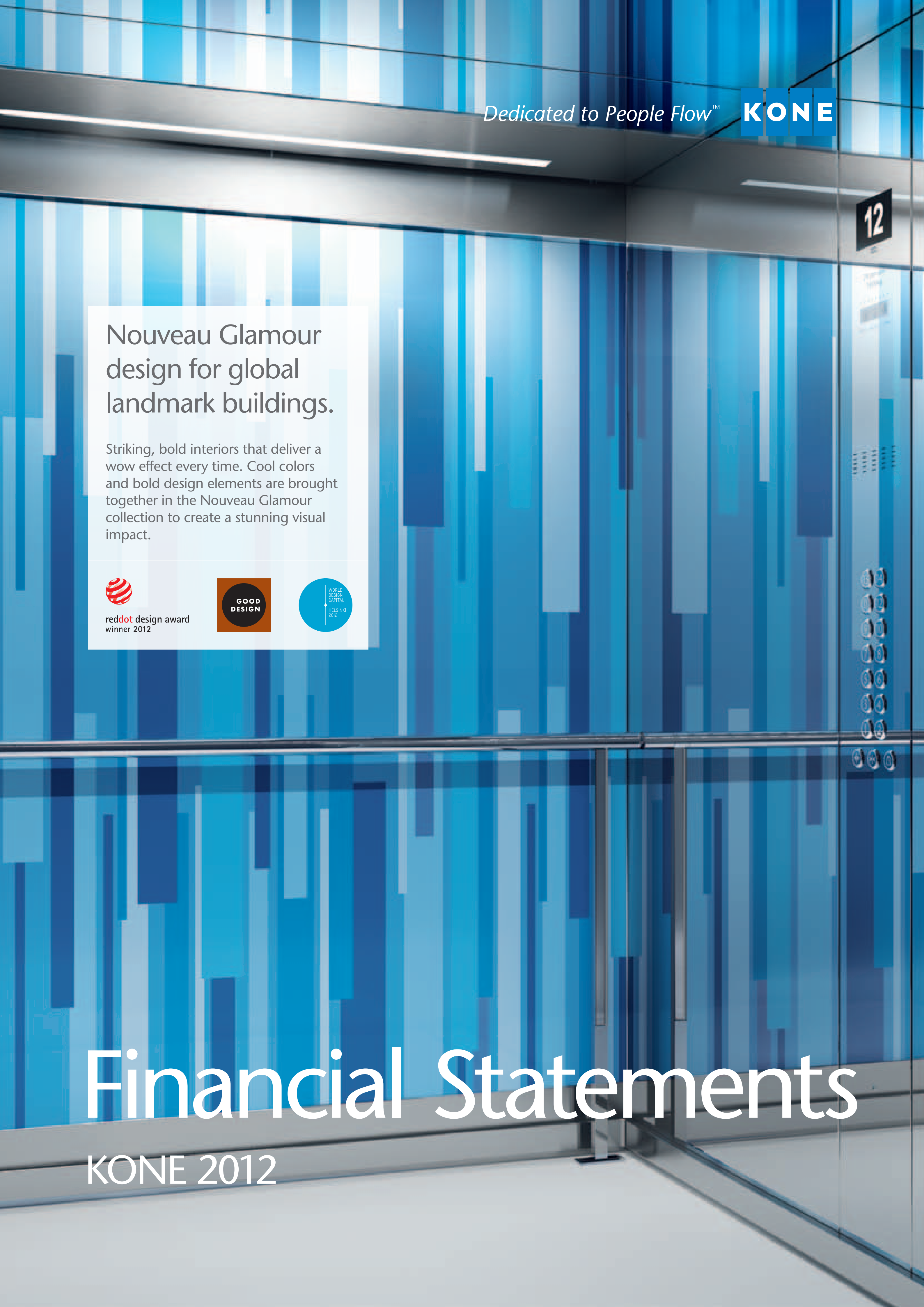

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GOOD DESIGN

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Financial Statements

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Information for shareholders

Annual General Meeting

KONE Corporation's Annual General Meeting will be held on February 25, 2013 at 11:00 a.m. in the Finlandia Hall, Mannerheimintie 13, Helsinki, Finland.

Shareholders wishing to attend the meeting must be registered on the KONE shareholder register at Euroclear Finland Ltd. no later than on February 13, 2013, and must register for attending the meeting by mail (KONE Corporation, Share Register, P.O. Box 7, FI-02151 Espoo, Finland), by fax (+358 (0)204 75 4523), by telephone (+358 (0)20 770 6873), or over the internet (www.kone.com/corporate/en/Investors/AGM) no later than by 3:00 p.m. EET on February 20, 2013. 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 2012 a dividend of EUR 1,745 be paid for each class A share and a dividend of EUR 1,75 be paid for each class B share. All shares existing on the dividend record date, February 28, 2013 are entitled to the dividend. The dividend will be paid on March 7, 2013.

More information

The Board of Directors' proposal for the distribution of profit, page 67
Shares and shareholders, page 63

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 OMX Helsinki and are registered at Euroclear Finland Ltd. The share subscription period for the listed 2007 options ended on April 30, 2012.

KONE's financial reporting schedule in 2013

Financial Statement Bulletin and Financial Statements for 2012	Thursday, January 24, 2013
Printed Financial Statements for 2012	week 7, February, 2013
Interim report for January 1–March 31, 2013	Tuesday, April 23, 2013
Interim report for January 1–June 30, 2013	Friday, July 19, 2013
Interim report for January 1–September 30, 2013	Tuesday, October 22, 2013

In the second quarter of 2013, KONE will publish a separate Corporate Responsibility Report on the year 2012. The report will be mailed to those registered on the company's mailing list.

Publication of financial information

KONE Corporation publishes financial information in Finnish and English. All materials are available on KONE's website at www.kone.com, where requests for email distribution can also be made.

The printed Financial Statements will be mailed to those on the company's mailing list. Printed Interim reports are mailed only by request. Financial reports can be ordered by mail (KONE Corporation, Corporate Communications, P.O. Box 7, FI-02151 Espoo, Finland), by email (corporate.communications@kone.com), by telephone (+358 (0)204 751), or by fax (+358 (0)204 75 4515).

Changes of address

KONE's shareholders are kindly requested to report written changes of address to the bank where they have their book-entry account. Those shareholders who are registered in the shareholders' register at Euroclear Finland Ltd. should send a written notice to:

Euroclear Finland Ltd.,
Customer Account Service,
P.O. Box 1110,
FI-00101 Helsinki
Tel. + 358 800 180 500

In the notice, shareholders should mention their name, new address, old address and book-entry account number.

More information

Investor relations, see inside of report's back cover

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Board of Directors' report

KONE's operating environment

In 2012, the overall market situation was challenging due to the general economic environment and overall uncertainty. The new equipment demand weakened in many markets outside of Asia-Pacific. Price competition intensified in both new equipment and service. In new equipment, in the Europe, Middle East and Africa (EMEA) region, the market declined slightly in Central and North Europe, but remained at a relatively good level. In South Europe, the market declined further from an already weak level. In the Americas region, the gradual recovery from a low level continued. The market in Asia-Pacific continued to grow, although at a clearly lower rate than in 2011. Market growth in Asia-Pacific slowed down gradually during the first three quarters before picking up again in the last quarter of the year. The major projects segment was active, particularly in Asia-Pacific and the Middle East, but towards the end of the year lead times in decision-making became longer, which impacted the growth. The global modernization market declined slightly, although with regional variations. Maintenance markets continued to develop favorably in most countries. Price competition intensified further in all businesses, particularly in regions where the new equipment market has been weak for a prolonged period of time.

In the EMEA region, the new equipment market declined slightly in Central and North Europe, but remained at a relatively good level. Compared with the previous year, the residential segment was stable at a good level. Most non-residential segments declined moderately, except for the infrastructure segment, which grew significantly. The new equipment market grew in Germany, Austria and Switzerland before stabilizing towards the end of the year. In Great Britain, excluding the impact of individual major projects, the market declined. Activity in the Scandinavian countries was relatively stable throughout the year, but developed positively towards the end of the year as a result of major infrastructure projects in Sweden and Norway. The market in Finland was stable until the last quarter of the year, during which demand declined slightly. The demand in both the Netherlands and Ireland declined throughout the year. Activity in Belgium was stable. The market grew in Russia. In South Europe, the new equipment demand declined with the most negative development seen in the residential segment. In both Spain and Italy, the new equipment market declined further from an already low level throughout the year. The market in France grew in the beginning of the year but started to see a decline thereafter, resulting in a slight decline in the market for the full year as compared with 2011. Demand grew in Turkey. In the Middle East, the new equipment demand was strong throughout the year in Saudi Arabia, and started to recover in Qatar, as well as Dubai in the United Arab Emirates. The modernization market declined slightly in Central and North Europe and declined further from a lower level in South Europe. The maintenance market continued to grow in the EMEA region, although with clear variation between countries. Price competition in the maintenance markets was very intense throughout the year as a result of the decline in volumes in the new equipment and modernization markets.

In the Americas region, the gradual recovery of the new equipment demand continued. The recovery in the United States progressed throughout the year and was driven primarily by small and mid-sized projects in the residential and office segments. The infrastructure segment and other publicly funded projects were at a low level. Vacancy rates in the office segment developed favorably, particularly on the West Coast and in Texas. During the year market conditions started to improve also in markets such as Florida and the Midwest following a prolonged period of decline. The new equipment market in both Canada and Mexico grew slightly, although the slight growth seen in Mexico in the beginning of the year leveled off as the year progressed, and also in Canada growth slowed down during the last quarter of the year. The modernization activity in the Americas grew slightly. Price competition in the maintenance markets was highly intense, particularly in the non-residential segments. In the new equipment market, the pricing environment was particularly challenging in major projects.

In the Asia-Pacific region, the new equipment markets continued to grow from the high level of 2011, although the growth rate was clearly lower than in the previous year. The new equipment market in China grew clearly, although at a slower rate than in 2011 as a result of Chinese government decisions aiming to manage the development of housing prices and overall inflation. The growth rate slowed down gradually in the first three quarters and picked up again in the last quarter of the year. The growth was the fastest in the affordable housing segment. The other residential segments grew as well, particularly in the inland lower-tier cities. In large cities, the residential segments other than affordable housing were adversely impacted by the Chinese government's above-mentioned measures. The commercial segments continued to grow. Growth was seen also in the infrastructure segment with metro and airport activity developing favorably, while high-speed railway investments were stable at a low level. In India, the market grew supported by the underlying healthy demand despite general economic uncertainties. The moderate growth seen in India in the first half of the year leveled off in the third quarter due to financing constraints, but growth picked up in the last quarter of the year driven primarily by the residential segment. In Australia, the market declined slightly due to general economic uncertainties and financing constraints, which delayed decision-making in the first three quarters before a slight improvement in the market in the last quarter of the year. The modernization demand in Australia declined somewhat. The Southeast Asian markets grew throughout the year driven primarily by the residential segments, but the growth rate slowed slightly down in the second half of the year. The fastest growth was seen in Malaysia, Indonesia and Thailand. Maintenance markets in Asia-Pacific grew throughout the year. The pricing environment remained challenging in all markets, and the price competition in the new equipment market in China intensified towards the end of the year.

Orders received and order book

In 2012, KONE's orders received increased by 23.1% and totaled EUR 5,496 (2011: 4,465) million. Excluding GiantKONE, which was consolidated as a subsidiary as of December 2011, orders received grew by 13.7%. At comparable exchange rates, KONE's orders received increased by 17.4%. Excluding GiantKONE, the increase at comparable exchange rates was 8.5%. Maintenance contracts are not included in orders received.

Orders received grew in Asia-Pacific and the EMEA region, and was stable in the Americas. KONE's order intake grew strongly in the new equipment business and declined somewhat in the modernization business. New equipment order intake grew in Asia-Pacific and the EMEA region, and was stable in the Americas. Modernization orders received declined slightly in all regions.

The order book grew from the end of 2011 by 16.1% and stood at EUR 5,050 (Dec 31, 2011: 4,348) million at the end of 2012. At comparable exchange rates, the increase was 16.5%. The margin of the order book was at a healthy level, and the orders received margins improved slightly over the course of the year. Cancellations of orders remained at a very low level.

In the EMEA region, orders received grew sli+ghtly as compared to 2011. Orders received was stable in Central and North Europe and declined somewhat in South Europe, but grew strongly in the Middle East. The new equipment order intake growth was the fastest in the Middle East, Russia, Austria, and the Nordic countries. The biggest declines in new equipment orders received were seen in Italy, Ireland, the Great Britain, Spain, and the Netherlands. The modernization order intake in the EMEA region declined slightly. The countries with the highest growth in modernization orders received were Austria, Belgium and Switzerland. The biggest decline in modernization orders received occurred in Germany.

In the Americas, orders received was stable as compared to the previous year. New equipment orders received was at the same level as in 2011 following a slight decline in the United States and Canada and growth in Mexico. Modernization orders received declined slightly as a result of a decline in the United States.

In Asia-Pacific, orders received grew strongly from the already high level of 2011. Orders received grew in China, Southeast Asia, and India, with Southeast

Asia and China having the highest growth rates. Orders received declined in Australia due to a contraction in the construction market. Modernization orders received declined somewhat in Asia-Pacific, where Australia's share of the overall modernization market is large.

Net sales

KONE's net sales increased by 20.1% as compared to the prior year, and totaled EUR 6,277 (1–12/2011: 5,225) million. Net sales growth excluding GiantKONE was 14.3%. At comparable exchange rates net sales increased by 15.2%. Excluding GiantKONE, net sales grew by 9.6% at comparable exchange rates. The sales consolidated from the companies acquired in 2012 did not have a material impact on KONE's net sales for the financial period.

New equipment sales was EUR 3,155 (2,395) million and represented an increase of 31.7% compared to 2011. At comparable exchange rates the increase was 24.8%. New equipment sales accounted for 50% (46%) of total sales.

Service (maintenance and modernization) sales increased by 10.3% and totaled EUR 3,122 (2,830) million. At comparable exchange rates, the increase was 6.9%. Maintenance and modernization sales grew at similar rates. Maintenance accounted for 34% (37%) and modernization for 16% (17%) of total sales in 2012. KONE's elevator and escalator maintenance base continued to grow and exceeded 900,000 units at the end of 2012 (the maintenance base exceeded 850,000 units at the end of 2011). The growth of the maintenance base was the result of continued good conversions of new equipment deliveries to the maintenance base as well as acquisitions.

Sales in the EMEA region grew somewhat as compared to 2011. Sales grew in all businesses, the most in the modernization business.

Sales in the Americas declined slightly in local currencies as compared to the previous year. New equipment sales decreased due to the weak new equipment order intake in 2010. In the American market, the time lag from order to delivery is longer than in other markets. Maintenance sales grew, while modernization sales declined slightly.

Sales in Asia-Pacific grew very strongly as compared to 2011. Sales grew strongly in all businesses, the most in the new equipment business.

The geographical distribution of net sales in 2012 was 49% (55%) EMEA, 16% (18%) Americas and 35% (27%) Asia-Pacific. The largest individual countries in terms of net sales were China, the United States and France. China's share was close to 25% and the United States' share exceeded 10% of KONE's total net sales in 2012.

Financial result

KONE's operating income (EBIT) grew to EUR 821.3 (1–12/2011: 725.1) million or 13.1% (13.9%) of net sales, excluding the one-time cost of EUR 37.3 million related to the support function development and cost adjustment programs. The operating income, including the one-time cost, was EUR 784.0 million. The growth in operating income was a result of continued strong new equipment sales growth in Asia-Pacific, particularly in China, good sales growth in the service business, good development in quality and productivity, as well as a favorable development in translation exchange rates as compared to the previous year. The growth in operating income was burdened by deliveries of projects that were booked as orders received in 2010 and 2011 with lower margins, particularly in North America, intangible asset amortizations resulting from the consolidation of GiantKONE as a subsidiary, increased labor costs in Asia, and during the first half of the year also higher material costs. The impact of the amortizations relating to the consolidation of GiantKONE on the relative operating income was 0.3 percentage points. KONE also continued to increase resources and therefore fixed costs in areas that support the growth of the business, in particular in Asia-Pacific and process development. In addition, the growth of the share of new equipment sales relative to total sales burdened KONE's relative operating income in 2012.

Net financing items was EUR 16.1 (18.2) million. Net financing items included an EUR 18.9 million charge relating to the revaluation of acquisition-related options.

KONE's income before taxes was EUR 804.4 (816.6) million. Taxes totaled EUR 193.3 (172.2) million. This represents an effective tax rate of 24.0% (21.1%) for the financial year. The effective tax rate resulting from the operations for the financial year was 23.5% (24.8%). Net income for the period under review was EUR 611.1 (644.4) million.

Basic earnings per share was EUR 2.35 (2.52). The comparable basic earnings per share excluding one-time items was EUR 2,46 (2,30). Equity per share was EUR 7,35 (7.93).

During the reporting period, KONE initiated two programs targeting increased competitiveness. One of the programs targets improved quality and productivity of KONE's support functions, and the other program an adjustment in resourcing in such countries, where the market has declined more permanently to a weak level. The programs are planned to be fully implemented by the end of 2013. They are expected to deliver approximately EUR 35 million annualized cost savings, for which a corresponding run rate is expected to be achieved by the end of 2013. The total one-time cost relating to the programs, EUR 37.3 million, was booked in the second quarter of 2012, when almost all of the cost was recognized as a restructuring provision. The programs progressed according to the plans during the second half of 2012.

Consolidated statement of financial position and cash flow

KONE's financial position was very strong and the company had a strongly positive net cash position at the end of December 2012. Cash flow from operations before financing items and taxes was EUR 1,055 (1–12/2011: 819.8) million. Cash flow from operations improved as a result of growth in operating income and an improvement in net working capital before financing items and taxes. The primary reasons for the improvement in net working capital were a good level of advance payments received relative to inventories as a result of continued good payment terms and the growth of Asia-Pacific's share of KONE's total orders received and net sales, an improved rotation of accounts receivable as well as an increase in accounts payable and other liabilities. At the end of December 2012, net working capital was EUR -560.5 (December 31, 2011: -361.4) million, including financing items and taxes.

Interest-bearing assets exceeded interest-bearing debts and the net cash position totaled EUR 766.7 (December 31, 2011: 829.1) million. Gearing was -40.2% (-40.8%). and KONE's total equity/total assets ratio was 49.3% (54.0%) at the end of December.

Capital expenditure and acquisitions

KONE's capital expenditure, including acquisitions, totaled EUR 287.9 (1–12/2011: 237.1) million. Capital expenditure, excluding acquisitions, was mainly related to facilities and equipment in production, R&D and IT. Acquisitions accounted for EUR 169.2 (185.3) million of this figure.

In July 2010 KONE announced that it planned to relocate and expand its manufacturing and R&D unit in Kunshan, China. The new production and office facilities were taken into use and reported as capital expenditure during 2012. The remaining facilities including the R&D test tower will be completed in phases during 2013 and the first half of 2014. KONE was awarded a relocation grant by the city of Kunshan, the majority of which has already been received. This grant reduces the net investment.

The most important acquisitions completed during 2012 included the acquisition of Isralift, KONE's authorized distributor in Israel with approximately 12,000 elevators in its maintenance base. In the United States, KONE also acquired the businesses of Eagle Elevator Corporation, an independent elevator service company in Minnesota, and Ascent Elevator Services, Inc., an independent elevator company in the San Francisco Bay Area. In addition, KONE acquired a number of smaller maintenance businesses. The acquisitions completed during the reporting period do not individually or as a whole have a material impact on the result or financial position of KONE.

Research and development

Research and development expenses totaled EUR 86.1 (1–12/2011: 82.5) million, representing 1.4% (1.6%) of net sales. R&D expenses include the development of new product and service concepts as well as the further development of existing solutions and services. KONE's elevators and escalators are based on industry-leading energy efficient technology.

Customer and end user experience is at the core of KONE's research and development efforts. In accordance with its vision of delivering the best People Flow™ experience, KONE focuses on understanding the needs of its customers and the users of its solutions in order to make people flow in buildings smoother and improve the user experience. One of KONE's five development programs, Innovative Solutions for People Flow, aims to develop innovative products for an increasingly urbanizing world with a focus on eco-efficiency, ride comfort, and visual design.

In September 2012, the business magazine Forbes again listed KONE among the 50 most innovative companies in the world.

During 2012, KONE introduced a new global volume elevator offering. This new offering is being introduced to the key markets in phases and is expected to eventually cover 60% of KONE's new equipment volume and 90% of its full replacement volume in modernization. During the reporting period, the selling of the new offering began in the EMEA and Asia-Pacific regions. In the Americas the introduction of the new offering will start during the first half of 2013. The new offering further improves KONE's product competitiveness from the already good current level. The most important improvements are in the area of eco-efficiency, ride comfort, visual design, as well as space efficiency. The new offering includes the machine room-less KONE MonoSpace® for the global markets, and the KONE N MiniSpace™ with a small machine room for the Asian markets. The European volume elevator KONE MonoSpace® 500, part of the new offering, was awarded the Product of the Year 2012 by World Architecture News.

The new elevators are up to 35% more energy efficient compared to the already high levels of energy efficiency that KONE's volume offering achieved in 2010. The continued significant improvement in energy efficiency of the new product offering is delivered by the completely renewed KONE EcoDisc® hoisting machine, an efficient drive, as well as enhanced standby solutions. Today, KONE's European volume elevators consume over 70% less energy, Asian volume elevators 60–75% less, and US volume elevators 40% less energy than in 2008. The new volume offering also achieved an A-class energy performance rating according to the VDI 4707 guideline and measured by independent third parties. VDI 4707 is a guideline published by the Association of German Engineers (Verein Deutscher Ingenieure), which classifies elevators based on their energy consumption.

In addition, a systematic and holistic redesign effort has enabled KONE to introduce a new level of ride comfort to its volume range elevators. This has been achieved through significant improvements in multiple areas that impact elevator ride comfort, including a new motor control system, a new braking system, a new hoisting machine and system, and an improved car structure. A comprehensive test of the elevator's ride performance, which will be carried out on every KONE elevator prior to handover, is a further significant improvement to the installation process, contributing to enhanced ride comfort.

