KONE Q4 2021

Financial Statement Bulletin

KONE's January–December 2021 review:

Strong year in orders and sales; supply chain environment remains challenging

October–December 2021

- Orders received grew by 4.2% to EUR 2,155.1 (10–12/2020: 2,068.7) million. At comparable exchange rates, orders grew by 0.4%.
- Sales grew by 5.6% to EUR 2,766.8 (2,621.2) million. At comparable exchange rates, sales grew by 1.8%.
- Operating income (EBIT) was EUR 351.9 (367.1) million or 12.7% (14.0%) of sales. The adjusted EBIT was EUR 359.4 (380.6) million or 13.0% (14.5%) of sales.*
- Cash flow from operations (before financing items and taxes) was EUR 525.0 (368.1) million.

January–December 2021

- Orders received grew by 8.2% to EUR 8,852.8 (1–12/2020: 8,185.1) million. At comparable exchange rates, orders grew by 7.4%.
- Sales grew by 5.8% to EUR 10,514.1 (9,938.5) million. At comparable exchange rates, sales grew by 5.3%.
- Operating income (EBIT) was EUR 1,295.3 (1,212.9) million or 12.3% (12.2%) of sales. The adjusted EBIT was EUR 1,309.8 (1,250.5) million or 12.5% (12.6%) of sales.*
- Cash flow from operations (before financing items and taxes) was EUR 1,828.7 (1,907.5) million.
- The Board proposes a dividend of EUR 1.75 per class B share for the year 2021. Further the Board proposes an extraordinary dividend of EUR 0.35 per class B share and therefore the total proposed dividend is EUR 2.10 per class B share.

Business outlook for 2022

KONE estimates that in 2022, its sales growth will be in the range of 2% to 7% at comparable exchange rates as compared to 2021. The adjusted EBIT is expected to be in the range EUR 1,180-1,330 million, assuming that foreign exchange rates would remain at the January 2022 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 50 million.

* KONE presents adjusted EBIT as an alternative performance measure to enhance comparability of the business performance between reporting periods. Restructuring costs related to significant restructuring programs are excluded from the calculation of the adjusted EBIT. In January–December 2021, the adjusted EBIT excluded costs of EUR 14.5 million related to restructuring measures in KONE's global business lines and functions. During 2017–2020, all restructuring costs excluded from the adjusted EBIT related to the Accelerate program.

KEY FIGURES

		10–12/2021	10–12/2020	Change	1–12/2021	1–12/2020	Change
Orders received	MEUR	2,155.1	2,068.7	4.2%	8,852.8	8,185.1	8.2%
Order book	MEUR				8,564.0	7,728.8	10.8%
Sales	MEUR	2,766.8	2,621.2	5.6%	10,514.1	9,938.5	5.8%
Operating income	MEUR	351.9	367.1	-4.1%	1,295.3	1,212.9	6.8%
Operating income margin	%	12.7	14.0		12.3	12.2	
Adjusted EBIT*	MEUR	359.4	380.6	-5.6%	1,309.8	1,250.5	4.7%
Adjusted EBIT margin*	%	13.0	14.5		12.5	12.6	
Income before tax	MEUR	360.1	372.5	-3.3%	1,320.8	1,224.2	7.9%
Net income	MEUR	278.1	287.2	-3.2%	1,022.7	947.3	7.9%
Basic earnings per share	EUR	0.53	0.55	-2.6%	1.96	1.81	7.9%
Cash flow from operations (before financing items and taxes)	MEUR	525.0	368.1		1,828.7	1,907.5	
Interest-bearing net debt	MEUR				-2,164.1	-1,953.8	
Equity ratio	%				41.2	45.5	
Return on equity	%				32.0	29.7	
Net working capital (including financing items and taxes)	MEUR				-1,468.2	-1,160.1	
Gearing	%				-67.6	-61.1	

* KONE presents adjusted EBIT as an alternative performance measure to enhance comparability of the business performance between reporting periods. Restructuring costs related to significant restructuring programs are excluded from the calculation of the adjusted EBIT. In January–December 2021, the adjusted EBIT excluded costs of EUR 14.5 million related to restructuring measures in KONE's global business lines and functions. During 2017–2020, all restructuring costs excluded from the adjusted EBIT related to the Accelerate program.

Henrik Ehrnrooth, President and CEO:

" **The year 2021 ended on a positive note in many areas.** Overall, it was an unusual year because of the significant disruptions in the global supply chain and the sharp increases in material and component costs. We managed the challenging situation strongly and were constantly able to deliver on customer promises. Our result for the year was good considering the significant headwinds that we faced. The actions that we have taken to offset these headwinds are progressing well, resulting in the sequential improvement in our margin of orders received during the fourth quarter. Improving pricing, securing productivity gains and lowering product costs remains high on our agenda.

Orders received in the quarter reached the previous year's high level, thanks to growth in the new equipment business. This was a good achievement considering the impact of liquidity constraints on the Chinese property markets. Our service business delivered strong performance yet again across several fronts. In the maintenance business, the service base continued to grow and both pricing and value-added services contributed to the strong growth in sales. I would like to thank everyone in our organization for their dedication and outstanding work during what has once again proved to be an exceptional year.

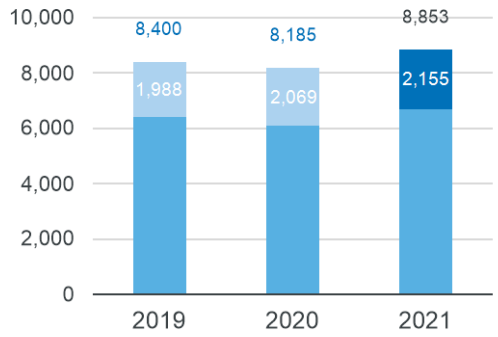
We have executed well on our 'Sustainable success with customers' strategy during its initial year. Driving differentiation through adaptability, user experience and sustainability has been at the core of our strategic ambitions. With this strategic phase, we are further accelerating this development. Our DX Class elevators have raised the bar for delivering value-added services through digital solutions. This provides improved user experiences and a new level of adaptability for building owners when they need to adjust their building to evolving needs. The KONE Care service offering, which, since its launch over five years ago, has taken the concept of customer driven offering to a new level by tailoring maintenance agreements to individual customer needs. It is another excellent example of the benefits of adaptability. It also has proven to be a fundamental driver of pricing, growth, and improved customer experience. During the fourth quarter we took the next step in the development of the KONE Care offering, with the launch of KONE Care DX. This new offering again sets a new standard in the market. It is the industry's first carbon neutral maintenance service and uses AI and digital connectivity to provide seamless, predictive elevator care for our DX class elevators. The positive initial feedback that it has received from our customers is encouraging.

We have long seen that sustainability contributes to superior business outcomes. The renewal of EcoVadis platinum as well as our placing on CDP's 'A' list are further acknowledgements of our sustainability performance. Environmental performance is of utmost importance; however, being a true leader in sustainability means embedding sustainability in all aspects of our business and customer offering. Diversity, inclusion and equity has been a particular area of focus during 2021. The progress we have made in increasing the share of women in director level positions, one of the specific targets in our diversity pledge, demonstrates that the entire KONE organization has taken our commitment to heart.

Looking at 2022, our demand outlook is positive with expectations for growth in the service markets and in the new equipment markets outside China. The Chinese new equipment market is expected to remain solid although below that of 2021 due to the tightened liquidity situation. In terms of financial performance, we expect our solid order book and continued positive momentum in the services business to drive growth in sales. The adjusted EBIT margin, on the other hand, is expected to decline due to lower margins on orders received in 2021 and continued challenges in the cost environment. We anticipate this pressure to ease towards the latter part of the year as the actions we are taking to restore margins start to deliver results. I am confident that the strong engagement of our people, and the strength of our offering, positions us well to capture the growth opportunities we see in our markets."

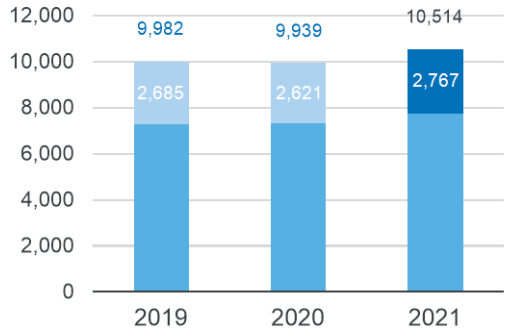
Key Figures

Orders received (MEUR)



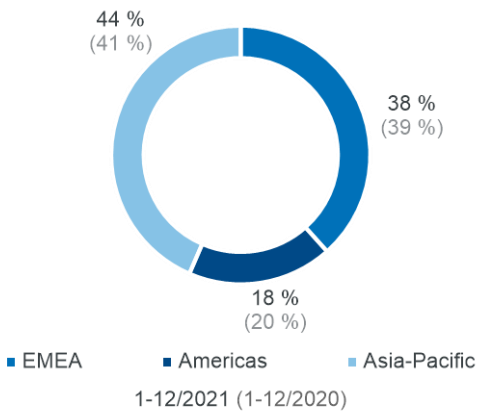
- **In October–December 2021**, orders received grew by 4.2% (at comparable exchange rates, orders received grew by 0.4%).
- At comparable rates, new equipment orders received grew clearly with clear growth in the volume business and slight decline in major projects. In modernization, orders received declined significantly with significant growth in the volume business and significant decline in major projects. The comparison period included an exceptionally sizeable order for a modernization project in the Americas.
- The margin of orders received declined slightly year-on-year due to increased component and logistics costs. Compared to the previous quarter, the margin on orders received improved somewhat.
- **In January–December 2021**, orders received grew by 8.2% (at comparable exchange rates, orders received grew by 7.4%).

Sales (MEUR)



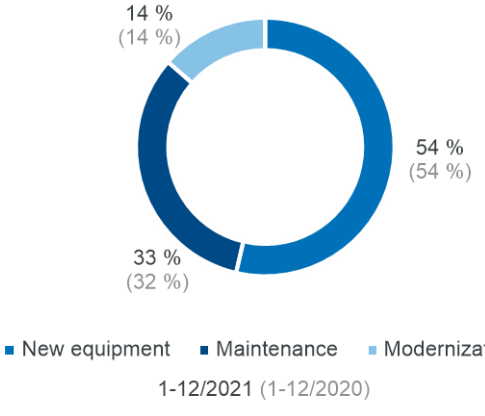
- **In October–December 2021**, sales grew by 5.6% (grew by 1.8% at comparable exchange rates). The sales growth rate was driven by strong development in the maintenance business.
- New equipment sales grew by 3.6% (declined by 1.1% at comparable exchange rates). Service (maintenance and modernization) sales grew by 7.8% (grew by 5.3% at comparable rates). Maintenance sales grew by 10.3% (grew by 7.7% at comparable rates) and modernization sales grew by 2.4% (declined by 0.1% at comparable rates).
- Sales in the EMEA region grew by 2.2% (grew by 1.3% at comparable rates). In the Americas region, sales grew by 2.8% (declined by 1.1% at comparable rates). In the Asia-Pacific region, sales grew by 10.2% (grew by 3.6% at comparable rates).
- **In January–December 2021**, sales grew by 5.8% (grew by 5.3% at comparable exchange rates)

Sales by region



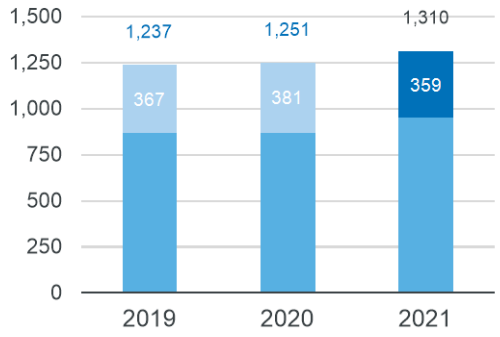
1-12/2021 (1-12/2020)

Sales by business



1-12/2021 (1-12/2020)

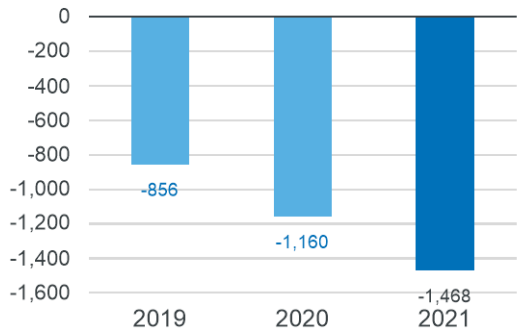
Adjusted EBIT (MEUR)



- **In October–December 2021**, operating income was 12.7% of sales (10–12/2020: 14.0%). The adjusted EBIT margin was 13.0% (14.5%).
- Margins were burdened by continued headwinds from component and logistics costs.
- With comparable exchange rates, the translation impact on operating income for the comparison period was EUR 10.9 million.
- Adjusted EBIT excludes costs of EUR 7.5 million related to restructuring measures in KONE's global functions.

- **In January–December 2021**, operating income was 12.3% of sales (1–12/2020: 12.2%). The adjusted EBIT margin was 12.5% (12.6%)
- The adjusted EBIT margin developed in line with expectations despite the sharp increase in component and logistics costs. Pricing, productivity and product cost actions have been implemented to counteract the headwinds in the cost environment.

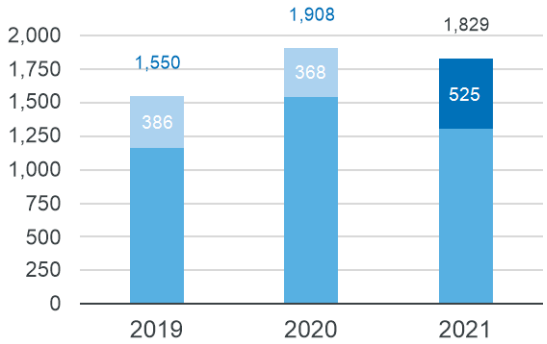
Net working capital[1] (MEUR)



- **At the end of December 2021**, net working capital was at an improved level compared to the end of the previous year. Accounts payable increased in the quarter due to higher raw material prices and the timing of payments.
- Foreign exchange rates had a EUR 117 million positive impact on the net working capital.

