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FINANCIAL STATEMENT BULLETIN 2012

KONE's January–December 2012 review

October–December 2012: Continued strong development

- In October–December 2012, orders received totaled EUR 1,321 (10–12/2011: 1,099) million. Orders received grew by 20.2% at historical exchange rates and by 16.9% at comparable exchange rates.
- Net sales increased by 16.9% to EUR 1,858 (1,589) million. At comparable exchange rates the increase was 13.5%.
- Operating income was EUR 255.6 (233.0) million or 13.8% (14.7%) of net sales.
- Cash flow from operations before financing items and taxes was EUR 262.7 (212.5) million.

January–December 2012: Strong overall progress and a record high cash flow

- In January–December 2012, orders received totaled EUR 5,496 (1–12/2011: 4,465) million. Orders received grew by 23.1% at historical exchange rates and by 17.4% at comparable exchange rates. The order book stood at EUR 5,050 (Dec 31, 2011: 4,348) million at the end of 2012.
- Net sales increased by 20.1% to EUR 6,277 (5,225) million. At comparable exchange rates it increased by 15.2%.
- Operating income was EUR 821.3 (725.1) million or 13.1% (13.9%) of net sales, excluding the EUR 37.3 million one-time cost related to the support function development and cost adjustment programs. Operating income, including the one-time cost, was EUR 784.0 million.
- Basic earnings per share was EUR 2.35 (2.52). The comparable basic earnings per share excluding one-time items was EUR 2.46 (2.30).
- Cash flow from operations before financing items and taxes was EUR 1,055 (819.8) million.
- In 2013, KONE's net sales is estimated to grow by 5–9% at comparable exchange rates as compared to 2012. The operating income (EBIT) is expected to be in the range of EUR 840–920 million, assuming that translation exchange rates do not materially deviate from the situation of the beginning of 2013.
- The Board proposes a dividend of EUR 1.75 per class B share for the year 2012.

KEY FIGURES

		10–12/2012	10–12/2011	change %	1–12/2012	1–12/2011	change %
Orders received	MEUR	1,321.3	1,098.8	20.2%	5,496.2	4,465.1	23.1%
Order book	MEUR	5,050.1	4,348.2	16.1%	5,050.1	4,348.2	16.1%
Sales	MEUR	1,857.7	1,588.8	16.9%	6,276.8	5,225.2	20.1%
Operating income (EBIT) [1]	MEUR	255.6	233.0	9.7%	821.3	725.1	13.3%
Operating income (EBIT) [1]	%	13.8	14.7		13.1	13.9	
EBITA [1]	MEUR	262.5	238.6		854.1	741.2	
EBITA [1]	%	14.1	15.0		13.6	14.2	
Cash flow from operations (before financing items and taxes)	MEUR	262.7	212.5		1,055.3	819.8	
Net income	MEUR	183.1	246.5		611.1	644.4	
Total comprehensive income	MEUR	173.2	267.7		604.5	669.5	
Basic earnings per share	EUR	0.70	0.96		2.35	2.52	
Interest-bearing net debt	MEUR	-766.7	-829.1		-766.7	-829.1	
Total equity/total assets	%	49.3	54.0		49.3	54.0	
Gearing	%	-40.2	-40.8		-40.2	-40.8	

[1] Excluding a MEUR 37.3 one-time cost related to the support function development and cost adjustment programs.

Matti Alahuhta, President and CEO, in conjunction with the review:

"Our business continued to develop well in the last quarter of 2012. Orders received grew by 20% and sales by 17%. Operating income grew by 10% to EUR 256 million or 13.8% of sales.

I am very pleased with our development also for the full year 2012. Order intake grew by 23% and our order book was at above EUR 5 billion at the end of the year. Sales increased by 20% and operating income excluding one-time items by 13% to EUR 821 million, 13.1% of sales.

I would like to thank the whole KONE team, which has again done an excellent job. In addition to the good financial development, our people have achieved very good progress with our development programs. Just to name a couple of examples, our customer satisfaction has continued to develop favorably, and our new global volume elevator offering will improve our competitiveness even further. Cash flow from operations exceeded EUR 1 billion for the first time ever – the disciplines in the various areas of our business have remained firm and developed further in a market environment that has been very challenging in many countries.

