

HELPING CITIES GROW SUSTAINABLY

Sustainability Report 2018

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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.


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 life cycle. KONE’s equipment moves over 1 billion users each day. 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, and have 1.3 million elevators and escalators in our service base. Key customer groups include builders, building owners, facility managers and developers. The majority of these are maintenance customers. Architects, authorities and consultants are also key influencers in the decision-making process regarding elevators and escalators. In 2018, KONE had annual net sales of EUR 9.1 billion, and at the end of the year over 57,000 employees. KONE class B shares are listed on the Nasdaq Helsinki Ltd.




2018 SUSTAINABILITY HIGHLIGHTS



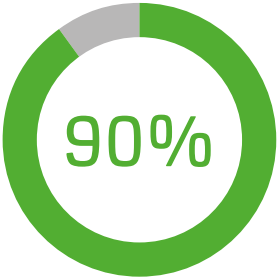
Among top climate change performers according to Carbon Disclosure Program with A or A- score for the sixth consecutive year



Ranked as one of the world's most innovative companies by Forbes




Included in the FTSE4Good Index Series



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

14

Elevator models with A-class ISO 25745 highest energy efficiency ratings and three escalator models with the best A+++ classification



33% of all electricity consumption at KONE facilities comes from renewable sources

-4.0%

Overall relative operational carbon footprint

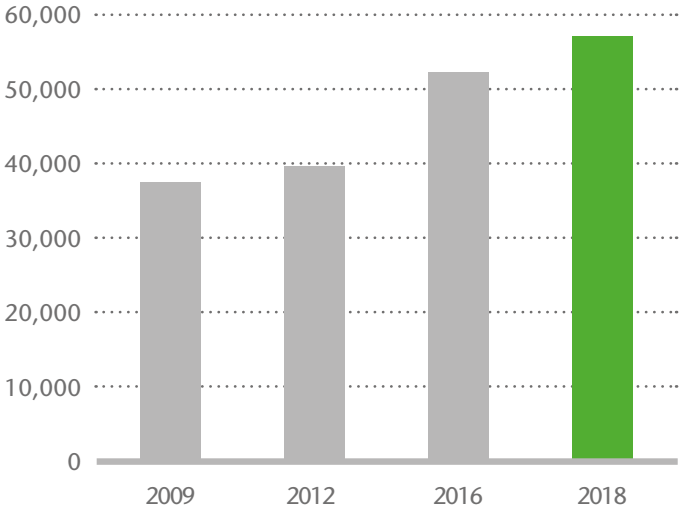
Recognized on Forbes' 2018 Global 2000: World's Best Employers list

17% of director level positions held by women

Signed the European Round Table of Industrialists' Diversity and Inclusion Pledge

4,000 employees received face-to-face compliance training

The number of employees has grown steadily over the past 10 years



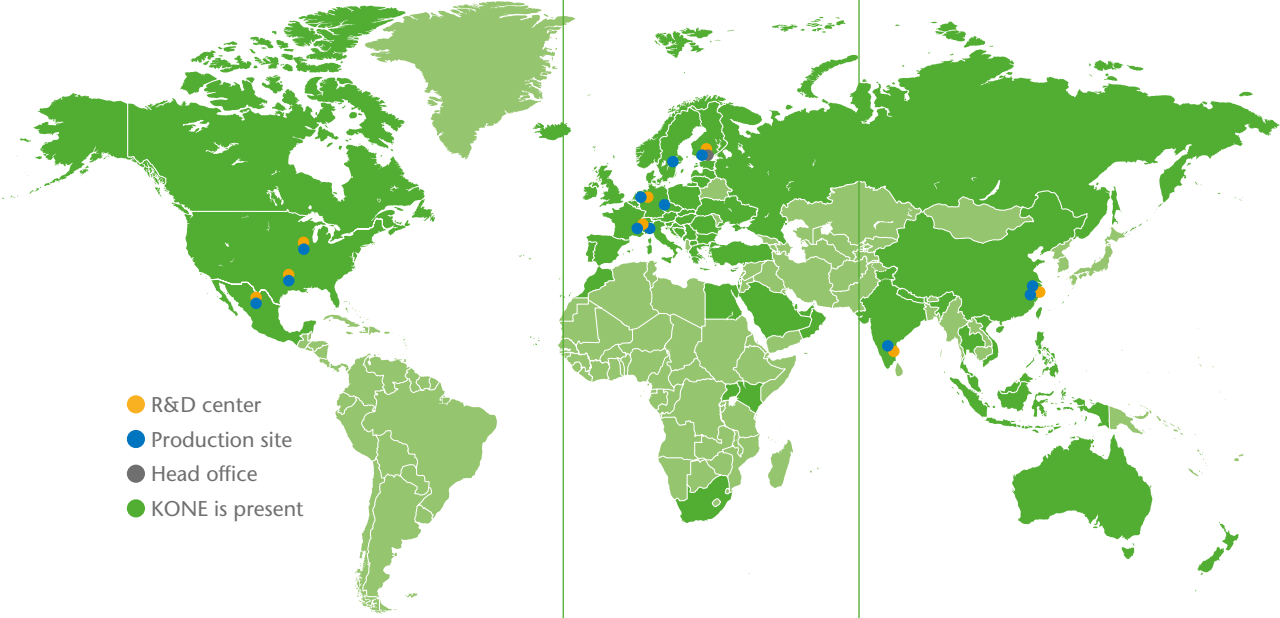
Year	Employees
2009	38,000
2012	40,000
2016	52,000
2018	57,000

KONE operates worldwide and employs over 57,000 people

Americas
7,465 (13%)

EMEA
22,645 (39%)

Asia-Pacific
27,249 (48%)



● R&D center

● Production site

● Head office

● KONE is present

How KONE added economic value in 2018

Sales to customers

MEUR 9,071 (8,797)

Purchases from suppliers

MEUR 5,210 (4,880)

=

Added value

MEUR 3,861 (3,917)

→

Value distributed

Wages and salaries	MEUR 2,113 (2,030)
Employment-related costs and taxes	MEUR 947 (984)
Creditors	MEUR -47 (-58)
Shareholders	MEUR 851 (849)
Economic value retained in the company	MEUR -4 (111)

2017 figures in brackets.

94%

completion rate for the new Code of Conduct e-learning, rolled out in 16 countries as at Dec 2018

97%

of strategic supplier factories ISO 9001 certified and 90% strategic suppliers ISO 14001 certified

2.1

Industrial Injury Frequency Rate remained low at 2.1; average lost days per incident improved to 27.4

CREATING VALUE FOR OUR CUSTOMERS WITH SUSTAINABILITY

One of our strategic targets is to be a leader in sustainability and we strive to shape today's and tomorrow's cities for the better. Reducing the impact on the environment remains among our top priorities and we firmly believe that sustainable business practices are a requirement for long-term growth and success.

Just as sustainable business and the circular economy have become more significant for our customers and stakeholders, so too have curbing the effects of climate change and meeting new needs for buildings and infrastructure.

Sustainable business also goes beyond creating circular, carbon-neutral economies. Together with our customers, we have a strong role in the development of cities, where, for example, well-being and digital services must not come at the expense of scarce resources and the generation of excess waste. For us, sustainability is also about how we conduct our business. This is reflected in, for example, our values and our Codes of Conduct.

KONE continues to pioneer the development of eco-efficient solutions and we are proud to see that our work leads the way in our industry and beyond. In this respect, we continuously strive to be a trusted partner in the development of green buildings through the energy efficiency of our products, as well as world-class business practices, operations, people and processes. To underline this, in 2018 we exceeded the target to reduce our relative carbon footprint by 3% annually.

2018 was a good year in terms of our sustainability performance. We introduced KONE's digital platform that connects people – customers, users and employees – to equipment and data, in a safe and secure manner. A number of our solutions were awarded top ratings for their energy efficiency classification and green building credentials. In addition, KONE 24/7 Connected Services continues to be taken into use more widely around the world. By constantly analysing equipment data, we are able to bring a completely new experience for our customers, where equipment can be taken care of more efficiently, with less

downtime, fewer faults and better overall energy usage and performance.

We have made good progress in improving the energy efficiency of our products and services, which is especially important as local authorities routinely stipulate BREEAM and LEED ratings as part of planning conditions. In manufacturing, we continue to focus on manufacturing excellence through robotics and automation.

Our innovation work has been recognized globally and in 2018, KONE was again ranked as one of the world's most innovative companies by the business magazine Forbes. We have also been recognized by Forbes us as one of the best employers in the world.

A large part of the progress towards making this possible is the result of our employees' dedication. We have continued to invest in our people, with an aim to make KONE a great place to work, which is also a strategic target.

In our annual employee satisfaction survey, Pulse, around 85% of KONE employees globally stated that they feel they are treated with respect, which is a score is clearly above global and high-performance benchmarks. With respect to diversity, we aim to have 20% of women at director level positions occupied by women by 2020; the level is currently 17%. To support our employees' continuous learning and development, in 2018, we offered over 4,700 training programs.

We also paid special attention to diversity and in addition to training, other highlights this year included signing the European Round Table of Industrialists' Diversity and Inclusion Pledge.

Safety is a crucial part of our strategy and we continue to work toward our goal of zero incidents. We will do our utmost to ensure that all our employees and subcontractor workers return home safely at the end of each day. We also continue to work together with customers and the people who use our equipment, to promote safety and safe behaviour in all aspects of our business.

To succeed for the long-term, we must continue to focus on the success of our customers; doing the right thing, and not

burdening the earth's resources. Our Winning with Customers strategy continues to help our customer's businesses become more sustainable, as well as contributing to more functional and user-friendly buildings, over their entire life cycle.

Our sustainability progress this year is the result of the hard work by everyone at KONE. Sustainability in its various forms has been crucial to our success for several decades. And it will continue to be, in order to help us bring further benefits to our customers and strengthen our ability to deliver an ever better People Flow experience.

Antti Herlin
Chairman

Henrik Ehrnrooth
President & CEO

WINNING WITH CUSTOMERS – OUR STRATEGY AND MEGATRENDS

At KONE, our vision is to deliver the best People Flow® experience by providing ease, effectiveness and experiences to equipment users and customers over the full life cycle of the buildings. Our mission is to improve the flow of urban life. Our job is to make the best of the world's cities, buildings and public spaces. It is by understanding urbanization and focusing on sustainable development that we can create better buildings, better low-carbon cities and a better world for people to live in.

EVERYTHING STARTS WITH THE CUSTOMER

KONE's strategic phase for 2017–2020 is called Winning with Customers. Our Accelerate Winning with Customers program speeds up the execution of our strategy and supports 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.

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 help our customers improve their businesses.

Bringing our strategy to life with four Ways to Win

Our Ways to Win have a number of practical development programs within them. 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. It enables us to deliver better service to our customers through speed and consistency. Our four Ways to Win are:

Collaborative innovation and new competencies

In order to bring new solutions and services to our customers more quickly, we collaborate much more with them as well as with our partners. Our people drive our success in this change, which requires us to develop new competencies and innovate in new ways.

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

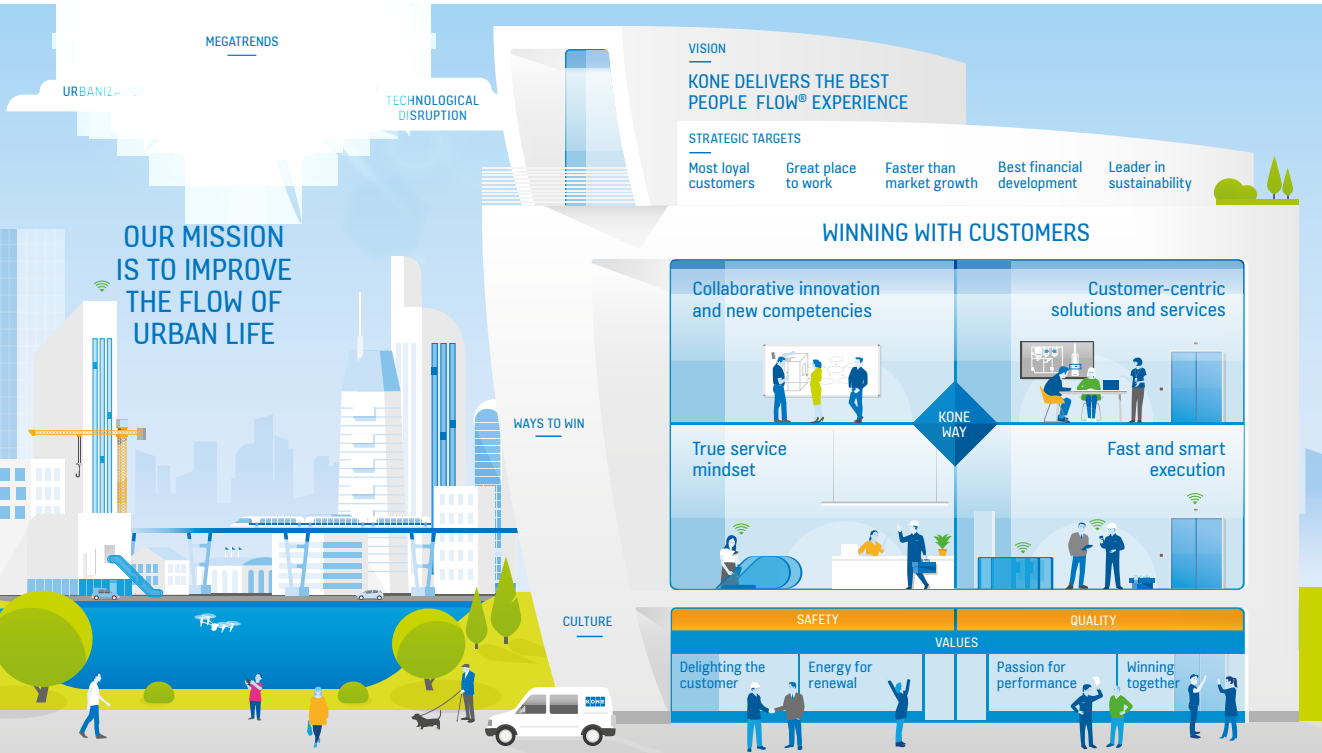
Customers want their partners in construction projects and building services to be professional, fast and reliable. They choose partners that continuously improve and focus on what is essential. We increase speed and work smarter to focus on what is valuable to the customer.