[1] Including financing items and taxes

Cash flow[2] (MEUR)



- **In October–December 2021**, cash flow was exceptionally strong at EUR 525.0 million thanks to positive working capital development in the quarter.

- **In January–December 2021**, cash flow was exceptionally strong at EUR 1,828.7 million.

[2] Cash flow from operations before financing items and taxes

KONE's January–December 2021 review

KONE's operating environment

Operating environment by region

	New equipment market in units		Maintenance market in units		Modernization market	
	10–12/2021	1–12/2021	10–12/2021	1–12/2021	10–12/2021	1–12/2021
Total market	Stable	++	+	+	++	++
EMEA	+	+	+	+	++	++
Central and North Europe	+	+	+	+	+++	++
South Europe	+	Stable	+	+	+	++
Middle East	+	+	+	+	–	–
North America	++	++	+	+	+++	+++
Asia-Pacific	Stable	++	++	++	+++	+++
China	Stable	++	++	++	+++	+++
Rest of Asia-Pacific	+++	+++	++	++	+++	+++

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

October–December 2021

Recovery continued in the global elevator and escalator market during October–December. That said, market activity was somewhat impacted by global supply chain constraints and increasing cases of COVID-19 infections, which resulted in a slowdown in decision-making.

Activity in the new equipment market was broadly in line with that of the previous year, albeit with varied trends in regional demand. **In Asia-Pacific**, the new equipment market was stable. **In China**, the market was stable with tightened liquidity impacting activity in the property sector. **In the rest of Asia-Pacific**, the market continued to recover strongly. **Across the EMEA region**, the new equipment market grew slightly. **In North America**, the market grew clearly.

The service market developed positively with broad based growth in both maintenance and modernization.

The pricing environment remained adversely affected by intense competition. That said, market prices continued to improve in several areas as a response to the increased component and logistics costs.

January–December 2021

Activity in the global elevator and escalator markets was somewhat affected by the COVID-19 pandemic in the early part of the year, but recovered thereafter. However, global supply chain constraints affected the pace of the recovery in the second half. Throughout the year, activity was the strongest in the residential segment across all regions. The sentiment in the infrastructure segment was somewhat boosted by stimulus, whereas activity in the commercial segment remained limited.

Demand in the new equipment market increased clearly from 2020, when markets in most regions were heavily impacted by the pandemic. **In Asia-Pacific**, new equipment volumes grew clearly. **In China**, volumes grew clearly with strong growth in the first half and softer development in the second half due to tightened liquidity situation in the property sector**. In the rest of Asia-Pacific** the market grew significantly. **In the EMEA region**, the new equipment market grew slightly. The new equipment markets grew slightly in Central and North Europe and in the Middle East, whereas in South Europe the market was stable. **In North America**, the new equipment market grew clearly.

In the service market, **maintenance** activity picked up as of the second quarter and was largely at pre-COVID levels at the end of the year. Similarly, demand rebounded in **modernization** after a slow start to the year.

The pricing environment continued to be adversely affected by intense competition. That said, market prices started to improve in several areas in the second half of the year as a response to the increased component and logistics costs.

Orders received and order book

Orders received

MEUR	10–12/2021	10–12/2020	Change	Comparable change[1)]	1–12/2021	1–12/2020	Change	Comparable change[1)]
Orders received	2,155.1	2,068.7	4.2%	0.4%	8,852.8	8,185.1	8.2%	7.4%

[1)] Change at comparable foreign exchange rates

Order book

MEUR	Dec 31, 2021	Dec 31, 2020	Change	Comparable change[1)]
Order book	8,564.0	7,728.8	10.8%	3.8%

[1)] Change at comparable foreign exchange rates

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

October–December 2021

Orders received grew by 4.2% as compared to October–December 2020 and totaled EUR 2,155.1 million. At comparable exchange rates, KONE's orders received grew by 0.4%.

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

The margin of orders received declined slightly year-on-year due to increased component and logistics costs. Compared to the previous quarter, the margin on orders received improved somewhat.

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to October–December 2020. New equipment orders grew slightly and modernization orders grew significantly.

In the Americas region, orders received declined significantly at comparable rates as compared to October–December 2020. New equipment orders grew significantly and modernization orders declined significantly. The comparison period included an exceptionally sizeable modernization order from the Washington Metropolitan Area Transit Authority.

Orders received in the Asia-Pacific region grew slightly at comparable rates as compared to October–December 2020. In China, new equipment orders declined slightly in units and declined slightly in monetary value due to tightened liquidity in the property sector. Like-for-like prices were stable while mix was slightly negative. In the rest of Asia-Pacific, new equipment orders received grew significantly. Modernization orders received grew significantly in China and grew slightly in the rest of Asia-Pacific.

January–December 2021

Orders received grew by 8.2% as compared to January–December 2020 and totaled EUR 8,852.8 million. At comparable exchange rates, KONE's orders received grew by 7.4%.

At comparable rates, orders received for the new equipment grew clearly with clear growth in the volume business and significant growth in major projects. In modernization, orders received were stable with significant growth in the volume business and significant decline in major projects.

The margin of orders received declined year-on-year due to increased component and logistics costs. Some sequential improvement was seen towards the end of the year.

KONE's new equipment orders received in elevator and escalator units amounted to approximately 196,000 units (2020: approximately 180,000).

Orders received in the EMEA region grew slightly at comparable exchange rates as compared to January–December 2020. New equipment orders grew slightly and modernization orders grew slightly.

In the Americas region, orders received grew clearly at comparable rates as compared to January–December 2020. New equipment orders grew significantly and modernization orders declined significantly. The comparison period included an exceptionally sizeable modernization order from the Washington Metropolitan Area Transit Authority.

Orders received in the Asia-Pacific region grew clearly at comparable rates as compared to January–December 2020. In China, new equipment orders grew clearly in units and grew clearly in monetary value during the year. During the second half, orders were impacted by the tightened liquidity situation in the property markets. Like-for-like prices were stable while mix was slightly negative. In the rest of Asia-Pacific, new equipment orders received grew significantly. Modernization orders received grew significantly in China and declined slightly in the rest of Asia-Pacific.

The order book grew significantly compared to the end of December 2020 and stood at a strong level of

EUR 8,564.0 million at the end of the reporting period. At comparable rates, the order book grew slightly.

The order book margin continued to be at a healthy level. Customer cancellations remained at a very low level.

Sales

By region

MEUR	10–12/2021	10–12/2020	Change	Comparable change[1)]	1–12/2021	1–12/2020	Change	Comparable change[1)]
EMEA	1,097.3	1,073.8	2.2%	1.3%	4,036.9	3,916.2	3.1%	3.3%
Americas	492.7	479.2	2.8%	-1.1%	1,902.9	1,939.5	-1.9%	0.6%
Asia-Pacific	1,176.8	1,068.2	10.2%	3.6%	4,574.3	4,082.8	12.0%	9.2%
Total	2,766.8	2,621.2	5.6%	1.8%	10,514.1	9,938.5	5.8%	5.3%

[1)] Change at comparable foreign exchange rates

By business

MEUR	10–12/2021	10–12/2020	Change	Comparable change[1)]	1–12/2021	1–12/2020	Change	Comparable change[1)]
New equipment	1,447.9	1,397.8	3.6%	-1.1%	5,637.7	5,340.2	5.6%	4.4%
Services	1,318.9	1,223.4	7.8%	5.3%	4,876.4	4,598.4	6.0%	6.3%
Maintenance	919.5	833.6	10.3%	7.7%	3,450.6	3,215.6	7.3%	7.5%
Modernization	399.4	389.9	2.4%	-0.1%	1,425.9	1,382.8	3.1%	3.4%
Total	2,766.8	2,621.2	5.6%	1.8%	10,514.1	9,938.5	5.8%	5.3%

[1)] Change at comparable foreign exchange rates

October–December 2021

KONE's sales grew by 5.6% as compared to October–December 2020, and totaled EUR 2,766.8 million. At comparable exchange rates, KONE's sales grew by 1.8%. New equipment sales declined by 1.1% at comparable exchange rates largely due to the COVID-19 related slowdown in orders received during 2020 and tightened liquidity in China. Maintenance sales grew by 7.7% at comparable exchange rates, with positive development in both contractual and discretionary service activities, as well as in value-added services. Modernization sales declined by 0.1% at comparable exchange rates.

Sales in the EMEA region grew by 2.2% and totaled EUR 1,097.3 million. At comparable exchange rates, sales grew by 1.3%. New equipment sales were stable, maintenance sales grew clearly and modernization sales declined clearly in the region.

In the Americas, sales grew by 2.8% and totaled EUR 492.7 million. At comparable exchange rates, sales declined by 1.1%. New equipment sales declined significantly, maintenance sales grew significantly and modernization sales grew slightly in the region.

In Asia-Pacific, sales grew by 10.2% and totaled EUR 1,176.8 million. At comparable exchange rates, sales grew by 3.6%. New equipment sales grew slightly, maintenance sales grew significantly and modernization sales grew significantly in the region.

January–December 2021

KONE's sales grew by 5.8% as compared to January–December 2020, and totaled EUR 10,514.1 million. At comparable exchange rates, KONE's sales grew by 5.3%. The sales consolidated from the companies acquired in 2021 had only a minor impact on KONE's sales for the financial period.

New equipment sales grew by 4.4% at comparable exchange rates thanks to strong growth in China during the first half. Service sales grew by 6.3% at comparable exchange rates supported by a normalization in both maintenance and modernization activities. At comparable exchange rates, maintenance sales grew by 7.5% and modernization sales grew by 3.4%.

KONE's elevator and escalator maintenance base continued to grow and was close to 1.5 million units at the end of 2021 (over 1.4 million units at the end of 2020).

The growth of the maintenance base was driven, in particular, by a continued good level of conversions of new equipment deliveries to the maintenance base. Acquisitions had only a minor positive contribution to the growth. In 2021, the balance of maintenance contracts that were won from or lost to competition was slightly negative.

The largest individual countries in terms of sales were China (~35%), The United States (15%), Germany (6%) and France (5%).

Sales in the EMEA region grew by 3.1% and totaled EUR 4,036.9 million. At comparable exchange rates, sales grew by 3.3%. New equipment sales grew

slightly, maintenance sales grew clearly and modernization sales grew slightly in the region.

In the Americas, sales declined by 1.9% and totaled EUR 1,902.9 million. At comparable exchange rates, sales grew by 0.6%. New equipment sales declined clearly, maintenance sales grew clearly and modernization sales grew slightly in the region.

In Asia-Pacific, sales grew by 12.0% and totaled EUR 4,574.3 million. At comparable exchange rates, sales grew by 9.2%. New equipment sales grew clearly, maintenance sales grew significantly and modernization sales grew significantly in the region.

Financial result

Financial result

	10–12/2021	10–12/2020	Change	1–12/2021	1–12/2020	Change
Operating income, MEUR	351.9	367.1	-4.1%	1,295.3	1,212.9	6.8%
Operating income margin, %	12.7	14.0		12.3	12.2	
Adjusted EBIT, MEUR	359.4	380.6	-5.6%	1,309.8	1,250.5	4.7%
Adjusted EBIT margin, %	13.0	14.5		12.5	12.6	
Income before taxes, MEUR	360.1	372.5	-3.3%	1,320.8	1,224.2	7.9%
Net income, MEUR	278.1	287.2	-3.2%	1,022.7	947.3	7.9%
Basic earnings per share, EUR	0.53	0.55	-2.6%	1.96	1.81	7.9%

October–December 2021

KONE's operating income (EBIT) was EUR 351.9 million or 12.7% of sales. The adjusted EBIT, which excludes costs of EUR 7.5 million related to restructuring measures in KONE's global functions, was EUR 359.4 million or 13.0% of sales. In the comparison period items affecting comparability consisted of restructuring costs related to the Accelerate program.

Margins were burdened by continued headwinds from component and logistics costs.

With comparable exchange rates, the translation impact on operating income for the comparison period was EUR 10.9 million.

Basic earnings per share was EUR 0.53.

January–December 2021

KONE's operating income (EBIT) was EUR 1,295.3 million or 12.3% of sales. The adjusted EBIT, which excludes costs of EUR 14.5 million related to restructuring measures in KONE's global business lines and functions, was EUR 1,309.8 million or 12.5% of sales. In the comparison period items affecting comparability consisted of restructuring costs related to the Accelerate program.

The adjusted EBIT margin developed in line with expectations despite the sharp increase in component and logistics costs. Pricing, productivity and product cost actions have been implemented to counteract the headwinds in the cost environment.

With comparable exchange rates, the translation impact on operating income for the comparison period was EUR 12.4 million.

KONE's income before taxes was EUR 1,320.8 million. Taxes totaled EUR 298.1 (276.9) million. This represents an effective tax rate of 22.6% for the full financial year. Net income for the period was EUR 1,022.7 million.

Basic earnings per share was EUR 1.96.

Cash flow and financial position

Cash flow and financial position

	10–12/2021	10–12/2020	1–12/2021	1–12/2020
Cash flow from operations (before financing items and taxes), MEUR	525.0	368.1	1,828.7	1,907.5
Net working capital (including financing items and taxes), MEUR			-1,468.2	-1,160.1
Interest-bearing net debt, MEUR			-2,164.1	-1,953.8
Gearing, %			-67.6	-61.1
Equity ratio, %			41.2	45.5
Equity per share, EUR			6.1	6.1

KONE's financial position was very strong at the end of December 2021.

Cash flow from operations (before financing items and taxes) during January–December 2021 was exceptionally strong at EUR 1,828.7 million.

Net working capital (including financing items and taxes) was EUR -1,468.2 million at the end of December 2021. Accounts payable increased in the quarter due to higher raw material prices and the timing of payments. Foreign exchange rates had a EUR 117 million positive impact on the net working capital.

