

Corporate governance

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 published by the Securities Market Association on October 22, 2008, with the exception of recommendations 26 (Independence of Audit Committee members), 29 (Nomination Committee members and their appointment) and 32 (Compensation Committee members). 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 21 percent of its shares. The significant entrepreneurial risk associated with ownership justifies the main shareholder serving as Chairman of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

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

- 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 & CEO, and decisions on the terms and conditions of their employment
- decisions on the company's corporate structure
- decisions on major acquisitions and investments

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 eight 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. In electing the members of the Board, attention is paid to the candidates' broad and mutually complementary experience, expertise and views of both KONE's business and other businesses.

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 Committee assesses the adequacy and appropriateness of KONE's internal control and risk management, as well as the adherence to rules and regulations. It also deals with the Corporation's internal audit plans and reports. The Director of Internal Auditing 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.

Operational management

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

KONE Corporation's Board of Directors appoints the full-time Chairman of the Board and the President & CEO. The Board determines the terms and conditions of employment of the full-time Chairman of the Board and the President & 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 & CEO and corporate staff. The Chairman of the Board and the President & 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 & CEO is also responsible for operational leadership within the scope of the strategic plans, budgets, operational plans, guidelines and orders approved by KONE Corporation's Board of Directors. The President & 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 & 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 & CEO. The Executive Board holds regular monthly meetings and additional meetings as required.

Control systems

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

Internal control

The goal of KONE's internal control system is to ensure that the Group's operations are efficient and profitable, that its business risk management is adequate and appropriate, and that the information created is reliable. The control system also makes it possible to oversee that the operating principles determined and instructions given are followed.

The Board's Audit Committee monitors the functioning of the internal control process. The Corporation has an Internal Auditing Department, which is separated from the operational management and whose head reports to the Chairman of the Board. The Internal Audit Department is responsible for auditing internal control and the management of business risks. It reports its findings to the Audit Committee.

Risk management

The purpose of risk management is to recognize, analyze and control potential risks and threats to KONE's operations. With respect to certain risks, the principles and main content of risk management are defined by KONE's policies and guidelines. While the monitoring, coordination and management of certain risks take place at the Group level, each unit is responsible for carrying out risk management related to its own operations. Senior management regularly identifies and evaluates strategic and operational risks. As part of its efforts to manage risks of damage or loss, KONE has extensive insurance coverage.

Auditing

The task of statutory auditing is to verify that the financial statements and Board of Directors' report provide accurate and adequate information on KONE's result and financial position. In addition, auditing includes an audit of the Corporation's accounting and administration.

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 OMX Helsinki Ltd, which have been supplemented with internal insider guidelines approved by the Board of Directors. The company maintains its public and company-specific insider registers in the Finnish Central Securities Depository's SIRE system. In compliance with the Finnish Securities Markets Act, KONE's public insiders include the members and deputy member of the Board of Directors, the President & CEO and the Auditors. In addition to these individuals, KONE's public insiders include members of the Executive Board defined by the company. In addition to the public insiders, KONE's permanent insiders include company-specific insiders defined by the company who regularly receive insider information due to their jobs. Permanent insiders are permitted to trade in KONE shares and securities entitling to KONE shares during a six-week period after the release of interim reports and financial statements releases. The company also maintains a project-specific insider register when necessary. Project-specific insiders are prohibited from trading in KONE securities until termination of the project.

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

Corporate governance in 2008

General Meeting of shareholders

The Annual General Meeting was held in Helsinki on February 25, 2008.

Board of Directors and committees

The Annual General Meeting elected seven members and one deputy member to KONE's Board of Directors. The full-time Chairman of the Board of Directors of KONE Corporation is Antti Herlin. Sirkka Hämäläinen-Lindfors is the Vice Chairman of the Board. The other members of the Board are Matti Alahuhta, Reino Hanhinen, Sirpa Pietikäinen, Masayuki Shimono and Iiro Viinanen. The deputy member of the Board is Jussi Herlin.

Of the Board members, Sirkka Hämäläinen-Lindfors, Reino Hanhinen, Sirpa Pietikäinen and Iiro Viinanen are independent of the Corporation. With the exception of Antti Herlin and Jussi

Herlin, the other Board members are independent of the Corporation's significant shareholders.

In 2008, the Board of Directors convened seven times, with an average attendance rate of 93 percent. Jukka Ala-Mello serves as Secretary to the Board.

Audit committee

The Board of Directors' Audit Committee comprises Antti Herlin (Chairman), Sirkka Hämäläinen-Lindfors and Iiro Viinanen (independent members). The Audit Committee held three meetings in 2008, with an average attendance rate of 100 percent.

Urpo Paasovaara serves as Head of Internal Control.

Nomination and compensation committee

The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Reino Hanhinen and Sirkka Hämäläinen-Lindfors (independent members). The Nomination and Compensation Committee held three meetings in 2008, with an average attendance rate of 100 percent.