During 2012, the growth of the global new equipment market weakened during the first three quarters, but picked up again towards the end of the year driven by the good market development in Asia. The market in Europe weakened further. In North America, the gradual recovery from a low level continued to progress. The global modernization market declined slightly, while the maintenance market continued to grow. Price competition intensified further during 2012 in most markets, particularly in regions where the overall market activity was at a low level.

In 2013 we expect the markets to be mixed in a way similar to 2012. The economic outlook is still uncertain in Europe. In North America the outlook is somewhat better than a year ago. We look forward to 2013 with confidence on the basis of our high order book, strong positions in Asia, and our extensive efforts in developing our competitiveness."

KONE's January–December 2012 review

Accounting Principles

The information presented in this report is based on the audited KONE 2012 Financial Statements which have been released together with this report. KONE Corporation's financial statement bulletin has been prepared in line with IAS 34, `Interim Financial Reporting´. KONE has applied the same accounting principles in the preparation of the financial statement bulletin as in its Financial Statements for 2012.

October–December 2012 review

Operating environment in October–December

In the last quarter of 2012, the markets outside of Asia-Pacific developed largely in line with KONE's expectations, while the growth of the new equipment markets in Asia-Pacific was better than expected. The overall pricing environment intensified further in many markets. In new equipment, in the Europe, Middle East and Africa (EMEA) region, the market declined slightly but remained at a relatively good level in Central and North Europe and declined further from an already weak level in South Europe. In the Americas region, the gradual recovery continued. The market in Asia-Pacific grew at a somewhat higher rate than in the two previous quarters of the year. The major projects segment was active, but growth remained impacted by delays in decision-making. The global modernization market declined slightly, although with regional variations. Maintenance markets continued to develop favorably in most countries. Price competition remained very intense in most markets, particularly in regions where the overall market activity was at a low level.

In the EMEA region, the new equipment market in Central and North Europe declined slightly, but remained at a relatively good level. Activity in most segments declined, while the infrastructure segment grew significantly. The new equipment demand stabilized in Germany and Austria, and declined slightly in Switzerland. In Great Britain, the market continued to slightly decline despite the strength of the residential segment. Demand grew in Sweden and Norway driven by the infrastructure segment, while most other segments declined. The market in the Netherlands and in Ireland continued to decline. Activity in Belgium was relatively stable. Growth continued in Russia. In South Europe, the new equipment demand continued to decline with the most negative development seen in the residential segment. In both Spain and Italy, the new equipment market declined further from an already low level. Activity continued to decline in France. The market continued to grow in Turkey. In the Middle East, the new equipment demand remained strong in Saudi Arabia, and continued to show signs of recovery in both Qatar, as well as Dubai in the United Arab Emirates. The modernization market declined slightly in Central and North Europe and continued to decline in South Europe. The maintenance market continued to grow in the EMEA region, although with clear variation between countries. Price competition in the maintenance markets remained very intense in many countries.

In the Americas region, the gradual recovery of the new equipment demand continued. The recovery in the United States continued to be primarily driven by small and mid-sized projects in the residential and office segments. The infrastructure segment and other publicly funded projects remained at a low level. Vacancy rates in the office segment continued to develop favorably, particularly on the West Coast and in Texas. The slight improvement of market conditions in markets such as Florida and the Midwest continued following a prolonged period of decline. The new equipment market in Canada continued to grow but at a lower rate than earlier during the year, while the market in Mexico remained stable. The modernization activity in the Americas grew slightly. Price competition in the maintenance markets remained very intense, particularly in the non-residential segments.