The new offering also features completely new designs for KONE's elevator interior elements, including a new expanded KONE Design Collection, which offers both a selection of predesigned car interiors, as well as a wide selection of separate patterns, materials and elements to combine in the elevator interior. The availability of a wide range of designs enables KONE's customers to choose elevator interiors that fit seamlessly with the design of their building. KONE continues to differentiate itself through visually appealing product design, which was also noted by the design industry in the form of several design awards received in 2012.

The improved space efficiency of the new offering expands KONE's addressable market in full elevator replacements, as the new elevators can be installed in smaller shafts compared to previous models. This is expected to significantly improve the competitiveness of KONE's modernization solutions.

Alongside with the new elevator offering, improvements to KONE's escalator offering were launched. A solution for the KONE TravelMaster™ 110 escalator for full escalator replacements was introduced, strengthening KONE's offering in developed markets. In addition, KONE launched new visual design and safety features as well as the KONE Direct Drive, an innovative and energy-efficient escalator drive system designed for the infrastructure and commercial segments. The new solution contributes to the reduction of the energy consumption of a typical escalator configuration by 30% from the 2010 base value. The KONE TravelMaster™ 110 escalator and the KONE EcoMod® escalator modernization solution received the 2012 Product Innovation Award from Architectural Products Magazine.

Changes in the Executive Board

In May 2012 KONE announced changes in the KONE Executive Board and organization. KONE's management structure for its geographical areas changed as of July 1, 2012. This change was made to reflect the rapid growth of the elevator and escalator market in Asia-Pacific, in particular in China. Following the change, KONE's business in China was separated from the Asia-Pacific area. The new Greater China area comprises of Mainland China, Hong Kong and Taiwan. William B. Johnson, country manager for China since 2004, was appointed Executive Vice President, Greater China and member of the Executive Board. He reports to Matti Alahuhta, President and CEO. In the new structure, KONE Middle East is part of the new Asia-Pacific and Middle East area. Noud Veeger continues to lead the area, now as Executive Vice President, Asia-Pacific and Middle East.

Juho Malmberg, Executive Vice President, Customer Experience left KONE as of June 30, 2012. In addition to his current role, Ari Lehtoranta, Executive Vice President, Central and North Europe assumed responsibility for the Customer Experience development program, one of KONE's five key development programs.

In June 2012 KONE announced the appointment of Larry G. Wash as Executive Vice President, Americas as of July 23, 2012, following Vance Tang, who decided to leave KONE. Larry Wash is a member of the Executive Board and reports to Matti Alahuhta, President and CEO.

Personnel

The objective of KONE's personnel strategy is to support the company in meeting its business targets. The main goals of this strategy are to further secure the engagement, motivation and continuous development of its employees. All of KONE's activities are guided by ethical principles. The personnel's rights and responsibilities include the right to a safe and healthy working environment, personal well-being as well as the prohibition of discrimination of any kind.

KONE defined Employee Engagement as one of its five development programs at the beginning of 2011 and launched an action plan focusing on the further development of leadership capabilities, on providing growth and development opportunities for KONE employees, and on ensuring well-being and safety at work. During 2012 KONE continued to actively implement the action plan.

During 2012, comprehensive communication and training material was published and utilized to promote awareness, responsibility and activity related to well-being. Country-specific well-being programs were launched to address respective local needs. A common competence assessment framework for the purposes of recruitment and development was created and taken into use. Several actions were taken to improve the visibility of job opportunities at KONE and to promote job rotation. KONE's annual leadership and talent review round was completed.

A new learning guide, based on a model combining on-the-job experience, learning from others and formal training, was published to support individual development. New programs on change management and business management were piloted during the reporting period for full roll-out in 2013. The delivery of learning programs, such as the refreshed KONE Leader program and the Supervisor Development program, continued as planned. The new top management program, piloted in 2011, was attended by a large number of KONE's senior managers.

KONE carried out its annual global employee survey with an all-time high response rate. Global and local actions to address the identified development areas were defined by working groups and closely followed up by the Executive Board on a quarterly basis.

Efforts to improve workplace safety continued. Further improvement was achieved in the IIFR (Industrial Injury Frequency Rate). In September, a global safety week was held with a central theme "Little things matter in safety". Regular virtual safety team meetings were held worldwide to share information on best practices and new developments concerning safety.

KONE had 39,851 (December 31, 2011: 37,542) employees at the end of December 2012. The average number of employees was 38,477 (1–12/2011: 34,769).

The geographical distribution of KONE employees was 48% (December 31, 2011: 50%) in EMEA, 14% (14%) in the Americas and 38% (36%) in Asia-Pacific.

Environment

For KONE, environmental responsibility is a combination of offering its customers innovative solutions that are both energy- and cost-efficient while reducing the adverse environmental impact of its own operations.

KONE's aim is to be the industry leader in eco-efficiency. The focus in developing eco-efficient elevator and escalator solutions is on further improving the energy efficiency of both standby and operation modes. The most significant environmental impact of KONE's business globally relates to the amount of electricity used by KONE equipment over their lifetime. This underlines the importance of continuing to develop and improve energy-efficient innovations for elevators and escalators. The most significant impact on KONE's carbon footprint from its own operations relates to the company's logistics operations, vehicle fleet, and electricity consumption.

KONE has identified environmental targets for continuing to improve the energy efficiency of its solutions going forward. The other ambitious targets in the Environmental Excellence program for 2011–2013 focus on reducing annual greenhouse gas emissions from KONE's operations by three percent relative to net sales. The information on KONE's 2012 carbon performance will be available by the end of the first quarter of 2013. KONE also continues to focus on the environmental aspects of its supply chain network, the target being that all KONE's strategic suppliers meet the ISO 14001 requirements. During 2012, KONE continued to further increase energy efficient references globally, for example by installing elevators in net zero energy buildings and green certified buildings with LEED, BREEAM, and other certificates.

During the reporting period, KONE launched a new eco-efficient global volume elevator offering for the EMEA region and Asia-Pacific, as has been described above in the Research and development section. During 2012, the VDI 4707 A-class coverage was expanded to include, in addition to the new global volume elevator offering, the KONE E MiniSpace™ and KONE EcoSpace® elevators. KONE also made progress in improving the eco-efficiency of escalators, as has been described above in the Research and development section.

KONE published its Corporate Responsibility Report 2011 in May 2012. The report follows the B+ application level of the Global Reporting Initiative guidelines. The reported greenhouse gas emissions for 2011 have been assured by an objective third party. KONE's score in the Carbon Disclosure Project (CDP) improved to 90/100 in 2012. For the second year running, KONE was included in the Carbon Disclosure Leadership Index (CDLI) comprising the best 10% of the companies included in the CDP Nordic report. CDLI companies have displayed the most professional approach to corporate governance regarding climate change information disclosure practices. The Carbon Disclosure Project is a global non-profit climate change reporting system representing some 655 institutional investors.

During 2012, KONE continued its work with the implementation of the ISO 14001 environmental management system (EMS). By the end of 2012, KONE Corporation, all of KONE's technology centers and manufacturing units as well as a large number of country organizations were ISO 14001 certified.

In addition, KONE has a global facilities program focusing on eco-efficiency. KONE's new manufacturing unit in Kunshan, China, has been designed and constructed according to modern green building standards. The manufacturing processes in the new facilities are highly efficient, with emphasis on further reducing energy and water consumption and carbon footprint. In addition, KONE's newly-constructed operations center in the United States received LEED Platinum certification from the U.S. Green Building Council (USGBC) under its Core & Shell (CS) rating system. This is the first time a project has achieved Platinum certification for the CS category in the state of Illinois. In addition, KONE received LEED Commercial Interiors Gold certification for its interior office design.

During the reporting period, KONE continued its work as an active member of several codes and standards committees, such as the ISO committee for ISO 25745 series of standards, where KONE focuses on developing requirements for the energy efficiency of elevators and escalators. KONE also leads the ISO working group preparing the standard of energy performance of elevators, escalators and autowalks in China. KONE also participates in the further development of the VDI 4707 guidelines. KONE is an active member of the WBCSD (World Business Council for Sustainable Development), the European Round Table of Industrialists' Energy and Climate Change Working Group, and several Green Building Councils globally.

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, with some processes having ended favorably for KONE. The total capital amount claimed jointly and severally from all of the defendants together was EUR 254 million at the end of 2012 (2011: EUR 255 million). KONE's position is that the claims are without merit. No provision has been made.

Risk management

KONE is exposed to risks that may arise from its operations or changes in the business environment. The risk factors described below can potentially have an adverse effect on KONE's business operations and financial position, and as a result the value of the company. Other risks, which are currently either unknown or considered immaterial to KONE may, however, become material in the future.

A weakening of the global economic environment could result in a deterioration of the global new equipment markets. A sharper than expected decrease in the new equipment market in Europe, or a disruption in the recovery of the new equipment market in North America, could lead to increasingly intensified price competition in both new equipment and service businesses. A disruption in the growth of the construction market in Asia, in China in particular, could result in a decline of the elevator and escalator market. All of the above-mentioned factors could lead to a decrease in orders received, cancellations of agreed deliveries, delays in the commencement of projects, further intensified price competition, and, as a result, a negative effect on KONE's profitability. To counteract the pressures resulting from a weakening of the overall economic environment and its impact on the elevator and escalator markets, KONE strives to continuously develop its overall competitiveness.

The continued uncertain global economic environment also exposes KONE to counterparty risks in respect of financial institutions and customers. Exposure to the counterparty risks related to financial institutions arises through the significant amounts of liquid funds deposited into financial institutions. In order to diversify the financial credit risk KONE deposits its funds into several banks and invests a part of its liquidity into highly liquid money market funds. KONE also manages its counterparty risk by accepting only counterparties with high creditworthiness. The size of each counterparty limit reflects the creditworthiness of the counterparty and KONE constantly evaluates such limits.

KONE is also exposed to risks related to the liquidity and payment schedules of its customers, which may lead to credit losses. To mitigate this risk, defined rules for tendering, levels of approval authority, and credit control have been established. The risks related to accounts receivable are minimized also through the use of advance payments, documentary credits and guarantees in KONE's payment terms. KONE's customer base consists of a large number of customers in several market areas, with no individual customer representing a material share of KONE's sales.

KONE operates internationally and is thus exposed to risks arising from foreign exchange rate fluctuations related to currency flows from revenues and expenses, as well as from the translation of income statement and statement of financial position items of foreign subsidiaries into euros. The KONE Treasury is responsible for the centralized management of financial risks in accordance with the KONE Treasury Policy approved by the Board of Directors. For further information regarding financial risks, please refer to note 2 in the consolidated Financial Statements.

KONE's business activities are dependent on the uninterrupted operation, quality and reliability of sourcing channels, production plants, logistics processes, and IT systems. A significant part of KONE's component suppliers and supply capacity is located in China. The risks related to the supply chain are controlled by analyzing and improving the fault tolerance of processes, diligent forecasting, close cooperation with KONE's suppliers and by increasing the readiness for transferring the manufacturing of critical components from one production line or supplier to another. KONE actively monitors the operations and financial strength of its key suppliers. The aim is also to secure the availability of alternative sourcing channels for critical components and services. Additionally, KONE has a global property damage and business interruption insurance program in place.

KONE's operations utilize information technology extensively. This may expose KONE to information security violations, misuse of systems and/or data, viruses, malwares and to such malfunctions, which can result in system failures or discruptions in processes and therefore impact KONE's business. Clear roles and responsibilities have been defined to manage IT security risks to ensure that adequate security is inbuilt within the IT management processes according to security policies, principles and guidelines.

Changes in raw material and component prices are reflected directly in the production costs of elevators, escalators and automatic doors, and may therefore have an impact on KONE's profitability. In order to reduce the impact of material and sourcing price fluctuation KONE aims to enter into fixed-price contracts with its major suppliers for a significant part of its raw material and component purchases. Because the maintenance business deploys a significant fleet of service vehicles, fuel price fluctuations have an effect on maintenance costs.

KONE operates in certain markets with high growth rates, where there are challenges in terms of the availability of skilled technicians. This could lead to delays in deliveries and increases in costs, which in turn could have an adverse impact on the profitability of the company. KONE manages this risk through proactive project and resource planning in order to ensure that the necessary resources are available.

A significant part of KONE's costs relate to field operations such as maintenance and installation, which are highly labor-intensive. KONE's profit development could be adversely affected if its productivity improvement targets were not met. These risks are managed through proactive planning and forecasting processes, the constant development of pricing processes and productivity as well as through the outsourcing of certain activities.

KONE introduces new technology and further develops its existing products on a regular basis. The execution of new technology or product releases and the large supplier base involves risks related to the uninterrupted functioning of the delivery chain, product liability and quality. To mitigate such risks, KONE follows defined design, manufacturing and installation processes. Strict quality control processes are also in place in the product and solution development and delivery chain.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on March 5, 2012. The meeting approved the financial statements and discharged the responsible parties from liability for the January 1–December 31, 2011 financial period.

The General Meeting approved the amendment of paragraphs 4 and 8 of the Articles of Association concerning the number of the members of the Board of Directors and the publishing of the summons to the Shareholders' General Meeting, respectively.

The number of Members of the Board of Directors was confirmed as nine. Re-elected as Members of the Board were Matti Alahuhta, Anne Brunila, Reino Hanhinen, Antti Herlin, Sirkka Hämäläinen-Lindfors, Juhani Kaskeala and Sirpa Pietikäinen and as new Members of the Board were elected Shinichiro Akiba and Jussi Herlin.

At its meeting, held after the General Meeting, the Board of Directors elected from among its members Antti Herlin as its Chair and Sirkka Hämäläinen-Lindfors as Vice Chair.

Antti Herlin was elected as Chairman and Sirkka Hämäläinen- Lindfors, Anne Brunila and Jussi Herlin as members of the Audit Committee. Sirkka Hämäläinen-Lindfors and Anne Brunila are independent of both the company and of significant shareholders.

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

The General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 44,000 for the Vice Chairman, and EUR 33,000 for Board Members. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings.

The General Meeting approved the authorization for the Board of Directors to repurchase KONE's own shares. Altogether no more than 25,570,000 shares may be repurchased, of which no more than 3,810,000 may be class A shares and 21,760,000 class B shares. 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 OMX Helsinki Ltd. at the time of purchase. The authorization shall remain in effect for a period of one year from the date of decision of the General Meeting.

Authorized public accountants Heikki Lassila and PricewaterhouseCoopers Oy were re-nominated as the company´s auditors.

The Annual General Meeting approved the Board's proposal for dividends of EUR 1.395 for each of the 38,104,356 class A shares and EUR 1.40 for the 216,635,414 outstanding class B shares. The date of record for dividend distribution was March 8, 2012, and the dividends were paid on March 15, 2012.

Decisions of the Extraordinary General Meeting and extra dividend for the financial year 2011

In September 2012 KONE's Board of Directors made a proposal for an extra dividend for the financial year 2011 and issued a notice to an Extraordinary General Meeting. KONE Corporation's Extraordinary General Meeting was held in Helsinki on October 24, 2012. As proposed by the Board of Directors, the meeting approved extra dividends of EUR 1.495 for each of the 38,104,356 class A shares and EUR 1.50 for the 218,271,425 outstanding class B shares. The date of record for the dividend distribution was October 29, 2012, and the dividends were paid on November 5, 2012.

The proposal for the extra dividend was supported by a very strong net cash and liquidity position. KONE's capital structure remained strong also after the payment of the extra dividend.

Share capital and market capitalization

In 2007, KONE granted a conditional option program. The 2007 stock options subscription period began and the options were listed on the NASDAQ OMX Helsinki Ltd. as of April 1, 2010. Each option right entitled its owner to subscribe for two (2) existing class B shares held by the company at a price of, from March 6, 2012, EUR 20.545 per share. As the subscription period expired on April 30, 2012, the 888,000 KONE 2007 option rights held by KONE Capital Oy, a subsidiary of KONE Corporation, and otherwise unused 2,520 option rights expired. The remaining 1,109,480 options had been exercised.

The 2010 Annual General Meeting authorized the Board of Directors to decide on the issuance of options and other special rights entitling to shares. The authorization is limited to a maximum of 3,810,000 class A shares and 21,760,000 class B shares. The authorization concerns both the issuance of new shares and the transfer of treasury shares, and the issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights. The authorization will remain in effect for a period of five years from the date of the decision of the General Meeting.

In 2010, KONE granted a conditional option program. Stock options 2010 were granted according to the decision of the Board of Directors on July 20, 2010 to approximately 430 key employees and the decision was based on the authorization received from the Shareholders Meeting on March 1, 2010. A maximum total of 3,000,000 options could be granted. The original share subscription price for the option was EUR 35.00 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, 2012 was EUR 31.20. Each option entitles its holder to subscribe for one (1) new or an existing class B share held by the company. The share subscription period for the stock option 2010 will be April 1, 2013–April 30, 2015. The share subscription period begins on April 1, 2013, as the financial performance of the KONE Group for the financial years 2010–2012, based on the total consideration of the Board of Directors, was equal to or better than the average performance of key competitors of KONE.

On December 31, 2012, KONE's share capital was EUR 65,134,030.00, comprising 222,431,764 listed class B shares and 38,104,356 unlisted class A shares.

KONE's market capitalization was EUR 14,306 million on December 31, 2012, disregarding shares in KONE's possession. Market capitalization is calculated on the basis of both the listed class B shares and the unlisted class 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

On the basis of the Annual General Meeting's authorization, the Board of Directors decided to commence the possible repurchasing of shares on March 13, 2012 at the earliest.

During January–December 2012, KONE used its previous authorization to repurchase its own shares in February, and bought back in total 834,174 of its own class B shares. In April 2012 KONE assigned 208,295 of its own class B shares to a share-based incentive plan. In addition, in April, 1,445,616 class B shares owned by KONE were subscribed with the 2007 option rights. In June and August, a total of 17,900 class B shares were returned free of consideration to KONE by virtue of the terms of KONE's share-based incentive program for the years 2010–2012. At the end of December 2012, KONE had 4,160,339 class B shares in its possession. The shares in KONE's possession represent 1.9% of the total number of class B shares, which corresponds to 0.7% of the total voting rights.

Shares traded on the NASDAQ OMX Helsinki Ltd.

The NASDAQ OMX Helsinki Ltd. traded 106 million KONE Corporation class B shares in January–December 2012, equivalent to a turnover of EUR 5,026 million. The daily average trading volume was 424,795 shares (1–12/2011: 599,449). The share price on December 31, 2012, was EUR 55.80. The volume weighted average share price during the period was EUR 47.37.The highest quotation during the period under review was EUR 60.00 and the lowest EUR 39.19. In addition to the NASDAQ OMX Helsinki Stock Exchange, KONE's class B share is also traded on various alternative trading platforms. The volume of KONE's class B shares traded on the NASDAQ OMX Helsinki Stock Exchange represented approximately 39% of the total volume of KONE's class B shares traded in January–December 2012 (source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

The number of registered shareholders was 30,402 at the beginning of the review period and at 31,690 its end. The number of private households holding shares totaled 29,077 at the end of the period, which corresponds to approximately 12.5% of the total number of listed class B shares.

According to the nominee registers, 46.8% of the listed class B shares were owned by foreign shareholders on December 31, 2012. Other foreign ownership at the end of the period totaled 6.5%. Thus, a total of 53.3% of KONE's listed class B shares were owned by international investors, corresponding to approximately 19.6% of the total votes in the company.

Flagging notifications

On June 28, 2012, KONE Corporation was informed by Capital Research and Management Company pursuant to the Securities Markets Act, chapter 2, section 9, that its holding in KONE Corporation had exceeded 5% of the share capital. The date of change in the holdings was June 26, 2012. On September 7, 2012, KONE Corporation was informed by the Capital Group Companies, Inc. that following a corporate re-organization, effective as of September 1, 2012, Capital Research and Management Company and Capital Group International Inc. would report relevant holdings in aggregate under the group's parent company, The Capital Group Companies, Inc. The Capital Group Companies' holding in KONE was above 5% of the share capital on September 3, 2012.

Market outlook 2013

In new equipment, the market in Asia-Pacific is expected to grow clearly in 2013. The market in Central and North Europe is expected to decline slightly, and the market in South Europe to further decline from an already weak level. The market in North America is expected to continue to gradually recover.

The modernization market is expected to be at about the same level as in 2012 or decline slightly.

The maintenance market is expected to continue to develop rather well in most countries.

Business outlook 2013

KONE's net sales is estimated to grow by 5–9% at comparable exchange rates as compared to 2012.

The operating income (EBIT) is expected to be in the range of EUR 840–920 million, assuming that translation exchange rates do not materially deviate from the situation of the beginning of 2013.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2012 is EUR 1,748,060,513.45 of which the net profit for the financial year is EUR 459,323,828.06.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.745 be paid on the outstanding 38,104,356 class A shares and EUR 1.75 on the outstanding 218,271,425 class B shares, resulting in a total amount of proposed dividends of EUR 448,467,094.97. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,299,593,418.48 be retained and carried forward.

The Board proposes that the dividends be payable from March 7, 2013. All the shares existing on the dividend record date are entitled to dividend for the year 2012 except for the own shares held by the parent company.

Annual General Meeting 2013

KONE Corporation's Annual General Meeting will be held at 11:00 a.m. on Monday, February 25, 2013 in the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 24, 2013

KONE Corporation's Board of Directors

Information required by the Companies' Act and the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security, such as classes of shares, shareholders, related parties, terms of stock options and financial key figures have been presented in the notes to the Financial Statements.

