Deferred tax liabilities		1,075,000.00	1,022,000.00
Other liabilities		21,501,072.29	17,069,514.97
Accruals		145,517,766.62	122,283,455.59
		2,139,804,665.42	2,736,821,533.83
Total liabilities		2,614,571,872.40	3,445,168,692.05
Total equity and liabilities		5,247,434,948.15	5,819,834,541.86

Parent company cash flow statement

EUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Cash receipts from customers	483,553,600.60	644,362,307.09
Cash receipts from other operative income	21,217,380.57	9,667,016.72
Cash paid to suppliers and employees	-380,255,692.61	-503,151,009.04
Financing items	953,364,815.16	846,951,349.01
Taxes paid	-44,696,611.90	-56,630,588.35
Other financing items	-10,157,335.12	62,333,058.69
Cash flow from operating activities	1,023,026,156.70	1,003,532,134.12
Capital expenditure	-10,568,732.16	-17,163,661.10
Proceeds from sales of fixed assets	41,612.91	2,600.00
Subsidiary investments	-13,471,956.51	-9,000.00
Proceeds from sales and decreases of subsidiary shares	497,492,630.76	-
Cash flow from investing activities	473,493,555.00	-17,170,061.10
Purchase of own shares	-	-
Increase in equity (option rights)	23,058,258.80	24,867,778.65
Net change in short-term debt	-275,544,315.75	87,055,703.48
Net change in long-term debt	-619,527,971.95	-102,220,267.35
Profit distribution	-849,192,536.37	-795,400,826.77
Group contributions received	44,800,000.00	50,700,000.00
Other financing items	192,123,523.09	-271,955,146.89
Cash flow from financing activities	-1,484,283,042.18	-1,006,952,758.88
Change in cash and cash equivalents	12,236,669.52	-20,590,685.86
Cash and cash equivalents, Jan 1	191,129,258.83	211,719,944.69
Cash and cash equivalents, Dec 31	203,365,928.35	191,129,258.83
Change in cash and cash equivalents	12,236,669.52	-20,590,685.86
Reconciliation of net income to the cash flow from operating activities		
Net income	1,067,984,631.14	1,054,610,239.57
Depreciation and amortization	14,940,135.34	15,639,564.29
Other adjustments	-28,588,062.19	-32,070,581.73
Income before change in working capital	1,054,336,704.29	1,038,179,222.13
Change in receivables	-91,496,124.36	-27,825,822.30
Change in liabilities	60,185,576.77	-6,821,265.71
Cash flow from operating activities	1,023,026,156.70	1,003,532,134.12

Accounting principles of the parent company financial statements

The parent company financial statements have been prepared according to the Finnish Accounting Standards. Financial statements have been prepared for the period of 12 months between January 1 and December 31, 2018.

Foreign currency transactions

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

Foreign exchange gains and losses associated with loans, deposits and other statement of financial position items are included under financing income and expenses.

Derivative instruments

Derivate financial instruments that are used to hedge the currency and the interest rate risks as well as to hedge the commodity risk related to the electricity price risk are initially and subsequently recognized at fair value in the statement of financial position. The fair values of foreign exchange forward contracts are calculated by discounting the future cash flows of the contracts with the relevant market interest rate yield curves on the valuation date and by calculating the difference between the discounted values in euros. The fair value of electricity price forwards is based on electricity stock exchange prices on the valuation date. The fair values of derivative financial instruments are presented in note 19.

Changes in the fair values of foreign exchange derivatives are recognized in financing income and expenses if the hedged item is a loan receivable, deposit or a financial asset or liability denominated in a foreign currency. Fair value changes of electricity price forwards designated as hedges against future electricity purchases are recognized in the income statement as adjustment items to purchases.

Revenue recognition

Revenues related to the utilization of intangible property rights are recognized as sales on an accrual basis, according to the existing contracts. The sales of services are recognized as sales when the services have been rendered or when the work is being carried out.

Research and development cost

Research and development costs are expensed as they incur.

Pensions

An external pension insurance company manages the parent company statutory pension plan. Contributions to the pension plan are charged directly to the statement of income in the year to which these contributions relate.

Leases

Leasing payments are charged to the statement of income on a straight-line basis over the leasing term. Remaining future leasing liabilities from existing contracts are presented in note 18.

Taxes

Tax expense includes taxes based on taxable income for the period, together with tax adjustments for previous periods and changes in deferred taxes. Deferred taxes are provided for temporary differences arising between the tax basis of assets and liabilities and their book values in financial reporting, and measured with enacted tax rates.

Deferred tax liabilities arising from temporary differences are fully recognized with prudency, whereas the deferred tax assets are recognized only to the extent of the probable future tax benefit.

Non-current assets

Intangible assets and property, plant and equipment are stated at the cost less accumulated depreciation and amortization. Depreciation and amortization is recorded on a straight-line basis over the economic useful lives of the assets as follows:

Buildings	5–40 years
Machinery and equipment	4–10 years
Other long-term expenditure	4–10 years

Land is not depreciated.

Investments in subsidiaries and other companies are measured at cost, or fair value in case the fair value is less than cost.

Provisions

Future costs in which the parent company has committed to and which probably will not contribute in future revenues are recognized in provisions.

Financial risk management

Parent company business activities are exposed to financial risks such as foreign exchange risks, interest rate risks, liquidity risks and credit risks. These financial risks are managed in accordance with the KONE Treasury Policy. Parent company financials risks are not significantly different from the group's financials risks, see notes 2.4 and 5.3.

Cash and cash equivalents

Cash and cash equivalents includes cash-in-hand and bank account balances. Used bank overdrafts are included in other current liabilities.

Share-based payments

KONE has two separate share-based incentive plans to the senior management of KONE and other key personnel. Pursuant to the share ownership plans, the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the company's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of any non-market vesting conditions has been excluded, but they are included in assumptions about the number of shares that are expected to be distributed. At each statement of financial position date, the company revises its estimates of the number of shares that are expected to be distributed. It recognizes the impact of the revision of original estimates in the statement of income. The fair value of the share-based payments settled with cash has been determined so that it covers taxes and taxable benefit costs that are incurred. The liability shall be measured, initially and at each reporting date until settled, based on the fair value of the shares expected to be distributed and expensed based on the extent to which the employees have rendered service to date. KONE recognizes the impact of the revision of original estimates, if any, in the statement of income.

