



Dedicated to People Flow™



KONE signalization,  
winner of 2009 Good Design Award

Designed for  
an increasingly  
urbanizing world.

After 100 years in business we still  
have a challenger's mindset that  
drives our continuous improvement  
and innovation.



# Financial Statements

KONE 2010

# Information for shareholders

## Annual General Meeting

KONE Corporation's Annual General Meeting will be held on February 28, 2011 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 16, 2011, 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)204 75 4336), or over the internet ([www.kone.com/corporate/en/Investors/AGM](http://www.kone.com/corporate/en/Investors/AGM)) no later than by 4:00 p.m. EET on February 23, 2011. 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 2010 a dividend of EUR 0.895 be paid for each class A share and a dividend of EUR 0.90 be paid for each class B share. All shares existing on the dividend record date, March 3, 2011, are entitled to the dividend. The dividend will be paid on March 10, 2011.

## Trading codes

KONE Corporation has two classes of shares: the listed class B shares and the non-listed class A shares. The KONE class B shares and 2007 stock options are listed on the NASDAQ OMX Helsinki and are registered at Euroclear Finland Ltd. The share subscription periods for the 2007 options will end on April 30, 2012.



### More information

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

## KONE's financial reporting schedule in 2011

Financial Statement Bulletin and Financial Statements for 2010	Wednesday, January 26, 2011
Printed Financial Statements for 2010	Week 7, February, 2011
Interim report for January 1–March 31, 2011	Wednesday, April 20, 2011
Interim report for January 1–June 30, 2011	Tuesday, July 19, 2011
Interim report for January 1–September 30, 2011	Thursday, October 20, 2011

In the second quarter of 2011, KONE will publish a separate Corporate Responsibility Report of its operations in 2010. 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](http://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](mailto: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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## More information

Information for shareholders and Investor relations, see inside of report's front and back cover



# Board of Directors' report

## KONE's operating environment

In 2010, KONE's operating environment was twofold. The new equipment markets in the Asia-Pacific region developed well throughout the year, whereas the situation in the Europe, Middle East and Africa (EMEA) region as well as the Americas was mixed with some markets recovering and others having a low level of activity. The size of the modernization market was approximately at the prior year's level. Maintenance markets continued to grow supported by continued good new equipment delivery volumes. Price competition remained intense in all businesses.

In the EMEA region, the new equipment markets were mixed. Good development was seen in the residential markets in Finland, Sweden and Norway. The new equipment market in the United Kingdom showed signs of modest recovery in the second half of the year. The market in Germany remained at a good level throughout the year. The new equipment markets in southern Europe were challenging. The markets in France and Italy weakened in the beginning of the year but stabilized to a low level towards the end of the year. The market in Spain declined throughout the year. The commercial segments in southern Europe were burdened by high vacancy rates. The market in Russia was challenging and uncertain, whereas the development of the markets in the Middle East, in Abu Dhabi and Saudi Arabia in particular, was positive throughout the year. The modernization markets in Europe declined slightly as a result of the decline in France. Most North and Central European markets developed positively. Despite the implementation deadline in December 2010 for the national first phase requirements of the European Safety Norms for Existing Lifts (SNEL) in France, a considerable part of the required upgrades of the aging equipment base remains uncompleted. The modernization market developed well in Belgium supported by the national implementation of the SNEL requirements. The maintenance markets in the EMEA region continued to grow, but remained highly competitive.

In the Americas region, the new equipment market stabilized at a low level in the United States, but recovered in both Canada and Mexico. The new equipment market in the United States has been demanding since the beginning of 2008. The market decline seen in 2009 continued in the beginning of 2010, but the market started to show signs of stabilization in the second quarter of the year and stabilized at a low level thereafter. The infrastructure market was relatively active due to public stimulus action during the first half of the year, but price competition was aggressive in major projects in particular. Activity in the modernization market improved slightly. In Canada,

market activity grew and was at a good level throughout the year. The market in Mexico recovered gradually during 2010. The maintenance markets developed quite well, but were highly competitive.

In the Asia-Pacific region, the positive market development continued throughout the year with the markets in China and Southeast Asia growing the strongest. Urbanization continued to drive growth in China, where all segments grew. The fastest growth was seen in the residential segment, affordable housing in particular, and in the infrastructure segment. The strongest growth moved increasingly from the metropoles on the east coast to other cities in the eastern parts of China and towards the central parts of the country. The government tightened reserve requirements for banks in 2010 in order to manage the development and moderate the growth of the real estate market. In India, the markets grew strongly in the first half of the year. Towards the end of the year the growth declined clearly due to increasing interest rates, which resulted in a more challenging funding environment. The affordable housing segment and the infrastructure segment were the most active ones. The new equipment market in Australia grew strongly in the beginning of the year, but slowed down due to the tightening of financial conditions towards the end of 2010. The markets in Southeast-Asia started to pick up during the first quarter of the year and grew strongly thereafter driven by growth in the residential markets. The maintenance markets in Asia-Pacific developed well.

## Orders received and Order book

During 2010, KONE's orders received increased by 11.0% and totaled EUR 3,809 (2009: 3,432) million. At comparable exchange rates, the increase was 6.0%. Although the overall market situation was demanding in new equipment throughout the year, except in the Asia-Pacific region, KONE was successful in many important markets. The development in orders received was strongest in Asia-Pacific, with China and Southeast Asia developing very positively throughout the year. KONE's modernization orders received declined slightly due to the weakness of the French market in particular. Modernization orders received grew moderately in the Americas, Asia-Pacific and the northern and central parts of Europe, but declined in southern Europe. Maintenance contracts are not included in KONE's orders received.

The order book increased from the end of 2009 by 8.7% and stood at EUR 3,598 (Dec 31, 2009: 3,309) million at the end of December 2010. At comparable exchange rates, the order book increased by 0.6%. As earlier, the margin of the

order book remained stable. Cancellations of orders remained at a very low level.

In the EMEA region, orders received were at approximately the same level as in 2009. As compared to the previous year, orders received declined during the first quarter of 2010, but were relatively stable for the rest of the year. In new equipment, KONE's development in orders received varied from country to country. KONE performed particularly well in Sweden, Finland, Austria, Belgium and the Middle East. The most negative development during 2010 as compared to the previous year was seen in Ireland and Russia. Modernization orders received declined slightly despite a good order intake in many northern and central European markets. The decline was due to the weakness in some southern European markets, France in particular.

In the Americas, KONE's orders received declined during the first nine months, but grew strongly during the last quarter as compared to the previous year. The overall order intake was negative compared to 2009 despite Canada and Mexico growing. Order intake grew strongly also in the United States during the last quarter of 2010. Price competition in the United States was aggressive, in major projects in particular.

In the Asia-Pacific region, new equipment orders grew strongly throughout the year and KONE's orders received increased in all markets. All main markets in Asia-Pacific grew significantly with China, Southeast Asia and India showing a particularly strong performance. In China, where KONE is one of the four leading companies in the industry, KONE succeeded to further strengthen its position in the highly competed new equipment market.

## Net sales

KONE's net sales increased by 5.1% as compared to the prior year, and totaled EUR 4,987 (2009: 4,744) million. At comparable exchange rates the increase was 0.6%. The amount of sales consolidated from the companies acquired in 2010 did not have a material impact on the Group sales for the financial period.

New equipment sales was EUR 2,305 (2,211) million and represented an increase of 4.2% over the comparison period. At comparable exchange rates new equipment sales decreased by 1.0%. New equipment sales accounted for 46% (47%) of total sales.

Service (maintenance and modernization) sales increased by 5.9% and totaled EUR 2,682 (2,533) million. At comparable exchange rates, the increase was 2.1%. In 2010, maintenance accounted for 37% (34%) and modernization for 17% (19%) of total sales. Maintenance sales continued to grow at its prior good rate, whereas

modernization sales declined. KONE's elevator and escalator maintenance base grew and exceeded 800,000 units at the end of 2010.

Sales in the EMEA region declined slightly due to lower new equipment and modernization deliveries. The decline in new equipment deliveries was a result of weak new equipment markets in the prior year. Modernization sales declined principally due to the decline in sales in France. Maintenance sales grew.

In the Americas, new equipment sales declined, but remained at a relatively high level due to the strength of the order book in the beginning of the year. In the American markets, the time lag from order to delivery is longer than in other markets. Modernization sales in the Americas declined somewhat, whereas maintenance sales grew.

Sales in Asia-Pacific grew strongly during the year. All business areas grew, but growth was strongest in new equipment. Sales in new equipment grew in all markets except for Australia, and growth was fastest in China. The growth in sales in China was a result of very strong order intake growth in the second half of 2009 and first half of 2010. Modernization and maintenance sales grew in all markets in Asia-Pacific.

The geographical distribution of net sales was 58% (62%) EMEA, 21% (21%) Americas and 21% (17%) Asia-Pacific. The largest individual countries in terms of net sales in 2010 were the United States, France and China.

## Financial result

In 2010, KONE's operating income was very strong at EUR 696.4 (2009: 600.3) million or 14.0% (12.7%) of net sales (the operating income in 2009 including the one-time cost of EUR 33.6 million related to the fixed cost adjustment program was EUR 566.7 million or 11.9% of net sales). The growth in operating income was the result of good progress on a broad basis. The sales growth in Asia-Pacific had a significant impact on the improvement in operating income. Other significant factors were the improvement in overall quality and productivity. Quality improvements included an improved product quality, better accuracy of the total supply chain as well as better installation and maintenance quality. The productivity of KONE's maintenance and installation operations continued to improve and also contributed to the improvement in operating income. In addition to the aforementioned factors, the favorable development in translation exchange rates and favorable sourcing costs also had a clear impact on the improvement in operating income. Net financing items were EUR 5.7 (19.8) million.

KONE's income before taxes was EUR 714.4 (594.6) million. Taxes totaled EUR 178.5 (128.2) million. In 2010, the effective tax rate resulting from the operations for the financial year was 25.0% (25.5%).

Net income for the financial period was EUR 535.9 (466.4) million.

The profit attributable to shareholders was EUR 535.3 (465.6) million, corresponding to earnings per share of EUR 2.10 (1.84). Equity per share was EUR 6.25 (5.28).

## Consolidated statement of financial position and Cash flow

KONE's financial position was very strong and the company had a positive net cash position at the end of 2010. Cash flow from operations (before financing items and taxes) in 2010 was EUR 857.2 (2009: 825.1) million.

Cash flow remained very strong and it increased compared to 2009. Net working capital improved. The improvement in net working capital was largely due to improved inventory rotation and good payment terms, which resulted in an improvement in the ratio of advance payments received relative to inventories. At the end of 2010, net working capital was EUR -394.3 (-228.7) million, including financing items and taxes.

Interest-bearing assets exceeded interest-bearing debts and the net cash position totaled EUR 749.8 (504.7) million. Gearing was -46.8%, compared with -37.7% at the end of 2009. KONE's total equity/total assets ratio was 49.3% (47.0%) at the end of 2010.

## Long-term financial targets

In May 2008, KONE defined its long-term financial targets. These financial targets replaced the previous targets set in conjunction with the demerger in May 2005. The targets set in May 2008 were:

- Growth: faster than the market
- Profitability: EBIT % 14
- Cash flow: improving working capital

KONE has since 2008 grown faster than the overall market and net working capital has improved from -122 MEUR in the beginning of 2008 to -394 at the end of 2010. The EBIT margin target of 14% was achieved in 2010. As a result of having achieved all of the financial targets, KONE has specified new long-term financial targets. The new long-term targets are:

- Growth: faster than the market
- Profitability: EBIT % 16
- Cash flow: improved working capital rotation

To continuously improve its competitiveness and to enable continuous profitable growth, KONE has defined new development programs. The new development programs are Customer Experience, Employee Engagement, Innovative Solutions for People Flow™, Service Leadership and Delivery Chain Excellence.

## Capital expenditure and acquisitions

KONE's capital expenditure, including acquisitions, totaled EUR 210.7 (2009: 92.5) million, of which acquisitions accounted for EUR 167.2 (46.0) million.

Capital expenditure, excluding acquisitions, was mainly related to facilities and equipment in R&D, IT and production. The acquisitions completed during the year do not individually or as a whole have a material impact on the result or financial position of the Group. The most important acquisitions completed during the reporting period included two acquisitions in Spain, two in the United States and one in France. These acquisitions are detailed below.

During 2010, KONE acquired two companies in Spain. ASBA Mantenimientos S.L., an elevator company based in Barcelona, was acquired to strengthen KONE's maintenance and modernization operations in the Catalonia region. KONE also acquired Marvi Elevator group, which installs, maintains and modernizes elevators in the eastern regions of Spain and has an assembly and logistics center in Catalonia, where it is one of the leading players in the industry.

In France, KONE acquired ATPE-AMIB S.A., a Paris-based automatic door company, which provides and maintains gates, garage doors, access control and intercom installations in residential buildings.

KONE acquired two companies in the United States. Through the acquisition of Reliant Elevator Company, the largest independent elevator service company in Oregon, KONE strengthened its position as one of the leading elevator and escalator companies in the Portland metropolitan area and throughout Oregon. KONE also acquired Virginia Elevator Company, a long established and successful independent elevator service company doing business in the greater Richmond area. Through this acquisition KONE established itself as one of the largest elevator and escalator companies in the State of Virginia.

## Research and development

Research and development expenses totaled EUR 70.9 (2009: 62.0) million, representing 1.4% (1.3%) of net sales. R&D expenses include the development of new product and service concepts and the further development of existing products and services. KONE's elevators and escalators are based on energy-efficient technology.

With focus on key customer segments, KONE introduced many new product and service enhancements in order to meet its customers' needs better.

KONE released new solutions for several segments, such as the affordable housing, office, infrastructure and medical segments. The key drivers for the solutions were improved energy-efficiency, superior ride comfort and appealing visual design. KONE also strengthened its offering of complementary products and services to create further growth opportunities. An example of this extended offering is the KONE InfoScreen with a content manager for building managers to modify, update

and communicate important messages for building users.

To meet the needs of the growing urban population, KONE launched a new competitive product offering specifically targeted to the affordable residential segment in China. KONE also released a new escalator dedicated especially for the Chinese retail and commercial building segments as well as a new offering for the medical segment.

In Europe, extended solutions for the residential segment were offered with a focus on energy efficiency and modernization needs. During 2010, KONE also introduced a new regenerative drive family to expand the coverage of its already wide offering of energy efficient solutions. This enabled KONE to become the first company within its industry to reach an 'A label' in energy efficiency performance, as defined by VDI 4707, a guideline published by the Association of German Engineers, which aims at classifying elevators based on their energy consumption.

A dedicated offering and related processes were introduced for the infrastructure segment. The new offering included heavy duty elevators for more demanding projects. KONE also introduced a more competitive goods elevator and a new horizontal autowalk for the infrastructure market.

An updated offering was released for modular elevator modernization, full replacement and solutions for existing buildings without elevators. The maintenance offering and energy efficient solutions for automatic building doors were updated as well.

In accordance with its vision, KONE focused on the users of its products and services and introduced several solutions to ease the people flow in buildings and improve the user experience. A new competitive destination control system solution, an improved scenic car shaft appearance together with an improved ride comfort for KONE's MonoSpace products enabled KONE to offer a user-friendly, visually harmonized product portfolio to its customers.

## Other important events during the financial period

KONE announced in 2009 a program to reduce fixed costs due to the weak new equipment markets. The plans for the program were communicated in connection with the second quarter result in 2009. The annual impact of the fixed cost reduction plan was expected to be at least EUR 40 million starting in 2010. The total one-time restructuring cost relating to this program was EUR 33.6 million, which was booked in the second quarter of 2009. The fixed cost adjustment program progressed according to plan in 2010 and was substantially completed with the exception of certain costs related to real estate and other fixed assets as well as to individual reductions of personnel. The overall targets that were set

have been achieved. The remaining few implementation measures of the program are expected to be completed during the first quarter of 2011. They do not have a material impact on the overall program.

KONE announced in March 2010 that certain municipalities, public authorities and companies in Austria had filed civil damage claims against leading elevator and escalator companies. The claims have been served on KONE's Austrian subsidiary KONE AG, and they relate to the 2007 decision of the Austrian Cartel Court concerning practices prior to mid-2004. Some further claims have been served since the announcement in March 2010 and the total capital amount claimed jointly and severally from all of the defendants together amounted to EUR 148 million at the end of 2010. KONE's position is that the claims are without merit. No provision has been made.

KONE announced in July 2010 that it will relocate and expand its manufacturing and R&D unit within Kunshan, China. The new site will be located in the Kunshan New & Hi-tech Industrial Development Zone industrial park, which is located close to the Suzhou-Shanghai Expressway, thus enabling better connections to suppliers and customers. The new site will open in 2012. KONE's R&D activities in China will be expanded and a new high-rise test tower will be built to support the development of People Flow™ products and solutions.

## Important events after the reporting period

KONE announced in January 2011 that certain companies and public entities had filed civil damage claims against KONE's German subsidiary KONE GmbH and certain other elevator and escalator companies operating in Germany. The claims relate to activities on the German market and are a result of the decision by the European Commission in 2007 on the respective companies concerning alleged anticompetitive practices in the local markets before early 2004. The total capital amount claimed jointly and severally from all of the defendants together amounts to 71 million euros. KONE's position is that the claims are without merit. No provision has been made.

## Changes in the Executive Board

KONE announced in September 2010 changes in the KONE Executive Board and organization. All appointments related to these changes were effective as of November 1, 2010. KONE established a new Customer Experience unit to support its development into an even more customer focused company. Juho Malmberg, previously responsible for the Development unit at KONE, was appointed Executive Vice President for the new Customer Experience unit. Kati Hagros was appointed Senior Vice President, Development and CIO. Peter de Neef, Executive Vice President, Service

Business, left KONE on October 31, 2010. Pekka Kemppainen, previously responsible for KONE's business in Asia-Pacific, was appointed Executive Vice President, Service Business. Noud Veeger, previously responsible for KONE's business in Central and North Europe, was appointed Executive Vice President, Asia-Pacific. Ari Lehtoranta, previously responsible for the Major Project Business, was appointed Executive Vice President, Central and North Europe. Tarek Elnaggar, previously responsible for KONE's business in the Middle East, was appointed Senior Vice President, Major Projects Business. Juho Malmberg, Pekka Kemppainen, Noud Veeger and Ari Lehtoranta continued as members of the Executive Board and report to Matti Alahuhta, President and CEO. Kati Hagros reports to Henrik Ehrnrooth, CFO, and Tarek Elnaggar reports to Heikki Leppänen, Executive Vice President, New Equipment Business.

## Personnel

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

In 2010, personnel development activities continued in line with the "People Leadership" development program that was created in early 2008. The purpose of the program has been to improve leadership capabilities in order to inspire, engage and develop people for outstanding performance. The delivery of two global leadership development programs, "Supervisor Development Program" for first level line managers and "Leadership Lift" for top management, continued. The first round of the complete six-module supervisor program was finalized for more than 2,000 supervisors globally and the refresher training was started. The last three Leadership Lift programs, with more than 120 top management participants, were completed at the International Institute for Management Development (IMD). A new leadership program for middle management, "KONE Leader", was launched and delivered for close to 800 managers and an e-learning package for new managers was taken into use. Many other training and development actions continued both on local and global levels. Global guides on coaching and mentoring were published and deployed as ways to develop people within units and across units as well as globally.