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

Consolidated statement of income

MEUR	Note	Jan 1–Dec 31, 2012	%	Jan 1–Dec 31, 2011	%
Sales	4, 27	6,276.8		5,225.2	
Costs, expenses, depreciation and amortization	5, 6	-5,455.5		-4,500.1	
One-time cost	5	-37.3		-	
Operating income		784.0	12.5	725.1	13.9
Share of associated companies' net income	14	4.3		73.3	
Financing income	7	42.9		26.4	
Financing expenses	7	-26.8		-8.2	
Income before taxes		804.4	12.8	816.6	15.6
Taxes	8	-193.3		-172.2	
Net income		611.1	9.7	644.4	12.3
Net income attributable to:					
Shareholders of the parent company		601.2		643.6	
Non-controlling interests		9.9		0.8	
Total		611.1		644.4	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	9				
Basic earnings per share, EUR		2.35		2.52	
Diluted earnings per share, EUR		2.34		2.51	

Consolidated statement of comprehensive income

MEUR	Note	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Net income		611.1	644.4
Other comprehensive income, net of tax:	10		
Translation differences		-9.4	29.0
Hedging of foreign subsidiaries		1.3	-2.3
Cash flow hedges		1.5	-1.6
Other comprehensive income, net of tax		-6.6	25.1
Total comprehensive income		604.5	669.5
Total comprehensive income attributable to:			
Shareholders of the parent company		594.6	668.7
Non-controlling interests		9.9	0.8
Total		604.5	669.5

Consolidated statement of financial position

Assets MEUR		Note	Dec 31, 2012	Dec 31, 2011
Non-current assets				
Goodwill		11	1,085.7	1,004.6
Other intangible assets		12	198.1	160.7
Property, plant and equipment		13	261.7	231.6
Investments in associated companies		14	12.8	9.0
Shares		15	136.3	157.0
Available-for-sale investments		16	4.4	3.4
Non-current loans receivable	I	2, 17	5.5	5.5
Deferred tax assets		18	200.4	178.3
Total non-current assets			1,904.9	1,750.1
Current assets				
Inventories		19	980.8	794.7
Accounts receivable		2	1,130.6	1,022.1
Deferred assets		2, 20	181.7	176.7
Income tax receivables			38.1	63.3
Current deposits and loans receivable	I	2, 17	623.6	686.3
Cash and cash equivalents	I		249.6	234.0
Total current assets			3,204.4	2,977.1
Total assets			5,109.3	4,727.2

Equity and liabilities MEUR		Note	Dec 31, 2012	Dec 31, 2011
Capital and reserves attributable to the shareholders of the parent company				
Share capital		21	65.1	65.1
Share premium account			100.3	100.3
Paid-up unrestricted equity reserve			81.2	51.5
Fair value and other reserves			-4.0	-5.5
Translation differences			40.1	48.2
Retained earnings			1,601.2	1,767.1
Total shareholders' equity			1,883.9	2,026.7
Non-controlling interests			21.3	7.3
Total equity			1,905.2	2,034.0
Non-current liabilities				
Loans	I	2	20.9	21.1
Deferred tax liabilities		18	88.4	81.6
Employee benefits		23	96.8	105.2
Total non-current liabilities			206.1	207.9
Provisions		24	136.2	88.7
Current liabilities				
Current portion of long-term loans	I	2	8.2	8.2
Short-term loans and other liabilities	I	2	82.9	67.4
Advance payments received		25	1,242.0	962.1
Accounts payable			441.0	385.5
Accruals		2, 25	1,006.7	909.7
Income tax payables			81.0	63.7
Total current liabilities			2,861.8	2,396.6
Total equity and liabilities			5,109.3	4,727.2

Items designated " I " comprise interest-bearing net debt

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	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2012		65.1	100.3	51.5	-5.5	48.2	-98.8	1,865.9		7.3	2,034.0
Net income for the period									601.2	9.9	611.1
Other comprehensive income:	10										
Translation differences						-9.4					-9.4
Hedging of foreign subsidiaries						1.3					1.3
Cash flow hedges					1.5						1.5
Transactions with shareholders and non-controlling interests:	21										
Profit distribution								-740.8			-740.8
Increase in equity (option rights)				29.7							29.7
Purchase of own shares							-36.9				-36.9
Change in non-controlling interests								1.8		4.1	5.9
Option and share-based compensation							62.8	-54.0			8.8
Dec 31, 2012		65.1	100.3	81.2	-4.0	40.1	-72.9	1,072.9	601.2	21.3	1,905.2

MEUR	Note	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2011		65.1	100.3	35.0	-3.9	21.5	-91.4	1,472.7		1.3	1,600.6
Net income for the period									643.6	0.8	644.4
Other comprehensive income:	10										
Translation differences						29.0					29.0
Hedging of foreign subsidiaries						-2.3					-2.3
Cash flow hedges					-1.6						-1.6
Transactions with shareholders and non-controlling interests:	21										
Profit distribution								-229.7			-229.7
Increase in equity (option rights)				16.5							16.5
Purchase of own shares							-40.7				-40.7
Change in non-controlling interests								-0.3		5.2	4.9
Option and share-based compensation							33.3	-20.4			12.9
Dec 31, 2011		65.1	100.3	51.5	-5.5	48.2	-98.8	1,222.3	643.6	7.3	2,034.0

Consolidated statement of cash flows

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Cash receipts from customers	6,500.5	5,227.0
Cash paid to suppliers and employees	-5,445.2	-4,407.2
Cash flow from operations before financial items and taxes	1,055.3	819.8
Interest received	21.0	17.3
Interest paid	-2.1	-1.4
Dividends received and capital repayments	13.5	16.7
Other financing items	4.3	-5.0
Income taxes paid	-165.4	-244.4
Cash flow from operating activities	926.6	603.0
Capital expenditure	-113.4	-92.1
Received investment grants	14.6	4.9
Proceeds from sales of fixed assets	6.5	5.1
Acquisitions, net of cash	-127.9	-143.5
Cash flow from investing activities	-220.2	-225.6
Cash flow after investing activities	706.4	377.4
Change in deposits and loans receivable, net	59.3	-42.0
Change in current creditors, net	-1.3	-24.8
Repayments of long-term borrowings	-	-13.5
Purchase of own shares	-36.9	-40.7
Increase in equity (option rights)	29.7	16.7
Profit distribution	-740.8	-229.7
Changes in non-controlling interests	-1.5	-
Cash flow from financing activities	-691.5	-334.0
Change in cash and cash equivalents	14.9	43.4
Cash and cash equivalents at end of period	249.6	234.0
Translation differences	-0.7	1.9
Cash and cash equivalents at beginning of period	234.0	192.5
Change in cash and cash equivalents	14.9	43.4

Reconciliation of net income to cash flow from operating activities

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Net income	611.1	644.4
Depreciation, amortization and impairment	86.0	65.9
Revaluation of previously held interest in GiantKONE	-	-63.0
Income before change in working capital	697.1	647.3
Change in receivables	-25.6	-29.0
Change in payables	424.8	-0.7
Change in inventories	-169.7	-14.6
Cash flow from operating activities	926.6	603.0

In drawing up the 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.

Change in interest-bearing net debt

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Interest-bearing net debt at beginning of period	-829.1	-749.8
Interest-bearing net debt at end of period	-766.7	-829.1
Change in interest-bearing net debt	62.4	-79.3

Notes to the consolidated financial statements

1. ACCOUNTING PRINCIPLES

Basis of presentation

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 provides its customers with elevators and escalators and solutions for their maintenance and modernization. KONE also provides maintenance for automatic building doors.

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, 2012. The changes in accounting standards during the accounting period did not have a material impact on the result or the financial position of the Group or on the presentation of the financial statements.

The revised IAS 19 Employee Benefits standard has been published in 2011 and will be applied from January 1, 2013. According the amended standard actuarial gains and losses relating to defined benefit obligations will be recognized as they occur, this will increase KONE's reported employee benefit liability. Net interest cost will replace interest expense and expected return on plan assets, which will have immaterial impact to KONE's reported net income. KONE will change the presentation of expenses relating to defined benefit obligations; service cost will be presented in employment expenses while net interest will be presented in financing expenses. Currently all expenses relating to employee benefits are reported in employment expenses. Other IFRS standards that will become effective in 2013 will not have 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, 2012. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 24, 2013. 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 below.

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

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 controls the company through management agreements with shareholders holding 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.

Acquisitions prior to Jan 1, 2010 are accounted according to the prevailing standards at that time.

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.

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.

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 on 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 under 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 derivatives and loans 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.

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 values of foreign currency options are measured using commonly known option pricing models. The fair values of cross currency swaps are determined by discounting the expected future cash flows of the contracts with the market interest rate yield curves of the currencies concerned. 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 as hedging instruments of a business transaction of firm purchase or sales contract of which 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.

When cash flow hedge accounting is applied and the hedging relationship meets the effectiveness criteria then the effective portion of changes in the fair values of the foreign exchange derivatives is recognized through the statement of comprehensive income to the hedge reserve and the ineffective portion in the adjustment items to sales and purchases. 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. If a foreign exchange derivative included in the cash flow hedge accounting matures, the hedging relationship is assessed as ineffective or is terminated, 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 sales or purchases immediately if the hedged cash flow is no longer expected to occur. When cash flow hedge accounting is applied, the hedged risk and the hedging relationship are documented in accordance with the principles of hedge accounting. Hedge effectiveness is assessed before hedge accounting is applied and at least on a quarterly basis thereafter.

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 operative 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 liability denominated in a foreign currency. The exchange rate differences of hedges of foreign currency denominated long-term strategic investments are recognized in other operating income and the changes in the fair values of the interest rate differentials in the financing income and expenses. 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 entities 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.

Accrued interest on cross currency swaps during the accounting period is recognized in financing income and expenses.

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

Operating segments

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 is the relevant reportable operating segment.

Revenue recognition

Revenue from the sale of goods is recognized after KONE has transferred the risks and rewards of ownership of the goods to the customer, and KONE retains neither a continuing right to dispose of the goods, nor effective control of the goods.

Revenues from separately defined, long-term major projects are recorded as sales under the percentage of completion method. The percentage of completion is defined as the proportion of individual contract cost incurred to date from the total estimated contract costs. The amount of project revenue and cost is based on the latest project estimates, and adjusted by the typical estimation error for similar types of projects.

Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or the work has been carried out.

Research and development costs

Research and development costs are expensed as they incur, since 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.

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 basis of assets and liabilities and their book values in financial reporting, and measured with enacted tax rates. Typical temporary differences arise from provisions, depreciations and amortizations, inter-company inventory profits, 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.

Goodwill and other intangible assets

Acquisitions of companies after January 1, 2010 are accounted for using the acquisition method of accounting. Goodwill represents the excess of acquisition cost over the fair values of identified acquired assets and liabilities of acquired companies. Earlier acquisitions have been accounted for in accordance with the earlier prevailing IFRS standards.

Goodwill arises typically in connection with major acquisitions, 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 (see Impairment of assets).

In connection with acquisitions, other intangible assets are identified and presented in other intangible assets in the statement of financial position. These assets 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.

Other intangible assets also includes 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 book value of any intangible asset is impairment tested (see Impairment of assets) when an indication of impairment exists and at the end of each accounting period.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any impairment losses (see Impairment of assets). Depreciation 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

Land is not depreciated.

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

Impairment of assets

The book values of non-current tangible assets and other 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 net selling price and the value in use. An impairment loss is recognized in the statement of income whenever the book value 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 book value that would have been determined had no impairment loss been recognized in prior years, deducted by the cumulative depreciations.

The Group assesses the book value 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.

An impairment loss of goodwill is never reversed.

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 capitalized 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.

Shares

Share investments are valued at fair values. Changes in fair values for the long-term strategic investments and the exchange gains and losses of designated hedging instruments are recognized in the statement of income. Investments in shares are measured at cost when fair values are not available.

Available-for-sale investments

Available-for-sale investments are measured at fair value and recognized through the statement of comprehensive income until the items are sold, collected, otherwise disposed or impaired, at which time the cumulative gain or loss recognized in other comprehensive income is included in the profit or loss for the period.

However, when fair values are not available the investments are measured at cost adjusted by any impairment losses.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first in first out (FIFO) basis. Raw materials and supplies, however, are valued at standard cost. Semi-manufactures have been 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 the manufacturing and installation costs of sales orders included in work in progress.

An allowance is recorded for obsolete items.

Accounts receivable

Accounts receivable are initially measured at cost. An impairment loss is recognized for doubtful accounts receivable, based on the aging profile of overdue receivables and a case-by-case analysis of individual receivables.

Deposits and loans receivable

Deposits and loans receivable are initially recognized at fair value and thereafter at amortized cost using the effective interest rate method. Only substantial transaction costs are counted for when measuring the acquisition cost. Deposits and loan receivables are impaired if the book value is greater than the estimated recoverable amount.

Investments in commercial papers, certificates of deposits and other money market instruments are included in deposits and loans receivable.

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.

Post-employment 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.

The liability of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets together with adjustments for unrecognized actuarial gains or losses. The discount rates used in actuarial calculations of employee benefits liabilities are adjusted to market rates. Actuarial gains and losses are recognized in the statement of income for the employees' average remaining working lives to the extent that they exceed the greater of 10% of the defined benefit obligation or 10% of the fair value of plan assets. 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 payment will be required and the length of service for which it is expected to be made.

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 on the statement of financial position date. This provision is calculated based on historical experience of levels of repair and replacements.

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 provisions include various items, such as those related to severance, unemployment and other employment expenses, and the sale of divested operations.

Advance payments received

Advance payments received include customer payments for the orders included in the work in progress.

Loans payable

Loans payable are classified in the valuation category other financial liabilities. They are measured at amortized cost using the effective interest rate method. Costs directly attributable to the issuing of the debt are deducted from the amount of loans payable and initially recognized.

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held own shares. Diluted earnings per share has been computed by applying the "treasury stock" method, under which earnings per share data is computed as if the warrants and options were exercised at the beginning of the period, or if later, on issue and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. If the criteria for options set in the terms and conditions of the option plan are not met, the options are not included in the calculated number of shares.

Equity

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

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.

Share-based compensation

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 (sales growth and EBIT development) has 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 if new shares are 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.

The Board has granted a share ownership plan to the Group's management. Pursuant to the share ownership plan, the reward to the management will be settled as a combination of KONE class B shares and cash when the criteria set in the terms and conditions for the plan are met. The fair value of the share-based payments settled with KONE class B shares has been determined at the grant date and will be recognized as an expense over the vesting period. The total amount to be expensed over the vesting period is determined based on the Group's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of any non-market vesting conditions (sales and EBIT development) has been excluded, but they are included in assumptions about the number of shares that are expected to be distributed. At each consolidated statement of financial position date, the entity 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, at the fair value of the shares expected to be distributed, by applying the option pricing model and the extent to which the employees have rendered service to date. It recognizes the impact of the revision of original estimates, if any, in the statement of income, with a corresponding adjustment to the liability.

2. 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.

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 income statement and statement of financial position items of foreign subsidiaries into euros (translation risk).

Transaction risks

A substantial part of KONE operations, especially the maintenance business, 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 are in US dollars, Chinese renminbis and British pounds. 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 income statement at the same time as the exchange rate gains and losses for the hedged items are recognized.

Group internal loans and deposits are primarily initiated in the local currencies of the subsidiaries in which case the possible foreign exchange risks are hedged using foreign exchange swap contracts.

Translation risks

Changes in consolidation exchange rates affect KONE's income statement, cash flow statement and statement of financial position, which are presented in euros. As close to 70 percent of KONE's revenues occur in functional currencies other than the euro, the translation risk is significant for KONE. A change of five percent in the annual average foreign exchange rates would have caused a 3.4 (3.2) percent change in 2012 in the consolidated sales in euros. Such a change would not have had a material impact on KONE's operating income margin. The translation of the subsidiaries' balance sheets into euros caused translation differences of EUR -9.4 (29.0) million in 2012. The translation risk is not hedged as a rule with financial instruments as KONE's business consists of continuous operations in various currency areas. The most significant translation risk exposures are in Chinese renminbis, US dollars, Australian dollars and British pounds.

Additional info

The most significant risks and uncertainties related to KONE's business are described in the Board of Directors' Report, risk management on page 5 and in the Corporate governance statement, in risk management on page 57.

Foreign exchange risk sensitivity analysis of financial assets and liabilities

The foreign exchange risk sensitivity analysis according to IFRS 7 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 on the balance sheet 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 represents the impact of a change in the foreign exchange rates of 10 percent to the statement of income and to the equity on the balance sheet date. Changes in the equity are caused by foreign exchange forwards designated in cash flow hedge accounting. The sensitivity analysis is calculated before taxes. A 10 percent change in the foreign exchange rates (strengthening of the euro and US dollar) on the balance sheet date would have resulted in an impact of EUR -2.1 (5.5) million to the statement of income and an impact of EUR 24.1 (19.1) million to the equity.

	Exposure against EUR						Exposure against USD		
MEUR	GBP	SEK	HKD	USD	Others	**Total**	CNY	Others	**Total**
Exposure Dec 31, 2012	-61	-38	-113	-60	-36	**-308**	168	-80	**88**
Exposure Dec 31, 2011	-89	-42	-72	-64	-57	**-324**	124	-46	**78**

Interest rate risks

KONE's cash and short-term investments were EUR 873.2 (920.3) million at the balance sheet date.

KONE had no significant interest-bearing debt on the balance sheet date or at the end of the year of comparison. As KONE's excess liquidity is invested in maturity periods of less than one year, the changes in the interest rates do not have any significant impact on their market values. The changes in the interest rates may however impact future interest income.

Long-term cross-currency swaps have been used for hedging the TELC investment (see note 15 for further information on the TELC investment). The fair value of the interest rate component of this instrument is impacted by the changes in the interest rate differential between Euros and Japanese yen.

When calculating the interest rate sensitivity analysis the interest-bearing net debt is assumed to remain on the level of the closing balance of 2012 during the following financial period. The sensitivity analysis represents the impact of a 1 percentage change in the interest rate level on the net interest income for the financial period by taking into account the net debt tied to interest periods less than one year, -860.4 (-904.2) million euros. For 2013 a 1 percentage point change in the interest rate level would mean a change of EUR 8.6 (9.0) million in net interest income. The interest rate sensitivity is calculated before taxes.

Refinancing and liquidity risks

KONE's cash and cash equivalents was EUR 249.6 (234.0) million and money market investments including short-term deposits EUR 623.6 (686.3) million on December 31, 2012. A significant part of the cash and cash equivalents and short-term investments are located in China, where there are restrictions for capital transfers. This reduces the total amount of liquidity available outside of China. KONE has also a commercial paper program of EUR 500 million and existing committed bi-lateral credit facilities of EUR 320 million to ensure sufficient liquidity.

Additional info

The principles and objectives of KONE's capital management are presented on page 62 of the financial statements.

Maturity analysis of financial liabilities and interest payments

	Maturity Dec 31, 2012				Maturity Dec 31, 2011			
MEUR	**< 1 year**	**1–5 years**	**> 5 years**	**Total**	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
Interest-bearing debt								
Long-term loans	0.0	-0.2	-	**-0.2**	-	-0.1	-	**-0.1**
Finance lease liabilities	-8.2	-15.0	-	**-23.2**	-8.2	-15.2	-	**-23.4**
Short-term loans	-0.2	-	-	**-0.2**	-0.5	-	-	**-0.5**
Used bank overdraft limits	-4.3	-	-	**-4.3**	-7.5	-	-	**-7.5**
Interest payments	-0.1	-0.2	-	**-0.3**	-0.3	-0.6	-	**-0.9**
Option liabilities from acquisitions	-78.3	-	-	**-78.3**	-59.4	-	-	**-59.4**
Non-interest bearing debt								
Accounts payables	-441.0	-	-	**-441.0**	-385.5	-	-	**-385.5**
Accruals	-556.8	-6.2	-	**-563.0**	-516.7	-3.9	-	**-520.6**
Derivatives								
Capital inflow	1,178.5	52.9	-	**1,231.4**	721.9	236.5	-	**958.4**
Capital outflow	-1,195.8	-53.5	-	**-1,249.3**	-723.5	-274.2	-	**-997.7**
Net interest	0.8	-	-	**0.8**	1.6	0.8	-	**2.4**
Net outflow	-1,105.4	-22.2	-	**-1,127.6**	-978.1	-56.7	-	**-1,034.8**

Maturity structure of committed credit facilities

MEUR	Dec 31, 2012			Facility maturity						Dec 31, 2011		
	Used amount	Unused amount	Total	2013	2014	2015	2016	2017	Later	Used amount	Unused amount	Total
Committed facilities	-	320.0	320.0	100.0	-	70.0	100.0	50.0	0.0	-	320.0	320.0

Financial credit risks

KONE has substantial amounts of cash and short-term investments. In order to diversify the financial credit risk, KONE deposits its funds into several banks and invests a part of its liquidity into highly liquid money market funds. Global counterparty limits that set the framework for choosing investment counterparties 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. The management follows the utilization of the limits regularly. When selecting counterparty banks and other investment targets only counterparties with high credit worthiness are approved. The size of each limit reflects the credit worthiness of the counterparty. Counterparty credit worthiness is evaluated constantly and the required actions are considered case by case if it is assessed that a significant change in the credit worthiness has occurred.

Customer credit risk management

Customer credit risks relate to advance payments receivable from customers or to accounts receivable related to equipment handed over 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 impairment loss for the accounts receivable is recognized on the basis of this credit quality evaluation. The impairment loss recognized for the accounts receivable at the end of the financial period was 103.2 (91.1) million. The increase in these impairment losses is primarily due to the increase of long-term overdue receivables, which is a result of the overall economical uncertainty as well as the significant business growth in Asia-Pacific.

Aging structure of the accounts receivable after recognition of impairment, MEUR	Dec 31, 2012	Dec 31, 2011
Not past due and less than one month due receivables [1)]	816.8	749.9
Past due 1–3 months [1)]	155.6	135.8
Past due 3–6 months [1)]	103.3	85.9
Past due > 6 months	54.9	50.5
Accounts receivable in the consolidated statement of financial position	1,130.6	1,022.1

[1)] There is no material impairment loss recognized related to these receivables.

Derivatives

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2012	Derivative liabilities Dec 31, 2012	Fair value, net Dec 31, 2012	Fair value, net Dec 31, 2011
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	4.4	-8.4	-4.0	-7.5
Other hedges	2.1	-2.6	-0.5	3.7
Cross-currency swaps	-	-13.5	-13.5	-33.2
Electricity price forward contracts	0.1	-0.5	-0.4	-0.4
Total	6.6	-25.0	-18.4	-37.4

Nominal values of derivative financial instruments, MEUR	Dec 31, 2012	Dec 31, 2011
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	659.4	513.1
Other hedges	435.5	301.7
Cross-currency swaps	139.3	139.3
Electricity price forward contracts	4.1	4.0
Total	1,238.3	958.1

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 remaining tenor of cross-currency swaps is less than one year. Electricity price forward contracts mature within 3 years' time.

The fair values of foreign exchange forward contracts and swaps as well as the fair values of cross-currency swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2). For electricity price forward contracts there exists a stock exchange price based on which the fair value can be measured reliably (fair value hierarchy level 1).