Interest-bearing net debt was EUR -2,164.1 million at the end of December 2021. KONE's cash and cash equivalents together with current deposits and loan receivables were EUR 2,885.1 (Dec 31, 2020: 2,629.4) million at the end of the reporting period. During the

period, KONE signed a sustainability-linked revolving credit facility of EUR 850 million which replaces a previously existing EUR 800 million facility. The sustainability targets included in the facility relate to KONE's decarbonization and gender diversity commitments. Interest-bearing liabilities were EUR 746.5 (Dec 31, 2020: 695.8) million, including a pension liability of EUR 194.3 (Dec 31, 2020: 187.2) million and leasing liability of EUR 343.6 (Dec 31, 2020: 342.9) million. Additionally, KONE had an asset on employee benefits, EUR 22.9 (Dec 31, 2020: 19.2) million. Gearing was -67.6% and the equity ratio was 41.2% at the end of December 2021.

Equity per share was EUR 6.13.

Capital expenditure and acquisitions

Capital expenditure & acquisitions

MEUR	10–12/2021	10–12/2020	1–12/2021	1–12/2020
On fixed assets	34.8	30.4	96.5	87.5
On leasing agreements	25.8	57.8	120.6	113.4
On acquisitions	4.0	11.8	50.1	29.0
Total	64.6	100.0	267.3	230.0

KONE's capital expenditure and acquisitions totaled EUR 267.3 million in January–December 2021. Capital expenditure excluding acquisitions was mainly related to equipment and facilities in R&D, IT and production. Capital expenditure on leases consists mainly of maintenance vehicles and office facilities.

Acquisitions totaled EUR 50.1 million in January–December 2021. KONE completed acquisitions of small maintenance businesses in the EMEA region as well as in North America.

Research and development

R&D expenditure

	10–12/2021	10–12/2020	Change	1–12/2021	1–12/2020	Change
R&D expenditure, MEUR	47.4	51.4	-7.8%	188.8	179.6	5.2%
As percentage of sales, %	1.7	2.0		1.8	1.8	

The objective of KONE's research and development is to drive differentiation by putting the needs of customers and users at the center of all development. Our R&D activities focus on developing smart and sustainable solutions that adapt to future needs. By integrating elevators and escalators with digital systems, we enable an even smoother people flow and an improved user experience. Built-in connectivity in our newest elevator models makes them a digital platform for various services and new business models. We support our customers in achieving their eco-efficiency goals throughout the building's life cycle, for instance by continuously developing the energy-efficiency of our solutions.

Research and development expenditure totaled EUR 188.8 million, representing 1.8% of sales in January–December 2021. R&D expenditure includes the development of new product and service concepts as well as the further development of existing solutions and services.

During January–December 2021, we continued the global rollout and extension of the KONE DX Class offering. This new elevator series featuring built-in connectivity and an enhanced user experience was introduced at the end of 2019 and will replace the previous KONE elevator range across all areas. During the first quarter, we launched DX Class elevators in China, Asia Pacific and in India. We also introduced several enhancements to the DX Class offering during the year. These included expansions to the DX modernization solutions as well as new API (application programming interface) connectivity devices for elevators in the high-rise segment.

During the second quarter, we launched the KONE Lane turnstile. This next generation access gate solution offers improved space-efficiency, reducing the need for floorspace by up to 90% compared with conventional similar products. The solution is ideal for offices and multiuse developments and can be adjusted to suit various design styles. KONE Lane won two Red Dot Design Awards along with three other KONE solutions in May. Other awards were given to KONE Office Flow, KONE Digital Experience Car and the KONE TravelMaster Premium Kit escalator design solution, which were recognized for their design quality, innovation and smart connectivity.

During the fourth quarter, we introduced KONE Care™ DX maintenance service, the first carbon-neutral maintenance service in the elevator industry. By using AI-powered predictive maintenance, automatic updates, remote servicing and in person or digital support, KONE

Care™ DX maximizes uptime and prolongs the equipment life. The service comes with KONE 24/7 Connected Services, KONE’s flagship solution for predictive maintenance. All KONE Care™ DX maintenance activities will be carbon neutral through a combination of emission reduction actions that we are implementing to reach the targets of our climate pledge, and carbon offsetting programs.

During the fourth quarter, we also announced a collaboration with Amazon Web Services (AWS), the world's most comprehensive and broadly adopted cloud offering. AWS will provide KONE with global cloud capabilities such as Internet of Things (IoT) and analytics. The companies will also innovate together to develop new technologies that further strengthen the scalability and performance of KONE's connected services and solutions.

Non-financial information

Sustainability is a source of innovation and a competitive advantage for KONE. We want to be the most trusted partner to our customers throughout the building life cycle and help them achieve their sustainability objectives, creating better urban environments. At KONE, sustainability covers our offering, operations and culture and encompasses the environmental aspect, diversity and inclusion, safety, quality and ethics and compliance. Our strategy and values reflect our commitment to sustainable practices.

KONE conducts its business in a responsible and sustainable way, and we expect the same commitment from all our partners. We are committed to complying with the laws and regulations of the countries in which we operate. KONE is a member of the UN Global Compact and dedicated to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment. The principles are embedded in our strategy, policies and procedures, such as KONE's Code of Conduct, Competition Compliance Policy, and Environmental Excellence Program, as well as in related processes. In addition, KONE supports the UN Sustainable Development agenda and its goals. KONE has also signed the Paris Pledge for Action climate initiative and, in 2020, set Science Based Targets for reducing emissions in its own operations, offering and the value chain by 2030, showing climate leadership and commitment to limiting global warming to 1.5 degrees celsius in accordance with the Paris Climate Agreement. KONE applies the Task Force on Climate-related Financial Disclosure (TCFD) reporting principles in order to report about climate-related financial risks and opportunities. The table on this text maps the pages of the report where disclosures according to TCFD requirements can be found.

KONE's strategy and business model are described on pages 3–5 of KONE's Annual Review 2021. Risks and risk management related to the matters below are described in the section Risks and risk management related to the reporting of non-financial information.

More information on KONE's approach to sustainability can be found in the Sustainability Report, which is prepared according to GRI Standards. KONE published its Sustainability Report for 2020 in April 2021. KONE's Sustainability Report for 2021 will be published during the second quarter of 2022.

KONE's Sustainability Report 2021

- Will be published during Q2 2022
- In the report, you can find more detailed information about sustainability

Management and Board of Directors' oversight of sustainability

KONE has integrated the management of non-financial matters and sustainability into operations throughout the organization. KONE's management and supervisors work to ensure that employees are familiar with and comply with the legislation, regulations, and internal operating guidelines of their respective areas of responsibility, and that KONE's products and services are in full compliance with all codes and standards applicable to them.

Ultimately, sustainability and its management are the responsibilities of KONE's President and CEO and the Executive Board. KONE's Executive Board discusses sustainability topics, including e.g. environmental, social and compliance topics, in each meeting given the strong emphasis on sustainability in KONE's strategy "Sustainable Success with Customers".

Furthermore, KONE has established forums where sustainability and climate-related topics are regularly discussed: The Quality and Environmental Board and the Offering and Technology Board, both chaired by KONE President and CEO and with Executive Board level members. KONE also has a separate Sustainability Board, a steering committee dedicated to sustainability topics, with climate and environment among the prioritized areas. Several members of KONE's Executive Board are members of the Sustainability Board, which is chaired by KONE's EVP of Operations Development.

KONE's Board of Directors is responsible for overseeing and supervising the implementation of KONE's strategy, including sustainability topics and climate change issues. The Board also reviews risks and risk management, including environmental, social and anti-corruption matters. In 2021, the Board decided on a new share-based long-term incentive plan, which introduced sustainability as a new key performance indicator. The Board and its Nomination and Compensation Committee worked on setting this new sustainability target as well as on monitoring KONE's progression against it.

External recognitions

KONE has received external recognition for its efforts to conduct business in a sustainable way. For example, KONE was again included in the FTSE4Good index as well as in CDP's Climate Change A List among the top climate change performers. CDP is an international non-profit organization that drives engagement for climate action. This is the ninth consecutive year that KONE has achieved a leadership score of A or A- in the Climate Change rating, which demonstrates our long-term commitment to environmental work and sustainability. KONE was also awarded the best A grade in CDP's 2020 Supplier Engagement Rating, demonstrating leadership and best practice in engaging our suppliers on climate change issues. In addition, KONE was awarded the highest-scoring Platinum medal in the annual EcoVadis sustainability performance assessment covering environment, labor and human rights, ethics and sustainable procurement. This places KONE in the top 1% of all 75,000 companies assessed in 2021. KONE also earned a place in the first ever Financial Times Europe's Climate Leaders ranking. The ranking identifies companies that achieved the greatest reduction in their greenhouse gas (GHG) emissions relative to their revenue between 2014 and 2019.

Non-financial key performance indicators

	Key performance indicator	Target	2021 results	2020 results
Environmental matters	Greenhouse gas emissions from own operations (Scope 1 and 2)[1]	Long-term target (2030): 50% reduction in absolute emissions, carbon neutral operations 2021 target: 7% reduction in Scope 1 and 2 absolute carbon footprint from 2019 baseline	Will be published in the Sustainability Report during Q2 2022.	12% reduction in absolute emissions
	Product-related greenhouse gas emissions (Scope 3)[1]	Long-term target (2030): -40% reduction in product-related Scope 3 emissions relative to ordered products	Will be published in the Sustainability Report during Q2 2022.	0.7% increase relative to products ordered
	Share of renewable electricity used in our facilities, %	Long-term target (2030): 100% 2025 target: 80% 2021 target: 50%	Will be published in the Sustainability Report during Q2 2022	41%
	Share of key suppliers ISO 14001 certified, %	100%	88%	90%
	Share of landfill waste at our manufacturing units, %	0% by 2030	Will be published in the Sustainability Report during Q2 2022	0.6%
	Number of products covered by Environmental Product Declarations	17 by 2022	13	8
Personnel and social matters	Industrial Injury Frequency Rate (IIFR) [2]	Zero injuries	IIFR 1.6	IIFR 1.2
	Employee engagement	Maintain employee engagement on a strong level	Slight decline. Remained above the external high-performance benchmark.	Great leap up. Engagement was at a very strong level.
	Personnel voluntary turnover rate, % [3]	Maintain voluntary turnover below market level	7.8%	5.5%
	Share of women in director level positions, %	35% of director level positions occupied by women by 2030	21%	19%
	Average learning hours per employee	>40 hours in a year	43	38
Human rights, anti-corruption & bribery	% of total employees who have completed at least one ethics & compliance training during the year	90%	96%	Change of KPI. In 2020, 96% of employees had completed Code of Conduct training (cumulative % since the launch of the training in 2018).
	% of KONE's overall external spend that is covered by KONE Supplier Code of Conduct or equivalent accepted by KONE	80%	80%	Change of KPI. In 2020, 84% of key suppliers had signed the Supplier Code of Conduct
	% of distributors who have signed the Distributor Code of Conduct	100%	100% of our distributors in China and 99% in the rest of the world	100% of our distributors in China and 88% in the rest of the world

[1] The greenhouse gas emissions from our own operations and value chain have been calculated in accordance with ISO 14064 and the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The Scope 2 emissions have been calculated according to the dual reporting principles of the GHG Protocol Scope 2 Guidance (market- and location-based method).
[2] The number of lost time injuries of one day or more, per million hours worked
[3] Sum of voluntarily left employees (with permanent contract) over 12 months divided by average closing headcount over 12 months

KONE's climate related disclosures according to TCFD

	TCFD recommended disclosures	Content in KONE's report
Governance	Board's oversight of climate-related risks and opportunities	Non-financial information / Management and Board of Directors' oversight of sustainability, p. 15
	Management's role in assessing and managing climate-related risks and opportunities	Non-financial information / Management and Board of Directors' oversight of sustainability, p. 15
Strategy	Climate-related risks and opportunities over the short, medium and long term	Non-financial information / Environmental matters, p. 18
	Impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	Strategy, KONE's Annual Review, p. 3 Risks and risk management related to the reporting of non-financial information, p. 28
	Resilience of strategy, taking into consideration different climate-related scenarios	KONE is planning to conduct scenario work during 2022.
Risk management	Processes for identifying and assessing climate-related risks	Risks and risk management related to the reporting of non-financial information, p. 28
	Processes for managing climate-related risks	Risks and risk management related to the reporting of non-financial information, p. 28
	How processes for identifying, assessing and managing climate-related risks are integrated into the organizations overall risk management	Risks and risk management related to the reporting of non-financial information, p. 28
Metrics and targets	Metrics used to assess climate-related risks and opportunities	Non-financial information / Key performance indicators, p. 16 Non-financial information / Environmental matters, p. 18
	Scope 1, Scope 2 and Scope 3 emissions and the related risks	Non-financial information / Key performance indicators, p. 16 Non-financial information / Environmental matters, p. 18
	Targets used to manage climate-related risks and opportunities and performance against targets	Non-financial information / Key performance indicators, p. 16 Non-financial information / Environmental matters, p. 18

Environmental matters

In line with KONE's strategic target of being a leader in sustainability, our environmental approach supports the ongoing green and digital transformation of the built environment into smart eco-cities, low-carbon communities, and net zero energy buildings.

We have defined our environmental ambition, objectives and commitment to environmental sustainability in all activities in our Environmental policy statement, which is publicly available at kone.com. In 2021, we renewed both this statement and our Environmental Excellence program, which guides us towards our environmental targets, to improve alignment with our heightened climate and environmental ambition. In line with the statement, we develop smart and sustainable technologies for People Flow® and want to be the preferred partner for environmentally sustainable urban environments. We drive transformation towards sustainable, circular and carbon neutral operations, as well as engage our employees, customers, suppliers and partners on climate and environmental action. The KONE Code of Conduct, the Supplier Code of Conduct, the Distributor Code of Conduct and the KONE Global Vehicle Fleet, Facility and Travel Policies also set out environmental requirements relevant to the operations of KONE or its partners.