The work to further harmonize the key people processes continued. The roll-out of the global employee master data system continued covering 25,500 employ-

ees at the end of 2010. A common online tool for documenting performance discussions was rolled out to selected countries and improvements were made in KONE's compensation processes. The completion rate of the annual performance discussions improved. The annual leadership and talent review was completed by the end of September.

A global employee survey was carried out with an all-time high response rate (78%) and the global results staying on the 2009 level. Local actions to address the identified development areas were defined by the end of June and closely followed up by the Executive Board quarterly. A global action on improving the visibility of personal and professional growth opportunities was initiated. New instructions focusing on individual development as part of the annual performance discussions were published at the end of the year. The planning of a new global employee survey to take place in 2011 began.

The efforts to improve workplace safety continued with an improvement of 17% in the IIFR (Industrial Injury Frequency Rate). Close cooperation with the employees to promote safety continued. The improved safety awareness was confirmed by "KONE's commitment to employee safety" being the highest single score in the employee survey. Regular virtual safety meetings were held worldwide to share information on best practices and new developments concerning safety. An extensive project to improve subcontractor safety performance began.

KONE had 33,755 (33,988) employees at the end of 2010. The average number of employees was 33,566 (34,276).

The geographical distribution of KONE employees was 55% (55%) in EMEA, 15% (17%) in the Americas and 30% (28%) 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 environmental impact of its own operations.

During 2010 KONE achieved its 50% energy reduction target for new elevators. The ambitious global target was set in 2008 and the achieved energy reduction covers the clear majority of KONE elevators delivered globally.

By reducing the energy consumption of elevators, KONE seeks to reduce the environmental impact of buildings, which account for 40% of global energy consumption. KONE's new range of volume elevators that are currently offered consume 50% less energy than the typical KONE elevator configuration from 2008. Today, KONE's European volume elevators consume 60% less energy, Asian volume elevators consume 50% less and US volume elevators consume 40% less energy than in 2008.

The reduction has been achieved by new technologies developed by KONE and its suppliers, such as more efficient motors, regenerative technologies that recover the energy from ascending and descending elevators as well as more efficient lighting and standby solutions.

For example, the KONE EcoDisc hoisting machine consumes 50–70% less energy than conventional elevator motors. A vector-controlled regenerative drive is a new technology KONE has introduced that recovers braking energy and supplies it to the building's power network. Regenerative drives can recover up to 35% of an elevator's total energy consumption. Additionally, most of KONE's new elevators have LED lights that use up to 80% less energy than conventional halogen lighting solutions.

During 2010, KONE elevators received energy efficiency ratings in measurements performed by independent third parties. In Europe KONE's MonoSpace® and MiniSpace™ elevators and in Asia the 3000S MonoSpace®, 3000S MiniSpace™ and MiniSpace™ elevators received an 'A label' as defined by VDI 4707, a guideline published by the Association of German Engineers, which aims at classifying elevators based on their energy consumption (the classification ranges from A to G, from the most to the least energy efficient system).

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. In order to drive forward environmental sustainability, KONE is an active member of the WBCSD (World Business Council for Sustainable Development), the ERT (European Round Table of Industrialists' Energy and Climate Change Working Group) and the US Green Building Council.

KONE's environmental achievements during 2010 also included the implementation of the ISO 14001 environmental management system (EMS) at corporate level, at all production units and major country organizations.

In 2008, KONE set as a target that by end 2010 its strategic suppliers should meet the requirements of the ISO 14001 standard. By the end of 2010, 98% of KONE's strategic suppliers were implementing ISO 14001 in their daily operations. The target was reached by actively cooperating with the suppliers and by implementing the KONE Supplier Excellence Certification Program.

KONE intends to minimize its carbon footprint and to ensure the compliance of KONE's suppliers with the corresponding requirements and environmental targets. KONE has set an annual 5% carbon footprint reduction target for its own operations. In 2009, the carbon footprint reduction from KONE's operations

was 6%. The reduction was achieved by implementing programs that aim to improve the eco-efficiency of KONE's car fleet, by reducing KONE's electricity consumption, by rearranging packaging and logistics practices and by increasing the use of virtual meeting tools. In 2010, KONE launched a new program aiming to further reduce the carbon footprint of its owned and leased facilities. The information on KONE's 2010 carbon footprint reduction target is not yet available.

KONE received two awards in November 2010 at the annual Fleet Europe Awards. KONE was awarded the second place for the International Fleet Green Award due to the overall progress KONE has made with reducing its global car fleet CO<sub>2</sub> emissions via vehicle rightsizing, route optimization, refreshed global fleet policy and an eco-safe driving program among other matters. KONE was also awarded the third place for the International Fleet Innovation Award due to its progress and implementation plans in its global eco-safe driving program and due to delivering benefits related to KONE drivers' and other road users' safety. The largest part of KONE's entire global impact relates to the amount of electricity used by the KONE equipment in their lifetime, underlining the importance of energy-efficient innovations for elevators and escalators.

## Risk management

KONE is exposed to risks, which may arise from its operations or changes in the business environment. The risk factors listed below can potentially have an adverse affect on KONE's business operations and financial position and hence 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 renewed weakening of the economies in the EMEA and Americas regions after a short period of growth or a disruption in the growth in the Asia-Pacific region could result in a decrease in the new equipment and modernization orders received, cancellations of agreed deliveries, delays in the commencement of projects and as a result affect KONE's profitability.

The introduction of new custom duties, tariffs or other forms of trade barriers could impact KONE's competitiveness in cross-border deliveries. Although a significant part of component suppliers and KONE's supply capacity are located in the Asia-Pacific region, KONE has supply operations in all major continents where it operates, which increases its ability to shift production from one continent to another in order to adapt to changes in the business environment.

The continued uncertain global economic environment could affect the liquidity and payment schedules of KONE's customers and lead to credit losses. KONE has defined rules for tender-

ing, authorizations and credit control. Advance payments, documentary credits and guarantees are used in the payment terms to minimize the risks related to accounts receivable. KONE proactively manages its accounts receivable in order to minimize the risk of customer defaults. KONE's customer base consists of a large number of customers in several market areas and no individual customer represents a material share of its sales.

A significant part of KONE's sales consists of services which are less susceptible to the effects of economic cycles, but which are very labor-intensive. The profit development of the Group could be adversely affected if its productivity improvement targets were not met or if it were not possible to adapt its resources in response to changing business opportunities and environments. These risks are managed by proactive planning and forecasting processes, by the constant development of productivity as well as by the outsourcing of certain activities.

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

Changes in raw material prices are reflected directly in the production costs of components made by KONE, such as doors and cars, and indirectly in the prices of purchased components. In order to reduce the fluctuation of raw material prices and their impact on the price of components, KONE has entered into fixed price contracts for a substantial part of the most significant materials. The maintenance business deploys a significant fleet of service vehicles, and oil price fluctuations therefore have an effect on the cost of maintenance.

KONE's business activities are dependent on the uninterrupted operation and reliability of sourcing channels, production plants, logistics processes and the IT systems used. These risks are controlled by analyzing and improving the fault tolerance of processes, accurate 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 services. Additionally, KONE has a global property damage and business interruption insurance program in place.

## Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on March 1, 2010. The meeting approved the financial statements and discharged the responsible parties from liability for the January 1–December 31, 2009 financial period.

The number of Members of the Board of Directors was confirmed as eight and it was decided to elect one deputy Member. Re-elected as Members of the Board were Matti Alahuhta, Anne Brunila, Reino Hanhinen, Antti Herlin, Sirkka Hämäläinen-Lindfors, Juhani Kaskeala, Shunichi Kimura and Sirpa Pietikäinen and as deputy Member Jussi Herlin.

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

Antti Herlin was elected as Chairman of the Audit Committee. Sirkka Hämäläinen-Lindfors and Anne Brunila were elected as independent Members of the Audit Committee.

Antti Herlin was elected as Chairman of the Nomination and Compensation Committee. Reino Hanhinen and Juhani Kaskeala were elected as independent Members of the Nomination and Compensation Committee.

The Annual General Meeting confirmed an annual compensation of EUR 54,000 for the Chairman of the Board, EUR 42,000 for the Vice Chairman, EUR 30,000 for Board Members and EUR 15,000 for the deputy Member. In addition, a compensation of EUR 500 was approved for attendance at Board and Committee meetings.

The Annual General Meeting authorized 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, taking into consideration the provisions of the Companies Act regarding the maximum amount of own shares that the Company is allowed to possess. The minimum and maximum consideration for the shares to be purchased is determined for both class A and class B shares on the basis of the trading price for class B shares determined on the NASDAQ OMX Helsinki Ltd. on the time of purchase. The authorization shall remain in effect for a period of one year from the date of the decision of the General Meeting.

In addition, the Annual General Meeting authorized the Board of Directors to decide on the issuance of options and other special rights entitling to shares referred to in chapter 10 section 1 of the Companies Act. The authorization is limited to a maximum of 3,810,000 class A shares and 21,760,000 class B shares. The Board of Directors decides on all the conditions of the issuance of shares and of special rights entitling to shares. The

authorization concerns both the issuance of new shares as well as the transfer of treasury shares, 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 shall remain in effect for a period of five years from the date of the decision of the General Meeting.

The General Meeting decided to establish the KONE Corporation Centennial Foundation. The purpose of the foundation is to advance and support developmental, educational and cultural activities for children and youth around the world. The General Meeting decided to distribute 100,000 treasury class B shares of KONE Corporation without compensation to the KONE Corporation Centennial Foundation to be established, and authorized the Board to later grant no more than EUR 100,000 to the foundation. The General Meeting also decided to authorize the Board to grant during 2010 no more than EUR 3,500,000 to support the activities of universities and colleges.

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

For the January 1–December 31, 2009 financial period the Annual General Meeting approved the Board's proposal for dividends of EUR 1.295 for each of the 38,104,356 class A shares and EUR 1.30 for the 215,633,008 outstanding class B shares. Half of the dividend is an extra dividend due to KONE's centennial year 2010. The date of record for dividend distribution was March 4, 2010, and dividends were paid on March 11, 2010. Based on the authorization by the Annual General Meeting, the Board of Directors decided to grant EUR 100,000 to the KONE Corporation Centennial Foundation and a total of EUR 3,400,000 to support the activities of universities and colleges.

## Share capital and Market capitalization

In 2005, KONE granted a conditional option program, 2005C. The 2005C stock options were listed on the NASDAQ OMX Helsinki Ltd. as of April 1, 2008. Each option right entitled its owner to subscribe for two (2) KONE Corporation class B shares at a price of EUR 10.60 per share. As the 2005C options subscription period ended on April 30, 2010, the remaining 522,000 series of C options held by the subsidiary expired. The rest of the remaining 1,054,625 options had been used and the shares were entered in the Finnish Trade Register in May 2010.

In 2007, KONE granted a conditional option program, 2007. The 2007 stock options were listed on the NASDAQ OMX Helsinki Ltd. as of April 1, 2010. The total number of 2007 stock options is 2,000,000 of which 888,000 are owned by a subsidiary of KONE Corporation. Each option right entitles its owner to subscribe for two (2) class B shares at a price of EUR

22,845 per share. At the end of 2010, the outstanding 2007 options entitled their holders to subscribe 2,219,600 class B shares. The subscription period for 2007 options will end on April 30, 2012.

In July 2010, KONE Corporation's Board of Directors decided to grant stock option rights to approximately 430 employees of KONE's global organization based on the authorization by the Annual General Meeting on March 1, 2010. The total number of 2010 stock options is 3,000,000 of which 858,500 are owned by a subsidiary of KONE Corporation. Each option right entitles its owner to subscribe for one (1) class B share at a price of EUR 35.00 per share. The subscription price is further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. The share subscription period for the 2010 stock options will be from April 1, 2013 to April 30, 2015. The share subscription period begins only if the financial performance of the KONE Group for the financial years 2010–2012 based on the total consideration of the Board of Directors is equal to or better than the average performance of KONE's key competitors.

For further information regarding stock options, please refer to note 21 in the consolidated financial statements.

On December 31, 2010, 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 10,637 million on December 31, 2010, disregarding own shares in the Group's possession. Market capitalization is calculated on the basis of both the listed B shares and the unlisted A shares excluding treasury shares. Class A shares are valued at the closing price of the class B shares at the end of the reporting period.

### Repurchase of KONE shares

On the basis of the Annual General Meeting's authorization, KONE Corporation's Board of Directors decided to commence the possible repurchasing of shares at the earliest on March 9, 2010.

In March 2010, 100,000 treasury class B shares of KONE Corporation were distributed without compensation to the

KONE Corporation Centennial Foundation. In April 2010, 311,375 KONE class B shares assigned to the share-based incentive plan for the company's senior management were transferred due to achieved targets for the financial year 2009. 290,639 of the shares were transferred by KONE Corporation and 20,736 were transferred by KNEBV Incentive Oy, subsidiary of KONE Corporation. In May 2010, KONE used its authorization to repurchase own shares and bought back 550,000 of its own class B shares. In October 2010, a total of 4,568 KONE class B shares were returned free of consideration to KONE Corporation by virtue of the terms of KONE Corporation's share-based incentive program for the years 2008–2009. In December 2010, 4,400 KONE class B shares held by KONE Corporation were assigned for the subscriptions with 2007 option rights.

At the end of 2010, the Group had 4,849,035 class B shares in its possession. The shares in the Group's possession represent 2.2% of the total number of class B shares. This corresponds to 0.8% of the total voting rights.

### Shares traded on the NASDAQ OMX Helsinki Ltd.

The NASDAQ OMX Helsinki Ltd. traded 134.6 million KONE Corporation's class B shares in 2010, equivalent to a turnover of EUR 4,533 million. The share price on December 30, 2010 was EUR 41.60. The highest quotation was EUR 43.20 and the lowest 27.72.

### Market outlook 2011

The new equipment markets in Asia-Pacific are expected to continue to develop positively, although with certain regional differences. The recovery of the new equipment markets in Central and North Europe is expected to continue in most countries, whereas most markets in South Europe are expected to be relatively stable at the current low level. The new equipment markets in the North America are expected to recover modestly. The modernization markets are expected to be at about last year's level. The maintenance markets are expected to continue to develop well.

### Outlook 2011

KONE's net sales is estimated to grow 0–5% at comparable exchange rates as compared to 2010.

The operating income (EBIT) is expected to be in the range of EUR 700–750 million, assuming that translation exchange rates do not deviate materially from the situation of the beginning of 2011.

### The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2010 is EUR 1,797,898,068.97 of which the net profit for the financial year is EUR 564,813,127.90.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.895 be paid on the outstanding 38,104,356 class A shares and EUR 0.90 on the outstanding 217,582,729 class B shares. Under the proposal, the total amount of dividends will be EUR 229,927,854.72. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,567,970,214.25 be retained and carried forward.

The dividend is proposed to be paid on March 10, 2011. All the shares existing on the dividend record date are entitled to dividend for the year 2010, except for the own shares held by the parent company.

### Annual General Meeting 2011

KONE Corporation's Annual General Meeting will be held at 11:00 a.m. on Monday, February 28, 2011 in the Finlandia Hall, Mannerheimintie 13, in Helsinki, Finland.

Helsinki, January 26, 2011

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 of 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 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 and fluctuations in exchange rates.

# Consolidated statement of income

MEUR	Note	Jan 1-Dec 31, 2010	%	Jan 1-Dec 31, 2009	%
<b>Sales</b>	4, 27	4,986.6		4,743.7	
Costs, expenses and depreciation	5, 6	-4,290.2		-4,143.4	
One-time restructuring cost	5	-		-33.6	
<b>Operating income</b>		696.4	14.0	566.7	11.9
Share of associated companies' net income	14	12.3		8.1	
Financing income	7	14.7		28.8	
Financing expenses	7	-9.0		-9.0	
<b>Income before taxes</b>		714.4	14.3	594.6	12.5
Taxes	8	-178.5		-128.2	
<b>Net income</b>		535.9	10.7	466.4	9.8
<b>Net income attributable to:</b>					
Shareholders of the parent company		535.3		465.6	
Non-controlling interests		0.6		0.8	
<b>Total</b>		535.9		466.4	
Earnings per share for profit attributable to the shareholders of the parent company, EUR	9				
Basic earnings per share, EUR		2.10		1.84	
Diluted earnings per share, EUR		2.09		1.83	

## Consolidated statement of comprehensive income

MEUR	Note	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
<b>Net income</b>		535.9	466.4
<b>Other comprehensive income, net of tax:</b>	10		
Translation differences		45.5	-7.3
Hedging of foreign subsidiaries		0.5	-1.0
Cash flow hedges		-4.3	-8.6
<b>Other comprehensive income, net of tax</b>		41.7	-16.9
<b>Total comprehensive income</b>		577.6	449.5
<b>Total comprehensive income attributable to:</b>			
Shareholders of the parent company		577.0	448.7
Non-controlling interests		0.6	0.8
<b>Total</b>		577.6	449.5

# Consolidated statement of financial position

Assets MEUR	Note	Dec 31, 2010	Dec 31, 2009
<b>Non-current assets</b>			
Goodwill	11	777.5	657.1
Other intangible assets	12	82.1	49.6
Property, plant and equipment	13	204.9	200.5
Investments in associated companies	14	25.5	19.3
Shares	15	149.8	131.2
Available-for-sale investments	16	5.3	5.5
Non-current loans receivable	1, 17	1.8	1.6
Deferred tax assets	18	176.5	152.8
<b>Total non-current assets</b>		<b>1,423.4</b>	<b>1,217.6</b>
<b>Current assets</b>			
Inventories	19	765.9	784.6
Advance payments received	19	-902.7	-832.4
Accounts receivable	2	917.7	837.0
Deferred assets	2, 20	160.8	173.3
Income tax receivables		62.7	45.8
Current deposits and loans receivable	1, 2, 17	624.9	421.2
Cash and cash equivalents	1	192.5	204.9
<b>Total current assets</b>		<b>1,821.8</b>	<b>1,634.4</b>
<b>Total assets</b>		<b>3,245.2</b>	<b>2,852.0</b>
<b>Equity and liabilities MEUR</b>	<b>Note</b>	<b>Dec 31, 2010</b>	<b>Dec 31, 2009</b>
<b>Capital and reserves attributable to the shareholders of the parent company</b>			
Share capital	21	65.1	64.6
Share premium account		100.3	100.3
Paid-up unrestricted equity reserve		35.0	13.1
Fair value and other reserves		-3.9	0.4
Translation differences		21.5	-24.5
Retained earnings		1,381.3	1,184.5
<b>Total shareholders' equity</b>		<b>1,599.3</b>	<b>1,338.4</b>
Non-controlling interests		1.3	0.8
<b>Total equity</b>		<b>1,600.6</b>	<b>1,339.2</b>
<b>Non-current liabilities</b>			
Loans	1	28.7	27.2
Deferred tax liabilities	18	60.8	42.4
Employee benefits	23	113.4	110.6
<b>Total non-current liabilities</b>		<b>202.9</b>	<b>180.2</b>
<b>Provisions</b>	<b>24</b>	<b>99.4</b>	<b>100.3</b>
<b>Current liabilities</b>			
Current portion of long-term loans	1	8.6	7.3
Short-term loans and other liabilities	1	32.1	88.5
Accounts payable		284.2	252.5
Accruals	2, 25	868.5	761.3
Income tax payables		148.9	122.7
<b>Total current liabilities</b>		<b>1,342.3</b>	<b>1,232.3</b>
<b>Total equity and liabilities</b>		<b>3,245.2</b>	<b>2,852.0</b>