Notes to the parent company financial statements

Notes to the statement of income

1. SALES

Sales to subsidiaries was 593,871.1 (621,061.4) thousand euros, which relates to revenues for the utilization of intellectual property rights.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Subsidies received	1,702.4	1,152.9
Recharged energy	1,876.9	1,657.0
Service charges	753.9	1,610.7
Others	21,333.7	5,251.1
Total	25,666.8	9,671.8

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Wages and salaries	111,614.7	94,212.1
Pension costs	15,335.4	13,935.2
Other employment expenses	2,405.8	3,049.1
Total	129,355.9	111,196.4

In 2018, the salaries and fees paid to the President & CEO and to the Board of Directors were together 5,782.0 (5,959.7) thousand euros. Average number of staff employed by the parent company was 1,045 during the financial year (951).

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Intangible rights	336.1	447.7
Other long term expenditure	8,999.6	10,338.8
Buildings	1,271.2	1,053.8
Machinery and equipment	4,333.2	3,799.2
Total	14,940.1	15,639.6

5. AUDITORS' FEES

EUR 1,000	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Audit	551.0	734.8
Auditors' statements	11.3	13.4
Tax advise	-	-
Other services	162.5	12.1
Total	724.9	760.3

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Dividend income from subsidiaries	945,208.7	813,057.4
Other dividends received	1.4	2.0
Interest income from subsidiaries	8,550.8	2,565.5
Interest income from others	32,714.3	56,587.9
Interest expenses to subsidiaries	-29,156.9	-26,110.9
Interest expenses to others	-4,051.1	-2,245.4
Other financing income and expenses	-18,808.0	65,535.9
Total	934,459.1	909,392.4

7. APPROPRIATIONS

EUR 1,000	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Cumulative accelerated depriciation change	-489.1	-1,773.7
Group contributions received	45,940.3	44,800.0
Total	45,451.2	43,026.3

Notes to the statement of financial position

8. INTANGIBLE ASSETS

Jan 1–Dec 31, 2018, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2018				
Acquisition cost	4,313.6	112,886.7	1,866.4	119,066.7
Accumulated amortization and impairment	-3,258.6	-91,014.6	-	-94,273.2
Net book value	1,055.0	21,872.1	1,866.4	24,793.4
Opening net book value	1,055.0	21,872.1	1,866.4	24,793.5
Increase	189.5	6,407.6	-	6,597.1
Decrease	-	-	-	-
Reclassifications	-	-	-	-
Amortization	-336.1	-8,999.6	-	-9,335.7
Closing net book value	908.4	19,280.0	1,866.4	22,054.8
Dec 31, 2018				
Acquisition cost	4,313.6	112,886.7	1,866.4	119,066.7
Accumulated amortization and impairment	-3,405.2	-93,606.7	-	-97,011.9
Net book value	908.4	19,280.0	1,866.4	22,054.8

Jan 1–Dec 31, 2017, EUR 1,000	Intangible rights	Other long-term expenditure	Advance payments	Total
Jan 1, 2017				
Acquisition cost	4,142.8	105,289.9	1,269.1	110,701.8
Accumulated amortization and impairment	-2,810.9	-81,857.3	-	-84,668.2
Net book value	1,331.9	23,432.6	1,269.1	26,033.6
Opening net book value	1,331.9	23,432.6	1,269.1	26,033.6
Increase	170.8	7,601.1	2,031.4	9,803.2
Decrease	-	-256.9	-	-256.9
Reclassifications	-	1,434.1	-1,434.1	0.0
Amortization	-447.7	-10,338.8	-	-10,786.6
Closing net book value	1,055.0	21,872.1	1,866.4	24,793.3
Dec 31, 2017				
Acquisition cost	4,313.6	112,886.7	1,866.4	119,066.7
Accumulated amortization and impairment	-3,258.6	-91,014.6	-	-94,273.3
Net book value	1,055.0	21,872.1	1,866.4	24,793.4

9. PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2018, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2018					
Acquisition cost	182.3	29,797.3	34,686.2	23.3	64,689.1
Accumulated depreciation	-	-7,244.5	-20,196.6	-	-27,441.1
Net book value	182.3	22,552.8	14,489.6	23.3	37,248.0
Opening net book value	182.3	22,552.8	14,489.6	23.3	37,248.0
Increase	-	494.1	3,465.7	4.5	3,964.3
Decrease	-	-	-	-	-
Reclassifications	-	23.3	-	-23.3	-
Depreciation	-	-1,271.1	-4,333.3	-	-5,604.4
Closing net book value	182.3	21,799.2	13,621.8	4.5	35,607.8
Dec 31, 2018					
Acquisition cost	182.3	29,797.3	34,686.2	23.3	64,689.1
Accumulated depreciation	-	-7,998.2	-21,064.3	-18.8	-29,081.3
Net book value	182.3	21,799.2	13,621.8	4.5	35,607.8

Jan 1–Dec 31, 2017, EUR 1,000	Land	Buildings	Machinery and equipment	Fixed assets under construction	Total
Jan 1, 2017					
Acquisition cost	182.3	16,823.7	30,627.2	11,040.4	58,673.7
Accumulated depreciation	-	-6,203.1	-17,796.1	-	-23,999.2
Net book value	182.3	10,620.6	12,831.1	11,040.4	34,674.5
Opening net book value	182.3	10,620.6	12,831.1	11,040.4	34,674.4
Increase	-	1,980.8	5,523.4	23.3	7,527.5
Decrease	-	-9.6	-91.3	-	-100.9
Reclassifications	-	11,016.4	24.0	-11,040.4	-
Depreciation	-	-1,055.3	-3,797.6	-	-4,853.0
Closing net book value	182.3	22,552.9	14,489.5	23.3	37,248.0
Dec 31, 2017					
Acquisition cost	182.3	29,797.3	34,686.2	23.3	64,689.1
Accumulated depreciation	-	-7,244.5	-20,196.6	-	-27,441.1
Net book value	182.3	22,552.9	14,489.5	23.3	37,248.0

10. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2018	Dec 31, 2017
Acquisition cost, Jan 1	3,101,687.6	3,101,994.7
Increase	13,472.0	9.0
Decrease	-493,084.2	-316.0
Reclassifications	-	-
Net book value, Dec 31	2,622,075.4	3,101,687.6

11. OTHER SHARES

EUR 1,000	Dec 31, 2018	Dec 31, 2017
Acquisition cost, Jan 1	2,458.3	2,460.3
Increase	7.4	-
Decrease	-2.4	-2.0
Reclassifications	-	-
Net book value, Dec 31	2,463.3	2,458.3

12. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2018	Dec 31, 2017
Loans receivable from subsidiaries	293,961.2	287.502.0
Loans receivable from externals	1,000.0	700.0
Long-term receivables	294,961.2	288.202.0

