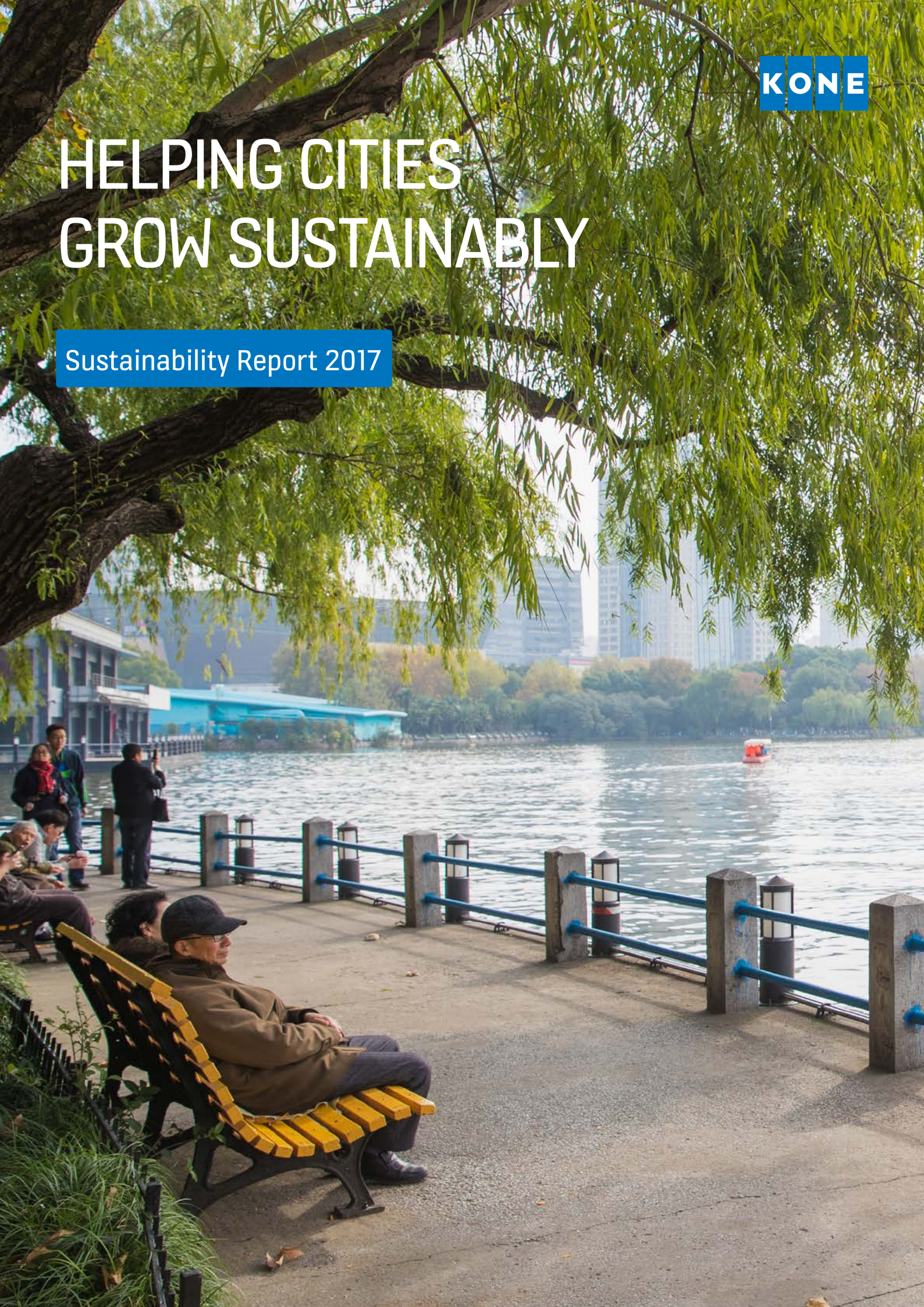


HELPING CITIES GROW SUSTAINABLY

Sustainability Report 2017




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Sustainability at KONE

At KONE, sustainability is embedded in our organizational culture. It is how we treat each other and our stakeholders, how we take the environment into account in all of our actions, and how we foster economic performance now and in the future. Our vision is to deliver the best People Flow® experience. Sustainability is a source of innovation and a competitive advantage for us. KONE is committed to conducting our business in a responsible and sustainable way and we expect the same commitment from our suppliers.

 **Read more** about our approach to sustainability at kone.com/sustainability

KONE IN BRIEF

At KONE, our mission is to improve the flow of urban life. As a global leader in the elevator and escalator industry, KONE provides elevators, escalators and automatic building doors, as well as solutions for modernization and maintenance to add value to buildings throughout their lifecycle. Through more effective People Flow®, we make people’s journeys safe, convenient and reliable in taller, smarter buildings.

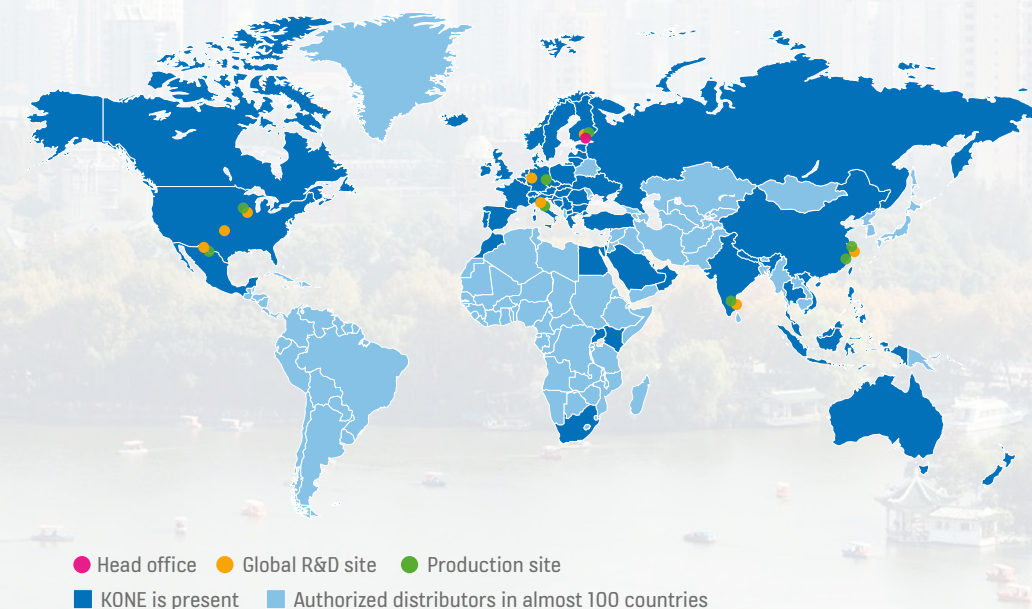
We serve more than 450,000 customers across the globe. The majority of these are maintenance customers. Key customer groups include builders, building owners, facility managers and developers. Architects, authorities and consultants are also key parties in the decision-making process regarding elevators and escalators. In 2017, KONE had annual net sales of EUR 8.9 billion, and at the end of the year over 55,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd.

>450,000
customers

>1.2 million
elevators and
escalators
in our service base

KONE’s equipment moves
>1 billion
users each day

KONE worldwide



SUSTAINABILITY FOR A RAPIDLY CHANGING WORLD

At KONE, we want to help our customers' businesses become more sustainable, which in turn helps the world's cities grow in a sustainable way. KONE Chairman Antti Herlin and President and CEO Henrik Ehrnrooth talk about our sustainability performance in 2017.

Henrik Ehrnrooth (HE): When we look at urban developments around the world today, cities are getting increasingly crowded. More people are moving away from suburbs, to where services and opportunities are closer. In cities there are better opportunities for jobs, education, healthcare and more. The question we need to answer is how do we make cities better places to live?

At KONE, our mission is to improve the flow of urban life and our strategy is to help our customers succeed, which means helping their buildings to become more functional and as user friendly as possible for their users. It is also clear that reducing the impact that cities have on the environment continues to be very important for our customers, too. Sustainability plays a big role in this.

Antti Herlin (AH): There is not one single issue, or one single thing which you could say is more important with sustainability. Good performance is like a chain, with everything interlinked. I believe that sustainability is an important prerequisite for the long-term success of our company.

New technologies change the way cities function and how people behave. What are the impacts of technology development for sustainable business?

HE: Technology gives us the means to serve our customers in an individual way and in the way they want to be served. With technology, predictability and intelligence we can significantly increase equipment performance and reliability. This is important, because with dense urban areas, there are many more people in buildings and a failure of an elevator, for example, can have a very significant impact.

For example, in residential buildings, there are more single occupant apartments and people have completely new expectations from the buildings and environments where they live. On the other hand, most

office buildings today house 30–40% more people than they were originally designed for, and the usual bottleneck you get in a building is elevator capacity.

With new services and solutions launched in 2017, we have a strong role to play in making buildings more resource efficient. With our smart and connected people flow solutions we can be more effective, use energy better and predict needs in advance. For our customers, it is not the technology itself that is important – it is the outcomes that matter, such as making a building become smarter and more user friendly, or equipment perform better.

How does everyone at KONE keep pace with these developments?

HE: It is clear that technology is having a profound impact to KONE. Our objective is to connect our customers, our employees, our equipment and the people who use our equipment. This is significantly changing the roles and expectations for our employees and we need to give them opportunities to learn new skills to master a digital world.

In order to develop these new competencies quickly, we have more than 3,900 training programs and online modules available for our employees. For example we have a very active e-learning platform and over 226,000 e-learning courses were completed in 2017. Many have had the chance to try out new learning methods such as virtual reality, games and mobile apps. We have built a foundation to develop new skills to better serve our customers. As part of this, we are very proud to have been recognized as one of the best employers in the world by Forbes. In 2017, KONE ranked 73rd in a list of 2,000 companies in the World's Best Employers list.

AH: We have been around for over a century and we have had to develop a lot over that time. Actually, 2018 marks

“ We have a strong role to play in making buildings more resource efficient. With our smart and connected people flow solutions we can be more effective, use energy better and predict needs in advance.”

- HENRIK EHRNROOTH

100 years since KONE started building its own elevators for the first time. The years before that, we were installing other manufacturers' equipment.

So we have always had to develop and change. One big factor however, is that I think people are increasingly looking for a place to work where the company shares the same values as their own personal values. Sustainability and social responsibility play a very important role here. So does having a sustainable offering – we invest a lot of money in research and development to produce the most sustainable equipment and services.

In our industry, as in other fields, one of the best qualities to see is enthusiasm and commitment. If you are enthusiastic about something, then you generally want to develop and improve. I think that these qualities are an important part and are very visible in KONE's culture.

Can you reflect on the safety aspects of our business in 2017?

HE: Safety has many important aspects: the safety of our people, the equipment, and the safety of customers and equipment users. We have clear metrics for measuring employee safety performance and it continues to be paramount in

“ For us at KONE, sustainability is nothing new. After all, only sustainable companies can be successful for more than 100 years.”

- ANTTI HERLIN

everything we do. KONE's employees continue to have an ambition to reach zero accidents. In 2017, the IIFR (Industrial Injury Frequency Rate) improved further to 1.9 (2016: 2.1). The average number of lost days per incident improved to 28.9 days (2016: 32.5) and the number of near miss reports increased by 46%.

We continue to work together with customers and equipment users, to promote safety and safe behavior in all aspects of our business. We have opened more training centers around the world and we can see it also has a strong relationship with quality.

It is also important to remember that our employees play a significant role in developing long-lasting customer relationships. KONE's overall Net Promoter Index (NPI) score has risen again. If I look at the survey responses, the biggest driver for recommending KONE is a good customer relationship followed by high quality maintenance services and products.

Over the year, what have been the main impacts on our environmental performance?

HE: When we look at environmental responsibility, installed equipment is the biggest contributor to energy and CO₂



Chairman Antti Herlin (left) and President and CEO Henrik Ehrnrooth (right) at KONE's Annual General Meeting in Helsinki, Finland.

emissions, but the other large direct impact is from logistics and our global vehicle fleet. We are exploring innovative and new ways to reduce the carbon footprint of our vehicles, such as increasing the use of electric vehicles and looking at alternative fuels. All this helps to reduce energy consumption and emissions.

Overall, our absolute carbon footprint has continuously declined over the past many years, relative to sales. We are striving for a good constant development in this area.

The fact is that buildings account for nearly 40% of global energy consumption. And we can see in all parts of the world that sustainability is becoming even more important for our customers, from improving energy efficiency, to local authorities routinely stipulating BREEAM and LEED ratings as part of planning conditions.

Linking back to quality, we are more efficient with our services and installations when we provide the highest levels of quality for our customers. With solutions that meet their needs, they have less interruptions, can provide better services, and save resources.

How would you summarize KONE's approach to sustainability?

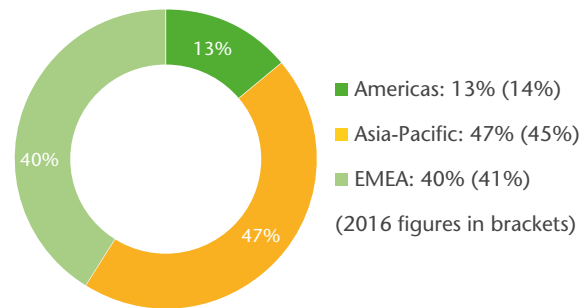
HE: The need to embed sustainability in business will increase from a social, environmental and economic point of view. Sustainability is embedded in not only what we do, but how we do it and we will continue to develop with ambitious and bold targets going forward.

Urbanization will continue. Our strategy is to help our customers succeed, which means helping their buildings to become more functional and as user friendly as possible for their users. The way we develop our sustainability approach at KONE is through our strategy and we want our employees to remain safe and be able to perform in their roles wherever they are.

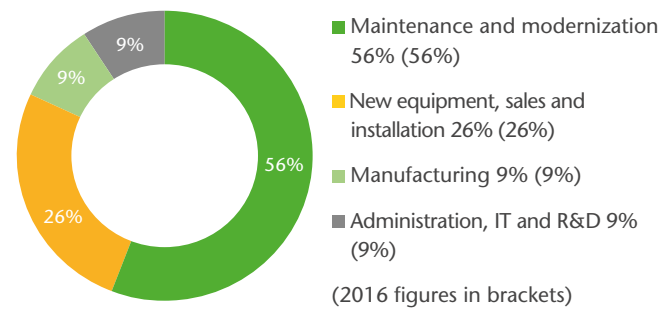
AH: For us at KONE, sustainability is nothing new. After all, only sustainable companies can be successful for more than 100 years. Sustainability means that a company should make every effort to improve its operations. Whether that is energy efficiency, taking care of your own people, or co-creating with customers.

SUSTAINABILITY KEY FIGURES IN 2017

We have employees in over 60 countries, with a majority in Asia-Pacific
Employees by market, 2017



Over half of our employees are in the field every day
Employees by job category, 2017



226,000

e-learning courses completed at konelearning.com

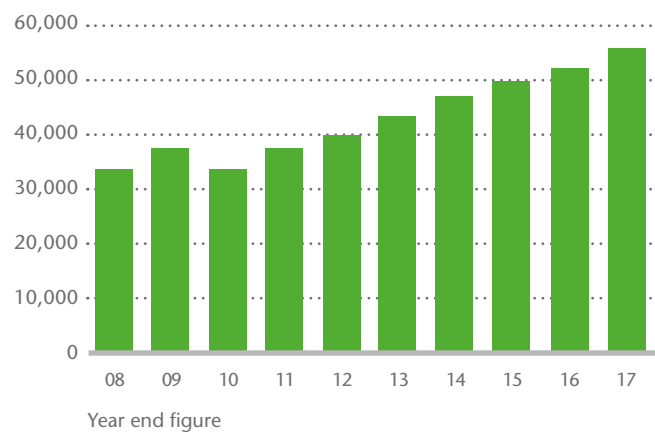
95%

Performance discussions completed with KONE's eligible personnel

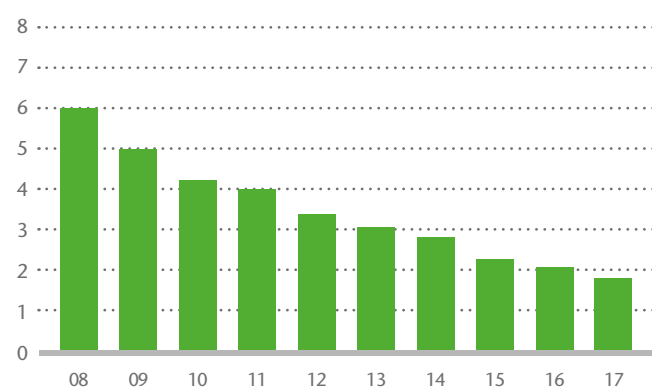
95%

Code of conduct training completion among the target group

Number of employees has almost doubled over the past 10 years

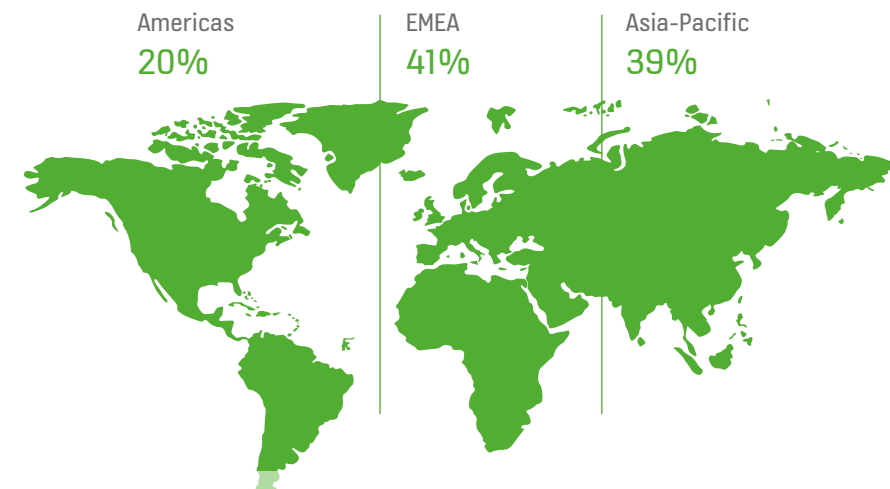


Positive trend in the Industrial Injury Frequency Rate development among KONE employees

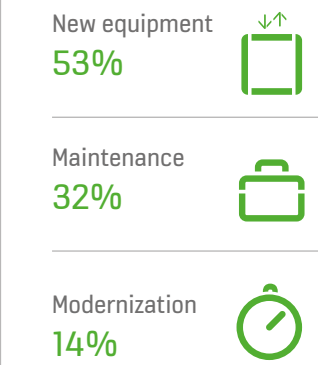


KONE tracks the number of lost time injuries of one day or more, per million hours worked, as a key performance indicator. The IIFR covers KONE's own employees.

We have a wide geographic reach
Sales by region, 2017



Sales by business 2017



KONE operates in Europe, the Middle East and Africa (EMEA), Americas, and Asia-Pacific. The service business accounts for 47% of KONE's revenue, while the new equipment business represents the remaining 53%.