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2008 confirmed the fees of the members of the Board as follows:

| Annual fees | EUR |
|-----------------------|--------|
| Chairman of the Board | 54,000 |
| Vice chairman | 42,000 |
| Member | 30,000 |
| Deputy member | 15,000 |

It was also confirmed that the Board members would receive a meeting fee of EUR 500 for each meeting of the Board and its committees. 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 Corporation's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2008, Antti Herlin's basic salary was EUR 468,488. In addition, his bonus accrued for 2008 totaled EUR 229,559. He was also paid EUR 59,500 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares and options are presented in the table on page 59.



Additional information

- Major risks and uncertainties, Board of Director's review, page 4
- Capital and risk management principles, page 62
- Financial risk management, note 2, page 15

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

President & CEO

Matti Alahuhta serves as KONE Corporation's President & CEO.

Compensation and other benefits of the President & CEO

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

In 2008, Matti Alahuhta's basic salary was EUR 722,200. In addition, his bonus accrued for 2008 totaled EUR 594,371. He was also paid EUR 32,500 as compensation for serving on the Board. Matti Alahuhta's holdings of shares and options are presented in the table on page 59.

Matti Alahuhta is included in the share-based incentive plan for the Corporation's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In April 2008, on the basis of the incentive plan, Matti Alahuhta received a bonus of EUR 1,803,946, which consisted of 36,000 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 2008 and due for payment in April 2009 is

21,600 KONE class B shares together with an estimated cash bonus to cover taxes and similar charges arising from the receipt of shares.

As part of Matti Alahuhta's contract, he has the possibility to retire at the age of 60 with a pension of 60 percent of his average monthly salary during his last seven years of earnings. 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 Matti Alahuhta, President & CEO, Klaus Cawén, Pekka Kempainen, Anne Korhiakoski (from September 1, 2008), Ari Lehtoranta (from November 3, 2008), Heikki Leppänen, Juho Malmberg, Eric Maziol, Peter de Neef, William Orchard (until November 3, 2008), Aimo Rajahalme, Vance Tang, Kerttu Tuomas and Noud Veeger.

Compensation and other benefits of the Executive Board

Compensation for members of the Executive Board comprises a basic 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 and options are presented in the table on page 59.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2008, on the basis of the incentive plan, the members of the Executive Board received a bonus of 158,400 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 2008 and due for payment in April 2009 is 103,680 KONE class B shares together with an estimated cash bonus equal to the amount of taxes and similar charges. No separate agreement has been made regarding early retirement for members of the Executive Board. Compensation for 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 2008 were EUR 2.1 million for auditing and EUR 1.8 million for other consulting services.

Insiders

The holdings of persons belonging to KONE's public insiders on December 31, 2008 and the changes occurring in them during the financial year are presented in the table on page 59.

**Shareholdings and options of KONE Corporation's public insiders on Dec 31, 2008
and changes in shareholding during the period Jan 1–Dec 31, 2008**

| | Class A shares | Change | Class B shares | Change | Series 2005B option rights | Change |
|----------------------------|-------------------|--------|-------------------|--------|-------------------------------|--------|
| Alahuhta Matti | | | 226,000 | 96,000 | | -5,000 |
| Cawén Klaus | | | 70,100 | 30,100 | | -2,200 |
| De Neef Peter | | | 52,400 | 18,400 | 1,000 | -1,200 |
| Hanhinen Reino | | | 2,000 | | | |
| Herlin Antti | 35,280,804 | | 18,420,920 | 84,000 | | -7,000 |
| Herlin Jussi | | | 53,180 | | | |
| Hämäläinen-Lindfors Sirkka | | | 1,000 | 200 | | |
| Kempainen Pekka | | | 93,080 | 50,400 | | -5,800 |
| Korkiakoski Anne | | | 2,000 | 2,000 | | |
| Lehtoranta Ari | | | 700 | 700 | | |
| Leppänen Heikki | | | 40,800 | 16,800 | | -200 |
| Malmberg Juho | | | 32,240 | 14,400 | | |
| Maziol Eric | | | 105,200 | 14,400 | 1,000 | |
| Pietikäinen Sirpa | | | 3,000 | 3,000 | | |
| Rajahalme Aimo | | | 18,400 | 4,400 | | |
| Tang Vance | | | 14,400 | 14,400 | | |
| Tuomas Kerttu | | | 53,600 | 21,600 | 350 | -900 |
| Veeger Noud | | | 52,110 | 14,400 | | |

No other public insiders had share or option holdings in KONE on December 31, 2008. On November 3, 2008 William Orchard had 40,358 class B shares. The shares owned by companies in which the public insider exercises controlling power are also included in these shareholdings.



More information

A regularly updated table reporting the holdings of public insiders is available on www.kone.com



More information

- Board of Directors, page 60
- Executive Board, page 61