13. SHORT-TERM RECEIVABLES

Receivables from subsidiaries, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Accounts receivable	163,262.2	99,989.0
Loans receivable	790,528.1	645,974.5
Deferred assets	129,060.9	119,293.1
Total	1,082,851.2	865,256.5

Receivables from externals, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Accounts receivable	803.2	406.4
Others	19,712.4	20,161.2
Deferred assets	63,438.8	46,658.7
Total	83,954.4	67,226.3
Deferred tax assets	5,320.7	3,513.5
Total short-term receivables	1,172,126.4	935,996.3

Deferred assets, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Derivative assets	34,814.0	36,745.4
Deferred income taxes	10,904.4	1,764.6
Unbilled revenue	73,280.0	64,042.4
Group contributions	47,364.3	44,800.0
Others	26,137.2	18,599.4
Total	192,499.7	165,951.8

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, 2018	65,897.6	100,328.1	198,898.3	-217,820.5	2,214,415.7		2,361,719.2
Profit distribution					-849,192.5		-849,192.5
Purchase of own shares							-
Option and share-based compensation	114.0		38,837.1	14,494.6	-14,494.6		38,951.1
Net income for the period						1,067,984.6	1,067,984.6
Net book value Dec 31, 2018	66,011.6	100,328.1	237,735.4	-203,325.9	1,350,728.6	1,067,984.6	2,619,462.4

Non-restricted equity includes the paid-up unrestricted equity reserve, retained earnings deducted by own shares and the profit for the financial year. The non-restricted equity was EUR 2,453,122,735.36 (2,195,493,551.80) at the end of the period.

EUR 1,000	Share capital	Share premium account	Paid-up unrestricted equity reserve	Own shares	Retained earnings	Net income for the period	Total
Book value Jan 1, 2017	65,771.1	100,328.1	159,080.5	-236,688.3	1,974,074.2		2,062,565.5
Profit distribution					-795,400.8		-795,400.8
Purchase of own shares							-
Option and share-based compensation	126.4		39,817.9	18,867.8	-18,867.8		39,944.3
Net income for the period						1,054,610.2	1,054,610.2
Net book value Dec 31, 2017	65,897.6	100,328.1	198,898.3	-217,820.5	1,159,805.5	1,054,610.2	2,361,719.2

15. PROVISIONS

EUR 1,000	Dec 31, 2018	Dec 31, 2017
Warranty provisions	3,340.6	3,375.7
Total	3,340.6	3,375.7

16. NON-CURRENT LIABILITIES

Liabilities to subsidiaries EUR 1,000	Dec 31, 2018	Dec 31, 2017
Liabilites falling due in 1–5 years	314,767.2	548,347.2
Liabilities falling due later than five years	-	-
Total	314,767.2	548,347.2

Liabilities to externals, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Liabilites falling due in 1–5 years	160,000.0	160,000.0
Liabilities falling due later than five years	-	-
Total	160,000.0	160,000.0
Total current liabilities	474,767.2	708,347.2

17. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Accounts payable	43,917.5	21,198.4
Loans	1,863,570.7	2,525,063.1
Accruals	68,475.4	57,220.7
Total	1,975,963.6	2,603,482.2

Liabilities to externals, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Accounts payable	64,222.6	50,185.1
Other liabilities	21,501.1	17,069.5
Accruals	77,042.3	65,062.7
Total	162,766.0	132,317.3
Deferred tax liabilities	1075.0	1022.0
Total current liabilities	2,139,804.7	2,736,821.5

Accruals, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Accrued wages, salaries and employment costs	24,587.8	22,616.3
Derivative liabilities	33,143.1	26,423.9
Others	87,786.8	73,243.3
Total	145,517.8	122,283.5

18. COMMITMENTS

EUR 1,000	Dec 31, 2018	Dec 31, 2017
Guarantees		
For subsidiaries	2,652,924.0	2,147,102.0
For others	89.6	98.0
Leasing commitments		
Due next year	6,500.0	6,216.0
Due over a year	10,627.0	13,365.0
Other commitments	2,687.7	2,990.6
Total	2,672,828.3	2,169,771.6

19. DERIVATIVES

Fair values of derivative instruments, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Foreign exchange forward contracts with external parties	3,599.8	19,217.5
Foreign exchange forward contracts with subsidiaries	-1,928.9	-8,630.6
Electricity derivatives	-	-265.1
Total	1,670.9	10,321.8

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2018	Dec 31, 2017
Foreign exchange forward contracts with external parties	2,450,309.3	2,087,610.8
Foreign exchange forward contracts with subsidiaries	742,174.7	820,761.9
Electricity derivatives	-	950.6
Total	3,192,484.0	2,909,323.3

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

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

Subsidiaries

SUBSIDIARIES, DEC 31, 2018

		Shareholding %	
Country/Region	**Company**	**Group**	**Parent company**
Andorra	KONE Ascensors i Escales, S.A.	100	
Australia	KONE Elevators Employee Benefits Pty Limited	100	
	KONE Elevators Pty Limited	100	
	KONE Holdings (Australia) Limited	100	
Austria	Girula Beteiligungsverwaltungs GmbH	100	
	KONE AG	100	100
Bahrain	KONE Bahrain S.P.C.	0	
	KONE Elevators S.P.C.	0	
Belgium	KONE Belgium S.A.	100	99.99
	KONE International N.V.	100	99.99
Bosnia	KONE d.o.o. Sarajevo	100	
Bulgaria	KONE EOOD	100	100
Canada	KONE Inc.	100	
China	Giant Kone Elevator Co., Ltd.	100	40
	KONE Elevator (Shanghai) Co., Ltd.	100	
	KONE Elevators Co., Ltd.	100	
	Kunshan KONE Industrial Machinery Co., Ltd.	100	100
Croatia	KONE d.o.o.	100	
Cyprus	Gelco Lifts Ltd	100	
	KONE Elevators Cyprus Limited	100	100
Czech Republic	KONE, a.s.	100	100
	KONE Industrial – koncern s.r.o.	100	100
Denmark	KONE A/S	100	100
Egypt	KONE LLC	100	
Estonia	AS KONE	100	100
Finland	Finescal Oy	100	100
	Gigalock Oy	100	
	KONE Capital Oy	100	100
	KONE Care Oy	100	
	KONE Export Oy	100	
	KONE Hissit Oy	100	100
	KONE Industrial Oy	100	100
France	Ascenseurs Soulier S.N.C.	100	
	ATS-ATPE S.A.S.	99,8	
	Delta Ascenseurs S.A.R.L.	100	
	KONÉ Développement S.N.C.	100	
	KONÉ Holding France S.A.S.	100	100
	KONÉ S.A.	99,97	
	Prokodis S.A.S.	100	
	R.M.D. Automatismes S.A.S.	100	
	R.M.D. S.A.S.	100	
	Société en Participation KONE ATS	100	
Germany	Alois Kasper GmbH	100	
	Janzhoff Aufzüge GmbH	100	
	Klostermann Aufzüge GmbH	100	
	KONE Automatiktüren GmbH	100	
	KONE Escalator Supply Center Europe GmbH	100	
	KONE Garant Aufzug GmbH	100	
	KONE GmbH	100	
	KONE Holding GmbH	100	
	KONE Montage GmbH	100	