Key financial figures

| | | 2017 | 2016 | change, % | Comparable change |
|-------------------------|------|---------|---------|-----------|-------------------|
| Orders received | MEUR | 7,554.0 | 7,621.0 | -0.9% | 1.7% |
| Order book | MEUR | 8,240.2 | 8,591.9 | -4.1% | 3.1% |
| Sales | MEUR | 8,942.4 | 8,784.3 | 1.8% | 4.2% |
| Operating income (EBIT) | MEUR | 1,217.1 | 1,293.3 | -5.9% | |

Relative operational carbon footprint trend

Data assured externally

| Target: 3% annual reduction relative to net sales* | 2015 | 2016 | 2017 |
|--|-------|-------|-------|
| Overall operations (scope 1, 2, 3) | -4.6% | -4.0% | -0.2% |
| Scope 1, 2 | -8.7% | -4.2% | -2.6% |

*Calculated at comparable exchange rates

100%

of the electricity consumed at KONE's corporate head offices and its manufacturing and R&D sites in Finland, Italy, and the Netherlands is green electricity.

0%

landfill waste at our manufacturing units in China, the Czech Republic, Finland, Italy, Mexico, and the Netherlands.

UP TO 90%

KONE's current volume elevator is up to 90% more energy efficient than our elevators in the 1990s.

CREATING VALUE FOR THE SOCIETY

KONE provides value for the customers through the whole life cycle of the building. In the new equipment business, we offer innovative and sustainable elevators, escalators, automatic building doors and integrated access control solutions to deliver the best people flow experience. In maintenance, we improve the safety and availability of the equipment in operation, and in modernization we offer solutions for aging equipment ranging from the replacement of components to full replacements.

The key growth drivers of the new equipment business are urbanisation and changing demographics. New equipment deliveries are the main growth driver of the maintenance business as the majority of units delivered will end up in KONE's maintenance base. However, KONE also maintains equipment manufactured by others. In maintenance, KONE is also looking to boost growth by introducing services that utilize new technologies to create value for customers in new ways. The main growth drivers for

modernization are the aging installed base and higher requirements for efficient people flow, safety and sustainability. Having a strong maintenance base is crucial for the growth in modernization.

KONE's business model is capital light as the working capital is negative in all businesses and we work extensively with component suppliers to complement our own manufacturing capacity.

The maintenance business is very stable due to high requirements for safety and reliability. The customer relationships

are also typically long and stable (around 95% annual retention rate). New equipment and modernization are more cyclical in nature and follow the construction cycles.

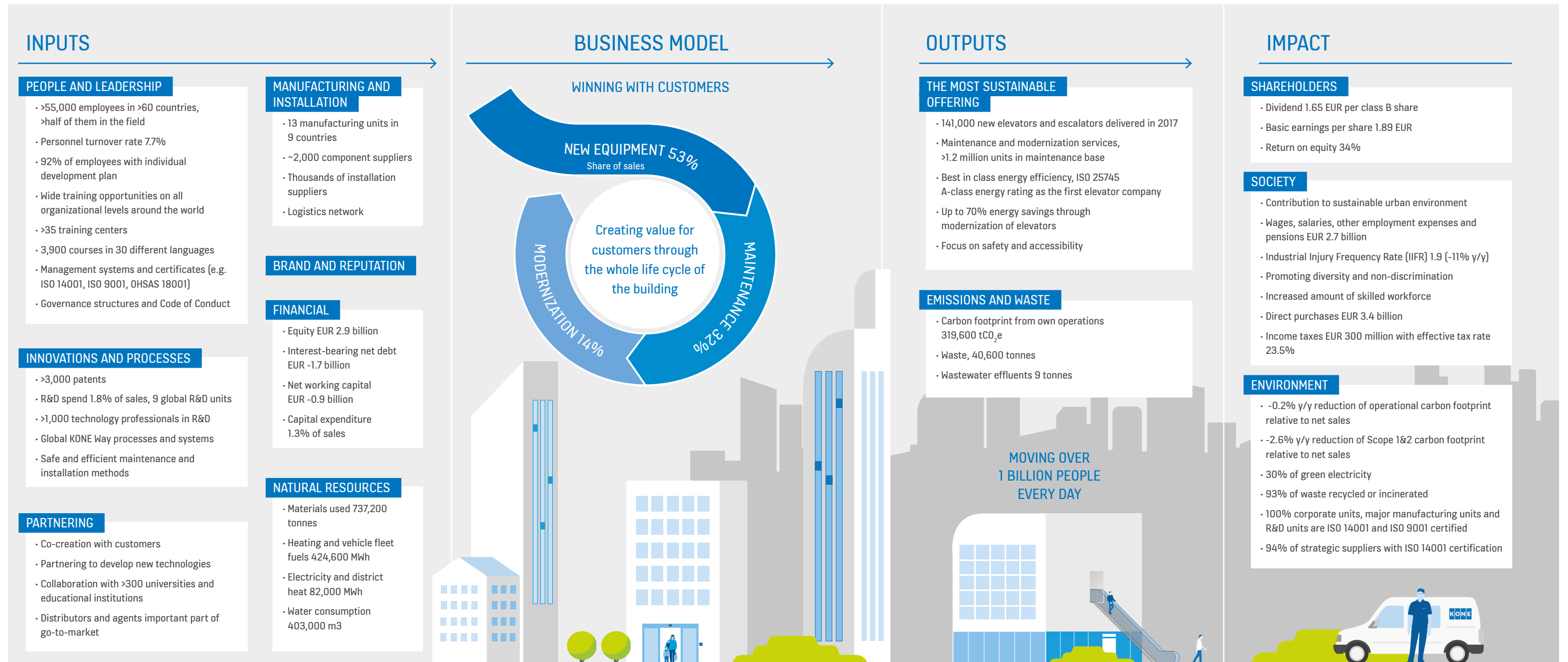
KONE has identified strategic inputs crucial in creating value for customers, shareholders and the society. These are: 1) competent and committed people and strong leadership, 2) innovative, sustainable offering and global processes and systems, 3) best partners, 4) efficient manufacturing and delivery chain as well

as 5) strong brand and solid reputation. In addition to these, KONE sees that the life cycle business model and the existing maintenance base of over 1.2 million units have a crucial role in value creation.

Our aim is to be a leader in sustainability. Increasing energy and resource efficiency is among our top priorities and has an important role in making the most sustainable offering a reality. KONE is committed to proactive safety culture and actively promotes safe practices among our own employees, our partners and the

general public. Although we have a significant direct impact on society, a great deal of our value is created through our large network of suppliers and customers, as well as through use of elevators, escalators, automatic building doors and integrated access control solutions manufactured and maintained by us. Our ultimate goal is to improve the flow of urban life.

CREATING VALUE BY IMPROVING THE FLOW OF URBAN LIFE



WINNING WITH CUSTOMERS – OUR STRATEGY AND MEGATRENDS

At KONE, our vision is to deliver the best People Flow® experience. This means that we make sure that the people who use our products and services, the people who live in towns and cities, can move around more easily, more efficiently and have more enjoyable experiences. Our job is to make the best of the world’s cities, buildings and public spaces, because we believe that cities are part of the solution for a better future. Our mission is to improve the flow of urban life.

Our cities will undergo enormous change, with the UN predicting that 6.3 billion people will be living in cities by 2050. Around 200,000 people move into cities across the globe each and every day. It is by understanding urbanization and focusing on improvements for people that we can create better buildings, better low-carbon cities and a better world.

Rapid technological advancements in connectivity, mobility, and computing power are changing many aspects of our lives. Technological disruption drives change and means a faster pace of business and new expectations for ways of working. New technologies give us a great opportunity to serve our customers in smarter and more exciting ways.

EVERYTHING STARTS WITH THE CUSTOMER

KONE’s strategic phase for 2017–2020 is called “Winning with customers” and it was introduced in the beginning of 2017. The objective is to drive differentiation further by putting the needs of customers and users at the center of all development.

Every one of our customers is different. We want to deliver better value and meet their individual needs. To do this, we are investing more than ever in new technologies, connectivity and new solutions. With new ways of working, partnering and co-creation, we will help our customers improve their businesses.

Four Ways to Win

To bring the strategy to life, we have introduced four Ways to Win with our customers: Collaborative innovation and new competencies, Customer-centric solutions

and services, Fast and smart execution, and finally, True service mindset.

COLLABORATIVE INNOVATION AND NEW COMPETENCIES

To be able to bring new solutions and services to our customers more quickly, we need to collaborate much more with our partners and customers. As we introduce new technologies in order to deliver better value to our customers, we all need to develop new competencies to bring these innovations to life.

CUSTOMER-CENTRIC SOLUTIONS AND SERVICES

Customers choose partners who best understand their changing needs and help them succeed. We understand these needs, and offer flexible solutions and services which benefit customers and users in the best way.

FAST AND SMART EXECUTION

Customers want their partners in construction projects and building services to be professional, fast and reliable. They choose partners that continuously improve and focus on what is essential. We will increase speed and work smarter to focus on activities that are valuable to the customer.

TRUE SERVICE MINDSET

Customers value partners who strive to understand and take action to exceed expectations. We can make a difference by serving our customers better than anybody else.

Each of the Ways to Win has a number of development programs within them, which are the practical way to make progress in our daily work.

KONE Way is our operating model and defines how we implement the Ways to Win and run our business with the right roles, processes, IT tools and data. KONE Way enables us to deliver better service to our customers through speed and consistency.

Accelerate winning with customers

In September 2017, KONE launched its Accelerate winning with customers program to speed up the execution of the Winning with customers strategy and to

support profitable growth. The objective of the program is to create a faster-moving, customer-centric organization that leverages scale efficiently in a rapidly changing environment. The program includes both organizational adjustments, as well as the development and further harmonization of roles, processes and tools.

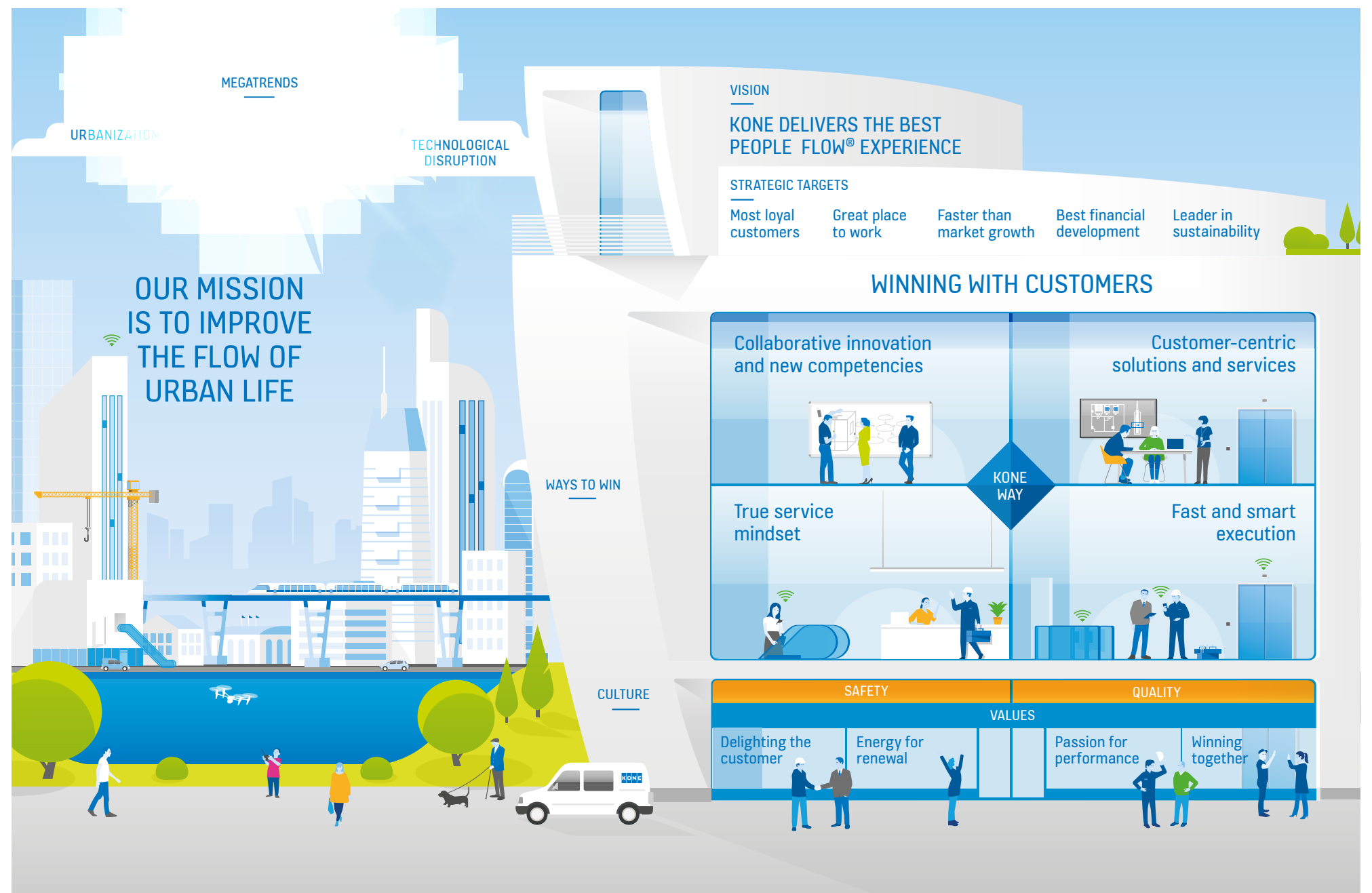
Strategic targets

Our strategic targets are how we measure our success. We aim to have the most loyal customers, be a great place to work, grow

faster than the market, have the best financial development in our industry and be a leader in sustainability.

Our culture

We are passionate about safety, quality, and our values, which together form a strong foundation for our company culture. Our culture builds on our values of delighting the customer, energy for renewal, passion for performance, and winning together.



MANAGING SUSTAINABILITY AT KONE

KONE is committed to conducting its business in a responsible and sustainable way, and we expect the same commitment from all our suppliers. We comply with the laws and rules of the societies in which we operate. Our everyday work is guided by the KONE Code of Conduct and other company policies and guidelines.

Sustainability and its management are the responsibilities of KONE's Executive Board and our President and CEO.

Our management and supervisors work to ensure that our employees are familiar with and comply with the legislation, regulations, and internal operating guidelines of their respective areas of responsibility, and that our products and services are in full compliance with all codes and standards applicable to them.

The assessment and analysis of KONE's most significant risks also covers material non-financial risks. In line with the

requirements of the Finnish Accounting Act, KONE has identified the most significant non-financial risks. Read more about KONE's non-financial risks and their mitigation in our Annual Review, p. 16–18.

| | Management systems and certificates | Management bodies in KONE |
|---|---|--|
| Economic responsibility | Finnish Corporate Governance Code, internal control, internal auditing | Board of Directors, Executive Board, President and CEO, Annual General Meeting, Internal Audit function |
| Social responsibility | KONE Code of Conduct, KONE's Competition Compliance Policy, KONE Supplier Code of Conduct, KONE Distributor Code of Conduct, OHSAS 18001 Occupational health and safety management system | Board of Directors, Executive Board, President and CEO, Internal Audit function, Global Compliance Committee |
| Environmental and product responsibility | ISO 14001 Environmental management system, ISO 9001 Quality management system, ISO 25745 Energy performance of lifts, escalators and moving walks, KONE's Supplier Excellence Certification, ISO 50001 Energy Management System, LEED, BREEAM or other green building certification systems | Board of Directors, Executive Board, President and CEO, Quality and Solution Board |

MEMBERSHIPS AND POSITIONS OF TRUST

KONE is an active participant in organizations developing codes, standards and guidelines for improving safety, accessibility, energy efficiency, as well as other organizations advancing sustainable development. In 2017, KONE continued to be a member or joined the following organizations:

- United Nations Global Compact
- The International Organization for Standardization (ISO)
- Standardization Administration of China (SAC)
- Smart & Clean Foundation: Smart & Clean Helsinki Metropolitan
- The European Committee for Standardization (CEN)
- Standardization committees at the American Society of Mechanical Engineers (ASME)
- International Trade Associations, such as the European Lift Association (ELA), the Pacific Asia Lift and Escalator Association (PALEA), and the National Elevator Industry, Inc. (NEII) in North America
- World Business Council for Sustainable Development (WBCSD)
- Green building councils in the United States, Finland, India, Italy, Romania, Singapore, the Netherlands, Sweden, Vietnam and the Czech Republic
- World Alliance of Low Carbon Cities (WALCC)
- European Round Table of Industrialists' Energy and Climate Change Working Group (ERT)
- Cleantech Finland
- Climate Leadership Coalition
- Council on Tall Buildings and Urban Habitat (CTBUH)
- FIBS Finnish corporate responsibility network and FIBS' Diversity Charter Finland

LISTENING TO OUR STAKEHOLDERS

We work closely with our stakeholders on the various topics of sustainability and maintain an active dialogue with them. KONE's main stakeholders are our customers, employees, shareholders, suppliers, distributors, media, educational institutions, and local communities.

Keeping an open and continuous dialogue enables us to collaborate efficiently and ensures a predictable business environment for all parties.

| Stakeholder group | Channels of dialogue | Assessments and key topics raised |
|---|--|---|
| KONE has over 450,000 customers worldwide. Our main customers are builders, building owners, facility managers and developers. | Customer meetings and events, constant dialogue through solution support, seminars and conferences, company reports, marketing materials, website and social media channels. | Annual global customer loyalty survey: Continued positive feedback on product and maintenance quality and customer service. |
| KONE pays wages and salaries to approximately 55,000 employees in over 60 countries. | Performance discussions, continuous face-to-face dialogue between employees and managers, training events, global learning solutions, innovation creation through innovation tool, European Annual Employee Forum, internal social media channels, company intranet and internal employee publications. | Pulse employee survey, annual performance discussions, idea management system, innovation tool. The Pulse results showed clear improvements in the perceived learning, development, and training opportunities available to employees. Cross-team workgroups continued to drive further development of work processes and collaboration. |
| KONE conducts business with approximately 20,000 suppliers. | Continuous one-to-one dialogue, annual supplier day for strategic suppliers, trade fairs, steering group meetings, supplier workshops. | Annual supplier survey, supplier performance assessment with the Supplier Excellence Certification Program. No material concerns raised, discussions about day-to-day operational issues, for example on how to further improve the logistic processes and quality. |
| KONE pays dividends to over 61,000 shareholders, ranging from institutional investors and companies to individuals, public institutions, and non-profit organizations. | An active and open dialogue: Financial disclosure is provided through stock exchange releases, as well as financial and other company reports. In addition, more personal channels of dialogue include management meetings with investors and analysts, annual general meetings, and capital markets days. We have a dedicated investor relations team at KONE, which coordinates all of KONE's investor relations activities. This ensures a fair and equal access to company information and to its spokespersons. | Some of the most discussed topics with KONE's stakeholders include current and future business performance, KONE's strategy, the development of KONE's end markets as well as KONE's capital allocation. We receive direct feedback from financial market representatives in discussions and meetings, and we collect feedback from the financial community also through surveys. |
| KONE collaborates with authorized distributors in almost 100 countries. | Continuous dialogue through daily contacts, regular country visits, distributors' meetings and various support tools. | Monitoring of sales-related activities and direct feedback from distributors. No material concerns raised. |
| KONE communicates proactively and openly with representatives of the media. | Press releases, interviews, background briefings, visits, press events, publications, company website and social media channels. | Surveys, media analysis, reputation studies. No special issues raised during the reporting period. |
| KONE collaborates with educational institutions locally and globally. | KONE International Trainee Program, CEMS, thesis opportunities, local internships, participation in recruitment fairs, common projects, guest lectures, participation in research programs and social media platforms. | Most attractive workplace surveys, online tracking. Efforts for deepening school collaboration and social media visibility have been increased to further strengthen talent acquisition and employer brand. |
| KONE pays direct taxes, social security, and employer expenses in more than 60 countries. | Social media channels, company website, stakeholder relations, reports. | Sustainability surveys, reputation studies. No special issues raised during the reporting period. |

SUSTAINABILITY FOCUS AREAS AND MATERIAL TOPICS

KONE's sustainability reporting follows the Global Reporting Initiative's (GRI) G4 guidelines. In 2016, we conducted a materiality assessment to update our sustainability focus areas and topics. Those were aligned with new KONE's strategy, "Winning with customers".