KONE has a climate pledge with science-based targets for significant greenhouse gas emissions reductions and an aim to have carbon neutral operations by 2030. We are committed to a 50% cut in the emissions from our own operations (scope 1 and 2 emissions) by 2030, compared to a 2018 baseline. This target is in line with limiting global warming to 1.5°C, which is currently the most ambitious criteria for setting science-based targets. On top of these ambitious emissions reduction targets, we aim to achieve carbon neutral operations by 2030 by offsetting the remaining emissions. In addition, we target a 40% reduction in the emissions related to our products' materials and lifetime energy use (scope 3 emissions) over the same target period, relative to orders received. KONE was the first to validate its science-based targets against the latest climate science in the elevator and escalator industry and KONE's targets are the most ambitious in the industry to date. With the climate pledge, we are taking even stronger action and leading the way in our industry to create more sustainable urban environments.

We are taking strong actions across the supply chain and work together with our suppliers to cut emissions, increase the use of sustainable materials and limit the use of hazardous substances. We screen our suppliers' performance in terms of their environmental and social responsibility with our Supplier Sustainability Assessment. The assessment includes the basic criteria that must be met in order to continue doing business with KONE, as well as other, more advanced criteria.

Most of KONE's environmental figures for 2021 will be published in the 2021 Sustainability Report during the second quarter of 2022.

KONE's offering

The majority of the environmental impacts associated with KONE's activities are related to our products over their full life cycle. In 2020, our product-related Scope 3 emissions increased by 0.7% relative to ordered products. This was mainly due to an increased number of products sold especially in the Asia-Pacific region, where the lifetime energy use emissions of our products tend to be higher due to fossil fuel-based energy generation. KONE will publish the carbon emissions from 2021 in the Sustainability Report during the second quarter of 2022.

Requirements for smart and sustainable materials, solutions and buildings are increasing. We see these shifts in demand as a growth opportunity and want to be the preferred partner for our customers. To further understand the emerging needs and technologies in sustainable, resilient urban environments and people's behavior in them, we actively participate in large-scale research projects and consortiums.

Our innovations can have a significant role in advancing climate action. We support smart and sustainable building through our energy-efficient and innovative offering, functional and sustainable materials, as well as transparent documentation about our products' environmental impacts. Lifetime energy consumption is one of the main considerations in green buildings and it is also the single most significant environmental impact of KONE's products overall. This underlines the importance of eco-efficient solutions. During the year, we obtained seven best in-class energy performance references for our DX elevator models according to the international ISO 25745 standard for the energy performance of lifts, escalators and moving walks. We currently have 31 best-in-class energy efficiency references for our products according to the standard.

Several KONE solutions have received external recognition for their environmental performance. During 2021, we received Singapore Green Building Product (SGBP) certifications for the KONE 3000S MonoSpace®, KONE 3000 Minispace™ and KONE 3000 TranSys™ elevators. KONE currently has seven SGBP-certified solutions and is the first elevator and escalator company to have all certifications with the highest possible ratings. The SGBP-certified solutions are recommended for Green Mark -certified buildings. KONE has also received several approved Byggvarubedömningen (BVB) assessments for its products. During 2021, approved assessments were received for the KONE TranSys™ DX and MonoSpace® 700 DX elevators as well as for the TransitMaster™ 140T escalator. BVB is a nonprofit organization that evaluates solutions for buildings and drives the use of sustainable building materials.

During 2021, important achievements were also made in the transparent communication about the environmental and health impacts of our products with Environmental Product Declarations (EPD) published for seven of our solutions. These EPDs included the first escalator EPD in the industry, which was received by the KONE TransitMaster™ 140.

In 2021, KONE launched the industry's first carbon neutral maintenance service offering. KONE Care DX™ maintenance activities will be carbon neutral through CO2e reduction actions that we are implementing to reach the targets of our climate pledge as well as by compensating the remaining CO2e emissions with our third-party certified carbon compensation program. We support carbon offsetting projects in different parts of the world. These projects reduce or avoid CO2e emissions, and are related to, for example, renewable energy such as solar and hydro power, as well as to reforestation or avoiding deforestation.

Own operations

During the first quarter of 2021, we finalized the calculations of our 2020 carbon footprint. KONE's target was to reduce its operational carbon footprint relative to

sales by 3% annually. In 2020, we exceeded our annual target as our overall operational carbon footprint (Scope 1, 2 and selected Scope 3 categories) relative to sales decreased by 8.9 % compared to 2019, with sales growth calculated at comparable exchange rates. Our scope 1 and 2 greenhouse gas emissions relative to sales decreased by 11.8%. KONE's carbon footprint data has been externally assured. Additionally, we have set a long-term target of 0% landfill waste from our manufacturing units by 2030. In 2020, the share of landfill waste in our manufacturing units was 0.6% (2019: 0.9%).

We revised our target setting in 2021, both in terms of ambition and scope, to align with our climate pledge. Our long-term target for Scope 1 and 2 emissions is an absolute reduction of 50% by 2030 from the base-year 2018. The respective annual target for 2021 is an absolute reduction of 7%, compared to the base-year 2019 due to the exceptional circumstances in 2020. This target includes our Scope 1 & 2 emissions, extended by selected Scope 3 categories that are closely monitored by KONE: logistics, business air travel and waste. During 2020, the greenhouse gas emissions from our own operations (Scope 1 and 2) reduced by 12.0% in absolute terms compared to 2019. In 2021, we have made good progress in terms of reducing emissions from our own operations. Many KONE subsidiaries are taking steps to renew their vehicle fleets. For example, in our maintenance operations KONE started piloting e-cargo bikes and e-scooters in Austria and replacing old motorcycles with new electric ones in Hong Kong. In terms of our facilities, we expect to reach our short-term target of 50% (2030 target: 100%) of electricity consumption from renewable sources by the end of 2021 thanks to good progress made during the year. Our manufacturing units in the United States, Mexico and China now purchase 100% renewable electricity, and the solar panels we installed in our new manufacturing unit in Chennai, India during 2020 were in operation from the beginning of 2021. The finalized 2021 carbon footprint results will be published in our Sustainability Report in the second quarter of 2022.

KONE uses the ISO 14001 environmental management system to enhance its environmental performance. It covers our corporate units, including all R&D, manufacturing units, and 26 major country organizations. Three KONE manufacturing units have ISO 50001 energy management system certification. At the end of 2021, 88% (2020: 90%) of our key suppliers were ISO 14001 certified, our target being 100%.

An increasing trend in customer demand is the focus on wooden buildings. To accommodate this, KONE's manufacturing unit in Finland continues to hold the FSC® (Forest Stewardship Council) Chain of Custody certification, providing credible assurance that elevators manufactured in this unit come with wooden components from environmentally and socially responsible sources. KONE's subsidiaries in Great Britain and Ireland continue to hold the FSC® Chain of Custody certification, meaning that customers can now be provided this assurance for the full delivery chain for elevators installed in these countries. To our knowledge, KONE is the only elevator company to have received FSC® certifications.

Personnel and social matters

KONE employees

	1–12/2021	1–12/2020
Number of employees at the end of period	62,720	61,380
Average number of employees	61,698	60,376

Geographical distribution of KONE employees

	1–12/2021	1–12/2020
EMEA	23,669	23,798
Americas	7,258	7,336
Asia-Pacific	31,792	30,246
Total	62,720	61,380

Personnel voluntary turnover rate was 7.8% (5.5%). Employee costs for the reporting period totaled EUR 3,222 (3,043) million. The geographical distribution of KONE employees was 38% (December 31, 2020: 39%) in EMEA, 12% (12%) in the Americas and 51% (49%) in Asia-Pacific.

Our main goal is to have the most capable and engaged team of professionals, who succeed in a changing world. We strive towards this goal through great employee experience, diverse and inclusive culture, continuous learning, flexibility and wellbeing. These are the core elements in our Empowered People Way to Win, one of the four KONE-wide transformation and development initiatives, which enable us to succeed in our strategy. All KONE's activities are guided by ethical principles. Employee rights and responsibilities include the right to a safe and healthy working environment, fair and equitable labor conditions, personal wellbeing, freedom of association, collective bargaining, non-discrimination and the right

to a working environment in which harassment and bullying are not tolerated.

COVID-19 impact on the way we work

While the COVID-19 pandemic continued to have an impact globally in 2021, progress in vaccine rollouts resulted in restrictions being eased in many regions during the second half of the year. As regulations and practices varied from country to country, we encouraged our country organizations to actively follow the local rules and guidance to ensure that we are compliant and able to take into account our customers' requirements. Our main focus throughout the pandemic has been to continue serving our customers in the safest manner possible. We have supported our employees by offering flexibility where needed and by ensuring easy access to information on how to enhance wellbeing. The pandemic has accelerated a change in how we work. During 2021, we introduced the KONE flexible working statement confirming that KONE will support flexible working arrangements that are aligned with our business priorities.

Diversity and inclusion

We actively encourage diversity at KONE, and our values guide us in upholding an inclusive culture. In the beginning of 2021, KONE launched a new strategic phase with strong focus on sustainability and Diversity and Inclusion (D&I) as key elements of it. As one of the D&I specific goals, we committed to making a step-change in the share of women at director level and increase it to 35% by 2030. In 2021, the share of women in director level positions increased to 21% (19%). Most of our employees are male representing 88% (89%) of our people globally. We continue our efforts towards achieving a more balanced gender split. During the reporting year, KONE's workforce included 145 (147) nationalities. To strengthen our global approach and deepen our customer and market insights, we have goals to increase cultural diversity in our global teams.

In 2021, we engaged our senior leaders to a D&I learning journey to lead the way for an inclusive culture. We also continued to strengthen D&I maturity in our countries through various actions from transparent communication to data driven decision making and more inclusive talent practices and culture.

Our elevated focus on driving D&I is visible also in KONE's new share-based long-term incentive plan, launched in the beginning of 2021, where sustainability was introduced as a new metric in addition to the financial metrics. The sustainability metric is a combination of different elements with diversity and inclusion being one of them.

Employee engagement & KONE culture

Making KONE a great place to work is KONE's number one strategic target and it is measured by employee engagement and a related Pulse employee survey. The Pulse survey offers employees an opportunity to give feedback and covers topics such as employee engagement and enablement, leadership, learning and growth, corporate responsibility, customer centricity, innovation and drive, as well as diversity and inclusion.

In 2021, we conducted a light version of the Pulse survey with 84% of all KONE employees taking part despite the challenging circumstances brought on by COVID-19. The global results show that KONE continues to be a great place to work with a healthy company culture and KONE employees are very engaged. Despite a slight decline from the very high 2020 scores in both engagement and enablement, the vast majority of the survey results were clearly above the external high-performance benchmarks. We also organized Pulse Talks across all teams at KONE with 85% of employees participating. The objective of the Talks was to ensure continuous dialogue on team wellbeing and make KONE an even better workplace.

During 2021, we continued developing KONE's culture to ensure that it supports our strategic targets. Throughout the year, employees continued sharing their thoughts about the development of KONE's culture, values and ways of working through facilitated online discussions. In addition, a new e-learning course focused on KONE's culture and values was introduced during the second half of the year with approximately 12,000 employees completing the course.

KONE hosts a European Employee Forum annually to bring together employee representatives and top management to discuss issues ranging from safety to business development. A smaller working group meets two to four times a year to ensure continuous discussion on important developments affecting our employees. In 2021, the Employee Forum was conducted virtually due to the COVID-19 pandemic. In addition to regular business updates and discussion about the Sustainable Success with customers strategy, the specific focus areas in the forum were Lean KONE, smart and sustainable field operations as well as safety, sustainability and quality.

Training and development

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

We promote the 70-20-10 approach for learning. This means that we believe that 70% of our learning happens through experiences, 20% through social learning and 10% through formal development and training. We provide a rich training offering for our employees, which includes more than 8,500 courses in 36 languages. The courses vary from 2-minute digital nanomodules to trainer-led courses lasting several days. Amidst the COVID-19 pandemic, we have actively encouraged employees to make use of learning opportunities as well as continued to develop new online learning offerings and virtualize our current instructor-led programs. Total learning hours increased by 12% compared to 2020. On average, KONE employees used 43 hours on formal development and training.

In 2021, we established an upskilling program to support KONE Sustainable Success with Customer strategy realization from a competence development perspective. The program is focused on driving competence development efforts for organization-wide competences related to, for example, Lean thinking as well as digital and customer understanding, and it covers 80% of KONE employees.

We have continued to invest in building capabilities to sell and deliver digital solutions and services. In connection to the continuing roll-out of KONE DX Class elevators, salespeople, engineers and field teams have

been actively trained on these topics as well as on KONE 24/7 Connected Services and KONE's ecosystem partnering.

Talent attraction

A key focus area within the KONE people strategy is attracting the best talent by providing a great employee experience.

Although recruitment volumes continued to fluctuate during 2021 due to COVID-19, we saw an overall increase in recruitment volumes. Targeting new competencies and increasing diversity through recruitment continued to be one of KONE's key focus areas. Efforts to increase diversity through recruitment realized during the year with a large number of applicants and hires outside of elevator and escalator industry. We were also able to recruit an increasing number of people with new competencies related to, for example, digitalization and solution selling to KONE. Systematic activities around talent attraction and building talent pipelines have helped us to reach shorter times to hire and improved quality of hires.

Due to COVID-19 related travel restrictions, the annual KONE International Trainee Program (ITP) could not be organized. Instead, we offered local trainee positions for university students. KONE also continued to further strengthen its employer brand through active school collaboration.

Safety

Improving safety at work remained a top priority in 2021. KONE has a company-wide safety management system in place to guide us in achieving continual improvement. To support in controlling the main risks in the workplace and keep our workers safe, we introduced nine KONE core safety principles during the reporting year. The principles are common to all KONE employees, subcontractors and everyone we work with.