Interest-bearing net debt comprise of items marked " 1 "

# 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
<b>Jan 1, 2010</b>		64.6	100.3	13.1	0.4	-24.5	-80.1	1,264.6	0.8	1,339.2	
Net income for the period									535.3	0.6	535.9
Other comprehensive income:	10										
Translation differences									45.5		45.5
Hedging of foreign subsidiaries									0.5		0.5
Cash flow hedges									-4.3		-4.3
Transactions with shareholders and non-controlling interests:	21										
Profit distribution									1.3	-334.5	-333.2
Issue of shares (option rights)		0.5		21.8							22.3
Purchase of own shares									-16.9		-16.9
Sale of own shares											-
Change in non-controlling interests									-1.1		-0.1
Option and share-based compensation				0.1					4.3	8.4	12.8
<b>Dec 31, 2010</b>		65.1	100.3	35.0	-3.9	21.5	-91.4	937.4	535.3	1.3	1,600.6

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
<b>Jan 1, 2009</b>		64.4	100.3	3.4	9.0	-16.2	-83.1	957.2	0.9	1,035.9	
Net income for the period									465.6	0.8	466.4
Other comprehensive income:	10										
Translation differences									-7.3		-7.3
Hedging of foreign subsidiaries									-1.0		-1.0
Cash flow hedges									-8.6		-8.6
Transactions with shareholders and non-controlling interests:	21										
Profit distribution									-164.1		-164.1
Issue of shares (option rights)		0.2		9.7							9.9
Purchase of own shares											-
Sale of own shares											-
Change in non-controlling interests										-0.9	-0.9
Option and share-based compensation									3.0	5.9	8.9
<b>Dec 31, 2009</b>		64.6	100.3	13.1	0.4	-24.5	-80.1	799.0	465.6	0.8	1,339.2

# Consolidated statement of cash flows

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Cash receipts from customers	4,980.6	4,768.0
Cash paid to suppliers and employees	-4,123.4	-3,942.9
<b>Cash flow from operations</b>	<b>857.2</b>	<b>825.1</b>
Interest received	10.6	10.8
Interest paid	-2.1	-19.3
Dividends received and capital repayments	22.8	27.7
Other financing items	-36.0	8.3
Income taxes paid	-169.5	-151.2
<b>Cash flow from operating activities</b>	<b>683.0</b>	<b>701.4</b>
Capital expenditure	-46.2	-43.0
Advances received for investment grants	17.0	-
Proceeds from sales of fixed assets	0.6	0.8
Acquisitions, net of cash	-113.6	-48.4
Proceeds from divested operations, net of cash	-	-
<b>Cash flow from investing activities</b>	<b>-142.2</b>	<b>-90.6</b>
<b>Cash flow after investing activities</b>	<b>540.8</b>	<b>610.8</b>
Change in deposits and loans receivable, net	-182.7	-220.9
Change in current creditors, net	-53.0	-36.3
Proceeds from long-term borrowings	-	-
Repayments of long-term borrowings	-1.1	-145.1
Purchase of own shares	-16.9	-
Sale and distribution of own shares	0.1	-
Issue of shares	22.3	9.9
Profit distribution	-333.2	-164.0
<b>Cash flow from financing activities</b>	<b>-564.5</b>	<b>-556.4</b>
<b>Change in cash and cash equivalents</b>	<b>-23.7</b>	<b>54.4</b>
Cash and cash equivalents at end of period	192.5	204.9
Translation differences	-11.3	-2.7
Cash and cash equivalents at beginning of period	204.9	147.8
<b>Change in cash and cash equivalents</b>	<b>-23.7</b>	<b>54.4</b>

## Reconciliation of net income to cash flow from operating activities

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Net income	535.9	466.4
Depreciation and impairment	65.5	64.2
<b>Income before change in working capital</b>	<b>601.4</b>	<b>530.6</b>
Change in receivables	-11.4	10.7
Change in payables	14.5	32.7
Change in inventories	78.5	127.4
<b>Cash flow from operating activities</b>	<b>683.0</b>	<b>701.4</b>

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, 2010	Jan 1-Dec 31, 2009
Interest-bearing net debt at beginning of period	-504.7	-58.3
Interest-bearing net debt at end of period	-749.8	-504.7
<b>Change in interest-bearing net debt</b>	<b>-245.1</b>	<b>-446.4</b>

# 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 Corporation ("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 EU observing the standards and interpretations effective on December 31, 2010. The most significant changes during 2010 relate following standards: IFRS 3 (revised) Business combinations and IAS 27 (revised) Consolidated and separate financial statements. From KONE's perspective, the relevant changes relate to the accounting of the contingent considerations and handling of the acquisitions achieved in stages. These changes didn't have material impact on the result or the financial position of the Group for the accounting period.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2010. The financial statements have been authorized for issue by the Board of Directors of KONE Corporation on January 26, 2011. According to the Finnish Corporate 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 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.

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 effective 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".

All intra-corporate transactions, receivables, liabilities and unrealized profits, as well as 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 operations are treated as adjustments to sales or costs. Foreign exchange gains and losses associated with financing 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 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 or firm purchase or sales contract of which are partly included in cash flow hedge accounting according to IAS 39, 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 in the other comprehensive income in 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 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 income or financial items: if the hedged item is an operative transaction the fair values of the hedging instruments are recognized in operative income and expenses and if the hedged item is a monetary transaction then the fair values are recognized in financial 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 portions 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 in translation differences in other comprehensive income 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 corporation 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 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 are incurred, 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 defined benefit plans, provisions, inter-company inventory profits, depreciations and amortizations 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. The prior acquisitions are accounted according to previous IFRS standards (IFRS3(2004)).

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. Goodwill is not amortized, but impairment tested (see Impairment of assets).

In connection with minor acquisitions of small elevator and door service companies, the excess of purchase cost over the fair value of the net identifiable assets is typically allocated to the acquired maintenance contracts and included in intangible assets with a definite lifetime. They are amortized on a straight-line basis over the expected useful lifetime, typically ten years.

Expenditure on acquired patents, trademarks and licenses, including acquired software licenses, is included in other intangible assets and capitalized and amortized using the straight-line method over their useful lives, which does not usually exceed five years. Where an indication of impairment exists, the book value of any intangible asset is impairment tested (see Impairment of assets).

## 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 are 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.

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 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 and 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 manufacturing and installation costs of sales orders included in work in progress. Inventories are presented in the statement of financial position as a gross amount, although the advance payments received from customers for the orders in work in progress are presented in current assets.

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 percent of the defined benefit obligation or 10 percent of the fair value of plan assets. Obligations to pay long-term disability benefit, whose level 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 employ 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.

## 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 KONE's 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 Annual General 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 was 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 the options are exercised, the proceeds received (net of any transaction costs) are credited to equity.

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 was 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 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. The Group Treasury is responsible for the centralized management of financial risks in accordance with the Group Treasury Policy approved by the Board of Directors. Group companies manage their financial risks locally in accordance with the Group 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. The sales and installations of new equipment and modernizations typically take place in the functional currency of the selling subsidiary. Component and material deliveries or production may occur in other currencies than the sales currency, which exposes KONE to trans-

action risks. The Group policy is to hedge the foreign exchange exposure of orders received and highly probable future sales and purchases with foreign exchange forward contracts. The profitability of business operations is hedged by fixing the exchange rates using foreign exchange forward contracts. The subsidiaries 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, British pounds and Swedish crowns. The majority of the currency forward contracts expire within one year.

Hedge accounting is applied in subsidiaries, 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 the Group's income statement, cash flow statement and statement of financial

position values in euros. As more than 50 percent of KONE's revenues occur in functional currencies other than the euro, the translation risk is significant for the Group. A change of five percent in the annual average foreign exchange rates would have caused a 3.0 (2.8) percent change in 2010 in the consolidated sales in euros. Such a change would not have had a significant impact on the operating income margin. The translation of the subsidiaries' balance sheets into euros caused translation differences of EUR 45.5 (-7.3) million in 2010. 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 US dollars, Chinese renminbis, Australian dollars and British pounds.



### Additional info

Most significant risks and uncertainties related to KONE's business are described in the Board of Directors' Report, risk management on page 57 and Capital management page 62.

### Foreign exchange risk sensitivity analysis

The foreign exchange risk sensitivity analysis according to IFRS 7 for the most important currency pairs has been calculated for the Group's foreign currency nominated financial assets and liabilities including foreign exchange forward contracts outstanding on the balance sheet date. 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 2.7 (11.1) million to the statement of income and an impact of EUR -3.9 (3.5) million to the equity.

MEUR	Exposure against EUR					Exposure against USD		
	GBP	SEK	HKD	Others	Total	CNY	Others	Total
Exposure Dec 31, 2010	-27	-29	60	-49	-45	88	-31	57
Exposure Dec 31, 2009	-39	-13	-13	-133	-198	56	-3	53

### Interest rate risks

KONE's cash and short-term investments were EUR 817.4 (626.1) million at the balance sheet date. The Group had no significant interest-bearing debt on the balance sheet date or at the end of the year of comparison. As the Group'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. 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 net debt is assumed to remain on the level of the closing balance during the whole financial period. The sensitivity analysis represents the impact of a 1 percentage change in the interest rate level on the interest income for the financial period by taking into account the net debt tied to interest periods less than one year, which was EUR -778.6 (-530.0) million December 31, 2010. For 2010 a 1 percentage change in the interest rate level would mean EUR 7.8 (5.3) million. The interest rate sensitivity is calculated before taxes.

### Refinancing and liquidity risks

KONE's cash and cash equivalents was EUR 192.5 (204.9) million and money market investments including short-term deposits EUR 624.9 (421.2) million on December 31, 2010. A significant part of the cash and cash equivalents and short-term investments are located in countries where there are restrictions for capital transfers. This reduces the total amount of liquidity available outside such countries. 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.

### Maturity analysis of financial liabilities and interest payments

	Maturity Dec 31, 2010				Maturity Dec 31, 2009			
	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
<b>Interest-bearing debt</b>								
Long-term loans	-1.0	-15.1	-	-16.1	-1.0	-4.9	-11.1	-17.0
Finance lease liabilities	-7.6	-13.6	-	-21.2	-6.3	-11.2	-	-17.5
Short-term loans	-0.2	-	-	-0.2	-0.0	-	-	-0.0
Used bank overdraft limits	-31.9	-	-	-31.9	-88.5	-	-	-88.5
Interest payments	-1.2	-2.5	-	-3.7	-0.8	-3.3	-0.2	-4.3
<b>Non-interest bearing debt</b>								
Accounts payables	-284.2	-	-	-284.2	-252.5	-	-	-252.5
Accruals	-465.1	-	-	-465.1	-447.1	-	-	-447.1
<b>Derivatives</b>								
Capital inflow	521.6	150.8	-	672.4	583.2	18.1	-	601.3
Capital outflow	-525.6	-171.5	-	-697.1	-603.0	-18.6	-	-621.6
Net interest	1.7	2.5	-	4.2	1.5	-	-	1.5
<b>Net outflow</b>	<b>-793.5</b>	<b>-49.4</b>	<b>-</b>	<b>-842.9</b>	<b>-814.5</b>	<b>-19.9</b>	<b>-11.3</b>	<b>-845.7</b>

### Maturity structure of committed credit facilities

MEUR	Dec 31, 2010			Facility maturity					Dec 31, 2009			
	Used amount	Unused amount	Total	2011	2012	2013	2014	2015	Later	Used amount	Unused amount	Total
<b>Committed facilities</b>	-	320.0	320.0	50.0	50.0	150.0	-	70.0	-	-	350.0	350.0

### Financial credit risks

KONE has substantial amounts of cash and short-term investments. In order to diversify the financial credit risk several banks and counterparties are used. Global counterparty limits that set the framework for choosing investment counterparties are approved by the Board of Directors. All outstanding transactions, i.e. 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 EUR 84.5 (74.8) million. The increase as compared to 2009 is principally due to the general increase in customer credit risks as a result of the weak economic environment.

### Aging structure of the accounts receivable after recognition of impairment, MEUR

	Dec 31, 2010	Dec 31, 2009
Not past due and less than one month due receivables <sup>1)</sup>	647.8	590.7
Past due 1–3 months <sup>1)</sup>	128.7	112.4
Past due 3–6 months <sup>1)</sup>	90.7	79.8
Past due > 6 months	50.5	54.1
<b>Accounts receivable in the consolidated statement of financial position</b>	<b>917.7</b>	<b>837.0</b>

<sup>1)</sup> There is no material impairment loss recognized related to these receivables.

### Derivatives

Fair values of derivative financial instruments, MEUR	Derivative assets Dec 31, 2010	Derivative liabilities Dec 31, 2010	Fair value, net Dec 31, 2010	Fair value, net Dec 31, 2009
Foreign exchange forward contracts and swaps				
In cash flow hedge accounting	2.3	6.4	-4.1	-1.2
Other hedges	3.8	2.6	1.2	-1.4
Cross-currency swaps				
Other hedges	-	20.2	-20.2	-17.0
Electricity price forward contracts	2.2	1.3	0.9	-0.4
<b>Total</b>	<b>8.3</b>	<b>30.5</b>	<b>-22.2</b>	<b>-20.0</b>

Nominal values of derivative financial instruments, MEUR	Dec 31, 2010	Dec 31, 2009
Foreign exchange forward contracts and swaps		
In cash flow hedge accounting	275.9	143.4
Other hedges	258.8	345.0
Cross-currency swaps		
Other hedges	139.3	113.1
Electricity price forward contracts	5.6	5.3
<b>Total</b>	<b>679.6</b>	<b>606.8</b>

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

Most of the foreign exchange forward contracts and swaps mature within a year. The remaining tenor of cross-currency swaps is less than three years. Electricity price forward contracts mature within 4 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

2010 Consolidated statement of financial position item, MEUR	Note	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial liabilities	Total book value
<b>Non-current assets</b>						
Shares	15	149.8				149.8
Available-for-sale investments	16			5.3		5.3
Non-current loans receivable	I	17	1.8			1.8
<b>Current assets</b>						
Accounts receivable			917.7			917.7
Derivative assets		8.3 <sup>1)</sup>				8.3
Deferred interests			1.2			1.2
Deferred income from service contracts			16.9			16.9
Unbilled contract revenue			37.6			37.6
Current deposits and loans receivable	I	17	624.9			624.9
Cash and cash equivalents	I		192.5			192.5
<b>Total financial assets</b>		<b>158.1</b>	<b>1,792.6</b>	<b>5.3</b>	<b>-</b>	<b>1,956.0</b>
<b>Non-current liabilities</b>						
Loans	I	2			28.7	28.7
<b>Current liabilities</b>						
Current portion of long-term loans	I	2			8.6	8.6
Short-term loans and other liabilities	I	2			32.1	32.1
Accounts payable					284.2	284.2
Derivative liabilities		30.5 <sup>2)</sup>				30.5
Accrued interests					0.1	0.1
Late costs accruals					205.3	205.3
Accrued salaries, wages and employment costs					259.8	259.8
<b>Total financial liabilities</b>		<b>30.5</b>			<b>818.8</b>	<b>849.3</b>

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".

<sup>1)</sup> Including FX forward contracts EUR 2.3 million under cash flow hedge accounting.

<sup>2)</sup> Including FX forward contracts EUR 6.4 million under cash flow hedge accounting.

2009 Consolidated statement of financial position item, MEUR	Note	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale	Other financial liabilities	Total book value
<b>Non-current assets</b>						
Shares	15	131.2				131.2
Available-for-sale investments	16			5.5		5.5
Non-current loans receivable	1	17	1.6			1.6
<b>Current assets</b>						
Accounts receivable			837.0			837.0
Derivative assets		4.6 <sup>1)</sup>				4.6
Deferred interests			2.0			2.0
Deferred income from service contracts			18.0			18.0
Unbilled contract revenue			43.6			43.6
Current deposits and loans receivable	1	17	421.2			421.2
Cash and cash equivalents	1		204.9			204.9
<b>Total financial assets</b>		<b>135.8</b>	<b>1,528.3</b>	<b>5.5</b>	<b>-</b>	<b>1,669.6</b>
<b>Non-current liabilities</b>						
Loans	1	2			27.2	27.2
<b>Current liabilities</b>						
Current portion of long-term loans	1	2			7.3	7.3
Short-term loans and other liabilities	1	2			88.5	88.5
Accounts payable					252.5	252.5
Derivative liabilities		24.6 <sup>2)</sup>				24.6
Accrued interests					0.1	0.1
Late costs accruals					206.5	206.5
Accrued salaries, wages and employment costs					240.6	240.6
<b>Total financial liabilities</b>		<b>24.6</b>	<b>-</b>	<b>-</b>	<b>822.7</b>	<b>847.3</b>

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 "1".

<sup>1)</sup> Including FX forward contracts EUR 1.8 million under cash flow hedge accounting.

<sup>2)</sup> Including FX forward contracts EUR 3.0 million under cash flow hedge accounting.

### 3. ACQUISITIONS

KONE continued to pursue a pro-active acquisition policy during the financial period. The acquired businesses specialized in elevator, escalator and automatic building door service. The acquisitions are individually immaterial to KONE's financial statements. The amount of sales consolidated from the businesses acquired during 2010 did not have a material impact on the Group sales for the financial period. The fair values of the net assets of the business combinations are summarized below.

The business combinations were paid for in cash. The acquisition cost often includes contingent consideration, which is typically determined by the performance of the acquired business

after the date of acquisition. Changes in the fair value of contingent consideration after the acquisition date are recognized in profit or loss. KONE acquired a 100% interest in the business combinations.

#### Major acquisitions

During the accounting period KONE made major acquisitions for a total consideration of EUR 150.1 (32.8) million. Based on provisional assessments the fair value of identified net assets was EUR 45.9 (1.1) million and the increase in goodwill totalled EUR 104.2 (31.7) million. Goodwill represents the value of the acquired market share, business knowledge and the synergies. Among the major acquisitions were ASBA Mantenimientos S.L.

(Spain), Reliant Elevator Company (USA), ATPE-AMIB S.A. (France), Marvi Elevator group (Spain) and Virginia Elevator Company (USA). The amount of sales consolidated from these acquisitions was EUR 21.2 (13.2) million. See note 11 for more details about goodwill.

#### Minor acquisitions

During the accounting period KONE made minor acquisitions for a total consideration of EUR 17.1 (13.2) million, of which EUR 12.2 (12.8) million was allocated to maintenance contracts in other intangible assets. Maintenance contracts are amortized typically in ten years. See note 12 for more details about other intangible assets.