The identified topics are ranked in regards to their impact on our value chain, business implications and stakeholder interest. This report is structured to correspond with the focus areas, and the results of the materiality analysis and prioritization are presented in the chart below. Please see kone.com/sustainability for more detailed information about how we identified the material topics.

Global governance and compliance, risk management, stakeholder engagement and proactive communications form the basis of our sustainability framework. These topics cut across all four focus areas, reflecting our continuous efforts towards effective global enforcement and transparency in our communications.

Driving innovation and improving resource efficiency

At KONE, innovations in urban development have an important role in tackling issues such as social progress, economic prosperity and climate change. For example today's cities take up about 2% of the world's land mass, but account for 75% of global energy consumption and 80% of manmade carbon emissions. Reducing the impact urban areas make on the environment is essential for a more sustainable future.

Providing the most sustainable offering

Elevators, escalators and automatic building doors are everywhere in urban areas, and the safety of the millions of people who use them is our first priority. In addition, the quality and eco-efficiency of our solutions is critical. Quality is embedded in everything we do, as we strive to deliver the best customer and user experience. Smart and eco-efficient solutions are a must in combatting climate change and for sustainable and smart urban developments.

Being the best employer and attracting talent

One of our strategic targets is to make KONE a great place to work. We strive to maintain a safe and healthy working environment and foster a collaborative culture, where people are motivated to develop their competencies and deliver the best results. We see diversity as a strength and prohibit discrimination of any kind.

Enabling our partners and societies to prosper

KONE directly contributes to economic development in the countries where we operate. In addition, we work with approximately 20,000 suppliers who provide us with raw materials, components and modules, and logistics and installation services. As a responsible corporate citizen and business partner, we are committed to making a positive impact throughout the whole value chain.

SUPPORTING THE UN GLOBAL COMPACT

KONE is a committed member of the UN Global Compact. "We are dedicated to carrying out business in a sustainable way, and we are active on many fronts with selected organizations, in order to make the best impact," says Henrik Ehrnrooth, President and CEO, KONE Corporation.

"As a member of the UN Global Compact, KONE is committed to upholding its ten principles, which are aimed at promoting sustainability and fairness in the business environment. Our Sustainability Report communicates our progress on some of the specific initiatives across the breadth of our businesses, including

KONE's Code of Conduct, Competition Compliance Policy, and our Environmental Excellence Program. Every day, our solutions help to address the challenges created by urbanization, demographic change, the need for improved energy efficiency, and increased safety demands," Ehrnrooth adds.

UN Sustainable Development Goals

KONE supports the Sustainable Development agenda and its goals.

We have chosen the goals where KONE can make the biggest impact through its own operations, and we have mapped them to our own sustainability focus areas.



BE A LEADER IN SUSTAINABILITY



DRIVING INNOVATION AND IMPROVING RESOURCE EFFICIENCY

- Deep understanding of customer needs
- Sustainable innovations and business models
- Resource efficiency
- Low-carbon operations



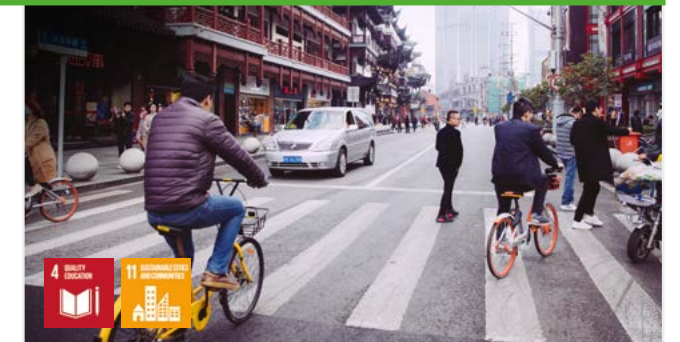
PROVIDING THE MOST SUSTAINABLE OFFERING

- Customer satisfaction
- Product and service quality
- End user safety and accessibility
- Energy efficiency of solutions and life cycle thinking



BEING THE BEST EMPLOYER AND ATTRACTING TALENT

- Competence development
- Fair employment practices
- Motivated and engaged employees
- Diversity and non-discrimination
- Employee safety and well-being



ENABLING OUR PARTNERS AND SOCIETIES TO PROSPER

- Generating long-term returns
- Creating wealth via taxes and employment
- Ethical business practices
- Long-term relationships with our suppliers
- Supporting local communities

Global governance & compliance

Risk management

Stakeholder engagement

Proactive communications

Sustainable social, environmental and economic performance

DRIVING INNOVATION AND IMPROVING RESOURCE EFFICIENCY

At KONE, innovations in urban development have an important role in tackling issues such as social progress, economic prosperity and climate change. For example today's cities take up about 2% of the world's land mass, but account for 75% of global energy consumption and 80% of manmade carbon emissions. Reducing the impact urban areas make on the environment is essential for a more sustainable future.

SUSTAINABLE DEVELOPMENT GOALS RELATED TO THIS FOCUS AREA



G4 INDICATORS RELATED TO THIS SECTION

- G4-EN3: Energy consumption within the organization
- G4-EN6: Reduction of energy consumption
- G4-EN8: Total water withdrawal by source
- G4-EN15: Direct GHG emissions
- G4-EN16: Indirect GHG emissions
- G4-EN17: Other indirect GHG emissions
- G4-EN18: GHG emissions intensity
- G4-EN19: Reduction of GHG emissions
- G4-EN23: Total waste by type and disposal method
- G4-EN29: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations
- G4-EN30: Significant environmental impacts of transport

The iconic Sky Tower in Auckland uses KONE UltraRope®, a revolutionary carbon fibre based hoisting technology. The building, at 328m high, is the tallest man-made structure in New Zealand and the country's most popular tourist attraction.



INNOVATION FOCUS AREAS

In the past, KONE's business has been driven by advances in mechanical engineering. Innovation in today's world is much more. It involves customer-centricity, co-creation, partnering, new collaborative innovation methods, and new, faster processes enabled by new integrated technologies and connectivity. It also means setting new standards for customer service.

At KONE, we have mapped our innovation focus areas in line with universal needs for sustainable and smart urban development: affordable, accessible vertical housing; safe, reliable, efficient infrastructure; improving living standards and convenience; eco-efficiency and sustainability; growing building intelligence, and well-being and happiness are all trends we take into account. Read more in the table below.

Continuous search for new ideas

KONE has made systematic, long-term investments into its research and development (R&D) capabilities. Today we have eight global R&D competence centers which are located in Finland, China, Italy, India, the United States, Mexico, Germany, and the Netherlands, with over 1,100 dedicated technology professionals working for R&D.

Our R&D process is about a continuous search for new ideas and opportunities. Our starting point encompasses a wide variety of sources, the most important ones being our customers, equipment users, and the data we gather from the equipment we service.

Over half of KONE's 55,000 employees are in the field every day serving customers

in more than 60 countries. In addition to these daily interactions, we systematically collect customer feedback from the different phases of the customer relationship.

We also make use of opportunities presented by the market such as the demands of ever-higher buildings and their growing populations, as well as ideas generated through our own innovation processes. KONE also gathers and analyzes market and customer trends in different parts of the world.

Collaborative approach

We take a collaborative approach to innovation. By doing so, and by encouraging new ideas from outside as well as from inside KONE, we develop new skills, identify existing and new challenges and solutions, as well as pilot and commercialize new products and services at a faster pace. We work closely with our customers, partners, universities, and research centers to create value to our customers and end-users. In 2017, KONE organized globally over 400 customer co-creation sessions, 8 hackathons, and a mechathon – a hackathon for mechanical engineers – and sponsored and participated in several hackathons arranged by partners.

Throughout the entire R&D process, eco-efficiency, safety and quality are of utmost importance.

Highlights from 2017

In 2017, we continued to develop our offering, launching both a number of new solutions as well as enhancements to existing ones. During the first quarter of 2017, KONE launched KONE Care™, a unique

elevator maintenance offering designed to meet individual customer needs, and KONE 24/7 Connected Services, which bring more intelligent services to elevators and escalators. KONE Care™, which can be fully customized to meet the individual needs of our customers, brings new levels of flexibility to elevator maintenance. KONE's 24/7 Connected Services uses the IBM Watson Internet of Things (IoT) Platform to bring new added value to customers and enables elevator data to be monitored and analyzed to improve equipment performance. Both the new KONE Care™ service offering and 24/7 Connected Services were made commercially available during 2017 with the roll-out continuing throughout 2018.

The next generation of the inclined KONE TravelMaster™ autowalk was launched, providing easy and safe access for environments with demanding people flow needs. In India, KONE launched a small-machine-room, gearless elevator KONE Neo™ for the residential segment.

In March 2017, KONE unveiled its renewed high-rise elevator testing facility in Tytyri, Finland. The test lab reaches a depth of 350 meters and hosts the world's tallest elevator test shaft.

During the second quarter of 2017, KONE CombiSpace™, a new full replacement elevator solution, was launched for the residential and small-scale commercial segment in Europe and the Middle East. Updates were made to KONE EcoSpace™, an elevator for low-rise residential buildings, in the EMEA region enabling it to be used as a full replacement solution. In North America, enhancements were made to the KONE MonoSpace® 500 elevator

Needs for sustainable and smart living

- Providing innovative, affordable vertical housing to facilitate better living for aging populations as well as the changing needs of inhabitants.
- Maintaining safe and reliable infrastructure. As populations grow, the design of infrastructure needs to be modernized and made more efficient.
- Improving living standards and convenience, especially as the global middle classes increase their income and develop increased expectations.
- Putting more of a premium on eco-efficiency and sustainability, to reduce energy consumption, manage waste and pollution and use materials smartly.
- Smart cities are evolving, buildings and complexes are getting bigger and more complicated; so for instance, heating, cooling and utilities all need to work together. Digital technologies and connectivity can also enable better public services for citizens, better use of resources and increased comfort and reliability.
- Finally, addressing the growing value placed on well-being and better living standards, as people increasingly want to live in harmony with their surroundings.

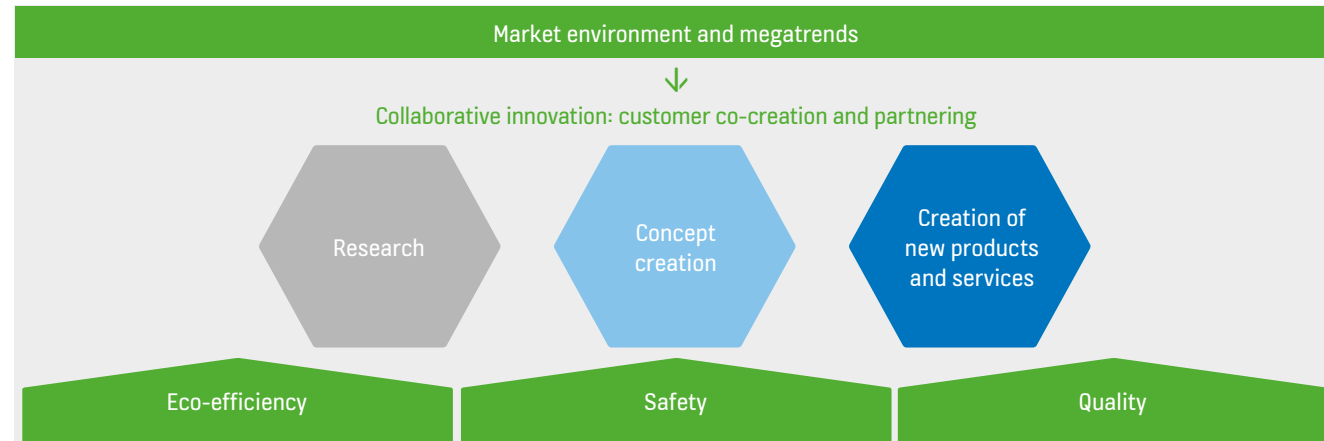
offering for low and mid-rise residential and commercial buildings, enabling integration with KONE's People Flow solutions.

In the third quarter of 2017, KONE launched a new solution for residential developments, KONE Residential Flow. The

solution allows for easy sharing of building information and managing access rights from anywhere. It brings new levels of convenience for homeowners and tenants by using mobile and cloud technologies to connect building doors, elevators,

information channels, and intercom systems via an easy-to-use smartphone application. KONE Residential Flow is being piloted and is commercially available in a growing number of countries.

KONE's R&D process supports innovations



TAKING SERVICES TO THE NEXT LEVEL

KONE has increased investments in new technologies and has broadened its digital capabilities. Our latest product and service launches underline the importance of upgradable and adaptable solutions which make buildings and urban environments more responsive to people and their surroundings.

Enabling sustainable cities

One such innovation is KONE's 24/7 Connected Services, which is revolutionizing the way maintenance services are carried out in the elevator and escalator industry. Built on the IBM Watson IoT platform, the 24/7 Connected Services system enables the secure collection of vast amounts of

data from sensors on KONE's installed equipment. The data is displayed, monitored and analyzed in real time, improving equipment performance, reliability and safety. By boosting efficiency, the equipment's life cycle is extended, which translates into less of a drain on resources. This also means less equipment downtime, fewer faults and the availability of more detailed information on maintenance work.

Read the whole story at
kone.com/sustainability

RESOURCE EFFICIENCY

KONE aims to be a leader in sustainability and we strive for continuous improvement in all our business activities. Increasing resource efficiency is among our top priorities and we always work to do things in smarter ways. We give importance to our natural resource use throughout the whole value chain as this offers significant economic opportunities, brings down costs and boosts productivity. Resource efficiency is very important to our customers, whether it is savings in materials, emissions, or time. It is essential that we create extra value for our customers by resource efficiency.

KONE's environmental policy

Our environmental policy is to provide innovative, safe, high-quality and environmentally efficient products and services. We strive for continuous improvement in all our business operations. In addition to complying with, or exceeding applicable laws, rules, and regulations, we work with our suppliers and customers to increase circular economy opportunities, environmental awareness and minimize our operational carbon footprint as well as

to improve energy, material, and water efficiency. KONE Code of Conduct, the Supplier Code of Conduct, the Distributor Code of Conduct and KONE's Global Facility Policy also set out environmental requirements relevant to our own operations or those of our partners. Read more about our Facility Policy on p. 24.

KONE R&D aims to maximize the positive environmental impacts and minimize the adverse ones throughout the life cycle of our solutions. This extends from raw material extraction to end-of-life treatment such as recycling the materials. We focus on:

- reducing energy consumption
- developing new smart technologies for green buildings

- reducing material use, including packaging and waste
- avoiding the use of hazardous substances
- material durability, non-toxicity, and recycled content
- minimizing water consumption
- ensuring that our products meet green building requirements.

Environmental Excellence program 2017–2021

Our Environmental Excellence program for 2017–2021 supports the ongoing green transformation of the urban environment into smart eco-cities, low-carbon communities, and net zero energy buildings.

LONG-TERM ENVIRONMENTAL TARGETS




PRODUCTS AND SERVICES:
Leader in low-carbon People Flow® solutions for smart eco-cities

OPERATIONS:
Efficient low-carbon operations

Read more about the eco-efficiency of our products and services on p. 30.

View the KONE Environmental Excellence 2017–2021 video at kone.com/sustainability

Environmental Excellence program 2017–2021

| Key initiative | Achievements in 2017 | Target 2017–2021 |
|---|---|--|
| Solutions Our solutions are highly eco-efficient and contribute to green building ratings.  | The best possible A+++ energy efficiency classification according to the ISO 25745-3 energy efficiency standard received for the KONE TravelMaster™ 115 inclined autowalk. Externally verified Environmental Product Declaration according to the new Product Category Rules for KONE MonoSpace® 500 published as the first elevator company in Europe. Green Certification by the Singapore Green Building Council (SGBC) for the KONE N MonoSpace® and KONE N MiniSpace™ elevators renewed and a new Green Certification for the KONE TravelMaster™ 110 escalator achieved. KONE solutions delivered to LEED, BREEAM and other certified green buildings globally. | Further reduction in energy consumption |
| Operations We do business by developing resource efficiency and minimizing carbon footprint of our operations and services.  | In 2017, KONE's relative carbon footprint decreased by 0.2% with sales growth calculated at comparable exchange rates. The carbon footprint of scope 1 and scope 2 greenhouse gas emissions relative to net sales decreased by 2.6%. KONE's carbon footprint data is externally assured. | 3% annual reduction of CO ₂ relative to net sales |
| Culture We build eco-culture together with customers and suppliers.  | KONE was recognized among the top climate change performers by CDP both in their investor and supply chain programs. We were also included in the FTSE4Good ESG index. KONE New Zealand achieved carboNZero™ certification by Enviro-Mark Solutions as the first elevator company. KONE Austria achieved carbon neutrality for 2017–2018. KONE's corporate units, all major manufacturing units, and R&D units are ISO 14001 and ISO 9001 certified. 20 major country organizations are ISO 14001 certified (2016: 20), and KONE's manufacturing units in the Czech Republic and Italy are ISO 50001 certified. 94% of strategic suppliers are ISO 14001 certified (2016: 93%). | CDP Leadership ISO 14001 |

Showing commitment

As a member of the UN Global Compact, KONE supports the Sustainable Development agenda, addressing the social, economic, and environmental dimensions of sustainability. KONE also reports on its sustainability performance annually in line with the Communication of Progress process of the UN Global Compact. KONE's solutions help to address the challenges created by urbanization, climate change, demographic change, and increased safety demands – all covered in the new UN Sustainable Development Goals.

KONE has also signed the Paris Pledge for Action climate initiative, showing climate leadership and commitment to limiting global warming to under 2 degrees Celsius in accordance with the Paris Climate Agreement. In 2017 KONE signed the #BeatPollution pledge of the UN Environment Assembly, aiming towards a pollution-free planet. In addition, a record number of KONE units from over 30 countries participated in WWF's Earth Hour worldwide. During the year KONE also participated, together with other leading companies, in a project where a new methodology for measuring the carbon handprint of a company's solutions is being developed. Results from the project are expected during 2018.

KONE a top climate change performer in CDP 2017

In 2017 KONE was recognized for its actions and strategies in response to climate change. We received a leadership score of A- on climate action and were in the top category for advancing environmental stewardship. The score ranges from A to D and is based on independent assessment against the scoring criteria of CDP, an international not-for-profit organization that drives sustainable economies. In addition to the recognition in CDP's Climate Change program, KONE received a place on CDP's Supplier Climate A List for the second year running in 2017. KONE is proud to have reported in CDP since 2009 and to continuously be listed among the top performers. We have received a leadership score in the Climate Change program for four consecutive years. KONE is one of more than 1,800 companies selected by CDP to form a sample group that is now being used as a baseline for tracking progress in greenhouse gas reductions in line with the Paris Agreement.