KONE employees receive health and safety training relevant to their work, enabling it to be performed in a professional and safe manner. All KONE employees are required to complete a general safety training related to our safety management framework and KONE's Health and Safety Policy. At the end of the reporting year, over 80% of KONE employees had completed the general safety training. During the year, we focused on strengthening safety leadership competences by using a new interactive e-learning, which was completed by over 6,400 of our safety-, quality-, and people managers by the end of the year. Managers perform regular audits to measure compliance with KONE's policies, processes and defined working methods. Corrective actions are taken if deviations are identified. KONE also conducts process audits to identify possible obstacles to work safely. If any are found, the work in question is stopped until a safe method is approved.

In 2021, the IIFR (Industrial Injury Frequency Rate) was 1.6 with the average lost days per incident of 27.8 (27.3). The previous year was exceptional due to the pandemic, with IIFR as low as 1.2. We continue to target zero injuries and expect our years of favorable safety progress to continue, with strong emphasis on safety culture and human factors. In order to move towards our ultimate target, we aim at getting IIFR below 1.0 by the end of 2024. The number of safety observations recorded in KONE Safety Solution, our global safety reporting tool that was fully deployed in 2021, increased by 22%. All employees are encouraged to actively report safety near misses and incidents as it provides valuable information for improving safety. Our objective during the year was to enhance the quality, investigation and analysis of our near miss and incident reports, as well as to improve transparency.

The global KONE Safety Week was organized in all KONE units in May 2021 with a continued theme of safe behavior, complemented with elements of psychological safety. Various safety related activities were held during the week for both internal and external stakeholders. Due to the pandemic, most of the activities were organized virtually. A new global year-end safety campaign was also organized to strengthen safety commitments.

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

Human rights, anti-corruption and bribery

KONE's Code of Conduct was renewed in 2021 as part of KONE's sustainability actions, to better reflect our new values and strategy. The Code of Conduct forms an integral part of KONE's company culture and is the foundation of our ethical business practices. The Code sets out the responsible and ethical conduct expected of KONE employees and companies and is available in 33 languages. With an even stronger emphasis on diversity and inclusion, expanded guidance on fraud, corruption and fair competition and new sections on human rights, trade compliance and cybersecurity, the Code of Conduct is well aligned with international practice as well as stakeholder expectations. Integrity, responsibility and accountability are highlighted as essential themes.

The topics covered in the new Code are: conflicts of interest, corruption, competition compliance, trade compliance, workplace well-being, health and safety, environmental compliance, human rights, privacy, fraud and theft, cybersecurity, intellectual property and confidentiality, external communications and insider trading. Also emphasized is KONE's non-retaliation policy which states that we do not tolerate any form of retaliation against anyone having made good faith compliance reports. The human rights section highlights our commitment to respect and endorse internationally recognized labor and human rights standards and specifies that we take steps to remediate adverse impacts on human rights that we become aware of.

Dedicated compliance officers help employees comply with KONE's Code of Conduct, and our global and regional compliance committees advise and take decisions on compliance matters, including investigations into allegations of employee misconduct as well as human rights and corruption violations. All KONE employees are expected to understand and abide by the Code and to report any violations using the channels available for this purpose. Our internal reporting channels include reporting to management, HR, Legal or Compliance. We also have a confidential externally hosted reporting channel, the Compliance Line, to which all employees, suppliers and distributors

have phone and/or web access. Reports can be made in the employee's native language and can be anonymous where permitted under data protection laws. Reports can be submitted on a range of topics including fraud and theft, fraudulent reporting, corruption, competition law, harassment and discrimination, data protection and confidentiality, environment and safety, trade compliance and conflicts of interest. All reports are handled by a dedicated impartial KONE Compliance team.

In 2021, we received a total of 152 reported compliance allegations, of which 41% were received through the Compliance Line. Of these reports, 35% were fraud/corruption related, 35% were HR related, 10% related to conflicts of interest, and the remaining 20% fell under various other categories. In total 40% of the 141 cases closed in 2021 were either substantiated or partially substantiated, and disciplinary actions in those cases ranged from coaching discussions to termination of employment, with 23 employees who were dismissed or resigned as a result of compliance investigations.

In 2021, the Code of Conduct e-learning course was refreshed to reflect the changes in the new Code of Conduct and assigned to all KONE employees. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy and confidentiality, work safety, harassment & discrimination, gifts & hospitality and trade compliance and has a strong focus on scenarios that reflect day to day situations employees might face. The course is available in 37 languages. Regular face-to-face compliance training is also provided to managers and other target groups. Of KONE employees, 96% have completed at least one compliance training in 2021, including the Code of Conduct e-learning.

KONE's general Code of Conduct is complemented by our Supplier and Distributor Codes of Conduct. Our Supplier Code of Conduct is available in 30 languages and sets out the ethical business practice requirements that we expect from our suppliers. It covers areas such as legal compliance, ethical conduct, our zero tolerance for bribery and corruption, and the standards we require from our suppliers in terms of labor and human rights, health and safety, and environmental issues. KONE may terminate its contracts with suppliers for failure to adhere to the Code.

KONE expects its suppliers to comply with the requirements of the Supplier Code of Conduct in all their dealings with KONE, as well as with their own employees and suppliers, and third parties including government officials. All our suppliers are expected to sign KONE's Supplier Code of Conduct. By the end of 2021, 80% of KONE's total spend was with suppliers and installation subcontractors who have signed KONE's Supplier Code of Conduct or equivalent.

KONE's Distributor Code of Conduct was updated in 2021 and covers similar topics as the Supplier Code of Conduct. It is available in 6 languages. As business partners, our distributors are likewise expected to comply with the requirements of the Code in all their dealings with KONE, as well as in respect of their own employees, customers and suppliers, and third parties including government officials. Our target is to have the Code signed by all our distributors. By the end of 2021, 100% (100%) of our distributors in China, and 99% (88%) of our distributors in the rest of the world, had signed the Code.

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

During the year, we continued focusing on human rights in the supply chain by further developing a supplier human rights assessment process within KONE. The COVID-19 pandemic continued to impact the roll-out of planned on-site pilot assessments. However, an extensive online questionnaire was rolled-out to over 200 suppliers' production sites to assess their potential and actual human rights risks. Human rights training was also provided to our internal human rights assessors. The Global Compliance Committee is responsible for the oversight of the Human Rights program at KONE.

Disclosure according to the EU Taxonomy Regulation

KONE discloses information according to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (the "Taxonomy Regulation"). The Taxonomy Regulation forms the basis for the EU Taxonomy, a classification system that establishes a list of environmentally sustainable economic activities for six environmental objectives. The implementation of the Taxonomy Regulation will progress in phases. The first delegated act setting out technical screening criteria for the first two environmental objectives, climate change mitigation and adaptation (the "Climate Delegated Act"), was adopted in 2021. Another delegated act for the remaining four environmental objectives (the "Environmental Delegated Act") will be published in 2022.

In the report regarding fiscal year 2021, undertakings are required to disclose the proportion of Taxonomy-eligible economic activities in their turnover, capital expenditure and operational expenditure. Taxonomy-eligible activities currently include those in the scope of the Climate Delegated Act. Undertakings are not required to assess Taxonomy alignment in the first year. Taxonomy alignment requires Taxonomy-eligible activities to meet the detailed technical screening criteria and comply with the Do No Significant Harm (DNSH) criteria and the minimum social safeguards defined in the Taxonomy Regulation.

We have evaluated KONE's Taxonomy-eligibility according to the descriptions of economic activities listed in Annex I (climate change mitigation) and Annex II (climate change adaptation) of the Climate Delegated Act and the related NACE codes provided in these descriptions. Where the description has been ambiguous, we have reviewed the technical screening criteria laid out in the Annexes to help interpret the nature of the activity. We have not evaluated Taxonomy-alignment for 2021.

Taxonomy-eligible turnover

At this stage, only economic activities with the most significant need and potential to make substantial contribution to climate change mitigation and adaptation have been included within the scope of the Climate Delegated Act. Our interpretation is that the majority of KONE's business, i.e. the manufacturing,

maintenance and modernization of elevators and escalators, is currently not within the scope of the Taxonomy because it is not among the most high-emitting industries. Nonetheless, we support more sustainable urban environments and buildings with our energy-efficient and innovative offering and the use of healthy, functional, and sustainable materials. Furthermore, we have set ambitious science-based targets for significant reductions in our greenhouse gas (GHG) emissions by the year 2030. Read more about KONE's environmental sustainability in the 'Non-financial information' section of this report.

In addition to elevators and escalators, KONE's offering includes automatic building doors. We have identified certain aspects of our automatic building door business as being Taxonomy-eligible according to the economic activities 3.5 'Manufacture of energy efficiency equipment for buildings' and 7.3 'Installation, maintenance and repair of energy efficiency equipment' in Annex I. The description of the economic activity 3.5 includes NACE code C25.12 'Manufacture of doors and windows of metal', which comprises the manufacture of metal doors, windows and their frames, shutters and gates as well as metal room partitions for floor attachment. Based on this NACE code description, we have concluded that KONE's revenue related to manufacturing of sliding doors, swing doors, revolving doors, turnstiles, overhead doors, roller shutters, high speed doors, garage doors and gates is Taxonomy-eligible. We have also concluded that the installation, maintenance, and repair of these door/gate solutions is Taxonomy-eligible based on the description of activity 7.3, which includes individual renovation measures consisting in installation, maintenance or repair of energy efficiency equipment.

Furthermore, we have determined that elevators sold with a regenerative drive can be considered energy efficiency equipment and thus a Taxonomy-eligible economic activity based on the description of economic activity 3.5 'Manufacture of energy efficiency equipment for buildings' in Annex I. When descending with a heavily loaded car or ascending with a lightly loaded car, elevators can recover energy by converting the stored mechanical energy into electrical energy in the motor, which acts as a generator. Elevators equipped with a regenerative drive can push the generated energy back into the electrical grid of the building, where it can be used by other building appliances, such as HVAC. While the regenerated energy varies according to the building type, the saving can potentially amount to 20–40% in mid-rise buildings. As part of our science-based targets, validated against the latest climate science by The Science Based Targets initiative, we have set a scope 3 emission reduction target focused on reducing lifetime energy consumption of our products. Regenerative drive is currently the best available technology to reduce our product-related emissions from the use of the equipment. Therefore, increasing the share of sales of elevators with regenerative drive is one of the assumptions in reaching our product-related science-based target. This supports the argument for considering regenerative drives as energy efficiency equipment that help mitigate climate change.

In total, we have identified 5.0% of taxonomy-eligible turnover in 2021 from the economic activities mentioned above.

Taxonomy-eligible CapEx and OpEx

In line with KONE's science-based targets, we are investing in enabling significant reductions in greenhouse gas emissions in both our own operations and in the value chain. Some of the actions taken, e.g. the installation of solar panels in our facilities and enhancement of charging infrastructure for EVs could fit into the scope of the Taxonomy. These investments do not, however, represent a meaningful share of the total capex and/or are not considered to be part of KONE's own capital expenditure. Thus, we have not identified material Taxonomy-eligible CapEx in 2021.

In terms of OpEx, we have identified Taxonomy-eligible operating expenses related to the purchase of output from other companies' Taxonomy-eligible economic activities, i.e. purchased renewable energy for facilities according to Chapter 4 ('Energy') in Annex I and leasing costs of vehicles according to activity 6.5 ('Transport by motorbikes, passenger cars and commercial vehicles') in Annex I. Based on the description of activity 6.5 , we have concluded that the leasing costs related to our entire vehicle fleet are Taxonomy-eligible. In total, we have identified 20.7% of Taxonomy-eligible OpEx in 2021, of which the majority relates to KONE's vehicle fleet. KONE has defined the total OpEx (denominator), MEUR 536.7, based on the methodology specified in the Taxonomy Regulation. It includes research and development costs of KONE, in addition to costs related to maintenance and repair of facilities and buildings, energy purchases and costs for KONE's vehicle lease fleet.

Turnover, CapEx and OpEx from products or services associated with Taxonomy-eligible economic activities

	Taxonomy-eligible /non-eligible economic activities
Turnover	
Taxonomy-eligible activities, %	5.0 %
Taxonomy-non eligible activities, %	95.0 %
Total turnover*, MEUR	10,514.1
CapEx	
Taxonomy-eligible activities, %	0.0 %
Taxonomy-non-eligible activities, %	100.0 %
Total CapEx*, MEUR	267.3
OpEx	
OpEx of Taxonomy-eligible activities, %	20.7 %
Taxonomy-non-eligible activities, %	79.3 %
Total opEx, MEUR	536.7

* Total turnover and total capex as per KONE group reported figures. KONE's principles for defining turnover and capital expenditure can be found in sections 2.1, 4.3 and 4.4 in the Financial Statements.

Changes in the Executive Board

In January–December 2021, KONE announced the following changes in the Executive Board.

Johannes Frände was appointed Executive Vice President, General Counsel and a member of the Executive Board at KONE as of February 1, 2021. He succeeds Klaus Cawén, who has served in different roles at KONE for 38 years. Thomas Hinnerskov was appointed Executive Vice President, responsible for the South Europe, Middle East and Africa region as of April 1, 2021. He succeeds Pierre Liautaud, who has served 10 years at KONE as Executive Vice President, South Europe, Middle East and Africa region. Prior to this, Thomas Hinnerskov served as KONE's Executive Vice President, Central and North Europe. Axel Berkling was appointed Executive Vice President, Central and North Europe. Prior to this, Axel Berkling served as KONE's Executive Vice President, Asia-Pacific region, excluding China. Samer Halabi was appointed Executive Vice President, responsible for the Asia-Pacific region and a member of the Executive Board as of May 1, 2021.

After the reporting period, on January 18, 2022, KONE announced that Thomas Hinnerskov, Executive Vice President responsible for South Europe, Middle East and Africa, has decided to leave KONE for a position outside the company latest at the end of May 2022. Thomas has served as a member of KONE's Executive Board since 2016.