Assets and liabilities of the acquired companies, MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Maintenance contracts	42.4	12.8
Other intangible assets	2.5	0.2
Tangible assets	1.0	0.2
Inventories	2.6	0.7
Accounts receivable	10.5	3.1
Cash and cash equivalents and other interest bearing receivables	16.8	1.2
<b>Total assets</b>	<b>75.8</b>	<b>18.2</b>
Pension liabilities	-	-
Interest-bearing loans	1.5	-
Provisions	0.1	0.0
Other liabilities	11.2	3.9
<b>Total liabilities</b>	<b>12.8</b>	<b>3.9</b>
Non-controlling interests	-	-
<b>Net assets</b>	<b>63.0</b>	<b>14.3</b>
Acquisition cost paid in cash	119.6	39.7
Contingent and deferred consideration	47.6	6.3
<b>Acquisition cost at date of acquisition</b>	<b>167.2</b>	<b>46.0</b>
Goodwill	104.2	31.7
Changes in acquisition cost after the acquisition date recognized in profit or loss	-	-

### 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 263.6 (274.4) million. The effect of the percentage of completion method on the amount of sales as compared to the completed contract method was EUR -14.5 (25.0) million

for the period. The consolidated statement of financial position includes EUR 37.6 (43.6) million in unbilled contract revenue and EUR 33.5 (28.6) million in advances received for long-term contracts in progress on the consolidated statement of financial position date.

## 5. COSTS AND EXPENSES

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Change of work in progress	63.5	40.7
Direct materials, supplies and external services	1,733.2	1,736.2
Other production costs	390.3	361.3
Wages and other salaries	1,151.6	1,095.8
Other statutory employer expenses	384.1	374.8
Pension costs (note 23)	101.9	100.0
Operating lease expenses	79.9	75.4
Other expenses <sup>1)</sup>	367.9	319.6
One-time restructuring cost <sup>2)</sup>	-	33.6
<b>Total costs and expenses</b>	<b>4,272.4</b>	<b>4,137.4</b>
Other income <sup>3)</sup>	47.7	24.6
Depreciation and amortization (note 6)	63.5	62.2
Impairment charges (note 11)	2.0	2.0
<b>Total costs, expenses and depreciation</b>	<b>4,290.2</b>	<b>4,177.0</b>

<sup>1)</sup> Includes premises related costs, consulting and external services, IT and other miscellaneous costs.

<sup>2)</sup> Includes principally redundancy costs and salaries for notice periods as well as costs related to the early termination of rental agreements both in relation to the fixed cost adjustment program.

<sup>3)</sup> Includes rent income, received grants, interest on late payments, gains on sales of fixed assets, sale of scrap and other miscellaneous income and the changes in the fair value appraisal related to the share investment in Toshiba Elevator and Building Systems Corporation (TELC). The respective fair value changes of the hedges of TELC have been recorded in other expenses.

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
R&D costs included in total costs	70.9	62.0
as percentage of sales, %	1.4	1.3

Auditors' fees, MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
To member firms of PricewaterhouseCoopers network		
Audit	1.9	2.0
Auditors' statements	0.0	0.0
Tax services	0.7	1.3
Other services	0.4	0.5
<b>Total</b>	<b>3.0</b>	<b>3.8</b>

## 6. DEPRECIATION AND AMORTIZATION

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Other intangible assets		
Maintenance contracts	13.3	13.1
Other	8.3	8.0
Buildings	5.9	5.7
Machinery and equipment	36.0	35.4
<b>Total</b>	<b>63.5</b>	<b>62.2</b>

## 7. FINANCING INCOME AND EXPENSES

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Dividend income	2.7	15.7
Interest income		
Cross-currency swaps		
Change in fair value of interest	0.0	-
Net interest income	1.9	3.0
Interest income on loan receivable and financial assets	8.1	7.4
Other financing income	0.0	0.5
Exchange rate gains <sup>1)</sup>	2.0	2.2
<b>Financing income</b>	<b>14.7</b>	<b>28.8</b>
Interest expenses		
Cross-currency swaps		
Change in fair value of interest	-	-1.2
Net interest expense	-	-0.0
Interest expense on other financial liabilities	-2.3	-5.1
Other financing expenses <sup>2)</sup>	-2.8	-2.7
Exchange rate losses <sup>1)</sup>	-3.9	-
<b>Financing expenses</b>	<b>-9.0</b>	<b>-9.0</b>
<b>Financing income and expenses</b>	<b>5.7</b>	<b>19.8</b>

<sup>1)</sup> Exchange rate gains and losses include exchange rate differences from loans and other receivables EUR -4.6 (5.1) million and fair value changes of foreign exchange derivatives EUR 2.7 (-2.9) million.

<sup>2)</sup> Includes commitment fees on undrawn revolving facilities EUR 0.6 (0.3) million and banking charges EUR 2.2 (2.4) million.

## 8. INCOME TAXES

Taxes in statement of income, MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Tax expense for current year	179.9	152.2
Change in deferred tax assets and liabilities	1.9	-27.2
Tax expense for previous years	-3.3	3.2
<b>Total</b>	<b>178.5</b>	<b>128.2</b>

Reconciliation of income before taxes with total income taxes in the statement of income, MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Income before taxes	714.4	594.6
Tax calculated at the domestic corporation tax rate	185.7	154.6
Effect of different tax rates in foreign subsidiaries	-3.9	-2.6
Permanent differences	-8.1	-4.7
Taxes from previous years and reassessment of deferred tax assets	-2.5	-23.4
Deferred tax liability on undistributed earnings	6.1	2.8
Other	1.2	1.5
<b>Total</b>	<b>178.5</b>	<b>128.2</b>
Effective tax rate, % <sup>1)</sup>	25.0	21.6
Tax rate of parent company	26.0	26.0

<sup>1)</sup> 2009 effective tax rate resulting from the operations for the financial year was 25.5%. However, taking into account prior year taxes and reassessment of deferred tax assets, the effective tax rate was 21.6%.

## 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, 2010	Jan 1–Dec 31, 2009
Net income attributable to the shareholders of the parent company, MEUR	535.3	465.6
Weighted average number of shares (1,000 shares)	255,030	252,837
<b>Basic earnings per share, EUR</b>	<b>2.10</b>	<b>1.84</b>
Dilution effect of share options and share-based incentive plan (1,000 shares)	1,457	1,306
Weighted average number of shares, dilution adjusted (1,000 shares)	256,487	254,143
<b>Diluted earnings per share, EUR</b>	<b>2.09</b>	<b>1.83</b>

## 10. OTHER COMPREHENSIVE INCOME

### Disclosure of components of other comprehensive income

MEUR	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Other comprehensive income:		
Translations difference	45.5	-7.3
Hedging of foreign subsidiaries	0.7	-1.4
Cash flow hedges:		
Gains (losses) arising during the year	-5.0	-9.7
Reclassifications included in profit or loss	-0.1	1.1
Cash flow hedges, net	-5.1	-8.6
Income tax relating to components of other comprehensive income	0.6	0.4
<b>Other comprehensive income</b>	<b>41.7</b>	<b>-16.9</b>

### Disclosure of tax effects relating to components of other comprehensive income

MEUR	Jan 1–Dec 31, 2010			Jan 1–Dec 31, 2009		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Translation differences	45.5	0.0	45.5	-7.3	0.0	-7.3
Hedging of foreign subsidiaries	0.7	-0.2	0.5	-1.4	0.4	-1.0
Cash flow hedges	-5.1	0.8	-4.3	-8.6	0.0	-8.6
<b>Other comprehensive income</b>	<b>41.1</b>	<b>0.6</b>	<b>41.7</b>	<b>-17.3</b>	<b>0.4</b>	<b>-16.9</b>

## 11. GOODWILL

### Goodwill allocation

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the country of operation at the level at which goodwill is monitored for internal management purposes. More than 75 percent of goodwill is allocated to the five largest CGUs. For more than half of the CGUs (19 all together) allocated goodwill is below EUR 10 million. Goodwill allocation of CGUs is presented below (carrying amounts):

Goodwill/CGU, MEUR	Dec 31, 2010	%	Dec 31, 2009	%
Five largest CGUs	617.4	79	503.8	77
Five smallest CGUs	24.1	3	20.9	3
Others	136.0	18	132.4	20
<b>Total</b>	<b>777.5</b>		<b>657.1</b>	
Mean	40.9		34.6	
Median	9.6		9.0	

### Impairment testing

The value-in-use calculations for CGU specific cash flow projections are based on financial estimates approved by the management. The value-in-use calculations are based on the detailed estimates/economic plans for next three reporting years. The cash flows for subsequent periods in the impairment test are assumed prudently without growth. The used discount rates are the weighted average cost of capital (WACC), which reflects the market assessment for the time-value of money and for the risk specific in KONE business.

The most significant external factors (market demand and environment, cost

development) behind the CGU specific cash flow projection are examined against external information sources. Management has also evaluated the past cash flow projections and the actual performance. When analysing that the assumptions and discount rates used in the impairment test are fair and accurate, the external factors have been utilized. Such external factors are market capitalization, beta, risk-free interests and risk premiums.

Based on the impairment test, an impairment loss of EUR 2.0 million were recognized in the statement of income during the accounting period. This was

allocated to one of the smallest CGUs. The impairment test process included the 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 units. Based on the sensitivity analysis, no potential future impairment losses have been foreseen. Especially, each of the five largest CGU's recoverable amount significantly exceeded the book value of goodwill.

### Discount interest rates used (pre tax):

	EMEA	Americas	Asia-Pacific
2010	9.70%	10.35%	13.17%
2009	9.36%	7.79%	11.80%

### Goodwill reconciliation

Goodwill, MEUR	Dec 31, 2010	Dec 31, 2009
Opening net book value	657.1	621.3
Translation differences	18.4	4.7
Increase	1.7	1.8
Decrease	-1.9	-0.4
Reclassifications	-	-
Companies acquired	104.2	31.7
Companies sold	-	-
Impairment charges	-2.0	-2.0
<b>Closing net book value</b>	<b>777.5</b>	<b>657.1</b>

## 12. OTHER INTANGIBLE ASSETS

Jan 1-Dec 31, 2010, MEUR	Maintenance contracts	Other	Total
Jan 1, 2010:			
Acquisition cost	140.9	132.5	273.4
Accumulated amortization and impairment	-112.7	-111.1	-223.8
<b>Net book value</b>	<b>28.2</b>	<b>21.4</b>	<b>49.6</b>
Opening net book value	28.2	21.4	49.6
Translation differences	0.8	0.2	1.0
Increase	1.3	7.7	9.0
Decrease	-0.4	-0.4	-0.8
Reclassifications	-	0.0	0.0
Companies acquired <sup>1)</sup>	42.4	2.5	44.9
Companies sold	-	-	-
Amortization	-13.3	-8.3	-21.6
Impairment charges	-	-	-
<b>Closing net book value</b>	<b>59.0</b>	<b>23.1</b>	<b>82.1</b>
Dec 31, 2010:			
Acquisition cost	185.0	142.5	327.5
Accumulated amortization and impairment	-126.0	-119.4	-245.4
<b>Net book value</b>	<b>59.0</b>	<b>23.1</b>	<b>82.1</b>
Jan 1-Dec 31, 2009, MEUR	Maintenance contracts	Other	Total
Jan 1, 2009:			
Acquisition cost	128.5	123.1	251.6
Accumulated amortization and impairment	-99.6	-103.1	-202.7
<b>Net book value</b>	<b>28.9</b>	<b>20.0</b>	<b>48.9</b>
Opening net book value	28.9	20.0	48.9
Translation differences	0.2	-0.1	0.1
Increase	0.1	9.7	9.8
Decrease	-0.7	-0.5	-1.2
Reclassifications	-	0.1	0.1
Companies acquired <sup>1)</sup>	12.8	0.2	13.0
Companies sold	-	-	-
Amortization	-13.1	-8.0	-21.1
Impairment charges	-	-	-
<b>Closing net book value</b>	<b>28.2</b>	<b>21.4</b>	<b>49.6</b>
Dec 31, 2009:			
Acquisition cost	140.9	132.5	273.4
Accumulated amortization and impairment	-112.7	-111.1	-223.8
<b>Net book value</b>	<b>28.2</b>	<b>21.4</b>	<b>49.6</b>

<sup>1)</sup> Please refer to Note 3 Acquisitions.

### 13. PROPERTY, PLANT AND EQUIPMENT

Jan 1-Dec 31, 2010, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
<b>Jan 1, 2010:</b>							
Acquisition cost	11.1	218.9	672.0	64.6	1.6	0.4	968.6
Accumulated depreciation	-1.0	-142.6	-577.3	-47.2	-	-	-768.1
<b>Net book value</b>	<b>10.1</b>	<b>76.3</b>	<b>94.7</b>	<b>17.4</b>	<b>1.6</b>	<b>0.4</b>	<b>200.5</b>
Opening net book value							
	10.1	76.3	94.7	17.4	1.6	0.4	200.5
Translation differences	0.4	3.7	4.8	1.5	0.0	0.0	10.4
Increase	0.1	3.9	17.7	11.5	6.5	0.5	40.2
Decrease	-0.2	-0.4	-1.1	-2.5	-0.2	-	-4.4
Reclassifications	0.0	1.0	2.4	-	-3.5	-0.8	-0.9
Companies acquired	-	0.2	0.8	-	-	-	1.0
Companies sold	-	-	-	-	-	-	-
Depreciation	0.0	-5.9	-29.2	-6.8	-	-	-41.9
Impairment charges	-	-	-	-	-	-	-
<b>Closing net book value</b>	<b>10.4</b>	<b>78.8</b>	<b>90.1</b>	<b>21.1</b>	<b>4.5</b>	<b>0.1</b>	<b>204.9</b>
<b>Dec 31, 2010:</b>							
Acquisition cost	11.4	227.3	696.6	75.1	4.5	0.1	1,014.9
Accumulated depreciation	-1.0	-148.5	-606.5	-54.0	-	-	-810.0
<b>Net book value</b>	<b>10.4</b>	<b>78.8</b>	<b>90.1</b>	<b>21.1</b>	<b>4.5</b>	<b>0.1</b>	<b>204.9</b>

Jan 1-Dec 31, 2009, MEUR	Land	Buildings	Machinery & equipment	Machinery & equipment, leased for own use	Fixed assets under construction	Advance payments	Total
<b>Jan 1, 2009:</b>							
Acquisition cost	11.3	210.8	652.6	60.2	6.3	0.5	941.7
Accumulated depreciation	-1.0	-136.9	-548.3	-40.8	-	-	-727.0
<b>Net book value</b>	<b>10.3</b>	<b>73.9</b>	<b>104.3</b>	<b>19.4</b>	<b>6.3</b>	<b>0.5</b>	<b>214.7</b>
Opening net book value							
	10.3	73.9	104.3	19.4	6.3	0.5	214.7
Translation differences	0.0	-0.3	-0.1	-0.1	-0.1	-0.1	-0.7
Increase	0.0	4.0	20.7	5.6	2.4	0.5	33.2
Decrease	-0.3	-0.9	-3.5	-1.1	-1.1	-	-6.9
Reclassifications	0.1	5.3	2.1	-	-5.9	-0.5	1.1
Companies acquired	-	-	0.2	-	-	-	0.2
Companies sold	-	-	-	-	-	-	-
Depreciation	-	-5.7	-29.0	-6.4	-	-	-41.1
Impairment charges	-	-	-	-	-	-	-
<b>Closing net book value</b>	<b>10.1</b>	<b>76.3</b>	<b>94.7</b>	<b>17.4</b>	<b>1.6</b>	<b>0.4</b>	<b>200.5</b>
<b>Dec 31, 2009:</b>							
Acquisition cost	11.1	218.9	672.0	64.6	1.6	0.4	968.6
Accumulated depreciation	-1.0	-142.6	-577.3	-47.2	-	-	-768.1
<b>Net book value</b>	<b>10.1</b>	<b>76.3</b>	<b>94.7</b>	<b>17.4</b>	<b>1.6</b>	<b>0.4</b>	<b>200.5</b>

During the period of Jan 1-Dec 31, 2010, capital expenditure on production facilities, customer service of sales and maintenance operations and information systems including new finance leases, totaled EUR 43.5 (46.5) million.

## 14. ASSOCIATED COMPANIES AND RELATED PARTY TRANSACTIONS

Investments in associated companies, MEUR	Dec 31, 2010	Dec 31, 2009
Total at beginning of period	19.3	13.6
Translation differences	1.6	-0.3
Share of associated companies result after taxes	12.3	8.1
Dividends received	-7.7	-2.1
Acquisitions	-	-
Disposals	-	-
<b>Total at end of period</b>	<b>25.5</b>	<b>19.3</b>

Investments in associated companies at the end of the period include goodwill of EUR 4.6 (4.6) million.

The associated companies' financial information presented here is based on the latest official statements available and estimates for year 2010.

KONE's associated companies net income for year 2010 was EUR 29.2 million based on estimates available. Based on the official 2009 financial statements, KONE's associated companies showed total assets of EUR 117.9 million and total equity of EUR 42.9 million. In year 2009 the associated companies recorded total sales of EUR 172.3 million and net income of EUR 20.4 million.

Transactions with associated companies, MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Sales of goods and services	30.3	19.8
Purchases of goods and services	14.6	11.6

### Balances with associated companies

Receivables from associated companies, MEUR	Dec 31, 2010	Dec 31, 2009
Long-term loans	1.7	1.8
Short-term loans	-	-
Accounts receivables	14.5	9.0
Deferred assets	-	0.1
<b>Total</b>	<b>16.2</b>	<b>10.9</b>

Liabilities to associated companies, MEUR	Dec 31, 2010	Dec 31, 2009
Long-term loans	-	-
Short-term loans	-	-
Accounts payables	1.2	0.6
Accruals	0.1	-
<b>Total</b>	<b>1.3</b>	<b>0.6</b>

### 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, 2010	Jan 1-Dec 31, 2009
Salaries and other remunerations	6.5	5.8
Share-based payments	11.3	5.4
<b>Total</b>	<b>17.8</b>	<b>11.2</b>

Compensation recognized as an expense for members of the Board of Directors and the President & CEO, (EUR thousand)	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Herlin Antti, Chairman of the Board <sup>1)</sup>	529.0	528.5
Alahuhta Matti, President and CEO, member of the Board <sup>1)</sup>	755.7	755.7
Brunila Anne	34.5	28.5
Hanhinen Reino	34.5	33.5
Herlin Jussi	18.0	18.0
Hämäläinen-Lindfors Sirkka	47.0	48.0
Kaskeala Juhani	35.0	28.0
Kimura Shunichi	30.5	26.0
Pietikäinen Sirpa	33.5	33.5
Shimono Masayuki	-	5.5
Viinanen Iiro	-	6.0
<b>Total</b>	<b>1,517.7</b>	<b>1,511.2</b>

<sup>1)</sup> For the financial year 2010 in addition Antti Herlin's accrued bonus is EUR 468,488 and Matti Alahuhta's accrued bonus is EUR 722,200. These will be paid during 2011. In April 2010, the share-based payments for the financial year 2009 received by Matti Alahuhta was EUR 2,196,513.