Values of financial assets and liabilities by categories

2012 Consolidated statement of financial position item, MEUR		Notes	Financial assets and liabilites at fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial liabilities	Total book value
Non-current assets							
Shares		15	136.3				136.3
Available-for-sale investments		16			4.4		4.4
Non-current loans receivable	I	17		5.5			5.5
Current assets							
Accounts receivable				1,130.6			1,130.6
Derivative assets			6.6				6.6
Deferred interests				3.3			3.3
Deferred income from service contracts				25.0			25.0
Unbilled contract revenue				33.5			33.5
Current deposits and loans receivable	I	17		623.6			623.6
Cash and cash equivalents	I			249.6			249.6
Total financial assets			142.9	2,071.1	4.4	-	2,218.4
Non-current liabilities							
Loans	I					20.9	20.9
Current liabilities							
Current portion of long-term loans	I					8.2	8.2
Short-term loans and other liabilities	I					4.6	4.6
Option liabilities from acquisitions	I		78.3				78.3
Accounts payable						441.0	441.0
Derivative liabilities			25.0				25.0
Accrued interests						0.1	0.1
Late costs accruals						223.9	223.9
Accrued salaries, wages and employment costs						311.7	311.7
Unpaid acquisition consideration						27.4	27.4
Total financial liabilities			103.3	-	-	1,037.8	1,141.1

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

2011 Consolidated statement of financial position item, MEUR		Notes	Financial assets and liabilites at fair value through profit or loss	Loans and recei-vables	Available-for-sale	Other financial liabilities	Total book value
Non-current assets							
Shares		15	157.0				157.0
Available-for-sale investments		16			3.4		3.4
Non-current loans receivable	I	17		5.5			5.5
Current assets							
Accounts receivable				1,022.1			1,022.1
Derivative assets			10.7				10.7
Deferred interests				1.7			1.7
Deferred income from service contracts				15.2			15.2
Unbilled contract revenue				26.6			26.6
Current deposits and loans receivable	I	17		686.3			686.3
Cash and cash equivalents	I			234.0			234.0
Total financial assets			167.7	1,991.4	3.4	-	2,162.5
Non-current liabilities							
Loans	I					21.1	21.1
Current liabilities							
Current portion of long-term loans	I					8.2	8.2
Short-term loans and other liabilities	I					8.0	8.0
Option liabilities from acquisitions	I		59.4				59.4
Accounts payable						385.5	385.5
Derivative liabilities			48.1				48.1
Accrued interests						0.1	0.1
Late costs accruals						218.9	218.9
Accrued salaries, wages and employment costs						286.2	286.2
Unpaid acquisition consideration						15.5	15.5
Total financial liabilities			107.5	-	-	943.5	1,051.0

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

3. ACQUISITIONS

KONE completed 24 (23) acquisitions during 2012 for a total consideration of EUR 169.2 million. The acquired businesses are specialized in the elevator, escalator and automatic building door business. The acquisitions completed during the financial period are individually and as a whole not material to KONE’s 2012 financial statements. The sales consolidated from the companies acquired during 2012 did not have a material impact on the Group sales for the financial period.

The fair values of the acquired net assets, based on a provisional assessment, as well as the acquisition costs, are summarized in the table on page 21. The considerations were paid for in cash, except for certain deferred considerations, which will be paid later. The acquisition cost often 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 2012.

The most significant acquisition during 2012 was the acquisition of Isralift (Isralift Industries 1972 Ltd. and Isralift Maintenance 5733 Ltd.), KONE’s authorized distributor in Israel. Isralift is one of the leading elevator and escalator companies in Israel and it had been KONE’s distributor for over 10 years before the acquisition. Isralift has approximately 12,000 elevators in its maintenance base and employs approximately 330 people. The acquisition was completed on the last day of the year and thus had no impact on the consolidated sales or net income for the accounting period. Other major acquisitions during the period were the acquisitions of Ascent Elevator Services, Inc and Eagle Elevator Corporation in the United States. The amount of sales consolidated from these acquisitions was EUR 2.6 million for the year 2012.

The combined acquisition consideration from Isralift, Ascent Elevator Services, Inc and Eagle Elevator Corporation was EUR 145.7 million. Based on provisional assessments, the fair value of identified net assets from these acquisitions was EUR 71.3 million, including EUR

39.6 million of maintenance contracts. The increase in goodwill totaled EUR 74.4 million. Goodwill represents the value of the acquired market share, business knowledge and the synergies. Note 11 provides more detail on goodwill.

During the accounting period, KONE completed other minor acquisitions for a total consideration of EUR 23.5 (28.0) million, of which, based on provisional assessments, EUR 20.1 (28.8) million was allocated to maintenance contracts in other intangible assets. Acquired maintenance contracts are typically amortized over ten years. Note 12 provides more detail on other intangible assets.

Assets and liabilities of the acquired businesses, MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Maintenance contracts	59.7	34.5
Other intangible assets	5.1	61.4
Tangible assets	0.6	11.7
Deferred tax assets	0.1	2.5
Inventories	22.5	18.9
Accounts receivables and other assets	15.2	46.9
Cash and cash equivalents and other interest bearing receivables	24.2	79.5
Total assets	127.4	255.4
Pension liabilities	-	0.3
Interest-bearing loans	0.0	0.4
Provisions	0.1	5.0
Deferred tax liabilities	-	9.0
Other liabilities	35.3	123.0
Total liabilities	35.4	137.7
Minority interests	-	5.1
Net assets	92.0	112.6
Acquisition cost paid in cash	145.6	175.0
Previously held interest at fair value	-	82.5
Option liability	-	59.4
Contingent consideration	23.6	10.3
Acquisition cost at date of acquisitions	169.2	327.2
Goodwill	77.2	214.6

Acquisition cost after the acquisition date recognized in profit and loss totaled EUR 0.4 (0.9) million.

4. PERCENTAGE OF COMPLETION METHOD

The amount of sales recognized in the income statement for long-term projects under the percentage of completion method was EUR 204.1 (173.6) million. The effect of the percentage of completion method on the amount of sales as compared to the completed contract method was EUR 18.2 (-52.6) million for the period. The consolidated statement of financial position includes EUR 33.5 (26.6) million in unbilled contract revenue and EUR 37.2 (31.3) million in advances received for long-term contracts in progress.

5. COSTS AND EXPENSES

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Change of work in progress	-159.5	19.3
Direct materials, supplies and subcontracting	2,636.0	1,898.2
Wages, salaries, other employment expenses and pensions	1,882.5	1,675.8
Other production costs	528.0	443.6
Operating lease expenses	90.8	85.9
Selling, administrative and other expenses [1)]	427.3	348.6
Depreciation and amortization	86.0	65.9
One-time cost [2)]	37.3	-
Total costs and expenses	5,528.4	4,537.3
Other income [3)]	35.6	37.2
Total costs, expenses and depreciation	5,492.8	4,500.1

1) Includes premises related costs, consulting and external services, IT costs, travelling, and other miscellaneous costs, as well as the changes in the fair value appraisal related to share investment in Toshiba Elevator and Building Systems Corporation (TELC). Respective fair value of the hedges related to the TELC investment have been recorded in other income.
2) One-time cost related to the support function development and cost adjustment programs. Includes principally redundancy costs and salaries for notice periods as well as costs and write-offs related to the early termination of rental agreements.
3) Includes rent income, received grants, interest on late payments, gains on sales of fixed assets, sale of scrap and other miscellaneous income, as well as the fair value changes of the hedges related to the TELC.

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
R&D costs included in total costs	86.1	82.5
as percentage of sales, %	1.4	1.6

Auditors’ fees, MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
To member firms of PricewaterhouseCoopers network		
Audit	2.3	2.1
Auditors’ statements	0.0	0.0
Tax services	0.7	0.7
Other services	0.6	0.9
Total	3.6	3.7

6. DEPRECIATION AND AMORTIZATION

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Other intangible assets		
Maintenance contracts and other intangible assets identified in connection with acquisitions	32.8	16.1
Other	10.1	8.8
Buildings	6.0	6.0
Machinery and equipment	37.1	35.0
Total	86.0	65.9

7. FINANCING INCOME AND EXPENSES

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Dividend income	13.3	7.0
Interest income		
Cross-currency swaps		
Change in fair value of interest	-	0.5
Net interest income	1.7	1.7
Interest income on loan receivable and financial assets	20.9	16.1
Other financing income	0.0	0.0
Exchange rate gains [1]	7.0	1.1
Financing income	42.9	26.4
Interest expenses		
Cross-currency swaps		
Change in fair value of interest	-0.8	-
Interest expense on other financial liabilities	-1.4	-1.9
Other financing expenses [2]	-22.1	-2.6
Exchange rate losses [1]	-2.5	-3.7
Financing expenses	-26.8	-8.2
Financing income and expenses	16.1	18.2

[1] Exchange rate gains and losses include exchange rate differences from loans and other receivables EUR 6.4 (-5.2) million, fair value changes of foreign exchange derivatives EUR -3.9 (2.1) million and exchange rate gains of EUR 0.4 million from option liabilities related to acquisitions.

[2] Includes provisions on undrawn revolving credit facilities EUR -0.5 (-0.6) million, fair value changes of option liabilities related to acquisitions EUR -19.3 million, and other expenses, mainly banking charges EUR -2.3 (-2.0) million.

8. INCOME TAXES

Taxes in statement of income, MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Tax expense for current year	210.3	172.3
Change in deferred tax assets and liabilities	-12.5	15.9
Tax expense for previous years	-4.5	-16.0
Total	193.3	172.2

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Income before taxes	804.4	816.6
Tax calculated at the domestic corporation tax rate	197.1	212.3
Effect of different tax rates in foreign subsidiaries	-15.7	-10.6
Permanent differences	4.6	-4.3
Results of associated companies	-1.0	-19.0
Taxes from previous years and reassessment of deferred tax assets	-4.5	-16.0
Deferred tax liability on undistributed earnings	11.2	5.2
Re-measurement of deferred tax - change in the Finnish corporate tax rate	-	1.6
Other	1.6	3.0
Total	193.3	172.2
Effective tax rate, %	24.0 [1]	21.1 [2]
Tax rate of parent company, %	24.5	26.0

[1] The effective tax rate resulting from the operations for the financial year 2012 was 23.5%. However, taking into account prior year taxes and the effect of one-time items, the effective tax rate was 24.0%. The revaluation of option liabilities related to acquisitions is included in one-time items.

[2] The effective tax rate resulting from the operations for the financial year 2011 was 24.8%. However, taking into account prior year taxes and the effect of the revaluation of option liabilities related to acquisitions, the effective tax rate was 21.1%.

9. 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.

	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Net income attributable to the shareholders of the parent company, MEUR	601.2	643.6
Weighted average number of shares (1,000 shares)	255,954	255,411
Basic earnings per share, EUR	2.35	2.52
Dilution effect of share options and share-based incentive plan (1,000 shares)	1,202	1,138
Weighted average number of shares, dilution adjusted (1,000 shares)	257,157	256,549
Diluted earnings per share, EUR	2.34	2.51

The comparable basic earnings per share excluding a one-time cost related to the support function development and cost adjustment programs was EUR 2.46 (2011: the comparable basic earnings per share excluding the one-time gain relating to the revaluation of the previously held 40% interest in GiantKONE was EUR 2.30).

10. OTHER COMPREHENSIVE INCOME

Disclosure of components of other comprehensive income

MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Other comprehensive income:		
Translations difference	-9.4	29.0
Hedging of foreign subsidiaries	1.7	-3.1
Cash flow hedges:		
Gains (losses) arising during the year	-0.4	-2.4
Reclassifications included in profit or loss	2.1	-0.5
Cash flow hedges, net	1.7	-2.9
Income tax relating to components of other comprehensive income	-0.6	2.1
Other comprehensive income	-6.6	25.1

Disclosure of tax effects relating to components of other comprehensive income

	Jan 1–Dec 31, 2012			Jan 1–Dec 31, 2011		
MEUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Translation differences	-9.4	0.0	-9.4	29.0	0.0	29.0
Hedging of foreign subsidiaries	1.7	-0.4	1.3	-3.1	0.8	-2.3
Cash flow hedges	1.7	-0.2	1.5	-2.9	1.3	-1.6
Other comprehensive income	-6.0	-0.6	-6.6	23.0	2.1	25.1

11. GOODWILL

Goodwill allocation

Goodwill is allocated to cash-generating units (CGUs). A cash generating unit is typically the country unit in which the acquired business is operating, in accordance with KONE's management system and structures. The carrying amount of goodwill is allocated to 20 different CGUs. The five largest CGUs carry 73% of the goodwill. The carrying amount of goodwill is below EUR 10 million for eight CGUs. The goodwill allocation to the CGUs is presented in the table below:

Goodwill/CGU, MEUR	Dec 31, 2012	%	Dec 31, 2011	%
Five largest CGUs	785.7	73	756.7	75
Five smallest CGUs	25.6	2	28.8	3
Others	274.4	25	219.1	22
Total	1,085.7		1,004.6	
Mean	54.3		52.9	
Median	22.2		15.1	

Impairment testing

The value-in-use calculations for the CGU-specific cash flow projections are based on financial estimates for the CGUs approved by the group management. The financial estimates are prepared for the following two years for each CGU. The cash flows for subsequent years are assumed prudently without growth. The discount rates used are based on the weighted average cost of capital (WACC), which reflects the market assessment of the time-value of money and of the risk specific to KONE's business.

The business growth, price and cost development assumptions embedded in 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 risk-free interest rates, risk factors (beta coefficient) and market risk premiums available on the financial market. 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 interests 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 7.7 times higher than the assets employed of the CGUs. This ratio was 5.8 for the five largest CGUs; 9.9 for the five smallest CGUs, and 14.0 for the other CGUs.

Discount interest rates used (pre-tax):	EMEA	Americas	Asia-Pacific
2012	7.63%	7.96%	10.87%
2011	8.48%	8.20%	10.48%

Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2012	Dec 31, 2011
Opening net book value	1,004.6	777.5
Translation differences	-3.2	8.0
Increase	7.3	4.7
Decrease	-0.2	-0.2
Companies acquired	77.2	214.6
Closing net book value	1,085.7	1,004.6

12. OTHER INTANGIBLE ASSETS

Jan 1–Dec 31, 2012, MEUR	Maintenance contracts and other intangible assets identified in connection with acquisitions	Other	Total
Jan 1, 2012:			
Acquisition cost	187.6	94.0	281.6
Accumulated amortization and impairment	-50.2	-70.7	-120.9
Net book value	137.4	23.3	160.7
Opening net book value	137.4	23.3	160.7
Translation differences	-0.6	0.0	-0.4
Increase	0.5	15.6	16.1
Decrease	-	-2.0	-2.0
Reclassifications	-	2.0	2.0
Companies acquired [1)]	59.7	5.1	64.6
Amortization	-32.8	-10.1	-42.9
Closing net book value	164.2	33.9	198.1
Dec 31, 2012:			
Acquisition cost	220.2	120.3	340.5
Accumulated amortization and impairment	-56.0	-86.4	-142.4
Net book value	164.2	33.9	198.1

Jan 1–Dec 31, 2011, MEUR	Maintenance contracts and other intangible assets identified in connection with acquisitions	Other	Total
Jan 1, 2011:			
Acquisition cost	111.6	63.1	174.7
Accumulated amortization and impairment	-52.6	-40.0	-92.6
Net book value	59.0	23.1	82.1
Opening net book value	59.0	23.1	82.1
Translation differences	1.3	0.8	2.1
Increase	0.3	5.7	6.0
Decrease	-0.4	-0.1	-0.5
Reclassifications	-	0.0	0.0
Companies acquired [1)]	93.3	2.6	95.9
Amortization	-16.1	-8.8	-24.9
Closing net book value	137.4	23.3	160.7
Dec 31, 2011:			
Acquisition cost	187.6	94.0	281.6
Accumulated amortization and impairment	-50.2	-70.7	-120.9
Net book value	137.4	23.3	160.7

[1)] Please refer to Note 3 Acquisitions.

13. PROPERTY, PLANT AND EQUIPMENT

Jan 1–Dec 31, 2012, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2012:							
Acquisition cost	10.4	159.8	325.7	43.5	17.6	4.2	561.2
Accumulated depreciation	-	-68.7	-240.8	-20.1	-	-	-329.6
Net book value	10.4	91.1	84.9	23.4	17.6	4.2	231.6
Opening net book value	10.4	91.1	84.9	23.4	17.6	4.2	231.6
Translation differences	-0.2	0.1	0.2	-0.1	-0.3	0.0	-0.3
Increase	-	50.8	40.6	10.9	-0.3	-3.0	99.0
Decrease	-0.7	-15.6	-1.9	-3.3	-1.3	-0.9	-23.7
Reclassifications	-1.6	-0.9	1.3	0.0	-0.9	-	-2.1
Companies acquired	-	-	0.3	-	-	-	0.3
Depreciation	-	-6.0	-29.4	-7.7	-	-	-43.1
Closing net book value	7.9	119.5	96.0	23.2	14.8	0.3	261.7
Dec 31, 2012:							
Acquisition cost	7.9	198.9	364.5	43.7	14.8	0.3	630.1
Accumulated depreciation	-	-79.4	-268.5	-20.5	-	-	-368.4
Net book value	7.9	119.5	96.0	23.2	14.8	0.3	261.7

Jan 1–Dec 31, 2011, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
Jan 1, 2011:							
Acquisition cost	10.4	118.9	310.7	40.9	4.5	0.1	485.5
Accumulated depreciation	-	-40.1	-220.7	-19.8	-	-	-280.6
Net book value	10.4	78.8	90.0	21.1	4.5	0.1	204.9
Opening net book value	10.4	78.8	90.0	21.1	4.5	0.1	204.9
Translation differences	0.0	0.3	-0.4	0.1	-0.3	0.1	-0.2
Increase	-	5.7	24.4	12.3	17.7	4.2	64.3
Decrease	-1.8	-1.4	-1.0	-2.9	-0.9	-0.2	-8.2
Reclassifications	1.8	6.6	-4.7	-	-3.6	-	0.1
Companies acquired	-	7.1	4.4	-	0.2	-	11.7
Depreciation	-	-6.0	-27.8	-7.2	-	-	-41.0
Closing net book value	10.4	91.1	84.9	23.4	17.6	4.2	231.6
Dec 31, 2011:							
Acquisition cost	10.4	159.8	325.7	43.5	17.6	4.2	561.2
Accumulated depreciation	-	-68.7	-240.8	-20.1	-	-	-329.6
Net book value	10.4	91.1	84.9	23.4	17.6	4.2	231.6

During the period of Jan 1–Dec 31, 2012, capital expenditure on production facilities, customer service of sales and maintenance operations and information systems including new finance leases, totaled EUR 118.7 (51.8) million.

14. ASSOCIATED COMPANIES AND RELATED PARTY TRANSACTIONS

Investments in associated companies, MEUR	Dec 31, 2012	Dec 31, 2011
Total at beginning of period	9.0	25.5
Translation differences	-0.2	0.7
Share of associated companies' result after taxes	4.3	10.3
Revaluation of previously held interest in GiantKONE	-	63.0
Dividends received	-0.3	-9.7
Increase	-	1.7
Reclassification of GiantKONE	-	-82.5
Total at end of period	12.8	9.0

The associated companies' financial information presented here is based on the latest official financial statements available and estimates for year 2012.

KONE's associated companies' net income for the year 2012 was EUR 7.3 million based on estimates available. Based on the most recent official financial statements (2011), KONE's associated companies showed total assets of EUR 118.2 million and total equity of EUR 18.5 million. In 2011 the associated companies recorded total sales of EUR 71.4 million and net income of EUR 4.2 million.

Transactions with associated companies, MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Sales of goods and services	44.2	23.3
Purchases of goods and services	13.8	14.4

Balances with associated companies

Receivables from associated companies, MEUR	Dec 31, 2012	Dec 31, 2011
Long-term loans	1.8	-
Short-term loans	-	1.8
Accounts receivable	20.0	5.2
Deferred assets	-	-
Total	21.8	7.0

Liabilities to associated companies, MEUR	Dec 31, 2012	Dec 31, 2011
Long-term loans	-	-
Short-term loans	-	-
Accounts payable	1.7	0.4
Accruals	0.2	0.3
Total	1.9	0.7

Transactions with key management

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, 2012	Jan 1–Dec 31, 2011
Salaries and other remunerations	6.5	6.5
Share-based payments	7.7	9.6
Total	14.2	16.1

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR thousand)	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Herlin Antti, Chairman of the Board [1)]	528.4	529.0
Alahuhta Matti, President and CEO, member of the Board [1)]	758.7	758.2
Akiba Shinichiro	29.0	-
Brunila Anne	38.0	35.5
Hanhinen Reino	37.5	38.0
Herlin Jussi	34.8	19.5
Hämäläinen-Lindfors Sirkka	48.5	48.0
Kaskeala Juhani	37.5	38.0
Kimura Shunichi	5.5	34.5
Pietikäinen Sirpa	36.5	36.0
Total	1,554.4	1,536.7

1) In addition, for the financial year 2012 Antti Herlin's accrued bonus was EUR 468,488 and Matti Alahuhta's accrued bonus was EUR 649,980. These will be paid during 2013. In April 2012, the share-based payment for the financial year 2011 received by Matti Alahuhta was EUR 2,031,483.

The compensation for the Chairman, Antti Herlin, consists of a basic salary and a yearly bonus, which is defined by the Board and based on the Corporation's financial result. This bonus may not exceed 100 percent of his annual salary. In 2012, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for the accounting period January 1–December 31, 2012 was EUR 468,488. He was also paid EUR 60,000 as remuneration for serving as Chairman of the Board. Herlin's holdings of shares are presented on page 59. The Chairman of the Board's pension and retirement age are determined in accordance with the retirement age legislation in force. No separate agreement regarding early retirement has been made.

The compensation for the President and CEO, Matti Alahuhta, consists of a basic salary and yearly bonus, defined by the Board on the basis of the Corporation's key targets. This bonus may not exceed 100% of his annual salary. Matti Alahuhta's basic salary for 2012 was EUR 722,200. In addition, his accrued bonus for the accounting period January 1–December 31, 2012 totaled EUR 649,980. He was also paid EUR 36,500 as remuneration for serving on the Board. Alahuhta's holdings of shares are presented on page 59. He is also included in the share-based incentive plan for the company's senior management. The potential reward is based on the annual growth in KONE's sales and operating profit. In April 2012, on the basis of the incentive plan, he received a bonus of total value of EUR 2,031,483 including 22,380 KONE class B shares together with a cash bonus to cover the taxes and similar charges arising from the receipt of the shares.