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 anti-competitive practices that had taken place before mid-2004 in local Austrian markets by leading elevator and escalator companies, including KONE's local subsidiary. As previously announced by KONE, a number of civil damage claims by certain companies and public entities relating to the two 2007 decisions, are pending in related countries. The claims have been made against various companies concerned by the decisions, including certain KONE companies. All claims are independent and are progressing procedurally at different stages. The total capital amount claimed jointly and severally from all of the defendants together was EUR 154 million at the end of December 2021 (September 30, 2021: EUR 156 million). KONE's position is that the claims are without merit. No provision has been made.

Most significant risks

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

Strategic risks

Demand for KONE's products and services and the competitive environment are impacted by the general economic cycles and especially the level of activity within the construction industry. As China accounts for approximately 35% of KONE's sales, a sustained market decline in the Chinese construction industry, in particular, could have an adverse effect on KONE's growth and profitability. Liquidity constraints in the Chinese property markets raised market concerns as of the third quarter of 2021, and the financing environment for Chinese property developers remains tight. KONE's customer portfolio is well diversified, limiting individual customer risks. However, a worsening liquidity situation among Chinese property developers could impact construction activity in China and, consequently, the demand for KONE's solutions.

Following the COVID-19 outbreak in 2020, many governments across the world have taken significant measures to contain the pandemic by restricting the movement of people and limiting some business activities. In 2021, construction markets started to recover in many countries despite the continuing pandemic thanks to successful vaccination campaigns, easing restrictions, and government stimulus. However, a deterioration of the situation could have an adverse impact on the overall economic environment, construction activity, availability of workforce and the demand for KONE's services and solutions.

Geopolitical tensions and protectionism continue to expose KONE to various business risks. In addition to the potential adverse impacts on general economic activity, geopolitical tensions and protectionism could impact the competitiveness of KONE's supply chain, and lead to increased costs from trade and customs tariffs. A significant portion of KONE's component suppliers and global supply capacity is located in China. KONE aims to reduce the above risks to its supply chain with regionally diversified second source suppliers and safety stocks.

In addition to the level of market demand, the competitiveness of KONE's offering is a key driver for growth and profitability. A failure to anticipate or address changes in customer requirements and in competitors' offerings, ecosystems and business models or in the regulatory environment could result in a deterioration of the competitiveness of KONE's offering. Furthermore, structural changes in the competitive landscape of the elevator and escalator industry, such as increased competition and customer consolidation in China, could affect market dynamics and KONE's market share.

Operational risks

Empowered employees with relevant competencies and skills are key to the successful execution of our strategy. With business models and ways of working changing in the elevator and escalator industry, KONE needs new organizational capabilities, as well as new competencies and talent on the individual employee level in the field of, for example, digitalization. At the same time, the competition over talent, such as skilled field workforce, is increasing. Securing the needed resources and their competence management is critical. A failure to develop and retain the required capabilities or obtain them through recruitment could have an adverse impact on KONE's growth and profitability.

The majority of components used in KONE's supply chain are sourced from external suppliers. KONE also subcontracts a significant amount of installation activity, outsources certain business support processes and works with partners in e.g. digital services and logistics. This exposes KONE to component and subcontracted labor availability and cost risk as well as to continuity risk in partnerships. A failure to secure the needed materials, components or resources, or quality issues within these, could cause business disruptions and cost increases. Labor availability constraints may also impact progress at construction sites. The recovery in the global economy witnessed during 2021 has put pressure on supply chains, resulting in, for example, increased prices and constraints in component availability and global logistics capacity. The shortage of semiconductors, in particular, is closely monitored and managed with detailed planning of delivery execution and active involvement of supply chain partners among other actions. Continued challenges in the global supply chains could have an adverse impact on KONE's financial performance.

As one of the leading companies in the industry, KONE has a strong brand and reputation. Issues that impact the company's reputation or brand could have an effect on KONE's business and financial performance. Such reputational risks could materialize in the case of e.g. safety, cybersecurity or non-compliance incidents, major delivery issues or product or service quality issues.

Hazard, security and incidental risks

KONE's business activities are dependent on the uninterrupted operation, quality and reliability of its manufacturing facilities, sourcing channels, operational service solutions and logistics processes. The operations of KONE, its suppliers and customers also utilize information technology extensively and KONE's business is dependent on the quality, integrity and availability of information. Thus, KONE is exposed to IT disruption and cybersecurity risks, as operational information systems and products may be vulnerable to interruption, loss or manipulation of data, or malfunctions which can result in disruptions in processes and equipment availability. Any breach of sensitive employee or customer data may also result in significant penalties as well as reputational damage. Such incidents could be caused by, including but not limited to, cyber-crime, cyber-attacks, ransomware,

information theft, fraud, or inadvertent actions from our employees and vendors. Physical damage caused by fire, extreme weather conditions, natural catastrophes or terrorism, among other things, could also cause business interruption for KONE or its suppliers.

Financial risks

The majority of KONE's sales and result are denominated in currencies other than the Euro, which exposes KONE to risks arising from foreign exchange rate fluctuations. KONE is also exposed to counterparty risks related to financial institutions, through the significant amounts of liquid funds deposited with financial institutions, in the form of financial investments and in derivatives. Additionally, KONE is exposed to risks related to liquidity and payment discipline of its customers, which may impact cash flow or lead to credit losses. Significant changes in local financial or taxation regulation could also have an impact on KONE's financial performance, liquidity and cash flow. For further information on financial risks, please refer to notes 2.4, 3.2 and 5.3 in the Financial Statements for 2021.

Risk management

Risks	Mitigation actions
Weakening of the economic environment, particularly in China	KONE strives to continuously develop its competitiveness in all regions and businesses. KONE has a wide geographic presence and a balanced business portfolio with a high share of maintenance business.
Geopolitical tensions impacting the competitiveness of KONE's supply chain, leading to increased costs or causing potential disruptions	KONE actively monitors the development of the applicable and relevant regulations, policies and trade rules, prepares for alternative scenarios and evaluates the competitiveness and viability of KONE's supply chain and sourcing channels. KONE is taking actions to mitigate the impact of tariffs, for example by applying for tariff exemptions when applicable. KONE also applies increased scrutiny over business operations that may be affected by international trade restrictions or other geopolitical actions.
Changes in the competitive or customer landscape, customer requirements or competitors' offerings impacting KONE's competitiveness	KONE aims to be the industry leader with its competitive offering by investing in research and development and by taking an open innovation approach. KONE also closely follows emerging industry and market trends and actively monitors opportunities for industry consolidation.
A failure to secure and develop the needed organizational capabilities and competencies	KONE continuously evaluates the skills and competences required for the execution of the selected strategy and develops and/or acquires these from internal talent pools or externally. KONE also has extensive training programs in place to develop and retain critical talents.
Risks related to component and subcontracted labor availability	KONE's sourcing processes aim to identify critical suppliers and supply categories and implement dual sourcing, multi-year agreements, last-buy options and other measures to ensure the availability of the supply. KONE has also developed multinational subcontractor pools to ensure subcontractor capacity on a regional level. Subcontractors' competences and capabilities are monitored and developed continuously, similarly as with own employees.
Product integrity, safety or quality issues as well as issues with reputation	To mitigate product risks, KONE has strict quality control processes for product design, supply, manufacturing, installation and maintenance. In addition, KONE aims for transparent and reliable communication, to prevent reputational risks and to manage potential incidents. KONE also has stringent corporate governance principles in place.
Interruptions to KONE's or its suppliers' operations	KONE actively develops business continuity management capabilities to reduce the impact and likelihood of disruptions within its supply chain. Furthermore, KONE monitors the operations, business continuity management capabilities, financial strength and cybersecurity of its key suppliers. In addition, KONE aims to secure the availability of alternative sourcing channels for critical components and services. KONE also has a global property damage and business interruption insurance program in place. KONE's global supply chain helps mitigate the risk of interruptions. KONE has 10 manufacturing facilities in 7 countries, multiple distribution centers and a large supplier network across the globe, which helps to mitigate the impacts from potential disruptions in individual locations or countries.
Quality and reliability of IT systems and cybersecurity risks	KONE's security policies define controls to safeguard information and information systems which are both in development and in operation, in order to detect cybersecurity incidents and to respond and recover in a timely manner. KONE works with third-party security service providers and trusted, well-known technology partners to manage the risks through the control framework. KONE conducts tests, reviews and exercises to identify areas of risk and to ensure the appropriate preparedness. The company continues to invest in its cybersecurity capabilities based on these findings. KONE also has a global cyber insurance program in place.
Financial risks	KONE applies centralized risk management in accordance with the KONE Treasury Policy. More information on financial risk management can be found in notes 2.4, 3.2 and 5.3 of KONE's Financial Statements 2021.

Risks and risk management related to the reporting of non-financial information

The assessment and analysis of KONE's most significant risks also covers non-financial risks. In line with the requirements of the Finnish Accounting Act, KONE has identified the most significant non-financial risks regardless of their materiality for KONE as a whole. In addition, KONE applies TCFD guidelines on the reporting of climate-related risks.

The typical effect of the non-financial risks materializing would be reputational damage to KONE or a negative impact on the surrounding society, environment or individuals. In addition to the risk mitigation actions described below, KONE aims for transparent and reliable communication in order to prevent reputational risks and to enable proactive management and learning from incidents, should they occur.

Climate and environmental risks

We recognize climate and environmental risks as having a potential negative impact on our business in the short to medium term. While the effect is not determined to be significant, we expect climate risks to keep increasing in relevance and potential impact. Overall, we identify, assess and manage climate and environmental risks as integral part of our company-wide business risk management process and ISO 14001 environmental management system. Certain KONE functions and locations, e.g. the Supply Chain function or selected operational sites, conduct detailed climate and environmental risk assessments according to relevant business requirements.

Climate and environmental risks are classified as transition risks and physical risks as well as risks of negative impacts on the climate. Some of the most relevant climate and environmental risks for KONE are physical risks to our supply chain and own operations, for example, as a result of extreme weather events. These risks can materialize, for example, in the form of delivery disruptions or interruptions in our own manufacturing, installation or maintenance activities. KONE's products are also subject to physical risks and possible damages due to changing environmental conditions or extreme weather events.

To mitigate the physical risks, we engage in several risk mitigation activities related to component availability and interruptions to our own or suppliers' operations, as described in the risk management table in this text. We use, for example, dedicated location-based software tools to regularly monitor our supply chain locations for risks related to extreme weather events such as fires, floods or hurricanes. In terms of our product development, we apply design specifications and specific procedures that aim to ensure product resilience even in harsh and changing environmental conditions. For example, rigorous environmental testing is a part of KONE's product development to ensure that our products sustain exceptional and changing weather conditions, such as temperature variations and moisture.

The most relevant transition risk to KONE arises from potential shifts in the supply and demand for low carbon materials, electricity and fuel, which may increase operating costs in the short to medium term. Also, technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economy may impact KONE's competitiveness and our customers' demand for both KONE's solutions and services. Not being able to offer the solutions and services our customers require could have a detrimental impact on KONE's business. In addition to potential product-related requirements, emerging climate-related regulation may also impact our operations. For example, the need to transition towards more sustainable mobility solutions is evident for KONE's current fleet of over approximately 18,000 service and benefit vehicles.

To mitigate the market transition risks, KONE evaluates plausible scenarios for market supply and demand, as well as the impact of emerging regulation in our high-level business plans. KONE is an active member in relevant industry forums and research consortiums and proactively monitors the regulatory landscape. To mitigate the technology transition risk, KONE bases its innovation work on the needs of our customers and equipment users. All in all, KONE sees the transition towards sustainable solutions as a source of innovation and competitive edge rather than a threat. As part of KONE's climate pledge, we have set ambitious greenhouse gas reduction targets for our offering and operations and aim to have carbon neutral operations by 2030. The pledge will guide our work for more climate-friendly products, services and ways of working, and we actively collaborate with our suppliers and partners to achieve our targets.

Social and employee related risks

Safety is a top priority at KONE and potential safety incidents are among the most significant social and employee related risks. Incidents are mitigated through, for example, extensive training and communication, consistent safety management practices, standardized maintenance and installation methods and regular process audits. We also identify and assess risks related to any type of bullying, harassment, equal employment practices, working conditions and any form of discriminations. We address such risks by having adequate policies and processes in place and by training our managers and employees. We offer our employees channels for reporting misconduct as there is zero tolerance for this type of behavior. In 2021, the safety and wellbeing of KONE employees continued to be a top priority due to the conditions caused by COVID-19 pandemic.

Major repairs or retrofits in public infrastructure locations may also affect the daily life of many people and therefore, may have a reputational impact.

Both safety and quality have a key role in product design, supply, manufacturing, installation and maintenance and they involve strict quality controls. We follow globally implemented principles in how to manage potential incidents and implement improvements.

Human rights related risks

The most significant human rights related risks are in the supply and delivery chain and are related to terms and conditions of work. All our suppliers and installation subcontractors are expected to sign KONE's Supplier Code of Conduct, which sets out our ethical business practice requirements, including the standards we require in terms of labor and human rights. During

2021, we continued to prioritize our work on human rights in the supply chain and rolled-out online supplier human rights assessments to over 200 suppliers' production sites.

Anti-corruption and bribery related risks

KONE requires its employees and partners to adhere to high ethical standards and to comply with its Code of Conduct, Distributor Code of Conduct and Supplier Code of Conduct. These codes cover numerous compliance topics, including competition law, trade sanctions compliance, and labor and human rights issues, as well as prohibiting corruption and bribery.

In 2021, we completed an anti-bribery and corruption risk assessment, which identified our highest risks as relating to third party intermediaries, sourcing and sales activities. Follow-up actions to mitigate risks were started in 2021 and will continue in 2022.