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.

Measuring success

We measure success with our strategic targets: the most loyal customers, great place to work, faster than the market growth, best financial development in our industry, and leader in sustainability.



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 urbanization 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 boosting 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. New equipment

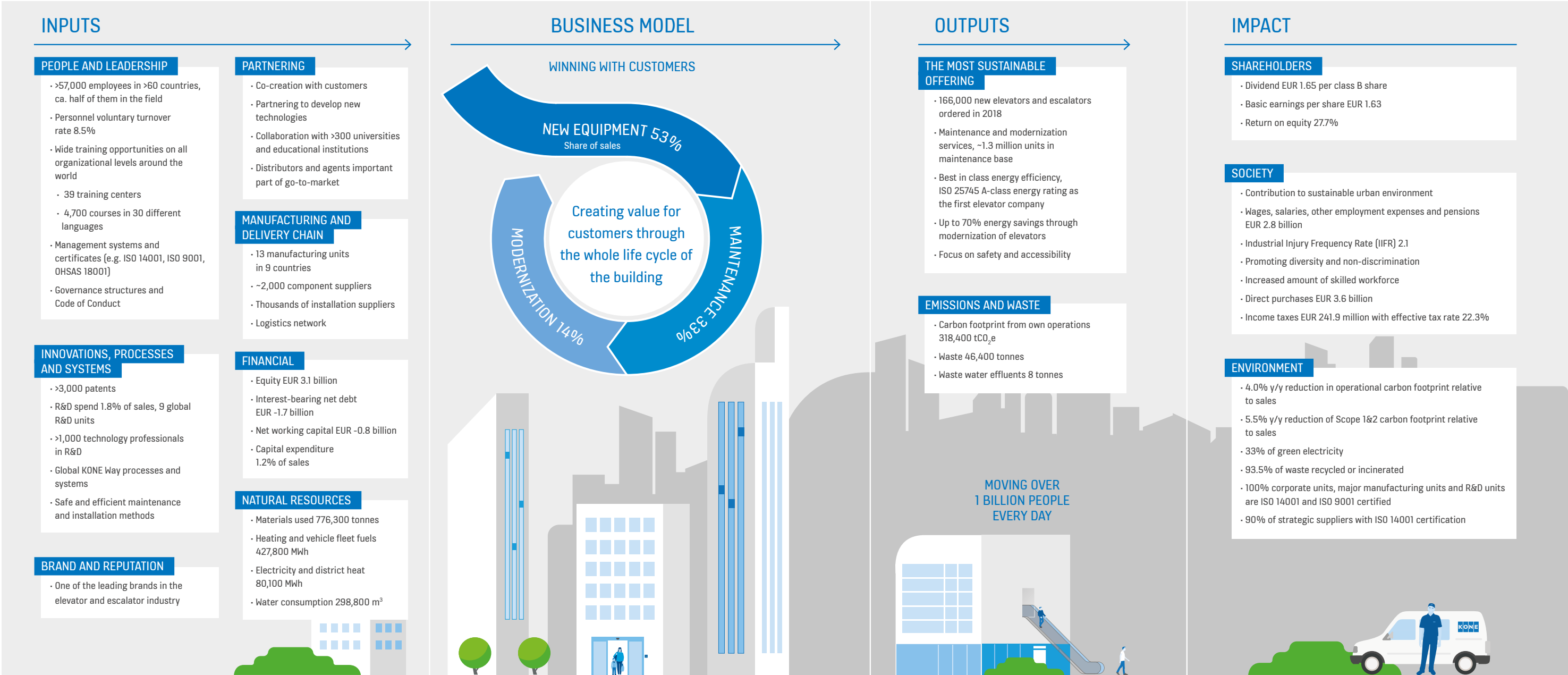
and modernization are more cyclical in nature and follow the construction cycles. KONE has identified strategic inputs crucial in creating value for customers, shareholders and the society. These are:

- Competent and committed people and strong leadership
- Innovative, sustainable offering and global processes and systems
- Best partners
- Efficient manufacturing and delivery chain as well as
- Strong brand and solid reputation.

In addition to these, KONE sees that the life cycle business model and the existing maintenance base of 1.3 million units have a crucial role in value creation. We aim 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



MANAGING SUSTAINABILITY

KONE is committed to conducting its business in a responsible and sustainable way, and we expect the same commitment from all our suppliers. Our ambition is to be a leader in sustainability, and in order to reach this we have identified four focus areas: Driving innovation and improving efficiency, Providing the most sustainable offering, Being the best employer and attracting talent, and Enabling our partners and societies to prosper.

In order to reach these goals, we have integrated their management into our

operations throughout the organization. Our everyday work is guided by KONE's Code of Conduct and various other company policies and guidelines, outlined in the table below. Sustainability and its management are ultimately 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](#), pages 18–19.

Focus area	Material topics	Management systems	Management bodies
Driving innovation and improving efficiency	<ul style="list-style-type: none">Deep understanding of customer needsSustainable innovations and business modelsResource efficiencyLow-carbon operations	ISO 9001 Quality management system, ISO 14001 Environmental management system, KONE's Supplier Excellence Certification, ISO 50001 Energy management system, KONE quality and environmental policy, KONE's Corporate Quality and Environmental Manual, Information Security Policy, Personal Data Protection Policy, KONE Global Facilities Policy, KONE Global Vehicle Fleet Policy, KONE Way operating model	Board of Directors, Executive Board, President and CEO, Quality and Environmental Board, Supplier Quality Management team, Solution Board, KONE Security Council
Providing the most sustainable offering	<ul style="list-style-type: none">Customer satisfactionProduct and service qualityEnd user safety and accessibilityEnergy efficiency of solutions and life cycle thinking	ISO 9001 Quality management system, ISO 14001 Environmental management system, KONE quality and environmental policy, ISO 25745 Energy performance of lifts, escalators and moving walks, LEED, BREEAM or other green building certification systems, KONE safety management system	Board of Directors, Executive Board, President and CEO, Quality and Environmental Board, Solution Board
Being the best employer and attracting talent	<ul style="list-style-type: none">Competence developmentFair employment practicesMotivated and engaged employeesDiversity and non-discriminationEmployee safety and well-being	KONE continuous learning approach, KONE policy for supporting long-term external studies, KONE Recruitment policy, KONE Total Reward policy, KONE Employee Performance policy, KONE Base Pay policy, KONE Roles, Grades and Evaluation policy, KONE Code of Conduct, OHSAS 18001/ ISO 45001, KONE safety management system	Executive Board, President and CEO, Global Compliance Committee, Human Resources function
Enabling our partners and societies to prosper	<ul style="list-style-type: none">Generating long-term returnsCreating wealth via taxes and employmentEthical business practicesLong-term relationships with our suppliersSupporting local communities	Finnish Corporate Governance Code, KONE's tax strategy and principles, Internal control, Internal auditing, KONE Code of Conduct, KONE's Competition Compliance Policy, KONE Supplier Code of Conduct, KONE's Supplier Excellence Certification, ISO 14001 Environmental management system, ISO 9001 Quality management system, KONE Distributor Code of Conduct, KONE supply chain management approach, KONE safety management system	Board of Directors, Executive Board, President and CEO, Annual General Meeting, Internal Audit function, Global Compliance Committee

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.

KONE is an active participant in organizations developing codes, standards and guidelines for improving safety, accessibility, energy efficiency, cybersecurity, as well as other organizations advancing sustainable development.

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

For a list of the organizations we participate in, see [page 13](#).

Stakeholder group	Channels of dialogue	Assessments and key topics raised
KONE has over 450,000 customers worldwide. Our main customers are construction companies, 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.	Customer surveys show continued positive feedback on our personnel, customer service and the quality of our products and services.
KONE pays wages and salaries to over 57,000 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, Compliance Line, 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 pays dividends to over 62,000 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. Our dedicated investor relations team 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 conducts business with approximately 35,000 suppliers, out of which 1,500 are strategic suppliers.	Continuous one-to-one dialogue, annual supplier day for selected strategic suppliers, trade fairs, steering group meetings, supplier workshops.	Annual supplier survey, supplier quality audit and 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 collaborates with educational institutions locally and globally.	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 global alliance of academic and corporate institutions, 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.	Company website, stakeholder relations, reports, social media channels.	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) guidelines. Three years ago, we conducted a materiality assessment to update our sustainability focus areas and topics. Those have been aligned with 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.

Today, cybersecurity plays a critical role in our technologies, products, services, supply chain management and

digital environments. Therefore, we have added information on cybersecurity and data privacy.

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.



Please see [KONE.com/sustainability](https://www.kone.com/sustainability) for more detailed information about how we identified the material topics.

UN GLOBAL COMPACT

KONE is a committed participant of the UN Global Compact and its 10 principles on human rights, labor, environment and anti-corruption. The principles are embedded in our strategy, policies and procedures, such as KONE’s Code of Conduct, Competition Compliance Policy, and our Environmental Excellence Program, as well as processes related to these.

UN SUSTAINABLE DEVELOPMENT GOALS

KONE supports the Sustainable Development agenda and its goals. We have selected the goals where KONE has the biggest impact through its own operations, and mapped them to our own sustainability focus areas.

Memberships and positions of trust

KONE is an active participant in organizations developing codes, standards and guidelines for improving safety, accessibility, energy efficiency, cybersecurity, as well as other organizations advancing sustainable development. In 2018, KONE continued to be a member or joined the following organizations:

- United Nations Global Compact
- World Business Council for Sustainable Development (WBCSD)
- Climate Leadership Coalition
- World Alliance of Low Carbon Cities (WALCC)
- European Round Table of Industrialists’ Energy and Climate Change Working Group (ERT)
- Council on Tall Buildings and Urban Habitat (CTBUH)
- Green building councils in the United States, Finland, India, Italy, Romania, Singapore, the Netherlands, Sweden, and Vietnam
- Smart & Clean Foundation: Smart & Clean Helsinki Metropolitan
- Cleantech Finland
- FIBS Finnish corporate responsibility network and FIBS’ Diversity Charter Finland
- The International Organization for Standardization (ISO)
- The European Committee for Standardization (CEN)
- Standardization Administration of China (SAC)
- 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

STRATEGIC TARGET: TO BE A LEADER IN SUSTAINABILITY



Driving innovation and improving resource efficiency

Today, more than half of the world’s population lives in urban areas and by 2050, that number is expected to increase to 68%. Urbanization means expanding cities and ever-higher buildings with a growing number of tenants. Innovations in urban development can play an important role in advancing social inclusion, economic prosperity and climate action. Material consumption is predicted to double by 2050. Reducing the impact urban areas have on the environment is essential for a more sustainable future.

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



Providing the most sustainable offering

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

- 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

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.

- 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

KONE directly contributes to economic development in the countries where we operate. In addition, we work with approximately 35,000 suppliers who provide us with, for example, raw materials, components and modules, as well as logistics, installation and other services. As a responsible corporate citizen and business partner, we are committed to making a net positive impact for sustainable and smart urban developments.

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

Corporate governance & compliance

Risk management

Stakeholder engagement

Proactive communications

Sustainable social, environmental and economic performance

DRIVING INNOVATION AND IMPROVING RESOURCE EFFICIENCY

Today, more than half of the world's population lives in urban areas and by 2050, that number is expected to increase to 68%. Urbanization means expanding cities and ever-higher buildings with a growing number of tenants. Innovations in urban development can play an important role in advancing social inclusion, economic prosperity and climate action. Material consumption is predicted to double by 2050. Reducing the impact urban areas have on the environment is essential for a more sustainable future.

KONE'S KEY IMPACT AREAS RELATED TO THE UN SUSTAINABLE DEVELOPMENT GOALS



Infrastructure investments
Environmental investments
Eco-efficient operations
Research and development
Technological legacies



Access to affordable housing
Infrastructure investments
Access to public spaces
Sustainable buildings



Sustainable sourcing
Procurement practices
Resource efficiency of products and services
Materials recycling



Energy efficiency
Environmental investments
Greenhouse gas emissions
Risks and opportunities due to climate change

To keep things running smoothly for its 45 million annual passengers, Kunming Changshui International Airport in China opted for KONE 24/7 Connected Services, cutting-edge technology that enables the real-time monitoring and analysis of a range of critical parameters that impact the condition and operation of the elevators and auto walks. The sustainable, energy-efficient solutions meet the airport's LEED benchmarks.



INNOVATION

At KONE, innovation today means putting the customer and the equipment user at the center and involving them in the creative work. Innovation methods that allow co-creation with our customers and partners are at the core of KONE's research, concepting, as well as new products and services creation. This applies to mechanical concepts, new user experiences and digital solutions.

Innovations can have an important role in addressing climate change. Increasing resource efficiency is among our top priorities with regards to both our solutions and our operations. Our solution design contributes to the circular economy with a long lifetime and modularity as key features of our products, supported by our maintenance and modernization services. To combat climate change and increase our resource efficiency, KONE is committed to further exploring the opportunities of the circular economy.