Relative operational carbon footprint trend

Data assured externally

| Target: 3% annual reduction relative to net sales* | 2015 | 2016 | 2017 |
|--|-------|-------|-------|
| Overall operations (scope 1, 2, 3) | -4.6% | -4.0% | -0.2% |
| Scope 1, 2 | -8.7% | -4.2% | -2.6% |

* Calculated at comparable exchange rates



LOW-CARBON OPERATIONS

KONE's operational environmental work focuses on resource efficiency and reducing our carbon footprint.

We work together with our suppliers and customers to minimize greenhouse gas emissions and other adverse environmental impacts. We consider the following our most significant environmental risks:

- Controlling the usage of hazardous substances in the supply chain
- Measuring the environmental impact of our solutions during their life-cycle.

Environmental risks are managed by conducting internal and external audits and by regularly tracking compliance requirements and our environmental performance.

Reducing our carbon footprint

KONE's overall carbon footprint relative to net sales decreased by 0.2% compared to 2016, with sales growth calculated at comparable exchange rates. The carbon footprint of Scope 1 and 2 greenhouse gas emissions relative to net sales decreased by 2.6%.

Logistics amounts to 50% of KONE's operational greenhouse gas emissions. In 2017, we were not able to meet the 3% annual carbon footprint decrease target

mainly because of an increased logistics carbon footprint.

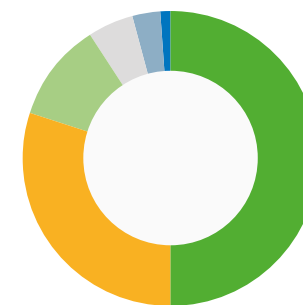
Logistics

Our logistics operations cover the transportation of products from KONE's manufacturing units to our customers and the transportation of modules delivered straight from our suppliers to our distribution centers and onward to customers. In 2017 we delivered over 3.4 million packages to new installation sites, and around 1.4 million packages of spare parts to existing customer sites. 3.4 million packages amount to a weight of 1,370 million kilograms, or 3.3 million cubic meters in volume.

The biggest contributors to the increased logistics carbon footprint in 2017 are:

- Ocean freight increase due to longer distances to sites and an increased weight per delivered elevator/escalator
- Increased air and courier freight from the supply; one of KONE's suppliers had delivery issues in 2017 with the situation improving during the year
- Increased road freight emissions in China due to longer distances to customer sites and changes in our material supplier base.

Logistics amounts to 50% of KONE's operational greenhouse gas emissions



- Logistics 50%
- Vehicle fleet 30%
- Electricity and district heat 11%
- Business air travel 5%
- Heating fuels and cooling gases 3%
- Waste 1%

As positive developments we can see some emission reductions in North America and India.

KONE's logistics operations are based on accurate and timely information at all phases of the delivery chain, and on using distribution models that take eco-efficiency into account. KONE has strict requirements concerning the eco-efficiency of its service providers' operations. KONE's biggest logistics service providers have ambitious environmental programs, and KONE as a customer enjoys the achievements of these programs. Read a case story on how we work with DHL on p. 42.

Vehicle fleet

The total size of KONE's fleet during 2017 was around 16,900, out of which 15,900 (94%) were in the scope of KONE's environmental reporting globally. Service vehicles made up in total two thirds of the fleet while benefit cars accounted for the rest. The reporting scope, covering 26 countries, was extended during the year by adding Greece, Hong Kong, the Philippines, Russia as well as some employee benefit cars from our Italian manufacturing unit to the scope (impact altogether 1,900 tCO₂e). The main reason for the increased carbon footprint related to the vehicle fleet

100%

of the electricity consumed at KONE's corporate head offices and its manufacturing and R&D sites in Finland, Italy, and the Netherlands is green electricity. Other KONE units that purchase green electricity are our Austrian, Belgian, Danish, Dutch, German, Italian, Norwegian, Swedish, and Swiss country organizations. In addition, we have some onsite renewable energy production in the U.S., Italy, Norway, Finland, and China.

30%

of all electricity consumption at KONE facilities is green electricity produced from renewable sources.

225

hybrid cars on the road in the United States.

is the increase of kilometers driven, which in turn results from an increased number of elevators, escalators and automatic building doors under KONE maintenance contracts.

We continuously search for new and innovative ways to reduce the carbon footprint of our vehicle fleet. We have been further exploring the use of alternative fuels and planning for the long-term (2030) restructuring of our vehicle fleet composition. Our aim is to shift from fuel cars to electric vehicles in our fleet as soon as the leasing contract renewal periods allow and the needed infrastructure is in place in those countries where we operate.

Business air travel

In order to reduce the need for travel and to facilitate global virtual collaboration, KONE continues to invest in better online meeting solutions and video conferencing equipment. In addition, KONE carefully considers the need for travel in the first place, and in the second place recommends optimizing the locations of meetings and conferences. In 2017 virtual meeting time increased by 5% compared to 2016. This has been achieved by encouraging KONE personnel to use online meeting tools instead of travel.

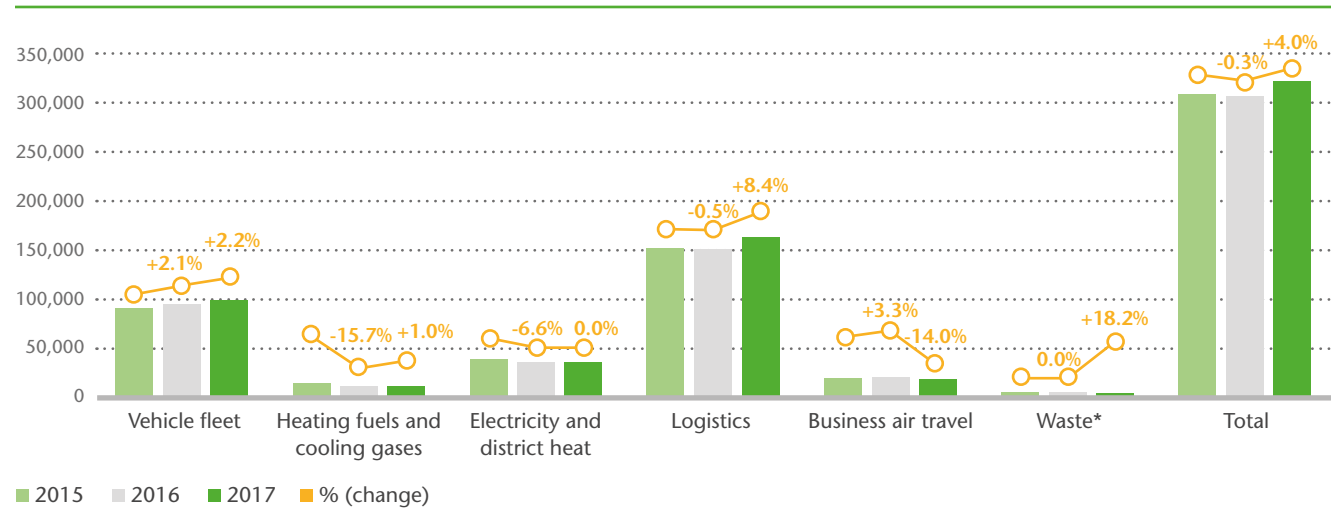
During the second half of 2017 KONE also issued strict travel restrictions, which are reflected in the significant reductions of our 2017 greenhouse gas emissions from business air travel.

Electricity

KONE is committed to reducing electricity consumption in its operations and has set a long-term target to increase the share of green electricity to more than 50% by 2021. Electricity is used in KONE's offices, warehouses, and manufacturing facilities. The reported electricity/district heat emissions 34,100 tCO₂e (2016: 34,100) take into account our usage of green electricity produced using renewable sources (market-based calculation method). Without the use of green electricity (location-based method), our electricity/district heat carbon footprint would have amounted to 38,200 tCO₂e (2016: 39,700).

Absolute operational carbon footprint per category, tCO₂e

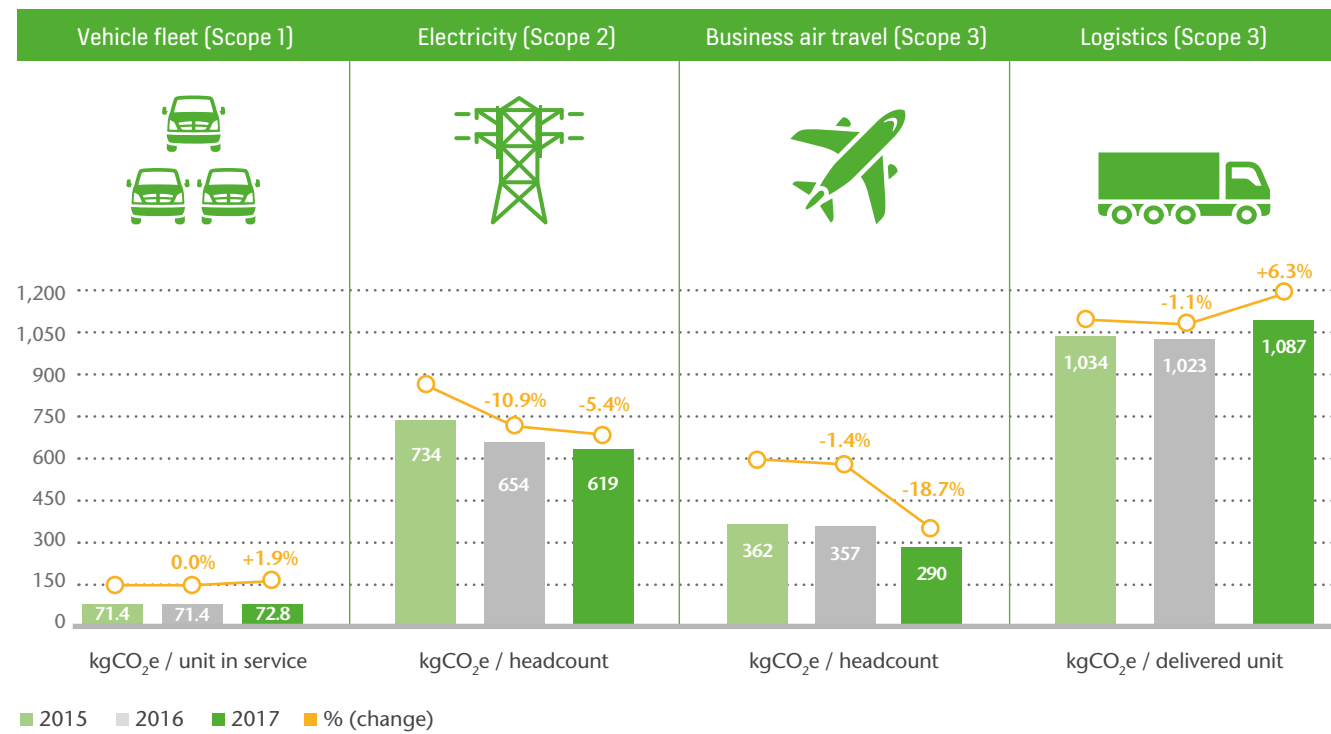
Data assured externally



*Increased waste emissions in 2017 largely due to improved data collection.

Relative operational carbon footprint

Data assured externally



How KONE reduces the environmental impacts of logistics

| Development action | Impact on eco-efficiency |
|--|---|
| Optimized use of transportation networks. | Optimal routing of material through distribution center network and selection of suppliers located close to distribution centers. |
| Waterway and railway transportation prioritized over air freight. | Less CO ₂ emissions per tonne-kilometer. |
| Improved space utilization ratio in loading. | Better load planning of outbound trucks and containers resulting in improved container space utilization, optimization of transportation units used and more products delivered per shipment. |
| Centralized volumes to main suppliers, convenient location of suppliers close to distribution centers. | Fewer transportation routes and improved transportation efficiency ratio. |
| Use of more eco-efficient transportation equipment. | Truck equipment selection from eco-efficiency perspective. Requirement for Euro 4 trucks for European logistics service providers (European emission standard for vehicles). |
| Improved logistics reporting. | Continuous development of reporting methods and tools in collaboration with logistics service providers for optimal use of logistics data. |

How KONE reduces packaging-related emissions and waste

| Development action | Impact on eco-efficiency |
|---|--|
| Optimized packaging to better fit into logistics chain. | More products delivered per transportation unit. |
| Optimized use of packaging materials. | Less packaging material used, more effective waste management, increased recyclability of materials. |
| Management and development of suppliers' packaging. | Less packaging material used, more effective waste management, improved logistics efficiency. |

How KONE reduces the environmental impact of its vehicle fleet

| Development action | Impact on eco-efficiency |
|--|--|
| Compliance with KONE vehicle fleet policy. | Defines maximum CO ₂ emission limits and encourages employees to select vehicles with lower CO ₂ emissions for benefit cars. |
| Selecting fuel-efficient vehicles. | Fuel-efficiency and compactness are the main criteria when renewing our passenger and commercial vehicles. KONE cooperates with suppliers who comply with the Euro 6 emission standard for light passenger and commercial vehicles. The vehicle rightsizing program continued in 2017. KONE has continuously paid attention to selecting correctly sized commercial vans when replacing existing models. The proportion of compact and medium-sized vans in the global fleet continues to grow. |
| Introduction of electric vehicles. | To reduce CO ₂ emissions in the long term, piloting full electric vehicles continued in Norway, France, the UK, and piloting hybrid electric vehicles continued in the United States and the Netherlands. In the US, KONE currently has 225 (2016: 145) hybrid sedans on the road, where in the Netherlands we have around 15 (2016: 15) hybrid vehicles. |
| Driving performance. | KONE monitors the driving performance, such as fuel efficiency and driving behavior, of its service drivers in several European countries and the US. Telematics systems are also in use in the UK and Sweden to increase driver safety and fuel efficiency. KONE also encourages vehicle sharing. Remote monitoring and mobile tools for technicians reduce the need for site visits. |

Waste optimization in the manufacturing chain

KONE's long-term target (2030) for waste management is 0% landfill waste at our manufacturing units.

We aim to reduce the waste generated by our manufacturing processes and offices by:

- Optimizing manufacturing material use by effective use of robotics and automation
- Reusing for example packaging materials
- Recycling waste wherever possible.

Waste is always handled according to applicable laws and regulations, and we aim to exceed legal requirements. 99.2% of the waste generated by KONE's 13 manufacturing units in our environmental data collection scope was recycled or incinerated in 2017. Only 0.8% (2016: 9.7%) was landfilled.

Material management

In 2017, KONE used 737,200 tonnes (2016: 701,200) of materials for producing and packaging its elevators, escalators, and building doors. The figures have been calculated based on life cycle assessment data. We aim to continuously improve our data collection capabilities together with our suppliers in order to provide transparent and reliable information about the material content and environmental impacts of our products to our customers. Read more about our product material use on p. 32.

Water consumption

Water consumption in KONE's production and maintenance processes is minimal, and we aim to further optimize our usage of water. KONE uses municipal water and wastewater is released into municipal treatment systems that abide by local regulations. As with material management,

our aim is to improve our water data collection capabilities together with our suppliers by extending the data collection to our supply chain.

Improving the eco-efficiency of our facilities

KONE has over 1,000 facilities globally, including office spaces and installation and service operation hubs. Our facilities account for approximately 15% of our operational carbon footprint.

We have a Global Facility Policy, which aims at a harmonized approach in the selection and management of our facilities, developing fit-for-purpose facilities and eco-efficient operations, and providing a safe and secure work environment for KONE employees.

According to the policy, our target is to reduce our facility-related carbon footprint by 15% by 2022 (base year 2017). Examples of ways to achieve this target are:

- Improving space efficiency
- Optimizing energy usage in heating, ventilating, air conditioning and lighting systems by using proximity sensors, LED lighting, power-saving practices for IT and office equipment
- Increasing the share of green electricity to a minimum of 50% (onsite production or purchased renewable energy)
- Setting up onsite renewable energy production at manufacturing units
- Improving material efficiency (manufacturing/warehousing/office activities)
- Reducing waste and improving reuse and recycling
- Preferring eco-efficient service suppliers.

In addition, new KONE buildings should be designed according to LEED, BREEAM or other green rating systems. Green buildings should be favored when relocating KONE facilities to existing buildings.

40%

of global CO₂ emissions come from electricity consumption. Corporations are responsible for 50% of that.*

*Source: World Resources Institute (WRI)

0%

landfill waste at our manufacturing units in China, the Czech Republic, Finland, Italy, Mexico, and the Netherlands. In 2017 the landfill waste from our manufacturing was reduced to 120 tonnes in total (2016: 1,300 tonnes).

In 2017 water consumption at our manufacturing units was added to the assurance scope of KONE's environmental data.

Environmental impacts of KONE's operations

Carbon footprint, energy consumption and waste data for all KONE and water consumption at KONE's manufacturing units assured by Mitopro Oy.

| Carbon footprint of KONE's operations, tCO ₂ e | | 2015 | 2016 | 2017 |
|---|--|----------|----------|---------|
| Direct energy (scope 1) | Vehicle fleet | 88,500 | 92,000 | 95,900 |
| | Heating fuels | 10,400* | 9,400* | 9,500 |
| | Cooling gases | 1,100* | 300* | 300 |
| Indirect energy (scope 2) | Electricity consumption and district heat, market-based (location-based 2017: 38,200 tCO ₂ e) | 36,500* | 34,100* | 34,100 |
| Other relevant indirect (scope 3) | Logistics | 149,500* | 148,700* | 161,200 |
| | Business air travel | 18,000 | 18,600 | 16,000 |
| | Waste | 2,200* | 2,200* | 2,600 |
| Total | | 306,200* | 305,300* | 319,600 |

| Energy consumption, MWh | | 2015 | 2016 | 2017 |
|-------------------------|---|----------|----------|---------|
| Direct | Heating and vehicle fleet fuels (heating oil, natural gas, petrol, diesel, biodiesel) | 399,500* | 409,300* | 424,600 |
| | Green electricity | 15,500* | 21,500* | 20,500 |
| Indirect | Other than green electricity | 56,400* | 49,500* | 49,000 |
| | District heat | 13,100* | 14,700* | 12,500 |
| Total | | 484,500* | 495,000* | 506,600 |

| Waste, tonnes | | 2015 | 2016 | 2017 |
|-------------------|--|---------|---------|--------|
| Recycled waste | | 16,300* | 24,300* | 33,700 |
| Incinerated waste | | 2,200 | 2,800* | 4,000 |
| Landfill waste | | 3,000 | 1,900* | 1,900 |
| Hazardous waste | | 800 | 1000* | 1,000 |
| Total | | 22,300* | 30,000* | 40,600 |

| Water consumption, m ³ | | 2015 | 2016 | 2017 |
|-----------------------------------|--|----------|----------|---------|
| Municipal water | | 373,000 | 327,000 | 393,000 |
| Ground water | | 13,000 | 10,000 | 10,000 |
| Total | | 386,000* | 337,000* | 403,000 |

| Wastewater effluents from manufacturing units, tonnes | | 2015 | 2016 | 2017 |
|---|--|------|------|------|
| | | 17 | 13* | 9 |

* Restated due to improved data accuracy or changes in calculation methodology.

