

Corporate governance statement

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

KONE's general governance principles

The duties and responsibilities of KONE Corporation's various governing bodies are determined by Finnish law and KONE's corporate governance principles. KONE complies with the Finnish Corporate Governance Code 2008 published by the Securities Market Association, with the exception of recommendations 26 (Independence of Audit Committee members), 29 (Nomination Committee members and their appointment) and 32 (Compensation Committee members). The entire Code is available on the Internet at www.cgfinland.fi. These exceptions are due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 62 percent of the company's voting rights and 21 percent of its shares. The significant entrepreneurial risk associated with ownership justifies the main shareholder serving as Chairman of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

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

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

Board of Directors

Duties and responsibilities

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

- drawing up of the Board of Directors' report, interim reports and financial statements
- ensuring the proper organization and surveillance of the accounting and asset management

- the preparation of proposals for the General Meeting and the convocation of the General Meetings
- the approval and confirmation of strategic guidelines and the principles of risk management
- the ratification of annual budgets and plans the appointment of a full-time Chairman of the Board and a President & CEO, and decisions on the terms and conditions of their employment
- decisions on the company's corporate structure
- decisions on major acquisitions and investments
- decisions on other matters falling under the Board's responsibility by law

The Board has created rules of procedure stipulating the duties of the Board, its Chairman and its Committees. The Board of Directors holds six regular meetings a year and additional meetings as required. The Board of Directors reviews its own performance and procedures once a year.

Members of the Board

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

Committees

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

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

The Committee monitors and assesses the adequacy and appropriateness of KONE's internal control and risk management, as well as the adherence to rules and regulations. The Audit Committee monitors and oversees the financial statement and financial reporting process, and processes the description of the main

features of the internal control and risk management systems pertaining to the financial reporting process included in the company's corporate governance statement. It also deals with the Corporation's internal audit plans and reports. The Director of Internal Auditing reports the internal audit results to the Committee. The Audit Committee evaluates the auditing of the Group's companies and the appropriateness of the related arrangements and auditing services, and considers the auditors' reports. Furthermore, the Committee formulates a proposal to the Annual General Meeting regarding the auditors to be selected for the Corporation.

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

Operational management

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

KONE Corporation's Board of Directors appoints the full-time Chairman of the Board and the President & CEO. The Board determines the terms and conditions of employment of the full-time Chairman of the Board and the President & CEO, and these are defined in their respective written contracts. The Chairman of the Board prepares matters to be considered by the Board together with the President & CEO and the corporate staff. The Chairman of the Board and the President & CEO are responsible for the execution of the targets, plans, strategies and goals set by the Board of Directors within the KONE Group. The President & CEO is also responsible for operational leadership within the scope of the strategic plans, budgets, operational plans, guidelines and orders approved by KONE Corporation's Board of Directors. The President & CEO presents operational issues to the Board, and is responsible for implementing the decisions of the Board.

Executive Board

The Executive Board supports the President & CEO in executing the corporate strategy. The Executive Board follows

business developments, initiates actions and defines operating principles and methods in accordance with guidelines handed down by the Board of Directors and the President & CEO. The Executive Board holds regular monthly meetings and additional meetings as required.

Control systems

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

Internal control

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

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

Risk management

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

KONE continuously assesses the risks and opportunities of its business decisions in order to limit unnecessary or excessive risks. In addition, KONE's units and functions systematically identify and assess as part of the strategic planning and budgeting processes the risks that can threaten the achievement of their business objectives. Key risks are reported to the KONE risk management function, which facilitates the risk management process and consolidates the risk informa-

tion to the KONE Executive Board. The Executive Board assigns the ownership of globally identified risk exposures to specific functions or units. The KONE Board of Directors reviews the KONE risk portfolio regularly on the basis of the Executive Board's assessment.

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

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

Correct financial reporting in KONE's internal control and compliance framework means that its financial statements give a true and correct view of the operations and the financial position of the group and that such statements don't include intentional or unintentional misstatements or omissions both in respect of amounts and level of disclosure. The compliance control framework is built and based on reporting processes and frameworks as described below, as well as company values, a culture of honesty and high ethical standards. Such framework is promoted by proper training, a positive and a disciplined work attitude and by hiring and promoting of suitable employees.