In the Asia-Pacific region, the growth in the new equipment markets picked up in the last quarter of the year. In China, the market grew at a higher rate than during the two previous quarters with demand growing in all segments. Affordable housing continued to see the fastest growth, but also other residential segments grew, particularly in the inland lower-tier cities. In large cities, the residential segments other than affordable housing continued to be adversely impacted by Chinese government decisions aimed at managing the development of housing prices and overall inflation. The commercial segment continued to grow. Some growth was seen also in the infrastructure segment with metro and airport activity developing favorably. In India, the underlying demand for housing has been healthy throughout the year but market growth was limited during the first three quarters due to financing constraints. In the last quarter, the market returned to a growth path driven primarily by the residential segment. Growth in demand was seen also in Australia as compared to the relatively low level of the last quarter of 2011. The modernization demand in Australia declined clearly. The Southeast Asian markets continued to grow with the highest growth rates in Indonesia, Malaysia and Thailand. Maintenance markets in Asia-Pacific continued to grow. The pricing environment remained challenging in all markets and intensified further in the new equipment market in China.

Financial performance in October–December

Orders received increased by 20.2% as compared to October–December 2011, totaling EUR 1,321 (10–12/2011: 1,099) million. Excluding GiantKONE, which was consolidated as a subsidiary as of December 2011, orders received grew by 12.8%. At comparable exchange rates, KONE's orders received increased by 16.9%.

KONE was able to continue the slightly positive pricing development, but pricing started to stabilize in a growing num-

KONE's January–December 2012 review

SALES BY GEOGRAPHICAL REGIONS, MEUR

	10–12/2012	%	10–12/2011	%	1–12/2012	%	1–12/2011	%
EMEA [1)]	907.6	49	889.2	56	3,094.0	49	2,893.7	55
Americas	292.7	16	285.9	18	999.0	16	947.3	18
Asia-Pacific	657.4	35	413.7	26	2,183.8	35	1,384.2	27
Total	1,857.7		1,588.8		6,276.8		5,225.2	

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

ber of markets during the last quarter of the year. The orders received margin continued to slightly improve.

New equipment orders received grew strongly. Modernization orders received declined slightly. KONE does not include maintenance contracts in orders received.

In Asia-Pacific, orders received grew in all markets, with the strongest growth in China and India. Orders received was stable in the EMEA region, where order intake declined slightly in Central and North Europe and clearly in South Europe, but grew strongly in the Middle East. KONE's order intake decreased clearly in North America due to a decline in Canada and the United States.

KONE's largest orders during the fourth quarter included an order in Norway to deliver 45 elevators for the terminal expansion project at Oslo Airport.

KONE's net sales grew by 16.9% as compared to October–December 2011, totaling EUR 1,858 (10–12/2011: 1,589) million. Net sales growth excluding GiantKONE was 12.8%. At comparable exchange rates KONE's net sales growth was 13.5%. Net sales grew in all geographical regions. However, in local currencies, net sales in the Americas declined slightly.

New equipment sales accounted for EUR 966.6 (767.7) million and represented an increase of 25.9% over the comparison period. At comparable exchange rates, new equipment sales grew by 21.2%.

Service (maintenance and modernization) sales grew by 8.5% totaling EUR 891.1 (821.1) million. At comparable exchange rates, this represents an increase of 6.2%. Maintenance and modernization sales grew at similar rates.

KONE's operating income for the October–December 2012 period totaled EUR 255.6 (233.0) million or 13.8% (14.7%) of net sales. The growth in operating income was due to good development in all businesses, particularly in the new equipment business in China. In addition, the favorable development in translation exchange rates contributed to the growth in operating income. The growth in operating income continued to be burdened by deliveries of projects that were booked as orders received in 2010 and 2011 with lower margins, particularly in North America, intangible asset amortizations resulting from the consolidation of GiantKONE as a subsidiary, and increased labor costs in Asia. KONE also continued to increase resources and therefore fixed costs in areas that support the growth of the business, in particular in Asia-Pacific and process development. In addition, the growth of the share of new equipment sales relative to total sales burdened KONE's relative operating income in 2012.

Cash flow from operations before financing items and taxes in October–December 2012 was strong at EUR 262.7 (212.5) million. The primary drivers of the strong cash flow were the growth in operating income and a good level of advance payments received. Net working capital before financing items and taxes was at a very good level at the end of the reporting period.