		Shareholding %	
Country/Region	Company	Group	Parent company
Germany	KONE Servicezentrale GmbH	100	
	SK-Fördertechnik GmbH	100	
	WBM Ostfalen-Aufzüge GmbH	100	
	WM Wahl Menzel Aufzugsdienst GmbH	100	
Greece	KONE S.A	100	
Hong Kong	Ben Fung Machineries & Engineering Ltd.	100	
	KONE Elevator (HK) Ltd.	100	
	Shan On Engineering Company Limited	100	
Hungary	KONE Felvono Kft	100	100
Iceland	KONE ehf	100	100
India	KONE Elevator India Private Ltd.	100	99.99
Indonesia	PT Kone Indo Elevator	100	1
Ireland	Bleasdale Limited	100	
	Direct Lifts Limited	100	
	Ennis Lifts Limited	100	
	Industrial Logistics Limited	100	
	KONE (Ireland) Limited	100	
	Professional Lift & Elevator Services Limited	100	
Israel	KONE LTD	100	100
Italy	Cerqueti Servizi S.r.l.	100	
	Cofam S.r.l.	60	
	Elevant Servizi S.r.l.	70	
	Elevatori Bari S.r.l.	80	
	Elevators S.r.l.	60	
	EP Servizi S.r.l.	70	
	Ferrara Ascensori S.r.l.	60	
	Fiore Ascensori S.a.s. di Fiore Donato	100	
	GSB Ascensori S.r.l.	65	
	KONE Industrial S.p.A.	100	100
	KONE S.p.A.	100	26.86
	L.A.M. Lombarda Ascensori Montacarichi S.r.l.	70	
	Mingot S.r.l.	98	
	Nettuno S.r.l.	75	
	Neulift S.r.l.	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	
	Stel S.r.l.	100	
	Tecnocram S.r.l.	84	
	Tosca Ascensori S.r.l.	66,67	
	Unilift S.r.l.	78,54	
Kenya	KONE Kenya Limited	100	
Latvia	SIA KONE Lifti Latvija	100	0.5
Lithuania	UAB KONE	100	100
Luxembourg	KONE Luxembourg S.A.R.L.	100	
	Lumico S.A.R.L.	100	100
Macedonia	KONE Makedonija Dooel Skopje	100	
Malaysia	Fuji Lift & Escalator Manufacturing Sdn. Bhd.	100	
	KONE Elevator (M) Sdn. Bhd.	47,85	47.85
	Premier Elevators Sdn. Bhd.	100	100
Mexico	KONE Industrial S.A. de C.V.	100	
	KONE Industrial Servicios S.A. de C.V.	100	
	KONE Mexico S.A. de C.V.	100	0.1
Monaco	S.A.M. KONÉ	100	
Montenegro	KONE d.o.o. Podgorica	100	
Morocco	KONE Elevators and Escalators Sarl AU	100	100
Netherlands	Hissi B.V.	100	
	KONE B.V.	100	

		Shareholding %	
Country/Region	Company	Group	Parent company
Netherlands	KONE Deursystemen B.V.	100	
	Kone Finance Holding B.V.	100	
	Kone Holland B.V.	100	53.2
	KONE Markus B.V.	100	
	KONE Nederland Holding B.V.	100	
	Waldoor B.V.	100	
Norway	KONE Aksjeselskap	100	100
	KONE Rulletrapper AS	100	100
Oman	KONE Assarain LLC	70	
Philippines	Elevators Philippines Construction, Inc.	40	
	KPI Elevators Inc.	100	
Poland	KONE Sp.z o.o.	100	100
Portugal	EMA – Elevadores, Assistência, Montagem e Reparação Lda.	100	
	KONE Portugal - Elevadores LDA.	100	1
Qatar	KONE Elevators LLC	49	49
Romania	KONE Ascensorul S.A.	100	99.99
Russia	JSC KONE Lifts	100	100
Saudi-Arabia	KONE Areeco Limited	50	10
Serbia	KONE d.o.o. Beograd-Zemun	100	
Singapore	KONE Pte Ltd.	100	
Slovak Republic	KONE s.r.o.	100	99.91
	KONE SSC s.r.o.	100	100
Slovenia	KONE d.o.o.	100	100
South Africa	KONE Elevators South Africa (Pty) Ltd.	100	
Spain	Ascensores Muralla, S.A.	100	
	Ascensores R Casado, S.A.	100	
	Citylift S.A.	80	
	Instalación y Mantenimiento Ascensores MP Baleares, S.L	80	
	KONE Elevadores, S.A.	100	99.99
	Marvi Ascensores S.L	100	
Sweden	KONE AB	100	
	KONE Door AB	100	
	KONE Metro AB	100	
	Motala Hissar AB	100	
	Uppsala Hiss Montage och El AB	100	
Switzerland	KONE (Schweiz) AG	100	100
Taiwan	KONE Elevators Taiwan Co. Ltd.	100	
Thailand	KONE Public Company Limited	84,02	
	Thai Elevators & Escalators Ltd.	74	
	Thai Elevators Holding Ltd.	49	
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100	
Uganda	KONE Uganda Limited	100	
UK	21st Century Lifts Limited	100	
	Acre Lifts Limited	100	
	CrownAcre Lifts Limited	100	
	Express Elevators Ltd.	100	
	KONE (NI) Ltd.	100	
	KONE Pension Trustees Ltd.	100	
	KONE Plc.	100	100
	Lift Maintenance Limited	100	
	Rob Willder Lifts Limited	100	
Ukraine	KONE Lifts LLC	100	
United Arab Emirates	KONE (Middle East) LLC	49	49
USA	ENOK Electrical Company, LLC	100	
	KONE Holdings, Inc.	100	
	KONE Inc.	100	
	Marine Elevators LLC	100	
Vietnam	KONE Vietnam Limited Liability Company	100	

Dividend proposal, signatures for the Board of Directors' report and Financial statements and Auditor's note.