Corporate-wide financial management and control of operations is coordinated by the Global Finance and Control function and implemented by a network of subsidiary and business entity Controllers within KONE. Internal control processes and procedures are regularly controlled and steered by the Board of Directors, the Audit Committee, Business and Finance management and internal and external auditors.

KONE's monthly management planning and financial reporting process represents a key control procedure within KONE in ensuring the effectiveness and efficiency of operations. KONE's financial statements are based on the monthly management reporting process. This process includes in-depth analyses of deviations between actual performance, budgets, prior year performance and latest forecasts for the business. The process covers financial information as well as key performance indicators that measure the operational performance on a business unit and corporate level. The process is designed to ensure that any deviations from plans, in terms of financial or operating performance and financial management policies are identified, communicated and reacted to efficiently, in a harmonized and timely manner.

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

The internal control procedures applied to KONE's financial reporting process are laid down in carefully defined principles and instructions. A unified and globally harmonized framework provides processes, tools and instructions to cover managerial and external financial reporting. The interpretation and application of accounting standards is centralized in the Global Finance and Control function, which maintains, under supervision of the Audit Committee, the KONE Accounting Standards. The Global Finance and Control function monitors the compliance of the KONE Accounting Standards in the various entities of the group. Budgeting and reporting processes and contents are defined in the KONE Accounting and Reporting Instructions. These standards and instructions are maintained and updated centrally by the Global Finance and Control function and applied uniformly throughout KONE.

KONE has a global ERP system which is built to reflect the KONE Accounting Standards and KONE Accounting and Reporting Instructions. KONE applies a controlled change management process ensuring that no changes to the financial posting logic of the ERP system can be made without approval from Global Finance and Control. Automatic interfaces between different systems are principally applied in the period end financial reporting process of KONE. Transactional processing is increasingly centralized in dedicated internal shared service centers.

Effective internal control over record to report processes starting from busi-



Additional info

Most significant risks and uncertainties related to KONE's business are described in the Board of Directors' Report. Financial risk management is described in note 2, page 15.

ness processes and systems into financial statements are important ensuring the correctness of financial reporting. This is driven by identifying key data elements of the business and the quality of the data to ensure correct financial reporting and forecasting ability.

Auditing

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

According to the Articles of Association, the company must have a minimum of one and a maximum of three Auditors. The Auditors must be public accountants or public accounting firms authorized by Finland's Central Chamber of Commerce. The Auditor is elected at the Annual General meeting for a term which expires at the end of the following Annual General Meeting.

Insiders

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

essary. Project-specific insiders are prohibited from trading in KONE securities until termination of the project.

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

Corporate governance in 2009

General Meeting of shareholders

The Annual General Meeting was held in Helsinki on February 23, 2009.

Board of Directors and committees

The Annual General Meeting elected eight members and one deputy member to KONE's Board of Directors. The full-time Chairman of the Board of Directors of KONE Corporation is Antti Herlin. Sirkka Hämäläinen-Lindfors is the Vice Chairman of the Board. The other members of the Board are Matti Alahuhta, Anne Brunila (from February 23, 2009), Reino Hanhinen, Juhani Kaskeala (from February 23, 2009), Shunichi Kimura (from February 23, 2009) and Sirpa Pietikäinen. The deputy member of the Board is Jussi Herlin.

Of the Board members, Sirkka Hämäläinen-Lindfors, Anne Brunila, Reino Hanhinen, Juhani Kaskeala and Sirpa Pietikäinen are independent of the Corporation. With the exception of Antti Herlin and Jussi Herlin, the other Board members are independent of the Corporation's significant shareholders.

In 2009, the Board of Directors convened seven times, with an average attendance rate of 87 percent. Jukka Ala-Mello serves as Secretary to the Board.

Audit committee

The Board of Directors' Audit Committee comprises Antti Herlin (Chairman), Sirkka Hämäläinen-Lindfors and Anne Brunila (independent members). The Audit Committee held three meetings in 2009, with an average attendance rate of 100 percent.

Urpo Paasovaara serves as Head of Internal Control.

Nomination and compensation committee

The Nomination and Compensation Committee comprises Antti Herlin (Chairman), Reino Hanhinen and Juhani Kaskeala (independent members). The Nomination and Compensation Committee held two meetings in 2009, with an average attendance rate of 100 percent.