January–December 2012 review

KONE's operating environment

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

In the EMEA region, the new equipment market declined slightly in Central and North Europe, but remained at a relatively good level. Compared with the previous year, the residential segment was stable at a good level. Most non-residential segments declined moderately, except for the infrastructure segment, which grew significantly. The new equipment market grew in Germany, Austria and Switzerland before stabilizing

KONE's January–December 2012 review

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

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

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

Orders received and order book

In 2012, KONE's orders received increased by 23.1% and totaled EUR 5,496 (1–12/2011: 4,465) million. Excluding GiantKONE, which was consolidated as a subsidiary as of December 2011, orders received grew by 13.7%. At comparable exchange rates, KONE's orders received increased by 17.4%. Excluding GiantKONE, the increase at comparable exchange rates was 8.5%. Maintenance contracts are not included in orders received.

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

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

In the EMEA region, orders received grew slightly as compared to 2011. Orders received was stable in Central and North Europe and declined somewhat in South Europe, but grew strongly in the Middle East. The new equipment order intake

KONE's January–December 2012 review

growth was the fastest in the Middle East, Russia, Austria, and the Nordic countries. The biggest declines in new equipment orders received were seen in Italy, Ireland, the Great Britain, Spain, and the Netherlands. The modernization order intake in the EMEA region declined slightly. The countries with the highest growth in modernization orders received were Austria, Belgium and Switzerland. The biggest decline in modernization orders received occurred in Germany.

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

In Asia-Pacific, orders received grew strongly from the already high level of 2011. Orders received grew in China, Southeast Asia, and India, with Southeast Asia and China having the highest growth rates. Orders received declined in Australia due to a contraction in the construction market. Modernization orders received declined somewhat in Asia-Pacific, where Australia's share of the overall modernization market is large.

Net sales

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

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

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

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

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

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

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

Financial result

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

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

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

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

During the reporting period, KONE initiated two programs targeting increased competitiveness. One of the programs targets improved quality and productivity of KONE's support

KONE's January–December 2012 review

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

Consolidated statement of financial position and cash flow

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

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

Capital expenditure and acquisitions

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

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

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

Research and development

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

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

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

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

The new elevators are up to 35% more energy efficient compared to the already high levels of energy efficiency that KONE's volume offering achieved in 2010. The continued significant improvement in energy efficiency of the new product offering is delivered by the completely renewed KONE EcoDisc® hoisting machine, an efficient drive, as well as enhanced standby solutions. Today, KONE's European volume elevators consume over 70% less energy, Asian volume elevators

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60–75% less, and US volume elevators 40% less energy than in 2008. The new volume offering also achieved an A-class energy performance rating according to the VDI 4707 guideline and measured by independent third parties. VDI 4707 is a guideline published by the Association of German Engineers (Verein Deutscher Ingenieure), which classifies elevators based on their energy consumption.

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

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

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

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

Changes in the Executive Board

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

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

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

Personnel

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

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

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

A new learning guide, based on a model combining on-the-job experience, learning from others and formal training, was published to support individual development. New programs on change management and business management were piloted during the reporting period for full roll-out in 2013.

KONE's January–December 2012 review

The delivery of learning programs, such as the refreshed KONE Leader program and the Supervisor Development program, continued as planned. The new top management program, piloted in 2011, was attended by a large number of KONE's senior managers.

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

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

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

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

Environment

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

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

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

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

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

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

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

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

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Change Working Group, and several Green Building Councils globally.

Other events

In 2007 a decision was issued by the European Commission concerning alleged local anticompetitive practices before early 2004 in Germany, Luxembourg, Belgium and the Netherlands by leading elevator and escalator companies, including KONE's local subsidiaries. Also, the Austrian Cartel Court issued in 2007 a decision concerning anticompetitive practices that had taken place before mid-2004 in local Austrian markets by leading elevator and escalator companies, including KONE's local subsidiary. As announced by KONE earlier, a number of civil damage claims by certain companies and public entities, relating to the two 2007 decisions, are pending in related countries. The claims have been made against various companies concerned by the decisions, including certain KONE companies. All claims are independent and are progressing procedurally at different stages, with some processes having ended favorably for KONE. The total capital amount claimed jointly and severally from all of the defendants together was EUR 254 million at the end of 2012 (2011: EUR 255 million). KONE's position is that the claims are without merit. No provision has been made.