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 2010, Antti Herlin's basic salary was EUR 468,488. In addition, his accrued bonus for the accounting period January 1–December 31, 2010 was EUR 468,488. He was also paid EUR 60,500 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 annual result and other key targets. This bonus may not exceed 100% of his annual salary. Matti Alahuhta's basic salary for 2010 was EUR 722,200. In addition, his accrued bonus for the accounting period January 1–December 31, 2010 totaled EUR 722,200. He was also paid

EUR 33,500 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 2010, on the basis of the incentive plan, he received a bonus of total value of EUR 2,196,513 including 33,920 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 2010 and to be paid in April 2011 is 25,000 KONE class B shares and a cash bonus to cover the taxes and similar charges arising from the receipt of the shares. As part of his service contract he has possibility to retire at the age of 60 with a retirement pension of 60% of his average monthly salary during the past seven earning years. 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 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 2010, on the basis of the incentive plan, the members of the Executive Board received a bonus of total 162,816 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 2010 and to be paid in April 2011 is 110,000 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. Compensation for 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) together with the advance payments made by the end of 2010 for acquisitions that were not finalized on the consolidated statement of financial position date. 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, 2010	Dec 31, 2009
Non-current loans receivable	1.8	1.6
Current loans receivable	8.0	6.4
Current short-term deposits	616.9	414.8
<b>Total</b>	<b>626.7</b>	<b>422.8</b>

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, 2010	Dec 31, 2009
Tax losses carried forward	13.2	15.9
Provisions and accruals	98.1	86.5
Pensions	20.4	19.3
Inventory	21.6	16.9
Property, plant and equipment	2.7	1.8
Other temporary differences for assets	20.5	12.4
<b>Total</b>	<b>176.5</b>	<b>152.8</b>
Total at beginning of period	152.8	122.1
Translation differences	9.0	-0.4
Change in statement of income	14.7	31.1
Acquisitions, divestments and other	-	-
<b>Total at end of period</b>	<b>176.5</b>	<b>152.8</b>

Deferred tax liabilities, MEUR	Dec 31, 2010	Dec 31, 2009
Property, plant and equipment	5.1	6.2
Goodwill	30.9	20.9
Other temporary differences for liabilities	24.8	15.3
<b>Total</b>	<b>60.8</b>	<b>42.4</b>
Total at beginning of period	42.4	39.7
Translation differences	1.7	-1.2
Change in statement of income	16.6	3.9
Acquisitions, divestments and other	0.1	-
<b>Total at end of period</b>	<b>60.8</b>	<b>42.4</b>
<b>Net deferred tax assets and liabilities</b>	<b>115.7</b>	<b>110.4</b>

## 19. INVENTORIES

MEUR	Dec 31, 2010	Dec 31, 2009
Raw materials, supplies and finished goods	159.1	153.7
Work in progress	596.5	623.4
Advance payments made	10.3	7.5
<b>Inventories</b>	<b>765.9</b>	<b>784.6</b>
Advance payments received	-902.7	-832.4
<b>Total</b>	<b>-136.8</b>	<b>-47.8</b>

Work in progress includes direct labour 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. Advance payments received include customer payments for orders included in work in progress, according to the contractual payment terms.

## 20. DEFERRED ASSETS

MEUR	Dec 31, 2010	Dec 31, 2009
Deferred interests	1.2	2.0
Deferred income from service contracts	16.9	18.0
Unbilled contract revenue (note 4)	37.6	43.6
Derivative assets	8.3	4.6
Pension surplus from defined benefit plans	5.8	3.4
Value added tax assets	54.0	0.0 <sup>1)</sup>
Prepaid expenses and other receivables	37.0	101.7
<b>Total</b>	<b>160.8</b>	<b>173.3</b>

<sup>1)</sup> Deferred value added tax assets were included in Prepaid expenses and other receivables in 2009.

## 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 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 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.

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 Shareholders Meeting on 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, 2010	38,104,356	220,322,514	258,426,870
Share subscription with 2005C options, May 3, 2010		353,940	353,940
Share subscription with 2005C options, May 14, 2010		1,755,310	1,755,310
<b>Number of shares, Dec 31, 2010</b>	<b>38,104,356</b>	<b>222,431,764</b>	<b>260,536,120</b>
<b>Number of votes, Dec 31, 2010</b>	<b>38,104,356</b>	<b>22,243,176</b>	<b>60,347,532</b>
<b>Share capital, Dec 31, 2010, MEUR</b>	<b>9.5</b>	<b>55.6</b>	<b>65.1</b>

### Changes in share capital

	Class A	Class B	Total
Number of shares as of Jan 1, 2009	38,104,356	219,332,566	257,436,922
Share subscription with 2005B options, Mar 6, 2009		89,640	89,640
Share subscription with 2005B options, Apr 30, 2009		144,408	144,408
Share subscription with 2005C options, Oct 30, 2009		2,000	2,000
Share subscription with 2005C options, Dec 31, 2009		753,900	753,900
<b>Number of shares, Dec 31, 2009</b>	<b>38,104,356</b>	<b>220,322,514</b>	<b>258,426,870</b>
<b>Number of votes, Dec 31, 2009</b>	<b>38,104,356</b>	<b>22,032,251</b>	<b>60,136,607</b>
<b>Share capital, Dec 31, 2009, MEUR</b>	<b>9.5</b>	<b>55.1</b>	<b>64.6</b>

## Options

KONE Corporation had during the financial period 2010 three stock option programs. 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 2005C were granted according to the decision of the Extraordinary Shareholders' Meeting on November 21, 2005 to approximately 300 key employees. A maximum total of 2,000,000 options were offered for subscription. Each option entitled its owner to subscribe for two (2) class B share. The share subscription price for the option was originally EUR 14.20. The amount of KONE Corporation's dividend paid after the determination of the subscription price was further deducted from the subscription price up until the time of share subscription, as per the dividend record date. The share subscription period for options 2005C was April 1, 2008–April 30, 2010 and the effective subscription price was EUR 10.60 when the subscription period ended on April 30, 2010.

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 maximum total of 2,000,000 options can be granted. The original share subscription price for the option was 25.445 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. Therefore the effective subscription price as per December 31, 2010 was EUR 22.845. Each option entitles its holder to subscribe for two (2) class B KONE share. The share subscription period for the stock options 2007 is 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 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 can be granted. The original share subscription price for the option is 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. Each option entitles its holder to subscribe for one (1) new or an existing company's own class B KONE share. The share subscription period for the stock options 2010 will be April 1, 2013–April 30, 2015. The share subscription period begins only if the financial performance of the KONE Group for the financial years 2010–2012 based on the total consideration of the Board of Directors is equal to or better than the average performance of key competitors of KONE. If the above-mentioned prerequisite does not fulfill, stock options expire based on the consideration and in the extent and manner decided by the Board of Directors and the terms of the stock options.

Options	Options granted to employees	Unexercised options	Options held by the subsidiary Dec 31, 2010	Number of class B shares that can be subscribed for with the options	Share subscription price, EUR	Share subscription period
2005C	1,478,000	0	0	2	10.60	April 1, 2008–April 30, 2010
2007	1,112,000	1,109,800	888,000	2	22.845	April 1, 2010–April 30, 2012
2010	2,141,500	2,141,500	858,500	1	35.00	April 1, 2013–April 30, 2015
<b>Total</b>	<b>4,731,500</b>	<b>3,251,300</b>	<b>1,746,500</b>			

### Changes in the number of options outstanding

	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Number of options outstanding at Jan 1	2,218,625	2,627,579
Granted options	2,152,000	15,500
Returned options	62,500	27,000
Exercised options	1,056,825	397,454
Number of options outstanding at Dec 31	3,251,300	2,218,625
Exercisable options at Dec 31	1,997,800	1,576,625

### 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 2010, a total

of 311,375 class B shares were granted to the management as a reward due to the achievement of the targets for the year 2009. Respectively, a total of 219,000 class B shares will be granted in April 2011 due to achievement of the targets for the year 2010.

### Authority to purchase own shares

The Shareholders' Meeting held in March 2010 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 its own shares that the Company is allowed to possess.

The class B shares can be purchased at public trading in the NASDAQ OMX Helsinki Oy at the 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 Oy at the time of purchase.

During the financial year 2010 KONE repurchased 550,000 own shares.

### Own shares

	Number of shares	Cost in MEUR
Jan 1, 2009	4,689,506	79.7
<b>Dec 31, 2009</b>	<b>4,689,506</b>	<b>79.7</b>
Distributed to the KONE Corporation Centennial Foundation, March 2010	-100,000	-1.3
Distributed to the share-based incentive plan, April 2010	-290,639	-3.9
Purchase, May 2010	550,000	16.9
Returned from the share-based incentive plan, October 2010	4,568	0.1
Distributed to the subscription of option rights 2007, December 2010	-4,400	-0.1
<b>Dec 31, 2010</b>	<b>4,849,035</b>	<b>91.4</b>

In addition, relating to the share-based incentive plan, a company included in the consolidated financial statements distributed 20,736 KONE class B shares to the share-based incentive plan during financial year 2010.

### Share-based payments

	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Share-based payments recognized as an expense in the statement of income, MEUR		
To be paid in shares	12.7	8.8
To be paid in cash	13.3	8.3

The share price at the date of issuing the share-based incentive plan 2010–2012 was EUR 28.56. During the financial year 2010 the possibility for a total of 677,440 (154,176) more KONE class B shares was granted and the possibility for a total of 29,200 (17,280) class B shares was returned to the company. The outstanding amount of KONE class B shares included in the incentive plan was therefore 648,240 (311,375) 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, 2010	Dec 31, 2009
Minimum lease payments		
Less than 1 year	7.8	6.5
1–5 years	14.3	12.5
Over 5 years	-	-
	22.1	19.0
Future finance charges	-0.9	-1.5
<b>Present value of finance lease liabilities</b>	<b>21.2</b>	<b>17.5</b>

MEUR	Dec 31, 2010	Dec 31, 2009
Present value of finance lease liabilities		
Less than 1 year	7.6	6.3
1–5 years	13.6	11.2
Over 5 years	-	-
<b>Total</b>	<b>21.2</b>	<b>17.5</b>

## 23. EMPLOYEE BENEFITS

The Group operates various employee benefit plans throughout the world. Pension arrangements are made in accordance with local regulations and practice, in line with the defined contribution or defined benefit pension plans. Under defined contribution plans the Group's contributions are recorded as an expense in the accounting period to which they relate. For defined benefit pension plans retirement, disability, death and termination income benefits are determined, with retirement benefits generally being a function of years worked and final salary.

In Finland, pension cover has been arranged through local insurance compa-

nies in accordance with defined contribution plans (Finnish Statutory Employment Pension Scheme "TyEL"). In Sweden, pension cover is arranged through both insurance companies and book reserves in accordance with the Swedish "FPG/PRI System". The same type of book reserves for unfunded defined benefit pension plans are also used in Germany and Italy, for example. Other post-employment unfunded obligations include book reserves for termination income benefits, which are made in some countries in accordance with local practice.

The main countries to have funded defined benefit plans are the United

Kingdom, the United States and Australia. Defined benefit pension plans are funded by the relevant KONE companies to satisfy local statutory funding requirements. The discount rates used in actuarial calculations of employee benefit liabilities are adjusted to market rates. The Group funds also include certain other post-employment benefits in the United States relating to retirement, medical and life insurance programs.

**Employee benefit liabilities recognized  
in the consolidated statement of financial  
position, MEUR**

	Dec 31, 2010	Dec 31, 2009
Employee benefits		
Defined benefit plans	96.4	94.3
Other post-employment benefits	17.0	16.3
<b>Total</b>	<b>113.4</b>	<b>110.6</b>

	Dec 31, 2010		Dec 31, 2009	
	Defined benefit plans	Other post- employment benefits	Defined benefit plans	Other post- employment benefits
Present value of unfunded obligations	56.0	6.0	57.6	5.1
Present value of funded obligations	266.9	14.6	231.4	14.1
Fair value of benefit plans' assets	-190.0	-0.5	-161.1	-0.4
Unrecognized actuarial gains (+)/losses (-)	-36.5	-3.1	-33.6	-2.5
<b>Total</b>	<b>96.4</b>	<b>17.0</b>	<b>94.3</b>	<b>16.3</b>

	Jan 1–Dec 31, 2010		Jan 1–Dec 31, 2009	
	Defined benefit plans	Other post- employment benefits	Defined benefit plans	Other post- employment benefits
<b>Net liability reconciliation</b>				
Net liability at beginning of period	94.3	16.3	97.2	18.6
Translation differences	2.0	0.8	0.9	0.4
Acquisitions of new companies	-	-	-	-
Disposals of companies	-	-	-	-
Costs recognized in statement of income	11.0	0.8	10.6	0.9
Paid contributions	-10.9	-0.9	-14.4	-3.6
<b>Net liability at end of period</b>	<b>96.4</b>	<b>17.0</b>	<b>94.3</b>	<b>16.3</b>

**Amounts recognized in the  
statement of income, MEUR**

	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Defined contribution pension plans	88.9	86.5
Defined benefit pension plans	12.2	12.6
Other post-employment benefits	0.8	0.9
<b>Total</b>	<b>101.9</b>	<b>100.0</b>

	Jan 1–Dec 31, 2010		Jan 1–Dec 31, 2009	
	Defined benefit plans	Other post- employment benefits	Defined benefit plans	Other post- employment benefits
Current service costs	8.2	0.3	7.7	0.1
Interest costs	16.4	0.5	14.4	0.7
Expected return on plans' assets	-14.3	0.0	-10.1	-
Net actuarial gains (-)/losses (+) recognized	2.2	0.0	0.7	0.1
Past-service costs	-	-	-	-
Settlements	-0.2	-	-0.1	-
Loss curtailments	-0.1	-	-	-
<b>Total</b>	<b>12.2</b>	<b>0.8</b>	<b>12.6</b>	<b>0.9</b>

The actual return on defined benefit plans' assets was EUR 22.4 (27.5) million.

**Defined benefit plans: assumptions used in calculating benefit obligations**

	Jan 1-Dec 31, 2010		Jan 1-Dec 31, 2009	
	Europe	USA	Europe	USA
Discount rate, %	3.90–5.70	5.80	3.10–6.00	6.00
Expected return on plans' assets, %	4.00–6.70	8.00	4.00–6.40	8.50
Future salary increase, %	3.0–4.5	4.0	3.0–4.5	4.0
Future pension increase, %	1.3–3.5	4.0	1.3–2.8	4.0
Expected average remaining working years	16	15	12–16	15

**24. PROVISIONS**

Jan 1-Dec 31, 2010, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions						
at beginning of period	47.7	6.4	21.6	11.0	13.6	100.3
Translation differences	0.5	-	0.5	0.9	0.8	2.7
Increase	41.4	0.6	4.1	9.1	12.3	67.5
Provisions used	-31.6	-0.7	-14.9	-9.3	-4.4	-60.9
Reversal of provisions	-5.7	-1.8	-0.6	-1.7	-0.5	-10.3
Companies acquired	-	-	-	-	0.1	0.1
Companies sold	-	-	-	-	-	-
<b>Total provisions at end of period</b>	<b>52.3</b>	<b>4.5</b>	<b>10.7</b>	<b>10.0</b>	<b>21.9</b>	<b>99.4</b>

	Non-current liabilities	Current liabilities	Total
<b>Distribution of provisions as of Dec 31, 2010</b>	<b>8.5</b>	<b>90.9</b>	<b>99.4</b>

Jan 1-Dec 31, 2009, MEUR	Provision for warranty	Provision for claims	Provision for business restructuring	Provision for loss contracts	Other provisions	Total
Total provisions						
at beginning of period	6.2	4.2	3.7	18.7	17.1	49.9
Adjustment <sup>1)</sup>	28.5	-	-	-	-	28.5
Translation differences	0.1	0.0	0.0	-0.2	-0.1	-0.2
Increase	37.4	4.1	30.7	10.6	3.8	86.6
Provisions used	-23.4	-1.6	-11.4	-13.5	-5.5	-55.4
Reversal of provisions	-1.1	-0.3	-1.4	-4.6	-1.7	-9.1
Companies acquired	-	-	-	-	0.0	0.0
Companies sold	-	-	-	-	-	-
<b>Total provisions at end of period</b>	<b>47.7</b>	<b>6.4</b>	<b>21.6</b>	<b>11.0</b>	<b>13.6</b>	<b>100.3</b>

	Non-current liabilities	Current liabilities	Total
<b>Distribution of provisions as of Dec 31, 2009</b>	<b>11.4</b>	<b>88.9</b>	<b>100.3</b>

<sup>1)</sup> Adjusted from accruals to warranty provisions in 2009.

## 25. ACCRUALS

MEUR	Dec 31, 2010	Dec 31, 2009
Accrued interests	0.1	0.1
Accrued income of service contracts	92.8	58.8
Late costs accruals	205.3	206.5
Accrued salaries, wages and employment costs	259.8	240.6
Derivative liabilities	30.5	24.6
Accrued value added tax	69.5	69.7
Accruals from acquisitions	50.1	11.0
Other accruals	160.4	150.0
<b>Total</b>	<b>868.5</b>	<b>761.3</b>

## 26. COMMITMENTS

MEUR	Dec 31, 2010	Dec 31, 2009
Mortages		
Group and parent company	-	-
Pledged assets		
Group and parent company	2.0	1.9
Guarantees		
Associated companies	3.5	3.5
Others	6.0	6.4
Operating leases	179.0	162.0
<b>Total</b>	<b>190.5</b>	<b>173.8</b>

Banks and financial institutions have guaranteed obligations arising in the ordinary course of business of KONE companies up to a maximum of EUR 699.3 (638.3) million as of December 31, 2010.

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, 2010	Dec 31, 2009
Less than 1 year	44.5	41.0
1–5 years	100.7	91.6
Over 5 years	33.8	29.4
<b>Total</b>	<b>179.0</b>	<b>162.0</b>

The aggregate operating lease expenses totaled EUR 79.9 (75.4) million.

## 27. DISTRIBUTION OF NET SALES

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

### Sales by geographical areas

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
EMEA <sup>1)</sup>	2,911.5	2,953.4
Americas	1,018.3	970.2
Asia-Pacific	1,056.8	820.1
<b>Total</b>	<b>4,986.6</b>	<b>4,743.7</b>

<sup>1)</sup> EMEA = Europe, Middle East, Africa.

The net sales in Finland amounted to EUR 150.6 (146.5) million.

In 2010, the net sales in the United States, France and China each exceeded 10% of the Group's total net sales (2009: the United States and France). KONE's ten biggest geographical market areas in terms of net sales included (in addition to the aforementioned) Germany, the United Kingdom, Italy, the Netherlands, Australia, Sweden and Spain (2009: the United States, France, China, Germany, the United Kingdom, Italy, the Netherlands, Australia, Sweden and Spain).