The corresponding bonus accrued from 2012 and to be paid in April 2013 is 24,000 KONE class B shares and a cash bonus to cover the taxes and similar charges arising from the receipt of the shares. As a part of his service contract, he had the possibility to retire at the age of 60 in June 2012. Mr. Alahuhta did not exercise this possibility and continued as the President & CEO also after June 2012. He has the possibility to retire following his term of notice in his service contract. Alahuhta´s retirement pension is 60% of his average monthly salary during the past seven earning years. Should his employment contract be terminated before his retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a 6-month term of notice.

The compensation for the members of the Executive Board comprises a fixed basic salary and bonus, based on the annual result of the Group and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50% of the annual salary. The Executive Board members' holdings of shares are presented on page 59. The Executive Board members are included in the share-based incentive plan. In April 2012, on the basis of the incentive plan, the members of the Executive Board received a bonus of total 98,450 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 2012 and to be paid in April 2013 is 98,400 KONE class B shares and 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 6-month term of notice.

15. SHARES

The shares held include a 19.9% holding in Toshiba Elevator and Building Systems Corporation (TELC). The fair value of TELC shares is based on realized and expected future earnings of the company (IFRS 7 Fair value hierarchy level 3; assets whose fair values are based on assumptions, that are not supported by prices from observable current market data). In the value appraisement, the business is expected to grow profitably and generally used return requirements of the industry have been applied.

16. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments include smaller holdings in other companies without public quotation. They are measured at cost since the fair values cannot be reliably measured.

17. DEPOSITS AND LOANS RECEIVABLE

MEUR	Dec 31, 2012	Dec 31, 2011
Non-current loans receivable	5.5	5.5
Current loans receivable	3.0	3.1
Current short-term deposits	620.6	683.2
Total	629.1	691.8

The fair values of deposits and loans receivable are not materially different from their carrying amounts.

Current short-term deposits consist mainly of short-term bank deposits as well as commercial papers and certificates of deposit.

18. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets, MEUR	Dec 31, 2012	Dec 31, 2011
Tax losses carried forward	10.5	10.4
Provisions and accruals	128.1	100.5
Pensions	12.8	16.6
Inventory	20.7	18.0
Property, plant and equipment	6.4	7.5
Other temporary differences for assets	21.9	25.3
Total	200.4	178.3
Total at beginning of period	178.3	176.5
Translation differences	1.5	2.3
Change in statement of income	19.4	-4.3
Charged or credited to equity	1.1	1.3
Acquisitions, divestments and other	0.1	2.5
Total at end of period	200.4	178.3

Deferred tax liabilities, MEUR	Dec 31, 2012	Dec 31, 2011
Property, plant and equipment	4.5	5.9
Goodwill	40.2	35.1
Other temporary differences for liabilities	43.7	40.6
Total	88.4	81.6
Total at beginning of period	81.6	60.8
Translation differences	-0.1	0.2
Change in statement of income	6.9	11.6
Acquisitions, divestments and other	-	9.0
Total at end of period	88.4	81.6
Net deferred tax assets and liabilities	112.0	96.7

19. INVENTORIES

MEUR	Dec 31, 2012	Dec 31, 2011
Raw materials, supplies and finished goods	199.2	177.2
Work in progress	773.0	604.3
Advance payments made	8.6	13.2
Inventories	980.8	794.7

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 orders. Firm customer orders are mainly fixed price contracts with customers for the sale of new equipment or for the modernization of old equipment.

20. DEFERRED ASSETS

MEUR	Dec 31, 2012	Dec 31, 2011
Deferred interests	3.3	1.7
Deferred income from maintenance contracts	25.0	15.2
Unbilled contract revenue (note 4)	33.5	26.6
Derivative assets	6.6	10.7
Pension surplus from defined benefit plans	7.7	8.0
Value added tax assets	45.0	53.3
Prepaid expenses and other receivables	60.6	61.2
Total	181.7	176.7

21. SHAREHOLDERS EQUITY

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 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 recorded under translation differences. Exchange rate differences resulting from derivatives and loans intended as hedges on assets and liabilities in foreign subsidiaries are also entered in translation differences. The purchase price of own shares purchased by KONE Group companies is deducted from retained earnings. The net income for the accounting period is booked directly in retained earnings.

Shares and share capital

At the end of the 2012 financial year the number of shares outstanding was 260,536,120. The share capital was EUR 65.1 million and the total number of votes was 60,347,532. 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 March 2010 to increase the share capital and to issue stock options. The authorization shall remain in effect until March 1, 2015.

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least 1 percent and no more than 2.5 percent 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.

Changes in share capital	**Class A**	**Class B**	**Total**
Number of shares as of Jan 1, 2012	38,104,356	222,431,764	260,536,120
Number of shares, Dec 31, 2012	38,104,356	222,431,764	260,536,120
Number of votes, Dec 31, 2012	38,104,356	22,243,176	60,347,532
Share capital, Dec 31, 2012, MEUR	9.5	55.6	65.1

Changes in share capital	**Class A**	**Class B**	**Total**
Number of shares as of Jan 1, 2011	38,104,356	222,431,764	260,536,120
Number of shares, Dec 31, 2011	38,104,356	222,431,764	260,536,120
Number of votes, Dec 31, 2011	38,104,356	22,243,176	60,347,532
Share capital, Dec 31, 2011, MEUR	9.5	55.6	65.1

Options

KONE Corporation had two stock option programs during the financial period 2012. 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 and members of the Executive Board are not included in the stock option programs.

Stock options 2007 were granted according to the decision of the Board of Directors meeting on December 5, 2007 to approximately 350 key employees and the decision was based on the authorization received from the Shareholders Meeting on February 26, 2007. A total of 1,112,000 options was granted. The original share subscription price for the option was 25.445 euros per share and it was further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. Therefore the effective subscription price as per April 30, 2012 when the subscription period ended was EUR 20.545. Each option entitled its holder to subscribe for two (2) class B KONE treasury share. The share subscription period for the stock options 2007 was April 1, 2010–April 30, 2012. The share subscription period started April 1, 2010, as the average turnover growth of the KONE Group for the financial years 2008 and 2009 exceeded market growth and as the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeded the EBIT for the financial year 2007, and the EBIT for the financial year 2009 exceeded the EBIT for the financial year 2008 as required in the terms of the stock options.

Stock options 2010 were granted according to the decision of the Board of Directors on July 20, 2010 to approximately 430 key employees. The decision was based on the authorization received from the Shareholders Meeting on March 1, 2010. A maximum total of 3,000,000 options could be granted. The original share subscription price for the option was 35.00 euros 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, 2012 was EUR 31.20. Each option entitles its holder to subscribe for one (1) new or an existing class B share held by the company. The share subscription period for the stock option 2010 will be April 1, 2013–April 30, 2015. The share subscription period begins April 1, 2013, as the financial performance of the KONE Group for the financial years 2010–2012 based on the total consideration of the Board of Directors was equal to or better than the average performance of key competitors of KONE.

Options	Options granted to employees	Unexcercised options	Options held by the subsidiary Dec 31, 2012	Number of class B shares that can be subscribed for with the options	Share subscription price, EUR	Share subscription period
2007	1,112,000	0	0	2	20.545	1 April, 2010–30 April, 2012
2010	2,188,000	2,188,000	2,188,000	1	31.20	1 April, 2013–30 April, 2015
Total	3,300,000	2,188,000	2,188,000			

Changes in the number of options outstanding	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Number of options outstanding at Jan 1	2,974,828	3,251,300
Granted options	41,000	138,500
Returned options	105,020	30,500
Exercised options	722,808	384,472
Number of options outstanding at Dec 31	2,188,000	2,974,828
Exercisable options at Dec 31	0	725,328

Share-based incentive plan

KONE has a share-based incentive plan for the company's senior management (President & CEO, members of the Executive Board and other top management), consisting of approximately 40 individuals. The potential reward is based on the annual growth in both sales and earnings before interest and taxes (EBIT). The reward is to be paid as a combination of class B shares and cash equivalent of the taxes and similar charges that are incurred. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each fiscal year. As part of the share-based incentive plan, a long term target for the management´s ownership has been set. In April 2012, a total of 208,295 class B shares were granted to the management as reward due to the achievement of the targets for the year 2011. A total of 17,900 class B shares was returned to the company during financial year 2012. A total of 210,240 class B shares will be granted in April 2013 due to the achievement of the targets for the year 2012.

Authority to purchase own shares

The Shareholders' Meeting held in March 2012 authorized the Board of Directors to repurchase and redistribute 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 25,570,000 shares may be repurchased, of which no more than 3,810,000 may be class A shares and 21,760,000 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.

Class B shares can be purchased at public trading in the NASDAQ OMX Helsinki Ltd. at market price. The class A shares shall be purchased outside public trading at the price equivalent to the average price of class B shares paid in the NASDAQ OMX Helsinki Ltd. at the time of purchase.

During the financial year 2012 KONE repurchased 834,174 own shares

Own shares

	Number of shares	Cost in MEUR
Jan 1, 2012	4,962,176	98.8
Purchase, February	834,174	36.9
Distributed to the share-based incentive plan, April	-208,295	-8.6
Distributed to the subscriptions of option rights 2007, April	-1,445,616	-54.8
Returned from the share-based incentive plan, June	8,950	0.3
Returned from the share-based incentive plan, August	8,950	0.3
Dec 31, 2012	4,160,339	72.9
Jan 1, 2011	4,849,035	91.4
Purchase, February	298,835	11.9
Distributed to the share-based incentive plan, April	-219,000	-6.4
Distributed to the subscriptions of option rights 2007, July	-200,000	-6.1
Purchase, August	799,250	28.8
Distributed to the subscriptions of option rights 2007, October	-300,000	-10.6
Returned from the share-based incentive plan, December	3,000	0.0
Distributed to the subscriptions of option rights 2007, December	-268,944	-10.2
Dec 31, 2011	4,962,176	98.8

Share-based payments

	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Share-based payments recognized as an expense in the statement of income, MEUR		
To be paid in shares	8.7	12.8
To be paid in cash	10.2	11.6

The share price at the date of issuing the share-based incentive plan 2010–2012 was EUR 28.56. During the financial year 2012 the possibility for a total of 15,400 (61,440) more KONE class B shares was granted and the possibility for a total of 50,825 (42,480) class B shares was returned to the company. The outstanding amount of KONE class B shares included in the incentive plan was therefore 210,240 (453,960) class B shares at the end of the financial year.

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:

	2010	2007
Share price at the date of issue, EUR	32.19	22.90
Original subscription price, EUR	35.00	25.45
Duration (years)	4.8	2.1
Expected volatility, %	27	27
Risk-free interest rate, %	1.6	4.0
Fair value of option at the date of issue, EUR	7.40	6.55

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

22. FINANCE LEASE LIABILITIES

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

MEUR	Dec 31, 2012	Dec 31, 2011
Minimum lease payments		
Less than 1 year	8.5	8.4
1–5 years	15.5	15.9
Over 5 years	-	-
	24.0	24.3
Future finance charges	-0.8	-0.9
Present value of finance lease liabilities	23.2	23.4

MEUR	Dec 31, 2012	Dec 31, 2011
Present value of finance lease liabilities		
Less than 1 year	8.2	8.2
1–5 years	15.0	15.2
Over 5 years	-	-
Total	23.2	23.4

23. 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. Individual benefits are generally dependent on eligible compensation levels and years of service. 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 products in order to provide expected 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 to 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 the defined benefit plan, KONE also provides post-employment medical and life insurance benefits in the United States. These predominantly unfunded other post-employment benefit plans qualify as defined benefit plans under IFRS.

In Australia, KONE operates both funded defined benefit and defined contribution plans. The defined benefit plan has been closed to new members as of November 2000. All new employees are provided with defined contribution benefits.

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 to new entrants. In Sweden, the pension cover is organized through defined contribution as well as unfunded defined benefit plans (ITP system, Industrins och handels 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. The 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.

Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	Dec 31, 2012	Dec 31, 2011
Employee benefits		
Defined benefit plans	82.6	91.5
Other post-employment benefits	14.2	13.7
Total	**96.8**	**105.2**

	Dec 31, 2012		Dec 31, 2011	
Employee benefit liabilities recognized in the consolidated statement of financial position, MEUR	**Defined benefit plans**	**Other post-employment benefits**	**Defined benefit plans**	**Other post-employment benefits**
Present value of unfunded obligations	76.0	1.8	58.5	1.8
Present value of funded obligations	339.9	16.2	308.5	16.7
Fair value of benefit plans' assets	-247.3	-0.6	-206.7	-0.5
Unrecognized actuarial gains (+)/losses (-)	-86.0	-3.2	-68.8	-4.3
Total	**82.6**	**14.2**	**91.5**	**13.7**

	Jan 1–Dec 31, 2012		Jan 1–Dec 31, 2011	
Net liability reconciliation	**Defined benefit plans**	**Other post-employment benefits**	**Defined benefit plans**	**Other post-employment benefits**
Net liability at beginning of period	91.5	13.7	96.4	17.0
Translation differences	0.7	-0.2	0.7	0.2
Acquisitions of new companies	-	-	0.3	-
Costs recognized in statement of income	16.1	1.7	9.9	0.8
Paid contributions	-25.5	-0.3	-21.9	-0.6
Reclassifications	-0.2	-0.7	6.1	-3.7
Net liability at end of period	**82.6**	**14.2**	**91.5**	**13.7**

Amounts recognized in the statement of income, MEUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Defined contribution pension plans	116.3	92.1
Defined benefit pension plans	17.9	11.6
Other post-employment benefits	1.7	0.8
Total	**135.9**	**104.5**

	Jan 1–Dec 31, 2012		Jan 1–Dec 31, 2011	
Amounts recognized in the statement of income, MEUR	**Defined benefit plans**	**Other post-employment benefits**	**Defined benefit plans**	**Other post-employment benefits**
Current service costs	11.1	0.9	9.0	0.0
Interest costs	17.0	0.6	17.3	0.7
Expected return on plans' assets	-14.8	0.0	-14.8	-
Net actuarial gains (-)/losses (+) recognized	4.4	0.2	1.2	0.1
Past-service costs	-	-	-0.7	-
Settlements	0.0	-	-0.3	-
Loss curtailments	0.2	-	-0.1	-
Total	**17.9**	**1.7**	**11.6**	**0.8**

The actual return on defined benefit plans' assets was EUR 25.1 (0.3) million.

Defined benefit plans: assumptions used in calculating benefit obligations

	Jan 1–Dec 31, 2012		Jan 1–Dec 31, 2011	
	Europe	USA	Europe	USA
Discount rate, %	3.00–4.50	4.30	3.30–5.30	5.35
Expected return on plans' assets, %	3.00–5.42	8.00	4.00–6.70	8.00
Future salary increase, %	3.0–4.0	4.0	3.0–4.4	4.0
Future pension increase, %	2.0–3.0	4.0	2.0–3.5	4.0
Expected average remaining working years	16	15	16	15

24. PROVISIONS

Jan 1–Dec 31, 2012, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	41.4	2.8	3.3	13.6	27.6	88.7
Translation differences	-0.2	-	-0.1	0.0	-0.1	-0.4
Increase	22.9	1.6	33.8	22.2	18.9	99.4
Provisions used	-14.5	-0.3	-8.4	-10.9	-9.8	-43.9
Reversal of provisions	-3.0	-0.1	-1.0	-1.3	-2.3	-7.7
Companies acquired	-	-	-	0.1	-	0.1
Total provisions at end of period	46.6	4.0	27.6	23.7	34.3	136.2

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2012	24.0	112.2	136.2

Jan 1–Dec 31, 2011, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions at beginning of period	52.3	4.5	10.7	10.0	21.9	99.4
Translation differences	2.9	-	0.4	0.3	-0.2	3.4
Increase	10.9	1.2	-	9.2	9.2	30.5
Provisions used	-16.7	-1.2	-6.2	-3.7	-6.1	-33.9
Reversal of provisions	-8.0	-1.7	-1.6	-2.2	-2.2	-15.7
Companies acquired	-	-	-	-	5.0	5.0
Total provisions at end of period	41.4	2.8	3.3	13.6	27.6	88.7

	Non-current liabilities	Current liabilities	Total
Distribution of provisions as of Dec 31, 2011	11.2	77.5	88.7

25. ACCRUALS AND ADVANCE PAYMENTS RECEIVED

Accruals, MEUR	Dec 31, 2012	Dec 31, 2011
Accrued interests	0.1	0.1
Accrued income of maintenance contracts	188.2	135.1
Late costs accruals [1)]	223.9	218.9
Accrued salaries, wages and employment costs	311.7	286.2
Derivative liabilities	25.0	48.1
Accrued value added tax	59.0	66.0
Accruals from acquisitions	27.4	15.5
Other accruals	171.4	139.8
Total	1,006.7	909.7

[1)] Includes expected costs still to be incurred relating to new equipment and modernization deliveries which have been completed.

Advance payments received, MEUR	Dec 31, 2012	Dec 31, 2011
Advance payments received	1,242.0	962.1

Advance payments received include customer payments for orders included in work in progress according to the contractual payment terms.

26. COMMITMENTS

MEUR	Dec 31, 2012	Dec 31, 2011
Mortages		
Group and parent company	-	-
Pledged assets		
Group and parent company	0.1	0.1
Guarantees		
Associated companies	9.8	6.5
Others	5.1	5.6
Operating leases	257.2	202.8
Total	272.2	215.0

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 784.3 (701.7) million as of December 31, 2012.

Possible unidentified debts and liabilities of the in 2005 demerged Kone Corporation were transferred to the new KONE Corporation according to the demerger plan.

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, 2012	Dec 31, 2011
Less than 1 year	61.1	53.1
1–5 years	146.7	124.3
Over 5 years	49.4	25.4
Total	257.2	202.8

The aggregate operating lease expenses totaled EUR 90.8 (85.9) million.

27. DISTRIBUTION OF NET SALES

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

Sales by geographical areas

MEUR	Jan 1–Dec 31, 2012	%	Jan 1–Dec 31, 2011	%
EMEA [1]	3,094.0	49	2,893.7	55
Americas	999.0	16	947.3	18
Asia-Pacific	2,183.8	35	1,384.2	27
Total	6,276.8		5,225.2	

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

Of net sales, EUR 163.3 (145.6) million was in Finland.

In 2012, the net sales in China was close to 25% and in the United States exceeded 10% of the Group's total net sales (2011: net sales in China, the United States and France each exceeded 10%). KONE's ten biggest geographical market areas in terms of net sales (in addition to the aforementioned) included France, Germany, the United Kingdom, Australia, Italy, Sweden, the Netherlands, and Finland (2011: Germany, Italy, the United Kingdom, Australia, the Netherlands, Sweden and Canada).

Sales by businesses

MEUR	Jan 1–Dec 31, 2012	%	Jan 1–Dec 31, 2011	%
New equipment	3,154.9	50	2,395.4	46
Services	3,121.9	50	2,829.8	54
Total	6,276.8		5,225.2	

In 2012, new equipment sales accounted for 50% (46%) of total sales. Services include the maintenance and modernization businesses. In 2012, maintenance accounted for 34% (37%) and modernization for 16% (17%) of total sales.

Sales by customers

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.

Calculation of key figures

Average number of employees	=		the average number of employees at the end of each calendar month during the accounting period
Return on equity (%)	=	100 x	$\frac{\text{net income}}{\text{total equity (average of the figures for the accounting period)}}$
Return on capital employed (%)	=	100 x	$\frac{\text{net Income + financing expenses}}{\text{equity + interest-bearing-debt (average of the figures for the accounting period)}}$
Total equity/total assets (%)	=	100 x	$\frac{\text{total equity}}{\text{total assets - advance payments received}}$
Gearing (%)	=	100 x	$\frac{\text{interest-bearing-debt - liquid assets - loans receivable}}{\text{total equity}}$
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 x	$\frac{\text{dividend/share}}{\text{earnings/share}}$
Effective dividend yield (%)	=	100 x	$\frac{\text{dividend/share}}{\text{price of class B shares at end of accounting period}}$
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 (A + B) at end of accounting period times the price of class B shares at end of accounting period [1)]
Shares traded	=		number of class B shares traded during the accounting period
Shares traded (%)	=	100 x	$\frac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$

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

Key figures and financial development

Consolidated statement of income, Jan 1–Dec 31	2012	2011	2010	2009	2008
Sales, MEUR	6,277	5,225	4,987	4,744	4,603
- sales outside Finland, MEUR	6,114	5,080	4,836	4,597	4,461
Operating income, MEUR	784	725	696	567	558
- as percentage of sales, %	12.5	13.9	14.0	11.9	12.1
Operating income excl. non-recurring one-time items, MEUR [1)]	821	725	696	600	558
- as percentage of sales, % [1)]	13.1	13.9	14.0	12.7	12.1
Income before taxes, MEUR	804	817	714	595	564
- as percentage of sales, %	12.8	15.6	14.3	12.5	12.2
Net income, MEUR	611	644	536	466	418

Consolidated statement of financial position, MEUR	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
Non-current assets	1,905	1,750	1,423	1,218	1,178
Current assets	3,204	2,977	2,725	2,467	2,284
Total equity	1,905	2,034	1,601	1,339	1,036
Non-current liabilities	206	208	203	180	328
Provisions	136	89	99	100	50
Current liabilities	2,862	2,397	2,245	2,065	2,049
Total assets	5,109	4,727	4,148	3,684	3,462
Interest-bearing net debt	-767	-829	-750	-505	-58
Assets employed [2)]	1,139	1,205	851	835	978
Net working capital [2)]	-561	-361	-394	-229	-76
Inventories, net of advance payments received	-261	-167	-137	-48	80

Other data, Jan 1–Dec 31	2012	2011	2010	2009	2008
Orders received, MEUR	5,496	4,465	3,809	3,432	3,948
Order book, MEUR	5,050	4,348	3,598	3,309	3,577
Capital expenditure , MEUR	119	52	44	47	74
- as percentage of sales, %	1.9	1.0	0.9	1.0	1.6
Expenditure for research and development, MEUR	86	83	71	62	58
- as percentage of sales, %	1.4	1.6	1.4	1.3	1.3
Average number of employees	38,477	34,769	33,566	34,276	33,935
Number of employees at end of period	39,851	37,542	33,755	33,988	34,831

Key ratios, %, Jan 1–Dec 31	2012	2011	2010	2009	2008
Return on equity	31.0	35.5	36.5	39.3	46.8
Return on capital employed	30.8	34.3	34.8	34.0	35.9
Total equity/total assets	49.3	54.0	49.3	47.0	39.0
Gearing	-40.2	-40.8	-46.8	-37.7	-5.6

Key figures per share, Jan 1–Dec 31	2012	2011	2010	2009	2008
Basic earnings per share, EUR	2.35	2.52	2.10	1.84	1.66
Diluted earnings per share, EUR	2.34	2.51	2.09	1.83	1.65
Basic earnings per share, EUR, excluding non-recurring one-time items [3)]	2.46	2.30	-	-	-
Equity per share, EUR	7.35	7.93	6.25	5.28	4.10
Dividend per class B share, EUR	1.75 [4)]	2.90 [5)]	0.90	1.30 [5)]	0.65
Dividend per class A share, EUR	1.745 [4)]	2.890 [5)]	0.895	1.295 [5)]	0.645
Dividend per earnings, class B share, %	74.5 [4)]	115.1	42.9	70.7	39.2
Dividend per earnings, class A share, %	74.3 [4)]	114.7	42.6	70.4	38.9
Effective dividend yield, class B share, %	3.1 [4)]	7.2	2.2	4.3	4.2
Price per earnings, class B share	23.74	15.91	19.81	16.28	9.36
Market value of class B share, average, EUR	47.37	39.82	33.68	21.19	20.74
- high, EUR	60.00	44.37	43.20	30.40	27.87
- low, EUR	39.19	33.78	27.72	13.80	13.80
- at end of period, EUR	55.80	40.10	41.60	29.96	15.53
Market capitalization at end of period, MEUR [6)]	14,306	10,249	10,637	7,601	3,922
Number of class B shares traded (1,000s)	106,199	151,660	134,643	160,855	207,778
Class B shares traded, %	49	70	62	74	96
Number of class A shares at end of period, (1000s)	38,104	38,104	38,104	38,104	38,104
Weighted average number of class A shares, (1000s)	38,104	38,104	38,104	38,104	38,104
Number of class B shares at end of period, (1000s) [6)]	218,271	217,470	217,583	215,612	214,427
Weighted average number of class B shares, (1000s) [7)]	219,052	218,444	218,383	216,039	215,509
Weighted average number of shares, (1000s) [7)]	257,157	256,549	256,487	254,143	253,613

1) 2012: Excluding a one-time cost related to the support function development and cost adjustment programs.
2009: Excluding a one-time restructuring cost related to the fixed cost adjustment program.
2) Including tax receivables and liabilities, accrued interest and derivative items.
3) 2012: Excluding a one-time cost related to the support function development and cost adjustment programs.
2011: Excluding a gain from the revaluation of the previously held interest in GiantKONE.
4) Board's proposal.
5) 2011: Including an extra dividend of EUR 1.50 per class B-share and EUR 1.495 per class A-share.
2009: Including a double dividend for class B and class A shares.
6) Reduced by the number of repurchased own shares. Class A shares are valued at the closing price of the class B shares.
7) Adjusted for share issue and share option and share-based incentive plan dilution, and reduced by the number of repurchased own shares.