Our innovation focus areas are in line with universal needs for sustainable and smart urban development. We develop solutions and services for the whole life cycle of buildings and the built environment with eco-efficiency, safety and quality as the foundation of our work.

For example, our eco-efficient People Flow® solutions address the needs of sustainable urban living. We use new integrated technologies and connectivity to set new standards for customer service. KONE 24/7 Connected Services bring intelligence, safety and transparency to an increasing number of customers. The solution uses IBM Watson and IBM cloud to bring added value to customers and to enable elevator and escalator data to be monitored and analyzed, improving equipment performance.

Continuous search for new ideas

We have made systematic, long-term investments into research and development (R&D) capabilities. Today, we have over 1,000 dedicated technology professionals working for R&D in Finland, China, Italy, India, United States, Netherlands, Germany, Mexico and the Czech Republic.

Our R&D process involves 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. We also gather and analyze market and customer trends in different parts of the world.

Over half of KONE's 57,000 employees are in the field serving customers in more than 60 countries. These daily interactions are important sources for both our new solution and service creation, as well as for the continuous development of our operations. We also systematically collect customer feedback from the different phases of the customer relationship.

Collaborative approach and stakeholder engagement

We want to expand our offering with value adding products and services in a smart and sustainable way. In order to create customer value, we make use of service design and design thinking methods and take a collaborative approach to innovation. In 2018, we organized over 300 co-creation sessions with our customers. Visiting customer sites enables us to jointly develop tailored solutions for our customers' buildings with their own research and development teams, architects, and other partners.

Engaging in dialogue and joint activities with a wide variety of stakeholders, such as universities, startups and other

large corporations, is an important way for us to foster innovation and encourage finding new ways of serving our customers. We also organize and participate in hackathons to this end. We collaborate with universities, startups and startup accelerator programs as well as big corporations. KONE also participates in publicly funded research projects in order to learn more about new emerging technologies relating to phenomena in urban environments and people's behavior.

In addition to learning from each other in internal hackathons, we organize weekly internal Technology talks. In these globally shared sessions, our experts from different fields share their insights and findings with their R&D colleagues. Bi-annually, we organize a workshop where in-house experts and business representatives are brought together to innovate on selected topics.



Recognition for innovative offering

In 2018, KONE was ranked as one of the world's most innovative companies by the business magazine Forbes. KONE ranked 59th. KONE was the only elevator and escalator company on the list.

One of the highlights of the year in terms of new launches was the introduction of a new KONE digital platform which uses state-of-the-art technologies and is open to third-party solutions. KONE's digital platform strengthens our focus on customer-centric innovation as it connects customers, equipment users and employees to equipment and data transforming the People Flow experience in buildings and cities. In connection with the launch of the platform, we

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.



Improving living standards and convenience, especially as the global middle classes increase their income and develop increased expectations.



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.



Maintaining safe and reliable infrastructure. As populations grow, the design of infrastructure needs to be modernized and made more efficient.

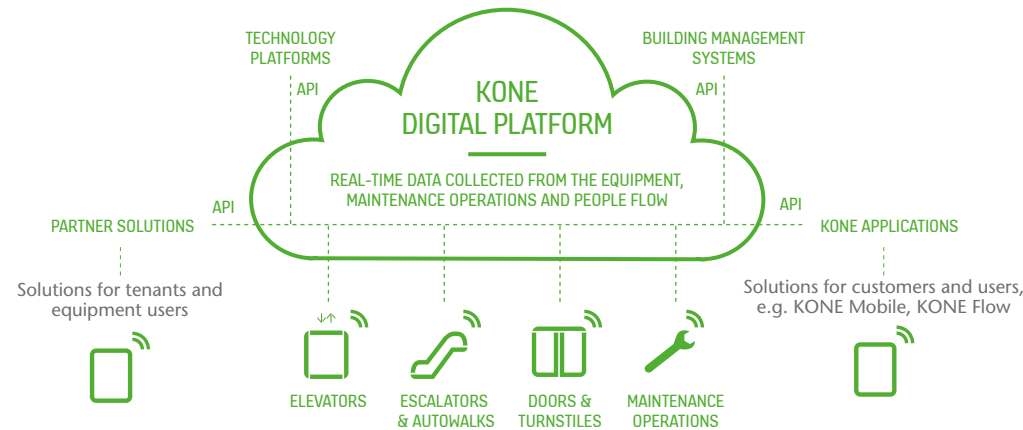


Putting more of a premium on eco-efficiency and sustainability, to reduce energy consumption, manage waste and pollution and use materials smartly.



Addressing the growing value placed on well-being and better living standards, enabling people to live in better harmony with their surroundings.

KONE digital platform – how does it work?



KONE’s digital platform connects people – customers, users and employees – to equipment and data, in a safe and secure manner. As our equipment is connected to the cloud, sensors and partner solutions through application programming interfaces (APIs), they are easy to update and upgrade.

introduced a renewed products and services portfolio that brings together our core equipment and services, Advanced People Flow Solutions and People Flow planning and consulting. This allows for more responsive and tailored solutions to our customers’ needs.

During 2018, we continued to develop our offering, launching both a number of new solutions as well as enhancements to existing ones. The KONE 24/7 Connected Services was made available for escalators after having been launched for elevators in 2017. In Advanced People Flow Solutions, KONE Residential Flow was made available for most of the modernization offering in the residential segment in Europe offering seamless people flow to building users and higher building value for the owners.

For a more complete list of our launches, please refer to our Annual Review 2018, as well as our quarterly Interim reports, available on [KONE.com/investors](https://www.kone.com/investors).

Cybersecurity as an essential part of connected technologies

As our offering grows more digital, our commitment to cybersecurity and data privacy is driven by our desire to deliver innovative products and services that make people’s journeys safe and reliable. Cybersecurity is an essential part of all our technologies, products, services, supply chain management and digital environments.

We follow secure software development processes when designing new innovations. With these best practices and controls we ensure that our products and solutions are developed with security in mind from the start and that we are

also able to keep our solutions updated throughout their lifespan.

We are committed to protecting everyone’s right to data privacy in all that we do. We actively participate in standardization initiatives for cybersecurity requirements related to our industry.

The human element plays a role in many cybersecurity incidents. We continuously educate our employees to better recognize and combat cybersecurity threats with learning paths designed for each of our employee groups.

RESOURCE EFFICIENCY

KONE aims to be a leader in sustainability and contribute to the sustainable development of the built environment. Supporting our customers in the transition to a low-carbon economy is a significant opportunity for KONE. Our pioneering eco-efficient solutions and intelligent services help address the challenges created by urbanization, climate change, demographic change, and increased safety demands.

Increasing resource efficiency is among the top priorities in our operations and we aim to minimize natural resource use throughout the value chain. Resource efficiency offers us significant economic opportunities, brings down costs and boosts productivity. Through savings in materials, emissions, or time, we create extra value for our customers by operating in smarter ways.

We manage and mitigate environmental risks as part of our ISO 14001 environmental system requirements and management activities. A core part of this is training our employees and suppliers. In 2018, we organized extensive

trainings and 24 workshops on resource efficiency and sustainable materials for KONE employees and over 250 suppliers globally.

KONE’s environmental policy

We 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 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.


In our solution creation and operations, we focus on:

- Developing smart and sustainable technologies for People Flow®
- Being the best green building partner
- Reducing energy consumption
- Reducing material use, including packaging
- Improving circularity; maximizing material durability, non-toxicity, recycled content and recyclability
- Avoiding the use of hazardous substances
- Minimizing waste
- Minimizing water consumption.

As important elements in guiding our own operations and those of our partners, we set out environmental requirements in the KONE Code of Conduct, our Supplier and Distributor Code of Conducts, KONE Quality and Environmental manual, and KONE’s Global Facilities and Vehicle Fleet Policies.

KONE’s 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.

 **View** the KONE’s Environmental Excellence 2017–2021 video on [KONE.com/sustainability](https://www.kone.com/sustainability)

Long-term environmental targets

Products and services:
A leader in low-carbon People Flow® solutions for smart eco-cities

Operations:
To have efficient low-carbon operations

KONE’s Environmental Excellence program 2017–2021

Key initiative	Achievements in 2018	Target 2017–2021
Solutions Our solutions are highly eco-efficient and contribute to green building ratings.	Best possible A classifications according to the ISO 25745 energy efficiency standard for KONE 3000 TranSys™ and a high-rise KONE 3000 MiniSpace™ elevators. Singapore Green Building Product (SGBP) certificates awarded for four additional KONE solutions: KONE TransitMaster™ 140 escalator, KONE 3000 S MonoSpace®, KONE 3000 S MiniSpace™ and KONE 3000 TranSys™ elevators. Approved Byggarbetsmiljöverket (BVM) assessments for KONE MonoSpace® 500 and KONE MonoSpace® 700 elevators and KONE TravelMaster™ 110 and KONE TransitMaster™ 140 escalators in Sweden as the first company in the industry. KONE’s first Health Product Declaration published for KONE MonoSpace® 700. 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 the carbon footprint of our operations and services.	In 2018, KONE’s overall operational carbon footprint relative to net sales decreased by 4.0% compared to 2017, with sales growth calculated at comparable exchange rates. In 2018, our Scope 1 and 2 carbon footprint relative to net sales decreased by 5.5%. KONE’s carbon footprint data is externally assured. KONE Australia installed solar panels in two regional offices. KONE Australia and KONE Singapore and Asia-Pacific regional head offices moved to green building certified offices. KONE Finland now sources green electricity for the majority of its facilities. KONE Italy now sources green electricity for all its facilities. KONE Norway purchased over 40 new electric vehicles and several electric bicycles.	3% annual reduction of CO ₂ relative to net sales
Culture We build eco-culture together with customers and suppliers.	KONE recognized among the top climate change performers by CDP with a leadership score of A- for the sixth consecutive year. We were also included in the FTSE4Good ESG Index Series and awarded the Ecovadis gold medal for our sustainability performance being in the top 2% of all companies assessed. KONE Austria achieved carbon neutrality for 2018. KONE France won the Low Carbon Trophy by the French building developer Nexity. KONE New Zealand maintained the carbonZero™ certification and listed among the top 20 reducers in New Zealand by Enviro-Mark Solutions. KONE’s corporate units, all major manufacturing units, excluding our small manufacturing unit in Sweden, and R&D units are ISO 14001 and ISO 9001 certified. During the year, these units were recertified according to the latest 2015 versions of the standards. In total, 25 of our country organizations are ISO 14001:2015 certified (2017: 20), and KONE’s manufacturing units in the Czech Republic and Italy ISO 50001 certified. A total of 90% of our strategic suppliers are ISO 14001 certified (2017: 94%). Extensive trainings and 24 workshops for KONE employees and over 250 suppliers globally for the sustainability and transparency of material use, resource efficiency and green building requirements.	CDP Leadership ISO 14001



Commitment to global goals

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 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. We are further evaluating our target setting to align with the recent IPCC report urging to limit global warming with stronger actions. In addition, KONE works towards increasing awareness for environmental responsibility and climate action. For example, during the reporting year, KONE units from over 30 countries participated in World Wildlife Fund's Earth Hour. As member of the Climate Leadership Coalition in Finland, KONE was involved in increasing awareness for climate action with high school students during the global Zero Emissions day.



High score on climate change performance

In 2018, KONE was recognized for its actions and strategies in response to climate change. We received a leadership score of A- on climate action in the CDP 2018 list of the world's businesses leading on environmental performance. KONE has disclosed through CDP since 2009 and has continuously been listed among the top performers: KONE has received an A or A- score for six consecutive years. 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 runs a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts. More than 7,000 companies disclosed through CDP in 2018, and the reporting companies represent more than 50% of global market capitalization.

LOW-CARBON OPERATIONS

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

We work together with our suppliers and customers to minimize greenhouse gas emissions and other adverse environmental impacts in our entire supply chain. To this end, we also measure the environmental impact of our solutions during their entire life cycle. See more information about the environmental impact of our volume elevator, MonoSpace® 500, and our volume escalator, Travel Master™ 110, on [page 30](#).

Reducing our long-term carbon footprint

KONE's objective is to reduce our carbon footprint relative to net sales by 3% annually supporting the UN Sustainable Development Goal for climate action. In 2018, after set-backs in logistics in 2017, we exceeded this target as our overall operational carbon footprint relative to net sales decreased by 4.0% compared to 2017, with sales growth calculated at comparable exchange rates. In 2018, our Scope 1 and 2 carbon footprint relative to net sales decreased by 5.5% compared to 2017.

The highlights of the positive development during 2018 are significant reductions in our electricity and district heat emissions, as well as in our business air travel emissions. However, we cannot be fully satisfied with the development of the carbon footprint of our vehicle fleet.

Logistics

Logistics amounted to 51% of KONE's operational greenhouse gas emissions in 2018. 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 2018, we delivered over 3.7 million packages to new installation sites, and around 1.5 million packages of spare parts to existing customer sites. The weight of the 3.7 million packages amounts to 1,440 million kilograms, and the volume to 3.5 million cubic meters.

In 2018, we clearly improved our performance relative to 2017, when we did not meet our targets. The logistics carbon footprint relative to units delivered decreased by 1.1% compared to 2017.

The biggest contributors to the decreased logistics carbon footprint in 2018 were:

- Significant reduction in air freight and courier emissions in all continents
- Decrease in ocean freight emissions

due to volume shifting to shorter lanes especially for shipments from China

- Decrease in road freight emissions in India and China due to shorter distances.

On the other hand, our road freight emissions in Europe and Americas increased due to longer distances and higher number of shipments.