### Sales by businesses

MEUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
New equipment	2,304.5	2,211.1
Services	2,682.1	2,532.6
<b>Total</b>	<b>4,986.6</b>	<b>4,743.7</b>

In 2010, new equipment sales accounted for 46% (47%) of total sales. Services include the maintenance and modernization businesses. In 2010, maintenance accounted for 37% (34%) and modernization for 17% (19%) 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 (%)	= $100 \times$	$\frac{\text{net income}}{\text{total equity (average of the figures for the accounting period)}}$
Return on capital employed (%)	= $100 \times$	$\frac{\text{Net Income} + \text{Financing Expenses}}{\text{Equity} + \text{Interest-bearing-debt}}$ (average of the figures for the accounting period)
Total equity/total assets (%)	= $100 \times$	$\frac{\text{total equity}}{\text{total assets}}$
Gearing (%)	= $100 \times$	$\frac{\text{interest-bearing-debt} - \text{liquid assets} - \text{loans receivable}}{\text{total equity}}$
Basic earnings/share	=	$\frac{\text{net income attributable to the shareholders of the parent company}}{\text{issue and conversion-adjusted weighted average number of shares} - \text{repurchased own shares}}$
Equity/share	=	$\frac{\text{total shareholders' equity}}{\text{number of shares (issue adjusted)} - \text{repurchased own shares}}$
Dividend/share	=	$\frac{\text{dividend payable for the accounting period}}{\text{issue and conversion-adjusted weighted average number of shares} - \text{repurchased own shares}}$
Dividend/earnings (%)	= $100 \times$	$\frac{\text{dividend/share}}{\text{earnings/share}}$
Effective dividend yield (%)	= $100 \times$	$\frac{\text{dividend/share}}{\text{price of class B shares at end of accounting period}}$
Price/earnings	=	$\frac{\text{price of class B shares at end of accounting period}}{\text{earnings/share}}$
Average price	=	$\frac{\text{total EUR value of all class B shares traded}}{\text{average number of class B shares traded during the accounting period}}$
Market value of all outstanding shares	=	the number of shares (A + B) at end of accounting period times the price of class B shares at end of accounting period <sup>1)</sup>
Shares traded	=	number of class B shares traded during the accounting period
Shares traded (%)	= $100 \times$	$\frac{\text{number of class B shares traded}}{\text{average weighted number of class B shares}}$

<sup>1)</sup> 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	2010	2009	2008	2007	2006
Sales, MEUR	4,987	4,744	4,603	4,079	3,601
- sales outside Finland, MEUR	4,836	4,597	4,461	3,959	3,502
Operating income, MEUR	696	567	558	321	360
- as percentage of sales, %	14.0	11.9	12.1	7.9	10.0
Operating income excl. non-recurring one-time items, MEUR <sup>1)</sup>	696	600	558	473	360
- as percentage of sales, % <sup>1)</sup>	14.0	12.7	12.1	11.6	10.0
Income before taxes, MEUR	714	595	564	314	356
- as percentage of sales, %	14.3	12.5	12.2	7.7	9.9
Net income, MEUR	536	466	418	180	234
Consolidated statement of financial position, MEUR	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006
Non-current assets	1,423	1,218	1,178	1,083	1,102
Inventories, net	-137	-48	80	79	117
Other current assets	1,959	1,682	1,398	1,198	1,074
Total equity	1,601	1,339	1,036	749	699
Non-current liabilities	203	180	328	334	276
Provisions	99	100	50	87	72
Current liabilities	1,342	1,232	1,243	1,191	1,247
Total assets	3,245	2,852	2,657	2,360	2,292
Interest-bearing net debt	-750	-505	-58	92	125
Assets employed <sup>2)</sup>	851	835	978	841	824
Net working capital <sup>2)</sup>	-394	-229	-76	-122	-140
Other data, Jan 1–Dec 31	2010	2009	2008	2007	2006
Orders received, MEUR	3,809	3,432	3,948	3,675	3,116
Order book, MEUR	3,598	3,309	3,577	3,282	2,762
Capital expenditure, MEUR	44	47	74	67	60
- as percentage of sales, %	0.9	1.0	1.6	1.6	1.7
Expenditure for research and development, MEUR	71	62	58	51	50
- as percentage of sales, %	1.4	1.3	1.3	1.2	1.4
Average number of employees	33,566	34,276	33,935	30,796	28,366
Number of employees at end of period	33,755	33,988	34,831	32,544	29,321
Key ratios, %, Jan 1–Dec 31	2010	2009	2008	2007	2006
Return on equity	36.5	39.3	46.8	24.9	34.3
Return on capital employed	34.8	34.0	35.9	18.6	23.9
Total equity/total assets	49.3	47.0	39.0	31.7	30.5
Gearing	-46.8	-37.7	-5.6	12.2	17.9
Key figures per share, Jan 1–Dec 31	2010	2009	2008	2007	2006
Basic earnings per share, EUR	2.10	1.84	1.66	0.72	0.93
Diluted earnings per share, EUR	2.09	1.83	1.65	0.71	0.92
Equity per share, EUR	6.25	5.28	4.10	2.98	2.77
Dividend per class B share, EUR	0.90 <sup>3)</sup>	1.30	0.65	0.65	0.50
Dividend per class A share, EUR	0.895 <sup>3)</sup>	1.295	0.645	0.645	0.495
Dividend per earnings, class B share, %	42.9 <sup>3)</sup>	70.7	39.2	90.3	53.8
Dividend per earnings, class A share, %	42.6 <sup>3)</sup>	70.4	38.9	89.6	53.2
Effective dividend yield, class B share, %	2.2 <sup>3)</sup>	4.3	4.2	2.7	2.3
Price per earnings, class B share	20	16	9	33	23
Market value of class B share, average, EUR	34	21	21	23	18
- high, EUR	43	30	28	30	22
- low, EUR	28	14	14	20	14
- at end of period, EUR	42	30	16	24	21
Market capitalization at end of period, MEUR <sup>4)</sup>	10,637	7,601	3,922	6,027	5,382
Number of class B shares traded (1,000s)	134,643	160,855	207,778	191,764	151,028
Class B shares traded, %	59	70	91	87	69
Weighted average number of class A shares, (1000s)	38,104	38,104	38,104	38,104	38,104
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 B shares, (1000s) <sup>5)</sup>	218,383	216,039	215,509	216,456	216,090
Number of class B shares at end of period, (1000s) <sup>4)</sup>	217,583	215,612	214,427	213,369	212,551
Weighted average number of shares, (1000s) <sup>5)</sup>	256,487	254,143	253,613	254,560	254,194

<sup>1)</sup> 2009: Excluding a one-time restructuring cost related to the fixed cost adjustment program. 2007: Excluding the fines imposed on KONE by the European Commission and the Austrian cartel court, and the sales profit for the sale of the KONE Building.

<sup>2)</sup> Including tax receivables and liabilities, accrued interest and derivative items.

<sup>3)</sup> Board's proposal.

<sup>4)</sup> Reduced by the number of repurchased own shares. Class A shares are valued at the closing price of the class B shares.

<sup>5)</sup> Adjusted by 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, 2010	Jan 1-Dec 31, 2009
<b>Sales</b>	1	422,989,364.56	305,328,650.33
Other operating income	2	7,616,706.96	36,147,162.99
Materials and services		-338,787.20	-3,123,631.79
Personnel expenses	3	-44,433,849.71	-37,471,739.44
Depreciation and amortization	4	-8,584,537.15	-4,326,237.20
Other operating expenses	5	-164,017,287.71	-165,434,013.43
<b>Operating profit</b>		213,231,609.75	131,120,191.46
Financing income and expenses	6	374,656,096.37	73,640,661.27
<b>Profit before extraordinary items</b>		587,887,706.12	204,760,852.73
Extraordinary items	7	26,554,000.00	2,997,889.74
<b>Profit before appropriations and taxes</b>		614,441,706.12	207,758,742.47
Appropriations		213,071.05	-449,396.32
Income taxes		-49,832,659.21	-25,153,069.25
Deferred taxes		-8,990.06	-268,028.98
<b>Profit for the financial year</b>		564,813,127.90	181,888,247.92

# Parent company balance sheet

Assets, EUR	Note	Dec 31, 2010	Dec 31, 2009
<b>Non-current assets</b>			
Intangible assets			
Intangible rights	8	347,888.00	446,738.00
Other long-term expenditure	9	17,612,631.00	15,803,311.00
		17,960,519.00	16,250,049.00
Tangible assets			
Land	10	182,328.26	182,328.26
Buildings	11	5,573,704.58	5,948,578.00
Machinery and equipment	12	4,846,301.53	4,538,348.53
Advance payments		19,374.86	19,374.86
		10,621,709.23	10,688,629.65
Investments			
Subsidiary shares	13	2,574,327,427.92	2,385,539,142.55
Other shares	14	9,464,858.82	9,580,552.67
		2,583,792,286.74	2,395,119,695.22
<b>Total non-current assets</b>		<b>2,612,374,514.97</b>	<b>2,422,058,373.87</b>
<b>Current assets</b>			
Long-term receivables	15	105,374,359.25	11,335,787.65
Short-term receivables	16	939,705,433.68	757,842,353.08
Deferred tax assets		1,335,320.45	1,344,310.51
Cash and cash equivalents		18,451,146.66	3,540,905.74
<b>Total current assets</b>		<b>1,064,866,260.04</b>	<b>774,063,356.98</b>
<b>Total assets</b>		<b>3,677,240,775.01</b>	<b>3,196,121,730.85</b>

Equity and liabilities, EUR	Note	Dec 31, 2010	Dec 31, 2009
<b>Equity</b>			
Share capital		65,134,030.00	64,606,717.50
Share in premium account		100,328,064.58	100,328,064.58
Other reserves			
Paid-up unrestricted equity reserve		34,999,080.26	13,067,824.76
Retained earnings		1,198,085,860.81	1,366,258,586.06
Profit for the financial year		564,813,127.90	181,888,247.92
<b>Total equity</b>	17	<b>1,963,360,163.55</b>	<b>1,726,149,440.82</b>
<b>Appropriations</b>			
Cumulative accelerated depreciation		1,461,154.62	1,674,225.67
<b>Provisions</b>			
Provisions	18	5,072,485.86	5,100,797.00
<b>Liabilities</b>			
Non-current liabilities	19	364,660,275.51	455,721,275.51
Current liabilities	20	1,342,686,695.47	1,007,475,991.85
<b>Total liabilities</b>		<b>1,707,346,970.98</b>	<b>1,463,197,267.36</b>
<b>Total equity and liabilities</b>		<b>3,677,240,775.01</b>	<b>3,196,121,730.85</b>

# Parent company cash flow statement

EUR	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Cash receipts from customers	419,483,944.72	234,969,440.65
Cash receipts from other operative income	7,561,246.84	7,597,826.87
Cash paid to suppliers and employees	-209,450,334.94	-196,216,724.76
Financial items	402,297,471.52	59,988,317.28
Taxes and other items	-59,905,723.14	-25,890,326.96
<b>Cash flow from operating activities</b>	<b>559,986,605.00</b>	<b>80,448,533.08</b>
Capital expenditure	-10,398,080.27	-7,755,967.71
Proceeds from sales of fixed assets	332,213.05	69,651.80
Subsidiary investments	-188,448,836.57	-126,750,177.95
Proceeds from sales of subsidiary shares	4.43	333,000.00
<b>Cash flow from investing activities</b>	<b>-198,514,699.36</b>	<b>-134,103,493.86</b>
Purchase of own shares	-16,892,921.75	0.00
Sales and distribution of own shares	100,518.00	0.00
Issue of shares	22,358,050.00	9,936,082.96
Net change in short-term debt	299,024,394.51	-95,162,696.32
Net change in long-term debt	-91,061,000.00	-61,429,768.69
Profit distribution	-333,168,051.42	-164,095,298.62
Group contributions received	23,338,319.46	59,073,000.00
Group contributions paid	0.00	-20,340,429.72
Other financing items	-145,536,264.39	472,638,157.30
<b>Cash flow from financing activities</b>	<b>-241,836,955.59</b>	<b>200,619,046.91</b>
<b>Change in cash and cash equivalents</b>	<b>119,634,950.05</b>	<b>146,964,086.13</b>
Cash and cash equivalents, Jan 1	233,716,631.67	86,752,545.54
Cash and cash equivalents, Dec 31	353,351,581.72	233,716,631.67
<b>Change in cash and cash equivalents</b>	<b>119,634,950.05</b>	<b>146,964,086.13</b>
<b>Reconciliation of net income to the cash flow from operating activities</b>		
<b>Profit for the financial year</b>	<b>564,813,127.90</b>	<b>181,888,247.92</b>
Depreciations	8,584,537.15	4,326,237.20
Other adjustments	-26,363,599.37	-31,004,469.18
<b>Income before change in working capital</b>	<b>547,034,065.68</b>	<b>155,210,015.94</b>
Change in receivables	-22,416,008.08	-38,425,671.71
Change in payables	35,368,547.40	-36,335,811.15
<b>Cash flow from operating activities</b>	<b>559,986,605.00</b>	<b>80,448,533.08</b>

# 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, 2010.

## 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 differences on the loans, deposits and other balance sheet items are recognized in the financing income and expenses in the statement of income.

## Derivative instruments

Derivative 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 tax rates prevailing at the balance sheet date. The deferred tax liabilities arising from temporary differences are fully recognized with prudence, 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 EUR 421,160.00 thousand, which consists mainly of internal fees.

### 2. OTHER OPERATING INCOME

EUR 1,000	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Rent income	1,162.3	1,305.3
Guarantee provisions	-	1,448.2
Subsidies received	838.8	1,155.6
Gains from the sales of fixed assets	55.5	335.7
Others	5,560.1	31,902.4
<b>Total</b>	<b>7,616.7</b>	<b>36,147.2</b>

### 3. PERSONNEL EXPENSES

EUR 1,000	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Salaries for members of the Board of Directors and the President and CEO	4,818.0	3,223.3
Other wages and salaries	31,317.5	27,988.6
Pension costs	6,386.4	5,169.9
Other employment expenses	1,911.9	1,089.9
<b>Total</b>	<b>44,433.8</b>	<b>37,471.7</b>

Average number of staff employed by the Parent company was 517 during the period.

### 4. DEPRECIATION AND AMORTIZATION

EUR 1,000	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Intangible rights	230.8	237.6
Other long term expenditure	6,545.1	2,734.9
Buildings	393.1	379.6
Machinery and equipment	1,415.5	974.1
<b>Total</b>	<b>8,584.5</b>	<b>4,326.2</b>

### 5. AUDITORS' FEES

EUR 1,000	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Audit	270.5	162.5
Auditors' statements	7.7	4.3
Tax advise	113.0	184.2
Other services	251.8	207.0
<b>Total</b>	<b>643.0</b>	<b>558.0</b>

## 6. FINANCING INCOME AND EXPENSES

EUR 1,000	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Dividend income from subsidiaries	401,861.7	68,241.3
Dividend income from associated companies	7,309.0	1,645.6
Other dividends received	37.5	31.2
Interest income from subsidiaries	6,384.8	25,734.6
Interest income from others	3,304.8	4,308.7
Interest expenses to subsidiaries	-16,250.4	-36,399.6
Interest expenses to others	-658.6	-3,108.9
Other financing income and expenses	-27,332.7	13,187.8
<b>Total</b>	<b>374,656.1</b>	<b>73,640.7</b>

## 7. EXTRAORDINARY INCOME AND EXPENSES

EUR 1,000	Jan 1-Dec 31, 2010	Jan 1-Dec 31, 2009
Group contributions received	26,554.0	23,338.3
Group contributions paid	-	-20,340.4
<b>Total</b>	<b>26,554.0</b>	<b>2,997.9</b>

## Notes to the Balance sheet

### 8. INTANGIBLE RIGHTS

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	1,255.0	1,129.0
Increase	132.0	126.0
Accumulated depreciation and amortization	-1,039.1	-808.3
<b>Net book value, Dec 31</b>	<b>347.9</b>	<b>446.7</b>

### 9. OTHER LONG-TERM EXPENDITURE

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	45,157.0	8,253.4
Increase	8,726.9	6,273.8
Increase/merger	-	30,635.1
Decrease	-826.3	-5.3
Accumulated depreciation and amortization	-35,445.0	-6,597.2
Accumulated depreciation and amortization/merger	-	-22,756.5
<b>Net book value, Dec 31</b>	<b>17,612.6</b>	<b>15,803.3</b>

### 10. LAND

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	182.3	182.3
<b>Net book value, Dec 31</b>	<b>182.3</b>	<b>182.3</b>

## 11. BUILDINGS

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	9,454.3	9,421.8
Increase	18.2	32.5
Accumulated depreciation	-3,898.8	-3,505.7
<b>Net book value, Dec 31</b>	<b>5,573.7</b>	<b>5,948.6</b>

## 12. MACHINERY AND EQUIPMENT

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	22,986.5	17,917.9
Increase	1,970.9	1,251.5
Increase/merger	-	3,878.2
Decrease	-728.4	-61.1
Accumulated depreciation	-19,382.7	-15,533.8
Accumulated depreciation/merger	-	-2,914.4
<b>Net book value, Dec 31</b>	<b>4,846.3</b>	<b>4,538.3</b>

## 13. SUBSIDIARY SHARES

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	2,385,539.1	2,235,995.3
Increase	188,788.3	182,810.6
Decrease	-	-33,266.8
<b>Net book value, Dec 31</b>	<b>2,574,327.4</b>	<b>2,385,539.1</b>

## 14. OTHER SHARES

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Acquisition cost, Jan 1	9,580.6	9,608.9
Increase	-	72.1
Decrease	-115.7	-100.4
<b>Net book value, Dec 31</b>	<b>9,464.9</b>	<b>9,580.6</b>

## 15. LONG-TERM RECEIVABLES

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Loans receivable from subsidiaries	105,299.5	11,266.4
Loans receivable from others	74.8	69.4
<b>Long-term receivables</b>	<b>105,374.3</b>	<b>11,335.8</b>

## 16. SHORT-TERM RECEIVABLES

### Receivables from subsidiaries

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Accounts receivable	113,344.3	94,180.3
Loans receivable	424,997.3	373,445.8
Deferred assets	52,724.3	49,702.2
<b>Total</b>	<b>591,065.9</b>	<b>517,328.3</b>

### Receivables from associated companies

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Accounts receivable	0.3	579.9
<b>Total</b>	<b>0.3</b>	<b>579.9</b>

### Receivables from externals

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Accounts receivable	664.1	599.2
Loans receivable	32.4	86.2
Others	334,900.4	230,175.7
Deferred assets	13,042.3	9,073.1
<b>Total</b>	<b>348,639.2</b>	<b>239,934.2</b>

### Deferred assets

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Deferred interest	778.3	1,004.1
Derivate assets	7,197.1	4,531.1
Deferred income taxes	0.0	22.5
Deferred assets from subsidiaries	52,724.3	49,702.2
Others	5,066.8	3,515.3
<b>Total</b>	<b>65,766.5</b>	<b>58,775.2</b>
<b>Total short-term receivables</b>	<b>939,705.4</b>	<b>757,842.4</b>

## 17. EQUITY AND CHANGES IN EQUITY

EUR 1,000	Share capital	Share premium account	Share unrestricted equity reserve	Paid-up Own shares	Retained earnings	Profit for the financial year	
						Total	Total
Book value Jan 1, 2010	64,606.7	100,328.1	13,067.8	-79,781.3	1,627,928.1		1,726,149.4
Profit distribution				1 331.5	-334,499.5		-333,168.0
Purchase of own shares				-16,892.9			-16,892.9
Option and share-based compensation	527.3		21,931.3	3,944.0	-3,944.0		22,458.6
Profit for the financial year						564,813.1	564,813.1
<b>Net book value Dec 31, 2010</b>	<b>65,134.0</b>	<b>100,328.1</b>	<b>34,999.1</b>	<b>-91,398.7</b>	<b>1,289,484.6</b>	<b>564,813.1</b>	<b>1,963,360.2</b>

## 18. PROVISIONS

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Other provisions	5,072.5	5,100.8
<b>Total</b>	<b>5,072.5</b>	<b>5,100.8</b>

## 19. NON-CURRENT LIABILITIES

Parent Company has no loans due after five years.