Parent company statement of income

EUR	Note	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Sales	1	411,648,038.71	392,280,306.84
Other operating income	2	9,083,776.68	7,846,314.93
Materials and services		-2,205,256.76	-162,142.18
Personnel expenses	3	-56,532,333.78	-50,041,431.41
Depreciation and amortization	4	-10,300,776.69	-9,240,505.75
Other operating expenses	5	-201,873,913.32	-184,130,333.44
Operating profit		149,819,534.84	156,552,208.99
Financing income and expenses	6	320,150,443.10	341,062,914.45
Profit before extraordinary items		469,969,977.94	497,615,123.44
Extraordinary items	7	33,780,000.00	40,244,575.69
Profit before appropriations and taxes		503,749,977.94	537,859,699.13
Appropriations		-1,766,619.04	-755,226.91
Income taxes		-42,278,078.69	-45,005,432.69
Deferred taxes		-381,452.15	529,266.55
Profit for the financial year		459,323,828.06	492,628,306.08

Parent company balance sheet

Assets, EUR	Note	Dec 31, 2012	Dec 31, 2011
Non-current assets			
Intangible assets			
Intangible rights	8	555,047.00	450,638.00
Other long-term expenditure	9	21,873,638.00	16,913,125.60
		22,428,685.00	17,363,763.60
Tangible assets			
Land	10	182,328.26	182,328.26
Buildings	11	5,347,599.16	5,492,002.54
Machinery and equipment	12	6,378,584.35	5,804,002.53
		11,908,511.77	11,478,333.33
Investments			
Subsidiary shares	13	2,609,137,805.04	2,766,496,322.07
Other shares	14	5,559,253.79	5,113,313.88
		2,614,697,058.83	2,771,609,635.95
Total non-current assets		2,649,034,255.60	2,800,451,732.88
Current assets			
Long-term receivables	15	19,781,718.97	20,432,141.11
Short-term receivables	16	562,970,030.60	985,272,213.63
Deferred tax assets		1,483,134.85	1,864,587.00
Cash and cash equivalents		40,783,871.69	13,945,925.03
Total current assets		625,018,756.11	1,021,514,866.77
Total assets		3,274,053,011.71	3,821,966,599.65

Equity and liabilities, EUR	Note	Dec 31, 2012	Dec 31, 2011
Equity			
Share capital		65,134,030.00	65,134,030.00
Share in premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		81,222,706.66	51,522,525.94
Retained earnings		1,207,513,978.73	1,492,563,099.61
Profit for the financial year		459,323,828.06	492,628,306.08
Total equity	17	1,913,522,608.03	2,202,176,026.21
Appropriations			
Cumulative accelerated depreciation		3,983,000.57	2,216,381.53
Provisions			
Provisions	18	9,533,917.07	8,576,081.08
Liabilities			
Non-current liabilities	19	348,800,403.36	320,334,320.25
Current liabilities	20	998,213,082.68	1,288,663,790.58
Total liabilities		1,347,013,486.04	1,608,998,110.83
Total equity and liabilities		3,274,053,011.71	3,821,966,599.65

Parent company cash flow statement

EUR	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Cash receipts from customers	373,609,270.99	411,131,893.70
Cash receipts from other operative income	9,060,097.77	7,712,729.90
Cash paid to suppliers and employees	-247,657,671.88	-225,680,291.80
Financial items	295,718,218.14	279,420,904.11
Taxes and other items	-21,662,587.97	-95,556,093.02
Cash flow from operating activities	409,067,327.05	377,029,142.89
Capital expenditure	-16,235,592.33	-11,771,154.16
Proceeds from sales of fixed assets	129,804.00	23,000.00
Subsidiary investments	-224,908,095.90	-107,300,000.00
Proceeds from sales of subsidiary shares	382,266,612.93	64.70
Cash flow from investing activities	141,252,728.70	-119,048,089.46
Purchase of own shares	-36,859,121.32	-40,676,986.18
Increase in equity (option rights)	29,700,180.72	16,691,740.08
Net change in short-term debt	-278,103,184.87	-56,135,439.16
Net change in long-term debt	28,466,083.11	-45,386,955.26
Profit distribution	-740,818,305.64	-229,658,903.22
Group contributions received	40,264,800.54	26,554,000.00
Other financing items	128,775,041.17	36,318,230.82
Cash flow from financing activities	-828,574,506.29	-292,294,312,92
Change in cash and cash equivalents	-278,254,450.54	-34,313,259.49
Cash and cash equivalents, Jan 1	319,038,322.23	353,351,581.72
Cash and cash equivalents, Dec 31	40,783,871.69	319,038,322.23
Change in cash and cash equivalents	-278,254,450.54	-34,313,259.49
Reconciliation of net income to the cash flow from operating activities		
Profit for the financial year	459,323,828.06	492,628,306.08
Depreciations	10,300,776.69	9,240,505.75
Other adjustments	-32,030,340.87	-118,579,323.79
Income before change in working capital	437,594,263.88	383,289,488,04
Change in receivables	-17,018,181.59	-13,580,476.83
Change in payables	-11,508,755.24	7,320,131.68
Cash flow from operating activities	409,067,327.05	377,029,142.89

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, 2012.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the individual transaction. Foreign-currency denominated receivables and payables are translated using the period end exchange rates. Exchange rate differencies on the loans, deposits and other balance sheet items are recognized in the financing income and expenses in the statement of income.

Derivative instruments

Derivate contracts that are used to hedge the currency and the interest rate risks as well as the derivative contracts used to hedge the commodity risk related to the electricity price risk are valued at fair value. The fair values of interest rate swaps and cross-currency swaps are presented in the note 22, Derivatives.

The fair values of FX forward contracts are calculated by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies bought and sold, translating the discounted amounts into the reporting currency using the balance sheet date foreign exchange rate and calculating the difference between the discounted amounts. The fair values of foreign currency options are calculated with an option pricing model using exchange rates, interest rate yield curves and volatilities of foreign currencies quoted in the FX market on the balance sheet date. The fair values of interest rate swaps and cross currency swaps are determined by discounting the future cash flows of the contracts with the interest rate yield curves of the currencies concerned, translating the discounted amounts into the reporting currency using the balance sheet date foreign exchange rate and calculating the difference between the incoming and outgoing discounted amounts and by eliminating the accrued interests already booked as a net amount in deferred assets. The fair value of electricity derivatives is the period end value listed by Nord Pool (Scandinavian electricity pool).

Changes in the fair values of the instruments used in hedging the foreign currency loans, deposits and other receivables and liabilities are recognized in the financing income and expenses in the statement of income.

Revenue recognition

Revenue is recognized when the services have been rendered or when the work has been carried out.

Research and development cost

Research and development costs are expensed in the period they are incurred.

Pensions

An external pension insurance company manages the parent company pension plan. Contributions to the pension plan are expensed to the statement of income in the period to which these contributions relate.

Leases

Leasing charges are recognized in the leasing costs in the statement of the income. Remaining future leasing liabilities from existing contracts are presented in the Commitments in the notes to the financial statements. The leasing terms of existing contracts do not deviate from the conventional leasing terms.

Extraordinary income and expenses

Extraordinary income and expenses include the group contributions.

Taxes

Tax expense includes taxes based on the taxable income and the change in deferred tax assets and liabilities. Deferred taxes are recognized for temporary differences arising between the tax basis of assets and liabilities and their book values in financial reporting, and measured with enacted the tax rates prevailing at the balance sheet date. The deferred tax liabilities arising from temporary differencies are fully recognized with prudency, whereas the deferred tax assets are recognized only to the extent of the probable future tax benefit. Taxes from previous years are included in the current year tax expense.

Fixed assets and depreciation and amortization

Tangible and intangible fixed assets 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	4–5 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

KONE Group Treasury of the parent company centrally manages the group financial risk. The financial risk management principles are presented in the note 2 Financial risks and instruments, in the Notes to the consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and other current, highly liquid investments.

Notes to the parent company financial statements

Notes to the statement of income

1. SALES

Sales to subsidiaries was 411,648.0 (390,223.1) thousand euros, which consists mainly of internal service fees.

2. OTHER OPERATING INCOME

EUR 1,000	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Rent income	863.2	1,067.1
Subsidies received	779.9	463.5
Others	7,440.7	6,315.7
Total	9,083.8	7,846.3

3. PERSONNEL EXPENSES

EUR 1,000	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Salaries for members of the Board of Directors and the President and CEO	4,636.8	4,791.9
Other wages and salaries	41,138.0	35,257.3
Pension costs	8,519.1	7,744.3
Other employment expenses	2,238.4	2,247.9
Total	56,532.3	50,041.4

Average number of staff employed by the Parent Company was 625 during the period.

4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Intangible rights	189.0	136.7
Other long term expenditure	7,960.8	7,068.2
Buildings	396.8	393.1
Machinery and equipment	1,754.2	1,642.5
Total	10,300.8	9,240.5

5. AUDITORS' FEES

EUR 1,000	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Audit	359.8	354.0
Auditors' statements	5.7	2.0
Tax advise	23.7	48.3
Other services	186.1	338.9
Total	575.3	743.2

6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Dividend income from subsidiaries	305,280.0	354,877.9
Dividend income from associated companies	-	9,417.9
Other dividends received	72.7	66.5
Interest income from subsidiaries	6,882.5	11,849.5
Interest income from others	3,125.9	5,119.8
Interest expenses to subsidiaries	-18,630.0	-23,105.4
Interest expenses to others	-808.1	225.9
Other financing income and expenses	24,227.4	-17,389.2
Total	320,150.4	341,062.9

7. EXTRAORDINARY INCOME AND EXPENSES

EUR 1,000	Jan 1–Dec 31, 2012	Jan 1–Dec 31, 2011
Group contributions received	33,780.0	40,244.6
Total	33,780.0	40,244.6

Notes to the Balance sheet

8. INTANGIBLE RIGHTS

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	1,626.4	1,387.0
Increase	293.4	239.4
Decrease	-202.7	-
Accumulated depreciation and amortization	-1,162.1	-1,175.8
Net book value, Dec 31	555.0	450.6

9. OTHER LONG-TERM EXPENDITURE

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	58,958.2	53,057.7
Increase	13,011.6	6,368.7
Decrease	-1.3	-
Accumulated depreciation and amortization	-50,094.9	-42,513.3
Net book value, Dec 31	21,873.6	16,913.1

10. LAND

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	182.3	182.3
Net book value, Dec 31	182.3	182.3

11. BUILDINGS

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	9,784.0	9,472.5
Increase	252.3	311.4
Accumulated depreciation	-4,688.7	-4,291.9
Net book value, Dec 31	5,347.6	5,492.0

12. MACHINERY AND EQUIPMENT

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	26,833.5	24,229.0
Increase	2,351.3	2,773.2
Decrease	-2,068.9	-168.7
Accumulated depreciation	-20,737.3	-21,029.5
Net book value, Dec 31	6,378.6	5,804.0

13. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	2,766,496.3	2,574,327.4
Increase	224,908.1	192,273.2
Decrease	-382,266.6	-104.3
Net book value, Dec 31	2,609,137.8	2,766,496.3

14. OTHER SHARES

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Acquisition cost, Jan 1	5,113.3	9,464.9
Increase	446.0	1,665.0
Decrease	-	-6,016.6
Net book value, Dec 31	5,559.3	5,113.3

15. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Loans receivable from subsidiaries	19,705.9	20,354.9
Loans receivable from others	75.8	77.3
Long-term receivables	19,781.7	20,432.2

16. SHORT-TERM RECEIVABLES

Receivables from subsidiaries

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Accounts receivable	128,589.8	93,167.7
Loans receivable	345,413.5	473,580.6
Deferred assets	70,293.4	77,758.5
Total	544,296.7	644,506.8

Receivables from externals

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Accounts receivable	618.5	556.5
Loans receivable	102.7	60.3
Others	-	305,092.4
Deferred assets	17,952.1	35,056.2
Total	18,673.3	340,765.4

Deferred assets

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Deferred interest	484.2	647.5
Derivate assets	4,092.9	8,142.6
Deferred income taxes	6,115.0	19,415.8
Deferred assets from subsidiaries	70,293.4	77,703.1
Others	7,260.0	6,905.7
Total	88,245.5	112,814.7
Total short-term receivables	562,970.0	985,272.2

17. EQUITY AND CHANGES IN EQUITY

EUR 1,000	Share capital	Share premium account	Paid-up unrestricted equity reserve	Own shares	Retained earnings	Profit for the financial year	Total
Book value Jan 1, 2012	65,134.0	100,328.1	51,522.5	-98,774.1	2,083,965.5		2,202,176.0
Profit distribution					-740,818.3		-740,818.3
Purchase of own shares				-36,859.1			-36,859.1
Option and share-based compensation			29,700.2	62,725.9	-62,725.9		29,700.2
Profit for the financial year						459,323.8	459,323.8
Net book value Dec 31, 2012	65,134.0	100,328.1	81,222.7	-72,907.3	1,280,421.3	459,323.8	1,913,522.6

Non-restricted equity includes the paid-up unrestricted equity reserve, retained earnings deducted by own shares and the profit for the financial year. The non-restricted equity was EUR 1,748,060,513.45 (2,036,713,931.63) at the end of the period.

18. PROVISIONS

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Warranty provision	3,480.3	2,074.1
Other provisions	6,053.6	6,502.0
Total	9,533.9	8,576.1

19. NON-CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2012	Dec 31, 2011
Liabilities failing due later than five years	320,334.3	320,334.3
Total	320,334.3	320,334.3

20. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2012	Dec 31, 2011
Other liabilities	875,124.8	1,152,604.8
Accounts payable	27,759.4	17,496.6
Accruals	20,790.3	23,075.2
Total	923,674.5	1,193,176.6

Liabilities to externals, EUR 1,000	Dec 31, 2012	Dec 31, 2011
Others	3.1	626.2
Accounts payables	25,409.7	22,615.1
Accruals	49,125.8	72,245.9
Total	74,538.6	95,487.2

Accruals, EUR 1,000	Dec 31, 2012	Dec 31, 2011
Accrued wages, salaries and employment costs	15,946.6	15,634.3
Derivative liabilities	24,278.8	47,795.8
Accruals to subsidiaries	20,790.4	23,075.2
Other accrued expenses	8,900.4	8,815.9
Total	69,916.2	95,321.2
Total current liabilities	998,213.1	1,288,663.8

21. COMMITMENTS

EUR 1,000	Dec 31, 2012	Dec 31, 2011
Pledged assets		
For subsidiaries	75.8	77.3
Guarantees		
For subsidiaries	1,194,007.6	999,543.6
For associated companies	9,816.6	6,509.7
For others	5,148.8	5,606.6
Leasing commitments		
Due next year	4,547.0	4,153.7
Due over a year	14,936.6	17,033.4
Other commitments	567.4	545.3
Total	1,229,099.8	1,033,469.6

22. DERIVATIVE INSTRUMENTS

Fair values of derivative instruments, EUR 1,000	Dec 31, 2012	Dec 31, 2011
FX forward contract with external parties	-6,316.6	-6,133.6
FX forward contract with subsidiaries	6,266.5	8,820.8
Cross currency and interest rate swaps, due under one year	-13,475.1	-
Cross currency and interest rate swaps, due in 1–3 years	-	-33,192.4
Electricity derivatives	-394.3	-327.0
Total	-13,919.5	-30,832.2

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2012	Dec 31, 2011
FX forward contract with external parties	868,410.3	631,488.1
FX forward contract with subsidiaries	486,473.0	415,603.8
Cross currency and interest rate swaps, due under one year	139,339.4	-
Cross currency and interest rate swaps, due in 1–3 years	-	139,339.4
Electricity derivatives	4,144.9	3,952.5
Total	1,498,367.6	1,190,383.8

Derivatives are hedging transactions in line with KONE's hedging policy.
More information of the financial risks management is available in the notes to the consolidated financial statements (note 2).

Subsidiaries and shareholding companies

SUBSIDIARIES, DEC 31, 2012

		Shareholding %	
Country	**Company**	**Group**	**Parent company**
Australia	KONE Elevators Employee Benefits Pty Limited	100	
	KONE Elevators Pty Limited	100	
	KONE Holdings (Australia) Limited	100	
Austria	KONE AG	100	
	KONE Investition GmbH	100	100
Belgium	KONE Belgium S.A.	100	99.99
	KONE International N.V.	100	99.99
Canada	KONE Holdings (Canada) Inc.	100	
	KONE Inc.	100	
China	KONE Elevators Co., Ltd.	95	
	KONE TELC Industries Co., Ltd.	100	
	Nanjing Lian Ao Elevator Engineering Co., Ltd.	100	
	Giant Kone Elevator Co., Ltd	80	40
	KONE Elevator (Shanghai) Co., Ltd	100	
China/Hong Kong	Ben Fung Machineries & Engineering LTD	100	
	KONE Elevator (HK) LTD	100	
	KONE Elevators International (China) Limited	100	
China/Macau	KONE Elevator (Macau) Ltd.	100	
Cyprus	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
Estonia	AS KONE	100	
Finland	Finescal Oy	100	100
	KONE Capital Oy	100	100
	KONE Hissit Oy	100	100
	KONE Industrial Oy	100	100
	Suur-Helsingin Hissihuolto Oy	100	
France	Ascenseurs Soulier S.N.C.	100	
	ATPE-AMIB S.A	100	
	Ascenseurs Technologie Serrurerie (S.A)	99.8	
	KONÉ Développement S.N.C.	100	
	KONÉ Holding France S.A.S.	100	100
	KONÉ S.A.	99.97	
	Prokodis S.N.C.	100	
	Société en Participation KONE ATS	100	
Germany	Engler & Haring GmbH	100	
	Hages Verwaltungs GmbH	100	
	Hages-Aufzuge GmbH&Co. KG Duren	100	
	KONE Garant Aufzug GmbH	100	
	KONE Automatiktüren GmbH	100	
	KONE GmbH	100	
	KONE Holding GmbH	100	
	KONE Escalator Supply Line Krefeld GmbH	100	
	KONE Montage GmbH	100	
	KONE Servicezentrale GmbH	100	
	KONE Verwaltungsgesellschaft M.B.H	100	
	Lödige Aufzuge GmbH	100	
	Lödige Aufzugstechnik GmbH	100	
	Radetzky Thüringen Aufzug-Bau GmbH	100	
	WBM Ostfalen-Aufzüge GmbH	100	
Greece	KONE S.A.	100	
Hungary	KONE Felvono Kft	100	100
Iceland	KONE ehf	100	100