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. We prefer 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. KONE has strict requirements concerning the eco-efficiency of its service providers' operations. In 2018, KONE launched the transformation program of KONE logistics operations to offer more seamless material flow to our customers.

Vehicle fleet

KONE vehicle fleet accounted for 31% of our operational greenhouse gas emissions in 2018. The total size of KONE's fleet during 2018 was approximately 16,900, out of which 15,100 (90%) 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 carbon footprint of KONE vehicle fleet increased by 2.7% in absolute terms and by 1.4% relative to our maintenance base compared to 2017. The main reason for the increased carbon footprint related to the vehicle fleet 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.

With the unsatisfactory development in 2018, we recognize the need to speed up our transition to a more sustainable vehicle fleet. We continuously search for new and innovative ways to reduce the carbon footprint of our vehicle fleet, and our target is an annual reduction of 1.5% in terms of absolute emissions. We are planning for the long-term restructuring of our vehicle fleet composition. For example, our urban maintenance personnel is increasingly moving around with

100%

of the electricity consumed at KONE's corporate head offices (excluding temporary office spaces) and our manufacturing and R&D sites in Finland, Italy, and the Netherlands is green electricity.

33%

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

Relative operational carbon footprint trend

Data assured externally

Target: 3% annual reduction relative to net sales*	2016	2017	2018
Overall operations (Scope 1, 2, 3)	-4.0%	-0.2%	-4.0%
Scope 1, 2	-4.2%	-2.6%	-5.5%

* Calculated at comparable exchange rates. KONE has applied new IFRS 15 and IFRS 9 standards from Jan 1, 2018 onwards. Figures until then are not fully comparable.

public transport and on foot to reduce emissions and to ensure accessibility to our client locations. In 2018, KONE Norway purchased several electric bicycles for their maintenance operations. KONE is collaborating closely with its leasing partners to anticipate the development of low emission zones, especially in European cities. 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 required infrastructure is in place. As an example, KONE Norway ordered 40 new electric vehicles during the reporting year along with other European country organizations, such as France and the Netherlands ordering both electric and hybrid vehicles.

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. We carefully consider the need for travel, and optimize the locations of meetings and conferences. The vast majority of meetings already take place online, and virtual meeting time continues to rise. In 2018, we reduced our greenhouse gas emissions from business travel by 14%. General travel restrictions continued similarly to 2017 and are also reflected in the reduction of our 2018 greenhouse gas emissions from business air travel.

Green electricity

KONE countries that purchase green electricity:

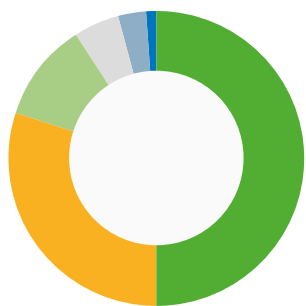
- Austria
- Belgium
- Denmark
- Finland
- Germany
- Italy
- The Netherlands
- Norway
- Sweden
- Switzerland

On-site renewable energy production

KONE has on-site renewable energy production in:

- Australia
- China
- Finland
- Italy
- Norway
- The United States

KONE's operational greenhouse gas emissions



- Logistics 51%
- Vehicle fleet 31%
- Electricity and district heat 10%
- Business air travel 4%
- Heating fuels and cooling gases 3%
- Waste 1%



KONE units from over 30 countries participated in World Wildlife Fund's Earth Hour.

Electricity

KONE is committed to reducing electricity consumption in its operations and, in 2016, has set a long-term target to increase the share of green electricity to more than 50% by 2021. In 2018, 33% of all our electricity consumption was green electricity, produced from renewable sources. The reported electricity/district heat emissions 32,100 tCO₂e (2017: 34,000) 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 36,900 tCO₂e (2017: 38,100).

Optimizing material use and minimizing waste

KONE aims to maximize the opportunities presented by resource efficiency and circular economy in our operations and delivery chain. In order to contribute positively to the UN Sustainable Development Goal for responsible production, we prioritize the smart use of resources and materials recycling, for example by:

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

As an example, as part of our day-to-day logistics process, packages for specific components are reusable and circulate between our manufacturing units and suppliers. The majority of our packaging materials can be recycled, and some parts of the packaging are also designed to be used as tools for the installation of our equipment.

We also encourage our suppliers to develop their resource efficiency and sustainability in their operations and supply chains. For example, we request renewable energy use and recycled content in elevator and escalator components.

We aim to reduce the waste generated by our manufacturing processes and offices. Our long-term target for waste management, set in 2016, is 0% landfill waste at our manufacturing units. Waste is always handled according to applicable laws and regulations, and we aim to exceed legal requirements.

During 2018, our waste amount increased slightly, mostly due to improved data quality. We also added two countries to our waste data collection scope. The proportion of recycled and incinerated waste is on the rise, amounting to 93.5% of the total waste generated (2017: 92.2%). In the 13 manufacturing units in our data collection scope, the share of recycled or incinerated waste is 97.8% (2017: 97.9%). Only 0.6% (2017: 0.8%) was landfilled.

Read more about resource efficiency and circular economy at KONE on [KONE.com/sustainability](https://www.kone.com/sustainability).

Optimizing already minimal water usage

Water consumption in KONE's production and maintenance processes is minimal, and we aim to further optimize our water usage. KONE uses municipal water,

and waste water is released into municipal waste water treatment systems that abide by local regulations. Out of our major manufacturing units, three have their own waste water treatment systems with regular monitoring and permits in place.

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. In our Supplier Code of Conduct, we also specify that our suppliers are expected to monitor, control and appropriately treat waste water.

Continuously improving the eco-efficiency of facilities

KONE operates in over 1,000 facilities globally, including office spaces and installation and service operation hubs. Our facilities account for approximately 13% of our operational carbon footprint.

KONE's Global Facilities Policy outlines our 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 objective is to reduce our facility-related carbon footprint by 15% by 2022 (base year 2017). In 2018, we reduced our facility-related carbon footprint by 4.8% compared to 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%
- Setting up onsite renewable energy production at manufacturing units
- Promoting investments to electric vehicle charging infrastructure in our facilities
- Improving material efficiency (manufacturing/warehousing/office activities)
- Reducing waste and improving reuse and recycling
- Preferring eco-efficient service suppliers.

Our objective is to have new KONE buildings designed according to LEED, BREEAM or other green rating systems. Green buildings should also be favored when relocating KONE facilities to existing buildings.

In 2018, KONE Singapore and Asia-Pacific regional head offices moved to a Green Mark certified building. Our Australian headquarters relocated to a NABERS and Green Star certified green building. Solar panels were installed into two Australian regional offices and warehouses.

Targets

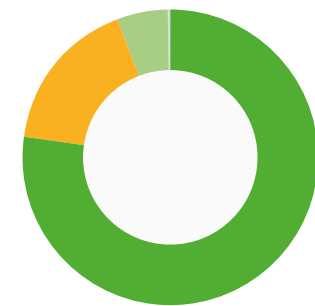
Reduce facility-related carbon footprint by 15% by 2022 compared to 2017

Increase share of green electricity to 50% by 2021

Achieve 0% landfill waste at our manufacturing units by 2030

THE MAJORITY OF THE PACKAGING MATERIALS FOR OUR VOLUME ELEVATOR ARE RECYCLABLE

KONE MonoSpace® 500 elevator



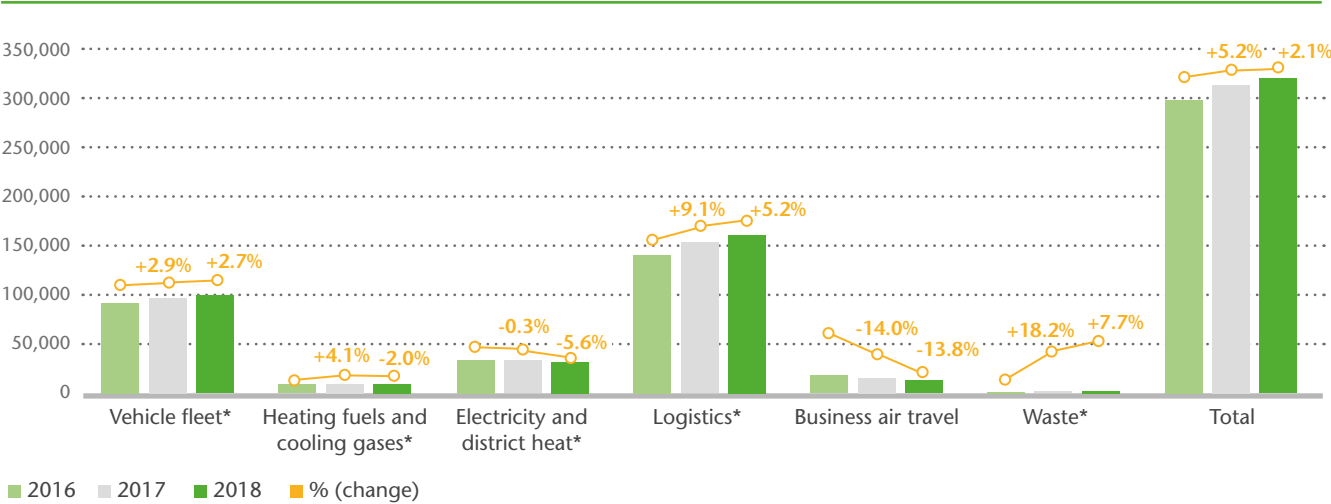
- Wood 77.3%
- Cardboard 17.1%
- Plastics 5.6%
- Metals 0.1%

How KONE reduces the environmental impacts of its operations

Development action	Impact on eco-efficiency
Logistics	
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.
Vehicle fleet	
Compliance with KONE Global Vehicle Fleet Policy.	Maximum CO ₂ emission limits defined, employees encouraged to select benefit cars with lower CO ₂ emissions.
Selecting fuel-efficient vehicles.	Vehicle renewals guided by the main criteria of fuel-efficiency and compactness, cooperation with suppliers who comply with the Euro 6 emission standard for light passenger and commercial vehicles.
Driving performance and route optimization.	Increased driver safety and fuel efficiency through the monitoring of driving performance, including fuel efficiency and driving behavior. Increased use of telematics systems, remote monitoring and mobile tools.
Planning for the long-term mobility solutions of our service fleet.	Reduced CO ₂ emissions and agile services through extended pilots of full electric and hybrid vehicles, as well as through vehicle sharing and electric bicycles.
How KONE reduces packaging-related emissions and waste	
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.

Absolute operational carbon footprint trend per category, tCO₂e

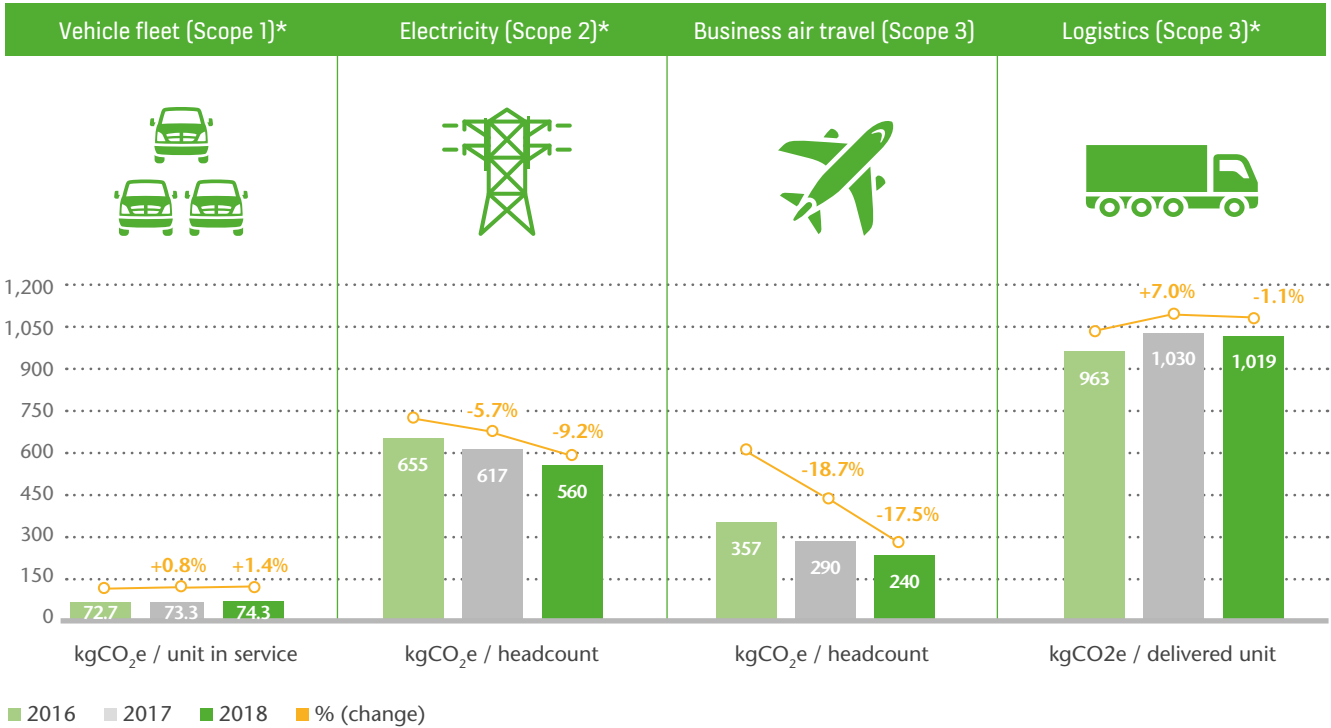
Data assured externally



* 2017 figures revised due to improved data accuracy, logistics emissions for 2016 and 2017 restated due to a revision in emission factor source.
* Increased waste emissions in 2017 and 2018 largely due to improved data collection and extended Scope of data collection.