PROVIDING THE MOST SUSTAINABLE OFFERING

Elevators, escalators and automatic building doors are everywhere, and the safety of the millions of people who use them is our first priority. In addition, the quality and eco-efficiency of our solutions are critical. Quality is embedded in everything we do, as we strive to deliver the best customer and user experience. Eco-efficient solutions are a must in combatting climate change and responsible consumption.

SUSTAINABLE DEVELOPMENT GOALS RELATED TO THIS FOCUS AREA



G4 INDICATORS RELATED TO THIS SECTION

- G4 EN1: Materials used by weight or volume
- G4-EN7: reductions in energy requirements of products and services
- G4-EN27: Extent of impact mitigation of environmental impacts of products and services
- G4-PR1: Percentage of significant product and service categories for which health and safety impacts are assessed for improvement
- G4-PR5: Results of surveys measuring customer satisfaction
- G4-PR9: Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

KONE is passionate about safety and quality. Safety is a joint effort that involves everyone, from technology and maintenance owners to equipment users.



QUALITY AT KONE

Quality is an integral part of KONE's culture and embedded into all our processes. We work continuously to improve the quality of our products and services throughout the equipment and building life cycle. We want to deliver consistent high quality to make people's journeys safe, convenient and reliable.

We look at all our operations from our customers' point of view and this is also visible in our targets and key performance indicators for quality. Ratings show that quality is among the top reasons for choosing KONE as a partner.

At KONE, everyone is responsible for the quality of their own work. We encourage people to adopt a "quality starts with me" attitude.

Good, solid working practices help us deliver world-class products and services. If there is an issue regarding quality, we investigate the root causes and take immediate action to solve it.

We support our employees so that they have the skills to solve quality issues in the most effective way possible. We give practical guidance to our employees and provide them with effective and easy-to-use problem solving tools. Employees are actively encouraged to take part in improving product quality and processes through an idea management system and Kaizen continuous improvement practices.

Positive feedback on quality

At KONE, we have a systematic way of collecting customer feedback through customer loyalty and transactional surveys. In addition, we for example also measure the ride comfort of our equipment, accuracy of deliveries and percentage of defect-free units. We also analyze data from different sources to improve our own performance and enable smooth journeys for the people using our equipment.

Our net promoter score has developed favorably for several years. In our annual global customer loyalty survey, we have received continued positive feedback on product and maintenance quality and customer service.

Solution creation quality

KONE's new solutions go through several quality and reliability gates before

they qualify to be released to production. This process is applied to all products from electrification and mechanics to software.

Quality in manufacturing and delivery

KONE continuously improves its delivery chain in terms of quality, responsiveness, and efficiency.

In 2017, we implemented a new manufacturing execution system in our escalator factory in China and in our electrification factory in Finland. KONE also continued its 10X better factory program aimed to further enhance the quality of our in-house production and support harmonization of process control activities in production lines. Read more about KONE's supply chain operations on page 40–41.

KONE pays special attention to ensuring our suppliers have excellent manufacturing processes and process controls in place. We audit all of the main suppliers that deliver direct materials to KONE distribution centers or factories on a regular basis.

KONE's installation process quality enables us to monitor the installation quality at different stages of the process. We take corrective action if needed during installation and conduct thorough quality tests to monitor the outcome.

Maintenance quality

KONE develops a unique maintenance plan for each piece of equipment. Each technical module is maintained at appropriate intervals. This enhances quality and end user safety, and minimizes equipment downtime. Clear procedures for call handling, strong, real-time support from the KONE Customer Care Center and detailed reporting and quality control on every site visit strive to guarantee quality in everything we do. About 50 training hours per person per year give KONE service technicians the latest technical know-how of the equipment they maintain.

KONE's 24/7 Connected Services, launched in 2017, sets new standards for customer service. Using IBM Watson IoT platform enables KONE elevator data to be monitored and analyzed to improve equipment performance. These cloud-based services enable us to deliver faster, smarter and more personalized support for our customers worldwide.

The services also enable vast amounts of data from elevator sensors to be monitored, analyzed and displayed in real-time, improving equipment performance, reliability and safety.

Developing quality together with our suppliers

KONE's supplier development and supplier quality management function continuously strives to coach our suppliers to implement best practice quality management methods in their factories. This includes the implementation of process quality control points in manufacturing lines to check specific product and process characteristics that are considered critical to the end product's quality.

When new KONE products or changes to our products are implemented, KONE's supplier operations project managers follow up the implementation with the suppliers' quality and production managers. This helps ensure that aspects related to product and process quality are taken care of and KONE's requirements are met from day one. When suppliers make changes to their products or processes affecting products delivered to KONE, they need to inform KONE about these changes.

On a case-by-case basis, KONE's supplier quality engineers evaluate what kind of evidence is requested in order to check that the change is made in a controlled manner.

To develop our cooperation with our suppliers, during 2017 we have benchmarked the automotive industry. As a result, KONE will for example implement KDA audits (VDA6.3), the German automotive industry quality standard. With these audits we will help our suppliers to improve for example their project management, manufacturing quality control, supplier management and customers claim management. We have also renewed KONE supplier audit content and these new audits will be fully in place in 2018. Another key element that will improve our performance is the implementation of a mistake proofing method, which will help prevent and detect mistakes before they negatively impact our customers.

During the reporting period, we also created a distribution center quality audit process and it was implemented in our distribution centers in China and Italy.

END USER SAFETY AND ACCESSIBILITY

Millions of people use elevators, escalators and automatic building door equipment every day. The safety of those people, and the safety of our employees, is our first priority. It is our strong belief that all incidents are preventable, and we want everyone to return home safe at the end of each day.

A proactive approach

Safety is an integral part of our strategy and we work to develop a culture where people know why and how to act safely and actively promote safe practices. We build a strong safety mindset among our own employees, our partners, and the general public. By shifting from a reactive to proactive safety approach, we have successfully reduced workplace and equipment user injuries.

Safety is a joint effort

Safety is a joint effort that 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. Building owners and maintenance service providers are responsible for making sure equipment is professionally maintained and kept in good condition. Building

owners should, for example, inform service providers if they identify any recognizable hazards, such as abnormal noises or debris on the equipment.

Everyone who uses an elevator or escalator needs to be conscious of their own behavior by for example making sure to hold the handrail and hand of any young children when riding escalators, refraining from blocking closing elevator doors, and stepping away from the doors when they are opening or closing.

Active contribution in standard development

The safety requirements of elevators, escalators, and automatic building doors are largely determined by national and international safety codes and standards. KONE is a strong contributor to the development of codes and standards that aim to further improve equipment safety. We also promote safety through our involvement in industry trade associations around the world. Our experts have, for example, been involved in the planning and development of the main safety standards such, such as EN 81-20:2014 and EN115-1:2017 for elevators and escalators respectively.

The aging of urban infrastructure systems in cities around the world is a major concern for our industry. Many countries have adopted strict standards for

improving safety through modernization of the existing equipment.

Elevator modernization enhances safety, for example, by improving levelling accuracy to prevent tripping and falling, adding electronic sensors to doors to prevent collision with persons, and providing a voice link to the service center to assist passengers, in case of emergencies.

As a technology provider, KONE manufactures equipment that meets applicable codes and standards, and often includes additional safety features that exceed the regulatory requirements.

Accessibility

As populations age, the demand for accessible, safe and convenient People Flow® solutions increases. Buildings and transportation hubs need to be designed and built in a way that enables people with impaired mobility to move around easily. With our elevator solutions, we also help improve accessibility. For example, increased elevator cabin size improves building access for people with baby strollers and those using wheelchairs. We believe that it is our obligation to contribute to the standardization development and improving safety and accessibility for all.

Safety is an integral part of our solutions and operations

We enhance the safety of our products and services through rigorous attention to our design, manufacturing, installation, and maintenance processes. Our policies, processes, and tools enable all our business activities to be organized and conducted in a structured and globally harmonized way.

1 R&D

Safety is embedded in the product development process. Potential safety hazards affecting the products' full life cycle are systematically identified and eliminated before products are introduced to the market.

Existing products are continuously developed to further improve their safety and functionality.

2 SUPPLIERS

KONE has defined clear quality requirements which are continuously measured and followed. (Read more about quality on p. 27.)

In addition, our quality professionals regularly audit key suppliers to monitor the safety and quality of delivered components and products.

KONE's Supplier Code of Conduct requires all of our suppliers to protect the health and safety of their employees.

3 PRODUCTION SITE

KONE enhances the quality and safety of all components used in production by carefully controlling raw materials and production processes.

All of KONE's major production sites are certified to ISO 9001, 14001 and OHSAS 18001 standards.

We make sure that all our production sites are safe places to work, for example,

by using the 5S* methodology and by conducting regular safety training.

4 OFFICE

KONE promotes safety awareness among its employees through health and safety training as well as safety-related internal communication.

Building managers promote and maintain safe and healthy working environments in KONE premises.

5 INSTALLATION

KONE's processes and certified installation methods are designed to enhance the safety of installers and third parties whilst enabling product quality and reliability.

KONE constantly improves the safety, quality and efficiency of its installation processes, for example, by using the Kaizen methodology.

We use continuous training, installation safety and method passport, site audits, and risk-assessed methods to control site safety.

6 USE

KONE supports customers and building owners in promoting the safe use of elevators, escalators and automatic building doors.

We actively communicate about safety with our customers and equipment users.

We organize activities in different parts of the world and provide training along with educational materials to our customers and the general public to help equipment users stay safe. Our safety mascots, Max and Bob, help teach children about the safe use of equipment through events, leaflets, and an animated video and games.

7 MODERNIZATION

KONE develops modernization solutions for upgrading or replacing existing equipment with new solutions that meet or exceed the latest safety standards, improving equipment reliability and user safety.

Products are installed by professional technicians following strict modernization processes.

8 MAINTENANCE

KONE maintains the safety of elevators, escalators, and automatic doors using preventive maintenance methods.

We train our maintenance technicians regularly to ensure they have the required competence to perform their work safely and provide them with mobile tools to have digital access to the latest up-to-date information. Our supervisors continually coach and audit technicians to assure that processes are followed and needed competences exist.

*5S methodology: sort, stabilize, shine, standardize, and sustain.



5 ways to improve elevator safety

- Adequate lighting prevents accidents and makes people feel safer
- A two-way voice communication system improves safety and passengers' peace of mind
- Interior doors and automatic landing doors prevent accidents and improve accessibility
- Accurate stopping prevents people from stumbling on the door sill
- An emergency system includes an alarm with two way phone and an emergency power supply



5 ways to improve accessibility

- By modernizing an elevator, the space inside the car can be increased by 50%
- Wide-opening doors make entry and exit easier for passengers using a wheelchair or pushing a stroller
- Accessories such as handrails and mirrors provide support and help to improve visibility
- Braille signalization and audio announcements help people with hearing and vision impairments
- An elevator can be installed in a building previously without one, in the stairwell or attached to an outside wall



ENERGY EFFICIENT SOLUTIONS AND LIFE CYCLE THINKING

The most significant environmental impact of KONE's business relates to the amount of electricity used by KONE's solutions during their lifetime.

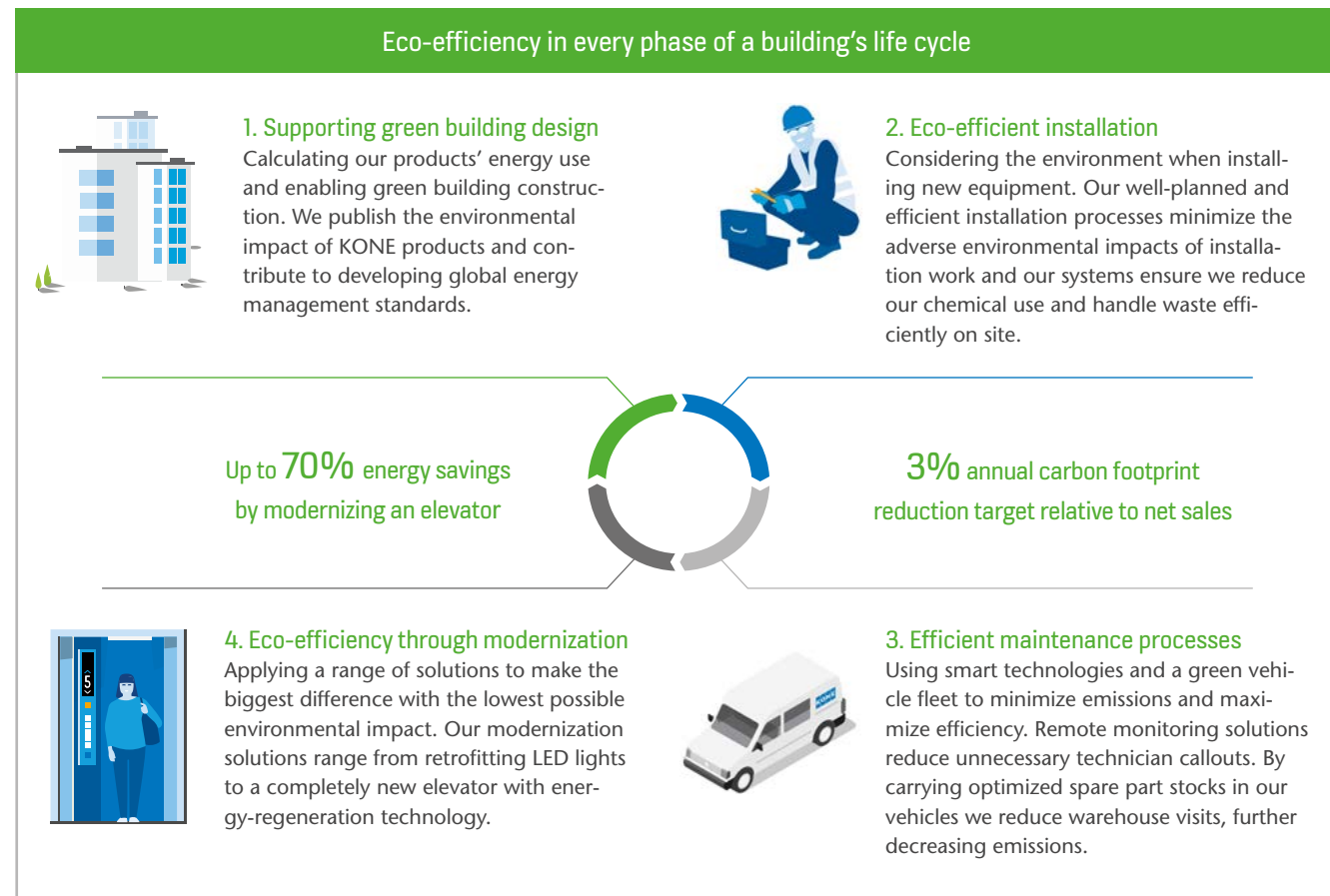
KONE is a pioneer in developing eco-efficient solutions in the elevator and escalator industry. The KONE MonoSpace®500, our current machine-room-less volume elevator, is up to 90% more energy efficient than KONE's elevators from the 1990s.

Elevators and escalators currently in operation are aging, especially in Europe. Equipment over 20 years is expected to increase from 2.2 million units to 3.2 by 2020, representing 60% of the European equipment base (Source: European Lift Association ELA). Elevator modernization can bring vast energy savings. According to the Energy Efficiency of Elevators and Escalators (E4) study supported by the European Commission, energy savings of up to 63% can be achieved by modernizing elevators installed in 1985 or earlier with the best available

technology. On the European level this would amount to 11.6 TWh of saved energy.

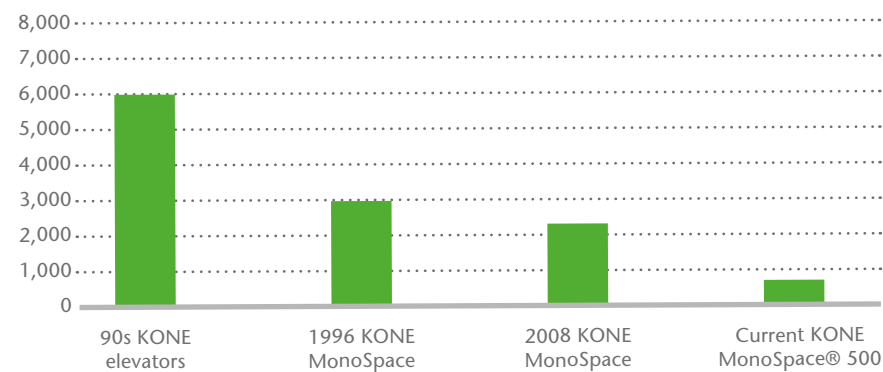
Eco-efficiency in every phase of a building's life cycle

We provide services that help our customers achieve their eco-efficiency goals in every phase of their buildings' life cycle – from designing and constructing buildings to maintaining and modernizing them. We pay careful attention to the way our services are produced and delivered to ensure that they are environmentally efficient.



KONE's current volume elevator is up to 90% more energy efficient than in the 90s

Annual energy consumption (kWh/year)



Calculation is based on: Speed: 1 m/s, load: 630 kg. Since 2008 also: 150,000 starts per year, travel height 9 m, 4 floors. Due to historical reasons, the data for starts, travel height and floors is not available for the 1990s elevators.

Top-class energy efficiency

In 2014 KONE was the first company to achieve the best A-class energy efficiency classification for as many as eight volume elevator installations according to the new international standard ISO 25745 Energy performance of lifts, escalators and moving walks. Currently altogether 11 of our elevator models have received the best A-class classification. In 2017, a KONE TravelMaster™ 115 inclined autowalk installation received the best A+++ classification for escalators and autowalks, in addition to KONE TravelMaster™ 110 and KONE TransitMaster™ 140 which have received the A+++ classification earlier.

Our revolutionary KONE UltraRope® high-rise hoisting technology cuts the energy consumption of a 500-meter elevator ride by 15%. For higher buildings, the energy saving is even bigger.

Green Certification in Singapore

KONE was the first elevator company to receive the Green Certification by the Singapore Green Building Council (SGBC) for its KONE N MiniSpace™ and KONE N MonoSpace® elevators in 2013. In 2017, we renewed our SGBC Green Certification for the KONE N MonoSpace® and KONE N MiniSpace™ elevators and received a new one for the KONE TravelMaster™ 110 escalator. Through the SGBC Green Certification, these products are recommended for Green Mark certified green buildings. Green Mark is a green building certification scheme of the Singaporean Building and Construction Authority, promoting sustainability in the construction and real estate sectors.

A-class energy efficiency according to VDI 4707*



- KONE EcoSpace®
- KONE MonoSpace® 500
- KONE MonoSpace® 700
- KONE N MonoSpace®
- KONE S MonoSpace®
- KONE E MiniSpace™
- KONE N MiniSpace™
- KONE S MiniSpace™
- KONE MiniSpace™
- KONE Double Deck

*VDI 4707 is a guideline published by the Association of German Engineers (Verein Deutscher Ingenieure), which classifies elevators based on their energy consumption.