Dividend proposal

The parent company's non-restricted equity on December 31, 2018 is EUR 2,453,122,735.36 of which the net income for the financial year is EUR 1,067,984,631.14.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.6475 be paid on the outstanding 76,208,712 class A shares and EUR 1.65 on the outstanding 439,852,141 class B shares, resulting in a total amount of proposed dividends of EUR 851,309,885.67. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,601,812,849.69 be retained and carried forward.

The Board proposes that the dividends be payable from March 7, 2019.

Signatures for the Financial statements and Board of Directors' report

Helsinki, January 24, 2019

Antti Herlin

Jussi Herlin

Matti Alahuhta

Anne Brunila

Iiris Herlin

Ravi Kant

Juhani Kaskeala

Sirpa Pietikäinen

Henrik Ehrnrooth,
President & CEO

The Auditors' Note

Our auditors' report has been issued today.

Helsinki, January 24, 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen
Authorised Public Accountant

Heikki Lassila
Authorised Public Accountant

Auditor's report

To the Annual General Meeting of KONE Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

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

What we have audited

We have audited the financial statements of KONE Oyj (business identity code 1927400-1) for the year ended 31 December 2018. The financial statements comprise:

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

Basis for Opinion

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

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

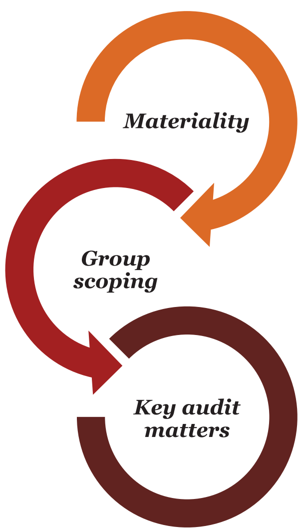
Independence

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

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

Our Audit Approach

Overview



Materiality

- We have applied an overall group materiality of € 52 million.

Group scoping

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

Key audit matters

- First-time Implementation of IFRS 15 - Restatement of 2017 revenues
- Revenue recognition of new equipment and modernisation sales

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 52 million (previous year € 60 million)
How we determined it	5% of operating profit
Rationale for the materiality benchmark applied	We chose operating profit as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users of these financial statements. We applied 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the KONE Group, the industry in which it operates as well as the group's processes and controls related to financial reporting.

We determined the type of work that needed to be performed at group companies by us, as the group engagement team, or by auditors from other PwC network firms operating under our instruction. Audits were performed in group companies which are considered significant either because of their individual financial significance or due to their specific nature, covering the vast majority of revenue, assets and liabilities of the Group. Selected specified procedures as well as analytical procedures were performed to cover the remaining companies.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
First-time Implementation of IFRS 15 – Restatement of 2017 Revenues Refer to notes 1, 2.1 and 6.3 in the financial statements	
A new IFRS standard, IFRS 15, was implemented in 2018, changing the framework and rules around recognition of revenue. The implementation of the new standard had a material impact on the revenue recognition in the volume new equipment and modernisation businesses. Revenue recognition in the maintenance business did not change as a result of implementing the new standard. Revenues related to long-term major projects have already in the past been accounted for under the over-time model, which is compliant with the new standard. The group has adopted the new standard by applying the full retrospective approach.	Our procedures included in-depth assessment of the accounting for the different revenue streams. This included the review of contracts and consideration of the different revenue streams and the different business models in different countries. We obtained an understanding of the processes and controls and IT systems used, and tested the most important controls related to revenue recognition.

Under IFRS 15, revenues for the new equipment and modernisation businesses are reported under the over-time model, which has been described in the following Key Audit Matter. The 2017 revenues as well as the consolidated statement of financial position at the 1.1.2017 and 31.12.2017 have been restated as part of adopting the new standard. The risks related to the 2017 revenues reported as comparatives were assessed by us to mainly relate to the stage of completion of revenue projects open at the 2017 closing balance sheet date, and as a consequence how much revenue has been recognised for these by that date. We focused on the restatement as it is material, and the revenue recognition for the aforementioned revenue streams, under the over-time model, involves management judgement in particular related to cost estimates. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	Our substantive tests of revenue projects open at the end of 2017 included: • reviewing a sample of sales contracts, ensuring appropriate revenue recognition criteria were applied and that the total estimated revenues for the projects were appropriately supported by the underlying contracts • testing cost estimates for selected projects by obtaining an understanding of management's process for making the estimates, and evaluating them based on supporting documentation in the project accounting • comparing the cost estimates of projects open at the end of 2016 to the actual outcomes during 2017 in order to assess management's ability to make reliable cost estimates • testing revenue related balances recognised in the balance sheet and adjustments made to these. We also tested a sample of revenue transactions recorded during the financial year 2017.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Revenue recognition of new equipment and modernisation sales Refer to notes 1 and 2.1 in the financial statements	
The sales of the group comprise new equipment, modernisation and maintenance sales. Given the different nature of the revenue streams, we consider their related risks to be different. While the accounting for maintenance revenue is less complex, we consider the accounting for new equipment and modernisation business revenue to constitute focus areas of the audit. Revenue for new equipment and modernisation contracts is primarily recognised by applying the over-time model, whereby the revenue recognised is determined based on the stage of completion of the ongoing projects. The stage of completion is determined by comparing actual costs incurred to date with the total estimated costs of the project. Revenue recognition for a project starts upon delivery of equipment to the customer site. We assessed the risk to mainly relate to the stage of completion of projects, which were open at the end of 2018. Our audit procedures focused on the revenue recognition of new equipment and modernisation projects because of the degree of management judgement included in the project estimates, impacting the amount of revenue recognised and project profitability. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	Our audit of revenue from new equipment and modernisation projects included both testing of controls and substantive audit procedures. Our substantive testing focused on the accounting estimates used by management as follows: • we agreed total project revenues per management's calculations to sales agreements including possible amendments for selected projects • we tested cost estimates for selected projects by obtaining an understanding of management's process for making the estimates, and evaluating them based on supporting documentation in the project accounting • we evaluated the reliability of estimates used by management by comparing forecasts made at the end of 2017 to actual outcomes in 2018 • we tested the stage of completion of projects open at the end of 2018 by comparing actual costs incurred by that date to the estimated total costs of the projects. We also tested a sample of revenue transactions recorded during the financial year 2018.
We have no key audit matters to report with respect to our audit of the parent company financial statements.	
There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.	