Relative operational carbon footprint trend

Data assured externally



* 2017 figures revised due to improved data accuracy, logistics emissions for 2016 and 2017 restated due to a revision in emission factor source.

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.

		2016	2017	2018
Carbon footprint of KONE's operations, tCO ₂ e				
Direct energy (Scope 1)	Vehicle fleet	92,000	96,600*	99,200
	Heating fuels	9,400	9,700*	9,700
	Cooling gases	300	400*	200
Indirect energy (Scope 2)	Electricity consumption and district heat, market-based (location-based 2018: 36,900 tCO ₂ e)	34,100	34,000*	32,100
Other relevant indirect (Scope 3)	Logistics	140,000*	152,700*	160,600
	Business air travel	18,600	16,000	13,800
	Waste	2,200	2,600	2,800
Total		296,600*	312,000*	318,400
Energy consumption, MWh				
Direct	Heating and vehicle fleet fuels (heating oil, natural gas, liquid petroleum gas, petrol, diesel, biodiesel, and diesel with biofuel blend)	399,500*	417,500*	427,800
Indirect	Green electricity (purchased and on-site production)	21,500	20,200*	22,300
	Other than green electricity	49,500	48,500*	44,900
	District heat	14,700	12,500	12,900
Total		485,200*	498,700*	507,900
Waste, tonnes				
Recycled waste		24,300	33,700	39,500
Incinerated waste		2,800	4,000	3,900
Landfill waste		1,900	2,200*	1,800
Hazardous waste		1,000	1,000	1,200
Total		30,000	40,900	46,400
Water consumption, m ³				
Municipal water		327,000	295,800*	287,600
Ground water		10,000	11,400*	11,200
Total		337,000	307,200*	298,800
Waste water effluents from manufacturing units, tonnes				
		13	9	8

* Restated due to improved data accuracy or changes in calculation methodology, logistics emissions for 2016 and 2017 restated due to a revision in emission factor source.

PROVIDING THE MOST SUSTAINABLE OFFERING

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

KONE'S KEY IMPACT AREAS RELATED TO THE UN SUSTAINABLE DEVELOPMENT GOALS

- 9

INDUSTRY, INNOVATION AND INFRASTRUCTURE

Environmental investments
Research and development
Technological legacies
- 11

SUSTAINABLE CITIES AND COMMUNITIES

Infrastructure investments
Access to public spaces
Sustainable buildings
- 13

CLIMATE ACTION

Energy efficiency
Environmental investments
Greenhouse gas emissions
Risks and opportunities due to climate change

Safety is a top priority for KONE. We support our customers and building owners in promoting the safe use of elevators, escalators and automatic building doors.



QUALITY

Quality is an integral part of KONE's culture and is 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. Ratings show that quality is among the top reasons for choosing KONE as a partner.

Together with safety, quality is a top priority for us, and we encourage a "quality starts with me" attitude. To ensure that our employees have the skills to resolve quality issues in the most effective way possible, we give them practical guidance and provide them with effective and easy-to-use problem solving tools.

Our employees are also encouraged to take part in improving the quality of our products and processes through our idea management system as well as Kaizen continuous improvement practices.

Should there be any issues regarding quality, we investigate the root causes and take immediate action to solve them.

We monitor our digital environments around the clock to catch and fix any cybersecurity issues. We regularly practice handling cybersecurity incidents to make sure our processes are robust and our employees competent. In 2018, our annual major cyber simulation focused on KONE Residential Flow, our intelligent solution for residential buildings.

Positive feedback

At KONE, we systematically collect customer feedback through an annual customer loyalty survey as well as transactional surveys. In our annual survey, our net promoter score has developed favorably for several years. In our transactional surveys, we closely follow feedback on installation, modernization and maintenance quality.

Additionally, to ensure the high quality of our equipment, we measure for example the ride comfort of our equipment, and the percentage of defect-free units. We closely follow the accuracy and timeliness of our deliveries. Insight collected from customers and connected equipment has enabled us to focus our efforts on improving quality.

Ensuring quality of new solutions

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

quality to be released to production. This process is applied to all products from electrification, mechanics and software, to higher level systems and solutions. We are continuously improving our engineering excellence and operating model to be more agile and effective.

Continuous improvement of manufacturing and delivery quality

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

In 2018, we expanded our manufacturing execution system (MES) to our elevator component factory in Finland. The roll-out continues in 2019. We also continued our zero-defect factory program to further enhance the quality of our in-house production, and to support process control harmonization activities in our production lines. Read more about KONE's supply chain operations on [pages 40–42](#).

KONE pays special attention to ensuring that our suppliers have excellent manufacturing processes and process controls in place. We audit all 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, and to take any necessary corrective actions. We conduct thorough quality tests to monitor the installation outcome.

Developing quality together with our suppliers

KONE's Supplier development and supplier quality management function continuously coaches 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. 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.

During the reporting year, we implemented a mistake proofing method which helps us prevent and detect mistakes before they impact our customers. We also spent time at our installation sites with our suppliers in order to help them better understand our customers' requirements. We continued our KDA supplier audit programs.

In 2018, 60 third party audits following the German automotive industry quality standard (VDA6.3) were carried out on our suppliers, bringing the total number of audits to 340.

Ensuring maintenance quality

In maintenance we aim to enhance the quality of our equipment in service, ensure equipment user safety, and minimize the interruptions caused to customers' people flow. KONE defines a unique maintenance plan for each piece of equipment. Each technical module is maintained at appropriate intervals. This enhances quality and equipment user safety, and minimizes equipment downtime.

KONE 24/7 Connected Services monitors equipment data and analyses it in real-time to improve equipment performance. With the service, KONE can predict potential equipment breakdowns and avoid downtime. This cloud-based service enables us to deliver faster, smarter and more personalized support for our customers, and we are already seeing the first tangible benefits in terms of equipment availability as well as improved customer satisfaction.

To support the maintenance technicians in the field and to ensure prompt repair, our Technical Helpdesk (THD) is the technician's first point of contact in case of unsolvable issues on site. With the help of real-time, detailed equipment data, THD helps technicians remotely to solve problems during the site visit. THD has been rolled out in 34 countries, and the roll-out continues in 2019 and 2020.

END USER SAFETY AND ACCESSIBILITY

Millions of people use elevators, escalators and automatic building door equipment every day. The safety of those people, as well as that of our employees and everyone we work with is our top priority. Every day, in every part of our organization, we work toward our goal of zero incidents: we want everyone to return home safely at the end of each day.

Consistent approach on safety management

Safety is an integral part of our strategy and we work systematically to develop a culture where people look after each other and actively promote safety. With a proactive approach to safety, we have successfully reduced workplace and equipment user injuries.

During the reporting year, we started the implementation of a new global safety management system, KONE Way for Safety. It is a consistent safety management framework that harmonizes the safety management practices across KONE.

Safety is a collaborative 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 prevent situations that could lead to safety risks. Building owners and maintenance service providers are responsible for ensuring 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. For example, they need to hold the handrail and the 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 contributor to 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

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 leveling accuracy to prevent tripping and falling. It also includes adding electronic sensors to doors to prevent collision, 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.

Enabling 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.

SAFETY THROUGHOUT THE VALUE CHAIN

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.

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 sites

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 Offices

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 Equipment 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 escalator safety



- Anti-fall and anti-ride barriers provide additional balustrade height and prevent passengers from climbing on the handrail and falling from height
- Directional lighting and signage provide visual guidance to improve building navigation
- Colored or lit areas provide passengers with a clear understanding of interface areas increasing safety levels
- Multiple horizontal steps reduce trips and falls prior to entry or exit
- Easy accessible labeled emergency stop buttons, bring the unit to a controlled stop in the event of an incident

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



THE FUTURE IS IN SMART, GREEN BUILDINGS

Green buildings support the overall sustainable development of the built environment by changing the way facilities and communities are designed, constructed and operated. They help boost health and well-being, and reduce resource consumption and the overall carbon footprint of buildings. The increasing interest in achieving green building certifications such as LEED and BREEAM is one of the factors driving the growing demand for our eco-efficient elevators and escalators.

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 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.

There is also a growing number of aging elevators and escalators currently in operation, especially in Europe. The number of equipment that is over 20 years old is

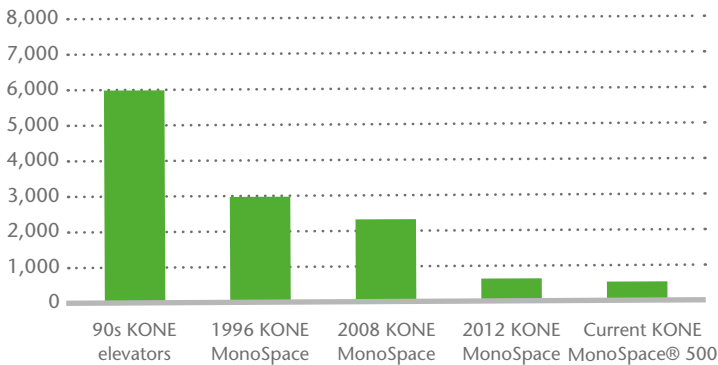
expected to increase from 2.2 million units to 3.2 million by 2020, representing 60% of the European equipment base. Full replacement can cut elevator energy consumption by as much as 60–70% depending on the configuration. The Energy Efficiency of Elevators and Escalators (E4) study supported by the European Commission concluded that energy savings of up to 63% can be achieved by modernizing elevators installed in 1985 or earlier with the best available technology. On a European level, this translates to 11.6 TWh of saved energy.

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



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

Annual energy consumption [kWh/year]



How KONE MonoSpace® 500 saves energy

- KONE EcoDisc® hoisting machinery is highly efficient and reduces the energy consumption of the elevator.
- Eco-efficient regenerative drive enables energy to be reused within the building and cuts energy consumption up to 35%.
- Long-lasting LED lighting lasts 10 times longer and is 80% more efficient than halogen lighting.
- 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.

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.

Eco-efficiency throughout 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.

Top-class energy efficiency

KONE was the first company to achieve the best A-class energy efficiency classifications for a number of our installations according to the international ISO 25745 standard for the energy performance of lifts, escalators and moving walks. In total, KONE currently has 14 A-class ratings for elevators. In 2018, the KONE 3000 TranSys™ and a high rise KONE 3000 MiniSpace™ elevators received the A-class rating. Three

KONE escalator models currently have the best A+++ classification in the escalator and autowalk category.

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

New Singapore Green Building Product certificates

In 2018, four additional KONE solutions, the KONE TransitMaster™ 140 escalator, and the KONE 3000 S MonoSpace®, KONE 3000 S MiniSpace™ and KONE 3000 TranSys™ elevators received the Singapore Green Building Product (SGBP) certificates. Based on the new criteria released this year for vertical transportation, the solutions received the highest possible "Excellent" and "Leader" ratings in their respective categories. In both categories, KONE is the first

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
KONE 3000 MiniSpace™	Office	1,600	6.0	A
KONE 3000 TranSys™	Retail	2,000	1.0	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	1,000	0.5	A+++
KONE TransitMaster™ 140	Public transportation	5.0	30	1,000	0.65	A+++

90%

of the metals used in KONE solutions can be recycled.

elevator and escalator company to achieve these ratings. Three other KONE solutions have previously been granted SGBP certificates. Through the certification, these solutions 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.

Design for environment

In 2018, KONE used 776,700 tonnes (2017: 737,200) of materials for producing and packaging its elevators, escalators, and building doors (figures calculated based on life cycle assessment data). In order to increase resource efficiency, KONE is systematically harmonizing elevator and escalator product selection and the corresponding component families.

A key element in our design for environment solution creation process is working together with our suppliers in selecting sustainable and healthy materials, as well as avoiding the use of restricted substances. For example, we organized 24 workshops on sustainable materials for over 250 suppliers globally. We 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.

During the year, we also received several approved Swedish BVB assessments and Singapore Green Building Product certificates proving that our solutions meet the most stringent green building requirements.

Environmental and Health 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 order to illustrate the environmental impact during the entire lifetime of our solutions, we publish Environmental Product Declarations (EPD) on the environmental impacts

of our solutions. Producing EPDs is a continuous process and a core part of our solution creation process and operational environmental work.

The biggest environmental impact of our solutions stems from materials manufacturing and energy consumption during the use phase. Therefore, our focus is on manufacturing excellence through robotics and automation, as well as best in class energy efficiency of our solutions.

In 2018, we also published our first Health Product Declaration (HPD) for KONE MonoSpace® 700. Through the HPD, we are transparently communicating about the material content of the product and the associated human and environmental health information. By providing HPDs for our customers, we are responding to a growing need and value placed on healthier and better living standards.

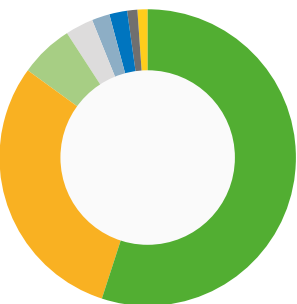
Carbon handprint of our solutions

In 2017–2018, KONE participated in a two-year project run by VTT technical research center of Finland, with the aim of developing a new methodology for measuring the carbon handprint of a company's solutions. A carbon handprint indicates the beneficial environmental impacts of a solution compared to a baseline product, and how a company's solution can help in reducing the carbon footprint of others. As a result of the project, a carbon handprint guide was published by VTT in 2018. KONE plans to utilize the results from the project in its product development for low carbon solutions.

In 2018, together with industry representatives, KONE was involved in defining the baseline for the energy efficiency of elevators as part of the Ecodesign preparatory study by the European Commission. The study will be concluded in 2019.