Compensation and other benefits of the Board of Directors

The Annual General Meeting of KONE Corporation in February 2009 confirmed

the fees of the members of the Board as follows:

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

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

Compensation and other benefits of the Chairman

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Corporation's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2009, Antti Herlin's basic salary was EUR 468,488. In addition, his bonus accrued for 2009 totaled EUR 453,847. He was also paid EUR 60,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares and options are presented in the table on page 59.

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

President & CEO

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

Compensation and other benefits of the President & CEO

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

In 2009, Matti Alahuhta's basic salary was EUR 722,200. In addition, his bonus accrued for 2009 totaled EUR 649,980. He was also paid EUR 33,500 as compensation for serving on the Board. Matti Alahuhta's holdings of shares and options are presented in the table on page 59.

Matti Alahuhta is included in the share-based incentive plan for the Corporation's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In April 2009, on the basis of the incentive plan, Matti Alahuhta received a bonus of EUR 888,708, which consisted of 21,600 KONE class B shares together with a cash bonus to cover



Additional info

This statement is available on the company's web pages at www.kone.com and it has been given separately of the Board of Directors' report

taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2009 and due for payment in April 2010 is 33,920 KONE class B shares together with an estimated cash bonus to cover taxes and similar charges arising from the receipt of shares.

As part of Matti Alahuhta's contract, he has the possibility to retire at the age of 60 with a pension of 60 percent of his average monthly salary during his last seven years of earnings. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

Executive Board

KONE's Executive Board consists of Matti Alahuhta, President & CEO, Klaus Cawén, Henrik Ehrnrooth (from May 1, 2009), Pekka Kemppainen, Anne Korkiakoski, Ari Lehtoranta, Heikki Leppänen, Juho Malmberg, Eric Maziol, Peter de Neef, Aimo Rajahalme (until May 1, 2009), Vance Tang, Kerttu Tuomas and Noud Veeger.

Compensation and other benefits of the Executive Board

Compensation for members of the Executive Board comprises a basic salary and a yearly bonus, based on the Group's annual result and the achievement of personal

targets. The bonus amount is determined by the Nomination and Compensation Committee and may not exceed 50 percent of the annual salary.

The Executive Board members' holdings of shares and options are presented in the table on below.

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2009, on the basis of the incentive plan, the members of the Executive Board received a bonus of 103,680 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2009 and due for payment in April 2010 is 162,816 KONE class B shares together with an estimated cash bonus equal to the amount of taxes and similar charges. No separate agreement has been made regarding early retirement for members of the Executive Board. Compensation for termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

Auditing

KONE Corporation's Auditors are Heikki Lassila, Authorized Public Accountant, and

PricewaterhouseCoopers Oy, Authorized Public Accountants. The fees paid to companies in the PricewaterhouseCoopers chain for 2009 were EUR 2.0 million for auditing and EUR 1.8 million for other consulting services.

Insiders

The holdings of persons belonging to KONE's public insiders on December 31, 2009 and the changes occurring in them during the financial year are presented in the table below.



More information

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



More information

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Shareholdings and options of KONE Corporation's public insiders on Dec 31, 2009 and changes in shareholding during the period Jan 1–Dec 31, 2009

	Class A shares	Change	Class B shares	Change	Series 2005B option rights	Change
Alahuhta Matti			247,600	21,600		
Cawén Klaus			82,040	11,400		
De Neef Peter			55,000	2,600		-1,000
Hanhinen Reino			2,000			
Herlin Antti	35,280,804		18,420,920			
Herlin Jussi			53,180			
Hämäläinen-Lindfors Sirkka			1,200	200		
Kemppainen Pekka			101,720	8,640		
Korkiakoski Anne			8,640	6,640		
Lehtoranta Ari			700			
Leppänen Heikki			37,440	-3,360		
Malmberg Juho			40,880	8,640		
Maziol Eric			125,840	20,640		-1,000
Pietikäinen Sirpa			3,000			
Tang Vance			23,040	8,640		
Tuomas Kerttu			59,240	5,640		-350
Veeger Noud			60,750	8,640		

No other public insiders had share or option holdings in KONE on December 31, 2009. On May 1, 2009 Aimo Rajahalme had 27,040 class B shares. The shares owned by companies in which the public insider exercises controlling power and minor children are also included in these shareholdings.