Risk management

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

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

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

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

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

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

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

KONE's January–December 2012 review

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

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

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

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

Decisions of the Annual General Meeting

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

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

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

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

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

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

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

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

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

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

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

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

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

KONE's January–December 2012 review

Share capital and market capitalization

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

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

In 2010, KONE granted a conditional option program. Stock options 2010 were granted according to the decision of the Board of Directors on July 20, 2010 to approximately 430 key employees and the decision was based on the authorization received from the Shareholders Meeting on March 1, 2010. A maximum total of 3,000,000 options could be granted. The original share subscription price for the option was EUR 35.00 per share and it is further reduced in situations mentioned in the terms, for example with dividends distributed before the subscription of the shares. The effective subscription price as per December 31, 2012 was EUR 31.20. Each option entitles its holder to subscribe for one (1) new or an existing class B share held by the company. The share subscription period for the stock option 2010 will be April 1, 2013 - April 30, 2015. The share subscription period begins on April 1, 2013, as the financial performance of the KONE Group for the financial years 2010–2012, based on the total consideration of the Board of Directors, was equal to or better than the average performance of key competitors of KONE.

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

KONE's market capitalization was EUR 14,306 million on December 31, 2012, disregarding shares in KONE's possession. Market capitalization is calculated on the basis of both the listed class B shares and the unlisted class A shares excluding treasury shares. Class A shares are valued at the closing price of the class B shares at the end of the reporting period.

Shares in KONE's possession

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

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

Shares traded on the NASDAQ OMX Helsinki Ltd.

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

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

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

Flagging notifications

On June 28, 2012, KONE Corporation was informed by Capital Research and Management Company pursuant to the Securities Markets Act, chapter 2, section 9, that its holding in KONE Corporation had exceeded 5% of the share capital. The date of change in the holdings was June 26, 2012. On September 7,

KONE's January–December 2012 review

2012, KONE Corporation was informed by the Capital Group Companies, Inc. that following a corporate re-organization, effective as of September 1, 2012, Capital Research and Management Company and Capital Group International Inc. would report relevant holdings in aggregate under the group's parent company, The Capital Group Companies, Inc. The Capital Group Companies' holding in KONE was above 5% of the share capital on September 3, 2012.

Market outlook 2013

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

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

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

Business outlook 2013

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

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

The Board's proposal for the distribution of profit

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

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

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

Annual General Meeting 2013

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

Helsinki, January 24, 2013

KONE Corporation's Board of Directors

Consolidated statement of income

MEUR	10–12/2012	%	10–12/2011	%	1–12/2012	%	1–12/2011	%
Sales	1,857.7		1,588.8		6,276.8		5,225.2	
Costs and expenses	-1,581.4		-1,337.5		-5,369.5		-4,434.2	
Depreciation and amortization	-20.7		-18.3		-86.0		-65.9	
One-time cost	-		-		-37.3		-	
Operating income	255.6	13.8	233.0	14.7	784.0	12.5	725.1	13.9
Share of associated companies' net income	0.9		65.8		4.3		73.3	
Financing income	12.7		4.1		42.9		26.4	
Financing expenses	-20.9		-3.5		-26.8		-8.2	
Income before taxes	248.3	13.4	299.4	18.8	804.4	12.8	816.6	15.6
Taxes	-65.2		-52.9		-193.3		-172.2	
Net income	183.1	9.9	246.5	15.5	611.1	9.7	644.4	12.3
Net income attributable to:								
Shareholders of the parent company	180.0		246.3		601.2		643.6	
Non-controlling interests	3.1		0.2		9.9		0.8	
Total	183.1		246.5		611.1		644.4	
Earnings per share for profit attributable to the shareholders of the parent company, EUR								
Basic earnings per share, EUR	0.70		0.96		2.35		2.52	
Diluted earnings per share, EUR	0.70		0.96		2.34		2.51	