		Shareholding %	
Country	**Company**	**Group**	**Parent company**
India	KONE Elevator India Private Ltd.	100	100
Indonesia	PT Kone Indo Elevator	100	1
Ireland	Bleasdale Ltd.	100	
	Industrial Logistics Limited	100	
	KONE (Ireland) Limited	100	
Israel	Isralift Industries 1972 Ltd.	100	
	Isralift Maintenance 5733 Ltd.	100	
Italy	Elecomp S.r.L.	100	
	Elevant Servizi S.r.l	70	
	Elevators S.r.l	60	
	KONE Industrial S.p.A.	100	100
	KONE S.p.A.	100	
	L.A.M. Lombarda Ascensori Montacarichi S.r.l.	70	
	Mingot S.r.l	60	
	Neulift S.r.l.	100	
	Sabiem S.p.A.	100	
	Slimpa S.r.L.	100	
	Tecnocram S.r.l	80	
	Tosca Ascensori S.r.l	66.66	
	Neulift Service Lombardia S.r.l	100	
	Neulift Service Molise S.r.l	51	
	Neulift Service Piemonte S.r.l	51	
	Neulift Service Reggio Calabria S.r.l	51	
	Neulift Service Triveneto S.r.l	75	
Japan	KONE Japan Co. Ltd.	100	100
Latvia	SIA KONE Lifti Latvija	100	0.5
Lithuania	UAB KONE	100	
Luxembourg	KONE Luxembourg S.a.r.l.	100	
	Lumico S.a.r.l.	100	100
Malaysia	Fein Blanking Sdn Bhd	100	
	Fuji Lift & Escalator Manufacturing Sdn	100	
	Fuji Lift & Escalator Sdn Bhd	100	
	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	
Netherlands	G&G Liftservice B.V.	100	
	Hissi B.V.	100	
	Hopmann Liftservice B.V	100	
	KoMont Investment B.V.	100	
	KONE B.V.	100	
	KONE Deursystemen B.V.	100	
	Kone Finance Holding B.V.	100	
	Kone Holland BV	100	53.2
	KONE Nederland Holding B.V.	100	
	KONE TELC Industries B.V.	100	
	KONE Markus B.V.	100	
	Waldoor B.V.	100	
Norway	KONE Aksjeselskap	100	100
	KONE Rulletrapper AS	100	100
Oman	KONE Assarain LLC	70	
Philippines	KPI Elevators Inc.	100	
Poland	KONE Sp.z o.o.	100	100
Portugal	KONE Funchalift, Lda.	100	
	KONE Portugal- Elevadores LDA.	100	1
	VTP-Tractores S.A.	99.28	0.71
Romania	KONE Ascensorul S.A.	100	
Russia	OJSC RSU No. 6	100	
	LLC "EKOLIFT"	100	
	LLC KONE Lifts	100	100
	OOO Lift RSU-5	100	
	CJSC KONE Lifts	100	100

Country	Company	Shareholding % Group	Shareholding % Parent company
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	
South Korea	KONE Elevators Korea Co., Ltd	100	
Spain	Ascensores Insulares S.A.	100	
	Marvi Ascensores S.L	100	
	KONE Elevadores, S.A.	100	99.91
Sweden	Cajax AB	100	
	Hissjouren Ekmans AB	100	
	KONE AB	100	
	KONE Door AB	100	
	KONE Metro AB	100	
	KONE Scandinavia AB	100	
	Motala Hissar AB	100	
	Uppsala Hiss Montage och El AB	100	
Switzerland	KONE (Schweiz) AG	100	
	Recolift SA	100	100
Taiwan	Ben Fung Elevators Taiwan Ltd.	100	
Taiwan	KONE Elevators Taiwan Co. Ltd.	100	
Thailand	KONE Public Company Limited	83.9	
	Thai Elevators & Escalators Ltd	100	
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100	
UK	Acre Lifts Limited	100	
	Crown Lifts Ltd	100	
	KONE (NI) Ltd.	100	
	KONE Bolton Brady Limited	100	
	KONE Pension Trustees Ltd	100	
	KONE Plc.	100	100
	Konematic Holding Ltd	100	
	Lift Maintenance Limited	100	
	Konematic Ltd.	100	
	The UK Lift Company Ltd	100	
	UK Lift (Holdings) Ltd	100	
Ukraine	KONE Lifts LLC	100	
USA	ENOK Electrical Company, LLC	100	
	KONE Holdings, Inc.	100	
	KONE Inc.	100	
	Konematic Inc.	100	
	KREM, Inc.	100	
	Virginia Elevator Company, Inc.	100	
	Marine Elevators LLC	100	
Vietnam	KONE Vietnam Limited Liability Company	100	

ASSOCIATED COMPANIES, DEC 31, 2012

Country	Company	Shareholding % Group	Shareholding % Parent company
Andorra	KONE Ascensors i Escales, S.A.	33	
Bulgaria	Alex EA Lifts OOD	40	40
China	Shan On Engineering Company Limited	30	
	Kunshan Vataple-Kone Escalator Equipment Co., Ltd.	49	
Egypt	Marryat & Scott Egypt - S.A.E.	49	49
Estonia	Koiko Kinnisvara OÜ	25.70	25.70
Malaysia	KONE Elevator (M) Sdn. Bhd.	49	49
Philippines	Elevators Philippines Construction, Inc.	40	
Qatar	KONE Elevators Qatar LLC	49	49
Saudi Arabia	KONE Areeco Limited	40	10
Thailand	Thai Elevators Holding Ltd	49	
United Arab Emirates	KONE (Middle East) LLC	49	49

List of the Parent company accounting journals, common document types and means of storaging

Balance sheet book		In paper
Journal		In electrical format
General ledger		In electrical format
Accounts payable and accounts receivable		In electrical format and in paper
Loan and deposit register		In electrical format and in paper
Sales invoices	document type RV	In electrical format
Purchase invoices	document type RE	In electrical format
Memo vouchers	document type Y3	In paper and in electrical format
Fixed asset register	document type AA	In paper and in electrical format
Periodisation entries	document type SA	In paper and in electrical format
Bank entries	document type SB	In paper and in electrical format
Cash entries	document type SK	In paper and in electrical format
Travelling expense entries	document type ZH	In paper and in electrical format
Salary entries	document type Z9	In electrical format
Financing entries	document type TR	In paper and in electrical format
Adjustments and cancellations	document type AB	In electrical format

A complete list of the document types is included in the balance sheet binder.

Corporate governance statement

(p. 56–61 are not a part of the official financial statements)

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 2010 published by the Securities Market Association, with the exception of recommendations 26 (Independence of the members of the audit committee), 29 (Members of the nomination committee) and 32 (Members of the remuneration 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 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 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. 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 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, and 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 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 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 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 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.

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 determined operating principles and given instructions are followed.

The Board's Audit Committee monitors the functioning of the internal control process. The Corporation has an Internal Audit Department, which is separate from the operational 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.

Risk management

KONE's risk management coordinates and develops a systematic assessment of risks and opportunities within core business planning and decision-making processes.

KONE continuously assesses the risks and opportunities related to its business environment, operations and financial performance in order to limit unnecessary or excessive risks. In addition, KONE's units and functions systematically identify and assess, as part of the strategic planning and budgeting processes, the risks that can threaten the achievement of their business objectives. Key risks are reported to the KONE risk management function, which facilitates the risk management process and consolidates the risk information to the KONE Executive Board. The Executive Board assigns the ownership of identified risk exposures to specific functions or units. The KONE Board of Directors reviews the KONE risk portfolio regularly on the basis of the Executive Board's assessment.

The KONE Risk Management function is also responsible for administering the global insurance programs. The KONE Treasury function manages financial risks centrally according to the KONE Treasury Policy.

Additional info

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, page 16.

Main features of internal control and risk management related to financial reporting

Correct financial reporting in KONE's internal control and compliance framework means that its financial statements give a true and fair view 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. The compliance control framework is built and based on reporting processes and frameworks as described below, as well as company values, a culture of honesty and high ethical standards. Such framework is promoted by proper training, a positive and a disciplined work attitude and by hiring and promoting of suitable employees.

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. Internal control processes and procedures are regularly controlled and steered by the Board of Directors, the Audit Committee, Business and Finance management and internal and external auditors.

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

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 order-based activities, service activities as well as for treasury and tax matters. The models have been defined in order to ensure that the financial control covers the relevant tasks in an efficient and timely manner. Financial Control Models are designed to support the efficiency and effectiveness of operations through well-defined and productive monitoring process. The correctness of the financial reporting is supported and monitored through the Financial Control Models. The models include Key Control Tasks for Finance Directors and controllers of KONE's subsidiaries and entities. Key Control Indicators are defined and linked to the tasks in the Financial Control Models. The aim of these indicators is to measure and support the effectiveness and harmonization of operations. The effectiveness of the Financial Control Models and indicators are assessed in all units annually and audited by the Global Finance and Control function.

The internal control procedures applied to KONE's financial reporting process are laid down in carefully defined principles and instructions. A unified and globally harmonized framework provides processes, tools and instructions to cover managerial and external financial reporting. The interpretation and application of accounting standards is centralized in the Global Finance and Control function, which maintains, under supervision of the Audit Committee, the KONE Accounting Standards. The Global Finance and Control function monitors the compliance of the KONE Accounting Standards in the various entities of the group. Budgeting and reporting processes and 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 posting logic of the ERP system can be made without approval from Global Finance and Control. Automatic interfaces between different systems are principally applied in the period-end financial reporting process of KONE. Transactional processing is increasingly centralized in dedicated internal 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.

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 Euroclear Finland Ltd's SIRE system. In compliance with the Finnish Securities Markets Act, KONE's public insiders include the members and deputy members of the Board of Directors, the President and CEO and the Auditors. In addition to these individuals, KONE's public insiders include the members of the Executive Board of 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 KONE securities until the termination of the project.

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

Additional info

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 2012

General Meeting of shareholders

The Annual General Meeting was held in Helsinki on March 5, 2012.

Board of Directors and committees

The Annual General Meeting elected nine members to KONE's Board of Directors. The full-time Chairman of the Board of Directors of KONE Corporation is Antti Herlin. Sirkka Hämäläinen-Lindfors is the Vice Chairman of the Board. The other members of the Board are Shinichiro Akiba, Matti Alahuhta, Anne Brunila, Reino Hanhinen, Jussi Herlin, Juhani Kaskeala and Sirpa Pietikäinen.

Of the Board members, Sirkka Hämäläinen-Lindfors, Anne Brunila, Jussi Herlin, Reino Hanhinen, Juhani Kaskeala and Sirpa Pietikäinen 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 2012, the Board of Directors convened ten times, with an average attendance rate of 95%. Jukka Ala-Mello serves as Secretary to the Board and to its Committees.

Audit committee

The Board of Directors' Audit Committee comprises Antti Herlin (Chairman), Jussi Herlin (independent of the Corporation), Sirkka Hämäläinen-Lindfors (independent member) and Anne Brunila (independent member). The Audit Committee held three meetings in 2012, with an average attendance rate of 100%.

Urpo Paasovaara serves as the Head of Internal Control.

Nomination and compensation committee

The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Jussi Herlin (independent of KONE Corporation), Reino Hanhinen (independent member) and Juhani Kaskeala (independent member).

The Nomination and Compensation Committee held two meetings in 2012, with an average attendance rate of 100%.

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2012 confirmed the fees of the members of the Board as follows (annual fees in EUR):

Chairman of the Board	54,000
Vice chairman	44,000
Member	33,000
Deputy member	16,500

It was also confirmed that a meeting fee of EUR 500 is paid 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 Group's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2012, Antti Herlin's base salary was EUR 468,488. In addition, his accrued bonus for 2012 totaled EUR 468,488. 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 59.

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

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

Compensation and other benefits of the President and CEO

The President and CEO's compensation consists of a base salary and 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 the recipient's annual salary.

In 2012, Matti Alahuhta's base salary was EUR 722,200. In addition, his accrued bonus for 2012 totaled EUR 649,980. He was also paid EUR 36,500 as compensation for serving on the Board. Matti Alahuhta's holdings of shares are presented in the table on page 59.

Matti Alahuhta 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 net sales and operating profit. In April 2012, on the basis of the incentive plan, Matti Alahuhta received a bonus of EUR 2,031,483, which consisted of 22,380 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 2012 and due for payment in April 2013 is 24,000 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 had the possibility to retire in June 2012 at the age of 60. Mr. Alahuhta did not exercise this possibility but continued as KONE Corporation's President and CEO also after June 2012, having the possibility to retire following his term of notice in his service contract. Alahuhta´s retirement pension is 60% 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 and CEO, Klaus Cawén, Henrik Ehrnrooth, William Johnson (from July 1, 2012), Pekka Kemppainen, Anne Korkiakoski, Ari Lehtoranta, Heikki Leppänen, Pierre Liautaud, Juho Malmberg (until June 30, 2012), Vance Tang (until July 22, 2012), Kerttu Tuomas and Noud Veeger and Larry Wash (from July 23, 2012).

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. 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 below.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2012, on the basis of the incentive plan, the members of the Executive Board received a bonus of 98,450 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 2012 and due for payment in April 2013 is 98,400 KONE class B shares together with an estimated 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 2012 were EUR 2.3 million for auditing and EUR 1.3 million for other consulting services.

Insiders

The holdings of persons belonging to KONE's public insiders on December 31, 2012 and the changes occurring in them during the financial year are presented in the table below.

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

Shareholdings and options of KONE Corporation's public insiders on Dec 31, 2012 and changes in shareholding during the period Jan 1–Dec 31, 2012

	Class A shares	Change	Class B shares	Change
Alahuhta Matti			328,900	22,380
Brunila Anne			420	0
Cawén Klaus			118,658	11,950
Ehrnrooth Henrik			29,018	5,450
Hanhinen Reino			2,000	0
Herlin Antti	35,280,804	0	19,815,956	745,000
Herlin Jussi			53,180	0
Hämäläinen-Lindfors Sirkka			1,200	0
Johnson William			19,262	9,600
Kaskeala Juhani			500	230
Kemppainen Pekka			63,558	8,950
Korkiakoski Anne			37,158	4,950
Lehtoranta Ari			34,589	10,321
Leppänen Heikki			60,658	6,950
Liautaud Pierre			8,950	8,950
Pietikäinen Sirpa			3,000	0
Tuomas Kerttu			74,758	1,950
Veeger Noud			57,268	8,950

No other public insiders had share or option holdings in KONE on December 31, 2012. The shares owned by companies in which the public insider 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: Chairman of the Board of Security Trading Oy and Holding Manutas Oy, Deputy Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company, Member of the Board of Technology Industries of Finland, Member of the Board of YIT Corporation, Member of the Board of Sanoma Corporation and Member of the Board of Solidium Corporation.

Sirkka Hämäläinen-Lindfors

Vice Chairman of the Board

b. 1939, D.Sc. (Econ.), D.Sc. (Econ.) h.c.
Member of the Board since 2004.
Previously served as Member of the Executive Board of the European Central Bank 1998–2003, as Governor and Chairman of the Board of the Bank of Finland 1992–1998 and as Member of the Board of the Bank of Finland 1991–1992.
Current key positions of trust: Chairman of the Board of the Finnish National Opera, Vice Chairman of the Board of University of the Arts Helsinki and Member of the Board of Sanoma Corporation.

Shinichiro Akiba

b. 1956.
Member of the Board from March 5, 2012.
Has served as President and CEO of Toshiba Elevator and Building Systems Corporation, alliance partner of KONE, since June 2011. He has previously served in different positions in the Toshiba Group since 1979.

Matti Alahuhta

President and CEO

b. 1952, D. Sc. (Tech.), D.Sc. (Tech.) h.c.
Member of the Board since 2003. President of KONE Corporation since 2005, and President & CEO since 2006. Previously served 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: Chairman of the Board of the Aalto University Foundation, and member of the Board of UPM Kymmene Corporation and of the Foundation Board of the International Institute for Management Development (IMD, Switzerland).

Anne Brunila

b. 1957, D.Sc. (Econ.), D.Sc. (Econ.) h.c.
Member of the Board since 2009.
Served as Executive Vice President, Corporate Relations and Strategy and Member of the Management Team of Fortum 2009–2012. Previously served as President and CEO of the Finnish Forest Industries Federation 2006–2009, in the Finnish Ministry of Finance (including General Director) 2002–2006 and in several advisory and executive positions in the Bank of Finland and the European Commission 2000–2002.
Current key positions of trust: Member of the Board of Sampo Plc, Member of the Board of Aalto University Foundation, Member of the Board of The Research Institute of the Finnish Economy (ETLA), Member of the Board of the Finnish Business and Policy Forum (EVA) and Chairman of the Board of International Chamber of Commerce Finland.

Reino Hanhinen

b. 1943, M.Sc. (Eng.), D.Sc. (Tech.) h.c., vuorineuvos
Member of the Board since 2005.
Previously served as President and CEO 1987–2005 and as Group CEO 2000–2005 in YIT Corporation, as Managing Director of Perusyhtymä Oy 1986–1987, as Managing Director of YIT Oy Yleinen Insinööritoimisto 1985–1986, and as Managing Director of Oy PPTH-Norden Ab 1976–1985.
Current key positions of trust: Member of the Board of YIT Corporation.

Jussi Herlin

b. 1984, M. Sc. (Econ.)
Member of the Board from March 5, 2012.
Served as a consultant at Accenture since 2012.
Current key positions of trust: Served as Deputy Member of the Board of KONE Corporation during years 2007–2012 and as Member of the Board of Security Trading Oy since 2006.

Juhani Kaskeala

b. 1946, Admiral
Member of the Board since 2009.
Previously served in the Finnish Defence Forces in several positions during years 1965–2009, as Commander of the Finnish Defence Forces 2001–2009 and earlier for instance as Military Assistant to the President of the Republic of Finland and as a Defence Attaché in London, the Hague and Brussels.
Current key positions of trust: Member of the Board of Oy Forcit Ab, Member of the Board of Nixu Oy, Member of the Board of East Office of Finnish Industries Oy, Member of the Board of John Nurminen Foundation, Member of the Trilateral Commission 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: Chairman of GLOBE EU, Chairman of the Finnish Association of Landscape Industries, Member of the Board of Alzheimer Europe, Member of the Board of Finn Church Aid, Member of the Finn Church EU Advisory Board, Member of the Board of Lammi Savings Bank and Member of the KVS Foundation Advisory Board.

Shunichi Kimura

b. 1951.
(member of the Board until March 5, 2012)

Jukka Ala-Mello

b. 1963, M.Sc. (Econ.), Authorized Public Accountant
Secretary to the Board of Directors since 2006. Has served as Director of KONE Corporation and Managing Director and Member of the Board of Security Trading Oy and Holding Manutas Oy since 2006. Previously served as a Partner and APA Auditor in PricewaterhouseCoopers Oy 1993–2006 and Financial Manager of Panostaja Corporation 1990–1993.
Current key positions of trust: Chairman of the Board of Panostaja Corporation and Chairman of the Board of OWH-Yhtiöt Corporation.

More information

Corporate governance, page 56

More information

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

Executive Board

Matti Alahuhta

President and CEO

b. 1952, D. Sc. (Tech.), D.Sc. (Tech.) h.c.

Member of the Board since 2003. President of KONE Corporation since 2005, and President & CEO since 2006. Previously served 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: Chairman of the Board of the Aalto University Foundation, Vice Chairman of the Board of the Confederation of Finnish Industries and member of the Board of UPM Kymmene Corporation and of the Foundation Board of the International Institute for Management Development (IMD, Switzerland).

Klaus Cawén

M&A and Strategic Alliances, Russia, Legal Affairs

b. 1957, LL.M.

Member of the Executive Board since 1995. 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 Sponda Plc and Member of the Board of Toshiba Elevator and Building Systems Corporation (Japan).

Henrik Ehrnrooth

CFO

b. 1969, M.Sc. (Econ)

Member of the Executive Board and employed by KONE Corporation since 2009. Previously served at 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.

William B. Johnson

Greater China (from 1.7.2012)

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.

Pekka Kemppainen

Service Business

b. 1954, Licentiate in Technology

Member of the Executive Board since 2005. Employed by KONE Corporation since 1984. Previously served in KONE Corporation as Executive Vice President, Asia-Pacific 2004–2010, as Executive Vice President, New Equipment Business, Elevators and Escalators 2001–2004, as Senior Vice President, New Equipment Business and Technology 1995–2001 and as Director of the Research Center 1990–1994.

Anne Korkiakoski

Marketing and Communications

b. 1964, M.Sc. (Econ.)

Member of the Executive Board and employed by KONE Corporation since 2008. Previously served as Director of Marketing and Communications of Elisa Corporation 2007–2008, as Nordic CEO of Euro RSCG Worldwide 2003–2006, as CEO of BNL Information / BNL Euro RSCG 1992–2003, as Marketing Consultant of Rubinstein Consulting 1989–1992 and as Market Analyst at Neste Corporation 1986–1989.

Ari Lehtoranta

Central and North Europe, Customer Experience

b.1963, M.Sc (Electrical Engineering)

Member of the Executive Board and employed by KONE Corporation since 2008. Previously served in KONE Corporation as Executive Vice President, Major Projects 2008–2010, in Nokia Siemens Networks/Nokia Networks as Head of Radio Access (Senior Vice President) 2005–2008, in Nokia Corporation as Vice President of Operational Human Resources 2003–2005, in Nokia Networks as Head of Broadband Division, Head of Systems Integration, Vice President for Customer Services for Europe and Managing Director of Nokia Telecommunications in Italy as well as in various other positions 1985–2003.

Current key positions of trust: Member of the Board of Elisa Corporation.

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

West & South Europe, 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 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).

Kerttu Tuomas

Human Resources

b. 1957, B. Sc. (Econ.)

Member of the Executive Board and employed by KONE Corporation since 2002. Previously served as Group Vice President, Human Resources of Elcoteq Network Corporation 2000–2002 and as Personnel & Organization Manager of Masterfoods Oy (Mars) 1994–1999.

Current key positions of trust: Member of the Board of Kemira Corporation, and member of the Strategic Board of CEMS, The Global Alliance In Management Education.

Larry Wash

Americas (from 23.7.2012)

b. 1961, M. Sc. (Electrical Engineering), M. Sc. (Business Administration)

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.

Noud Veeger

Asia-Pacific, Middle East

b. 1961, M.Sc. (Econ.)

Member of the Executive Board since 2004. Employed by KONE Corporation since 1999. Previously served in KONE Corporation as Executive Vice President, Central and North Europe 2004–2010, as Managing Director of KONE Plc (UK) 2002–2004, as Director, New Elevator & Escalator Business, KONE Netherlands 1999–2002, as Director of OTRA Netherlands 1996–1998 and as Managing Director of HCI Central America 1993–1996.

Juho Malmberg

Customer Experience (until 30.6.2012)

b. 1962, M.Sc. (Computer Science)

Vance Tang

Americas (until 22.7.2012)

b. 1967, MBA (Business)

Financial targets and capital management

Financial targets

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

- 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. The target is to continuously grow faster than the market and to improve working capital rotation. The target over the long term is to achieve an EBIT margin of 16%. However, 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 is profitable and that pricing, quality and productivity improve continuously.