Best-in-class energy efficiency according to ISO 25745

| Elevator | Building type | Load (kg) | Speed (m/s) | Energy efficiency class (A to G) |
|---------------------|-------------------|-----------|-------------|----------------------------------|
| KONE EcoSpace® | Office | 630 | 0.63 | A |
| KONE MonoSpace® 500 | Residential | 630 | 1.0 | A |
| KONE E MonoSpace® | Residential | 1,000 | 1.75 | A |
| KONE Z MiniSpace™ | Residential | 1,000 | 2.0 | A |
| KONE E MiniSpace™ | Residential | 1,000 | 2.0 | A |
| KONE S MiniSpace™ | Residential | 1,000 | 2.0 | A |
| KONE N MiniSpace™ | Hotel | 1,000 | 2.5 | A |
| KONE MiniSpace™ | Office | 1,000 | 2.5 | A |
| KONE N MonoSpace® | Retail | 1,150 | 1.75 | A |
| KONE S MonoSpace® | Office | 1,150 | 2.5 | A |
| KONE MiniSpace™ | Hotel | 1,200 | 4.0 | A |
| KONE MiniSpace™ | Observation tower | 2,500 | 5.0 | A |

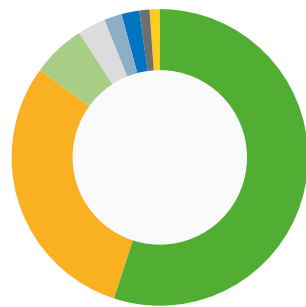
| Escalator | Building type | Rise (m) | Inclination° | Step width (mm) | Speed (m/s) | Energy efficiency class (A+++ to E) |
|-------------------------|-----------------------|----------|--------------|-----------------|-------------|-------------------------------------|
| KONE TravelMaster™ 110 | Retail | 5.0 | 30 | 1,000 | 0.5 | A+++ |
| KONE TravelMaster™ 115 | Retail | 5.0 | 12 | 1000 | 0.5 | A+++ |
| KONE TransitMaster™ 140 | Public transportation | 5.0 | 30 | 1,000 | 0.65 | A+++ |

New Environmental Product Declarations

KONE's environmental responsibility covers the full life cycle of its products from design and manufacturing to installation, maintenance, modernization, and end-of-life treatment.

In 2017, as the first elevator company in Europe, KONE published new Environmental Product Declarations (EPD) for the KONE MonoSpace® 500 elevator according to the new elevator Product Category Rules (PCR). PCR defines common requirements for all elevator manufacturers publishing EPDs, promotes transparency and allows customers to easily compare the environmental impacts of different manufacturers' products. KONE is an active member of the European Lift Association (ELA) working group that published the elevator PCR in 2015.

The environmental impact* of KONE MonoSpace® 500 elevator



- Materials manufacturing 55%
- Energy consumption 30%
- Transport from manufacturing to building site 6%
- In-house manufacturing 3%
- Maintenance 2%
- Installation 2%
- Transport to manufacturing site 1%
- Waste processing 1%
- Outsourced manufacturing 0%

*Global warming potential i.e. carbon footprint

New KONE MonoSpace® 500 Environmental Product Declarations are externally verified and published at environdec.com.

Environmental impacts of KONE's products

| Carbon footprint of KONE's products tCO ₂ e* | 2015 | 2016 | 2017 |
|--|-----------|-----------|-----------|
| Production of materials for products (calculated) | 2,320,000 | 2,364,000 | 3,041,000 |
| Lifetime energy consumption of products ordered from KONE during the reporting year (calculated) | 5,017,000 | 5,034,000 | 4,624,000 |

*2017 figures not fully comparable with previous years due to emission factor revision and other changes in calculation methodology. 2015 excluding automatic building doors.

| Materials used, tonnes | Materials | 2015 | 2016 | 2017 |
|----------------------------------|----------------------------------|----------------|----------------|----------------|
| Manufacturing (calculated) | Metals (steel, aluminum, copper) | 622,900 | 604,100 | 612,500 |
| | Electronics | 29,500 | 29,400 | 33,600 |
| | Miscellaneous | 3,200 | 2,900 | 10,300 |
| | Plastics | 4,100 | 3,900 | 4,800 |
| | Glass | 4,800 | 5,500 | 4,800 |
| | Rubber | 700 | 700 | 700 |
| Packaging (calculated) | Wood | 38,000 | 37,100 | 51,800 |
| | Plywood | 16,000 | 14,800 | 14,300 |
| | Plastics | 1,200 | 1,100 | 1,300 |
| | Cartonboard | 800 | 700 | 1,500 |
| | Miscellaneous | 500 | 400 | 700 |
| Office consumables (actual data) | Paper | 800 | 600 | 900 |
| Total | | 722,500 | 701,200 | 737,200 |

Calculations are based on Life Cycle Assessment data and products ordered from KONE. 2015 excluding building doors.

How one of our volume elevators, KONE MonoSpace® 500 saves energy

- 1 KONE EcoDisc® hoisting machinery is highly efficient and reduces the energy consumption of the elevator.
- 2 Eco-efficient regenerative drive enables energy to be reused within the building and cuts energy consumption up to 35%.
- 3 Long-lasting LED lighting lasts 10 times longer and is 80% more efficient than halogen lighting.
- 4 More advanced standby solutions power down the equipment when not used and provide substantial energy savings, especially in residential buildings with low or medium traffic.

CATERING TO THE INCREASING POPULATIONS OF URBAN AREAS

Cities around the world are witnessing a boom in the construction of new buildings and public infrastructure to create living spaces for the increasing population. The demand, however, often outstrips the supply.

"We cannot look at only new buildings for all the new people in the cities. There are many older buildings that have years of life left in them. If they are modernized to use fewer resources, become more efficient and integrate more seamlessly with their environments, then they can go a long way in catering to the increasing populations of urban areas," says Hanna Uusitalo, environmental director at KONE.

An excellent example is China Plaza 66, which KONE helped to refurbish. Completed in 2001, the building complex is one of the most iconic properties in Shanghai. However, the passage of time was taking its toll and some of the facilities of the property appeared dated. This is what led its developers to decide to modernize the property and turn to KONE for a solution.

KONE used its proprietary technologies to address challenges like increasing energy efficiency and improving people flow. For instance, KONE's ReGenerate800 solution provided greater reliability and safety as compared with the older elevators,

while recovering up to 30% of the energy consumed.

The modernization of China Plaza 66 had immediate and tangible results. It helped reduce operational costs, increased rental value for the owners and enhanced user safety and comfort.

"Why tear down a building that has years of life left in it? Like with China Plaza 66, we certainly have the ability to increase the efficiency of a building and make it use fewer resources and create less of a negative impact on its environment," concludes Uusitalo.

Read the whole story at
kone.com/sustainability

BEING THE BEST EMPLOYER AND ATTRACTING TALENT

One of our strategic targets is to make KONE a great place to work. Our personnel strategy aims to ensure the availability, engagement, motivation and continuous development of our employees. We strive to maintain a safe and healthy working environment and foster a collaborative culture, where people are motivated to develop their competencies and deliver the best results. We see diversity as a strength and prohibit discrimination of any kind.

SUSTAINABLE DEVELOPMENT GOALS RELATED TO THIS FOCUS AREA



G4 INDICATORS RELATED TO THIS SECTION

G4-LA1: Total number and rates of new employee hires and employee turnover by age group, gender and region

G4-LA6: Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender

G4-LA10: Programs for skills management and lifelong learning

G4-LA11: Percentage of employees receiving regular performance and career development reviews, by gender and by employee category

G4-LA12: Composition of governance bodies and breakdown of employees per employee category according to gender and age group

In 2017, KONE was recognized as one of the best employers in the world by business magazine Forbes. Being a great place to work has been one of KONE's strategic targets for years. One of the ways in which KONE works towards this target is by having a strong focus on competence development and leadership competencies.



CONTINUOUS LEARNING

KONE's new strategy, Winning with customers, focuses on putting the needs of our customers and users at the center of all development at KONE. People are key to the new strategy's success, which requires us to develop and obtain new competencies in the fields of digitalization, partnering, understanding customers' businesses and project management.

KONE supports its employees in developing their competencies with over 3,900 training programs and online modules.

Over 6,500 employees had the chance to try out new learning methods such as virtual reality, gamification and mobile toolbox talks.

KONE's global learning management system, konelearning.com makes training options more visible and simplifies the management of certifications, training requirements, and personnel development. Mobile learning is in active use in several countries.

Job rotation is an important way for KONE employees to develop their skills and knowledge. It also helps boost collaboration. Visit-a-job is our concept to drive short-term job rotation across units and countries.

We continued to develop global learning programs for all leaders at KONE, from executives to first line managers. In 2017, we introduced new learning entities related to strengthening an outside-in

perspective, agility, leading change as well as talent and diversity building.

Professional growth

At KONE, we strive to have the best possible professionals with the right competencies in each position. We facilitate this effort through regular performance discussions between individual employees and their managers, which take place at least twice a year. In 2017, over 99% of eligible staff and over 92% of eligible operatives reported in the tool having taken part in performance and development discussions.

In addition to using these discussions to set goals and review job content, KONE managers are advised to discuss employee well-being, as well as career development and growth opportunities.

We actively encourage all employees to prepare individual development plans, and in 2017, we achieved a level of 92% of eligible employees with their development plans in place.

Attracting talent

KONE's apprentice programs in key countries are a good way for us to recruit new professionals. We also collaborate actively with educational institutions.

In 2017, we started a collaboration with several new schools world-wide. We also continued our promoters program to provide information about KONE in schools, universities, and other relevant sites.

The KONE International Trainee Program offers students and graduates opportunities to work on projects at different KONE units around the world. KONE also offers various summer traineeships and thesis opportunities in several countries.

FAIR EMPLOYMENT PRACTICES

At KONE, creating a great place to work means treating every employee fairly and providing a safe working environment.

Clear rewards

Our total reward framework consists of easy-to-understand policies, guidelines, and practices that are aligned with our business strategy and development programs. We invest significantly in a range of monetary and non-monetary rewards offered to employees. This framework focuses on pay for performance and our aim is to make it transparent and to communicate about it clearly. While reward policies are consistent across KONE, the practices are flexible to meet local needs.

The compensation and other benefits of the Board of Directors, President and CEO, and the Executive Board are disclosed in KONE's Annual Review 2017 (p. 58–59).

Employee agreements are managed on a national level, and there are differences in national legislations. Approximately 60% of KONE's employees are covered by collective bargaining agreements.

| Employees, 2017 | |
|--|--------|
| Total number of employees, year end | 55,075 |
| Share of women in employees, % | 12 |
| Share of women in management teams (492 persons), % | 17 |
| Share of women in the Executive Board, % | 7 |
| Share of women in the Board of Directors, % | 38 |
| Total turnover rate, %, compared to 12 month average headcount | 7.6 |

| Gender distribution per market, 2017 | Men | Women |
|--------------------------------------|-----|-------|
| EMEA | 85% | 15% |
| Asia Pacific | 90% | 10% |
| Americas | 89% | 11% |

| Age distribution, 2017 | 30 and under | 31–50 | 51 and above |
|------------------------|--------------|-------|--------------|
| All KONE employees | 33% | 52% | 15% |
| Executive Board | 0% | 60% | 40% |
| Board of Directors | 13% | 13% | 75% |

| Employees per contract type, 2017 | |
|-----------------------------------|-----|
| Employees with Permanent contract | 97% |
| Females with Permanent contract | 97% |
| Males with Permanent contract | 97% |

| Trainings | |
|--------------------------------------|--|
| Training programs and online modules | 3,900 |
| Training centers | 30 |
| konelearning.com coverage | 95% of personnel |
| Completed online courses | 226,000 in 29 different languages |
| International trainee program | 2,054 applications, 12 trainees representing 9 nationalities |

European Employee Forum

KONE organizes the European Employee Forum every year 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 consultation and communication on important developments affecting KONE employees.

In 2017, the theme of the Forum was digitalization and new competencies. Twenty-one employees from 15 European countries participated.

Diversity and non-discrimination

High ethical principles guide all our activities. As an employer, KONE is committed to an equal opportunity approach that places people in the positions that best suit their abilities. We prohibit discrimination of any kind and do not differentiate between job applicants based on their gender, race, or other aspects of their personal backgrounds.

We actively encourage diversity at KONE, and our values guide us in nurturing an inclusive culture. To strengthen our global approach and deepen our insights on customers and markets, we have set goals for cultural diversity in our headquarters teams.

During the reporting year, KONE's workforce included 129 nationalities.

Motivated and engaged employees

At KONE, we believe employee engagement is built on open and timely communication about the company's goals and ways of doing business.

We use multiple channels to interact with employees, motivate them, and encourage collaboration. KONE's global intranet, for example, acts as both a news channel for all the latest news and events as well as a virtual teamwork site.

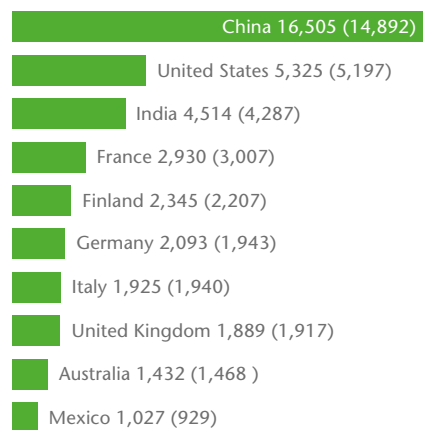
The latest KONE news is also shared through internal video news broadcasts and newsletters.

Measuring workplace satisfaction

The most important metric for employee engagement at KONE is the Pulse employee survey that measures the level of employees' workplace satisfaction. The survey offers our people an opportunity to give feedback and provides insights into their engagement with KONE's core values.

Personnel by country Dec. 31, 2017

10 largest countries (2016 figures in brackets)



The Pulse survey covers topics such as employee engagement, performance enablement, sustainability, strategy and values, leadership, communication and involvement, customer relationships, and growth and development opportunities. In addition, the survey examines how respondents view their jobs, managers, and performance reviews.

KONE's eleventh global employee survey was carried out between December 2016 and January 2017. The survey results were published during the first quarter of 2017 and action plans were made in teams based on the results.

Some 46,000 employees provided feedback in the Pulse survey and we reached a record high response rate of 93% (based on the number of employees at the end of 2016).

EMPLOYEE SAFETY AND WELL-BEING

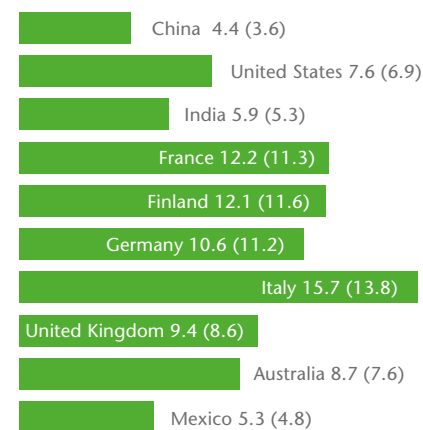
At KONE safety is our highest priority. This means making sure each of our employees has the necessary competence, tools and instructions to perform their work professionally and safely.

Managing safety

Every leader is responsible for providing their team with all the necessary means for working safely. They lead by example, coach and train, ensure accountability and drive safety improvements. Managers perform regular audits to measure compliance with KONE's policies, rules, and defined working methods.

Average workforce tenure in years

(2016 figures in brackets)



Corrective actions are taken if deviations are identified.

At KONE, we recognize and reward safe behavior and share best practices. KONE trains its employees to assess the safety of their tasks and they are empowered to stop work and ask for support if they suspect a safety risk.

KONE employees receive regular training on health and safety, and safety is a key element in all our product and operations training. A wide variety of training solutions are used, from classroom based training and e-learning to on-the-job training. Toolbox talks serve to communicate short refreshers and safety messages to field employees.

Safety is also one of the key topics in communications to employees. For example, KONE organizes a global Safety Week for all employees annually. The week presents KONE employees with different trainings, special events and activities. Many countries also organize events and trainings together with customers and subcontractors during the week.

Safety reporting

Incidents, lost days per incident, and near misses are part of each unit's monthly reporting to global functions.

During 2017, KONE developed a mobile tool to report near misses and incidents. The tool is in use in 47 countries. Local safety personnel analyze the data and use it to implement activities, and improvements in processes and methods.

The root causes of incidents are identified and corrective actions are implemented to prevent the incident or near-miss from being repeated.

Lessons learned from incidents and near misses are shared in quarterly safety network meetings. In addition, safety managers gather monthly to discuss concerns and share best practices.

KONE's Supplier Code of Conduct requires all our suppliers, including subcontractors, to protect the health and safety of their employees.

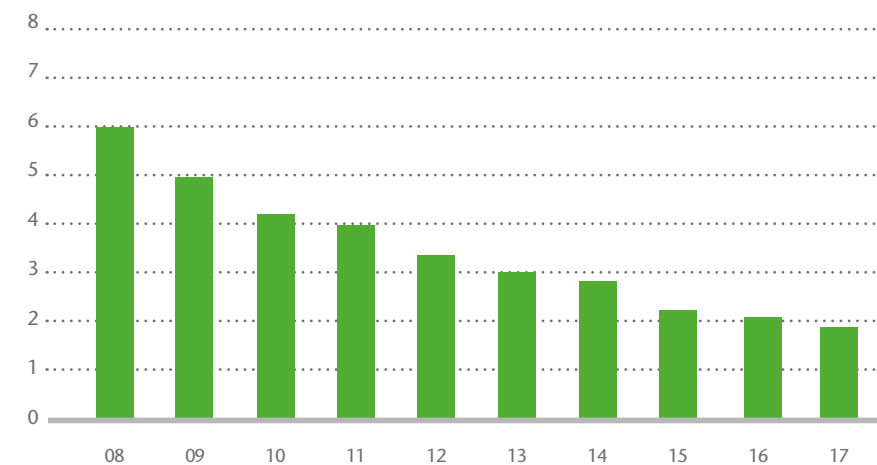
Well-being

KONE has a global framework and program for employee well-being. For us, employee well-being is being physically, mentally and

socially healthy. In the context of work and career, it is about leading a balanced life.

KONE's "Elevate your health" program is in place in all our units. It covers topics ranging from taking care of joints and muscles to weight loss initiatives, the importance of sleep and strengthening your mental well-being.

Industrial Injury Frequency Rate development among KONE employees



A key safety performance indicators, KONE tracks the number of lost time injuries of one day or more per million hours worked, as well as the average number of lost days per incident.

In 2017 our Industrial Injury Frequency Rate (IIFR) fell to 1.9 (2016: 2.1). The IIFR covers KONE's own employees. The average lost days per incident improved as well to 28.9 days (2016: 32.5).



In 2017, KONE was recognized as one of the best employers in the world by business magazine Forbes. KONE ranked as 73rd in the Global 2000: World's Best Employers list.

BUILDING DIGITAL COMPETENCIES

At KONE, we need to continuously enrich the capabilities of our people to make sure that we are able to meet and exceed our customers' expectations. Technology development is speeding up and it holds exciting opportunities for companies. It provides a challenging landscape not just for senior leadership, but for employees as well. KONE is committed to deliver training that will meet shifting skills and competence profiles and unlock the potential in our present and future

employees. Digitalization is making it possible for us to develop new ways of learning and build competences even faster. Motivating and supporting our employees in learning new skills forms a significant part of our efforts to make KONE a great place to work.