Consolidated statement of comprehensive income

MEUR	10–12/2012	%	10–12/2011	%	1–12/2012	%	1–12/2011	%
Net income	183.1		246.5		611.1		644.4	
Other comprehensive income, net of tax:								
Translation differences	-18.2		35.8		-9.4		29.0	
Hedging of foreign subsidiaries	1.8		-7.6		1.3		-2.3	
Cash flow hedges	6.5		-7.0		1.5		-1.6	
Other comprehensive income, net of tax	-9.9		21.2		-6.6		25.1	
Total comprehensive income	173.2		267.7		604.5		669.5	
Total comprehensive income attributable to:								
Shareholders of the parent company	170.1		267.5		594.6		668.7	
Non-controlling interests	3.1		0.2		9.9		0.8	
Total	173.2		267.7		604.5		669.5	

Condensed consolidated statement of financial position

Assets

MEUR	Dec 31, 2012	Dec 31, 2011
Non-current assets		
Intangible assets	1,283.8	1,165.3
Tangible assets	261.7	231.6
Loans receivable and other interest-bearing assets	5.5	5.5
Deferred tax assets	200.4	178.3
Investments	153.5	169.4
Total non-current assets	1,904.9	1,750.1
Current assets		
Inventories	980.8	794.7
Accounts receivable and other non interest-bearing assets	1,350.4	1,262.1
Current deposits and loan receivables	623.6	686.3
Cash and cash equivalents	249.6	234.0
Total current assets	3,204.4	2,977.1
Total assets	5,109.3	4,727.2

Equity and liabilities

MEUR	Dec 31, 2012	Dec 31, 2011
Equity	1,905.2	2,034.0
Non-current liabilities		
Loans	20.9	21.1
Deferred tax liabilities	88.4	81.6
Employee benefits	96.8	105.2
Total non-current liabilities	206.1	207.9
Provisions	136.2	88.7
Current liabilities		
Loans	91.1	75.6
Advance payments received	1,242.0	962.1
Accounts payable and other liabilities	1,528.7	1,358.9
Total current liabilities	2,861.8	2,396.6
Total equity and liabilities	5,109.3	4,727.2

Consolidated statement of changes in equity

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

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

Condensed consolidated statement of cash flows

MEUR	10–12/2012	10–12/2011	1–12/2012	1–12/2011
Operating income	255.6	233.0	784.0	725.1
Change in working capital before financing items and taxes	-13.6	-38.8	185.3	28.8
Depreciation and amortization	20.7	18.3	86.0	65.9
Cash flow from operations before financing items and taxes	262.7	212.5	1,055.3	819.8
Cash flow from financing items and taxes	-51.5	-75.5	-128.7	-216.8
Cash flow from operating activities	211.2	137.0	926.6	603.0
Cash flow from investing activities	-134.3	-106.0	-220.2	-225.6
Cash flow after investing activities	76.9	31.0	706.4	377.4
Purchase, sale and distribution of own shares	-	-	-36.9	-40.7
Increase in equity (option rights)	-	12.3	29.7	16.7
Profit distribution	-384.4	-	-740.8	-229.7
Change in deposits and loans receivable, net	381.1	41.0	59.3	-42.0
Change in loans payable	-5.4	-1.1	-1.3	-38.3
Changes in non-controlling interests	-1.5	-	-1.5	-
Cash flow from financing activities	-10.2	52.2	-691.5	-334.0
Change in cash and cash equivalents	66.7	83.2	14.9	43.4
Cash and cash equivalents at end of period	249.6	234.0	249.6	234.0
Translation difference	2.8	-3.3	-0.7	1.9
Cash and cash equivalents at beginning of period	185.7	147.5	234.0	192.5
Change in cash and cash equivalents	66.7	83.2	14.9	43.4