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other Reporting Requirements

Appointment

The auditors who have signed the audit report have been acting as the auditors appointed by the annual general meeting of KONE Oyj as follows: PricewaterhouseCoopers Oy has, without interruption, been acting as the auditor for 62 years since first being appointed on 2 March 1957, when one Authorised Public Accountant (KHT) working for our firm was appointed as the auditor. The other auditor of KONE Oyj has been an auditor working for our firm since 26 February 1993. Authorised Public Accountant (KHT) Heikki Lassila has, without interruption, been acting as the auditor since 23 February 2018 for one year. Our firm and Authorised Public Accountants (KHT) working for our firm have been acting as the auditors of KONE Oyj for the entirety of the duration that it has been a public interest entity.

Other Information

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

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

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

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

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

Helsinki 24 January 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen
Authorised Public Accountant

Heikki Lassila
Authorised 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 2015 published by the Securities Market Association, with the exception of recommendations 16 (Independence of the company of the members of the audit committee), 17 (Independence of the company of the members of the remuneration committee) and 18a (Independence of the company of the members of the nomination committee). The entire Code is available on the Internet at www.cgfinland.fi. These exceptions are due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 62 percent of the company's voting rights and 22 percent of its shares. The significant entrepreneurial risk associated with ownership is considered to justify the main shareholder serving as either Chairman or Member of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

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

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

Board of Directors

Duties and responsibilities

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

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

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

Members of the Board

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

Committees

The Board of Directors has appointed two committees consisting of its members: the Audit Committee and the Nomination and Compensation Committee. The Board has confirmed rules of procedure for both Committees. The Secretary to the Board acts as the Secretary of both Committees.

The Audit Committee monitors the Group's financial situation and supervises reporting related to the financial statements and interim reports. The Audit Committee monitors and assesses the adequacy and appropriateness of KONE's internal control and risk management, as well as the adherence to rules and regulations. It also monitors and oversees the financial statement and financial reporting process. In addition, the Audit Committee processes the description of the main features of the internal control and risk management systems pertaining to the financial reporting process included in the company's corporate governance statement. In addition, it deals with the Corporation's internal audit plans and reports. The Director of Internal Audit reports the internal audit results to the Committee. The Audit Committee evaluates the auditing of the Group's companies and the appropriateness of the related arrangements and auditing services, and considers the auditors' reports. Furthermore, the Committee formulates a proposal to the Annual General Meeting regarding the auditors to be selected for the Corporation.

The Nomination and Compensation Committee prepares proposals to be made to the Annual General Meeting regarding the nomination of Board members and their compensation and makes decisions regarding senior management appointments and compensation. The Committee also decides on the compensation systems to be used.

Management

Full-time Chairman of the Board and the President and CEO

KONE Corporation's Board of Directors appoints the full-time Chairman of the Board and the President and CEO. The Board determines the terms and conditions of employment of the full-time Chairman of the Board and the President and CEO, and these are defined in their respective written contracts. The Chairman of the Board prepares matters to be considered by the Board together with the President and CEO and the corporate staff. The Chairman of the Board and the President and CEO are responsible for the execution of the targets, plans, strategies and goals set by the Board of Directors within the KONE Group. The President and CEO is responsible for operational leadership within the scope of the strategic plans, budgets, operational plans, guidelines and orders approved by KONE Corporation's Board of Directors. The President and CEO presents operational issues to the Board, and is responsible for implementing the decisions of the Board.

Executive Board

The Executive Board supports the President and CEO in executing the corporate strategy. The Executive Board follows business developments, initiates actions and defines operating principles and methods in accordance with guidelines handed down by the Board of Directors and the President and CEO. The Executive Board holds regular monthly meetings and additional meetings as required.

Risk Management, Internal Control and Internal and External Audit at KONE

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

Risk management

KONE's Risk Management function coordinates and develops a systematic assessment of risks and opportunities within core business planning and decision-making processes together with the Strategy Development function.

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

Internal control

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

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

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

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

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

Internal control procedures over financial reporting

Correct financial reporting in KONE's internal control framework means that its financial statements give a true and fair view of the financial performance of the operations and the financial position of the group and that such statements do not include intentional or unintentional misstatements or omissions both in respect of the figures and level of disclosure.

Corporate-wide financial management and control of operations is coordinated by the Global Finance and Control function and implemented by a network of subsidiary and business entity Controllers within KONE.

KONE's monthly business planning and financial reporting process represents a key control procedure within KONE in ensuring the effectiveness and efficiency of operations. This process includes in-depth analyses of deviations between actual performance, budgets, prior year performance and latest forecasts for the business on multiple levels of the organization. The process covers financial information as well as key performance indicators that measure the operational performance on a business unit and corporate level. The process is designed to ensure that any deviations from plans, in terms of financial or operating performance and financial management policies are identified, communicated and reacted upon efficiently, in a harmonized and timely manner. KONE's financial statements are based on this management reporting process.

Financial control tasks are built into the business processes of KONE as well as into the ongoing business supervision and monitoring of the management. KONE has established Financial Control Models for new equipment and service businesses as well as for treasury and tax matters. The models have been defined to ensure that the financial control covers the relevant tasks in an efficient and timely manner.

The interpretation, application and monitoring of the compliance of accounting standards is centralized in the Global Finance and Control function, which maintains, under the supervision of the Audit Committee, the KONE Accounting Standards. Reporting and forecasting contents are defined in the KONE Accounting and Reporting Instructions. These standards and instructions are maintained and updated centrally by the Global Finance and Control function and applied uniformly throughout KONE.

KONE has a global enterprise resource planning (ERP) system which is built to reflect the KONE Accounting Standards and KONE Accounting and Reporting Instructions. KONE applies a controlled change management process ensuring that no changes to the financial reporting logic of the ERP system can be made without approval from the Global Finance and Control function. Automatic interfaces between different systems are principally applied in the period-end financial reporting process of KONE. Transactional processing is increasingly automated and centralized in dedicated shared service centers.

Effective internal control over record to report processes, from business processes and systems to the financial statements, is important in ensuring the correctness of financial reporting. This is driven by the identification of key data elements of the business and the quality of the data to ensure correct financial reporting and forecasting ability.

Internal Audit

The Corporation has an Internal Audit Department, which is separate from the management. The Head of Internal Audit reports to the Chairman of the Board. The Internal Audit Department is responsible for auditing both the internal control system and the management of business risks. It reports its findings to the Audit Committee.

External Audit

The objective of a statutory audit is to express an opinion whether the consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the group, as well as whether the parent company's

More information

Most significant risks and uncertainties related to KONE's business are described in the Board of Directors' Report. Financial risk management is described in note 2.4 and 5.3.

financial statements give a true and fair view of the parent company's financial performance and financial position. Statutory audit encompasses also the audit of the accounting and governance in the company. The auditor considers whether the information in the Board of Directors' report is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable legal requirements.