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 cash equivalents, are managed centrally by the Group Treasury according to the Group Treasury Policy. Liquid assets are invested only in counterparties with high creditworthiness and deposits to ensure continuous access to the funds.

KONE has not defined a specific target for its capital structure, but the aim is to ensure a strong credit quality to provide for ample access to external funding sources and to support the growth ambitions of the business. The level of net debt and financial gearing can be very low over a given period of time, even negative, as was the case at the end of 2012. KONE considers its capital structure to be a strength in a continuing uncertain environment, and 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 2012, the funding of KONE was guaranteed by existing committed credit lines and excess liquidity.

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 2012, KONE had 4,160,339 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 and cash flow multiples.

More information

Financial risks, note 2, page 16

MEUR	2012	2011	2010	2009	2008
Assets employed:					
Goodwill and shares	1,239.2	1,174.0	958.1	813.1	790.4
Other fixed assets [1)]	459.8	392.3	287.0	250.1	263.6
Net working capital	-560.5	-361.4	-394.3	-228.7	-76.4
Total assets employed	1,138.5	1,204.9	850.8	834.5	977.6
Capital:					
Equity	1,905.2	2,034.0	1,600.6	1,339.2	1,035.9
Net debt	-766.7	-829.1	-749.8	-504.7	-58.3
Total capital	1,138.5	1,204.9	850.8	834.5	977.6
Gearing	-40.2	-40.8	-46.8	-37.7	-5.6
Total equity/total assets	49.3	54.0	49.3	47.0	39.0

1) Property, plant and equipment, acquired maintenance contracts and other intangible assets.
*) In 2008–2012, the dividend payout ratio has been 39.2%–115.1% for class B shares (Board's proposal 2012).

Shares and shareholders

Market capitalization

During the financial year 2012 the price of the KONE Corporation class B share rose by 39.2% percent, from EUR 40.10 to EUR 55.80, on the NASDAQ OMX Helsinki Ltd. in Finland. During the same period, the OMX Helsinki Cap Index rose by approximately 10 percent and the OMX Helsinki Industrials Index by approximately 26 percent. During the financial year the price of the KONE Corporation class B share peaked at EUR 60.00 and was EUR 39.19 at its lowest. At the end of 2012, the company's market capitalization, in which the unlisted class A shares are valued at the closing price of the class B shares on the last trading day of the financial year, was EUR 14,306 million. At the end of December 2012, the company held 4,160,339 class B shares as treasury shares.

During the financial year, 106 million KONE Corporation class B shares were traded on the NASDAQ OMX Helsinki Ltd. The value of the shares traded was EUR 5,026 million. The average daily turnover of class B shares was 424,795, representing a value of EUR 20.1 million. The relative turnover of KONE's class B shares (excluding class B shares held by KONE Corporation) was 49 percent. In addition to the NASDAQ OMX Helsinki Stock Exchange, KONE's class B share is traded also on various alternative trading platforms. The volume of KONE's B shares traded on the NASDAQ OMX Helsinki Stock Exchange represented approximately 39% of the total volume of KONE's class B shares traded in 2012 (Source: Fidessa Fragmentation Index, www.fragmentation.fidessa.com).

More information

Market capitalization is calculated on the basis of both the listed class B shares and the unlisted class A shares excluding treasury shares.

Shares and share capital

At the end of December 2012, the share capital was EUR 65,134,030.00. During the financial year there was no change in share capital compared to the situation at the end of 2011.

Each 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. At the end of December 2012, the total number of shares was 260,536,120, comprising 222,431,764 class B shares and 38,104,356 class A shares. The total number of votes was 60,347,532.

More information

Changes in the share capital, note 21, page 32

Dividends

In accordance with the Articles of Association, class B shares are preferred for a dividend, which is at least one percent and no more than 2.5 percent higher than the dividend paid to the holders of class A shares, calculated from the accounting par value of the share. The accounting par value of the share is EUR 0.25. The Board of Directors proposes to the Annual General Meeting that for the financial year 2012 a dividend of EUR 1.745 be paid for each class A share and a dividend of EUR 1.75 be paid for each class B share.

Authorization to raise the share capital

At the end of the financial year, the Board of Directors of the company had a valid authorization granted by the Shareholders' Meeting in March 2010 to increase the share capital and to issue stock options. The authorization is effective until March 1, 2015.

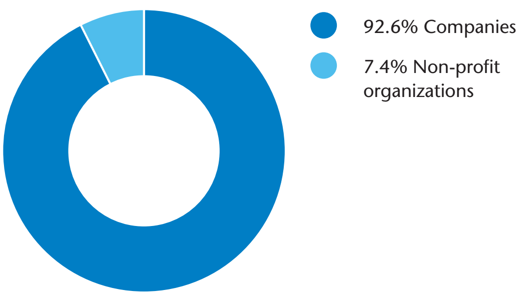
Authorization to purchase and surrender own shares

KONE Corporation's Annual General Meeting held on March 5, 2012 authorized the Board of Directors to repurchase the company's own shares. On the basis of this authorization, the Board decided to commence the purchase of shares on March 13, 2012 at the earliest. The authorization will remain in effect for a period of one year from the date of the decision of the General Meeting.

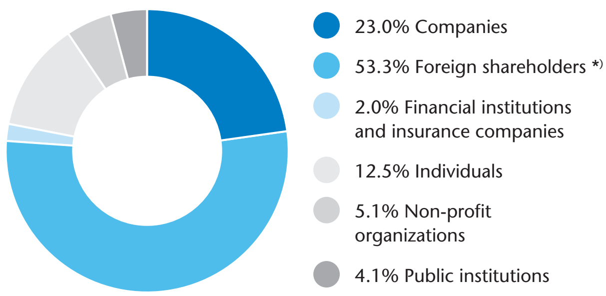
Altogether no more than 25,570,000 shares may be repurchased, of which no more than 3,810,000 may be class A shares and 21,760,000 class B shares, taking into consideration the provisions of the Companies Act regarding the maximum amount of its own shares that the Company is allowed to possess.

The shares may be repurchased, among other reasons, 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.

Class A shares, %



Class B shares, %



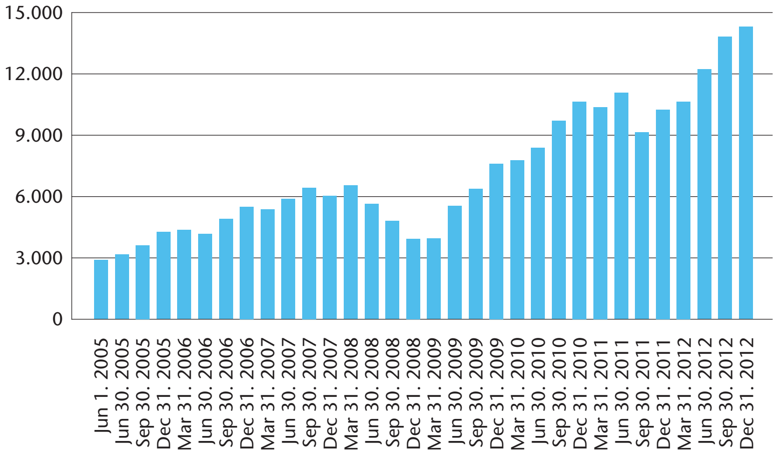
*) Includes foreign-owned shares registered by Finnish nominees.

KONE CORPORATION'S SHARE CAPITAL CONSISTS OF THE FOLLOWING:

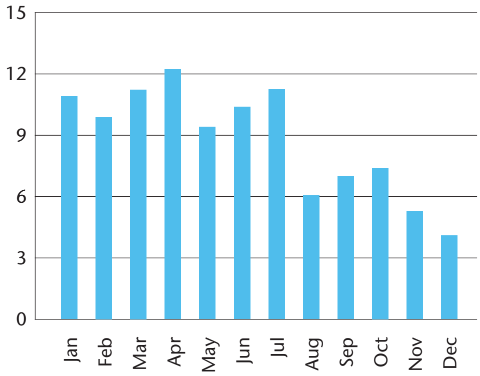
	Number of shares	Par value, EUR
Class A	38,104,356	9,526,089
Class B	222,431,764	55,607,941
Total	260,536,120	65,134,030

	KONE class B share	KONE 2007 option rights
Trading code, NASDAQ OMX Helsinki Ltd in Finland	KNEBV	KNEBVEW107
ISIN code	FI0009013403	FI4000011986
Accounting par value	EUR 0.25	
Conversion rate		1:2

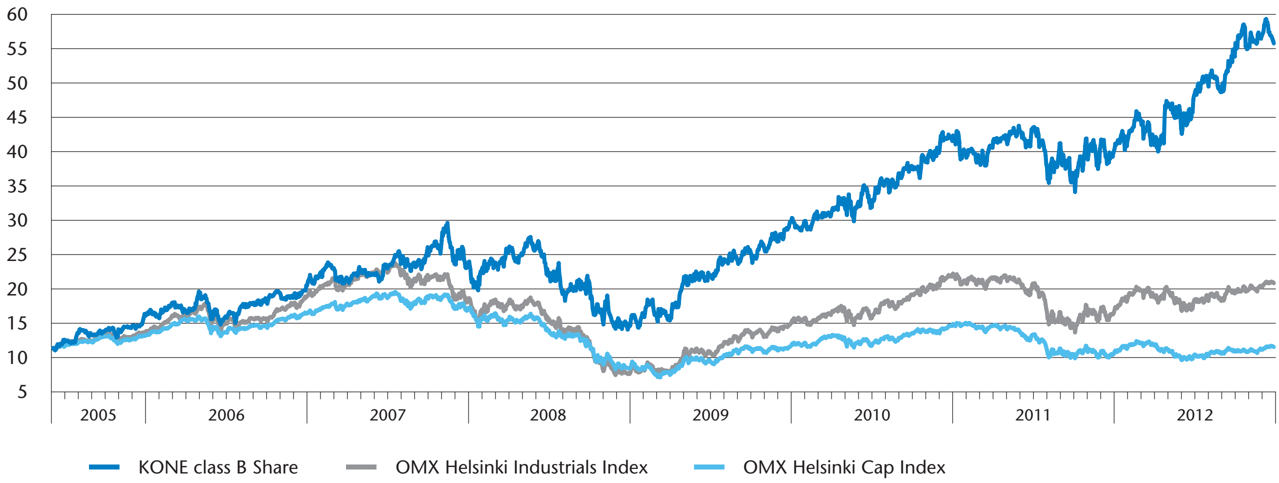
Market capitalization, MEUR



KONE class B shares traded Jan 1–Dec 31, 2012, million shares



KONE class B share price development Jun 1, 2005–Dec 31, 2012, EUR



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 OMX Helsinki Ltd. on the time of purchase.

During the financial year 2012, KONE repurchased 834,174 own shares. During January–December 2012, KONE used its previous authorization to repurchase own shares in February, and bought back in total 834,174 of its class B shares. In April, 643,202 class B shares owned by KONE were subscribed with 2007 option rights and 208,295 class B shares owned by KONE were assigned to a share-based incentive plan. In May, 802,414 class B shares owned by KONE were subscribed with 2007 option rights. In June and August, a total of 17,900 class B shares were returned free of consideration by virtue of the terms of KONE Corporation´s share-based incentive program for the years 2010–2012. The number of class B shares held by KONE Corporation at the end of the year was 4,160,339.

Options

KONE Corporation had two stock option programs during the financial period 2012. 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 and CEO and members of the Executive Board are not included in the stock option programs.

Stock options 2007 were granted according to the decision of the Board of Directors' meeting on December 5, 2007 to approximately 350 key employees and the decision was based on the authorization received from the Shareholders' Meeting on February 26, 2007. A total of 1,112,000 options were granted. The original share subscription price for the option was 25.445 euros per share and it was further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. Therefore the effective subscription price from March 6, 2012 was EUR 20.545. Each option entitled its holder to subscribe for two (2) class B KONE share. The share subscription period for the stock options 2007 was April 1, 2010–April 30, 2012. The share subscription period started on April 1, 2010, as the average turnover growth of the KONE Group for the financial years 2008 and 2009 exceeded market growth and as the earnings before interest and taxes (EBIT) of the KONE Group for the financial year 2008 exceeded the EBIT for the financial year 2007, and the EBIT for the financial year 2009 exceeded the EBIT for the financial year 2008 as required in the terms of the stock options. The amount of exercised 2007 option rights during 2012 was 1,445,616. The subscription price included in the paid-up unrestricted equity reserve, deducted by the transaction costs, was EUR 29.7 million.

Stock options 2010 were granted according to the decision of the Board of Directors on July 20, 2010 to approximately 430 key employees. The decision was based on the authorization received from the Shareholders Meeting on March 1, 2010. A maximum total of 3,000,000 options could be granted. The original share subscription price for the option was 35.00 euros 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, 2012 was EUR 31.20. Each option entitles its holder to subscribe for one (1) new or an existing class B share held by the company. The share subscription period for the stock option 2010 will be April 1, 2013–April 30, 2015. The share subscription period begins on April 1, 2013, as the financial performance of the KONE Group for the financial years 2010–2012 based on the total consideration of the Board of Directors was equal to or better than the average performance of key competitors of KONE.

Share-based incentive plan

KONE has a share-based incentive plan for the company's senior management (President and CEO, members of the Executive Board and other top management), consisting of approximately 40 individuals. The potential reward is based on the annual growth in both sales and earnings before interest and taxes (EBIT). The reward is to be paid as a combination of class B shares and cash equivalent of the taxes and similar charges that are incurred. The plan prevents participants from transferring the shares during the fifteen-month period following the termination of each fiscal year. As part of the share-based incentive plan, a long-term target for the management´s ownership has been set. In April 2012, a total of 208,295 class B shares were granted to the management as a reward due to the achievement of the targets for the year 2011. A total of 17,900 class B shares were returned to the company during the financial year. In April 2013, a total of 210,240 class B shares will be granted to the management due to the achievement of the targets for the year 2012.

Shareholders

At the end of December 2012, KONE Corporation had 31,690 shareholders. A breakdown of the shareholders is shown on page 63 and 66.

At the end of December 2012, non-Finnish shareholders held approximately 53.3 percent of KONE Corporation's class B shares, corresponding to around 19.6 percent of the votes. Of these foreign-owned shares, 14,458,999 were registered in the shareholders' own names. Foreign-owned shares may also be nominee-registered. Only shares registered in the shareholders' own names entitle their holders to vote at Shareholders' Meetings. There were 104,020,935 nominee-registered shares, representing approximately 39.9 percent of all shares, at the end of December 2012.

Shareholdings of the Chairman and Members of the Board of Directors

On December 31, 2012, KONE Corporation's Chairman and Members of the Board of Directors owned 35,280,804 class A shares and 20,700,083 class B shares, representing approximately 21.5 percent of the total number of shares and 61.9 percent of the total votes.

More information

Information for shareholders, see inside of report's front cover

More information

IR contact details, see inside of report's back cover

More information

Option programs, note 21, page 32

RECONCILIATION OF OWN SHARES, DEC 31, 2012

	KONE Corporation			Group total		
	pcs	Acquisition cost	Average price	pcs	Acquisition cost	Average price
31.12.2011	4,962,176	98,774,046.44	19.91	4,962,176	98,774,046.44	19.91
3.2.2012	70,000	2,982,576.20	42.61	70,000	2,982,576.20	42.61
6.2.2012	95,000	4,071,551.83	42.86	95,000	4,071,551.83	42.86
13.2.2012	75,000	3,273,317.31	43.64	75,000	3,273,317.31	43.64
14.2.2012	115,000	5,029,930.42	43.74	115,000	5,029,930.42	43.74
15.2.2012	53,491	2,374,895.70	44.40	53,491	2,374,895.70	44.40
22.2.2012	75,000	3,362,270.55	44.83	75,000	3,362,270.55	44.83
23.2.2012	150,000	6,777,802.57	45.19	150,000	6,777,802.57	45.19
24.2.2012	10,683	484,684.70	45.37	10,683	484,684.70	45.37
27.2.2012	60,000	2,699,637.51	44.99	60,000	2,699,637.51	44.99
28.2.2012	130,000	5,802,454.53	44.63	130,000	5,802,454.53	44.63
20.4.2012	-643,202	-23,170,439.21	36.02	-643,202	-23,170,439.21	36.02
26.4.2012	-208,295	-8,643,002.41	41.49	-208,295	-8,643,002.41	41.49
4.5.2012	-802,414	-31,563,935.21	39.34	-802,414	-31,563,935.21	39.34
26.6.2012	8,950	325,715.47	36.39	8,950	325,715.47	36.39
10.8.2012	8,950	325,715.47	36.39	8,950	325,715.47	36.39
31.12.2012	4,160,339	72,907,221.87	17.52	4,160,339	72,907,221.87	17.52

SHAREHOLDINGS ON DEC 31, 2012 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	1,674	5.28	11,852	0.01
11 – 100	11,917	37.61	672,637	0.26
101 – 1,000	13,815	43.59	5,091,327	1.95
1,001 – 10,000	3,748	11.83	10,461,448	4.02
10,001 – 100,000	471	1.49	12,225,625	4.69
100,001 –	65	0.21	232,051,667	89.07
Total	**31,690**	**100.00**	**260,514,556**	**99.99**
Shares which have not been transferred to the paperless book entry system			21,564	0.01
Total			**260,536,120**	**100.00**

MAJOR SHAREHOLDERS ON DEC 31, 2012

		A-series	B-series	Total	% of shares	% of votes
1	**Herlin Antti**	35,280,804	19,815,956	55,096,760	21.15	61.75
	Holding Manutas Oy [1]	27,142,296	14,473,972	41,616,268	15.97	47.38
	Security Trading Oy [2]	8,138,508	4,504,008	12,642,516	4.85	14.23
	Herlin Antti	0	837,976	837,976	0.32	0.14
2	**Toshiba Elevator And Building Systems Corporation**	0	12,093,360	12,093,360	4.64	2.00
3	**D-sijoitus Oy**	0	8,735,964	8,735,964	3.35	1.45
4	**Wipunen varainhallinta oy**	0	8,300,000	8,300,000	3.19	1.38
5	**Mariatorp Oy**	0	8,000,000	8,000,000	3.07	1.33
6	**KONE Foundation**	2,823,552	4,929,816	7,753,368	2.98	5.50
7	**Ilmarinen Mutual Pension Insurance Company**	0	2,680,910	2,680,910	1.03	0.44
8	**Blåberg Olli**	0	1,910,000	1,910,000	0.73	0.32
9	**Finnish State Pension Fund**	0	1,774,000	1,774,000	0.68	0.29
10	**Varma Mutual Pension Insurance Company**	0	1,746,560	1,746,560	0.67	0.29
	10 largest shareholders total	38,104,356	69,986,566	108,090,922	41.48	74.75
	Foreigners, excluding Toshiba [3]	0	106,386,574	106,386,574	40.84	17.63
	Repurchased own shares	0	4,160,339	4,160,339	1.60	0.69
	Others	0	41,898,285	41,898,285	16.08	6.93
Total		38,104,356	222,431,764	260,536,120	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 in Holding Manutas represents 1.1 percent of the shares and 12.8 percent of the voting rights and together with the ownership of Security Trading, company in which he exercises controlling power, his ownership represents 51.0 percent of the shares and 62.7 percent of the voting rights.

2) Antti Herlin's ownership in Security Trading Oy represents 99.9 percent of the shares and 99.8 percent of the voting rights.

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

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, 2012 is EUR 1,748,060,513.45 of which the net profit for the financial year is EUR 459,323,828.06.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.745 be paid on the outstanding 38,104,356 class A shares and EUR 1.75 on the outstanding 218,271,425 class B shares, resulting in a total amount of proposed dividends of EUR 448,467,094.97. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,299,593,418.48 be retained and carried forward.

The Board proposes that the dividends be payable from March 7, 2013.

Signatures for the financial statements

Helsinki, January 24, 2013

Antti Herlin	Sirkka Hämäläinen-Lindfors
Matti Alahuhta	Anne Brunila
Reino Hanhinen	Jussi Herlin
Juhani Kaskeala	Sirpa Pietikäinen

The Auditor's Note

Our auditors' report has been issued today.

Helsinki, January 24, 2013

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 Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of KONE Corporation for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 24 January, 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen	Heikki Lassila
Authorised	Authorised
Public	Public
Accountant	Accountant

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 communications 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 OMX Helsinki Ltd and any other applicable regulation concerning prompt and simultaneous disclosure of information.

Investor Relations activities

All of KONE's Investor Relations activities are coordinated by the Investor Relations Function. This ensures fair and equal access to company information and to its spokespersons. Investor Relations also gathers and analyses capital market information for KONE's Executive Board. In all of its activities, KONE's Investor Relations strives for prompt, transparent and high-quality service.

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.

Analysts

A list of brokers and financial analysts that actively follow KONE's development is available at www.kone.com/investors.

Contact information

Ms Karla Lindahl
Director, Investor Relations
Tel. +358 (0)204 75 4441
Email: karla.lindahl@kone.com
investors@kone.com

More information

The comprehensive investor relations pages can be found at www.kone.com
Shares and shareholders, page 63
Corporate governance, page 56
Information for shareholders on report's front cover

Design Zeeland Branding Oy, printing Suomen Lehtiyhtymä, Porvoo

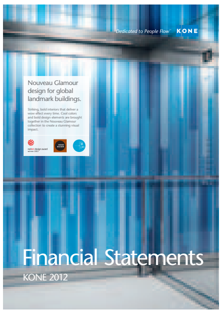
KONE Corporation

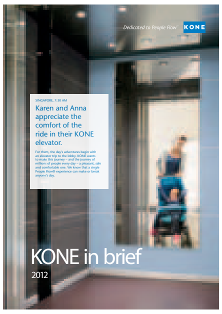
Head Office
Kartanontie 1
P.O. Box 8
FI-00331 Helsinki
Finland
Tel. +358 (0)204 751
Fax +358 (0)204 75 4309

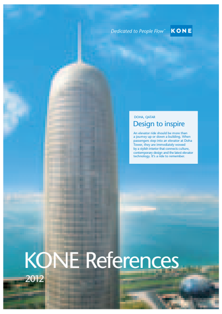
Corporate Offices
Keilasatama 3
P.O. Box 7
FI-02151 Espoo
Finland
Tel. +358 (0)204 751
Fax +358 (0)204 75 4496

www.kone.com

Read about KONE's operations in these publications







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