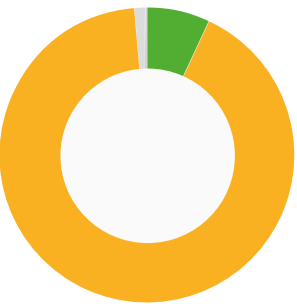
LIFE CYCLE ENVIRONMENTAL IMPACT* OF KONE'S VOLUME ELEVATOR AND ESCALATOR

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%

KONE TravelMaster™ 110 escalator



- Materials manufacturing 7%
- Energy consumption 91.7%
- Transport from manufacturing to building site 0%
- In-house manufacturing and transport to manufacturing site 1%
- Maintenance 0.1%
- Installation 0%
- Waste processing 0.1%

* Global warming potential i.e. carbon footprint

Environmental impacts of KONE's products ordered during the reporting year

Carbon footprint of KONE's products, tCO ₂ e*	2016	2017	2018
Production of materials for products (calculated)	2,364,000	3,041,000	3,208,000
Lifetime energy consumption of products ordered from KONE during the reporting year (calculated)	5,034,000	4,624,000	5,071,000

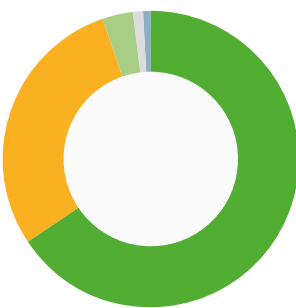
* 2016 figures not fully comparable with previous years due to emission factor revision and other changes in calculation methodology.

Materials used, tonnes	Materials	2016	2017	2018
Manufacturing (calculated)	Metals (steel, aluminum, copper)	604,100	612,500	646,200
	Electronics	29,400	33,600	36,000
	Miscellaneous	2,900	10,300	10,800
	Plastics	3,900	4,800	5,000
	Glass	5,500	4,800	4,700
	Rubber	700	700	700
Packaging (calculated)	Wood	37,100	51,800	54,400
	Plywood	14,800	14,300	14,800
	Plastics	1,100	1,300	1,300
	Cartonboard	700	1,500	1,400
	Miscellaneous	400	700	900
Office consumables (actual data)	Paper	600	900	500
Total		701,200	737,200	776,700

Calculations are based on life cycle assessment data and products ordered from KONE.

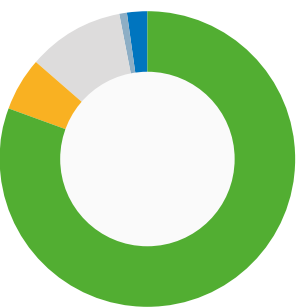
MATERIAL SUMMARIES OF KONE'S VOLUME ELEVATOR AND ESCALATOR

KONE MonoSpace® 500 elevator



- Ferrous metals 65.5%
- Inorganic materials 29.2%
- Electric and electrical equipment 3.4%
- Non-ferrous metals 1.2%
- Plastics 0.6%
- Others 0%

KONE TravelMaster™ 110 escalator



- Ferrous metals 80.7%
- Inorganic materials 5.7%
- Electric and electrical equipment 0%
- Non-ferrous metals 10.5%
- Plastics 1.0%
- Others 2.0%

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.

KONE'S KEY IMPACT AREAS RELATED TO THE UN SUSTAINABLE DEVELOPMENT GOALS

- 
3 GOOD HEALTH AND WELL-BEING
 Occupational health and safety
- 
4 QUALITY EDUCATION
 Education for sustainable development
 Capacity building
 Indirect impact on job creation
 Youth employment
- 
5 GENDER EQUALITY
 Equal remuneration for women and men
 Diversity and equal opportunity
 Workplace violence and harassment
 Women in leadership
- 
8 DECENT WORK AND ECONOMIC GROWTH
 Employment
 Non-discrimination
 Capacity building
 Occupational health and safety

In 2018 KONE was recognized as one of the best employers in the world by Forbes business magazine for the second year running. KONE ranked 105th on Forbes' 2018 Global 2000: World's Best Employers list.



CONTINUOUS LEARNING

KONE's 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 strategy's success, which requires us to develop and obtain new competencies in the fields of digitalization, understanding customers' businesses, consultative selling and leading transformations.

KONE supports its employees in developing their competencies with over 4,700 training programs and online modules.

Over 14,500 employees had the chance to try out new learning methods such as virtual reality, gamification and mobile learning methods. Over 25% of our learning centers are using new learning methods and we are increasing the coverage of the new equipment significantly in the coming years.

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.

We continued to deliver global talent programs for example for global top performers, general managers, operations managers and senior leaders. During the reporting year, there were participants from 33 countries in these programs; 23% of participants were women.

We have renewed our 360 assessment content with our new leadership competencies in 2017, which include themes such as collaboration, inclusion, and developing talent. The assessment is part of all our key leadership training programs on all manager and leadership levels, and the assessment should be conducted at least every three years. We offer an adjusted 360 assessment also for all leadership and management team members. Our target is that all employees in leadership and management team positions would conduct these renewed assessments by end of 2019.

Facilitating professional growth

At KONE, we strive to have the best possible professionals with the right competencies in each position. We facilitate this and increase the motivation, engagement and continuous development of our employees through regular performance discussions which take place at least twice a year. In addition, we

actively encourage all employees to prepare individual development plans.

In 2018, we introduced a new global tool which provides our employees mobile access for documenting their performance discussions and personal as well as career development. The tool also enables asking for and giving feedback throughout the year. Mobile access allows also employees in the field to view their goals, development, feedback and career development information at any time.

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.

KONE has mentorship programs both on global as well as on local levels. On a global level, KONE facilitates mentoring as part of global talent programs. Approximately 140 top managers have mentees at KONE, cascading to country level mentoring programs.



Attracting top talent

KONE recognizes that people are fundamental to its success. To attract the best candidates, our employer value proposition and employer branding concept was refreshed in 2018 to promote KONE in a systematic way. We organized several training sessions for our talent acquisition teams globally focusing on targeting new competencies and increasing diversity through recruitment.

KONE's apprentice programs in key countries are an opportune way for us to recruit new professionals. We also collaborate actively with educational institutions. In 2018, we continued to further strengthen our collaboration with schools as well as our promoters' program to provide information about KONE in schools, universities, and other relevant institutions.

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.

In 2018, KONE was recognized as one of the best employers in the world by Forbes business magazine for the second year running. KONE ranked 105th on Forbes' 2018 Global 2000: World's Best Employers list.

FAIR EMPLOYMENT PRACTICES

At KONE, creating a great place to work means treating every employee fairly and providing a safe working environment. A local HR professional manages the local personnel-related policies and ensures that we comply with local legislation and labor union practices in each country we operate in. Through our renewed HR operating model and people processes we can ensure the consistent guidance and alignment of our practices in the HR organization. As a result of our HR transformation all employees and managers can now get harmonized support from our centralized HR services teams and get better visibility to their own data as well as take direct action with the help of our self-service tools.

Equal pay and rewarding performance

Our total reward framework consists of easy-to-understand policies, guidelines, and practices that are aligned with our business strategy. We invest significantly in a range of monetary and non-monetary rewards offered to employees. This framework focuses on pay for performance and by communicating it clearly we can make the fairness and equality of the approach visible to all KONE personnel. While reward policies are consistent across KONE, the practices are flexible to meet local needs.

Employee agreements are managed on a national level, and there are differences in national legislations. A total of 63% of KONE's employees are covered by collective bargaining agreements.

The compensation and other benefits of the Board of Directors, President and CEO, and the Executive Board are disclosed in KONE's [Annual Review 2018](#) (p. 92-93).

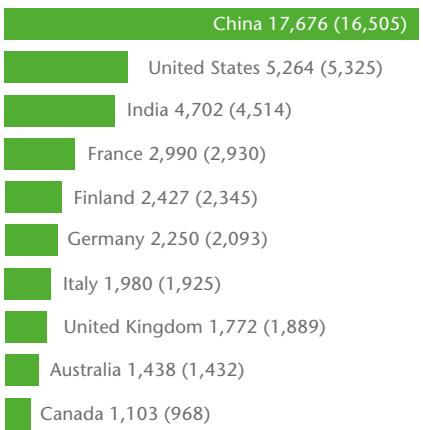
Dialogue between top management and employee representatives

KONE organizes a 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 2018, the theme of the Employee Forum was sustainability, and 22 employee representatives from 16 EU countries participated in it.

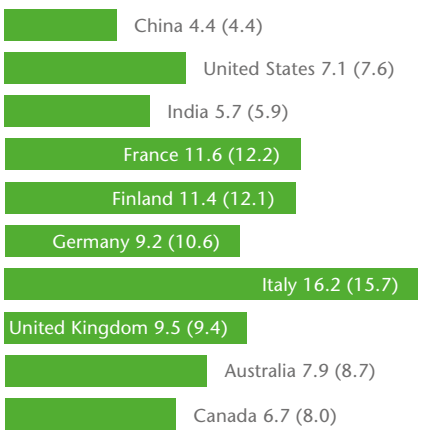
Personnel by country Dec 31, 2018

10 largest countries (2017 figures in brackets)



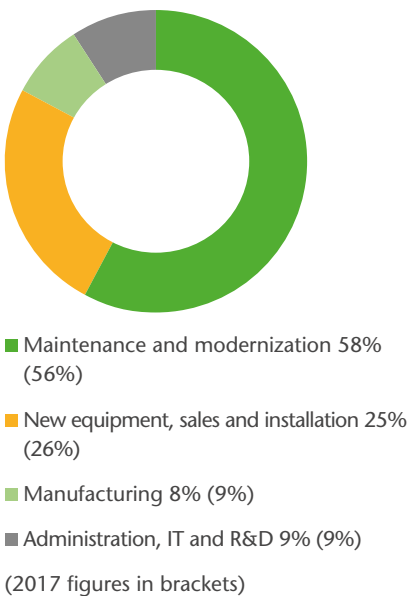
Average workforce tenure in years

10 largest countries (2017 figures in brackets)



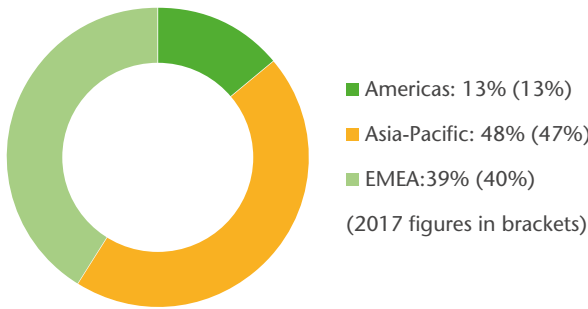
Over half of our employees are in the field every day

Employees by job category, 2018



We have employees in over 60 countries, with a majority in Asia-Pacific

Employees by market, 2018



Fostering diversity and inclusion

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 respect and value differences, and believe in an inclusive workplace that empowers individuals. We have created a diversity and inclusion roadmap for 2019 including review of existing policies and practices.

We value diversity in all forms and welcome new perspectives to our business. We seek out innovative ideas and new approaches to customer solutions and believe that our future success depends on our collective ability to build diverse and inclusive teams, communities and networks. To strengthen our global approach and deepen our insights on customers and markets, we have set goals for cultural diversity in our global teams.

We also have a target of 20% of director level positions occupied by women by 2020. We are currently at 17%.

During the reporting year, KONE's workforce included 139 nationalities. In 2018, 80% of external hires into leadership positions globally were filled by local candidates.

KONE has conducted several studies on gender diversity and equality in the past and results have shown no significant barriers or discrimination of gender or age in terms of compensation or career opportunities. Comparing the average salary position against market on a global level, gender pay gap has decreased in 2018 to 1 percentage point from an already low level of 4 percentage points in the previous study in 2013. The average salary position against market was calculated by comparing the KONE salary to the market level for each position.

In our employee engagement survey, Pulse, 85% of KONE employees globally feel that they are treated with respect. This score is clearly above the external global and high-performance benchmarks.

Altogether, 76% of employees also consider KONE as an employer that values employee diversity. This score exceeds the global external benchmark clearly.

In 2018, KONE India was included on the Working Mother & AVTAR Best Companies for Women list. The study recognizes initiatives undertaken by companies to increase women's workforce participation.

Taking a stand

During the reporting year, we paid special attention to diversity. Highlights of the year included offering diversity training to talent acquisition teams globally, continuing the trainings given to hiring managers in 2017, signing the European Round Table of Industrialists' Diversity and Inclusion Pledge, as well as taking part in the global Girls Takeover event, organized by Plan International. Girls Takeover brings attention to the opportunities and discrimination that girls face today. By participating in the event, we wanted to highlight KONE as an equal opportunity employer and showcase the career options we offer to professionals in different fields.

[Read more about the day](#) on KONE.com.

Open two-way communication to engage 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

Employees

Total number of employees, year end	57,359
Share of women in employees	11%
Share of women in director level positions (Out of 589 director positions)	17%
Share of women in the Executive Board	7%
Share of women in the Board of Directors	38%
Voluntary turnover rate, compared to 12 month average headcount	8.5%

Voluntary turnover rate*

Region	
APA	10%
Americas	8%
EMEA	6%
Gender	
Female	9%
Male	8%
Age group	
30 and under	13%
31–50	7%
51 and above	4%

* Calculated from 12 month average headcount

Age distribution	–30	31–50	51–
All KONE employees	31%	53%	15%
Executive Board	0%	50%	50%
Board of Directors	13%	13%	75%

Gender distribution per market	Men	Women
EMEA	86%	14%
Asia Pacific	91%	9%
Americas	89%	11%

Employees per contract type

Employees with permanent contract	95%
Females with permanent contract	97%
Males with permanent contract	95%

New hires gender distribution per market	Men	Women
EMEA	83	17
Asia Pacific	92	8
Americas	91	9

New hires age distribution per market	–30	31–50	51–
EMEA	48	46	6
Asia Pacific	73	25	2
Americas	37	51	12

39

training centers

4,700

training programs and online modules available

226,000

e-learning courses completed on konelearning.com

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 engagement

The most important metric for employee engagement at KONE is the Pulse employee survey. The survey offers our people an opportunity to give feedback and provides insights into employee engagement.