The impact of data on the way we work

The availability of all kinds of data – along with the ability to organize and interpret large volumes of it to get

actionable intelligence – is changing the way we work at KONE. As an example, soon 24/7 mobile access to detailed data and analytics on equipment status will keep our equipment, data and people connected. This will help us predict and prevent problems and minimize customer downtime.

Read the whole story at kone.com/sustainability

ENABLING OUR PARTNERS AND SOCIETIES TO PROSPER

KONE directly contributes to economic development in the over 60 countries where we operate. In addition, we work with approximately 20,000 suppliers who provide us with for example raw materials, components and modules, and logistics and installation services. As a responsible corporate citizen and business partner, we are committed to making a positive impact throughout the whole value chain.

SUSTAINABLE DEVELOPMENT GOALS RELATED TO THIS FOCUS AREA



G4 INDICATORS RELATED TO THIS SECTION

- G4-EC1: Direct economic value generated and distributed
- G4-EC6: Proportion of senior management hired from the local community at significant locations of operation
- G4-S04: Communication and training on anti-corruption policies and procedures
- G4-S07: Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes
- G4-S08: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations
- G4-EN32: Percentage of new suppliers that were screened using environmental criteria
- G4-LA14: Percentage of new suppliers that were screened using labor practices criteria

KONE has operations in over 60 countries. As a global corporate citizen, we are fully committed to the laws and regulations of the countries where we operate.



GENERATING LONG-TERM RETURNS

KONE continuously develops its business with a long-term focus. We have a challenger mindset and we are constantly developing our competitiveness in order to strengthen our position as one of the global leaders in the elevator and escalator industry.

Long-term financial targets

KONE has three long-term financial targets: Growing faster than the market, achieving an EBIT margin of 16%, and improving working capital rotation.

We have achieved two of them: In recent years, KONE has grown faster than the market and we have improved our working capital rotation at the same time.

For the 16% EBIT margin, no target date has been set. With our life cycle business model, the short-term focus is on growing absolute EBIT while achieving improved relative profitability over time with growth, further differentiation and productivity gains.

KONE's strong financial performance has enabled increasing dividends to our shareholders. Also with a longer-term perspective, our track record on dividend distribution has been sustainable. KONE had over 61,000 shareholders at the end of December 2017 (Dec. 2016: over 57,000 shareholders).

Creating wealth via taxes and employment

We are committed to paying all taxes that are legally due, and to meeting all disclosure requirements in the countries where we operate. Our objective is to ensure predictability in all tax matters. In addition, every transaction must have a solid business rationale without compromising tax compliance principles. The location of KONE's group entities is driven by business reasons, such as the location of customers, suppliers, raw materials and know-how.

We insist on transparency in all our activities, including our relationships with tax authorities. KONE has been

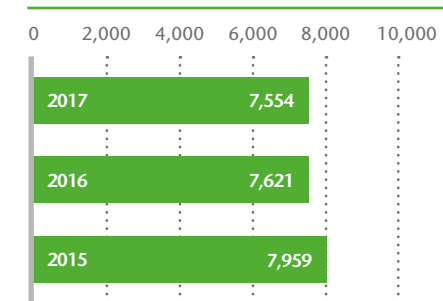
collaborating with the Finnish Tax Authorities in promoting tax transparency since 2015.

KONE's complete tax strategy can be found at kone.com.

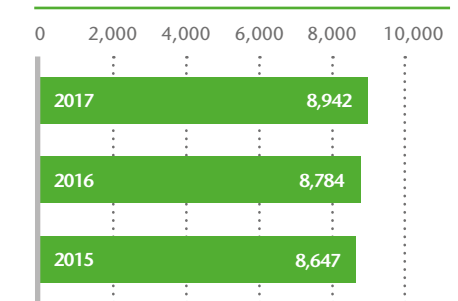
KONE's income taxes globally amounted to EUR 300.1 (307.7) million in 2017, with the ten largest countries by sales accounting for 80% of the corporate taxes. Income taxes of the Finnish KONE companies totalled EUR 68.4 (56.7) million in 2017.

Our largest direct economic impacts come from the employment opportunities we provide. KONE is a global company with global processes and guidelines, but our operations are at the same time very local. In our subsidiaries, management and field personnel are predominantly local. In 2017, the largest KONE countries by the number of employees were China, the United States and India. Read more about our people on p. 34–37.

Orders received (MEUR)*

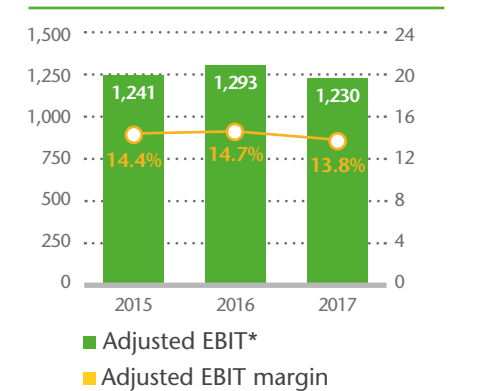


Sales (MEUR)

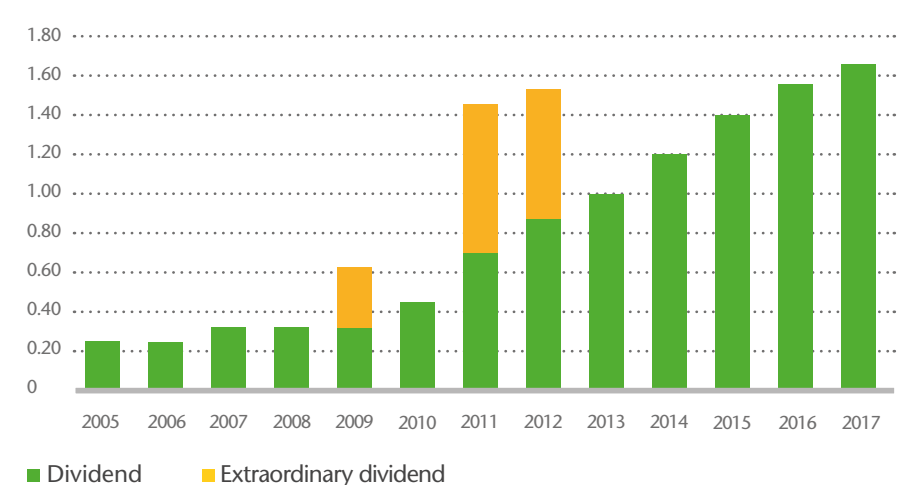


*Orders received do not include maintenance contracts.

Adjusted EBIT (MEUR) and adjusted EBIT margin (%)



KONE class B share dividend per share, 2005–2017 EUR



Read more about KONE's financial performance in our Annual Review 2017.

* In September 2017, KONE introduced a new alternative performance measure, adjusted EBIT, to enhance comparability of the business performance between reporting periods during the Accelerate program. Restructuring costs related to the Accelerate program are excluded from the calculation of the adjusted EBIT.

KONE's largest individual shareholder is Antti Herlin, Chairman of KONE's Board of Directors, who controls over 20% of the share capital and over 60% of votes. For KONE's domestically registered major shareholders, see monthly updated list on kone.com.

KONE's economic impacts in 2017



2016 figures in brackets.

ETHICAL BUSINESS PRACTICES

KONE has operations in over 60 countries and collaborates with authorized distributors in over 80 countries around the world. As a global corporate citizen, we are fully committed to the laws and regulations of the countries where we operate. The KONE Code of Conduct sets out our company's commitment to integrity, honesty, and fair play.

KONE's global presence makes it crucial for us to ensure that we have clear compliance rules and guidance in place, which enable us to conduct business in an ethically and socially responsible manner throughout our entire value chain.

The KONE Code of Conduct

The KONE Code of Conduct (the Code) is an integral part of KONE's culture and defines our standards of ethical conduct. The Code addresses what is expected of KONE employees and KONE companies. It also explains how we conduct our business in a responsible and ethical manner in order to win and retain customer trust. The KONE Code of Conduct is on kone.com in over 30 languages.

KONE's Competition Compliance Policy

KONE's Competition Compliance Policy promotes the principles of fair competition that are presented in the Code of Conduct. The policy details our unambiguous position against anti-competitive practices. It sets out the rules and principles that all KONE employees must follow to ensure that we comply fully with competition laws. The Competition Compliance policy is available in over 30 languages.

KONE Supplier and Distributor Codes of Conduct

KONE's Supplier Code of Conduct 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 the environment. KONE expects its suppliers to conform to 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. KONE may terminate its contracts with suppliers if they fail to adhere to the Code.

All our new suppliers must sign KONE's Supplier Code of Conduct. It is available in over 20 languages and can be found at kone.com/suppliers.

As KONE's business partners, our distributors are expected to comply with the requirements of the Distributor Code of Conduct in all their dealings with KONE, as well as in respect of their own employees, customers and suppliers, and third parties including government officials. The KONE Distributor Code of Conduct is available in four languages.

Training and awareness building

All KONE employees are expected to understand and abide by the Code and to report any violations using the channels available for this purpose. During 2017, KONE introduced an additional confidential externally hosted reporting channel, the Compliance Line, where employees can report concerns either by phone or web. Reports can be made in the employee's native language and the Compliance Line can be used anonymously where permitted by local law.

All KONE employees who have daily access to a computer are required to complete the Code of Conduct online training. In 2017, the completion rate for the target group was 95%. Regular face-to-face

Stakeholders

| | |
|--|--------------------|
| Employees | 2,030 (1,962) MEUR |
| Creditors | -58 (-36) MEUR |
| Public sector | 994 (979) MEUR |
| Shareholders | 849 (795) MEUR |
| Economic value retained in the company | 126 (226) MEUR |

compliance training is also provided to managers and other target groups. For example, in 2017 over 1,600 employees in China, over 450 employees in India, and 104 employees in Sourcing received face-to-face compliance training.

A selected group of employees is also required to complete Competition Compliance online training based on their role and position in the company. They include members of KONE's Executive Board and employees involved, for example, in management, sales, sourcing, and trade association related activities. Individual business units can nominate additional participants when necessary.

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.

INDUSTRY-LEADING SUPPLY CHAIN

In 2017 KONE had nine production sites for elevators, escalators and building doors, 10 global distribution centers for elevators, and five distribution centers for spare parts.

KONE's supply chain operations cover new equipment production, modernization, and spares supply. We also work closely with selected key material suppliers and logistics service providers. Approximately 4,600 people keep KONE's supply operations running.

KONE improves its supply chain continuously. In 2017 the implementation of a new manufacturing execution system (MES) continued and at the moment, the MES has been taken into use in our factories in China and Finland. It is a computerized system that is used to track and

document the transformation of raw materials to finished goods. The MES provides information that helps understand how current conditions on the factory floor can be optimized to improve production output and implement production quality improvements. KONE also started a project to develop its long-term product life cycle management.

The 10X Better Factory program continued aiming to further enhance the quality of our in-house production and to support the harmonization of process control activities in production lines.

Investments in production automation, especially in factories in Italy, Finland, the Czech Republic and China, continued.

The volume ramp-up of KONE's newest factory in Allen, Texas, was completed during 2017. First opened in 2016, the new site enables more efficient logistics operations due to reduced transportation distances. KONE's project to build a second factory in India has moved to the construction phase which will continue during the year 2018.

In logistics, the connections between China and Europe have developed significantly. There are currently several direct rail connections between the two continents, and the latest one is direct route from Finland to China. This is important because it allows us to minimize the usage of air freight and we have already achieved significant results in this regard in 2017.

Responding to customers' needs

We adapt our supply chain to take customers' different requirements into account. One of the latest examples of this involves packaging development, where we are working on solutions to allow us to better accommodate various customer needs and make installation as smooth as possible.

We collect customer feedback on the quality performance of our supply chain operations systematically and analyze it using Six Sigma tools before taking corrective action.

According to the global NPI Customer Loyalty Survey we carry out each year, our efforts to achieve supply chain excellence have been successful from the perspective of both product quality and installation quality. However, one of KONE's suppliers had delivery issues in 2017, with the

situation improving during the year. KONE and the supplier worked to mitigate the impact to KONE's customers. This was one of the reasons contribution to the fact that we were not able to meet the 3% annual carbon footprint decrease target.

Better quality and productivity through learning

At KONE, we employ a set of techniques and tools to improve the productivity and quality of our operations. By applying Lean and Six Sigma philosophies, we are able to reduce waste and control process variation throughout the entire supply chain as well as in product and process transitions.

In the supply line the trainings during 2017 focused especially on overall capability development. A large number of employees gained new skills when they received Kaizen training as part of Kaizen events.

Each production unit completed many corrective actions as part of a continuous improvement program with a greater focus on full chain activities. We have also continued our Lean Capability Process Control & Zero Defect activities by conducting regular assessments and setting targets and action plans.

We continued implementing and maintaining the 5S* method in our offices, factories, installation sites, and distribution centers. Furthermore, we have developed a Lean manual and a management model of continuous improvement in implementing these principles.

Several hundred Lean and over 100 Six Sigma projects were also successfully completed in 2017. To date, over 280 KONE employees have qualified as Six Sigma Green Belts and Black Belts, and the training continued during 2017 in the same way as in previous years.

LONG-TERM RELATIONSHIPS WITH OUR SUPPLIERS

We seek to build long-term relationships with our suppliers and customers. Our supplier relationships provide business opportunities and employment for thousands of suppliers globally.

KONE only produces selected components in-house, and our own production consists largely of the assembly of sourced components. Our suppliers and their sub-tier suppliers are a critical part of KONE's

Each year, KONE delivers over 3.4 million packages from distribution centers to installation sites, and around 1.4 million packages of spare parts from distribution centers to customer sites. 3.4 million packages amount to a weight of 1,370 million kilograms, or 3.3 million cubic meters in volume.

Top 10 supplier locations¹

- China
- Italy
- Finland
- United States
- Austria
- India
- Czech Republic
- Estonia
- Mexico
- Germany

¹ Suppliers that provide products for new equipment to KONE distribution centers and factories.

supply chain. Our approximately 20,000 suppliers provide KONE with raw materials, components, modules, and logistics and installation services. In addition, there are approximately 10,000 suppliers who deliver indirect materials and services to KONE.

All our new suppliers must sign KONE's Supplier Code of Conduct and all our strategic suppliers are required to comply with ISO 14001 certification.

*5S methodology: sort, stabilize, shine, standardize, and sustain.

Managing relationships with our suppliers

We purchase approximately 80% of our raw materials, components, and systems supply for new equipment production from approximately 120 suppliers, the majority of whom are located in the same countries as KONE factories or distribution centers.

Our aim is to build long-term relationships with our suppliers. We manage them according to a tailored approach that evaluates their importance to KONE. This is done through the regular, critical assessment of multiple factors such as the business scope and spend with the supplier, their innovation potential, the criticality of the materials or services they provide, the supply chain situation, and KONE's investment or integration level with the supplier.

Based on the supplier's status, our management and measurement techniques include audits, assessment and mitigation of supplier-related risk, the use of standardized contractual agreements that include the KONE Supplier Code of Conduct, the assessment of supplier performance, and supplier certification.

Read more about KONE's Supplier Code of Conduct on page 40.

Supplier audits

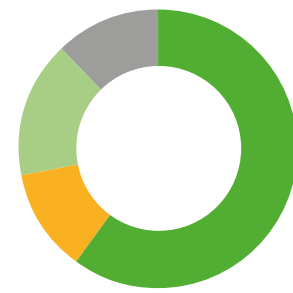
All of the main suppliers of direct materials to KONE distribution centers or factories undergo regular audits. Of KONE's strategic suppliers, 93% were audited in 2017.

We review our audit plan every year to prioritize and schedule audits according to our business needs. The audits are scheduled to check on changes in products or production processes, to validate follow-through on improvement initiatives, to assess quality and environmental management systems – especially when suppliers are not ISO certified; or to preaudit the suitability of potential suppliers.

Assessing supplier risks

KONE's sourcing risk monitoring system is based on a thorough assessment of suppliers, including analyses of their financial and business viability and their dependence on business from KONE. We also work closely with our strategic suppliers to find competitive raw material price levels.

Breakdown of material and service purchases from our suppliers



Total 4,812.6 MEUR

- Direct materials and supplies 58.8% (58.8%)
- Subcontracting 13.0% (12.7%)
- Other production costs* 14.4% (14.3%)
- Selling, administrative and other expenses** 14.1% (14.2%)

* Mainly freight and packaging costs as well as other variable costs such as utilities, tools and operatives related costs.

** Related to for example administration expenses, covering IT, marketing, trainings, and insurances.

PROSPERING THROUGH A STRATEGIC COLLABORATION

The key to KONE's successful logistics operations is having accurate and timely information available at all phases of the delivery chain. Reducing the environmental impact of transportation through route and shipment optimization – and through careful analysis of eco-efficient transportation modes – is also an important focus area. This is made possible by utilizing the internal expertise as well as support from our key logistics service providers, such as DHL, who have similar ambitious targets.

Our products and components need to be delivered effectively to more than 450,000 customers across

the globe. While these journeys can be extensive and complicated, we do our best to minimize the carbon footprint of our operations and services.

To carry this out, KONE has been collaborating with DHL for nearly a decade, working together to solve a wide range of logistics challenges. This co-operation involves KONE's new equipment business and service business areas.

Working smarter together

"The foundation for the collaboration around sustainability and operational improvement starts with the monthly performance report that all of

KONE's key logistics service providers are required to provide, covering all modes of transport, including also the carbon footprint for each shipment," says Timo Skötsch, KONE's global customer manager at DHL Customer Solution & Innovation.

Read the whole story at www.kone.com/sustainability

During the reporting year we developed and piloted a new risk engineering audit concept that covers for example:

- Facility risks such as fire risks and risks related to the main machinery
- Production risks such as production transfer possibilities, buffer stocks and business continuity management
- IT risks such as cyber risks
- Natural hazards
- Second tier supplier risks
- Financial risks.

Assessing supplier performance

We monitor the performance of our main suppliers of our direct production materials through a monthly KPI measurement and follow-up process. We also run a supplier scorecard system that evaluates key suppliers of direct materials. The results of the scorecards represent a balanced view of quantitative and qualitative performance criteria from a number of angles, such as quality, cost and logistics, for example.

We regularly discuss performance evaluations with our suppliers. When their performance does not meet our expectations, we initiate corrective actions or development projects and conduct follow-ups.

Supplier Excellence Certification

We aim to maintain a supply base that complies with international quality and environmental standards as well as the standards of KONE. We expect all of our key suppliers' factories to attain Supplier Excellence Certifications.

KONE's Supplier Excellence Certification Program assesses key suppliers' sites, examining aspects that include environmental and quality management systems, performance scorecards, and supplier audit results. ISO 14001 and ISO 9001 compliance are also assessed.

In 2017, 97% of our strategic supplier factories were ISO 9001 certified, and 93% of them had ISO 14001 certifications.

SUPPORTING LOCAL COMMUNITIES

The KONE Centennial Foundation (KCF), an independent, non-profit organization founded by KONE in celebration of its 100th anniversary in 2010, focuses on innovative programs that advance and support developmental, educational, and cultural activities for children and youth

around the world. KCF cooperates closely with local partners and a designated project coordinator in each country to plan and monitor projects, aiming to ensure efficient resource allocation and respect for local culture and priorities. Wherever possible, KCF chooses projects where local KONE units can contribute practical support and KONE volunteers can participate in their spare time.