## 20. CURRENT LIABILITIES

Liabilities to subsidiaries, EUR 1,000	Dec 31, 2010	Dec 31, 2009
Other liabilities	1,205,449.5	848,698.3
Accounts payable	14,615.3	21,521.9
Accruals	17,251.2	10,012.9
<b>Total</b>	<b>1,237,316.0</b>	<b>880,233.1</b>
Liabilities to externals, EUR 1,000	Dec 31, 2010	Dec 31, 2009
Others	5,170.9	62,897.7
Accounts payables	18,698.0	13,940.8
Accruals	81,501.8	50,404.3
<b>Total</b>	<b>105,370.7</b>	<b>127,242.8</b>
Accruals, EUR 1,000	Dec 31, 2010	Dec 31, 2009
Accrued wages, salaries and employment costs	13,793.4	10,365.4
Accrued taxes	28,446.3	11,170.0
Derivative liabilities	29,302.3	23,258.1
Accrued interest	69.2	74.0
Accruals to subsidiaries	17,251.2	10,012.9
Other accrued expenses	9,890.6	5,536.8
<b>Total</b>	<b>98,753.0</b>	<b>60,417.2</b>
<b>Total current liabilities</b>	<b>1,342,686.7</b>	<b>1,007,475.9</b>

## 21. COMMITMENTS

EUR 1,000	Dec 31, 2010	Dec 31, 2009
Pledged assets		
For subsidiaries	74.8	69.4
Guarantees		
For subsidiaries	1,038,482.2	904,851.6
For associated companies	3,459.8	3,481.5
For others	6,049.6	6,353.2
Leasing commitments		
Due next year	3,022.7	2,667.8
Due over a year	11,906.8	14,909.1
Other commitments	176.6	500.1
<b>Total</b>	<b>1,063,172.5</b>	<b>932,832.7</b>

## 22. DERIVATIVE INSTRUMENTS

Fair values of derivative instruments, EUR 1,000	Dec 31, 2010	Dec 31, 2009
FX forward contract with external parties	-2,847.0	-1,310.9
FX forward contract with subsidiaries	5,973.6	2,579.0
Cross currency and interest rate swaps, due under one year	-	-16,968.0
Cross currency and interest rate swaps, due in 1–3 years	-20,199.7	-
Electricity derivatives	941.5	-448.3
<b>Total</b>	<b>-16,131.6</b>	<b>-16,148.2</b>

Nominal values of derivative instruments, EUR 1,000	Dec 31, 2010	Dec 31, 2009
FX forward contract with external parties	395,576.4	392,778.1
FX forward contract with subsidiaries	227,264.8	284,961.3
Cross currency and interest rate swaps, due under one year	-	113,097.3
Cross currency and interest rate swaps, due in 1–3 years	139,339.3	-
Electricity derivatives	5,639.5	5,251.6
<b>Total</b>	<b>767,820.0</b>	<b>796,088.3</b>

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, 2010

Country	Company	Shareholding %	
		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
	Liften E. Thiery N.V.	100	
Canada	Central Elevator Services Ltd.	100	
	KONE Holdings (Canada) Inc.	100	
	KONE Inc.	100	
	Miro Elevators Limited	100	
China	Service Professionnel d'Ascenseurs Inc.	100	
	KONE Elevators Co., Ltd.	95	
	KONE TELC Industries Co., Ltd.	70	
	Nanjing Lian Ao Elevator Engineering Co., Ltd.	100	
China/Hong Kong	WGQ Trading Company	100	
	Ben Fung Machineries & Engineering LTD	100	
	KONE Elevator (HK) LTD	100	
China/Macau	KONE Elevators International (China) Limited	100	
	KONE Elevator (Macau) Ltd.	100	
Cyprus	KONE Elevators Cyprus Limited	100	100
Czech Republic	KONE A.S.	100	100
Denmark	KONE Industrial Koncern s.r.o.	100	100
Estonia	KONE A/S	100	100
Finland	AS KONE	100	
	Finescal Oy	100	100
	Kiinteistö Oy Heves	100	100
	KONE Capital Oy	100	100
	KONE Hissit Oy	100	100
	KONE Industrial Oy	100	100
	Oy Tuote-Leasing Ltd	100	100
	Suur-Helsingin Hissihuolto Oy	100	
France	Ascenseurs Soulier S.N.C.	100	
	ATPE_AMIB S.A	100	
	Automatique Acces Services S.A.S	100	
	Ascenseurs Technologie Serrurerie (S.A)	99.8	
	Evin Ascenseurs S.A.S.	100	
	FG Management	100	
	KONÉ Développement S.N.C.	100	
	KONÉ Holding France S.A.S.	100	100
	KONÉ S.A.	99.97	
	Maintenance et Dépannage du Bâtiment M.D.B	100	
Germany	Prokodis S.N.C.	100	
	Société en Participation KONE ATS	100	
	STM	100	
	Engler & Haring GmbH	100	
	Hages Verwaltungs GmbH	100	
	Hages-Aufzuge GmbH&Co. KG Duren	100	
	KONE Garant Aufzug GmbH	100	
	KONE GmbH	100	
	KONE Holding GmbH	100	

Country	Company	Shareholding %	
		Group	Parent company
	KONE Köln GMBH	100	
	KONE Montage GMBH	100	
	KONE Servicezentrale GmbH	100	
	KONE Verwaltungsgesellschaft M.B.H	100	
	Konematic GmbH	100	
	Lödige Aufzuge GmbH	85	
	Lödige Aufzugstechnik GmbH	85	
Greece	KONE S.A.	100	
Hungary	KONE Felvono Kft	100	100
Iceland	KONE ehf	100	100
India	KONE Elevator India Private Ltd.	100	100
	Olympus Elevator Private Ltd.	100	
Indonesia	PT Kone Indo Elevator	100	1
Ireland	Bleasdale Ltd.	100	
	Industrial Logistics Limited	100	
	KONE (Ireland) Limited	100	
Italy	Elecomp S.R.L.	100	
	Elevators S.r.l	60	
	Iriti S.r.l.	100	
	KONE Industrial S.p.A.	100	100
	KONE S.p.A.	100	
	L.A.M. Lombarda Ascensori Montacarichi S.r.l.	70	
	Neulift S.r.l.	100	
	Neulift Service Sardegna S.r.l.	100	
	RUMAN Srl	100	
	Sabiem S.P.A.	100	
	Slimpa S.R.L.	100	
	Tecnocram S.r.l	80	
	Tosca Ascensori S.r.l	66.66	
Japan	KONE Japan Co. Ltd.	100	100
Latvia	SIA KONE Lifti Latvija	100	100
Lithuania	UAB KONE	100	
	UAB Unikali ideja	100	
Luxembourg	KONE Luxembourg SARL	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	
	KONE 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
Netherlands	G&G Liftservice B.V.	100	
	Hissi BV	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 Liften B.V.	100	
	KONE Nederland Holding B.V.	100	
	KONE TELC Industries B.V.	70	
Norway	KONE Aksjeselskap	100	100
	KONE Rulletrapper AS	100	100
Panama	Indusmar S.A.	100	100
Philippines	KPI Elevators Inc.	100	
Poland	KONE Sp.z o.o.	100	
Portugal	KONE Funchalift, Lda.	100	
	KONE Portugal- Elevadores LDA.	100	100

Country	Company	Shareholding %	
		Group	Parent company
Portugal	VTP-Tractores S.A.	99.28	0.71
Romania	KONE Ascensorul S.A.	100	
Russia	OAO RSU-6	100	
	OOO "EKOLIFT"	100	
	OOO KONE Lifts	100	100
	OOO Lift RSU-5	100	
	ZAO KONE Lifts Moscow	100	100
Singapore	KONE PTE. Ltd.	100	
Slovak Republic	KONE s.r.o.	100	100
	KONE SSC s.r.o.	100	100
Slovenia	KONE d.o.o.	100	
South Africa	KONE Elevators South Africa (Pty) Ltd.	100	
South-Korea	KONE Elevators Korea Co., Ltd	100	
Spain	ASBA Mantenimientos S.L.	100	
	Ascensores Marvi S.L.	100	
	Marvi Aragon 2000 S.L.	100	
	Marvi Elevadores S.L.	100	
	Marvi Levante S.L.	100	
	KONE Elevadores, S.A.	100	100
Sweden	Cajax AB	100	
	Hissjuoren 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 oc El AB	100	
Switzerland	KONE(Schweiz) AG	100	
	Recolift SA	100	100
Taiwan	Ben Fung Elevators Taiwan Ltd.	100	
	KONE Elevators Taiwan Co. Ltd.	100	
Thailand	KONE Thai Lift Public Company Limited	83.9	
	Thai Elevators & Escalators Ltd	100	
Turkey	KONE Asansör Sanayi ve Ticaret A.S.	100	100
UK	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	
	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, 2010

Country	Company	Shareholding %	
		Group	Parent company
Andorra	KONE Ascensores i Escales, S.A.	33	
China	Giant Kone Elevator Co., Ltd	40	40
	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 storing

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 CD and 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](http://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, and select the members of the Board of Directors and the auditors and determine their compensation.

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

## Board of Directors

### Duties and responsibilities

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

- drawing up 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 eight members and no more than three deputy members to the Board of Directors for one year at a time in accordance with KONE Corporation's Articles of Association. The Board of Directors elects a Chairman and Vice Chairman among its members. In electing the members of the Board, attention is paid to the candidates' broad and mutually complementary experience, expertise and views of both KONE's business and other businesses.

## Committees

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

The Audit Committee monitors the Group's financial situation and supervises reporting related to the financial statements and interim reports.

The Committee monitors and assesses the adequacy and appropriateness of KONE's internal control and risk management, as well as the adherence to rules and regulations. The Audit Committee 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. It also deals with the Corporation's internal audit plans and reports. The Director of Internal Auditing reports the internal audit results to the Committee. The Audit Committee evaluates the auditing of the Group's companies and the appropriateness of the related arrangements and auditing services, and considers the auditors' reports. Furthermore, the Committee formulates a proposal to the Annual General Meeting regarding the auditors to be selected for the Corporation.

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

## Operational management

### Full-time Chairman of the Board and the President 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 operating principles determined and instructions given are followed.

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

### Risk management

The objective of risk management at KONE is to coordinate and develop a systematic assessment of risks and opportunities within core business planning and decision making processes.

KONE continuously assesses the risks and opportunities of its business decisions 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 globally 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.

### 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 correct 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 amounts 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, com-

municated and reacted to 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 orderbound projects and service activities. 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 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.



### 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.

Effective internal control over record to report processes starting from business processes and systems into financial statements are important ensuring the correctness of financial reporting. This is driven by identifying 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 member of the Board of Directors, the President and CEO and the Auditors. In addition to these individuals, KONE's public insiders include members of the Executive Board defined by the company. In addition to the public insiders, KONE's permanent insiders include company-

specific insiders defined by the company who regularly receive insider information due to their jobs. Permanent insiders are permitted to trade in KONE shares and securities entitling to KONE shares during a six-week period after the release of interim reports and financial statements releases. The company also maintains a project-specific insider register when necessary. Project-specific insiders are prohibited from trading 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.

### **Corporate governance in 2010**

#### **General Meeting of shareholders**

The Annual General Meeting was held in Helsinki on March 1, 2010.

#### **Board of Directors and committees**

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

Of the Board members, Sirkka Hämäläinen-Lindfors, Anne Brunila, 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 2010, the Board of Directors convened seven times, with an average attendance rate of 86%. Jukka Ala-Mello serves as Secretary to the Board.

#### **Audit committee**

The Board of Directors' Audit Committee comprises Antti Herlin (Chairman), Sirkka Hämäläinen-Lindfors and Anne Brunila (independent members). The Audit Committee held three meetings in 2010, with an average attendance rate of 100%.

Urpo Paasovaara serves as Head of Internal Control.

#### **Nomination and compensation committee**

The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Reino Hanhinen and Juhani Kaskeala (independent members). The Nomination and Compensation Committee held three meetings in 2010, with an average attendance rate of 100%.



#### **Additional info**

This statement is available on the company's web pages at [www.kone.com](http://www.kone.com) and it has been given separately of the Board of Directors' report

#### **Compensation and other benefits of the Board of Directors**

The Annual General Meeting of KONE Corporation in March 2010 confirmed the fees of the members of the Board as follows:

<b>Annual fees</b>	<b>EUR</b>
Chairman of the Board	54,000
Vice chairman	42,000
Member	30,000
Deputy member	15,000

It was also confirmed that the a meeting fee of EUR 500 for each meeting of the Board and its committees. Board members' travel expenses and daily allowances are compensated in accordance with the company's travel expense policy.

#### **Compensation and other benefits of the Chairman**

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Corporation's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2010, Antti Herlin's basic salary was EUR 468,488. In addition, his bonus accrued for 2010 totaled EUR 468,488. He was also paid EUR 60,500 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 basic salary and a yearly bonus decided annually by the Board on the basis of the Corporation's financial result and other key targets. The yearly bonus may not exceed 100 percent of the recipient's annual salary.

In 2010, Matti Alahuhta's basic salary was EUR 722,200. In addition, his bonus accrued for 2010 totaled EUR 722,200. He was also paid EUR 33,500 as compensation for serving on the Board. Matti Alahuhta's holdings of shares presented in the table on page 59.

Matti Alahuhta is included in the share-based incentive plan for the Corporation's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In

April 2010, on the basis of the incentive plan, Matti Alahuhta received a bonus of EUR 2,196,513, which consisted of 33,920 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 2010 and due for payment in April 2011 is 25,000 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 has the possibility to retire at the age of 60 with a pension of 60 percent of his average monthly salary during his last seven years of earnings. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

### Executive Board

KONE's Executive Board consists of Matti Alahuhta, President and CEO, Klaus Cawén, Henrik Ehrnrooth, Pekka Kempainen, Anne Korkiakoski, Ari Lehtoranta, Heikki Leppänen, Juho Malmberg, Eric Maziol, Peter de Neef (until October 31, 2010), Vance Tang, Kerttu Tuomas and Noud Veeger.

### Compensation and other benefits of the Executive Board

The compensation for the members of the Executive Board comprises a basic salary

and a yearly bonus, based on the Group's annual result and the achievement of personal targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary.

The Executive Board members' holdings of shares 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 2010, on the basis of the incentive plan, the members of the Executive Board received a bonus of 162,816 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 2010 and due for payment in April 2011 is 110,000 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 2010 were EUR 1.9 million for auditing and EUR 1.1 million for other consulting services.

### Insiders

The holdings of persons belonging to KONE's public insiders on December 31, 2010 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](http://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, 2010 and changes in shareholding during the period Jan 1-Dec 31, 2010

	Class A shares	Change	Class B shares	Change
Alahuhta Matti			281,520	33,920
Cawén Klaus			95,158	13,118
Ehrnrooth Henrik			13,568	13,568
Hanhinen Reino		2,000		
Herlin Antti	35,280,804		18,620,920	200,000
Herlin Jussi		53,180		
Hämäläinen-Lindfors Sirkka		1,200		
Kempainen Pekka			44,608	-57,112
Korkiakoski Anne			22,208	13,568
Lehtoranta Ari			14,268	13,568
Leppänen Heikki			49,008	11,568
Malmberg Juho			54,448	13,568
Maziol Eric			139,408	13,568
Pietikäinen Sirpa		3,000		
Tang Vance			22,208	-832
Tuomas Kerttu			72,808	13,568
Veeger Noud			74,318	13,568

No other public insiders had share or option holdings in KONE on December 31, 2010. On November 1, 2010 Peter De Neef had 57,000 class B shares. 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.  
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, Member of the Board of Sanoma Corporation and Member of the Board of Investor AB.

## Matti Alahuhta

### President and CEO

b. 1952, D. Sc. (Tech.), D.Sc. (Tech.) h.c.  
Member of the Board since 2003.  
Employed by KONE Corporation since 2005. 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.)  
Member of the Board since 2009.  
Served as Executive Vice President, Corporate Relations and Sustainability and Member of the Management Team of Fortum since 2009. 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 1992–2002.

**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, Member of the Board of Finnish Energy Industries, Council Member of WBCSD (World Business Council of Sustainable Development), Member of State ownership steering group, Prime Minister's office and Member of Finnish Delegation of International Chamber of Commerce.

## 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:** Chairman of the Board of Rautaruukki Corporation and Member of the Board of YIT Corporation.

## 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 John Nurminen Foundation, Member of the Board of East Office of Finnish Industries Oy, Member of the Board of Oy Forcit Ab and Member of the Trilateral Commission.

## Shunichi Kimura

b. 1951.  
Member of the Board since 2009.  
Served as President and CEO of Toshiba Elevator and Building Systems Corporation, alliance partner of KONE, since June 2008. Previously served in several positions in Toshiba Group since 1975 including Toshiba Corporation's Executive Officer, Corporate Vice President, and as the President and CEO of Social Infrastructure Systems Company of Toshiba.

## 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 IDEA International (Institute for Democracy and Electoral Assistance), Member of the Board of Alzheimer Europe, Member of the Supervisory Board of Savings Bank, Member of the Board of Lammi Savings Bank.

## Jussi Herlin

b. 1984, student at the Helsinki School of Economics  
Deputy Member of the Board since 2007.  
**Current key position of trust:** Member of the Board of Security Trading Oy.

## 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:** Member of the Board of Panostaja Corporation and Member 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](http://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. Employed by KONE Corporation since 2005. 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).

## 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, Member of the Board of Glaston Corporation, 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.

## 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.  
**Current key position of trust:** Board Member of Toshiba Elevator and Building Systems Corporation (Japan).

## 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 OY 1992–2003 and as Marketing Consultant of Rubinstein Consulting 1989–1992.

## Ari Lehtoranta

### Central and North Europe

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 position 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.

**Current key position of trust:** Member of the Board of FIMECC Oy.

## Juho Malmberg

### Customer Experience

b. 1962, M.Sc. (Computer Science)  
 Member of the Executive Board and employed by KONE Corporation since 2006. Previously served in KONE Corporation as Executive Vice President, Global Development 2006–2010, in Accenture Finland as Managing Director 2002–2005, as Director, Nordic Outsourcing 2005, as Deputy Managing Director 1999–2002 and as Technology Director 1992–1999.