The Pulse survey covers topics such as employee engagement and enablement, leadership, learning and growth, corporate responsibility, customer centricity, innovation and drive, and diversity and inclusion. In addition, the survey examines how respondents view their team effectiveness, managers and performance reviews.

KONE's 12th global employee survey was carried out in May-June 2018. The survey results were published in July 2018 and action plans were made in teams based on the results.

A total of 48,564 employees provided feedback in the Pulse survey and we reached a response rate of 91% (based on the number of employees in April 2018). Our next Pulse survey is planned to be organized during first half of 2020.

Organizational changes to foster customer-centricity

KONE is developing and further harmonizing roles, processes and tools. During the reporting year, we undertook organizational changes in several functions, including Finance, Customer Solutions Engineering and Sourcing, in order to create a faster-moving, customer-centric organization that leverages our scale more efficiently.

EMPLOYEE SAFETY AND WELL-BEING

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

Managing workplace safety

KONE Way for Safety, our safety management system guides us in continually improving workplace safety. Every leader is responsible for providing their team with

the necessary environment for working safely. They lead by example, make sure that their people are consulted and trained and drive safety improvements.

Managers perform regular audits to measure compliance with KONE's policies, rules, and defined working methods. Corrective actions are taken if deviations are identified. KONE's Supplier Code of Conduct requires all our suppliers, including subcontractors, to protect the health and safety of their employees.

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

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 are used to communicate short trainings and safety messages to field operatives.

Each year, KONE organizes a global safety week. The week presents KONE employees with training, special events and activities. Many countries also organize events and trainings together with customers and subcontractors during the week. The theme of the 2018 safety week was Take care, and it focused on preventive safety work and improving well-being.

In our employee engagement survey, Pulse, 94% of KONE employees globally agreed that KONE is committed to employee safety.

Safety performance

A safe working environment is the foundation of all our operations. As key 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 2018 our Industrial Injury Frequency Rate (IIFR) remained at a low level of 2.1 (2017: 1.9). The average lost days per incident improved to 27.4 days (2017: 28.9).

These results were overshadowed by the loss of three KONE employees who died as a result of separate fatal incidents. KONE employees had 36 high-consequence work-related injuries. For each incident, we identified the causes, the lessons

learned and took actions to prevent any re-occurrence. The relevant details were shared across our global safety network and business units. We will continue to do our utmost to ensure that all our employees and subcontractor workers return home safely at the end of each day. We continue focus on promoting safe behavior as well as the development of safer procedures, in order to reach our goal of zero incidents.

Improving safety performance

In order to remind our field personnel about the main risks in our work and the ways to mitigate them we developed an interactive learning application, Safety in Mind. The application uses 3D photographs, animations and interactive hot-spots to provide an engaging learning experience. Safety in Mind modules can be studied on mobile phones, tablets or computers.

The roll-out of the KONE Safety Solution, a mobile tool for reporting and managing near misses and incidents, continued in 2018. Incidents, lost days per incident, and near misses are part of each unit's monthly reporting to global functions. The number of near miss reports increased slightly.

Local safety personnel promptly analyze the reported data and use it to improve safety. In 2018, we focused on improving the quality, analysis and investigation of these reports.

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

Global program for employee 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, nutrition, increasing physical activity and strengthening your mental well-being.

The program is structured around a global calendar with regular intranet news articles and suggested activities for countries to deploy. The aim is to increase

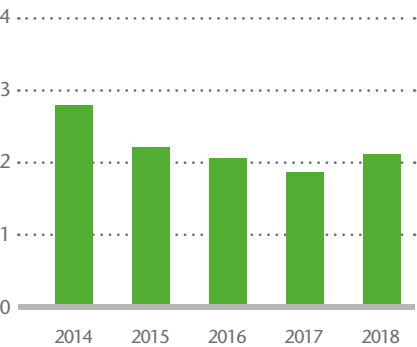
awareness of actions which maintain and improve well-being.

During the reporting year we introduced a learning package for leaders to increase their competence in managing the well-being of their teams. This included an e-learning, a toolkit and short guides.

We monitor medical insurance data and carry out in-depth reviews on specified locations. The aim of these reviews is to benchmark existing well-being programs and provide recommendations that will improve the well-being of employees.

Our efforts were recognized in 2018 when KONE India's supply unit was awarded the Indian Association of Occupational Health Award for Best Occupational Health Centre of 2017-18.

Industrial Injury Frequency Rate development among KONE employees



As 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 2018 our Industrial Injury Frequency Rate (IIFR) was 2.1 (2017: 1.9). The IIFR covers KONE's own employees. The average lost days per incident improved to 27.4 days (2017: 28.9).

94%
of KONE employees
recognize that the company
is committed to employee
safety



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 35,000 suppliers who provide us with for example raw materials, components and modules, as well as logistics, installation and other services. As a responsible corporate citizen and business partner, we are committed to making a positive impact throughout the whole value chain.

KONE'S KEY IMPACT AREAS RELATED TO THE UN SUSTAINABLE DEVELOPMENT GOALS

8

DECENT WORK AND ECONOMIC GROWTH

11

SUSTAINABLE CITIES AND COMMUNITIES

16

PEACE, JUSTICE AND STRONG INSTITUTIONS

Employment

Non-discrimination

Procurement practices

Tax strategy and principles

Supporting local communities

Infrastructure investments

Sustainable buildings

Effective, accountable and transparent governance

Compliance with laws and regulations

Anti-corruption

KONE has operations in over 60 countries. As a global corporate citizen it is crucial for us to ensure that we conduct business in an ethically and socially responsible manner throughout our entire value chain.



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.

Progress on 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.

KONE has consistently grown faster than the market. 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. Working capital rotation improved clearly over the last decade and has remained on a good level during the past years.

KONE's strong financial performance has enabled steadily developing dividends to our shareholders. Also with a longer-term perspective, our track record on dividend distribution has been sustainable. KONE had over 62,000 shareholders at the end of December 2018 (Dec 2017: over 61,000).

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 Administration in promoting tax transparency since 2015.

KONE's complete [tax strategy](#) can be found on [KONE.com](#).

KONE's income taxes globally amounted to EUR 241.9 (290.2) million in 2018, with the ten largest countries by sales accounting for 70% of the corporate taxes. Income taxes of the Finnish KONE companies totalled EUR 40.0 (68.6) million in 2018.

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 2018, the largest KONE countries by the number of employees were China, the United States and India. Read more about our people on [pages 32–37](#).

ETHICAL BUSINESS PRACTICES

KONE has operations in over 60 countries and collaborates with authorized distributors and agents in almost 100 countries around the world. As a global corporate citizen, we are fully committed to the laws and regulations of the countries where we operate.

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 sets out our company's commitment to integrity, honesty, and fair play and 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 available 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. 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 comply with the requirements of the Supplier Code of Conduct in all their dealings with KONE, as well as with their own employees and suppliers, and third parties including government officials. KONE may terminate its contracts with suppliers if they fail to adhere to the Code.

[The KONE Supplier Code of Conduct](#) is applied globally, is available in over 20 languages and can be found on [KONE.com/suppliers](#).

As KONE's business partners, our distributors are also expected to comply with the requirements of the KONE 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 currently available in four languages and can be found at [KONE.com](#).

New Global Trade Compliance Policy

KONE is committed to full compliance with all applicable national and international trade compliance laws including trade sanction, export control and customs laws, rules and regulations. In 2018, KONE hired a new global trade compliance manager to proactively respond to increasing trade compliance demands in the international business environment. We also finalized our new Global Trade Compliance Policy and further strengthened our trade compliance organization.

Making it easy to report concerns

All KONE employees are expected to understand and abide by the Code and to report any violations using the channels available for this purpose. KONE's externally hosted reporting channel, the Compliance Line, allows employees to report concerns confidentially 24/7, 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. We also encourage employees to report compliance concerns through internal channels (e.g. manager, HR, legal or compliance). KONE does not tolerate any form of retaliation against employees who report concerns in good faith.

During 2018, KONE took a new case management system into use thereby fully integrating the web, phone and other reporting channels to ensure a secure and confidential system for managing cases.

Training and awareness building

All KONE employees are required to complete the Code of Conduct online training. In 2018, we designed a new and engaging Code of Conduct e-learning course. The training covers topics such as conflicts of interest, fair competition, anti-bribery, privacy, work safety, and gifts and hospitality and has a strong focus on scenarios that reflect day to day situations employees might face. Once globally rolled out, the course will be available in over 30 languages. The completion rate in 2018 was 94% of the 25,000 employees who had the training assigned to them, covering a total of 16 countries. Further roll-outs will be completed in 2019. Regular face-to-face compliance training is also provided to managers and other target groups. In 2018, over 4,000 employees 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. The global completion rate in 2018 was 94%.

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.

In 2018 KONE was approached by Finnwatch, a Finnish non-governmental organization focused on global corporate responsibility, to discuss human rights in India. Finnwatch, together with a local NGO, Cividep, interviewed some of our subcontractor's employees working in our factory in Chennai. Finnwatch requested our support in raising subcontractors' workers' general awareness of their rights. To this end, KONE promoted training by Finnwatch and Cividep, held in December.

INDUSTRY-LEADING SUPPLY CHAIN

In 2018, 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 continued the implementation of a new manufacturing execution system (MES) with factories in 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 continues the MES implementation in other factories – and also improves its supply chain continuously.

Investments in production automation continued as well, notably in factories in Italy, Finland, the Czech Republic and China.

The building phase of KONE's newest factory in Pillaipakkam, close to Chennai in India, continued during 2018. The building phase will be completed within the first half and production ramp-up during the second half of 2019. The facility will be certified according to Indian Green Building Council environmental norms.

In logistics, KONE continued with program to centralize its logistics activities. By better processes and coordination of different activities the company is targeting to achieve savings in logistics costs as well as improvements in eco-efficiency of its delivery chain.

Responding to customers' needs

We adapt our supply chain to take customers' different requirements into account. As an example, KONE continued to develop packaging solutions to allow us to better accommodate various customer needs and make installation as smooth as possible. The first pilots of these developments are ongoing both in Europe and China.

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.

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 focused 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. All KONE supply units continue to hold ISO 9001 and 14001 certificates.

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 2018. To date, approximately 300 KONE employees have qualified as Six Sigma Green Belts and Black Belts, and the training continued during 2018.

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

How KONE added economic value in 2018



2017 figures in brackets.

Top 10 supplier locations*

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

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

Global logistics

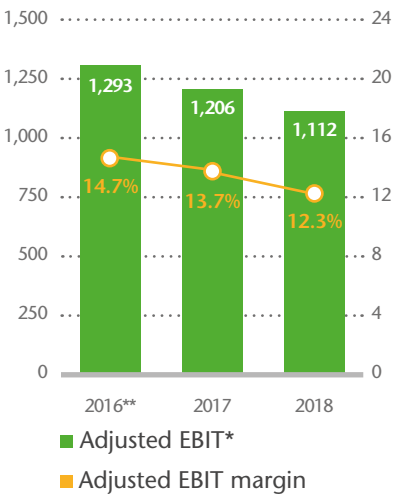


Value distributed

Wages and salaries	MEUR 2,113 (2,030)
Employment-related costs and taxes	MEUR 947 (984)
Creditors	MEUR -47 (-58)
Shareholders	MEUR 851 (849)
Economic value retained in the company	MEUR -4 (111)

In 2018, we delivered over 3.7 million packages to new installation sites, and around 1.5 million packages of spare parts to existing customer sites. 3.7 million packages amount to a weight of 1,440 million kilograms, or 3.5 million cubic meters in volume.

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



* 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.

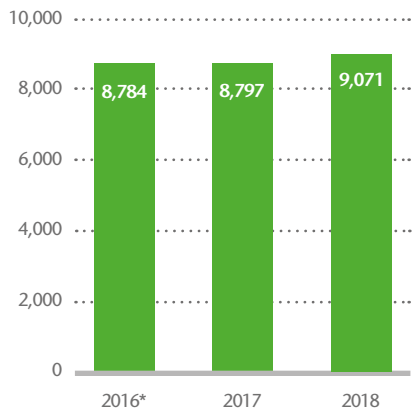
** 2016 not restated with IFRS 15 and IFRS 9 changes.

KONE class B share dividend per share, 2014–2018 (EUR)




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.

Sales (MEUR)



* 2016 not restated with IFRS 15 and IFRS 9 changes.

 Read more about KONE's financial performance in our [Annual Review 2018](#)

SUSTAINABLE SUPPLY CHAIN MANAGEMENT

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 supply chain. Out of our 35,000 suppliers approximately 19,000 provide KONE with raw materials, components, modules, as well as logistics and installation services. In addition, there are approximately 16,000 suppliers who deliver other indirect materials and services to KONE.

All our strategic suppliers are required to comply with ISO 14001 certification.

Long-term relationships with suppliers

We purchase approximately 80% of our raw materials, components, and systems supply for new equipment production from approximately 170 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 reflects 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 39](#).

The majority of strategic suppliers audited

All of the main material suppliers to KONE distribution centers and factories undergo regular audits. In 2018, 92% of our strategic suppliers were audited.