CHANGE IN INTEREST-BEARING NET DEBT

MEUR	10–12/2012	10–12/2011	1–12/2012	1–12/2011
Interest-bearing net debt at beginning of period	-1,105.9	-823.2	-829.1	-749.8
Interest-bearing net debt at end of period	-766.7	-829.1	-766.7	-829.1
Change in interest-bearing net debt	339.2	-5.9	62.4	-79.3

Notes for the interim report

KEY FIGURES

		1–12/2012	1–12/2011
Basic earnings per share	EUR	2.35	2.52
Diluted earnings per share	EUR	2.34	2.51
Equity per share	EUR	7.35	7.93
Interest-bearing net debt	MEUR	-766.7	-829.1
Total equity/total assets	%	49.3	54.0
Gearing	%	-40.2	-40.8
Return on equity	%	31.0	35.5
Return on capital employed	%	30.8	34.3
Total assets	MEUR	5,109.3	4,727.2
Assets employed	MEUR	1,138.5	1,204.9
Working capital (including financing and tax items)	MEUR	-560.5	-361.4

QUARTERLY FIGURES

		Q4/2012	Q3/2012	Q2/2012	Q1/2012
Orders received	MEUR	1,321.3	1,295.6	1,513.4	1,365.9
Order book	MEUR	5,050.1	5,283.7	5,305.3	4,842.8
Sales	MEUR	1,857.7	1,633.7	1,544.1	1,241.3
Operating income	MEUR	255.6	224.5	208.5 [1]	132.7
Operating income	%	13.8	13.7	13.5 [1]	10.7

		Q4/2011	Q3/2011	Q2/2011	Q1/2011	Q4/2010	Q3/2010	Q2/2010	Q1/2010
Orders received	MEUR	1,098.8	1,095.4	1,226.2	1,044.7	1,006.3	865.2	1,042.8	894.7
Order book	MEUR	4,348.2	4,143.2	3,947.7	3,737.5	3,597.8	3,657.9	3,933.7	3,638.5
Sales	MEUR	1,588.8	1,296.2	1,286.4	1,053.8	1,488.8	1,235.9	1,258.9	1,003.0
Operating income	MEUR	233.0	188.9	184.5	118.7	227.3	184.8	175.7	108.6
Operating income	%	14.7	14.6	14.3	11.3	15.3	15.0	14.0	10.8

		Q4/2009	Q3/2009	Q2/2009	Q1/2009	Q4/2008	Q3/2008	Q2/2008	Q1/2008
Orders received	MEUR	813.5	766.5	953.9	898.5	845.2	892.4	1,092.4	1,117.5
Order book	MEUR	3,309.1	3,603.4	3,754.1	3,753.1	3,576.7	4,002.8	3,838.7	3,617.4
Sales	MEUR	1,426.8	1,127.3	1,168.6	1,021.0	1,431.6	1,123.8	1,142.1	905.3
Operating income	MEUR	202.7	160.1	146.3 [2]	91.2	189.2	146.0	136.7	86.5
Operating income	%	14.2	14.2	12.5 [2]	8.9	13.2	13.0	12.0	9.6

		Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
Orders received	MEUR	901.9	926.3	944.4	902.1	712.1	742.0	821.9	840.3
Order book	MEUR	3,282.3	3,473.6	3,318.0	3,105.7	2,762.1	2,951.0	2,818.0	2,654.0
Sales	MEUR	1,294.2	971.6	1,001.9	811.2	1,145.6	879.8	840.4	735.0
Operating income	MEUR	160.8 [3]	126.7	116.4	69.3 [4]	123.4	101.1	83.9	51.7
Operating income	%	12.4 [3]	13.0	11.6	8.5 [4]	10.8	11.5	10.0	7.0

[1] Excluding a MEUR 37.3 one-time cost related to the support function development and cost adjustment programs.
[2] Excluding a MEUR 33.6 one-time restructuring cost related to the fixed cost adjustment program.
[3] Excluding a MEUR 22.5 provision for the Austrian cartel court's fine decision and a MEUR 12.1 sales profit from the sale of KONE Building.
[4] Excluding a MEUR 142.0 fine for the European Commission´s decision.