**Current key position of trust:** Member of the Board of F-Secure Corporation.

## Eric Maziol

### West and South Europe

b. 1949, M.Sc. (Econ.)  
 Member of the Executive Board since 2005. Employed by KONE Corporation since 1974. Previously served in KONE Corporation as Area Director in West and South Europe 2000–2005, as Managing Director of KONE France 1996–2000 and as Vice President, Marketing & Field Operations 1991–1996.

## Peter de Neef

### Service Business (until October 31, 2010)

b. 1960, M.Sc (Organization Psychology)  
 Member of the Executive Board since 2005 until the end of October 2010. Employed by KONE Corporation since 1997. Served as Executive Vice President, Services 2005–2010.

## Vance Tang

### Americas

b. 1967, MBA (Business)  
 Member of the Executive Board and employed by KONE Corporation since 2007. Previously served as Vice President and General Manager, Honeywell Building Control Systems 2004–2006, as Global Business Leader, Vice President, Trane Global Controls and Contracting 2002–2004, as Vice President, General Manager, Trane Asset Management Services 1999–2002, and as Business Leader and Manager in different divisions of the Trane Company 1990–1998.

**Current key position of trust:** Board Member and Vice President of the National Elevator Industry, Inc. (NEII), and independent director of American Woodmark, Inc.

## 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 JTO School of Management and Kemira Oyj.

## Noud Veeger

### Asia-Pacific

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.

# Financial targets and capital management

(not a part of the official financial statements)

## Financial targets

In the spring of 2008, KONE defined its long-term financial targets. The targets were:

- Growth: faster than the market
- Profitability: EBIT % 14
- Cash flow: improving working capital

KONE has since 2008 grown faster than the overall market and net working capital has improved from -122 MEUR in the beginning of 2008 to -394 at the end of 2010. The EBIT margin target of 14% was achieved in 2010. As a result of having achieved all of the financial targets, KONE has specified its new long-term financial targets. The targets are:

- Growth: faster than the market
- Profitability: EBIT % 16
- Cash flow: improved working capital rotation

## 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 primarily in short term instruments and deposits to ensure the availability of the excess liquidity.

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 2010. KONE considers that its capital structure is a strength in a continued uncertain environment and allows for capturing potential value-creating business opportunities, should they emerge. In the event that significant attractive investment or acquisition opportunities would be 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 2010, the funding of KONE was guaranteed by existing committed credit lines and an 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 2010, KONE had 4,849,035 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	2010	2009	2008	2007	2006
<b>Assets employed:</b>					
Goodwill and shares	958.1	813.1	790.4	708.5	686.9
Other fixed assets <sup>1)</sup>	287.0	250.1	263.6	254.2	276.1
Net working capital	-394.3	-228.7	-76.4	-121.8	-139.5
<b>Total assets employed</b>	<b>850.8</b>	<b>834.5</b>	<b>977.6</b>	<b>840.9</b>	<b>823.5</b>
<b>Capital:</b>					
Equity	1,600.6	1,339.2	1,035.9	749.2	698.6
Net debt	-749.8	-504.7	-58.3	91.7	124.9
<b>Total capital</b>	<b>850.8</b>	<b>834.5</b>	<b>977.6</b>	<b>840.9</b>	<b>823.5</b>
Gearing	-46.8	-37.7	-5.6	12.2	17.9
Equity ratio	49.3	47.0	39.0	31.7	30.5

<sup>1)</sup> Property, plant and equipment, acquired maintenance contracts and other intangible assets.

\* In 2006–2010, the dividend payout ratio has been 39.2%–90.3% for class B shares (Board's proposal 2010).

# Shares and shareholders

## Market capitalization

During the 2010 financial year the price of the KONE Corporation class B share rose 37 percent, from EUR 30.40 to EUR 41.60 on the NASDAQ OMX Helsinki Ltd. in Finland. During the same period, the OMX Helsinki Cap Index increased by approximately 22 percent and the OMX Helsinki Industrials Index by approximately 45 percent. During the financial year the price of the KONE Corporation class B share peaked at EUR 43.20 and was EUR 27.72 at its lowest. At the end of 2010, 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 10,637 million. At the end of December 2010, the company held 4,849,035 class B shares as treasury shares.

During the financial year, 134.6 million KONE Corporation class B shares were traded on the NASDAQ OMX Helsinki Ltd. The value of the shares traded was EUR 4,533 million. The average daily turnover of class B shares was 534,297, representing EUR 17,987,225. The relative turnover was 59 percent.



### 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 2010, the share capital was EUR 65,134,030.00. During the financial year the share capital was increased by EUR 527,312.50 due to subscriptions of shares with KONE 2005C options.

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 2010, 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

## 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

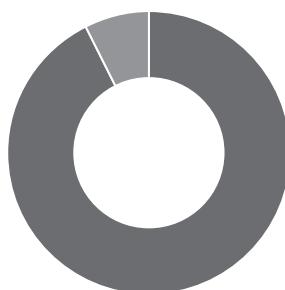
KONE Corporation's Annual General Meeting held on March 1, 2010 authorized the Board of Directors to repurchase and redistribute the company's own shares. On the basis of this authorization, the Board decided to commence the purchase of shares on March 9, 2010 at the earliest. The purchase of shares will continue until otherwise announced.

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.

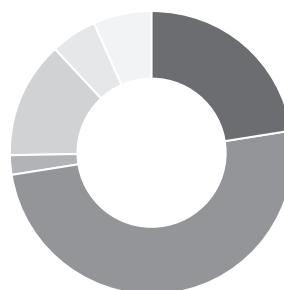
The shares may be repurchased among others in order to develop the capital structure of the Company, finance or carry out possible acquisitions, implement the Company's share-based incentive plans, or to be transferred for other purposes or to be cancelled.

The class B shares can be purchased at public trading in the NASDAQ OMX Helsinki Oy at the market price. The class A shares shall be purchased outside public trading at the price equivalent to the

### Class A shares, %



### Class B shares, %



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

## KONE CORPORATION'S SHARE CAPITAL CONSISTS OF THE FOLLOWING:

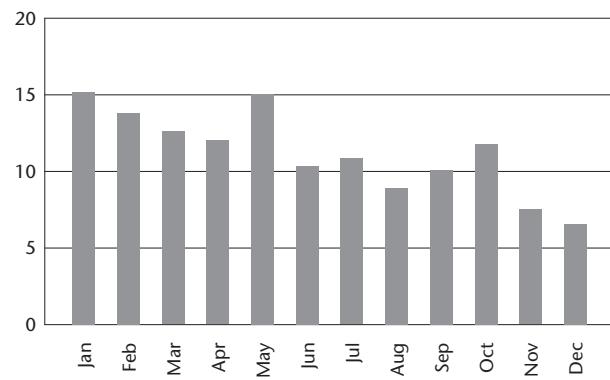
	Number of shares	Par value, EUR
Class A	38,104,356	9,526,089
Class B	222,431,764	55,607,941
<b>Total</b>	<b>260,536,120</b>	<b>65,134,030</b>

	KONE class B share	KONE 2005C option rights	KONE 2007 option rights
Trading code, NASDAQ OMX Helsinki Ltd in Finland	KNEBV	KNEBVEW305	KNEBVEW107
ISIN code	FI0009013403	FI0009647820	FI4000011986
Accounting par value	EUR 0.25		
Conversion rate		1:2	1:2

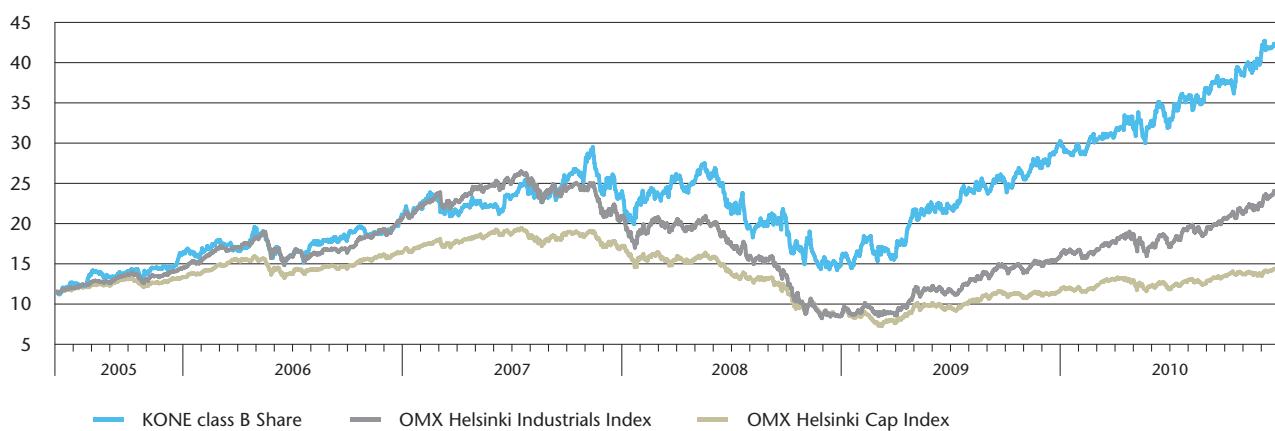
The share subscription period for KONE2005C option rights ended on April 30, 2010.



KONE class B shares traded  
Jan 1–Dec 31, 2010, million shares



KONE class B share price development Jun 1, 2005–Dec 31, 2010, EUR



average price of class B shares paid in the NASDAQ OMX Helsinki Oy at the time of purchase.

During the financial year 2010, KONE repurchased 550,000 own shares. In March 2010, 100,000 treasury class B shares of KONE Corporation were distributed without compensation to the KONE Corporation Centennial Foundation. In April 2010, 311,375 KONE class B shares assigned to the share-based incentive plan for the company's senior management were transferred due to achieved targets for the financial year 2009. 290,639 of the shares were transferred by KONE Corporation and 20,736 were transferred by KNEBV Incentive Oy, a subsidiary of KONE Corporation. In October 2010, a total of 4,568 KONE class B shares were returned free of consideration to KONE Corporation by virtue of the terms of KONE Corporation's share-based incentive program for the years 2008–2009. In December 2010, 4,400 KONE class B shares held by KONE Corporation were assigned for the subscriptions with 2007 option rights. The number of class B shares held by KONE Corporation at the end of the year was 4,849,035.

## Options

KONE Corporation had during the financial period 2010 three stock option programs. 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 2005C were granted according to the decision of the Extraordinary Shareholders' Meeting on November 21, 2005 to approximately 300 key employees. A maximum total of 2,000,000 options were offered for subscription. Each option entitled its owner to subscribe for two (2) class B share. The share subscription price for the option was originally EUR 14.20. The amount of the subscription price was further reduced with dividends distributed before the subscription of the shares. The share subscription period for options 2005C was April 1, 2008–April 30, 2010 and the effective subscription price was EUR 10.60 when the subscription period ended on April 30, 2010.

In December 2007, KONE Corporation's Board of Directors decided to grant stock options 2007 to approximately 350 employees of KONE's global organization based on the authorization by the Annual General Meeting on February 26, 2007. A maximum total of 2,000,000 options

can be granted. The original share subscription price for the option was 25.445 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. Therefore the effective subscription price as per December 31, 2010 was EUR 22.845. Each option entitles its holder to subscribe for two (2) class B KONE share. The share subscription period for the stock options 2007 is 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.

In July 2010, KONE Corporation's Board of Directors decided to grant stock options 2010 to approximately 430 employees of KONE's global organization based on the authorization by the Annual General Meeting on March 1, 2010. A maximum total of 3,000,000 options can be granted. The original share subscription price for the option is 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. Each option entitles its holder to subscribe for one (1) new or an existing company's own class B KONE share. The share subscription period for the stock options 2010 will be April 1, 2013–April 30, 2015. The share subscription period begins only if the financial performance of the KONE Group for the financial years 2010–2012 based on the total consideration of the Board of Directors is equal to or better than the average performance of the key competitors of KONE. If the above-mentioned prerequisite does not fulfill, the stock options expire based on the consideration and in the extent and manner decided by the Board of Directors and the terms of the stock options.

## 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 the cash equivalent of the tax and taxable benefit costs 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 2010, a total of 311,375 class B shares were granted to the management as a reward due to the achievement of the targets for the year 2009. Respectively, a total of 219,000 class B shares will be granted in April 2011 due to the achievement of the targets for the year 2010.

## Shareholders

At the end of December 2010, KONE Corporation had 29,772 shareholders. A breakdown of the shareholders is shown on page 66.

At the end of December 2010, non-Finnish shareholders held approximately 42.6 percent of KONE Corporation's shares, corresponding to around 18.4 percent of the votes. Of these foreign-owned shares, 14,288,295 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 96,476,934 nominee-registered shares, representing approximately 37.1 percent of all shares, at the end of December 2010.

## Shareholdings of the Chairman and Members of the Board of Directors

On December 31, 2010, KONE Corporation's Chairman and Members of the Board of Directors owned 35,280,804 class A shares and 18,961,820 class B shares, representing approximately 21 percent of the total number of shares and 62 percent of the total votes.



### More information

Information for shareholders, see 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, 2010

	KONE Corporation			Subsidiaries			Group total		
	Acquisition pcs	Average cost	Average price	Acquisition pcs	Average cost	Average price	Acquisition pcs	Average cost	Average price
<b>Jan 1, 2010</b>	4,689,506	79,781,170	17.01	20,736	337,711	16.29	4,710,242	80,118,881	17.01
Mar 1, 2010	-100,000	-1,331,503	13.32				-100,000	-1,331,503	13.32
Apr 29, 2010	-290,639	-3,946,297	13.58	-20,736	-337,711	16.29	-311,375	-4,284,008	13.76
May 24, 2010	110,000	3,370,521	30.64				110,000	3,370,521	30.64
May 25, 2010	175,000	5,208,816	29.76				175,000	5,208,816	29.76
May 26, 2010	95,000	2,922,898	30.77				95,000	2,922,898	30.77
May 27, 2010	82,000	2,577,509	31.43				82,000	2,577,509	31.43
May 28, 2010	88,000	2,813,178	31.97				88,000	2,813,178	31.97
Oct 26, 2010	4,568	61,748	13.52				4,568	61,748	13.52
Dec 21, 2010	-4,400	-59,477	13.52				-4,400	-59,477	13.52
<b>Dec 31, 2010</b>	<b>4,849,035</b>	<b>91,398,563</b>	<b>18.85</b>	<b>0</b>	<b>0</b>	<b>0.00</b>	<b>4,849,035</b>	<b>91,398,563</b>	<b>18.85</b>

## SHAREHOLDINGS ON DEC 31, 2010 BY NUMBER OF SHARES

Number of shares	Number of owners	Percentage of owners	Number of shares	Percentage of shares
1 – 10	816	2.74	5,759	0.00
11 – 100	9,554	32.09	572,433	0.22
101 – 1,000	14,823	49.79	5,535,656	2.13
1,001 – 10,000	4,007	13.46	11,226,330	4.31
10,001 – 100,000	497	1.67	12,825,935	4.92
100,001 –	75	0.25	230,348,407	88.41
<b>Total</b>	<b>29,772</b>	<b>100.00</b>	<b>260,514,520</b>	<b>99.99</b>
Shares which have not been transferred to the paperless book entry system			21,600	0.01
<b>Total</b>			<b>260,536,120</b>	<b>100.00</b>

## LARGEST SHAREHOLDERS ON DEC 31, 2010

	A-series	B-series	Total	% of shares	% of votes
<b>1 Herlin Antti</b>	35,280,804	17,620,920	52 901 724	20.30	61.39
Holding Manutas Oy <sup>1)</sup>	27,142,296	13,398,972	40 541 268	15.56	47.20
Security Trading Oy <sup>2)</sup>	8,138,508	3,383,972	11 522 480	4.42	14.05
Herlin Antti	0	837,976	837 976	0.32	0.14
<b>2 Toshiba Elevator And Building Systems Corporation</b>	0	12,093,360	12,093,360	4.64	2.00
<b>3 D-sijoitus Oy</b>	0	8,735,964	8,735,964	3.35	1.45
<b>4 Mariatorp Oy</b>	0	8,500,000	8,500,000	3.26	1.41
<b>5 Wipunen varainhallinta Oy</b>	0	8,400,000	8,400,000	3.22	1.39
<b>6 KONE Foundation</b>	2,823,552	4,929,816	7,753,368	2.98	5.50
<b>7 Ilmarinen Mutual Pension Insurance Company</b>	0	6,745,417	6,745,417	2.59	1.12
<b>8 Finnish State Pension Fund</b>	0	1,787,256	1,787,256	0.69	0.30
<b>9 Varma Mutual Pension Insurance Company</b>	0	1,746,560	1,746,560	0.67	0.29
<b>10 Blåberg Olli</b>	0	1,333,000	1,333,000	0.51	0.22
<b>10 largest shareholders total</b>	<b>38,104,356</b>	<b>71,892,293</b>	<b>109,996,649</b>	<b>42.22</b>	<b>75.05</b>
Foreigners <sup>3)</sup>	0	110,918,436	110,918,436	42.57	18.38
Repurchased own shares	0	4,849,035	4,849,035	1.86	0.80
Others	0	34,772,000	34,772,000	13.35	5.76
<b>Total</b>	<b>38,104,356</b>	<b>222,431,764</b>	<b>260,536,120</b>	<b>100.00</b>	<b>100.00</b>

<sup>1)</sup> 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.

<sup>2)</sup> Antti Herlin's ownership in Security Trading Oy represents 99.9 percent of the shares and 99.8 percent of the voting rights. Security Trading Oy totally owns 4,383,972 KONE Corporation's class B-shares, when taking into account 1,000,000 shares that were lent out in December 31, 2010.

<sup>3)</sup> 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, 2010 is EUR 1,797,898,068.97 of which the net profit for the financial year is EUR 564,813,127.90.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.895 be paid on the outstanding 38,104,356 class A shares and EUR 0.90 on the outstanding 217,582,729 class B shares, resulting in a total amount of proposed dividends of EUR 229,927,854.72. The Board of Directors further proposes that the remaining non-restricted equity, EUR 1,567,970,214.25 be retained and carried forward.

The Board proposes that the dividends be payable from March 10, 2011.

## Signatures for the financial statements

Helsinki, January 26, 2011

Antti Herlin

Sirkka Hämäläinen-Lindfors

Matti Alahuhta

Anne Brunila

Reino Hanhinen

Juhani Kaskeala

Sirpa Pietikäinen

Jussi Herlin

## The Auditor's Note

Our auditor's report has been issued today.

Helsinki, January 26, 2011

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Niina Vilske  
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, 2010. 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 and 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, January 26, 2011

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Niina Vilske	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 complete list of all brokers and financial analysts that actively follow KONE's development is available at [www.kone.com](http://www.kone.com) - Investors.

## Contact information

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### More information

The comprehensive investor relations pages can be found at [www.kone.com](http://www.kone.com)

Shares and shareholders, page 63

Corporate governance, page 56

Information for shareholders, on report's front cover

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KONE's Annual Report 2010  
comprises two separate reports



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