

# Corporate governance statement

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

## KONE's general governance principles

The duties and responsibilities of KONE Corporation's various governing bodies are determined by Finnish law and KONE's corporate governance principles. KONE complies with the Finnish Corporate Governance Code 2010 published by the Securities Market Association, with the exception of recommendations 26 (Independence of the members of the audit committee), 29 (Members of the nomination committee) and 32 (Members of the remuneration committee). The entire Code is available on the Internet at [www.cgfinland.fi](http://www.cgfinland.fi). These exceptions are due to the company's ownership structure. The company's largest shareholder, Antti Herlin, controls 62 percent of the company's voting rights and 21 percent of its shares. The significant entrepreneurial risk associated with ownership justifies the main shareholder serving as Chairman of the Board of Directors and of its Committees and, in this capacity, overseeing the shareholders' interests.

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

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

## Board of Directors

### Duties and responsibilities

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

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

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

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

### Members of the Board

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

### Committees

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

The Audit Committee monitors the Group's financial situation and supervises reporting related to the financial statements and interim reports. The Audit Committee monitors and assesses the adequacy and appropriateness of KONE's internal control and risk management, as well as the adherence to rules and regulations. It also monitors and oversees the financial statement and financial reporting process, and processes the description of the main features of the internal

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

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

## Operational management

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

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

### Executive Board

The Executive Board supports the President and CEO in executing the corporate strategy. The Executive Board follows business developments, initiates actions and defines operating principles and

methods in accordance with guidelines handed down by the Board of Directors and the President and CEO. The Executive Board holds regular monthly meetings and additional meetings as required.

### Control systems

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

#### Internal control

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

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

#### Risk management

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

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

regularly on the basis of the Executive Board's assessment.

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

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

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

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

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

Financial control tasks are built into the business processes of KONE as well as into the ongoing business supervision and monitoring of the management. KONE has established Financial Control Models for order-based activities, service activities as well as for treasury and tax matters.

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

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

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

Effective internal control over record to report processes, from business processes and systems to the financial statements, is important in ensuring the correctness of financial reporting. This is driven by the identification of key data elements of the business and the quality of the data to ensure correct financial reporting and forecasting ability.

#### Additional info

Most significant risks and uncertainties related to KONE's business are described in the Board of Directors' Report. Financial risk management is described in note 2, page 16.



## Auditing

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

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

## Insiders

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

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

## Corporate governance in 2012

### General Meeting of shareholders

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

### Board of Directors and committees

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

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

In 2012, the Board of Directors convened ten times, with an average attendance rate of 95%. Jukka Ala-Mello serves as Secretary to the Board and to its Committees.

### Audit committee

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

Urpo Paasovaara serves as the Head of Internal Control.

### Nomination and compensation committee

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

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

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

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

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

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

### Compensation and other benefits of the Chairman

The compensation for Antti Herlin, full-time Chairman of the Board, consists of a basic salary and a yearly bonus decided by the Board on the basis of the Group's financial result. The yearly bonus may not exceed 100 percent of the recipient's annual salary. In 2012, Antti Herlin's base salary was EUR 468,488. In addition, his accrued bonus for 2012 totaled EUR 468,488. He was also paid EUR 60,000 as compensation for serving as Chairman of the Board. Antti Herlin's holdings of shares are presented in the table on page 59.

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

### President and CEO

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

### Compensation and other benefits of the President and CEO

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

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

Matti Alahuhta is included in the share-based incentive plan for the Group's senior management. The potential bonus is based on the growth in KONE's net sales and operating profit. In April 2012, on the basis of the incentive plan, Matti Alahuhta received a bonus of EUR 2,031,483, which consisted of 22,380 KONE class B shares together with a cash bonus to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2012 and due for payment in April 2013 is 24,000 KONE class B shares together with an estimated cash bonus to cover taxes and similar charges arising from the receipt of shares.

As part of Matti Alahuhta's contract, he had the possibility to retire in June 2012

## Additional info

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

at the age of 60. Mr. Alahuhta did not exercise this possibility but continued as KONE Corporation's President and CEO also after June 2012, having the possibility to retire following his term of notice in his service contract. Alahuhta's retirement pension is 60% of his average monthly salary during his last seven years of earnings. Should his employment contract be terminated before retirement, he has the right to the equivalent of 18 months' salary, which includes the salary for a six-month term of notice.

### Executive Board

KONE's Executive Board consists of Matti Alahuhta, President and CEO, Klaus Cawén, Henrik Ehrnrooth, William Johnson (from July 1, 2012), Pekka Kempainen, Anne Korkiakoski, Ari Lehtoranta, Heikki Leppänen, Pierre Liautaud, Juho Malmberg (until June 30, 2012), Vance Tang (until July 22, 2012), Kerttu Tuomas and Noud Veeger and Larry Wash (from July 23, 2012).

### Compensation and other benefits of the Executive Board

The compensation for the members of the Executive Board comprises a base salary and a yearly bonus, based on the Group's annual result and the achievement of personal targets. The bonus amount is determined by the Nomination

and Compensation Committee and may not exceed 50 percent of the annual salary.

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

The members of the Executive Board are included in the share-based incentive plan for senior management. In April 2012, on the basis of the incentive plan, the members of the Executive Board received a bonus of 98,450 KONE class B shares together with a cash bonus equal to the amount required to cover taxes and similar charges arising from the receipt of shares. The corresponding bonus accrued from 2012 and due for payment in April 2013 is 98,400 KONE class B shares together with an estimated cash bonus equal to the amount of taxes and similar charges. No separate agreement regarding early retirement has been made for the members of the Executive Board. The compensation for the termination of the employment contract prior to retirement is a maximum of 15 months' salary, which includes the salary for a six-month term of notice.

### Auditing

KONE Corporation's Auditors are Heikki Lassila, Authorized Public Accountant, and PricewaterhouseCoopers Oy, Authorized Public Accountants. The fees paid

to companies in the PricewaterhouseCoopers chain for 2012 were EUR 2.3 million for auditing and EUR 1.3 million for other consulting services.

### Insiders

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

#### More information

A regularly updated table reporting the holdings of public insiders is available on [www.kone.com](http://www.kone.com)

#### More information

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

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

No other public insiders had share or option holdings in KONE on December 31, 2012. The shares owned by companies in which the public insider exercises controlling power and minor children are also included in these shareholdings.