Unethical business practices among KONE's employees or various stakeholders could cause reputational damage for KONE as well as a possible financial impact. The risks of such behaviors and practices materializing are included in the scope of KONE's regular audit programs. In 2021, KONE implemented a supplier screening solution, which monitors entities against sanctions, watch lists and adverse media attention, including corruption and human rights issues. Processes under our Global Delegation of Authority policy help to mitigate the risk of unauthorized payments, donations and sponsorships. The most important action for internal mitigation continues to be the development of KONE's corporate culture through training and awareness building. Ethics & Compliance KPIs and actions have been integrated into our new Sustainability strategy. All employees are required to complete at least one annual training on ethics & compliance, and supplier and distributor Code of Conduct sign-up rates are tracked annually.

Decisions of the Annual General Meeting

KONE Corporation's Annual General Meeting was held in Helsinki on March 2, 2021. The meeting was held based on the so-called temporary act so that shareholders participated in the meeting and exercised their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance.

The meeting approved the financial statements, considered the Remuneration Report for governing bodies and discharged the responsible parties from liability for the financial period January 1–December 31, 2020.

The number of Members of the Board of Directors was confirmed as eight. Re-elected as Members of the Board were Matti Alahuhta, Susan Duinhoven, Antti Herlin, Iiris Herlin, Jussi Herlin, Ravi Kant and Juhani Kaskeala. Jennifer Xin-Zhe Li was elected as a new member to the Board of Directors.

At its meeting held after the General Meeting on March 2, 2021, the Board of Directors elected from among its members Antti Herlin as its Chairman and Jussi Herlin as Vice Chairman.

Ravi Kant was elected as Chairman and Matti Alahuhta and Jussi Herlin as members of the Audit Committee. Ravi Kant and Matti Alahuhta are independent of both the company and of significant shareholders.

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

The General Meeting confirmed an annual compensation of EUR 220,000 for the Chairman of the Board, EUR 125,000 for the Vice Chairman and EUR 110,000 for Board Members. Of the annual remuneration, 40 percent will be paid in class B shares of KONE Corporation and the rest in cash. In addition, it was resolved that compensation is not paid to a board member who is employed by the company.

The General Meeting approved the authorization for the Board of Directors to repurchase KONE's own shares. Altogether no more than 52,930,000 shares may be repurchased, of which no more than 7,620,000 may be class A shares and 45,310,000 class B shares. This represents 10% of the total shares and 10% of the total votes for each share class. The authorization will be valid until the conclusion of the following annual general meeting, however, at the latest until 30 June 2022.

Furthermore, the General Meeting authorized the Board of Directors to decide on the issuance of shares as well as the issuance of options and other special rights entitling to shares referred to in chapter 10 section 1 of the Finnish Companies Act. The number of shares to be issued based on this authorization shall not exceed 7,620,000 class A shares and 45,310,000 class B shares. This represents 10% of the total shares and 10% of the total votes for each share class. 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. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The authorization will be valid until the conclusion of the following annual general meeting, however, at the latest until 30 June 2022.

The audit firm Ernst & Young Oy was nominated as the auditor for the term 2021.

Share-based incentive plans

KONE has two separate share-based incentive plans, one performance share plan and one restricted share plan.

On January 28, 2021, KONE's Board of Directors decided on a new performance share plan, which replaced the existing performance share plans. The new performance plan continues to emphasize profitable growth and as a new measure sustainability. It consists of annually commencing individual share plans, each with a three-year rolling performance period, after which the potential share awards vest. If the participant's employment or service relationship with KONE Group terminates before the end of the performance period, the participant, as a rule, forfeits the share award without compensation. The potential reward is to be paid as a combination of KONE class B shares and a cash payment equivalent to the taxes and similar charges that are incurred from the receipt of shares. The target group and targets within the plan as well as possible rewards are decided upon annually by the Board. As part of the performance share plan for the senior management, a long-term target for their ownership has been set. For the Executive Board members, the long-term ownership target is that the members have an ownership of KONE shares corresponding to at least five years' annual base salary. For other selected top management positions, the ownership target is at least two years' base salary.

The 2021 performance share plan is targeted to approximately 55 members of the top management, including the President and CEO, members of the Executive Board and other top management, and approximately 500 other selected key personnel of KONE Group. The performance criteria applied to the 2021 performance share plan are based on annual growth in sales, adjusted EBIT margin and improvements in sustainability. The sustainability performance condition is a combination of reductions in carbon footprint, diversity and inclusion as well as safety related targets.

The restricted share plan serves as a complementary long-term share plan to be used as a commitment instrument for retention and recruitment purposes for top management (excluding the President and CEO) and other selected key persons. The restricted share plan does not have a performance condition. The plan has a commitment period up to three years, after which the potentially granted share awards will be paid to the participant, provided that their employment or service relationship with KONE Group is in force at the time of payment.

Shares and share capital

Share capital and market capitalization

	Dec 31, 2021	Dec 31, 2020
Number of class B shares	453,187,148	453,187,148
Number of class A shares	76,208,712	76,208,712
Total shares	529,395,860	529,395,860
Treasury shares	11,433,525	11,006,006
Share capital, EUR	66,174,483	66,174,483
Market capitalization, MEUR*	32,652	34,452

* 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.

Treasury shares

	1–12/2021
Shares in KONE's possession at the beginning of the period	11,006,006
Changes in own shares during the period	427,519
Shares in KONE's possession at the end of the period	11,433,525

At the end of December 2021, the Group had 11,433,525 class B shares in its possession. The shares in the Group's possession represent 2.5% of the total number of class B shares. This corresponds to 0.9% of the total voting rights.

During the period, KONE completed the repurchase of the company's own class B shares, which started on November 11, 2021 and ended on November 17, 2021. A total of 750,000 own shares were repurchased for an average price of EUR 60.9629 per share. The shares were repurchased in public trading on Nasdaq Helsinki Ltd. at the market price prevailing at the time of purchase. The shares were repurchased on the basis of the authorization given by the Annual General Meeting on 2 March 2021 and will be used as a part of share-based incentive plans of KONE.

Shares traded on Nasdaq Helsinki

		1–12/2021	1–12/2020
Shares traded on the Nasdaq Helsinki Ltd., million		180.4	222.9
Average daily trading volume		715,964	884,675
Volume-weighted average share price	EUR	65.44	62.07
Highest share notation	EUR	73.86	76.20
Lowest share notation	EUR	55.48	42.39
Share notation at the end of the period	EUR	63.04	66.46

In addition to the Nasdaq Helsinki Ltd., KONE's class B share is traded also on various alternative trading platforms.

The number of registered shareholders was 72,661 at the beginning of the review period and 88,182 at its end. The number of private households holding shares totaled 83,793 at the end of the period, which corresponds to approximately 12.3% of the listed B shares. At the end of December 2021, a total of 53.3% of the B shares were owned by nominee-registered and non-Finnish investors.

Flagging notifications

During January–December 2021, BlackRock, Inc. announced several notices in accordance with the Finnish Securities Market Act Chapter 9, Section 5. The notices were announced on June 3, June 17, June 21, June 29, June 30, July 2, July 8 and July 9. The notices have been published as stock exchange releases and are available on KONE Corporation's internet pages at www.kone.com. According to the latest notification, the total number of KONE Corporation shares owned by BlackRock, Inc. and its funds excluding financial instruments according to SMA 9:6a increased to above five (5) per cent of the total number of shares of KONE Corporation on July 8, 2021. The total number of shares including financial instruments according to SMA 9:6a owned by BlackRock, Inc. and its funds remained above five (5) per cent of the total number of shares of KONE Corporation.

Outlook

North America	
New equipment	Services
Slight growth	Maintenance Slight growth Modernization Clear growth

EMEA	
New equipment	Services
Slight growth	Maintenance Slight growth Modernization Clear growth

Asia-Pacific	
New equipment	Services
China Activity below that of 2021 Outside China Significant growth	Maintenance Clear growth Modernization Significant growth

Market outlook 2022

The Chinese new equipment market is expected to remain solid although below that of 2021 due to the tightened liquidity situation in the property markets. In the rest of the world, the new equipment markets are expected to continue recovering. In North America and in the EMEA region, the new equipment markets are expected to grow slightly. The new equipment market in Asia-Pacific, excluding China, is expected to grow significantly.

Modernization markets are expected to grow across regions supported by pent-up demand and stimulus measures.

Continuing global supply chain constraints and potential labor shortages may limit growth in construction activity, which could impact demand in the new equipment and modernization markets.

Maintenance activity is expected to return to pre-pandemic growth trajectory with slight growth in the more mature markets and clear growth in Asia-Pacific.

Business outlook 2022

KONE estimates that in 2022, its sales growth will be in the range of 2% to 7% at comparable exchange rates as compared to 2021. The adjusted EBIT is expected to be in the range EUR 1,180-1,330 million, assuming that foreign exchange rates would remain at the January 2022 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 50 million.

KONE has a solid order book and a positive outlook for services. Furthermore, the effect of product cost, productivity and pricing actions are expected to support the results towards the latter part of the year.

The key headwinds for the 2022 results are increased material, component and logistics costs, as well as the competitive dynamics and liquidity constraints in China.

The Board's proposal for the distribution of profit

The parent company's non-restricted equity on December 31, 2021 is EUR 1,357,142,216.84 of which the net income for the financial year is EUR 501,757,193.86.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.7475 be paid on the outstanding 76,208,712 class A shares and EUR 1.7500 on the outstanding 441,753,623 class B shares. Further, the Board proposes an extra dividend of EUR 0.3475 to be paid on the outstanding 76,208,712 class A shares and EUR 0.3500 on the outstanding 441,753,623 class B shares, resulting in a total amount of proposed dividend of EUR 1,087,339,859.94. The Board of Directors further proposes that the remaining non-restricted equity, EUR 269,802,356.90 be retained and carried forward.

The Board proposes that the dividends be payable from March 10, 2022. All the shares existing on the dividend record date are entitled to dividend for the year 2021 except for the own shares held by the parent company.

Annual General Meeting 2022

KONE Corporation's Annual General Meeting will be held on Tuesday 1 March 2022 at 11.00 a.m. In order to prevent the spread of the COVID-19 pandemic, the company's shareholders may participate in the General Meeting and exercise their shareholder rights only by voting in advance and by submitting counterproposals and asking questions in advance.

Helsinki, February 2, 2022

KONE Corporation's Board of Directors

Consolidated statement of income

MEUR	10–12/2021	%	10–12/2020	%	1–12/2021	%	1–12/2020	%
Sales	2,766.8		2,621.2		10,514.1		9,938.5	
Costs and expenses	-2,352.8		-2,193.6		-8,974.8		-8,486.7	
Depreciation and amortization	-62.1		-60.5		-244.0		-239.0	
Operating income	351.9	12.7	367.1	14.0	1,295.3	12.3	1,212.9	12.2
Financing income	15.1		12.3		52.9		41.8	
Financing expenses	-6.9		-6.9		-27.4		-30.4	
Income before taxes	360.1	13.0	372.5	14.2	1,320.8	12.6	1,224.2	12.3
Taxes	-81.9		-85.2		-298.1		-276.9	
Net income	278.1	10.1	287.2	11.0	1,022.7	9.7	947.3	9.5
Net income attributable to:								
Shareholders of the parent company	275.7		283.1		1,014.2		939.2	
Non-controlling interests	2.4		4.1		8.5		8.1	
Total	278.1		287.2		1,022.7		947.3	
Earnings per share for profit attributable to the shareholders of the parent company, EUR								
Basic earnings per share, EUR	0.53		0.55		1.96		1.81	
Diluted earnings per share, EUR	0.53		0.55		1.96		1.81	

Consolidated statement of comprehensive income

MEUR	10–12/2021	10–12/2020	1–12/2021	1–12/2020
Net income	278.1	287.2	1,022.7	947.3
Other comprehensive income, net of tax:				
Translation differences	75.3	-60.9	205.6	-173.2
Hedging of foreign subsidiaries	-7.5	24.2	-28.6	52.0
Cash flow hedges	0.4	0.0	-2.1	27.1
Items that may be subsequently reclassified to statement of income	68.2	-36.6	175.0	-94.1
Changes in fair value	2.5	10.3	0.6	4.8
Remeasurements of employee benefits	-35.2	18.8	-6.7	8.8
Items that will not be reclassified to statement of income	-32.7	29.1	-6.1	13.6
Total other comprehensive income, net of tax	35.5	-7.5	168.9	-80.5
Total comprehensive income	313.7	279.7	1191.5	866.8
Total comprehensive income attributable to:				
Shareholders of the parent company	311.3	275.6	1,183.1	858.7
Non-controlling interests	2.4	4.1	8.5	8.1
Total	313.7	279.7	1,191.5	866.8

Condensed consolidated statement of financial position

Assets

MEUR		Dec 31, 2021	Dec 31, 2020
Non-current assets			
Goodwill		1,405.2	1,327.0
Other intangible assets		216.9	223.2
Tangible assets		736.7	710.0
Non-current loans receivable	I	2.6	1.0
Shares and other non-current financial assets		144.6	143.2
Employee benefit assets	I	22.9	19.2
Deferred tax assets	II	269.1	242.4
Total non-current assets		2,798.0	2,666.1
Current assets			
Inventories	II	717.8	597.0
Accounts receivable	II	2,421.4	2,178.6
Deferred assets	II	780.8	638.7
Income tax receivables	II	117.3	82.2
Current deposits and loan receivables	I	2,394.7	2,171.4
Cash and cash equivalents	I	490.4	457.9
Total current assets		6,922.4	6,125.9
Total assets		9,720.4	8,792.0

Equity and liabilities

MEUR		Dec 31, 2021	Dec 31, 2020
Equity		3,199.2	3,197.3
Non-current liabilities			
Loans	I	435.4	244.0
Employee benefit liabilities	I	194.3	187.2
Deferred tax liabilities	II	86.9	90.4
Total non-current liabilities		716.6	521.6
Provisions	II	152.3	154.7
Current liabilities			
Loans	I	116.8	264.6
Advance payments received and deferred revenue	II	1,957.0	1,766.8
Accounts payable	II	1,310.2	890.9
Accruals	II	2,137.4	1,882.6
Income tax payables	II	130.9	113.6
Total current liabilities		5,652.3	4,918.4
Total equity and liabilities		9,720.4	8,792.0

Items designated " I " comprise interest-bearing net debt.
Items designated " II " comprise net working capital.