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 pre-audit the suitability of potential suppliers.

New system for 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.

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.

We also work closely with our strategic suppliers to find competitive raw material price levels.

Continuous development of 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.

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.

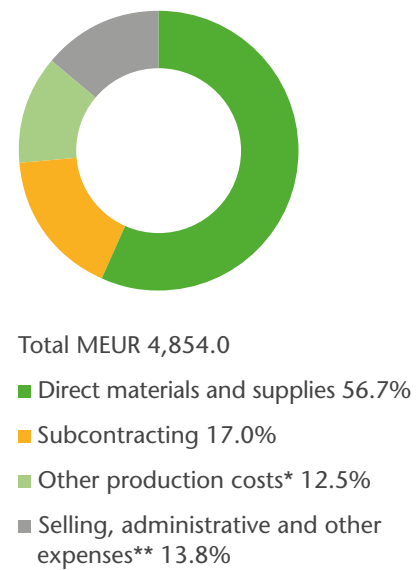
KONE's Supplier Excellence Certification Program

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. In 2018, 97% of our strategic supplier factories were ISO 9001 certified, and 90% of them had ISO 14001 certifications.

Breakdown of material and service purchases from our suppliers



* 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.

SUPPORTING LOCAL COMMUNITIES

KONE Centennial Foundation (KCF) is an independent, non-profit organization founded by KONE in celebration of its 100th anniversary in 2010. It 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 top which local KONE units can contribute practical support and where KONE volunteers can participate in their spare time.

Our programs in 2018

During 2018, KCF continued supporting programs in China, Finland, India, Mexico, South Africa and Thailand as well as international teacher exchanges in various countries. The foundation is also prepared to contribute matching funds to support local initiatives by KONE employees.

KCF's longest-running project is the Joy of Reading mobile library (pictured), serving children of migrant workers in and around Beijing and Hangzhou. Cooperation with the Hangzhou Children's Library and the Beijing Normal University has enabled the mobile library to deliver improved and expanded services to children with limited access to books and other educational materials. A KCF partner school, Beijing's Dandelion School, moved at the end of 2018 into a new purpose-built facility that will allow it to expand enrolment. The Dandelion School is Beijing's only middle school catering exclusively to migrant children from China's countryside.

KCF and KONE India collaborate with the Single Teacher Schools (STS) organization to support 20 micro-schools in rural villages near Chennai. STS is also beginning to bring clean water and sanitation facilities to these communities and runs periodic mobile medical clinics for the children and their families. As the participating villages are near the new KONE India factory, which opens in 2019, it will become easier for employees there to provide volunteer support. In the Chennai area, KCF also provides support to the Rising Star School, which serves the children of families in which one or more member suffers from leprosy.



The Westbury Youth Centre (WYC), located between downtown Johannesburg and Soweto, has been supported by KCF since it opened its doors in the former Westbury Secondary School hostel in 2012. WYC serves youth in a community that was much in the news in 2018 because of ongoing drug-related violence and lack of effective police intervention. With KCF's help, WYC received a SAIS II grant from Finland's Ministry for Foreign Affairs for 2019 and half of 2020, which will allow the center to expand its innovative education and entrepreneurship programs.

In Mexico City, KCF has focused on helping the Xico Arte Collective in the Valle de Chalco improve its administrative capabilities. The collective's goal has been to promote art as a tool against violence in the area. Xico Arte maintains a local archeological museum featuring objects unearthed in the region, often during construction projects. Its services include art and history interventions in local schools and art workshops at the museum.

The Zero-to-Hero Foundation (Z2H) runs an innovative child development program in the rural Na Yom region of North-Central Thailand, combining Finnish early childhood development practices with a deep understanding of local Thai culture

and traditions. Its Baby Club brings toddlers and their care-givers (usually grandparents) together to experience stimulating educational activities. Z2H is also striving to introduce proven Finnish teaching methods to the local public schools.

In Helsinki, KCF supports The Shortcut, a community that promotes diversity as an engine for growth. In particular, KCF has provided funding for coding and entrepreneurship programs for young asylum-seekers and immigrants.

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.

 **Read more** on our newly published website that makes it possible to follow the latest developments in projects we support. Visit the site on konecentennialfoundation.org

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 a Sustainability Report annually since 2008. The previous report was published in April 2018.

This report has been prepared in accordance with the GRI Standards: Core option. 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, 2018. 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 (read more

on p. 2). KONE’s approach to sustainability has also been described in the letter from the chairman and the president and CEO on p. 6, and in the strategy description on p. 7.

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.

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 84% (2017: 85%) of all KONE’s employees and 100%

of employees working at our manufacturing units. Business air travel data, covering 30 countries and approximately 90% of our employees, has been collected from KONE’s five biggest travel agencies and several local travel agencies. Vehicle fleet fuel consumption data has been collected from 26 countries, representing 90% 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. The quality and coverage of data provided by our logistics suppliers has over the years continuously improved.

KONE uses the environmental performance software system 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, as well as some supplier specific instruments. 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, AIB (Association of Issuing Bodies) European Residual Mix Report and supplier specific factors for Finland. The logistics greenhouse gas emissions have been restated retrospectively due to revised emission factor source in 2018.

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 2018. 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 GRI-standards (2016)

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 at Group level and in selected sites.
- Review of Group-level systems and

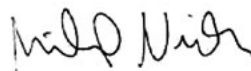
procedures to generate, collect and report quantitative data on the Selected information.

- 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 2018 is not reliable, in all material respects, based on the reporting criteria.

Helsinki, Finland, 8th March 2019
Mitopro Oy



Independent Sustainability Expert



Independent Sustainability Expert

KONE'S FOCUS AREAS, MATERIAL TOPICS AND TOPIC BOUNDARIES

For information on identifying our sustainability focus areas, focus areas and management approach, please refer to page 12.

KONE focus areas	GRI topics	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• Low-carbon operations	Energy Water and effluents Emissions Waste Environmental compliance	Within the organization (GRI 103–1)	Outside the organization (GRI 103–1)
		KONE operations (13 manufacturing units + 31 country organizations)	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 and accessibility• Energy efficiency of solutions and life cycle thinking	Materials Energy Customer health & safety Environmental compliance	KONE operations	Customers
BEING THE BEST EMPLOYER AND ATTRACTING TALENT <ul style="list-style-type: none">• Competence development• Fair employment practices• Motivated and engaged employees• Diversity and non-discrimination• Employee safety and well-being	Employment Occupational health & safety Training and education Diversity & equal opportunity	KONE operations	Subcontractors
ENABLING OUR PARTNERS AND SOCIETIES TO PROSPER <ul style="list-style-type: none">• Generating long-term returns• Creating wealth via taxes and employment• Ethical business practices• Long-term relationships with our suppliers• Supporting local communities	Economic performance Market presence Anti-corruption Anti-competitive behavior Environmental compliance Supplier environmental assessment Supplier social assessment Socio-economic compliance	KONE operations	Community suppliers / strategic suppliers

GRI AND SDG INDICES

GENERAL DISCLOSURES		Related SDGs	Page	Further information
Organizational profile				
102-1	Name of the organization		Back cover	
102-2	Activities, brands, products, and services		3, 8–9, 28–29	www.kone.com/en/company/in-brief/ www.kone.com/en/products-and-services/
102-3	Location of headquarters		Back cover	
102-4	Location of operations		5, 34	www.kone.com/en/company/in-brief/
102-5	Ownership and legal form		3, 11, 41	www.kone.com/en/company/organization/
102-6	Markets served		3, 5	www.kone.com/en/company/in-brief/
102-7	Scale of the organization		3, 5, 34, 41	
102-8	Information on employees and other workers		5, 34–35	
102-9	Supply chain		40–42	
102-10	Significant changes to the organization and its supply chain		46–47	No significant changes
102-11	Precautionary Principle or approach			Annual Review, Review of Board of directors, p. 17–19. KONE is committed to the UN Global Compact's ten principles. We address the precautionary principle, especially in areas involving environmental risks.
102-12	External initiatives		10, 12–13, 18	
102-13	Memberships of associations		13, 18	
Strategy and analysis				
102-14	Statement from senior decision-maker		6	
102-15	Key impacts, risks, and opportunities		6–9, 12–13, 16	Annual Review p. 17–19
Ethics and integrity				
102-16	Values, principles, standards and norms of behavior such as codes of conduct and codes of ethics		7, 10, 39–40	www.kone.com/en/company/vision-and-strategy/
102-17	Mechanisms for seeking advice on ethical and lawful behavior		39–40	
Governance				
102-18	Governance structure			Annual Review 2018, Corporate Governance Statement, p. 90–93
102-19	Delegating authority		10	
102-20	Executive-level responsibility for economic, environmental, and social topics		10	
102-21	Consulting stakeholders on economic, environmental, and social topics		10–11	Annual Review 2018, Corporate Governance Statement, p. 90–93
102-22	Composition of the highest governance body and its committees			Annual Review 2018, Corporate Governance Statement, p. 90–95
102-26	Role of highest governance body in setting purpose, values, and strategy			Annual Review 2018, Corporate Governance Statement, p. 90–93
102-29	Identifying and managing economic, environmental, and social impacts		10–11	Annual Review 2018, Corporate Governance Statement, p. 90–93; https://www.kone.com/en/sustainability/managing-sustainability/materiality-assessment.aspx
102-32	Highest governance body's role in sustainability reporting		10	Sustainability report is reviewed by KONE's management and approved by the President and CEO.
102-35	Remuneration policies			Annual Review 2018, Corporate Governance Statement, p. 92–93
Stakeholder engagement				
102-40	List of stakeholder groups		11	
102-41	Collective bargaining agreements		33	
102-42	Identifying and selecting stakeholders		11	
102-43	Approach to stakeholder engagement		11	
102-44	Key topics and concerns raised		11	
Reporting practice				
102-45	Entities included in the consolidated financial statements			Annual Review 2018, Subsidiaries, p. 81–83
102-46	Defining the report content and the topic Boundaries		12, 44–45	https://www.kone.com/en/sustainability/managing-sustainability/materiality-assessment.aspx
102-47	List of material topics		12–13	
102-48	Restatements of information			Reported in connection with the indicators in question
102-49	Changes in reporting		44	Report has been prepared in accordance with the GRI Standards. Previous report followed GRI G4.
102-50	Reporting cycle		44	
102-51	Date of the previous report		44	
102-52	Reporting cycle		44	
102-53	Contact point for questions regarding the report		Back cover	
102-54	Claims of reporting in accordance with the GRI Standards		44	
102-55	GRI content index		46–47	
102-56	External assurance		45	GHG emissions and water consumption data assured externally

MANAGEMENT APPROACH		Related SDGs	Page	Further information and omissions
103-1	Explanation of the material topic and its Boundary		10, 12–13, 44	
103-2	The management approach and its components			Generic DMA: p. 10, and by category and aspects p. 14–43
103-3	Evaluation of the management approach			Generic DMA: p. 10, and by category and aspects p. 14–43
TOPIC-SPECIFIC DISCLOSURES		Related SDGs	Page	Further information and omissions
ECONOMIC STANDARDS			DMA: 39	
201-1	Direct economic value generated and distributed	8	5, 8–9, 38–43	
201-2	Financial implications and other risks and opportunities due to climate change		16, 18	Annual Review p. 18–19. Reported partly.
202-2	Proportion of senior management hired from the local community	8	34, 39	
205-2	Communication and training about anti-corruption policies and procedures	16	39–40	Part of Code of Conduct training. Addressed also in Annual Review p. 15.
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	16		Annual Review, Review of Board of Directors, p. 17
ENVIRONMENTAL STANDARDS			DMA: 19–20, 30	
301-1	Materials used by weight or volume	9, 12	31	
302-1	Energy consumption within the organization	9, 13	23	
302-4	Reduction of energy consumption	9, 12, 13	18–23	
302-5	Reductions in energy requirements of products and services	9, 11, 12, 13	28–31	
303-1 (2016)	Water withdrawal	9	23	
305-1	Direct (scope 1) GHG emissions	9, 13	18–23	
305-2	Energy indirect (scope 2) GHG emissions	9, 13	18–23	
305-3	Other indirect (scope 3) GHG emissions	9, 12, 13	18–23	
305-4	GHG emissions intensity	9, 13	22	
305-5	Reduction of GHG emissions	9, 13	18–23	
306-2	Waste by type and disposal method	9, 12	23	
307-1	Non-compliance with environmental laws and regulations			No significant fines or sanctions regarding non-compliance with environmental laws and regulations
308-1	New suppliers that were screened using environmental criteria	12	42	Percentage of strategic suppliers audited
SOCIAL STANDARDS				
401-1	New employee hires and employee turnover	5, 8	35	
403-2 (2016)	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	3, 8	36–37	Industry injury frequency rate (IIFR), average lost days per injury, and total number of work-related fatalities and high-consequence injuries reported for employees. All injuries, including fatalities, are reported to the local authorities according to the local regulations.
404-2	Programs for upgrading employee skills and transition assistance programs	8, 4	33	Global guidelines exist for supporting any employees in transition.
404-3	Percentage of employees receiving regular performance and career development reviews	8	33	80% of KONE employees have documented their career development plans in our self-service tool. The expectation is that all employees have at least annual career development discussions with their managers.
405-1	Diversity of governance bodies and employees	5, 8	34–35	
414-1	New suppliers that were screened using social criteria	8	42	Percentage of strategic suppliers audited
416-1	Assessment of the health and safety impacts of product and service categories	9, 11	27, 30	
419-1	Non-compliance with laws and regulations in the social and economic area	16		No significant fines during the reporting period

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