Notes for the interim report

SALES BY GEOGRAPHICAL REGIONS

MEUR	1–12/2012	%	1–12/2011	%
EMEA[1]	3,094.0	49	2,893.7	55
Americas	999.0	16	947.3	18
Asia-Pacific	2,183.8	35	1,384.2	27
Total	6,276.8		5,225.2	

[1] EMEA = Europe, Middle East, Africa

ORDERS RECEIVED

MEUR	1–12/2012	1–12/2011
	5,496.2	4,465.1

ORDER BOOK

MEUR	Dec 31, 2012	Dec 31, 2011
	5,050.1	4,348.2

CAPITAL EXPENDITURE

MEUR	1–12/2012	1–12/2011
In fixed assets	107.8	39.5
In leasing agreements	10.9	12.3
In acquisitions	169.2	185.3
Total	287.9	237.1

DEPRECIATION AND AMORTIZATION

MEUR	1–12/2012	1–12/2011
Depreciation and amortization	53.2	49.8
Amortization of acquisition-related intangible assets	32.8	16.1
Total	86.0	65.9

R&D EXPENDITURE

MEUR	1–12/2012	1–12/2011
	86.1	82.5
R&D Expenditure as percentage of sales	1.4	1.6

NUMBER OF EMPLOYEES

	1–12/2012	1–12/2011
Average	38,477	34,769
At the end of the period	39,851	37,542

Notes for the interim report

COMMITMENTS

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

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

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

KONE leases cars, machinery & equipment and buildings under operating leases with varying terms.

The future minimum lease payments under non-cancellable operating leases

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

DERIVATIVES

Fair values of derivative financial instruments MEUR	positive fair value Dec 31, 2012	negative fair value Dec 31, 2012	net fair value Dec 31, 2012	net fair value Dec 31, 2011
Foreign exchange forward contracts and swaps	6.5	-11.0	-4.5	-3.8
Cross-currency swaps	-	-13.5	-13.5	-33.2
Electricity price forward contracts	0.1	-0.5	-0.4	-0.4
Total	6.6	-25.0	-18.4	-37.4

Nominal values of derivative financial instruments

MEUR	Dec 31, 2012	Dec 31, 2011
Foreign exchange forward contracts and swaps	1,094.9	814.8
Cross-currency swaps	139.3	139.3
Electricity price forward contracts	4.1	4.0
Total	1,238.3	958.1

Shares and shareholders

Dec 31, 2012	Class A-shares	Class B-shares	Total
Number of shares	38,104,356	222,431,764	260,536,120
Own shares in possession [1]		4,160,339	
Share capital, EUR			65,134,030
Market capitalization, MEUR			14,306
Number of class B shares traded (millions), 1–12/2012		106.2	
Value of class B shares traded, MEUR, 1–12/2012		5,026	
Number of shareholders	3	31,690	31,690

	Close	High	Low
Class B-share price, EUR, Jan–Dec 2012	55.80	60.00	39.19

[1] During January–December 2012, KONE used its previous authorization to repurchase its own shares in February, and bought back in total 834,174 of its own class B shares. In April 2012 KONE assigned 208,295 of its own class B shares to a share-based incentive plan. In addition, in April, 1,445,616 class B shares owned by KONE were subscribed with the 2007 option rights. In June and August, a total of 17,900 class B shares were returned free of consideration to KONE by virtue of the terms of KONE's share-based incentive program for the years 2010–2012.

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KONE is one of the global leaders in the elevator and escalator industry. The company has been committed to understanding the needs of its customers for the past century, providing industry-leading elevators, escalators and automatic building doors as well as innovative solutions for modernization and maintenance. The company's objective is to offer the best People Flow™ experience by developing and delivering solutions that enable people to move smoothly, safely, comfortably and without waiting in buildings in an increasingly urbanizing environment. In 2012, KONE had annual net sales of EUR 6.3 billion and approximately 40,000 employees. KONE class B shares are listed on the NASDAQ OMX Helsinki Ltd in Finland. www.kone.com