Consolidated statement of changes in equity

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2021	66.2	100.3	345.7	41.7	-10.9	-115.0	-164.7	2,911.3		22.6	3,197.3
Net income for the period									1,014.2	8.5	1,022.7
Other comprehensive income:											
Translation differences					205.6						205.6
Hedging of foreign subsidiaries					-28.6						-28.6
Cash flow hedges				-2.1							-2.1
Changes in fair value				0.6							0.6
Remeasurements of employee benefits						-6.7					-6.7
Transactions with shareholders and non-controlling interests:											
Profit distribution								-1,166.3			-1,166.3
Purchase of own shares							-45.8				-45.8
Change in non-controlling interests								0.3		-6.1	-5.8
Share-based compensation			28.3				11.9	-11.9			28.3
Dec 31, 2021	66.2	100.3	374.0	40.2	166.1	-121.6	-198.6	1,733.4	1,014.2	25.0	3,199.2

MEUR	Share capital	Share premium account	Paid-up unrestricted equity reserve	Fair value and other reserves	Translation differences	Remeasurements of employee benefits	Own shares	Retained earnings	Net income for the period	Non-controlling interests	Total equity
Jan 1, 2020	66.2	100.3	322.1	9.8	110.3	-123.8	-185.1	2,873.0		20.0	3,192.9
Net income for the period									939.2	8.1	947.3
Other comprehensive income:											
Translation differences					-173.2						-173.2
Hedging of foreign subsidiaries					52.0						52.0
Cash flow hedges				27.1							27.1
Changes in fair value				4.8							4.8
Remeasurements of employee benefits						8.8					8.8
Transactions with shareholders and non-controlling interests:											
Profit distribution								-880.5			-880.5
Purchase of own shares											-
Change in non-controlling interests										-5.5	-5.5
Share-based compensation			23.6				20.4	-20.4			23.6
Dec 31, 2020	66.2	100.3	345.7	41.7	-10.9	-115.0	-164.7	1,972.0	939.2	22.6	3,197.3

Condensed consolidated statement of cash flows

MEUR	10–12/2021	10–12/2020	1–12/2021	1–12/2020
Operating income	351.9	367.1	1,295.3	1,212.9
Change in working capital before financing items and taxes	111.0	-59.5	289.4	455.6
Depreciation and amortization	62.1	60.5	244.0	239.0
Cash flow from operations before financing items and taxes	525.0	368.1	1,828.7	1,907.5
Cash flow from financing items and taxes	-47.4	-66.7	-244.0	-357.3
Cash flow from operating activities	477.6	301.4	1,584.8	1,550.2
Cash flow from investing activities	-35.6	-42.3	-106.0	-109.8
Cash flow after investing activities	442.1	259.0	1,478.8	1,440.4
Purchase of own shares	-45.8	-	-45.8	-
Profit distribution	-	-	-1,166.3	-880.5
Change in deposits and loans receivable, net	-307.9	-253.6	-151.7	-606.1
Change in loans payable and other interest-bearing debt	-38.7	-25.5	-97.0	-134.1
Changes in non-controlling interests	-0.2	-3.0	-1.2	-3.8
Cash flow from financing activities	-392.6	-282.1	-1,462.0	-1,624.5
Change in cash and cash equivalents	49.5	-23.1	16.8	-184.1
Cash and cash equivalents at beginning of period	436.1	482.7	457.9	662.4
Translation difference	4.8	-1.7	15.6	-20.4
Cash and cash equivalents at end of period	490.4	457.9	490.4	457.9

Change in interest-bearing net debt

MEUR	10–12/2021	10–12/2020	1–12/2021	1–12/2020
Interest-bearing net debt at beginning of period	-1,820.0	-1,732.7	-1,953.8	-1,552.9
Interest-bearing net debt at end of period	-2,164.1	-1,953.8	-2,164.1	-1,953.8
Change in interest-bearing net debt	-344.1	-221.1	-210.2	-401.0

Payments of lease liabilities included in financing activities were EUR 121.0 (January–December 2020: 117.9) million and interest expense paid included in cash flow from financing items and taxes were EUR 8.9 (January–December 2020: 10.2) million.

Notes to the interim report

ACCOUNTING PRINCIPLES

The information presented in this report is based on the audited KONE 2021 Financial Statements. 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 the Financial Statements for 2021.

KEY FIGURES

		1–12/2021	1–12/2020
Basic earnings per share	EUR	1.96	1.81
Diluted earnings per share	EUR	1.96	1.81
Equity per share	EUR	6.13	6.12
Interest-bearing net debt	MEUR	-2,164.1	-1,953.8
Equity ratio	%	41.2	45.5
Gearing	%	-67.6	-61.1
Return on equity	%	32.0	29.7
Return on capital employed	%	26.8	25.0
Total assets	MEUR	9,720.4	8,792.0
Assets employed	MEUR	1,035.1	1,243.4
Net working capital (including financing and tax items)	MEUR	-1,468.2	-1,160.1

The calculation formulas of key figures are presented in KONE´s Financial Statements for 2021.

ALTERNATIVE PERFORMANCE MEASURE

KONE reports an alternative performance measure, adjusted EBIT, to enhance the comparability of the business performance between reporting periods. The adjusted EBIT is calculated by excluding from EBIT significant items impacting comparability such as significant restructuring costs. In 2021 items affecting comparability related to restructuring measures of KONE's global business lines and functions. In 2020 and earlier periods items affecting comparability arise from the Accelerate program, launched in September 2017, to speed up the execution of the strategy and to support profitable growth.

		10–12/2021	10–12/2020	1–12/2021	1–12/2020
Operating income	MEUR	351.9	367.1	1,295.3	1,212.9
Operating income margin	%	12.7	14.0	12.3	12.2
Items impacting comparability	MEUR	7.5	13.5	14.5	37.7
Adjusted EBIT	MEUR	359.4	380.6	1,309.8	1,250.5
Adjusted EBIT margin	%	13.0	14.5	12.5	12.6

QUARTERLY FIGURES

KONE has adopted IFRS 16 standard effective January 1, 2019 using the modified retrospective approach and comparative figures have not been restated. IFRS 15 and IFRS 9 standards have been applied from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2014–2016 are not restated and thus not fully comparable.

		Q4/2021	Q3/2021	Q2/2021	Q1/2021	Q4/2020	Q3/2020	Q2/2020	Q1/2020
Orders received	MEUR	2,155.1	2,211.1	2,410.7	2,075.9	2,068.7	1,931.7	2,075.4	2,109.3
Order book	MEUR	8,564.0	8,436.9	8,272.5	8,180.4	7,728.8	7,914.4	8,307.3	8,386.4
Sales	MEUR	2,766.8	2,610.0	2,810.8	2,326.4	2,621.2	2,587.0	2,532.1	2,198.3
Operating income	MEUR	351.9	326.5	367.1	249.8	367.1	333.1	315.5	197.2
Operating income margin	%	12.7	12.5	13.1	10.7	14.0	12.9	12.5	9.0
Adjusted EBIT[1)]	MEUR	359.4	326.5	374.0	249.8	380.6	339.8	324.6	205.6
Adjusted EBIT margin[1)]	%	13.0	12.5	13.3	10.7	14.5	13.1	12.8	9.4
Items impacting comparability	MEUR	7.5	-	7.0	-	13.5	6.7	9.1	8.4

		Q4/2019	Q3/2019	Q2/2019	Q1/2019	Q4/2018	Q3/2018	Q2/2018	Q1/2018
Orders received	MEUR	1,988.3	2,007.3	2,310.1	2,094.1	1,937.9	1,831.9	2,118.6	1,908.7
Order book	MEUR	8,051.5	8,399.8	8,407.1	8,454.7	7,950.7	7,791.6	7,915.3	7,786.6
Sales	MEUR	2,684.6	2,557.6	2,540.8	2,198.8	2,443.4	2,288.7	2,330.6	2,008.0
Operating income	MEUR	356.4	314.2	306.5	215.4	292.5	258.0	280.5	211.5
Operating income margin	%	13.3	12.3	12.1	9.8	12.0	11.3	12.0	10.5
Adjusted EBIT[1)]	MEUR	367.5	321.9	319.6	228.4	319.6	273.7	300.4	218.3
Adjusted EBIT margin[1)]	%	13.7	12.6	12.6	10.4	13.1	12.0	12.9	10.9
Items impacting comparability	MEUR	11.1	7.7	13.1	13.1	27.1	15.7	19.9	6.9

		Q4/2017	Q3/2017	Q2/2017	Q1/2017	Q4/2016	Q3/2016	Q2/2016	Q1/2016
Orders received	MEUR	1,845.8	1,739.0	2,056.2	1,913.0	1,839.2	1,771.7	2,067.8	1,942.3
Order book	MEUR	7,357.8	7,473.5	7,749.2	7,960.5	8,591.9	8,699.0	8,763.6	8,529.7
Sales	MEUR	2,306.3	2,209.7	2,337.2	1,943.4	2,593.2	2,170.2	2,272.6	1,748.3
Operating income	MEUR	292.8	317.9	335.8	245.8	392.2	331.1	348.6	221.4
Operating income margin	%	12.7	14.4	14.4	12.6	15.1	15.3	15.3	12.7
Adjusted EBIT[1)]	MEUR	302.6	321.3	335.8	245.8	392.2	331.1	348.6	221.4
Adjusted EBIT margin[1)]	%	13.1	14.5	14.4	12.6	15.1	15.3	15.3	12.7
Items impacting comparability	MEUR	9.9	3.3	-	-	-	-	-	-

		Q4/2015	Q3/2015	Q2/2015	Q1/2015	Q4/2014	Q3/2014	Q2/2014	Q1/2014
Orders received	MEUR	1,947.2	1,764.5	2,193.5	2,053.8	1,703.8	1,577.2	1,801.9	1,729.7
Order book	MEUR	8,209.5	8,350.7	8,627.4	8,529.6	6,952.5	6,995.8	6,537.2	6,175.4
Sales	MEUR	2,561.8	2,184.2	2,210.4	1,690.9	2,165.8	1,877.9	1,848.9	1,441.8
Operating income	MEUR	378.5	325.9	325.2	211.9	315.3	277.5	263.2	179.6
Operating income margin	%	14.8	14.9	14.7	12.5	14.6	14.8	14.2	12.5
Adjusted EBIT[1)]	MEUR	378.5	325.9	325.2	211.9	315.3	277.5	263.2	179.6
Adjusted EBIT margin[1)]	%	14.8	14.9	14.7	12.5	14.6	14.8	14.2	12.5
Items impacting comparability	MEUR	-	-	-	-	-	-	-	-

[1)] Operating income excluding items impacting comparability

Net working capital

MEUR	Dec 31, 2021	Dec 31, 2020
Net working capital		
Inventories	717.8	597.0
Advance payments received and deferred revenue	-1,957.0	-1,766.8
Accounts receivable	2,421.4	2,178.6
Deferred assets and income tax receivables	898.1	720.9
Accruals and income tax payables	-2,268.2	-1,996.2
Provisions	-152.3	-154.7
Accounts payable	-1,310.2	-890.9
Net deferred tax assets/liabilities	182.2	152.0
Total net working capital	-1,468.2	-1,160.1

Depreciation and amortization

MEUR	10–12/2021	10–12/2020	1–12/2021	1–12/2020
Depreciation and amortization of fixed assets	53.9	51.4	207.7	202.2
Amortization of acquisition-related intangible assets	8.2	9.1	36.4	36.8
Total	62.1	60.5	244.0	239.0

Key exchange rates in euros

		Dec 31, 2021		Dec 31, 2020	
		Income statement	Statement of financial position	Income statement	Statement of financial position
Chinese Renminbi	RMB	7.6388	7.1947	7.8916	8.0225
US Dollar	USD	1.1851	1.1326	1.1452	1.2271
British Pound	GBP	0.8615	0.8403	0.8864	0.8990
Australian Dollar	AUD	1.5792	1.5615	1.6523	1.5896

Derivatives

Fair values of derivative financial instruments

MEUR	Derivative assets	Derivative liabilities	Dec 31, 2021 Fair value, net	Dec 31, 2020 Fair value, net
Foreign exchange forward contracts and swaps	88.4	-42.3	46.0	-0.3

Nominal values of derivative financial instruments

MEUR	Dec 31, 2021	Dec 31, 2020
Foreign exchange forward contracts and swaps	3,605.3	3,790.3

The fair values of foreign exchange forward contracts and swaps are measured based on price information derived from active markets and commonly used valuation methods (fair value hierarchy level 2).

The fair values are represented on the balance sheet on a gross basis and can be set off on conditional terms. No collaterals or pledges have been given as a security against any liabilities or received against any assets arising from derivatives or other financial instruments. Financial contracts are executed only with counterparties that have high credit ratings. The credit risk of these counterparties as well as the present creditworthiness of KONE are considered when calculating the fair values of outstanding financial assets and liabilities.

INVESTMENTS

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

Shares and other non-current financial assets are classified as investments measured at fair value through other comprehensive income and the fair value is measured using income or market approach valuation techniques under fair value hierarchy level 3.

COMMITMENTS

Commitments include guarantees issued by banks and financial institutions for obligations arising in the ordinary course of business of KONE companies up to a maximum of 1,735.7 (December 31, 2020: 1,485.1) million as of December 31, 2021.

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

Front and back cover reference images

With an estimated 25 million visitors over the 6 months the Expo 2020 Dubai is open, the event brings the world together. At the Expo, a striking tent-meets-snow motif forms the basis for the structure that is the Finland Pavilion. The theme for Finland is 'Sharing future happiness' – a task that it will accomplish by showcasing the best and brightest in Finnish expertise, innovations, and solutions. KONE is helping provide smooth people flow and multisensory experiences to visitors to the pavilion. The company has a lot to offer when it comes to technology and know-how on enabling smart and sustainable urbanization with an emphasis on well-being and happiness.

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