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

Insiders

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

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

More information

This statement is available on the company's web pages at www.kone.com and it has been given separately of the Board of Directors' report.

Corporate governance in 2018

Annual General Meeting

The Annual General Meeting was held in Helsinki, Finland on February 26, 2018.

Board of Directors and committees

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

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

In 2018, the Board of Directors convened 7 times, with an average attendance rate of 93%. Jukka Ala-Mello serves as Secretary to the Board and to its Committees.

Audit committee

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

The Audit Committee held 3 meetings in 2018, with an average attendance rate of 92%.

Caj Lövegren serves as the Head of Internal Audit.

Nomination and compensation committee

The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Matti Alahuhta (independent member), Jussi Herlin and Juhani Kaskeala (independent member).

The Nomination and Compensation Committee held 2 meetings in 2018, with an average attendance rate of 88%.

Number of Board and Committee meetings in 2018 and participant attendance:

	Board	Audit Committee	Nomination and Compensation Committee
Antti Herlin	7/7	2/3	1/2
Jussi Herlin	7/7	3/3	2/2
Matti Alahuhta	7/7		2/2
Anne Brunila	7/7	3/3	
Iiris Herlin	6/7		
Ravi Kant	6/7	3/3	
Juhani Kaskeala	7/7		2/2
Sirpa Pietikäinen	5/7		

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2018 confirmed the fees of the members of the Board as follows (annual fees in EUR):

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

Of the annual remuneration, 40 percent was paid in class B shares of KONE Corporation and the rest in cash. It was also confirmed that a meeting fee of EUR 500 is paid for each meeting of the Board and its committees but anyhow EUR 2,000 fee per those Committee meetings for the members residing outside of Finland. Board members' travel expenses and daily allowances are compensated in accordance with the company's travel expense policy.

Compensation and other benefits of the Chairman

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Group's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2018, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for 2018 totaled EUR 305,400. He was also paid EUR 60,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 93.

The full-time Chairman's retirement age and pension are determined in accordance with Finland's Pensions Act. No separate agreement regarding early retirement has been made.

President and CEO

Henrik Ehrnrooth serves as KONE Corporation's President and CEO.

Compensation and other benefits of the President and CEO

The President and CEO's compensation consists of a basic salary and a yearly bonus determined annually by the Board on the basis of the Corporation's key targets. The yearly bonus may not exceed 100 percent of the recipient's annual salary.

Henrik Ehrnrooth's annual base salary is EUR 750,000. In addition, his accrued bonus for 2018 totaled EUR 451,500. Henrik Ehrnrooth's holdings of shares are presented in the table below.

Henrik Ehrnrooth is included in the share-based incentive plan for the Group's senior management. The potential bonus is based on the growth in KONE's sales and operating profit. In April 2018, on the basis of the incentive plan for year 2017, Henrik Ehrnrooth received a bonus of EUR 3,179,444 which consisted of 35,031 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2018 and due for payment in April 2019 is 25,344 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares.

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

Executive Board

KONE's Executive Board consists of President and CEO and 13 Members. Henrik Ehrnrooth serves as President and CEO. The other members of Executive Board are Max Alfthan, Axel Berkling, Klaus Cawén, Hugues Delval, Ilkka Hara, Thomas Hinnerskov, William Johnson, Mikko Korte, Heikki Leppänen, Pierre Liautaud, Tomio Pihkala, Susanne Skippari and Larry Wash.

Compensation and other benefits of the Executive Board

The compensation for the members of the Executive Board comprises a base salary and a yearly bonus, based on the Group's annual result and the achievement of personal targets, which can relate to, for example, strategy execution, safety or quality. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary.

The Executive Board members' holdings of shares are presented in the below table.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2018, on the basis of the incentive plan, the members of the Executive Board received a bonus 182,169 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2018 and due for payment in April 2019 is 131,794 KONE class B shares together with a cash bonus equal to the amount of taxes and similar charges. No separate agreement regarding early retirement has been made for the members of the Executive Board. The compensation for the termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

Auditing

KONE Corporation's Auditors are Heikki Lassila, Authorized Public Accountant, and PricewaterhouseCoopers Oy, Authorized Public Accountants. The fees paid to companies in the PricewaterhouseCoopers chain for 2018 were EUR 3.4 million for auditing and EUR 1.0 million for other consulting services.

Insiders

The holdings of the Board of Directors and Management of KONE on December 31, 2018 and the changes occurring in them during the financial year are presented in the table below.

More information

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

More information

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Shareholdings and options of KONE Board and Management on on Dec 31, 2018 and changes in shareholding during the period Jan 1–Dec 31, 2018

	Class A shares	Change	Class B shares	Change
Alahuhta Matti			753,606	+ 394
Alfthan Max			48,737	+ 14,013
Berkling Axel			38,773	+ 14,013
Brunila Anne			2,646	+ 394
Cawén Klaus			345,161	+ 14,013
Delval Hugues			39,048	+ 8,455
Ehrnrooth Henrik			313,397	+ 38,681
Hara Ilkka			25,364	+ 14,013
Herlin Antti	70,561,608	-	46,836,014	+ 990,542
Herlin Iiris			134,653	+ 394
Herlin Jussi			108,897	+ 444
Hinnerskov Thomas			32,028	+ 14,013
Johnson William			115,971	-16,185
Kant Ravi			1,806	+ 394
Kaskeala Juhani			2,630	+ 394
Korte Mikko			45,207	+ 14,013
Leppänen Heikki			195,961	+14,013
Liautaud Pierre			74,145	+ 14,013
Pietikäinen Sirpa			7,806	+ 394
Pihkala Tomio			83,457	+ 14,013
Skippari Susanne			16,531	+ 14,013
Wash Larry			58,897	-1,135

The shares owned by companies in which the Board Member or Management exercises controlling power and minor children are also included in these shareholdings.

Board of Directors

Antti Herlin

Chairman of the Board
b. 1956, D.Sc. (Econ.) h.c., D.Arts h.c., D.Sc. (Tech) h.c.
Member of the Board since 1991.
Has served as Chairman of the Board since 2003. Previously served as CEO of KONE Corporation 1996–2006 and as Deputy Chairman 1996–2003.
Current key positions of trust are Chairman of the Board of Security Trading Oy and Holding Manutas Oy, Vice Chairman of the Board of Sanoma Corporation and Member of the Board of Caverion Corporation.