Supporting programs globally

Currently, KCF is supporting programs in China, Finland, India, Mexico, South Africa and Thailand. In addition, KCF continues to support teacher exchanges and exceptional schools such as the Dandelion School in Beijing as well as providing matching funds for appropriate fund-raising initiatives by KONE employees around the world.

The Foundation's first project was the creation of a mobile library serving children of migrant workers in China's cities. Now in its seventh year of operation, the mobile library continues to bring the joy of reading to thousands of children with severely limited access to books. Through cooperation with the Hangzhou Children's Library and the Beijing Normal University, the mobile library has expanded its services to children with limited access to appropriate reading material.

After four years of cooperating with the Rotary Club of Madras to support a youth center located in an inner-city slum in Chennai, KCF's focus shifted at the end of 2016 to an area closer to the new KONE India factory. KCF and KONE India, in collaboration with the Single Teacher Schools organization, now support 20 micro-schools in rural villages. Support is expanding to include sanitation facilities and other improvements in these communities, which will create a better living environment for the children and their families.

The Westbury Youth Centre (WYC), located between downtown Johannesburg and Soweto, was founded in 2012 in an initiative backed by KCF and Finland's Ministry of Foreign Affairs. Located in a secondary school hostel that had been empty for years, WYC serves hundreds of school-leavers and unemployed youth as well as students from the Westbury Secondary School. Programs range from classes in computer skills, media

production and entrepreneurship to actual start-up creation and incubation, urban gardening and theatrical productions.

In Mexico City, KCF has been supporting Xico Arte, a local archeology and art-against-violence collective, since 2015. The organization sends young trainees into schools in troubled communities in the surrounding Valle de Chalco to teach local history and traditions and hold art workshops. With help from KCF, Xico Arte has formalized its status as a not-for-profit association in 2017 and improved its operating procedures and administrative practices.

In 2017 KCF began supporting the Zero-to-Hero (Z2H) Foundation's child development program in the rural Na Yom region of Thailand, north of Bangkok. This innovative program combines Finnish early childhood development best practices with a deep understanding of local Thai culture and traditions to involve the population of entire villages in providing educational opportunities for local children and ensuring a healthy start to their lives.

The refugee crisis unleashed by the war in Syria brought more than 32,000 asylum seekers to Finland in 2015. KCF joined forces in 2017 with The Shortcut, a community organization in Helsinki that promotes diversity as an engine for growth. KCF agreed to provide funding for coding and entrepreneurship courses for young asylum seekers and immigrants run by The Shortcut out of its facilities in the tech center located in the former Maria Hospital.

Cooperation with KONE companies and KONE volunteers

Although KCF is an independent entity, cooperation with KONE companies and the participation of KONE volunteers are central to its ability to meet its objectives. KCF welcomes enquiries and initiatives from KONE employees and appreciates the enthusiastic cooperation it receives from KONE companies in the countries where it supports ongoing projects.

REPORTING SCOPE

KONE has chosen to report using the Global Reporting Initiative (GRI) guidelines in order to facilitate easier comparison of our performance with other companies and to streamline our own corporate responsibility reporting efforts. KONE has published Sustainability Report annually since 2008. The previous report was published in April 2017.

The report follows GRI (G4) reporting guidelines as far as they are applicable, and covers economic, social, and environmental responsibility. A table detailing how this report complies with the GRI guidelines is shown on pages 46–47. We have self-declared our reporting to be in accordance with the Core level.

The reporting period corresponds with the calendar year and with KONE's financial year of January 1–December 31, 2017. When developing the report content and choosing indicators, the driver has been the materiality to KONE's operations. During 2016, we conducted a materiality analysis and defined the focus areas for KONE's sustainability work (see more on p.

14). KONE's approach to sustainability has also been described in the Interview with the chairman and the president and CEO on p. 4–5, and in the strategy description on p. 10–11.

All major local and regional organizations and all production units are included in the reporting scope. All financial data and a significant proportion of the employee-related data has been collected through KONE's enterprise resource management and financial reporting systems. All financial figures presented in this report are based on KONE Corporation's consolidated and audited Financial Statements.

The personnel data is provided by our HR organization – with the exception of the data relating to gender and age distribution in management.

The facility-related environmental data has been collected from KONE's 13 manufacturing units worldwide and from 31 country organizations with sales, installation, and service operations in Asia-Pacific, EMEA, and North America. The collected environmental data covers 85% (2016:

86%) of all KONE's employees and 100% of employees working at our manufacturing units. Business air travel data, covering 31 countries and over 95% of our employees, has been collected from KONE's five biggest travel agencies. Vehicle fleet fuel consumption data has been collected from 26 countries, representing 94% of the total fleet. The logistics data covers the transportation of products from KONE's manufacturing units to customers and the transportation of modules that are delivered straight from our suppliers to our delivery centers and onward to customers. Spare part deliveries are also within the reporting scope. Inbound logistics of materials to KONE's manufacturing sites is excluded from the reporting scope because of its insignificant impact. KONE prefers material suppliers located close to our manufacturing units and distribution centers, and a large part of the modules are delivered directly from suppliers to KONE distribution centers. The quality and coverage of data provided by our logistics suppliers has over the years continuously improved.

KONE has been using an environmental performance software system since 2011. In 2017, we changed to a new system provided by one of the world's leading EHS system vendors. The facility-related environmental data has been collected from branch offices using a customized data collection spreadsheet consolidated on the country level. The country-level data as well as the data from manufacturing units and global functions has been entered into the environmental performance system. The data has been further consolidated globally. Product and spare parts logistics data has been calculated using an in-house logistics emission calculation system developed by

KONE's global logistics team. The environmental performance has been reported 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). RES-GO guarantees of origin subject to EECs (European Energy Certificate System) have been acquired for the purchased green electricity. KONE's greenhouse gas emissions and water consumption at KONE's manufacturing units

have been externally assured by Mitopro Oy. The emission factors are based on the data sources of DEFRA (UK Department for Environment, Food & Rural Affairs), World Resources Institute GHG Emission Factors Compilation, and AIB European Residual Mix Report. Due to the reporting system renewal and a change of some emission factor sources for 2017, the Scope 1 and 2 and Scope 3 waste emission figures are not fully comparable with the previous years.

We welcome any feedback on this report or our overall sustainability performance – please contact corporate communications at contact@kone.com.

INDEPENDENT ASSURANCE STATEMENT

To the Management and Stakeholders of KONE Oyj

Scope and Objectives

The Management of KONE Oyj commissioned us to perform a limited third-party assurance engagement regarding greenhouse gas emissions inventory including Scope 1, 2 and 3 emissions and water consumption data ("Selected information") disclosed in KONE's Sustainability Report ("Report") for the period of 1st January to 31st December 2017. The assurance engagement was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 revised – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'.

Responsibilities

KONE is responsible for the collection, calculation, and presentation of the Selected information according to the reporting criteria. The Management of KONE has approved the Selected information disclosed in the Report. Our responsibility as assurance providers is to express an independent conclusion on the Selected information subject to the limited assurance engagement. The reporting criteria used for our assessment include the following guidelines and standards:

- Greenhouse Gas Protocol. A Corporate Accounting and Reporting Standard,
- Greenhouse Gas Protocol Scope 2 Guidance,

- Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting, and
- Global Reporting Initiative's Sustainability Reporting Guidelines (4.0).

Assurance Provider's Independence and Competence

We have conducted our assessment as independent and impartial from the reporting organisation. We were not committed to any assignments for KONE that would conflict with our independence, nor were we involved in the preparation of the Report. Our team consists of competent and experienced sustainability reporting experts, who have the necessary skills to perform an assurance process.

Basis of Our Opinion

Assurance providers are obliged to plan and perform the assurance process so as to ensure that they collect adequate evidence for the necessary conclusions to be drawn. The procedures selected depend on the assurance provider's judgement, including their assessment of the risk of material misstatement adhering to the reporting criteria.

Our opinion is based on the following procedures performed:

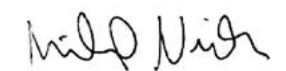
- Interviews with KONE specialists responsible for data collection and reporting of the Selected information

- Review of Group-level systems and procedures to generate, collect and report quantitative data on the Selected information.
- Assessment of Group-level calculations and data consolidation procedures and internal controls to ensure the accuracy of data.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.

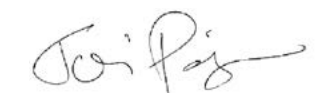
Conclusion

Based on the work described in this report, nothing has come to our attention that causes us to believe that the Selected information disclosed in KONE Sustainability Report 2017 is not reliable, in all material respects, based on the reporting criteria.

Helsinki, Finland, 28th March 2018
Mitopro Oy



Mikael Niskala
Independent Sustainability Expert



Tomi Pajunen
Independent Sustainability Expert

KONE FOCUS AREAS AND GRI G4 ASPECTS

| KONE Focus Areas | GRI G4 Aspect (G4-19) | Boundary | |
|---|---|---|--|
| DRIVING INNOVATION AND IMPROVING RESOURCE EFFICIENCY <ul style="list-style-type: none"> • Deep understanding of customer needs • Sustainable innovations and business models • Resource efficiency and life cycle thinking • Low-carbon operations | Aspect: Energy Aspect: Water Aspect: Emissions Aspect: Effluents and Waste Aspect: Compliance Aspect: Transports | Within the Organisation (G4-20) KONE Operations (Manufacturing units + 30 Country organisations) | Outside the Organisation (G4-21) Indirect (Scope 3) Energy use and GHG Emission sources |
| PROVIDING THE MOST SUSTAINABLE OFFERING <ul style="list-style-type: none"> • Customer satisfaction • Product and service quality • End user safety • Accessibility • Energy efficiency of solutions | Aspect: Materials Aspect: Energy Aspect: Products and services Aspect: Customer Health & Safety Aspect: Product and Service Labeling Aspect: Compliance | KONE Operations | Customers |
| BEING THE BEST EMPLOYER AND ATTRACTING TALENT <ul style="list-style-type: none"> • Fair employment practices • Competence development • Motivated and engaged employees • Diversity and non-discrimination • Employee safety and well-being | Aspect: Employment Aspect: Occupational Health & Safety Aspect: Training and Education Aspect: Diversity & Equal Opportunity | KONE Operations | Subcontractors |
| ENABLING OUR PARTNERS AND SOCIETIES TO PROSPER <ul style="list-style-type: none"> • Creating wealth via taxes and employment • Generating long-term returns • Supporting local communities • Ethical business practices • Long-term relationships with our suppliers • Diversity and equal opportunity | Aspect: Economic Performance Aspect: Market Presence Aspect: Anti-corruption Aspect: Anti-competitive Behavior Aspect: Compliance Aspect: Supplier Environmental Assessment Aspect: Supplier Assessment for Labor Practices | KONE Operations | Community Suppliers / Strategic suppliers |

GLOBAL REPORTING INITIATIVE INDEX

| COMPARISON WITH GLOBAL REPORTING INITIATIVE GUIDELINES | | | |
|--|---|------------------------|--|
| GRI G4 Standard Disclosures | Page | Further information | |
| Strategy and Analysis | | | |
| G4-1 | Statement from the Chairman and the President and CEO | 4-5 | |
| G4-2 | Description of key impacts, risks, and opportunities | 4-5, 8-9, 10-11 | Annual Review p. 17-18 |
| Organizational Profile | | | |
| G4-3 | Name of the organization | Back cover | |
| G4-4 | Primary brands, products, and services | 3, 8-9, 31, Back cover | www.kone.com/en/company/in-brief/cover |
| G4-5 | Location of the organization's headquarters | Back cover | |
| G4-6 | Countries where the organization operates | 3, 36 | www.kone.com/en/company/in-brief/ |
| G4-7 | Nature of ownership and legal form | 3, 39 | www.kone.com/en/company/organization/ |
| G4-8 | Markets served | 3 | www.kone.com/en/company/in-brief/ |
| G4-9 | Scale of the organization | 3, 39 | |
| G4-10 | Workforce | 3, 35-36 | |
| G4-11 | Employees covered by collective bargaining agreements | 35 | |
| G4-12 | Supply chain | 40-43 | |
| G4-13 | Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain. | 10-11, 40-43 | No significant changes |
| G4-14 | Addressing the precautionary principle | | Annual review, Board of Directors' report, p. 17-18. KONE is committed to the UN Global Compact's ten principles. We address the precautionary principle, especially in areas involving environmental risks. |
| G4-15 | External charters, principles or initiatives endorsed | 12, 15, 20 | |
| G4-16 | Memberships of associations | 12 | |
| Identified Material Aspects and Boundaries | | | |
| G4-17 | Entities included in the organization's consolidated financial statements | | Annual Review 2017, Subsidiaries and associated companies, p. 77-79 |
| G4-18 | Process for defining the report content and the Aspect Boundaries. | 14, 44-45 | www.kone.com/sustainability |
| G4-19 | Material Aspects identified | 14-15 | |
| G4-20 | Aspect Boundary within the organization | 44 | |
| G4-21 | Aspect Boundary outside the organization | 44 | |
| G4-22 | Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements | 44-45 | Reported in connection with the indicators in question |
| G4-23 | Report significant changes from previous reporting periods in the Scope and Aspect Boundaries. | 44-45 | |
| Stakeholder Engagement | | | |
| G4-24 | List of stakeholder groups engaged by the organization | 13 | |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | 13 | |
| G4-26 | Organization's approach to stakeholder engagement. | 13 | |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement | 13 | |
| Report Profile | | | |
| G4-28 | Reporting period (such as fiscal or calendar year) for information provided | 44 | |
| G4-29 | Date of the previous report | 44 | |
| G4-30 | Reporting cycle (such as annual, biennial) | 44 | |
| G4-31 | Provide the contact point for questions regarding the report or its contents | Back cover | |
| G4-32 | Report the 'in accordance' option the organization has chosen. | 44 | |
| G4-33 | Report the organization's policy and current practice with regard to seeking external assurance for the report. | 45 | GHG Emissions assured externally |
| GOVERNANCE | | | |
| Governance structure and composition | | | |
| G4-34 | Governance structure and committees | | Annual Review 2017, Corporate Governance Statement, p. 80-83 |
| G4-35 | Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees | 12 | |
| G4-36 | Executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body. | 12 | |
| G4-38 | Composition of the highest governance body and its committees. | | Annual Review 2017, Corporate Governance Statement, p. 80-83 |
| G4-39 | Position of the Chair of the Board | | Annual Review 2017, Corporate Governance Statement, p. 80-83 |
| HIGHEST GOVERNANCE BODY'S ROLE IN SETTING PURPOSE, VALUES, AND STRATEGY | | | |
| G4-42 | Board's role in setting the organisation's purpose, values and strategy | | Annual Review 2017, Corporate Governance Statement, p. 80-83 |
| Highest governance body's role in risk management | | | |
| G4-45 | Board's role in the identification and management of risks | | Annual Review 2017, Corporate Governance Statement, p. 80-83 |
| Highest governance body's role in sustainability reporting | | | |
| G4-48 | Formal approval of the organisation's sustainability report | | Sustainability Report is reviewed by KONE's management and approved by the President and CEO. |
| Remuneration and incentives | | | |
| G4-51 | Remuneration policies for the highest governance body and senior executives | | Annual Review 2017, Corporate Governance Statement, p. 80-83 |
| Ethics and integrity | | | |
| G4-56 | Values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics | 12, 40 | www.kone.com/en/company/vision-and-strategy/ |
| G4-57 | Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organizational integrity | 40 | |
| G4-58 | Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour | 40 | |

| Disclosures on Management Approach (DMA) | Page | Further information and Omissions | |
|--|---|--|--|
| G4-DMA | Generic disclosures on management approach (dma) | Generic DMA: p. 12, and by category and aspects DMA: 39 | |
| ECONOMIC | | | |
| Economic Performance | | | |
| G4-EC1 | Direct economic value generated and distributed | 9-39 | |
| G4-EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change | 19-20 | Annual Review p. 17 |
| Market Presence | | | |
| G4-EC6 | Proportion of senior management hired from the local community at significant locations of operation | 34-36 | Percentage not reported, local hiring practices described |
| Procurement Practices | | | |
| G4-EC9 | Proportion of spending on local suppliers at significant locations of operation | | Performance indicator G4-EC9 is not material for KONE. Purchasing practises described in the DMA. |
| ENVIRONMENTAL | | | |
| Materials | | | |
| G4-EN1 | Materials used by weight or volume | 32 | |
| Energy | | | |
| G4-EN3 | Energy consumption within the organization | 25 | |
| G4-EN6 | Reduction of energy consumption | 20-25 | |
| G4-EN7 | Reductions in energy requirements of products and services | 30-33 | |
| Water | | | |
| G4-EN8 | Total water withdrawal by source | 24-25 | |
| Emissions | | | |
| G4-EN15 | Direct GHG emissions (SCOPE 1) | 20-25 | |
| G4-EN16 | Indirect GHG emissions (SCOPE 2) | 20-25 | |
| G4-EN17 | Other indirect GHG emissions (SCOPE 3) | 20-25 | |
| G4-EN18 | GHG emissions intensity | 22 | |
| G4-EN19 | Reduction of GHG emissions | 20-25 | |
| Effluents and Waste | | | |
| G4-EN23 | Total waste by type and disposal method | 24-25 | |
| Products and Services | | | |
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | 30-33 | |
| Compliance | | | |
| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | | No significant fines or sanctions regarding non-compliance with environmental laws and regulations. |
| Transport | | | |
| G4-EN30 | Significant environmental impacts of transport | 20-25 | |
| Supplier Environmental Assessment | | | |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 42 | Percentage of strategic suppliers audited reported |
| SOCIAL | | | |
| LABOR PRACTICES AND DECENT WORK | | | |
| Employment | | | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender and region. | 35-36 | Total number of employees and employee turnover by age group, gender and region reported. |
| Occupational Health and Safety | | | |
| G4-LA6 | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | DMA: 29, 36-37 | Industry injury frequency rate (IIFR) and average lost days per injury reported. Occupational diseases, absenteeism, and total number of work-related fatalities, by region and by gender not reported in this report. All injuries, including fatalities, are reported to the local authorities according to the local regulations. |
| Training and Education | | | |
| G4-LA10 | Programs for skills management and lifelong learning. | 35 | |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category. | 6,35 | |
| Diversity and Equal Opportunity | | | |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender and age group. | 35-36 | |
| Supplier Assessment for Labor Practices | | | |
| G4-LA14 | Percentage of new suppliers that were screened using labor practices criteria | 42 | Amount of strategic suppliers audited |
| SOCIETY | | | |
| Anti-corruption | | | |
| G4-SO4 | Communication and training on anti-corruption policies and procedures | 40 | Part of code of conduct training |
| Anti-competitive Behaviour | | | |
| G4-SO7 | Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes | | Annual Review, Board of Directors' report, p. 18 |
| Compliance | | | |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | | No significant fines or sanctions during the reporting period. |
| PRODUCT RESPONSIBILITY | | | |
| Customer Health and Safety | | | |
| G4-PR1 | Percentage of significant product and service categories for which health and safety impacts are assessed for improvement | 29 | |
| Product and Service Labelling | | | |
| G4-PR5 | Results of surveys measuring customer satisfaction. | 5, 27 | |
| Compliance | | | |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | DMA: 27 | No significant fines during the reporting period |

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