Jussi Herlin

Vice Chairman of the Board
b. 1984, M.Sc. (Econ)
Member of the Board since 2012.
Senior Business Analyst, Strategy Development at KONE Corporation since 2016. Previously served as Consultant at Accenture between 2012–2014 and Deputy Member of the Board of KONE Corporation during the years 2007–2012.
Current key positions of trust are Member of the Board of Security Trading Oy, Member of the Board of Holding Manutas Oy, Member of the Board of the Tiina and Antti Herlin Foundation, Member of the Board of Technology Industries of Finland and Member of the Board of TT Foundation for the Confederation of Finnish Industry and Employers.

Matti Alahuhta

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

Anne Brunila

b. 1957, D.Sc. (Econ.), D.Sc. (Econ.) h.c.
Member of the Board since 2009.
Professor of Practice, Hanken School of Economics since 2014. Previously served as Executive Vice President, Corporate Relations and Strategy and Member of the Management Team of Fortum 2009–2012, as President and CEO of the Finnish Forest Industries Federation 2006–2009, in the Finnish Ministry of Finance as Director General 2003–2006 and in several advisory and executive positions in the Bank of Finland 1992–2000 and in the European Commission 2000–2002.
Current key positions of trust are Member of the Board of Stora Enso, Member of the Board of Sanoma Corporation, Chair of the Board of Aalto University Foundation and Chair of the Board of the Finnish Film Foundation.

Iiris Herlin

b. 1989, M.Soc.Sc.
Member of the Board since 2015. Deputy Member of the Board during the years 2013–2014.
Current key positions of trust are Member of the Board of Security Trading Oy and Member of the Board of the Tiina and Antti Herlin Foundation.

Ravi Kant

b. 1944, B.Tech. (Hons.), M.Sc., D.Sc. (Hon)
Member of the Board since 2014.
Previously served in different positions in Tata Motors since 1999, and as Managing Director and CEO from 2005 to 2009 and after that as the Vice Chairman of the Board of Directors until 2014. Prior to that, he was Director, Consumer Electronics, Philips India; Director (Marketing), LML Ltd. and Vice President (Marketing), Titan Watches Ltd.
Current key positions of trust are Chairman of the Board of Indian Institute of Information Technology Allahabad, Member of the Board of Vedanta Ltd, Member of the Board of Hawkins Cookers Ltd, Member of the Advisory Board of Accenture India and Chairman of the Advisory Board of Akhandjyoti Eye Hospital.

Juhani Kaskeala

b. 1946, Admiral.
Member of the Board since 2009.
Managing Director of Admiral Consulting Oy since 2011. Previously served in the Finnish Defence Forces in several positions 1965–2009, last as Commander of the Finnish Defence Forces 2001–2009.
Current key positions of trust are Member of the Board of Oy Forcit Ab, Member of the Board of Nixu Oyj, Senior Advisor of Blic Oy and Member of the European Leadership Network.

Sirpa Pietikäinen

b. 1959, M.Sc. (Econ.)
Member of the Board since 2006.
Served as Member of the European Parliament since 2008 and as a negotiation theory lecturer and consultant since 1999. Previously served as a Member of Finland's Parliament 1983–2003 and as Finland's Minister of the Environment 1991–1995.
Current key positions of trust are Chair of GLOBE EU, Chair of the Board of the Martha Organisation, Vice Chair of the Board of Lammi Savings Bank, Chair of the KVS Foundation Advisory Board and Member of the Board of Alzheimer Europe.

More information

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

More information

Corporate governance, page 90.

Executive Board

Henrik Ehrnrooth

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

Max Alfthan

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

Axel Berkling

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

Klaus Cawén

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

Hugues Delval

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

Ilkka Hara

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

Thomas Hinnerskov

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

William B. Johnson

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

Mikko Korte

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

Heikki Leppänen

New Equipment Business
b. 1957, Licentiate in Technology
Member of the Executive Board since 2005. Employed by KONE Corporation since 1982. Previously served in KONE Corporation as Senior Vice President, Technology 2004–2005 and as Head of Global Research and Development 2000–2004.

Pierre Liautaud

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

Tomio Pihkala

Chief Technology Officer
b. 1975, M.Sc. (Mechanical Engineering)
Member of the Executive Board since 2013. Employed by KONE Corporation since 2001. Previously served in KONE Corporation as Executive Vice President, Operations Development 2013–2015, Vice President, Technology Finland 2011–2013, as Director, Service Equipment Business, in KONE China 2009–2010, as Director, Product Strategy and Marketing, in KONE China 2007–2008.
Current key positions of trust: Member of the Board of Toshiba Elevator and Building Systems Corporation, and Member of the Board of Vexve Oy.

Susanne Skippari

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

Larry Wash

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

Information for shareholders

Annual General Meeting

KONE Corporation's Annual General Meeting will be held on February 26, 2019 at 11.00 a.m. in the Finlandia Hall, Mannerheimintie 13, Helsinki, Finland.

Shareholders wishing to attend the meeting must be registered in the KONE shareholder register at Euroclear Finland Ltd. no later than on February 14, 2019, and must register for attending the meeting over the internet (www.kone.com/en/investors/annual-general-meetings/), by fax (+358 (0)204 75 4523), by telephone (+358 (0)20 770 6873) or by mail (KONE Corporation, Share Register, P.O. Box 7, FI-02151 Espoo, Finland) no later than on February 21, 2019, by 3:00 p.m. EET. The registration must be received by the end of the registration period. Any proxies must be submitted at the same time.

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

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that for the financial year 2018 a dividend of EUR 1.6475 be paid for each class A share and a dividend of EUR 1.65 be paid for each class B share. All shares existing on the dividend record date, February 28, 2019 are entitled to the dividend. The dividend will be paid on March 7, 2019.

More information

The Board of Directors' proposal for the distribution of profit, page 84
Shares and shareholders, page 22

Listing of KONE securities

KONE Corporation has two classes of shares: the listed class B shares and the non-listed class A shares. The KONE class B shares are listed on the Nasdaq Helsinki Ltd. and are registered at Euroclear Finland Ltd. Stock options 2014 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2016. The subscription period for the KONE 2014 option rights expired on April 30, 2018. Stock options 2015 have been listed on the Nasdaq Helsinki Ltd. from April 1, 2017.

Investor Relations

Investor Relations policy

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

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

Silent period

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

Contact information

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

KONE's financial reporting schedule in 2019

Financial Statement Bulletin and Financial Statements for 2018	Thursday, January 24, 2019
Printed Financial Statements for 2018	Week 8 February, 2019
Interim report for January 1–March 31, 2019	Thursday, April 25, 2019
Interim report for January 1–June 30, 2019	Thursday, July 18, 2019
Interim report for January 1–September 30, 2019	Wednesday, October 23, 2019

In the second quarter of 2019, KONE will publish a separate Sustainability Report for the year 2018.

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